How to Buy Gold at $350 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 endless money printing and stealth bailouts.

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

At some point (and I cannot tell you when), the money printing and bailouts will result in a horrific wave of inflation similar to the one this country saw in the early '70s. 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.

Indeed, inflation is actually already here as the headlines attest:

> **Global Food-Price Index Hits Record**
>
> *China has raised interest rates twice in recent months to combat inflation. Euro-zone inflation jumped past the bloc's target rate for the first time in more than two years, data released this week showed, and economists said the rise was likely due to higher food and energy prices.*
>
> **UN body warns of 'food price shock'**
>
> *The world faces a "food price shock", the Food and Agricultural Organisation has warned after its benchmark index of agricultural commodities prices shot up to a nominal record last month, surpassing the levels of the 2007-08 food crisis.*
>
> *The warning from the UN body comes as inflation is becoming an increasing economic and political challenge in developing countries, including China and India, and is starting to emerge as a potential problem even in developed countries, including the UK and the eurozone.*

China Acts To Prevent Collusion On Prices

China's economic planning agency unveiled regulations to prevent price collusion and monopolistic pricing practices, giving the government more tools to rein in inflation pressures… Under the new rules, competitors will be banned from reaching agreements to fix prices, while business partners will be barred from agreeing to minimum resale prices, the NDRC said.

China PBOC: To Give Higher Priority To Curbing Inflation

China's central bank will give a higher priority to curbing inflation in 2011, the People's Bank of China said Thursday, boosting expectations that it will adopt more tightening measures, such as raising interest rates.

China has adopted various measures in the past few months in a bid to rein in inflation. The PBOC hiked benchmark interest rates on Dec. 25, the second time since Oct. 19, which was the first rate hike in nearly three years.

Brazil pledges to stop US 'melting the dollar'

Brazil has sounded a new note of warning in the international "currency war" by pledging not to allow the United States to "melt the dollar". Guido Mantega, the Brazilian finance minister, raised the prospect of introducing greater controls on short-term flows of speculative capital into his country.

All of these come from major media outlets (not exactly at the forefront of investigative journalism). At this point I actually wonder if Ben Bernanke can even *read*. I realize that sounds harsh, but how on earth can he claim inflation is under control? I mean, does this guy even bother reading anymore? He's an academic right? Isn't his entire job supposed to consist of reading and thinking?

Let's be clear here, inflation has already begun to rear its head around the world, especially in food prices. This is a MAJOR problem for emerging market economies where food comprises a higher percentage of consumer spending than in the US. So expect to see food riots and greater civil unrest in many emerging markets.

And you BETTER prepare for inflation in the US.

Indeed, We've already seen commodity prices spike across the board in the US in the last year:

Asset	Price on 1/1/10	Price 1/31/11	% Change
Oil	82.75	90.00	+8%
Gold	1,137	1,348	+18%
Silver	16.81	27.90	+65%
Wheat*	201	339	+68%
Corn*	167	279	+67%
Poultry**	83	85	+2%
Sugar **	21	33	+57%

* per metric ton
** cents per pound

The next stage is the paper currency collapse: the stage at which inflation accelerates as the US Dollar collapses, destroying purchasing power while inflation hedges EXPLODE higher.

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

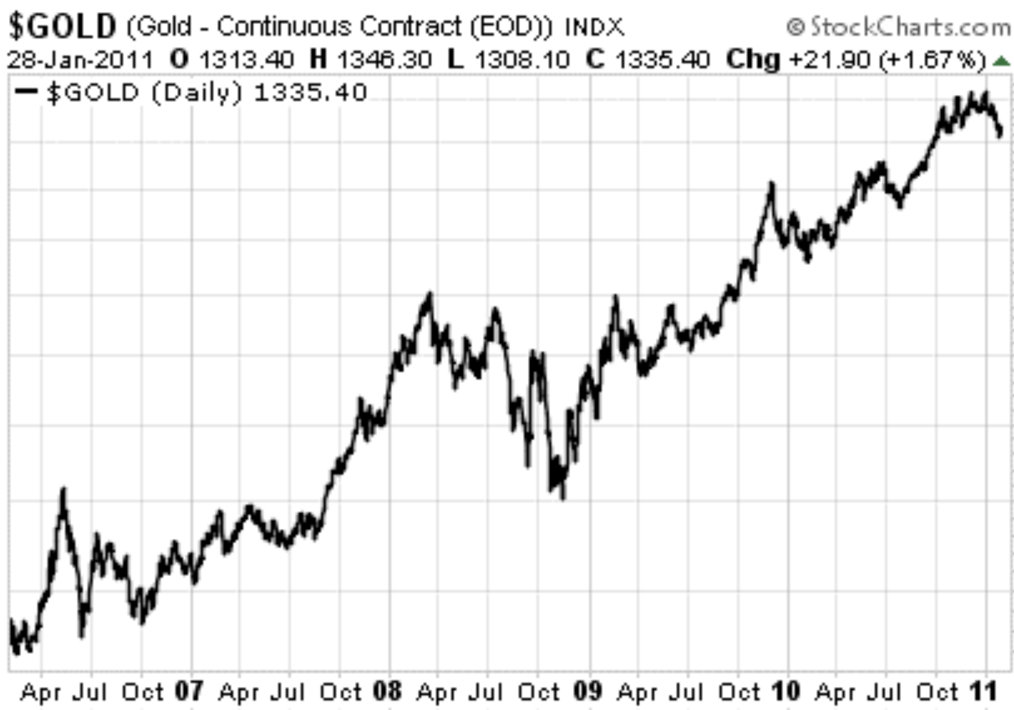
And nothing protects against inflation like GOLD.

