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A new gilded age

Gold finds added lustre among formerly jaded investors

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When people look back on 2009 a few decades from now, it will be hard to find a better symbol of the tough times than an Internet gold jewellery buyer delivering the Super Bowl's most memorable commercial.

Yet in an era in which bullion is emerging as the only reliable investment, it seems appropriate that Cash4Gold.com, a two-year-old startup out of Florida, claims to be the United States' fastest-growing company by taking gold pawning to the mainstream.

"People have been using their homes to subsidize their income through home equity loans. That game is over," founder Jeff Aronson says.

"So now people have to go inside their home and find things to subsidize their income, i.e., cash for gold."

Cash4Gold's Super Bowl commercial, which features famously broke celebrities MC Hammer and Ed McMahon liquidating their jewellery collections, is currently the most-played in all of the United States, according to Mr. Aronson. His next target is here in Canada, where he plans to start flooding the airwaves with commercials in the next few months. If his track record is any indication, our homegrown gold-buying maniacs such as Toronto's "Cashman" Russell Oliver are about to have a rude awakening.

"I'm sure one of your [Canadian] mining companies will end up buying us out," Mr. Aronson, 36, says with absolute certainty in his voice.

They might think differently. But his success tells the bigger story: In times like these, it's all about gold.

Tomorrow marks the start of the mining industry's biggest event of the year, the Prospectors and Developers Association of Canada (PDAC) conference in Toronto, and the focus is certain to be on gold and the gold miners. They recently cashed up and are eager to make acquisitions.

Every year at the PDAC, there is usually one "hot" metal that generates the most excitement from investors. This time around is no different: Gold miners will be the stars of the show, while suffering base-metal companies may as well put giant "QUARANTINE" signs in front of their booths.

But what makes 2009 unique is that gold is not only the one investment that excites mining investors, it is just about the only asset class that excites anyone, anywhere in the world.

As hard as it is to believe, the apocalyptic scenario that gold bugs have been trumpeting for years actually came to pass:The biggest credit bubble in history popped, the financial system imploded and governments are now rushing to print money to escape economic catastrophe.

The conditions could not be any better for gold. And as virtually every other asset in the world trades for pennies on the dollar, gold prices are approaching new highs.

"Really, there are only two assets people want to own in this stage of the cycle," says Ian Gordon, publisher of the Long Wave Analyst report and a longtime gold bull. "The principal one they want to own is gold, and the second one is cash.

"Gold does very well in this environment because it's the money of last resort. It's the only money people trust."

To say Mr. Gordon is "bearish" on the global economy would be something of an understatement: His target on the Dow is 1,000 (he calls that "generous"). But he has predicted events of the past few years with frightening accuracy and believes we are now in the "deflationary/depressionary" stage of the economic cycle, in which gold goes up and everything else collapses. Predictions like that were laughed off by the investing public a couple of years ago, but less so today.

Those generalist investors who once dismissed gold are now turning to it in unprecedented numbers. Gold miners, which were an unwanted little backwater of the S&P/TSX composite for so long, now make up more than 13% of the index. And Barrick Gold Corp. is, depending on the day, Canada's biggest company by market value.

That is not because Barrick is growing (its gold production is actually in decline), but because almost every non-gold company is shrinking.

Resource expert Eric Sprott, who has been long on gold ever since the tech bubble burst in 2000, says that most financial advisors foolishly viewed it as "heretical" for a very long time. That attitude is changing, as gold has become such a big part of the investing world that it can't be ignored any more. But there is still a long way to go in terms of changing attitudes.

"I think the collective wisdom of the pre-eminent advisors is that gold is a barbarous relic and that it should have been expunged from all portfolios," says Mr. Sprott, chairman and founder of Torontobased Sprott Asset Management Inc.

"If you went back to 2000, the HUI [gold stock] index was at 35, and today it's at 316. So it's gone up by 800%. I call it one of the great stealth bull markets of all time that people hardly participated in and really weren't aware of how fantastic it was."

Put together, these should be great times for the gold miners. Indeed, investors seem to think so: Most gold stocks have doubled or tripled over the past several weeks.

But for those trying to discover and mine gold, the political and technical challenges seem to grow by the day. Despite the high prices and obvious motivation to produce more of it, the industry as a whole is barely delivering.

You might call it "peak gold" theory: Gold mine supply, which is only about 80 million ounces a year, has been fairly flat for years, and experts doubt it will ever grow very much. Big new discoveries are extremely rare, and older mines are winding down fast. South Africa, once the gold mining capital of the world, is now producing at 1901 levels. Even Barrick recently warned its mighty Goldstrike mine in Nevada, which put the company on the map, is facing lower grades this year.

Emerging gold regions such as Venezuela and Ecuador were supposed to fill the gap after production wound down in traditional mining centres such as South Africa. But political risk is proving extremely difficult for companies in those regions to navigate, and development has been glacial so far.

Yet the desperate search for gold has pushed companies to mine it in more and more risky places. Kinross Gold Corp. even opened a mine in Russia last year, apparently assuming that Vladimir Putin will respect private investment in his gold sector a lot more than he did in his energy sector.

On the other hand, the soaring gold price has also revitalized a lot of mining companies and given projects new life. In Mongolia, Ivanhoe Mines Ltd. and its leader Robert Friedland have promoted the giant Oyu Tolgoi project as China's closest and best source of copper. At today's prices, it looks more like a great gold mine. In the United States, mining giant Freeport-McMoran Copper & Gold Inc. could probably trade at a higher multiple if it rebranded itself as Freeport-McMoran Gold & Copper Inc.

For those who are bullish on gold, the next 12 months hold nothing but promise. The global financial system is nowhere near fixed, and the money-printing schemes that governments around the world are preparing to undertake are likely to be very inflationary, which should benefit gold.

Just as important, central banks still own woefully large amounts of U. S. dollars in their reserves and very little gold. Experts find it hard to believe that they will not look to rectify that disparity in the near future, given the dubious outlook for the greenback and most other currencies.

"China has virtually no gold at all in its reserve," says Bart Melek, a commodity expert at BMO Capital Markets.

"They have two trillion dollars and only about 600 tonnes of gold, which is 0.9% of their reserves. I can certainly foresee them looking at gold as a partial alternative."

Mr. Melek says gold has gotten a bit ahead of itself in recent weeks. But the bottom line, he says, is it is doing what it is supposed to do: It is proving to be a totally reliable safe haven in times of economic turmoil. There is no reason to think that role will change until the financial system is somehow fixed.

And, as the gold bugs like to argue, bullion is still cheap by historic standards -- after adjusting for inflation, the current price is less than half of the peak in 1980. In that sense, it is not hard to believe prices could go significantly higher from here.

"There is money-printing everywhere in the world. In essence, everyone's debasing their currencies," Mr. Sprott says. "You need something that will retain its value, and gold and silver are those things."

That is what investors will be thinking as they wander the halls of the PDAC conference, looking for investments that won't add to the carnage in their portfolios.

Just like Cash4Gold, which will soon be coming for their jewellery.

GOLD BY THE NUMBERS:

80M Gold-mine supply, which has been flat for years.

13% Weighting of gold miners on S&P/TSX.

800% Increase in value of HUI gold stock index since 2000.

600 tonnes Amount of gold China has in reserves, which is only 0.09% of its total reserves.

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