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GOLD CASTING ITS INVESTMENT ALLURE

Gold is at an all-time nominal high. This week the spot price was more than $947 per troy ounce.

That has people scurrying to buy and sell gold, in the form of coins or futures and Exchange Traded Funds.

Buying futures, speculating or hedging on future prices of gold, can be done through a commodity broker. Gold in the form of an Exchange Traded Fund, an investment fund whose shares reflect the performance of gold bullion prices, can be purchased through a stock broker.

The traditional, hands-on way to buy gold, of course, is to purchase coins — numismatic or bullion.

Tom Hallenbeck, assistant treasurer of the American Numismatic Association and president of Hallenbeck Coin Gallery, 711 N. Nevada Ave., said buying coins has been a popular route.

“It has been extremely busy,” he said. “Our business has grown exponentially compared to two years ago. We have nonstop people from open to close.”

He said some are buying gold for the first time — wishing they had bought back in ‘99 when it was $250 per ounce. Others are selling gold they’ve had since the late ‘70s and early ‘80s.

“Gold has less of a stigma than it did five to 10 years ago. People were ridiculed during the Y2K scare for buying gold. But it hit bottom in ’99 — and it’s been creeping up ever since,” Hallenbeck said.

GOLD — PART OF A WELL-BALANCED PORTFOLIO

“Gold has held its fascination over the centuries — it’s beautiful to look at,” said Erik Davidson, senior vice president and senior director of investments for Wells Fargo’s Private Bank, Mountain Midwest Region.

“Usually gold is considered a safe haven during times of high inflation and global unrest. Two big drivers of gold prices are globalization and emerging economies,” he said.

And, the flip side of a weakening dollar is that it’s cheaper for non-dollar based investors to buy gold.

While Davidson is not necessarily bullish on gold itself, he said the dollar is likely to continue to weaken. Investing in gold and commodities is a risk-mitigation factor, increasing a portfolio’s diversity.

“When we’re flying, we want to hear the pilot say we’re cruising at an altitude of 30,000 feet — not an average of 30,000. The same thing goes for investment portfolios. The more diversification, the better — then some things are zigging, while others are zagging,” he said.

However, investors can get into trouble if they make gold too high of a percentage of their portfolio.

Generally, alternative assets — commodities, hedge funds and real estate — should comprise 1 percent to 5 percent of a portfolio, Davidson said.

“Alternative assets smooth out returns and lower the volatility of a portfolio,” said Daniel Korleski, senior vice president and chief investment officer of American National Bank’s Wealth Management Group. “But the biggest challenge for individual investors is having the discipline to systematically rebalance their portfolio — and not let fear or greed rule them.”

EXCHANGE TRADED FUNDS AND GOLD FUTURES

“Over a 12-month period, the price of gold is up 10 percent,” Korleski said. From an investment point of view, or as a hedge against inflation, the most economical way to purchase gold is via an Exchange Traded Fund.

Mike Speer, president of Speer Commodity Futures at 2502 W. Colorado Ave., feels more confident in gold’s long-term value.

“I’m extremely bullish on gold,” he said. “I’m watching gold very closely. For the short term, I wouldn’t be surprised to see a pull-back. But on a long-term basis, it could be $1,500 by the end of the year.”

Speer’s clients have long been interested in gold and aware of inflation, he said. About 80 percent to 90 percent of his clients have been trading in gold futures for the past five years.

The advantage of speculating in commodities is the amount of leverage one has. A contract in gold is 100 ounces. The margin requirement is roughly $3,400. If the price of gold is $906 per ounce, an investor can control $90,600.

Many people have also taken advantage of the gold market through Exchange Traded Funds, which weren’t available in the 1980s, Speer said.

NUMISMATIC VERSUS BULLION

The value of numismatic coins is based on mintage, condition, rarity and desirability.

Scarce numismatic coins — those priced at $10,000 or more and especially those at $50,000 or more — have far outperformed bullion coins, Hallenbeck said.

Foreign and rare coins are up 400 percent during the last few years. Across the board, he said, almost all coins have gone up in value.

Hallenbeck said he sold a 1937, Denver Mint, three-legged Buffalo nickel to a customer in the mid-‘80s for $65.

“I just bought it back last week from the same customer for more than $600,” he said.

But, Hallenbeck recommends that collectors start small, buy coins they know the history of and buy only what they like. That way if the value goes up, that’s a bonus.

Hallenbeck warned that investors and collectors should never clean a numismatic coin, because when the skin —

the tarnish and toning — has been removed, part of the metal is usually removed, and value is significantly diminished.

“It’s not jewelry,” he said. “Shiny is not better.”

Bullion differs from numismatic coins, because it trades within 15 percent of its melt value. Value is based on weight and the spot gold price.

“Bullion coins are cut and dry, very simple,” Hallenbeck said. “With a phone call, you can find out if a dealer buys them.”

He said American Eagle gold coins are by far the most popular, although they also sell American Buffalo coins, Chinese Pandas, Canadian Maple Leafs, South African Krugerrands and private gold ingots.

HOLD ‘EM OR FOLD ‘EM?

The dramatic rally of gold prices recently indicates a reversion to the mean. Gold hasn’t reached its inflation-adjusted high, which would be at least $1,496 per ounce, so it’s no surprise that most financial advisers believe gold’s value will only continue to rise, but they’ll likely continue to differ about its investment paths.

Speer suggests that investors should keep some Krugerrands on hand.

Korleski thinks that’s too risky.

“I don’t know why anyone would physically own gold — except to look at it. You run the risk of theft if you keep it in your home,” Korleski said.

Either way, most financial advisers agree that buying gold futures or ETFs is part of a sensible, balanced investment plan.

“I don’t think the public is into gold yet — not like they were in the ‘80s. Maybe they’re still shell shocked from all the other financial crises,” Speer said. “When they do finally get into gold — it will explode.”