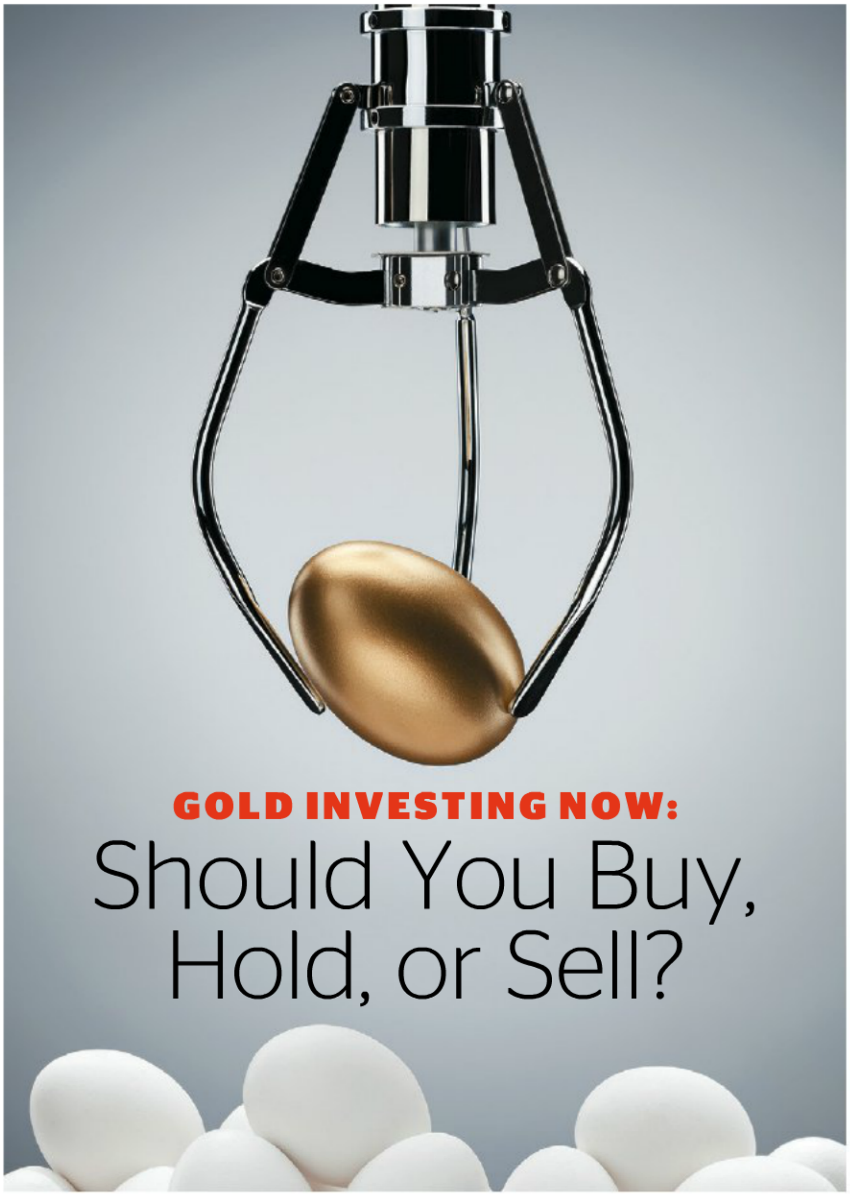

GOLD INVESTING NOW: Should You Buy, Hold, or Sell?

The once-vaunted **precious metal** has fallen from its high perch. But that just may signal the right time to buy.

GOLD EGG/ANDY ROBERTS/OJO IMAGES/GETTY IMAGES

BY GREG BROWN

ONE OF THE OLDEST investing lessons is still one of the most valuable: Trying to time the market for performance invariably leads to problems in your portfolio. Anyone who jumped to buy gold in 2011 knows the lesson well. Gold closed at $1,896.50 on Sept. 5, 2011. It has been on the decline ever since, falling sharply at one point. At $1,200 the price is well over three times higher than a decade ago, offering another example of the buy-and-hold model's superiority over market timing.

If you bought gold at the recent highs you might be motivated to cash out now. But that would be committing the other major sin of investing — selling at a low.

"It's a bad time to sell and it's a very good time to buy," says Philip Diehl, a former director of the U.S. Mint who today is a consultant to the gold business in Austin, Texas.

"Those of us who are in the industry see this as a unique opportunity," Diehl says. "Gold is much more affordable than six to nine months ago and certainly more than two years ago." Long-term investors, he says, should view gold in their portfolio not as a get-rich-quick trade but as an insurance policy. "When you buy auto insurance, you don't think, What am I going to get back from my insurance 20 years from now?" Diehl says. "Gold is wealth insurance. Unlike homeowner's insurance, gold is always worth something. Twenty years later you will be able to sell your gold and get your money back out of it. If you're lucky, you will be able to get more, maybe a lot more, back."

