How to Buy Gold at $188 an Ounce

Do you own gold yet?

As I'm sure you're aware, starting in July 2007, the financial markets entered one of the most severe crises in history. In response to this, the Feds (Federal Reserve, Treasury Department, etc.) have tried to prop up the financial system with numerous interventions. A brief recap of their moves are as follows:

- The Federal Reserve cuts interest rates from 5.25-0.25% (Sept '07-today)
- The Bear Stearns deal/ Fed buys $30 billion in junk mortgages (March '08)
- The Fed opens various lending windows to investment banks (March '08)
- The SEC proposes banning short-selling on financial stocks (July '08)
- The Treasury buys Fannie/Freddie for $400 billion (Sept '08)
- The Fed takes over AIG for $85 billion (Sept '08)
- The Fed doles out $25 billion for the auto makers (Sept '08)
- The Feds' $700 billion Troubled Assets Relief Program (TARP) (Oct '08)
- The Fed buys commercial paper (non-bank debt) from non-financials (Oct '08)
- The Fed offers $540 billion to backstop money market funds (Oct '08)
- The Feds backstops up to $280 billion of Citigroup's liabilities (Oct '08).
- Another $40 billion to AIG (Nov '08)
- The Fed backstops up $140 billion of Bank of America's liabilities (Jan '09)
- Obama's $787 Billion Stimulus (Jan '09)
- The Fed's $300 billion Quantitative Easing Program (Mar '09)
- The Fed buying $1.25 trillion in agency mortgage backed securities (Mar '09-'10)
- The Fed buying $200 billion in agency debt (Mar '09-'10)
- Cash for Clunkers I & II (July-August '09)

And that's a BRIEF recap (I'm sure I left something out).

The Coming Inflationary Storm

At some point (and I cannot tell you when), the money printing and bailouts will likely result in a horrific wave of inflation similar to the one this country saw in the early '80s. No central bank in the history of mankind has ever been able to print money ad nauseum without devaluing its currency. And the US central bank is currently producing TRILLIONS of dollars to aid their friends on Wall Street.

So it's no surprise that the smart money (investing legends like Jim Rogers, David Winters, and even Warren Buffett) have been preparing in advance buying inflation hedges and companies that profit during periods of high inflation.

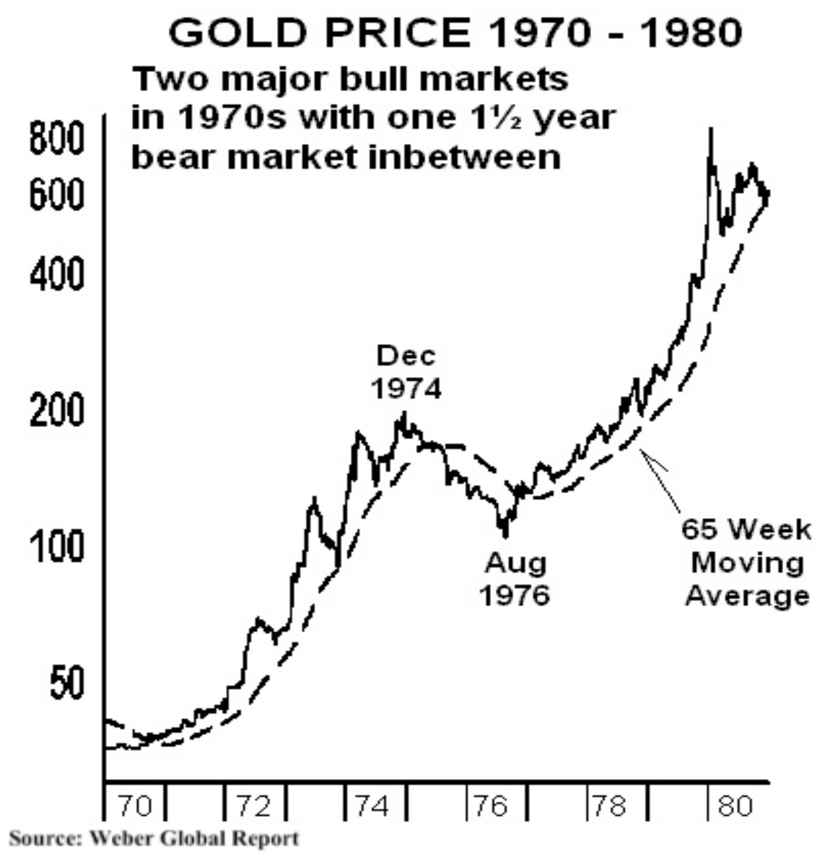
And nothing protects against inflation like GOLD.

Gold was, is, and always will be THE ultimate storehouse of value. Mankind was prizing this stuff during the prehistoric period, long before the concept of stocks, mutual funds, or paper money even existed.

