If You Don't Buy Gold Now, You'll Kick Yourself Later

Description

We're drowning in phony paper money and hidden inflation. Since 2008, the world's big four central banks have printed over US$6 trillion in new fiat currency. You have likely seen the impact of this policy in higher prices at the grocery store or the gas pump.

Yet, precious metals, which are usually seen as a hedge against inflation, get less respect than Mr. Bean's dog. Over the past few years, gold prices have been hammered. And as you can see in the chart below, miners have fared even worse.

Company	3-Year Price Change	Market Capitalization
Agnico Gold Mines Ltd. (TSX: AEM)(NYSE: AEM)	(-44%)	$7.2B
Goldcorp Inc. (TSX: G)(NYSE: GG)	(-45%)	$21.8B
NovaGold Resources Inc. (TSX: NG)(NYSEMKT: NG)	(-50%)	$1.1B
Yamana Gold Inc. (TSX: YRI)(NYSE: AUY)	(-54%)	$5.8B
Barrick Gold Corp. (TSX: ABX)(NYSE: ABX)	(-69%)	$18.1B

Source: Google Finance.

Now, it might sound odd, but no other asset can match the upside I see right now in gold. Let me show you three things Mr. Market missed when it comes to this metal:

1. Mr. Market forgot about economics

Poor sentiment can push asset prices to levels that don't make any sense. Gold is a good case in point. Opinion of the yellow metal has soured to such an extent that prices have fallen to US$1,250/oz. This is nearly 35% below the all-time high hit in 2011.

The problem? Based on industry estimates, the average cost to produce gold is as high as US$1,350/oz. You don't need a Ph.D. to see the issue here. At current prices, the industry is losing money on almost every ounce of gold it hauls out of the ground.

That's why this situation can't last. Small miners will go bust. Large producers will scale back operations. At some point, prices will rise to meet the cost of output.

2. Mr. Market forgot about inflation

In spite of the European Central Bank's best efforts to juice the market, the continent remains mired in stagnation. Since June, the ECB has already cut interest rates twice. However, new data shows many European countries could fall back into a recession.

To stave off a crisis, more money printing is likely on the way. The end result of all this cheap cash: higher inflation. Even a hint of rising prices could push investors into safe-haven assets like gold.

3. Mr. Market forgot about the smart money

The world's smartest money managers are also bullish on gold. In a recent SEC filing, billionaire investor John Paulson disclosed a US$1.3 billion stake in the **SPDR Gold Trust** (NYSEMKT: GLD). The fund is now his largest holding.

In the past few months, hedge funds have been buying other miners such as Goldcorp Inc., Yamana Gold Inc., and Agnico Eagle Mines Ltd. Given that their costs are mostly fixed, profits could soar if gold prices rally even slightly.

What could have these stock sharks so bullish on gold? I'd say it could be only one thing: They see a big rally coming.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:AUY (Yamana Gold)
3. NYSEMKT:GLD (SPDR Gold Trust)
4. NYSEMKT:NG (NovaGold Resources Inc.)
5. TSX:AEM (Agnico Eagle Mines Limited)
6. TSX:NG (NovaGold Resources Inc.)
7. TSX:YRI (Yamana Gold)

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