Fears about debt send gold price to record

Investors searching for safety push gold to record price above $1,600 per ounce

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NEW YORK (AP) -- Gold's reputation as a safe place for your money sent it above $1,600 for the first time.

Investors are worried about debt problems on both sides of the Atlantic. So they bid gold up $12.30 an ounce Monday to settle at $1,602.40. That's a record for the market price for gold, but below its 1980 peak after adjusting for inflation. An ounce of gold at that time cost $850, or about $2,400 in today's dollars.

Gold is looking better by the day because debt problems in the U.S. and Europe are making two other so-called safe havens, the dollar and the euro, seem shaky. The U.S. could default on its debt on Aug. 2 if Congress and the White House don't agree to raise the country's borrowing limit. In Europe, investors worry that Greece may default. Countries including Italy, Spain and Ireland are also struggling to pay their bills. Defaults could mean losses for the banks that own bonds issued by those countries, and that could trigger widespread disruption in financial markets.

Why own gold? It's because gold has a long history as a way of preserving wealth, said Tom Winmill, portfolio manager of the $96 million Midas Fund. The fund owns gold and stocks in gold miners. "In 6,000 years, gold is one of the very few assets that have never gone to zero." Winmill expects gold to rise to $1,800 by the end of 2012.

Investors believe gold is safe because it doesn't depend on a government's ability to repay a bond, like a Treasury or a Greek note. Neither do other commodities like crude oil, which has the added use of powering automobiles. "But it's much easier to pick up a bar of gold than a swimming pool of oil," said James Steel, an analyst with HSBC.

Gold rose 21 percent in dollar terms in the 12 months through June 30, according to the World Gold Council, an industry group. It rose against other currencies, too: up 2.2 percent in euros, 10.4 percent in Japanese yen and 16.5 percent in Indian rupees. But gold fell 5.5 percent against the Swiss franc, which is seen as one of the world's safest currencies.

Gold's rise has accelerated in the last two weeks: Monday was its 10th straight day of gains after it closed at $1,482.60 July 1. Gold has also steadily risen since the start of 2009, when it cost $880. The Federal Reserve has kept short-term interest rates at a record low of nearly zero since December 2008. Low interest rates weaken the appeal of the dollar, and that in turn sends gold higher.

Investors are behind much of the increase in the price of gold. Demand from investors rose 26 percent in the first quarter from a year earlier, according to industry data. Demand for gold from dentists for crowns and from companies for use in electronics was flat. Demand for gold in jewelry rose 7 percent.

The amount of gold held by exchange-traded funds and similar investments is at a record, according to Barclays Capital. Exchange-traded funds, also known as ETFs, trade like stocks and are a way for investors to own gold without having to store and insure actual gold bars or coins.

But much of that demand has been from speculative investors, such as hedge funds, said Jon Nadler, senior metals analyst with Kitco Metals. Gold could plunge -- if investors regain their confidence that the U.S. won't default and that the 27-nation European Union won't be threatened by the region's debt problems.

"I wish this was all about the man on the street, pension funds, but it's not," Nadler said. "It's the type of player that tends to get up at the very next opportunity to find something hot elsewhere. Will all this end in tears?" Quite likely yes, because I see that the demise of the European Union and the United States as a debt entity is really not in the cards."