



MoneyTalk

Wednesday, January 25, 2006 - Gold Fever



To dream anything you want to dream: that is the beauty of the human mind. To do anything you want to do: that is the strength of the human will. To trust yourself to test your limits: that is the courage to succeed.

HAVE YOU CAUGHT GOLD fever? With prices soaring, many investors are wondering whether investing in gold may be a golden opportunity for their portfolio.

The price of an ounce of gold **rose 30%, from \$427.35 to \$558.20**, during the 12-month period ending Jan. 24, 2006, according to World Gold Council figures. Over the same time period, the two gold exchange-traded funds (ETFs) traded on the U.S. markets — the streetTRACKS Gold Shares (GLD) and the iShares COMEX Gold Trust (IAU) — returned 30% and 26%, respectively. And gold-oriented mutual funds — which can invest in gold bullion as well as the companies involved in the gold- and precious-metals industries — fared even better, offering average returns of 49%, according to mutual-fund tracker Lipper.

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During the same period, the S&P 500 was up 10.9% and the Dow Jones Industrial Average has been almost flat at 2%.

Golden Years?

Typically, the demand for gold – and therefore its price – is driven by inflation fears, weakness in the U.S. dollar and high oil prices. It's a witch's brew that some would use to describe weaknesses in the current U.S. economy, but it was most clearly seen back in 1980. Back then, when inflation was 14%, interest rates hovered above 20% and the United States had imposed economic sanctions against Iran, gold prices reached a whopping \$850 an ounce as investors sought refuge in an asset that can be converted into any currency.

And while in today's economy interest rates and inflation are low on a historical basis, some investors are once again turning to this commodity. "You have people concerned about inflation picking up, you have higher oil prices, and you have the talk of sanctions against Iran," says Jeffrey Christian, managing director of CPM Group, a precious-metals research and consulting company. "All of these factors may keep investors relatively more interested in gold than they otherwise would be." Even if gold prices didn't continue to rise on their current pace, he says, chances are they won't fall sharply, either.

Investment Strategies

The one thing you absolutely *don't* want to do is chase returns. Paula de Vos, a Certified Financial Planner (CFP) and president of Synergist Wealth Advisors in Carmel, Calif., compares the gold sector right now with technology stocks in 1999. "Jumping on whatever happens to be the hottest-performing asset class in any quarter or in any year is generally a loser's game," she says "Much like putting all your eggs in a growth-stock basket after four years of outperformance in 1999, you need to proceed with caution."

So, while adding some gold to your portfolio may not be such a bad idea, you may want to wait a while. "Do I expect further gains? Yeah," says Ceasar Bryan, manager of the Gamco Gold fund (GOLDX), which was until recently known as Gabelli Gold. "I believe in the medium-term we'll go up. But today, we're overboard. We're up 12% this month alone and there can be a correction at any time."

That's not to say that gold has no place in a portfolio. One of its most common roles is as a hedge. It can offer your portfolio some inflation protection, as gold typically increases in value when inflation occurs, explains Matt McGrath, a fee-only Certified Financial Planner (CFP) and senior vice president of Coral Gables, Fla.-based Evensky & Katz. It can also offer protection against a weakening dollar, and because gold tends to move independently of the broader stock market, it can also offer some diversification when the stock or bond markets turn sour.

Investors looking for this type of "insurance" may consider putting a small portion of their cash into gold, limiting their exposure to no more than 5% of their portfolio. (That said, investors looking to hedge their portfolios against inflation should also consider alternative, less-volatile investments, such as Treasury Inflation-Protected Securities.)

The key to investing in gold is to think of it as a long-term investment rather than an opportunity to play the market and make a quick buck. "I haven't seen anybody who

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successfully trades us," Hathaway says.

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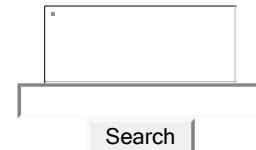
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