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GOLD ADDS POLISH TO PORTFOLIO

RISING PRICE, RESISTANCE TO MARKET FLUCTUATIONS MAKE METAL A GOOD INVESTMENT, EXPERTS SAY

Russ Wiles, The Arizona Republic

Centuries ago, gold was the global investment, the ultimate store of value and the commodity on which entire economies were based.

Now, mining companies would be happy if more investors devoted just a small slice of their portfolios to the metal.

Gold's investment reputation was badly damaged in the aftermath of the bursting of a precious-metals price bubble a quarter century ago. Over the two decades that followed, gold was nudged aside by stocks, bonds, mutual funds and other financial assets.

But gold has more than doubled in price over the past few years, becoming relevant again in investment circles. And economic and global pressures could make it shine even more.

"Demand has grown faster than supply," said Katharine Pulvermacher, investment research and marketing manager for the London-based World Gold Council. "The positive factors supporting the price are still there."

Pulvermacher, speaking at a pension-fund conference in Phoenix last week, said gold prices don't tend to rise or fall in lockstep with those for stocks, bonds and other financial assets. As such, the metal can make sense as a building block within a broadly diversified portfolio.

"You'd want gold in a portfolio because it's a completely different kind of asset," she said.

Investment advisers, though hardly turning their backs on financial assets, also buy into that line of reasoning.

David Fernandez, a certified financial planner at Wealth Engineering LLC in Scottsdale, recommends gold as part of an overall 5 to 7 percent allocation to commodities.

"I think we'll see a dollar devaluation long-term," he said, justifying his gold optimism. "Gold is a nice additional hedge, something else to throw in your basket."

Barbara Walchli, Phoenix-based portfolio manager of the Aquila Rocky Mountain Equity Fund, predicts commodity prices generally will soften over the next year and a half as global economic growth weakens. But of the various commodities, she thinks gold could hold its value the best.

Among bullish factors for the metal, she cites a long-term slide in the dollar's value, plus heightened geopolitical risks in the Mideast, terrorism and the dangers of nationalizing industries in places like Russia and Venezuela.

Walchli also said gold is a favorite investment in developing nations that now rank among the world's fastest-growing economies.

"In Asia, gold is in very high demand as a form of savings and for jewelry," she said. "As Asia becomes more economically developed, we'll see more demand for gold."

In fact, India ranks as the world's leading buyer of gold, followed by the U.S. and China.

"Ninety percent of gold demand is based on discretionary spending," Pulvermacher said. "Gold demand has far more to do with wealth and income levels compared to other commodities."

On the flip side, there have been no major discoveries in recent years, and it takes seven to 10 years to open a new mine, Pulvermacher said. Both factors are tending to keep supplies in check.

Although global investment demand for gold is modest compared with that of jewelry, it could get a lift if more pension funds and other institutional investors heed the diversification message. Pension funds hold only about 3 percent of their assets in all commodities excluding real estate.

"You haven't seen the tip of the iceberg yet," she said of pension-fund holdings in gold.

The World Gold Council, which is financed by two dozen global gold-producing companies, aims to stimulate demand for the metal.

Gold long has been viewed as a rival to stocks and other financial assets. But innovations in the financial markets make it easier than ever to gain exposure to gold.

The choices include gold-mining stocks and the mutual funds that own them, along with exchange-traded funds.

Fernandez likes StreetTracks Gold Shares, an exchange-traded fund that holds futures contracts instead of mining shares.

At a more basic level, gold coins and bars also are popular ways to hold the metal. Tangible, physical gold doesn't pay any interest or dividends, and you may have to insure and store it. But for true goldbugs who worry about economic calamity, it's the favored way to go.

So although things are looking up for gold, it may be too early to conclude the tide has turned. Prices are up strongly from their late-1990s lows, but gold has retreated a bit from last summer's highs. It could be a new strike or a flash in the pan. With gold, only time will tell.

Leading nations

The following nations are leaders in the production and consumption of gold. Figures are for 2005.

Producers (in tons)

1. South Africa, 296.

2. Australia, 263.

3. United States, 262.

4. China, 224.

5. Peru, 208.

Consumers (in tons)

1. India, 587.

2. United States, 349.

3. China, 241.

4. Turkey, 195.

5. Saudi Arabia, 146.

World Gold Council

Golden trivia

* Despite 19th-century gold rushes in California, Alaska and South Africa, more than 60 percent of all gold has been mined since 1950.

* In open-pit mines, it can take 10 or more tons of rock to yield an ounce of gold.

* Gold is mined on every continent except Antarctica.

* About 14,000 windows of the Royal Bank Plaza Building in Toronto are coated in gold to improve energy efficiency.

* The earliest known gold jewelry dates to 3000 B.C.

* Gold is dense, malleable, conducts electricity well, rarely corrodes and has a high melting point.

* Jewelry accounts for about 77 percent of gold demand, followed by investments, 12 percent, and industrial uses, 11 percent.

World Gold Council

Popular ways to invest

* Coins

The U.S., Canada, China, Mexico, South Africa and other nations mint gold coins in various weights.

Pros: Minted coins are easy to recognize as authentic. Also, they're simple to transport, and they're aesthetic. The World Gold Council's Web site, www.gold.org, lists dealers, including American Precious Metals Inc. and Certified Mint Inc., both of Phoenix.

Cons: Coins must be safeguarded and should be insured; both efforts can be costly. Gold doesn't pay any income.

* Bars

Nearly 90 entities, mainly private companies, mint gold in bars.

Pros: The gold content of bars can be verified, though not as easily as coins. Bars also are portable and often can be purchased at a lower dealer markup than coins.

Cons: Storage and insurance costs are drawbacks for bars, as with coins. So is the lack of dividend or interest income.

* Common stocks

Investors can buy shares of mining companies, as they can invest in other types of firms.

Pros: Companies have operating leverage: When gold prices rise above fixed costs, profits in percentage terms will be larger than gains for the metal itself. Also, shares don't have to be stored or insured, they're easy to trade.

Cons: Operating leverage works both ways and can produce large losses. Mining shares can't be stored or transported like the metal, and they might not hold their value during severe stock-market stress.

* Mutual funds

Various investment companies offer mutual funds that hold shares in dozens of mining companies.

Pros: Funds provide the benefits of stocks along with diversification and professional management.

Cons: Funds charge ongoing costs for management and other services, typically in the range of 1 to 1.5 percent yearly. They're subject to general stock-market volatility.

* Exchange-traded funds

These investments are hybrids between mining stocks and mutual funds, offering solid diversification, as with funds, along with trading flexibility, like stocks.

Pros: Exchange-traded funds trade throughout the day like stocks but unlike mutual funds, allowing you to buy and sell at various prices. The funds charge lower expenses than mutual funds.

Cons: Exchange-traded funds, like stocks or funds, can't be transported the same way gold can and they could be impacted by severe financial-market stresses.

-- Russ Wiles

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CAPTION: Katharine Pulvermacher CAPTION: Historic gold prices