Now, I know what you're thinking, *"gold has already risen from $250 to $900 an ounce, how much higher can it go?"*

Much, MUCH higher, my friends.

No investment ever goes straight up or straight down. During the last bull market in gold, the precious metal rose 2,329% from a low of $35 in 1970 to a high of $850 in 1980. <u>However, during that time, there was a period of 18 months in which gold fell nearly 50%</u> (see the chart below).



As you can see, from mid-1971 to December 1974, gold rose 471%. It then fell 50%, from December '74 to August '76. After that, it began its next leg up, exploding 750% higher from August '76 to January 1980.

Now, in its current bull market (2001 to March 2008), gold rose over 300% from $250 to a little over $1,000. And just like in the mid-70s, it began showing signs of weakness after its first big rally up to $1,014 in March ’08. At one point, it even fell to $700, a 30% retraction. Granted, it wasn’t a full 50% retraction like the one that occurred from 1974-76. But we *are* experiencing a financial crisis. And gold *is* the most common catastrophe insurance.

This Gold bull market is mirroring the last closely. Indeed, gold experienced upwards resistance for 19 months between its first leg up (ended March ’08) and it second leg up (September ’09). And remember, during the last gold bull market, it was the SECOND leg that produced the BIG gains (750% vs. 471% for the first leg up).

At $1,000, Gold is Still Nowhere Near Its All-Time High

Now, a lot of commentators have noted that gold is already trading above its 1980 high ($850 an ounce). What they fail to note is that thanks to inflation, $1 in the ‘70s is worth a LOT MORE than a $1 today.

$1 in…	Is Worth Today
1970	**$5.49**
1980	**$2.58**

For gold to hit a new all time high adjusted for inflation, it would have to clear at least $2,193 per ounce. If you go by 1970 dollars (when gold started its last bull market) it’d have to hit $4,666 per ounce.

Whether you’re investing in gold as an inflationary hedge, a backup source of wealth should the world’s financial markets collapse, or because gold remains one of the few means of hiding one’s wealth from unwanted attention, there are several key rules you should always follow:

- Only buy from a dealer you know and trust.
- Always keep your gold in your possession. That is, do not entrust its storage to someone else.
- Treat your bullion like a savings account, not an investment trade.
- Only buy gold investments that are liquid enough that you could easily liquidate your position in an emergency.

If we were in Switzerland we could simply walk up to the gold counter at several banks and walk out with several gold bars in a briefcase. Regrettably no such accommodations exist in the US. So you need to find a dealer. I suggest calling Camino Coins in California.

Camino has been dealing bullion for well on 50 years. They're one of the best firms in the business. For one thing, they refuses to store gold for their clients; *"It's their gold, I have no right to hold on to it,"* says Parker Vogt a broker there . I receive absolutely no compensation what so ever for recommending Parker or Camino. They're just folks I've worked with in the past and trust.

You can contact Parker at:

Parker Vogt
Camino Coin
1301 Broadway
Burlingame, CA 94010
Phone: 800-348-8001 or 650-348-3000
Fax: 650-401-5530

you're uncomfortable buying actual bullion you can buy the **Gold ETF (GLD).** The ETF trades at a ratio of 1:10 for gold prices. So if Gold is trading at $900, the ETF will be at 90.

Action to take: Buy some gold bullion or the Gold ETF (GLD).

However, for those seeking truly exception gains, the opportunity today lies not in gold bullion but in gold mining stocks.

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Gold is currently undergoing a temporary correction in a bull market. But gold mining stocks are currently trading at levels <u>you only see at the end of BEAR markets in gold</u>. Taken as a whole, the sector is at its one of its cheapest levels relative to the price of gold since 1984.

How cheap are gold mining stocks?

Try $188 an ounce.

Now, gold mines are complicated, expensive businesses to run. The costs of production can be extremely high. And on top of this, you need great engineers AND honest, capable management. Having seen executive after executive involved in fraud, scams, and other wrong-dealings, I know you know that finding good managers (in any sector) is no small feat.

Because of this, when investing in the gold mining sector, it's best to invest in a basket of stocks, rather than any one single company. To my mind, there is no better opportunity than the **Gold Miners ETF (GDX).**

GDX is a basket of 25 gold mining stocks. It has exposure to the blue chips— gold majors like Barrick and Newmont—as well as plenty of juniors— Randgold, Yamana, etc. Because of this, it gives broad exposure to the gold mining sector without putting all of your eggs in one basket: the blue chips add stability while the juniors give you some extra growth.

Now, about that cheapness…

GDX's collective reserves stand north of 700 million ounces. With gold around $900 an ounce, you're talking about $641 billion worth of gold at market value.

