Title:
Magnificent Kinkakuji

Word Count:
404

Summary:
Last week during his tour of Kyoto Japan, President Bush visited the Golden Pavilion (Kinkakuji) and described it as “magnificent”. He was probably referring to the 1398 Japanese architecture but may just as well have been referring to gold prices which are at an 18-year high. Gold has been a magnificent investment and still has considerable upside.

It is a rare portfolio that I build for a client that does not have some allocation to gold and other precious metals. There ...

Keywords:
etf, ishares, investment newsletter, investor newsletter, investing in gold

Article Body:
Last week during his tour of Kyoto Japan, President Bush visited the Golden Pavilion (Kinkakuji) and described it as “magnificent”. He was probably referring to the 1398 Japanese architecture but may just as well have been referring to gold prices which are at an 18-year high. Gold has been a magnificent investment and still has considerable upside.

It is a rare portfolio that I build for a client that does not have some allocation to gold and other precious metals. There are three basic reasons why investors should still consider adding it to their portfolio.

First, gold prices are not normally correlated to other asset class prices. It therefore serves as a buffer or shock absorber to the value of a portfolio when other assets classes are out of favor.

Secondly, there are supply and demand factors. Central banks have been net sellers of gold over the past twenty years. Gold accounts for about 9% of the $4.4 trillion in world central bank foreign exchange and gold reserves, down from 15% in early 2000.

But some central banks are now going the other way. For example, the Russian central bank wants to increase gold’s share of its reserves from 5% to 10%.

Jewelry demand for gold is also picking up especially in China and India. Global investors are also using gold as a hedge for a global recession and potential decline in value of the U.S. dollar or the Euro.

On the supply side, production of gold has been relatively flat for the last 5-7 years and does not appear to be turning around due to maturing mines and higher extraction costs.

The third reason to have some gold exposure in your portfolio is that it serves as disaster insurance from unforeseen but potentially devastating events such as widespread terrorism or severe economic or political upheaval.

Many gold bugs insist that the only true gold exposure is through gold coins. An easier way to gain instant gold exposure is through the iShares COMEX Gold Trust ETF (IAU) that is up 15.3% so far this year. Another option is investing through the iShares South Africa ETF (EZA) which has considerable exposure to the gold and mining industry and is up 15.9% this year.

Don’t come down with gold fever. A 5-10% allocation to your core conservative portfolio should get the job done. Expect some lusterless years as well as some magnificent returns and restful nights knowing you have some gold under the pillow.