What's Next for Gold?

Is gold's latest selloff a turning point for the shiny metal?

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During times of uncertainty, investors flock to precious metals like gold. But times aren't as uncertain as they used to be. Granted, unemployment remains high, and there is unrest in countries in the Middle East like Egypt. But the fear of a double-dip recession has mostly subsided in the United States and the economy is expanding again.

After recently peaking above $1,400 per ounce, gold now trades at around $1,330 an ounce. SPDR Gold Shares ETF (GLD), the largest physically-backed gold ETF, returned almost 30 percent last year. But it hasn't gotten off to a great start in 2011: So far this year, it's down 6 percent. Is this is a short-term selloff or a major turning point for gold prices?

Last week, fourth-quarter GDP numbers showed that the U.S. economy is officially in expansion mode—meaning it's now producing more goods and services than it was before the recession began in 2008. "We're now above the highest point of economic output in U.S. history," says Douglas Coté, senior market strategist at ING Investment Management. Now that growth in the United States has picked up, Coté says he's bearish on gold.

[See The Case for Investing in Commodities.]

In his initial forecast for 2011, Coté said he expected gold to finish the year near $1,250 an ounce. He's not surprised by the recent selloff. "The fear attribute of gold is off the table," Coté says. "Gold was becoming all things to all investors and it got overdone. And I saw rampant speculation." He credits gold's rise last year to mounting debt concerns in the United States and countries in Europe like Greece and Ireland.

While growth expectations for the economy have picked up, critics say it has come at the expense of the deficit. The tax-cut package signed into law late last year was applauded by many economists as a necessary evil that would help usher in higher growth, but critics contend that it added almost $1 trillion to the deficit.

Thomas Winmill, manager of the Midas Fund (symbol MIDSX), says he believes gold will regain its shine because politicians have had trouble garnering support for making substantial spending cuts or raising taxes. "The trend there is continually fiscal indiscipline," he says, and he believes that bodes well for gold over the next few months. One word of caution: Trying to time the price of gold in the short-term is almost impossible, Winmill says. If you want to invest in the precious metal, it should be a part of a long-term diversified strategy.

Other critics say the Fed's second round of quantitative easing, in which it is buying up $600 billion in treasuries to lower interest rates, is chipping away at the value of the dollar. The dollar remains the world's reserve currency—meaning it's the primary currency held by foreign governments. When people lose faith in major currencies like the dollar and the Euro, they turn to other avenues like gold. "What [gold] is a hedge against is fiat currency losing its value," says Sean Brodrick, small-cap and natural resource analyst for the blog Uncommon Wisdom Daily. "What we're seeing around the world is people losing trust in paper currencies issued by governments."

[See With New Fund, Gold Isn't All That GLTRs.]

Brodrick remains bullish on gold, along with other metals like silver, platinum, palladium, and copper. Silver is considered both a precious and industrial metal, and market watchers expect it to rise if the global economy continues to recover. "As long as the world economy is rolling along, silver is going to be in big demand for both reasons," Brodrick says.

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