A Good Time to Buy Gold

Many investors are unsure as to whether gold is a good investment and if gold will continue its rise in price that started twelve years ago. Those who have not invested in precious metals may well be thinking that their investment is too late. Other investors who hold the metal are wondering if gold will fail to reach new highs.

A reassurance that precious metals are nowhere near their potential is that the world has in no way started to resolve the massive debt burden that has been created. Precious metals are one of the few things that can be purchased that have no counter party risk. I prefer to look at precious metals from the different view point that paper money is being debased at an alarming rate due to excessive issuance of paper and it is the precious metals that are not altered. By holding precious metals, one is able to preserve purchasing power. In fact, when panic sets in, the rush for precious metals will actually increase purchasing power.

It is important that investors understand the function of gold. Gold is unlike any other commodity that exists; it has the unique property of having no other use except as being held for intrinsic value. Almost all the gold ever mined in the world is still available above ground. This is the purpose of gold in that it is held as an asset. Some gold may be used for jewelry or electronics, but this is a small portion of the available gold and, in any case, it is always recycled because it is so valuable. The most important thing to understand about the mechanism of gold buying and selling is that it is central to the world of finance. If there were to be a drought in the U.S., reducing grain harvests, the price of grain would rise. Gold, however, is not consumed, and is unaffected by seasonal variations. Furthermore, the total stock of gold is large compared to the yearly addition which makes the supply extremely stable.

In searching for the rationale for investing in gold, there is undisputable proof as to why gold is the most valuable asset on earth. This evidence comes from the central banks themselves. The central banks only hold two assets; one is paper assets, the second is gold. They do not hold soybeans, oil, orange juice, or any other asset. The only intrinsic asset they hold is gold. The central banks prefer to operate in terms of paper currency. This gives flexibility to expand their provision of credit far beyond the ability to repay it. When the cycle of money expansion comes to an inevitable collapse, the central banks must return to the ultimate money of gold. Once excessive credit has been eliminated or reduced, the cycle of credit expansion will begin again. This is how the central banks operate. We have just entered a cycle of excessive credit expansion and so the massive credit excess must now be eliminated. They must also return the gold that has been leased on a leveraged basis. This is the environment in which precious metals reach their potential. All around the world, central banks are increasing their holdings of gold. The central banks are the masters of the universe when dealing with the world's finances. When the central banks are owners of only paper money and gold, it is clear that following in their footsteps must be the most intelligent strategy. The central banks try to slow down the move into gold by creating sudden and violent sell-offs. Such take downs are effective against leveraged traders but not those who are serious buyers of gold. While the central banks are net buyers of gold, we can be certain that the gold market will continue higher. As I write this article, gold is trading at $1552. This is likely to be a turning point as gold continues higher. As stated previously, it is paper money that is losing purchasing power rather than gold increasing in value. This is assured by the fact that central banks are showing a preference for gold over paper money. This preference is in its infancy and the equilibrium has a long way to go to reach its true balance.

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