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.

Today, with world central bank's printing paper money day and night it is no surprise that Gold is now emerging as the ultimate currency: one that cannot be printed. Small wonder then that it has recently hit new all-time highs against ALL major world currencies.

Gold: The King Of Currencies

Here's Gold priced in US Dollars:

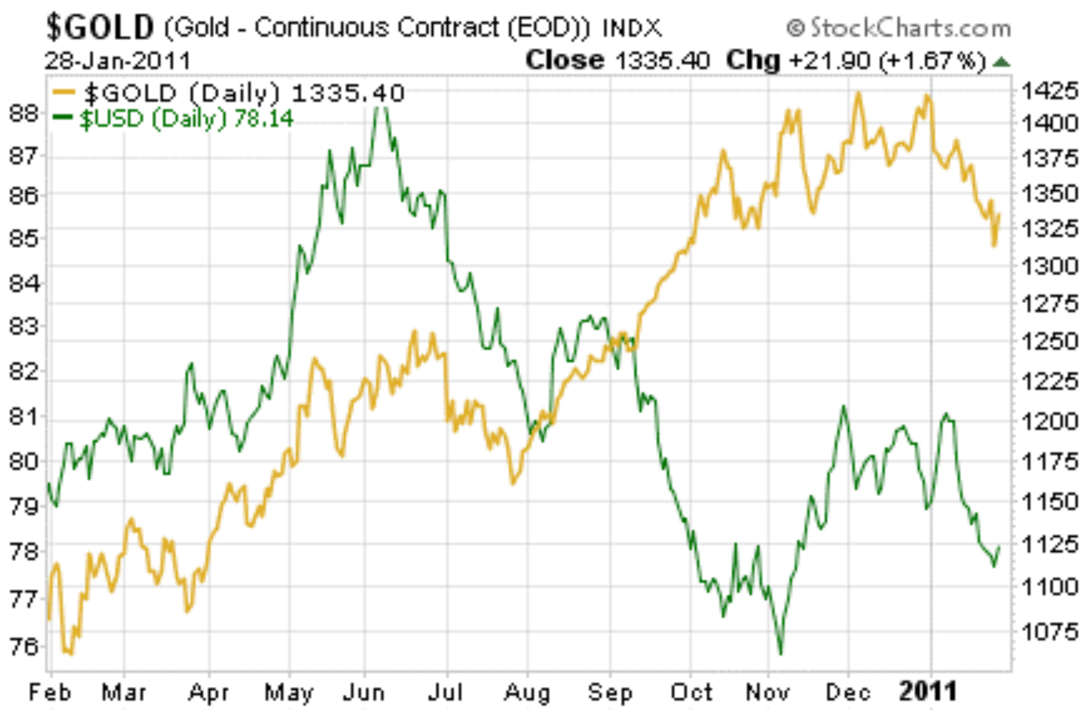


Here's Gold priced in Euros:

Japanese Yen:

And Swiss Francs:

More importantly, Gold is showing signs of decoupling from its former "anti-Dollar" hedge status: a fact made clear by the two assets both rallying and falling together at various points in the last year.



And despite its historic rally Gold is still cheap on historic standards.

Indeed, while a lot of commentators have noted that gold is already trading above its 1980 high ($850 an ounce) they failed to note is that thanks to inflation, $1 in the '70s has a heck of a LOT MORE purchasing power than $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.

Now the question is, should you buy physical Gold or invest in one of the paper-based Gold ETFs (GLD and the like)?

