Buy Gold or Else

As the fundamentals driving gold straight north continue to gain intensity, the bottom line for those of us with capital tied up in other investments is that some gold in the portfolio is not merely advisable - it's a must.

If you are a student of economic history, you will understand that in spite of the world's abandonment of gold as the peg by which all currencies are measured, all currencies can still be measured in gold. That fact alone should amplify gold's unassailable position as history's value vault of last resort.

Alan Greenspan's new book, points the blame directly at the Bush administration for abandoning "rigorous fiscal policy" in favor of misguided "easy money."

Many commentators, however, blame Alan Greenspan for the current morass.

Their arguments suggest that if Greenspan hadn't lowered rates so drastically in response to the dot-com meltdown, the current real-estate bubble bust and accompanying credit crunch would never have materialized. That makes no difference now, though.

Countries who participated in the U.S. style of mortgages front-loaded with low interest rates are now having to devalue their currencies by pumping in paper to replace the even more nebulous ABCP which represented imaginary credit dollars. Those dollars are frozen in time as creditors wait with teeth clenched to see what rate of default falls out of raised rates of interest.

Admittedly, the assets backing even the sub-prime caliber of debt are not utterly worthless. But they're surely not worth the value of the loans they've backed.

The yet-to-unfold problem here is that in the past, properties that were foreclosed upon found a ready market for the assets. Now, in the new tighter credit environment, that market is largely dried up, while supply is going up and will go through the roof in the months to come.

So government is having to inject more money into the system, which ultimately increases supply while lowering demand for those currencies.

Which means, in a roundabout way, the price of gold relative to those currencies is going to go up. The more money central banks have to pump back into their economies to alleviate liquidity crises, the more upward pressure will develop under the price of gold.

Presently gold is trading around its 16-month high, and looks strong at these levels.

The Fed's recent interest rate cut will almost certainly send gold higher, as it will send a strong signal to foreign holders of U.S. currency that their rate of return on U.S. dollar holdings will fall victim to the Fed's monetary policy.

That could see those U.S. dollars move increasingly into gold as huge government investors run from the greenback.

Customers who were lined up outside the Newcastle branch burst into laughter when an employee came out to inquire if anyone was there to deposit funds as opposed to withdrawing them.

That grass roots panic could grip some U.S. banks, and if it does, the price of gold will go through the roof in short order.

The price of gold is already going through the roof, albeit as fast as cold molasses. But this credit problem is much like the onset of a bad case of flesh-eating bacteria. One minute the patient seems healthy, and then within months there's no patient left.

A little drastic, perhaps, but it would be foolish to underestimate the scale of what is happening right now.

Gold is increasingly being snapped up by Asian and Middle Eastern customers.

Gold sales in Dubai could increase 40 percent compared to last year's figures, said the managing director of the Dubai Gold and Jewellery Group in a Qatar newspaper.

The Peninsula reported that Tawhid Abdullah, who is also the chairman of international jewelry retailer Damas, said that he expects that gold sales will increase as customers make more purchases during the Dubai Shopping Festival and the Islamic month of Ramadan.

"The market is not affected by the current prices of gold and we have a better economy in Dubai and strong consumer confidence," he said.

Gold sales in August were up 26 percent compared to the same month in 2006.
Until next time,

Greg McCoach

Right now - without question - the best opportunities for investors to protect themselves against the coming financial reckoning are with precious metals and mining stocks and that's what makes the Mining Speculator portfolio the best in the business.

At the moment, of the 35 stocks in the Mining Speculator portfolio, only six are down. And of the 29 stocks that are up, fourteen are up over 500% apiece... eight of which have gain more than 1,000%.

And the portfolio return? 626% in the past six years.

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