

# Gold has the potential to be an attractive investment

Is it time to buy some gold? That's what I hear as I move across the country.

Interest rates are at 30 year lows so you can't earn much there. Stocks and mutual funds have produced above average rates of return in the last few years. But, how long will that last? Where else can you turn?

There's always going to be a worldwide interest in gold. It's generally used as a safe haven for money when people worry about their ability to get it out of their country in cases of turmoil. And then, of course, there's inflation. Inflation destroys the purchasing power of your money. Many people feel that gold is going to rise in value so they will convert some of their cash to gold so it rises in value offsetting the impact of inflation. That is, of course, if there is high inflation. In addition, there will always be short term and shock type events that attract investors to gold from time to time.

Gold should always be looked on as a long term investment. For example, in the summer gold was rising in price. In the fall it fell. Those who purchased gold coins and wafers found to their dismay when they went to sell that the costs of the transactions (sometimes including sales taxes) often meant that gold prices had to escalate some \$50 an ounce before they made any profit. It's not like a term deposit, Canada Savings Bond, stock or mutual fund.

If you want to buy gold there are other routes where the costs aren't always as high. Investors buy gold as a safe haven in case of a war. Do you see any signs of a major war on the horizon? Most of the world couldn't afford one.

Then we have inflation. There's none in Canada. The U.S. economy is starting to improve so you have to believe they will create some inflation in coming years. But, how much? Germany has shown enough success in lowering their inflation rates that it is now cutting interest rates. Japan recently slashed its rates and seems poised to cut taxes to stimulate the economy.

There is a case to be made, then, for some increase in inflation around the world. Normally, that would be good news for gold prices.

Then we have those extras we mentioned above. The Soviet Union used to stock large gold reserves but they've been largely unloaded. The Canadian government recently announced that it had unloaded tonnes of its gold. And, other countries have been doing the same. This supply was obviously snapped up in the marketplace without much impact. Some will argue it was sold while prices were rising. As a result, there was no impact at all. Others would suggest it was sold in the last few months and helped gold's early fall decline. Either way the impact was not great as gold has shown modest appreciation recently.

Then we have an ace card. China's huge population can now buy gold. Will they? It's probable that some will. How many we don't know. But, if it happens it could happen in a big way. However, when you think about it, as the economy improves there is bound to be a larger demand for jewelry around the world. I suspect, then, that there is a pretty good case to be made for owning some gold or gold based investments.

If you are going to buy gold look at bullion, or preferably, shares of gold producing companies or, better yet, mutual funds that buy gold or gold shares. The rationale is simple. If you buy gold you prosper only if it appreciates in value. If you buy gold shares or mutual funds you win if prices rise but you also earn dividends or other income while you

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*Brian Costello*

are waiting for a rise in bullion prices. Companies or mutual funds will benefit from price appreciation

but they will also offer a regular income when there is no appreciation. You can also choose the commodities markets where you buy huge amounts of gold in the futures markets with only a small down-payment. If prices rise you make big profits. If they fall you lose big. These markets are only for those who sleep well at night as the risk is great. However, you can make a fast fortune. And the Royal Bank of Canada has introduced a gold war-

rant. It allows you to effectively buy an option on that will pay off if gold rises in value in the next two years. If you decide to buy some gold relat-

ed investments, remember that it's a specialty market. That is, some, not all of your money should be aimed there.

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