However, the combined market capitalizations of these companies is only $134 billion. Put another way, the stock market is **currently valuing GDX's resources at a mere $188 an ounce!**

Granted, buying gold in the ground (a gold mine) is very different from buying gold on the open market. Many things can go wrong with a gold mine. So mining companies are rarely if ever valued at the market value of their reserves.

But for mining stocks to be trading at 20% of their reserve value (during a bull market in gold, no less), is simply too cheap. Think about it… gold has exploded upwards from $250 to nearly $900: almost a four-fold increase. But gold mining stocks— essentially real estate companies sitting atop millions of gold ounces— are trading close to where they do at the end of bear markets in the precious metal.

Try to name one other investment that is currently this cheap while its underlying asset is in a raging bull market. You can't… there isn't one.

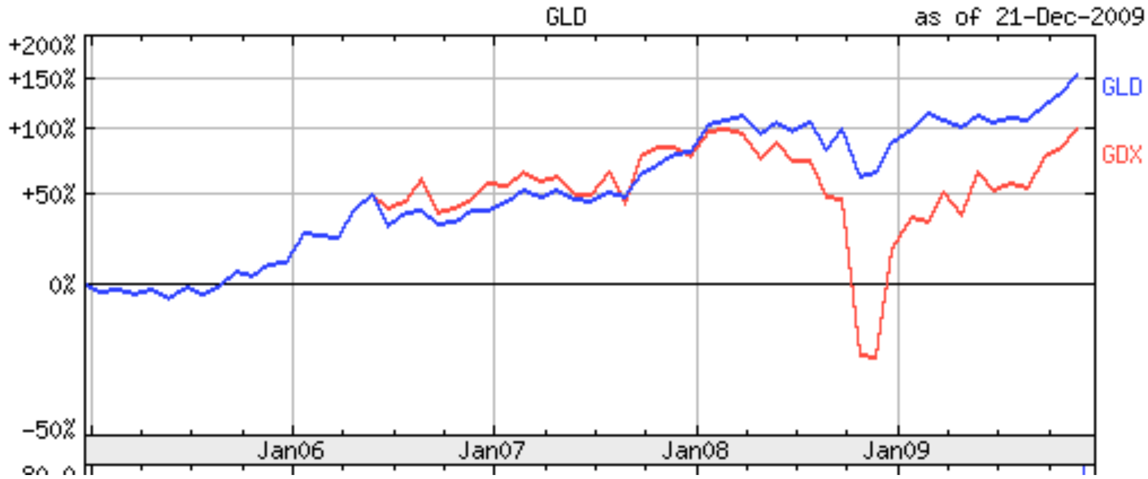
By buying GDX you're spreading out your risk among 25 mining companies. And you're also getting some exposure to silver and other precious metals as well: many of these gold companies have substantial reserves in other metals.

At some point, the Feds' anti-dollar money printing will take hold of the US currency. When it does, gold and gold mining stocks will explode higher.

And make no mistake, gold is going through the roof.

During the last bull market in gold, the precious metal rose from $36 an ounce to over $850: a more than 10-fold increase. Thus far in today's bull market, gold has only risen roughly four fold.

And yet, today, gold mining stocks are dramatically lagging the price of gold. Of course, they're not quite as cheap relative to the precious metal as they were during the financial collapse of Oct.-Nov '08. However, they are still trailing gold by a wide margin: see the chart below of the Gold ETF (blue line) vs. the Gold Miner's ETF (red line).



With GDX, you've got broad exposure to the gold mining sector. This minimizes the risk, should any single gold mining stock take a hit. It also gives you a broader underlying asset base from which to cull your gains: the blue chips will add stability while the juniors will offer a turbo charge.

All told, you're buying some 714 million ounces of gold at roughly $188 an ounce. That kind of value is virtually non-existent elsewhere in the investing world. Especially when you consider that gold is due for another major leg up sometime this fall (based on historic trends for bull markets in the precious metal).

There is literally the potential for triple digit gains here. Heck, GDX would have to rally 30%+ just to trade in line with the price of gold again!

Action to take: Buy the Market Vectors Gold Miners ETF (GDX).

Best Regards,

Graham Summers

Ps. the fact that you're buying a diverse portfolio of gold miners doesn't mean that GDX will be free from volatility. We are amidst the worst financial crisis since the Great Depression. And NO investment will be TOTALLY unscathed by its destruction. If the markets crash again, GDX will take a hit. However, as last autumn proved, the ETF is quick to recover and spike as gold prices jump due to safe haven seeking investors.

Remember, gold and gold mining stocks have both historically been storehouses of value during times of crisis. Today's market will prove no different. But you will have to stomach a few bumps along the way. Gold mining stocks are already incredibly cheap. That doesn't mean they can't get cheaper. If you choose to invest in GDX, plan to hold your position for at least 12-18 months.