

StreetTalk

Run With The Gold Bulls

Robert Lenzner, 11.25.09, 6:15 PM ET

Gold is going into strong hands like hedge funds managed by John Paulson, Paul Tudor Jones, David Einhorn, Eric Mindich, David Hayman--the cream of the crop. Public institutions like central banks in India and China are big buyers too. Momentum on gold is building now, as latecomers climb on the bandwagon.

We're seeing demand for gold all over the world. Pension funds allocate about 5% as protection against the weakening dollar. Chinese citizens are encouraged by their government to hold gold, not dollars. On Nov. 18, Russia's central bank announced it would buy any and all gold its sister organization, the State Depository for Precious Metals and Gems, was willing to see. Now the Vietnamese central bank has granted quotas to import 10 tons of gold for use by its banking system and gold traders.

The recession is over and all is well, right? Wrong. Click here to get Gary Shilling's latest advice and forecast in the December issue of his Insight newsletter.

In Canada, there have been periodic shortages of gold to use in minting gold coins. Barrick Gold, one of Canada's giant mining concerns, raised several billion dollars to buy back its hedge on its gold production, an admission it expects gold prices to continue rising.

It will continue rising until there is a concerted move by central banks to defend the dollar, and that is not likely.

Demand for gold is growing faster than supply. In London, market makers trying to settle gold futures contracts with more contracts, not bullion, because there's not enough gold to deliver. Buyers who elect to forego payment in gold are offered cash premiums for doing so. If you really want the bullion, you can buy the ZKB Gold ETF on the Zurich Stock Exchange and take it to the Zurich Cantonal Bank, owned by the Canton of Zurich. There you are given the actual bullion, which can then be stored in Zurich.

The most common and direct way to invest in gold for the average Joe is the SPDR Gold Shares. It's an exchange-traded fund listed on the NYSE that has more than \$40 billion of bullion in custody and has sported a 20% annual rate of return since inception in 2004.

Einhorn's hedge fund, Greenlight Capital, owns an interest in Market Vectors Gold Miners ETF, which tracks the shares of gold-mining companies. Einhorn has also bought call options on the metal directly, according to FUNDfire, an investment service of the *Financial Times*.

Gold also is the darling of the market technicians as it continues to make new highs whenever the dollar shows weakness.

The fundamental truth underscoring this investment is that you can borrow money at zero to hold an asset with no yield but that everybody wants to own right now. Gold is under owned as an investment asset.

As the price of gold nears \$1,200 an ounce the shares of publicly owned gold mining companies with a low cost of production also go up. Take Eldorado Gold which is a Vancouver-based gold producer operating in Brazil, China, Greece and Turkey. It is one of the lowest cost gold producers in the world, claiming its "cash operating cost" is \$297 an ounce; that's more than \$800 an ounce less than today's spot price. Eldorado, as well as Compania de Minas Buenaventura, a Peruvian gold and silver producer, Kinross Gold and Silvercorp Metals, a low cost producer of silver, are among the top holdings of the Midas Fund (MIDSX), a fund focused on metals that has tripled in value since November of 2008. (See: "Picking Gold Stocks.")

What are your best buys right now in gold and silver mining companies? Pan American Silver?

[Yamana Gold? Click here for instant access to recommended buy prices for more than 20 junior and senior gold and silver miners in Curtis Hesler's Professional Timing Service.](#)

Don't be frightened by talk of a gold bubble. There won't be a bubble unless the cost of money rises sharply, the dollar strengthens and the budget deficits are reduced--scenarios that seem remote. According to Frank Holmes, CEO of U.S. Global Investors, gold trades 80% of the time in an inverse relationship to the dollar.

"I hate predicting gold prices attached to specific dates, but my gut tells me this current part of the gold bull market, which should last a few more years, is far from over," says my gold guru, Frank Giustra, a Canadian mining entrepreneur from Vancouver. "There is a growing realization that the U.S. dollar and other currencies are not going to offer the safe harbor feature that gold and other hard assets will."

Giustra, who owns gold properties in Canada and Venezuela, holds one-third of his assets in gold bullion. He points out that the massive liquidity in the financial system is even pushing up the price of lumber, even though the housing industry won't recover fully for 18 months. Lumber prices have moved up 50% as from \$165 per 1,000 board feet to \$235 this week. Or try silver, gold's little brother. It could be a "catch-up" trade, suggests Richard Ross, an Auerbach Grayson technician who says silver could hit a new peak price of \$23. It closed at \$18.82 on Wednesday.

All that glitters may not be gold, but the metal sure is shining brightly. Put a little sparkle in your portfolio.