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Should You Take Your Clients On A Gold Rush?

Gold is hot.

Not only are gold stocks abuzz, but people are digging through drawers and jewelry boxes looking for watchbands, cuff links, chains and bracelets that can be sold and melted down to feed the demand for gold coins. Gold-touting radio and TV commercials abound.

Off-the-charts government spending and the resulting fear of inflation, combined with volatility in the stock market and general uncertainty, add up to the perfect recipe for gold. Some see it as the “safest investment,” the ideal uncorrelated asset to stocks. But is it? Will the current high prices hold and go up?
Or is this just another bubble like housing and the techs?

The answers vary widely among financial advisors, analysts and economists. Views range from “this, too, shall pass” to the belief that the price of gold in the next three to five years will go as high as $5,000 per ounce. At ***FA*** press time, it was $916 – way up from the $250 of eight years ago. It rates a “buy” even at $1,000, say 71% of the traders, investors and analysts who responded to a Bloomberg survey.

The argument among advisors seems to center around the specific role of gold in a portfolio. Should it be used just for insurance against inflation and market volatility (like 5% of a portfolio), or should it be a major player in a diversified portfolio? (See below.)

Those arguing for a major role note that the price of gold has risen by 15% (plus or minus) so far this year while the Dow has tumbled by about the same amount.

Helping to bolster gold prices is concern over the strength of the U.S. dollar. China’s proposal for a new world currency and Treasury Secretary Geithner’s “open to rethinking” remark sent the greenback on a tailspin late last month.

Gold has one attribute other asset classes don’t: It is universally perceived to be valuable; therefore it is. But there’s a downside: gold falls out of favor when investors become optimistic and see they can do well in a wide range of stocks and bonds.

What’s an advisor to do?

At least look at gold from the perspective of your clients’ objectives – especially if you’re doing little or nothing with gold now. Even the biggest skeptics concede it’s a hedge against inflation, which – in the current political environment -- will soon befall us.

Go Get It

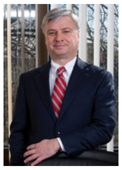
John March, Chief Technical Officer, Superior Gold Group, host of Financial Lifeline Radio, nationally syndicated radio talk show.

Gold will never go below $1,000 (per ounce) after this year because of the inflation that's coming. I see it at $3,000 in five years. But regardless, the gold I own (50% of portfolio) will keep me ahead of inflation. Gold is something you buy and hold. If you don't need it, it will be there for your kids and grandkids.

Howard Ruff, author, financial advisor, editor of financial newsletter. The Ruff Times.

The worst financial decision you could make is to ignore gold and silver. It would cost you more than all the dumb financial decisions you can make put together. Gold and silver are in a bull market that will dwarf the 500-1700% profits we made in the 70s. Gold will hit at least 2,172 and $100 silver is inevitable.

Not So Fast



Joe Tatusko, CIO Westport Resources, Westport, Ct.

Gold is not something I would do over a long horizon. I do it for some clients for protection and view it as more of a tactical than a strategic move. With the price adjusted for inflation, the real return on gold is pretty close to zero going back 100 years. The price is driven up by a lack of confidence in the financial system and a mistrust of monetary authorities, both of which are prevalent now. As the economy gets back on track, interest in gold will decline.

Vern Hayden, president of Hayden Wealth Management, a division of Northeast Community Bank, Westport, Ct.

Most of my clients have 5% of their portfolios in gold – as insurance, not as a pure investment. As insurance, it's worked fairly well over the past three years. I would not encourage anyone to get involved in a speculative way on gold.

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