Two Golds: One Paper & One REAL

Gold is somewhat unique amongst investments in that it trades both in physical form (bullion, or the actual metal) and a "paper" form (the Gold ETF (GLD) and COMEX). The differences between the two are striking:

Paper Gold	**Physical Gold**
Extremely liquid	Far less liquid
Requires an online brokerage account	Requires an actual dealer
You own a % of a trust that owns actual gold	You own actual gold
Can be manipulated by traders	Cannot be manipulated by traders
Is an equity-based inflation hedge	Catastrophe insurance

To my way of thinking, you only own Gold if you OWN Gold. By this I mean you have REAL ACTUAL GOLD in your hands, NOT a claim on Gold that someone else CLAIMS is exists. After all, the paper-based Gold ETFs are all run by large banks that claim to have enormous warehouses of Gold. Seeing as these institutions are all lying about the toxic debts, off-balance sheet assets, and more… what's to stop them from lying about their bullion reserves?

So when it comes to buying Gold, you HAVE to own some actual physical Gold. And regardless or 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. And buy bullion that is liquid enough that you can buy or sell it quickly.

How much you purchase is up to you. But you should have several months' worth of expenses in gold and silver bullion. Why Gold AND Silver? Because if the banks are closed or if paper money is worthless, you don't want to be walking around with an ounce of gold (worth $1k+) to buy groceries. No, you will want some precious metals of smaller denomination to purchase/ barter with, hence the need for some silver.

In terms of actual gold coins, there are three coins that comprise the bulk of the bullion market. They are Kruggerands, Canadian Maple Leafs, and American Gold Eagles. I've been told to avoid Maple Leafs by both a trader and a bullion dealer as they can easily be scratched which damages the gold and reduces the coin's value.

In terms of silver, the easiest way to get it is in pre-1965 coins (often termed "junk" silver). The bullion dealer I spoke to prices them at 50 cents over spot. However, you can also get silver one-ounce rounds (coin-like medallions) and 10 ounce bars both of which can be bought at 95 cents over spot. Finally, you can buy Silver Eagles at $2.50 over spot.

Again, I cannot tell you which dealer to go with, but look for someone who's been dealing for years (not a newbie). You should also ALWAYS ask for references from the dealer (former clients you can talk to about their purchases/ experiences).

Some warning signs to avoid are dealers who try to store your bullion. NEVER, I repeat, NEVER store your bullion with someone else. ALWAYS store it yourself. Also, be sure to talk to the dealer for some time and ask him or her numerous questions about the industry, the coins, etc. If they can answer everything you ask in a knowledgeable fashion, their references check out, and you verify everything they say with a 3rd party, you should be OK.

Personally I will be placing orders with Camino Coins in California. They've been dealing bullion for over 50 years. I receive no compensation for mentioning them here. I've spoken with the guys there numerous times. They are always generous with their time, honest, and upfront about everything. If you choose to do business with them, ask for George or Parker. Again, I DO NOT receive compensation for mentioning them here. They came highly recommended to me. And I personally have placed an order with them before.

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

In terms of storing your bullion, you can buy a decent home safe from Target or Wal-Mart (or a specific safe store).

How to Buy Gold at $300 an Ounce

While Gold is cheap relative to its inflation adjusted all time high, Gold mining stocks are absurdly cheap.

How cheap? **The Gold Miners ETF (GDX) reserves roughly $350 an ounce.**

No joke. The 25 companies that comprise GDX have roughly 700 million ounces in reserves. And currently the combined market cap of all 25 companies is just $239 billion. So the market is literally pricing this Gold at $341 per ounce (let's round it to $350 per ounce for simplicity's sake).

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.

This is why I prefer GDX as an investment over investing in any single one Gold mining company. You see, 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.

And you get these companies reserves at just $350 per 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 25% 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 $1350+: a five-fold increase. But gold mining stocks— essentially real estate companies sitting atop millions of gold ounces— have lagged behind.

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

And it just broke out over a multi-year resistance!

As you can see, GDX recently hit a new all-time high. It has since fallen to retest old resistance and bounced (indicating this level is new support). In plain terms, the NEXT leg up for Gold mining stocks is here.

And yet, despite this rally, GDX's reserves as still priced at just $350 an ounce.

However, be warned if you choose to invest in GDX that the fact it represents a diverse portfolio of gold miners doesn't mean that it will be free from volatility. Remember, that 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, the Crash of 2008 proved, the mining sector is quick to recover and spike as gold prices jump due to safe haven seeking investors (GDX bottomed in November 2008 a full four months before the S&P 500 did in March 2009).

Ultimately, 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.

Best Regards,

Graham Summers