Is There Time To Mine Gold's Bubble?

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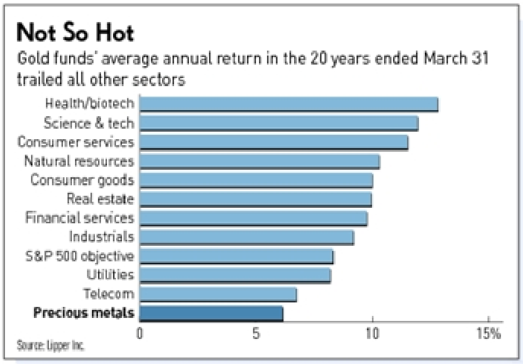

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If you've resisted buying gold up to now, it may be only a matter of time. The pressure is building.

If you succumb to temptation, the only question left is if you'll end up buying and selling most of your hoard near the top or bottom.

The enticement: Bullion soared 27% in the past 12 months. Precious-metals sector funds rocketed 25% on average.

You can't escape the promos. Late-night TV ads tout everything from selling your old jewelry to investing in collectible coins.

It's enough to get some people talking about gold as the next bubble.

If you jump in now, will there be anyone left to drive up prices more?

"Yes, gold is in a bubble," said Thomas Winmill, manager of $101 million Midas Fund . "But it's been in a bubble since the time of the Sumerians."

Three factors impact gold's price currently, Winmill says:

• **Near-term fear factors.** This includes the European debt crisis and situation in Korea, Winmill said.

• **Medium-term fundamentals.** Key variables include the amount of gold that is mined. Another is how much gold is bought or sold by national central banks.

• **Long-term U.S fiscal and monetary policies.**

Winmill sees no end any time soon to U.S. deficit spending. In turn, that fuels dollar inflation.

"Gold is a commodity whose value is expressed in dollars," Winmill said. "And in the last year or so the Fed has created over $1 trillion in dollars. We've seen far less gold created — only some 78 million new ounces. That's a price of several thousands of dollars per ounce."

Gold's spot price closed at $1,212 an ounce on Friday.

Winmill expects gold to rise roughly $100 per quarter for the rest of this year. He sees it hitting $1,400 by Dec. 31.

Gold is also being driven by investor fear that U.S. deficit spending is in danger of resembling Greece's.

European Commission auditors found Greece's public deficit topping 13% of its GDP. The U.S. is now north of 10%.

In the past, advocates of deficit spending said that economic growth would bring tax revenues in line with public debt. "But now this amount of debt has not created a commensurate amount of GDP growth," Winmill said. "So investors are worried."

No major currency looks like a safe haven from the dollar to Winmill. Deficit spending is widespread among developed economies.

"Our view at Midas is that most G-8 currencies — the dollar, pound, euro, Swiss franc and so on — will depreciate vs. gold," he said. "It's another reason U.S. investors wonder where they can allocate some portion of their assets as a hedge against currency devaluation."

Still, gold investing has pitfalls. The price of the metal has doubled since late 2006. But over long periods it can be volatile.

In the 20 years ended March 31, precious metals funds tracked by Lipper Inc. returned an average annual 6.15%. That trails all major sector fund categories tracked over those two decades.

The top performing sector was health-biotech. Its average annual return was 12.83%. S&P 500 index funds averaged 8.32%.

What about investing directly in gold rather than in gold sector funds, ETFs or individual stocks of mining companies?

One alternative is gold coins. They are touted nonstop via the Internet and late-night TV and radio ads.

One key to not losing your shirt is to compare the buy price to the spot price — London or New York's — online or in your newspaper.

Expect to pay a dealer's commission. It should be around 5%, says Adrian Ash, head of research at BullionVault, an online trading service.

Also, don't pay a premium for coins that are not collectibles. You should pay only for the metal plus commission for common coins such as American Eagles or Krugerrands.

Beware Of Bullion

Then there is bullion. Some firms offer unallocated gold. That's basically an IOU to the metal. You won't get gold unless you demand delivery.

If the firm folds in the meantime? Get in line with other creditors.

Allocated gold actually belongs to you from the start. For that, you'll have to pay a storage fee. "Be sure that provides for insurance," Ash said. And look for third-party audits.