

Gold Maintains Its Luster With Investors

PAUL KANGAS: Wall Street has been bitten by the gold bug. The precious metal gained more than \$20 today, hitting \$978 an ounce. What's interesting is that gold has been on a tear, despite the strong summer rally in the stock market. Erika Miller reports on why the yellow metal has such strong luster for investors.

ERIKA MILLER, NIGHTLY BUSINESS REPORT CORRESPONDENT: There's a gold rush at the New York Mercantile Exchange. Investors have been scrambling to buy the precious metal as an investment alternative to stocks and bonds. December gold futures are now up more than 10 percent this year closing in on \$1,000 an ounce. Thomas Winmill, portfolio manager of the Midas fund, thinks gold could soon pass that mark.

THOMAS WINMILL, PORTFOLIO MANAGER, MIDAS FUND: If the interest rates stay at this level and the inflation rate picks up as we expect it to, gold -- the price of gold could go up considerably higher. We're thinking by the end of 2009, that the gold price could go to \$1,100 an ounce. And we expect in the first quarter of 2010 to average around \$1,200 an ounce.

MILLER: He says the big driving force is fear of inflation as a result of the government's massive stimulus efforts. A weakening dollar is also making gold more attractive, because it's an alternative currency. Seasonal factors may also be helping the yellow metal. September is typically a strong month for jewelry demand in Asia. But analyst Jim Steel doesn't think that's the case this year.

JAMES STEEL, METALS ANALYST, HSBC: Normally, we would see significant purchases out of India right now, because of the wedding season and the religious holidays, but we've had a poorer monsoon in India, which is reducing agricultural income, which is where the bulk of gold purchases come from. And that, coupled with the high price, has strongly reduced the seasonal buying. So I think it is investment led and not seasonal.

MILLER: But analysts do see a few risks that could spoil the gold rally, including the possibility that inflation stays low. That could happen if the Federal Reserve starts raising interest rates or if the government reins in stimulus spending.

WINMILL: So if they cut a lot of the spending programs, reduce the production of new dollars into the system, I think that would boost the dollar and that would drive gold prices lower.

MILLER: If you decide to invest in gold, there are many ways to do it, including gold bars and coins. But financial planners typically recommend buying gold mutual funds or exchange-traded funds because they provide more diversification and are easier to trade. Erika Miller, NIGHTLY BUSINESS REPORT, New York.