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SPINNING CASH INTO GOLD

Investors can find ways of putting money into the precious metal without the burden of having to store it

By Tim Grant
Pittsburgh Post-Gazette

Gold has been one of the hottest investments of the past 10 years, but not everyone who wants the benefits of investing in gold wants to be burdened with storing it in a safe place.

Many portfolio managers are recommending that investors have 10 percent to 20 percent of their net worth allocated to gold as a hedge against inflation and a declining dollar, which naturally leads to the question of how to invest in gold without the hassle of worrying about it being lost or stolen.

"For us, being a mutual fund with a substantial asset base, we have the luxury of investing in gold a number of ways," said Michael Cuggino, president of the San Francisco-based Permanent Portfolio fund (PRPFX), which manages $5.2 billion in assets, with about $1 billion in gold-related investments.

"We think gold provides protection for investors concerned about the health and stability of the financial system," he said, adding that his fund invests in a wide array of asset classes, including U.S. and non-U.S. stocks, bonds, commodities, real estate and natural resources.

As gold prices have risen from about $250 an ounce at the start of the new millennium to about $1,150 an ounce in the past few months, several new gold-related investments have emerged on the financial scene.

Among the most popular are exchange traded funds, or ETFs, such as SPDR Gold Shares (GLD), which was pioneered by the World Gold Council five years ago so that investors could have a pure exposure to the gold price yet be able to easily buy and sell shares on a recognized exchange. The fund trades on the New York Stock Exchange and currently has $35.5 billion worth of gold in its vaults owned by shareholders.

"We recommend for clients who want to have exposure to gold in a portfolio to access that in an ETF such as GLD," said P.J. DiNuzzo, president of DiNuzzo Investment Advisors Inc. in Beaver.

Through a gold ETF, a person can accumulate a fraction of an ounce of gold each month

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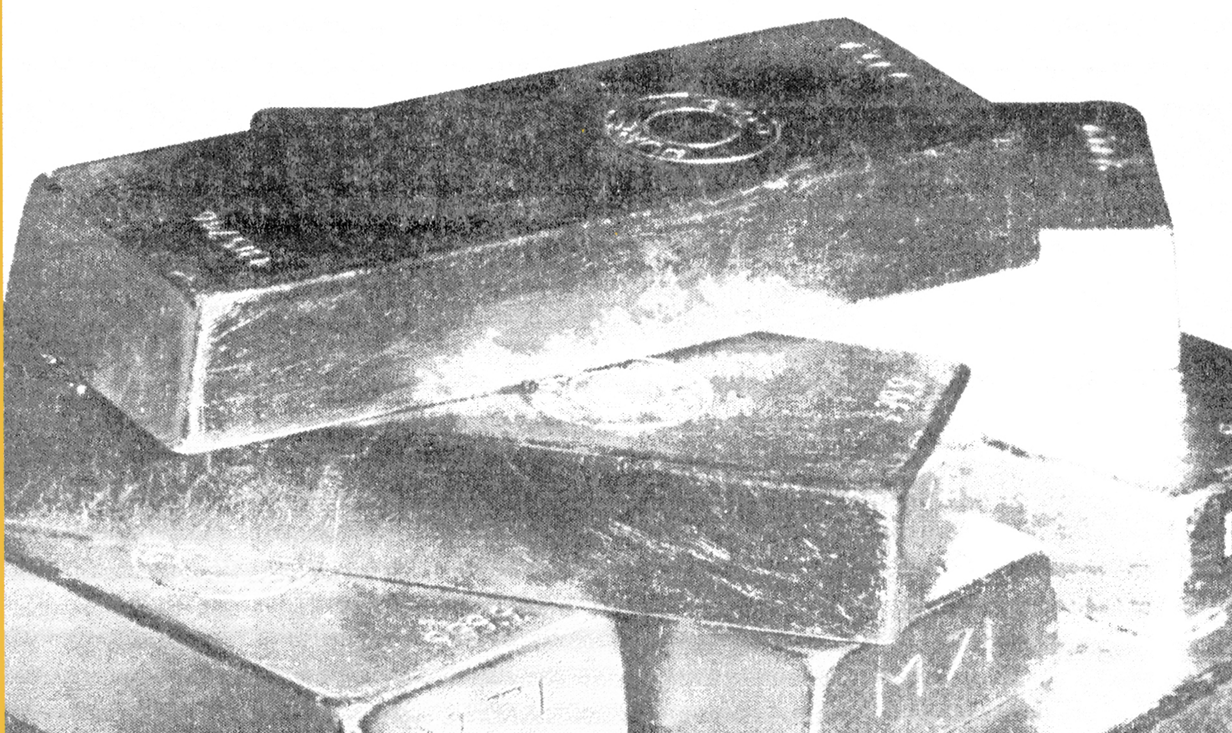

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Investors find ways to buy gold without storing it

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and thereby average the costs over a period of time. The biggest downside, however, is that an investor will pay a broker's commission with each purchase or sale of the ETF shares.

For those investors who prefer to invest in companies that produce gold, mining stocks such as Newmont Mining Corp. (NEM) and Barrick Gold Corp. (ABX) are another popular alternative to buying physical coins and bars.

But the value of mining stocks is not always directly correlated with the price of gold due to issues that are unique to that company.

Pittsburgh investment adviser Bob Hapanowicz, president of Hapanowicz & Associates, Downtown, said he believed that the soaring price of gold was due for a decline, and that if clients wanted to bet on that, he would recommend shorting a gold ETF.

But if going long, he would recommend CEF, the central fund of Canada, which is backed by silver and gold.

"Gold has had a pretty good run-up due to dollar weakness and fear of inflation," Mr. Hapanowicz said. "But I think the dollar will strengthen up and gold will fall back."

Gold closed yesterday at $1,119.30.

In times of economic turmoil and political unrest, gold has always been a means of storing value in a way that is not possible with paper money. Gold also is considered a good hedge against currency devaluations and inflation because its value often moves in the opposite direction of the U.S. dollar.

James DiGeorgia, author of "The New Bull Market in Gold: $5,000 Gold and How to Profit From It," believes that the Midas metal will hit $1,500 an ounce this year.

"If we don't figure a way to curb public spending, you'll have massive inflation in the next 10, 15 or 20 years until the whole thing collapses," Mr. DiGeorgia said. "The day of reckoning is coming sooner rather than later."

Peter Schiff, president of Euro Pacific Capital in Darien, Conn., and author of "Crash Proof: How to Profit from the Coming Economic Collapse," has been warning his clients for some time to diversify their investments outside of the United States.

He recommends buying gold certificates issued by the Perth Mint in Australia.

"Your gold ownership is guaranteed by the country of Australia," he said. "You know you own the gold itself and not a derivative. In the environment we have now, everyone has to own gold. You can't own dollars because the government is destroying the value of our money.

"You could have a million dollars in the bank and wake up one day to realize you can't afford bus fare with that million in cash. You might as well save in something that will retain its value like gold."

Certainly the riskiest of all methods of investing in gold is gold futures.

Gold futures are hedging tools for commercial producers and users of gold, but traders often use them to magnify investment returns.

Futures traders speculate on what the value of gold will be, and they place bets based on their opinions.

This is an area of gold investing that is not for the faint of heart.

Investors in the fast-moving futures market could either make a fortune or lose their shirts in very quickly.

Tim Grant: tgrant@post-gazette.com or 412-263-1591.