How to Trade It: Is it too late for gold fever?

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By Lauren Young

NEW YORK (Reuters) - Is it too late to buy gold?

It soared to a record $1,700 an ounce Monday after the United States suffered its first-ever debt downgrade at the hands of Standard & Poor's.

With gold rising 30 percent this year and nearly 400 percent over the past decade, it's reasonable to ask when the fever might break.

In recent days it's gone completely viral as the debt crisis plunged financial markets to the biggest losses in two years.

"People who weren't talking about it even six months ago are heavily interested in gold today," says Frank Trotter, president of EverBank Direct in Jacksonville, Florida, which holds nearly $500 million worth of precious metals in the form of hard assets for clients.

Gold purchases leaped to more than 18 million ounces over the past month -- from 8.4 million for the entire year up to July, according to data from the Commodity Futures Trading Commission.

People are betting gold will come through the present debt crisis shining. In the depths of the 2008 financial crisis, gold dropped by 20 percent -- but the metal was hurt as the U.S. dollar became the safe haven of choice. In the debt showdown this year, the dollar has suffered and gold leaped.

THE BULLISH CASE

Financial adviser Jeffrey Sica of Sica Wealth Management in Morristown, New Jersey, says it's not too late to profit from gold fever -- he sees 20 to 25 percent upside in the glittery stuff.

"What we are seeing is the tip of the iceberg in terms of the downgrade," says Sica, a self-described stock market bear who forecast Standard & Poor's downgrade in a blog post to clients back in March. He said gold's value has grown due to central banks' inability to contain the debt crisis.

"The fundamentals to invest in gold have not changed," argues William Rhind, managing director of ETF Securities, which manages $4.2 billion in exchange-traded fund assets. "The only thing that has changed is that investment case is stronger - the world's best credit, the U.S. government - has been downgraded. It's no longer as safe as it was."

Nor is gold overvalued at these levels, Rhind said, since it hit $873 in 1980. Adjusted for inflation, the equivalent would be just over $2,391 today. That's about the level JP Morgan Chase told clients the spot gold prices could hit this year. It said in a note $2,500 per ounce is possible.

OTHERS ARE SKEPTICAL

Among doubters, though, are people like Pat Dorsey, Morningstar's former director of equity research and now vice chairman of Sanibel Captiva Trust Company, which has $500 million under management.

"I've never been a fan of gold. I am in the camp of that thinks it generates no income and has no utility (like copper), so the valuation is based on the opinions of other people," Dorsey says.

Others cite its volatility as a negative factor, since the gold price is affected by fast-money traders lured by the leverage of commodities contracts. The price can tumble just as quickly as it rises.

Still, even some conservative managers recommend a small allocation in gold as part of a balanced portfolio. EverBank's Trotter puts his own account at 5 percent to 10 percent.

HOW TO INVEST

Here are three ways to invest in gold:

1.Buy Funds.

If you are looking for a way to invest in gold, one of the easiest ways to do it is to buy an exchange-traded fund, such as SPDR Gold Trust ETF, iShares Gold Trust or Market Vectors ETF Trust, which tracks gold miners. And there are ETFs that are tangentially linked to gold, such as ETFS Physical Platinum Shares along with ETF baskets of precious metals, such as Etfs Physical Precious Metals Basket Shares - which holds gold, silver, platinum and palladium.

The advantage that ETFs have over mutual funds is that they are easier to trade and ETF costs are usually lower. But the downside of investing in a gold-related ETF is that the gains are not always direct and can sometimes lag the rise in gold prices. The risk is that prices can rise and fall quickly.

Conventional mutual funds may be more appealing to buy-and-hold investors. The $100 million Midas Fund, which is highly concentrated in mining stocks, saw significant inflows last week, although manager Tom Winmill wasn't specific. "Gold is not a way to maintain capital appreciation, but it's a good way to preserve wealth," he says.

2. Buy Stocks

Another way to play gold is to go straight to the source - gold mines. While prices for physical gold are soaring, gold mining stocks have slumped. Winmill of the Midas Fund likes Freeport Mcmoran Copper and Gold, which is one of the world's largest mining companies. Year-to-date, the stock is up only about 5 percent, "even though revenues and earnings are exploding on the upside," Winmill says.

"A lot of people are thinking the world is going in reverse, but global Gross Domestic Product growth - if you include emerging markets - is 7 percent. And a lot of that emerging markets growth has to do with infrastructure build out which demands copper," he argues.

Winmill also likes Goldcorp and Newmont Mining Corp, which are some of the largest holdings in the Midas Fund. He sees a "Slinky Effect" for mining stocks in the coming months - "They'll bounce back and make up for lost ground as well," he says.

3. Buy Hard Assets

The upside of buying actual gold bars and ingots is that when the price of gold rises, the value of a gold block tracks the gains on an almost one-for-one basis, unlike other assets which only track the value.

"People want to put their money into hard assets, which retain a value when currencies lose value," says Tod Mcelhaney, president of LaSalle Futures Group in Chicago.

But while physical gold has the most direct value, the downside is that it is also more difficult to offload should investors want to let go of the asset.

One way to buy physical gold is Everbank's Pooled Gold and Silver Accounts, which lets you to pool your investment with other investors. The advantage is that you don't have to cough up huge sums - the minimum investment is $5,000 - nor do you have to pay storage, delivery or annual fees to stash your gold. The ideal investor? "Someone who doesn't have an apocalyptic view that they need to have it in back yard," Trotter says.

(Reporting by Beth Pinsker and Ashley Lau in New York and Amanda Cooper in London. Editing by Richard Satran)