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Three very good reasons to invest in gold::

Financial Ramblings from The Rock by Nathan Kowalski

There are typically three commonly cited reasons to own gold. First, demand for gold will continue to expand due to increasing emerging market wealth and investor concerns. Investing interest continues to expand as witnessed by the growth in assets of the common gold tracking exchange traded funds (ETFs).

The holdings in ETFs now amount to approximately 1,800 tonnes. It's not just financial paper demand though. Physical demand is growing as well. In fact the US mint supplied 190,000 American Eagles in May alone - the largest monthly amount in over a decade. Central banks have been adding to this pressure too. Russia bolstered its gold reserves by \$1.8 million in May. Last year, central banks actually bought more gold (425 tonnes) than at any other time since 1964.

Another reason why many gold-bugs advocate gold is that it is a protection against inflation since gold cannot simply be printed like paper currency. To be honest though, there is a very loose correlation between the price of gold and direct measures of inflation. In fact during the deflationary 1930s, gold actually doubled in Sterling terms. In fact gold is up about five-fold since 1999 yet inflation is the same today as it was then. What is more likely is that gold rallies on concerns over monetary stability. Gold investors are more concerned about how central banks are printing money at will. It's far harder to actually increase the supply of gold as it is being restrained by production issues. Miners in South Africa now need to drill down over two miles to pull out the yellow metal. Gold mine production is actually down nine percent over the past 12 months as well. Based on this, it's probably no coincidence that since mid-2007 the Fed's balance sheet has exploded from \$850 billion to \$2.3 trillion and during that time the price of gold has soared from \$650 per ounce (oz) to \$1,230/oz.

The last common argument for the Midas metal is that it's a store of value when all currencies fail and there is a social crisis. This is a rather suspect reason, in my opinion. If the global economy were to collapse and the prevailing fiat monetary system ceased to be viable, we as a society would be in a lot of trouble. I personally would not want to own something traded on an electronic exchange that purports to be gold, nor would I be comfortable physically holding a nice shiny yellow metal. In fact I would be much happier owning a commodity with some intrinsic tangible survival value - lumber to build a house or start a fire, for example.

The largest risk in owning gold is that it is in essence a speculative asset with little industrial use. Its value is really derived from the belief that there will be another buyer out there willing to take it off your hands at a higher price. It does not derive its value from a series of cash flows that can be converted into goods or services. In a crisis of epic proportions

people will want food, shelter and maybe a rifle - not gold. Fundamentally it could be argued that value may be discerned by matching supply with demand at an equilibrium price but supply and demand figures are elusive at best. It's important for all investors to consider why they are buying gold and not buy it just for the sake of buying it.