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Diehl strongly believes that investors should own some gold but declines to suggest a portfolio percentage. "Certainly, 5 percent is on the low side, but I cannot recommend a level to anybody because it depends on how large your portfolio is, how old you are, what level of risk is in your portfolio and your appetite for risk. That's going to vary by investor."

As to how to own gold, Diehl prefers bullion and coins over "paper gold" investments such as gold mutual funds and ETFs. "No question it ought to be metal. Paper gold is designed to be liquid and used by traders," he says. "The ones buying paper gold are very sophisticated buyers using computer algorithms that buy and sell in nanoseconds."

Wealth managers tend to take the view that owning gold through a fund is just fine — if it is used as a tool in a properly built investment portfolio.

The advantage of gold in a portfolio is that it usually moves in the opposite direction of traditional asset classes, such as cash, real estate, and stocks, says Charles Murphy, vice president and CFO at American Investment Services in Great Barrington, Mass.

Gold acts as a "hedge," offsetting temporary losses in times when markets go south. It's not foolproof, but many of the pressures that negatively affect stocks are a boon to gold investors.

Fear, such as we saw in 2008 and 2009, is a good example of a pressure that drove down stocks and boosted gold prices. A credit panic can send people running from perfectly good blue-chip stocks into hedges, including precious metals. That's part of the reason gold rose at a steady clip for years, then topped out as the stock market recovered.

In that sense, gold is not only long-term insurance but also a shock absorber in volatile times. "Gold should be held in amounts from zero to 10 percent of your portfolio, depending on your tolerance for risk," Murphy notes. "Conservative investors should hold zero to 5 percent, moderate 5 percent, and more aggressive up to 10 percent."

The best way to hold gold is via a low-cost index fund that closely tracks the gold spot price. IAU and GLD are two good examples of ETFs that try to replicate the day-to-day price changes. "By holding gold via an ETF the cost is better tracked and can be easily bought or sold, unlike hard assets," Murphy says.

Still, some managers have concluded that a major rebound for gold will depend on multiple economic factors — none of which are guaranteed to occur.

"We are allocating a negligible amount to gold. At current rates of inflation, unemployment, and lackluster global growth we see little reason to expect a significant rebound in gold prices from their recent trading range," says Andrew Aran, CFA and partner at Regency Wealth Management in Ramsey, N.J.

"We would need to see a significantly weaker dollar — and if fiscal deficits continue to climb and Europe improves markedly, we will — higher inflation expectations and faster economic growth to warrant a more constructive view" toward owning gold, Aran says.

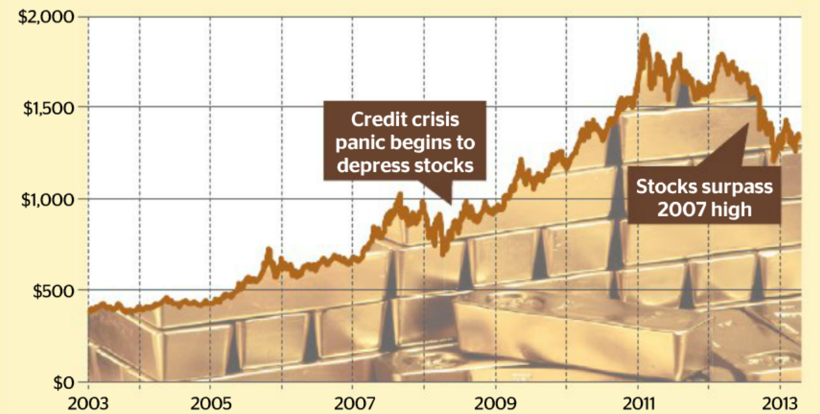
Others see little prospect for a recovery for gold, given that the Federal Reserve is likely, at some point, to slow and then stop its current bond-purchasing policies.

"The investment thesis of 'I hope it goes up so I can sell it' doesn't really work," says Richard Gotterer, managing partner and senior financial advisor at Wescott Financial Advisory Group in Coral Gables, Fla.

"The economic crisis has passed, and at some point the Federal Reserve is going to reduce money printing. That will strengthen the dollar, which trades inversely to gold," Gotterer says.

One argument in favor of owning gold is that U.S. inflation could rise significantly. But Gotterer isn't convinced that high inflation is in the cards, or that gold is the best answer in even moderately inflationary times. "As long as inflation isn't runaway, stocks are a better hedge," he says. "Inflation allows companies to have pricing power, which increases the bottom line for stocks." An alternative inflation hedge is owning inflation-protected Treasury bonds, known as TIPS, Gotterer says.

Finally, be careful investing in physical gold and gold investment funds, including ETFs, backed by physical metal. Gold is taxed as a collectible as high as 28 percent, not at the prevailing capital gains rate. Gotterer suggests those holding gold at a loss in taxable accounts consider using those losses to offset gains elsewhere in their portfolio, thereby reducing taxes. □



GOLDEN YEARS The price of gold per ounce has fallen back since hitting an all-time high in September 2011.

SOURCE: St. Louis Fed, Newsmax graphic

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