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5 - Wealth
1
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Doomsayers are banking on the resilience of gold

AN Australian dollar at over US90c is not good news for those who hold gold or gold stocks.

In the year to March 31, the US dollar gold price rose by an impressive 21 per cent. By contrast, in Australian dollar terms, the price fell by 10 per cent during that same period.

But that's the short-term picture. And most gold bugs are not bothered by that; they see the big picture, the really big picture: the collapse of paper currencies, soaring inflation as government spending and borrowing spins out of control. The gloomier you are about the future and the more you expect financial stresses, the more you like gold.

Richard Russell, one of the best-known financial pundits in the US, recently posed this question to an anti-gold friend of his: ``If I told you I was going to give you a large steel box for your kids, and that the box was not to be opened for 50 years, would you rather I put $3 million in cash in that box or $3m worth of gold or diamonds?''

Russell, who has published the Dow Theory Letters since 1958, said his friend hummed and hawed but never gave a straight answer.

Of course, it was just the sort of question that a gold bug -- which Russell is -- would ask. And, phrased that way, it's a no-brainer; we all know in 50 years $3m in cash would be worth a small fraction of its present purchasing value, and most likely gold and diamonds would retain their worth much more successfully.

Still, if you ask the same question but insert, instead of the cash, a $3m property in Sydney or $3m worth of shares in Woolworths as the alternatives to gold, the answer is not so clear cut. Actually, it is: you would probably get better capital growth with the property

or the Woolies shares, plus the prospect of a good income stream. Gold doesn't produce income.

Yet -- and there is inevitably an ``yet'' with any future financial scenario -- gold is different from everything else in the investment firmament. (And very different from owning shares in gold companies, of which more later.)

For many investors, it is hard to shake the feeling that gold is the ultimate store of wealth, the ultimate safe haven, the one thing that will be tradeable if the sky falls in and paper money becomes worthless. That doomsday scenario won't happen, but the trust in gold is deeply imbued in many people.

Every so often, something happens to remind us of that. Take April 27. That was the eventful day that Greece's debt was downgraded to junk status and Portugal's ratings were cut with Standard & Poor's posting a negative outlook.

The damage was bad enough on the European stockmarkets that day, but everything was caught up in the mayhem. Aluminium prices dropped 7.2 per cent, nickel fell by 4.5 per cent and all the other base metals plunged, too. The euro took another hammering.

Everything plunged, that is, apart from gold. It rose on April 27 by $US15 an ounce: the safe haven, the barbarous relic, extant. In fact, gold has been doing well of late. The rising dollar has clouded gold's appeal here -- in Australian dollars it got to more than $1500 an ounce, but it's now below $1300/oz -- but for others across the world, the trend has been a healthy rise. On May 1 last year you could have bought an ounce of gold for $US886.55. By December 2, the price had reached $US1215/oz. The yellow metal then retreated to just above $US1050/oz in February this year, and brought all the gold nay-sayers out in force, but they were confounded in April when the metal again went into overdrive upwards.

For investors here, the recent behaviour of our dollar does raise the old conundrum: whether you should hold physical gold or gold stocks.

Five years ago, the argument could have been made with some force that there was more mileage in buying the metal. Gold was going up in price, but the values of the shares in the gold sector were not, leaving gold bugs who had bought into exploration and production companies in despair. Now it's the local dollar that has taken its toll.

Tony Parry, senior analyst at Resource Capital Research and author of that company's quarterly gold review, shows in the latest report that in the 12 months to March 31 the Australian Gold Index rose 8 per cent against 21 per cent for the rise of the gold price in US dollar terms.

You can put the gold index's poor performance down to our strong dollar and the fall in gold price in our currency.

Moreover, during that time the All Ords rose by more than 30 per cent and the Morgan Stanley World Index rose 51 per cent.

Again, the gold stocks underperformed the rest of the market.

Should that put investors off gold, and gold stocks for that matter?

Not necessarily. Parry points out the 16 gold companies his report covers in the latest edition rose an average 159 per cent in share price during the same 12 months that saw the Australian Gold Index edge up that 8 per cent.

So here's Parry's advice based on the figures he crunched: by all means put part of your portfolio in gold stocks but be prepared to look around for some of the more interesting gold stories -- the emerging producers -- and you can achieve spectacular out-performance.

But then what about the gold price itself? Gavin Wendt, who runs his own resources service at Mine Life, was one of the first Australian analysts to stick out their necks some years ago and predict gold would reach $US1000/oz. Which, after a few false dawns, it did.

Now he reckons gold will see $US1500/oz before the year is out. He says the combination of potentially weak currencies and the fact almost every developed economy is doing it tough will ensure gold keeps moving upward.

``I don't say $US1500 just for a nice round number; people remember these things,'' Wendt says.

``But now there's even more uncertainty and there are more investors who see gold as a safe haven.''

He is not alone in the bull corner. Barrick Gold chief executive Aaron Regent doesn't mention any numbers, but he is saying the gold industry has ``barely scratched the surface of potential investment demand'' for the metal.

The London-based precious metals house GFMS recently mentioned $US1300/oz as the high for this year

(although acknowledging that falling jewellery demand might weaken the price next year).

Then there's always the original Dr Doom, also known as Hong Kong-based financial adviser Marc Faber.

His latest prediction is for further rises in the gold price as paper money continues to lose value. Interestingly, he is also saying any slowdown in China could seriously dent the Australian and Canadian dollars. If he's right, that's not so much a double whammy as Christmas Day for gold investors: a rising metal price and a falling Aussie dollar. For the moment, though, they can but dream.

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