Gold prices slide for 2nd day; should investors worry?

By Matt Krantz, USA TODAY

Updated 1d 18h ago

Gold suffered a serious dent Wednesday, tumbling $104 an ounce, or nearly 6%, as some of the fears that had repeatedly driven the precious metal to record levels this year began to ease.

The price of gold has fallen from its record close of $1,888.70 an ounce Monday to $1,754.10 on Wednesday on optimism the financial system and the economy may be stabilizing.

But some warn not to make too much out of the two-day slide. "Gold has been on such an amazing tear, it's only normal to have a slight correction," says Tom Winmill, fund manager at Midas Funds. Even after Wednesday's drop, gold is up more than 23% this year as investors seek shelter from concerns about European debt and deficits in the U.S.

COLUMN: Gold can help your stock portfolio balancing act

Recent data have helped calm fears about the economy and sent gold sliding, Winmill says. Demand for durable goods was surprisingly strong in July, the government said Wednesday. While hurting gold, that boosted stocks: The Dow Jones industrials rose 144 points to 11,321 for a three-session gain of 4.7%.

Some have noted the furor over gold has reached intense levels. Gold "is a bubble that is poised to burst," Wells Fargo said in a report issued last week.

Gold bulls, however, don't see anything alarming, saying:

• This is acting like a normal sell-off. The typical price correction in gold is 10%, says Jeff Clark, precious metals analyst at Casey Research, so this decline is "actually normal and not unexpected."

• Doubt about paper currencies favors the outlook. Gold continues to be the best place for investors who are afraid the value of the U.S. dollar and euro will continue to erode, says Robert Cohen, portfolio manager at Dynamic Funds. "Gold is a barometer of what paper money is worth," he says.

• Government deficits and debt increase gold's allure. Problems in the U.S. and
Europe only bolster the case for owning gold, says Jeffrey Nichols of Rosland Capital. To balance the U.S. budget, higher taxes and less government spending will be necessary, Winmill says, and that will allow gold prices to rise.

“Bubbles are usually associated with greed. This run-up is more associated with fear,” Clark says. “This is more of a fear mania. There’s more upside.”

For more information about reprints & permissions, visit our FAQ’s. To report corrections and clarifications, contact Standards Editor Brent Jones. For publication consideration in the newspaper, send comments to letters@usatoday.com. Include name, phone number, city and state for verification. To view our corrections, go to corrections.usatoday.com.

More from USATODAY

Michael Douglas: Catherine Zeta-Jones was 'outed' USATODAY.com in LifeLine Live
Wendy's restaurants sells Arby's chain, changes name USATODAY.com in Money
Ashton Kutcher teases David Letterman about 'fatwa' USATODAY.com in LifeLine Live
Buffett invests $5 billion in Bank of America, stock soars USATODAY.com in Money
Republican says Obama's health care law will survive USATODAY.com in The Oval

More from the web

Unthinkable Posed to Happen on Wall Street. See Disturbing Charts. Newsmax.com
Why do women retire with a third less than men? Total Merrill
The U.S. Debt Downgrade: What Every Investor Needs to Know Total Merrill
You’re debt free, now what? 3 must-know money-saving tips. CareOne

We've updated the Conversation Guidelines. Changes include a brief review of the moderation process and an explanation on how to use the "Report Abuse" button. Read more.

Gold prices slide for 2nd day; should investors worry? – USATODAY.com http://www.usatoday.com/money/markets/story/2011-08-24/Gold-prices-s...