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Gold's wild ride perplexes advisers

At current prices, some question whether gold bugs are bugging out

By **Jeff Benjamin**
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Investors' voracious appetite for gold has started to skew valuations of the asset, leaving some advisers and money managers at odds over how best to use it in a portfolio.

After hitting $1,000 an ounce last month, gold has since settled back to the $920 range, which still represents a more than 28% in-crease from October, when it hit its most recent bottom near $700.

The current price of gold, which was selling for $250 an ounce in 2001, is just too rich for some advisers, who argue that investors at this point are simply chasing performance.

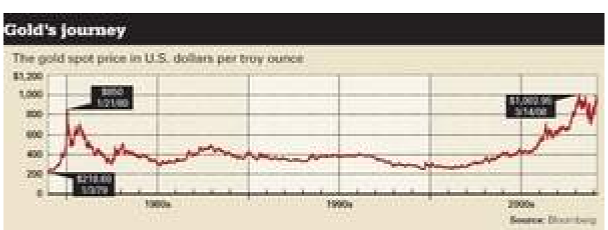
"I had a couple of neighbors ask if now was a good time to buy gold, and that was my cue that it is probably not a good time to buy gold," said Brian Schreiner, vice president of Schreiner Capital Management Inc., an Exton, Pa.-based firm with $170 million under management.

Mr. Schreiner, who has kept more than 60% of his clients' assets in cash since February 2008, said gold is almost as risky as stocks.

"Gold is just too risky, and it could go anywhere, including a 30% correction," he added.

Over the past six weeks, the fervent attitude of the so-called gold bugs drove more than 200 tons of gold bullion into SPDR Gold Shares (GLD), the world's largest gold-backed exchange traded fund, representing more than 1,000 tons of gold.

GOLD VERSUS DOLLAR



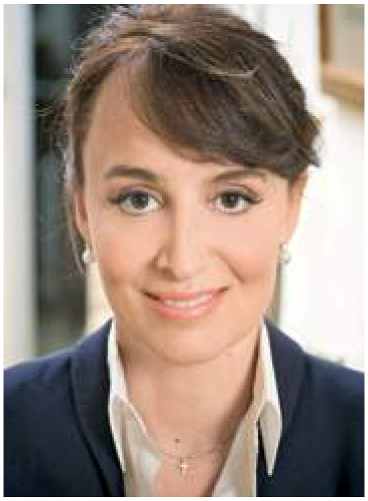
One case against gold at current price levels has to do with the strength of the U.S. dollar as the world's strongest currency, one that has historically moved in an inverse relationship with gold.

"The dollar is one of the strongest things out there right now, as is gold, and one of those two will prove to be a liar," said Sam Jones, president of All Season Financial Advisors, a Denver-based firm with $115 million under management.

Mr. Jones can accept the strength of the dollar because of its connection to the U.S. economy, but he doesn't see a legitimate case for the current price of gold.

"The whole gold move since the panic began has been largely fear-based," he said. "Right now, the dumb speculator on the street is still buying gold."

To be sure, there are those who insist an allocation to gold remains paramount in these uncertain economic times.



Dawn Bennett: *Gold has global liquidity and protects against inflation.*

"With the debasing of currencies in developed economies, you need something with global liquidity, and gold is it," said Dawn Bennett, chief executive of Bennett Group Financial Services LLC, a Washington-based firm with $1 billion under advisement.

"I'm anticipating inflation, and gold will be a hedge against that," said Ms. Bennett, who recommends allocations to gold and natural resources of 25% to 40%.

"We're in a lopsided world, and your portfolio also needs to be lopsided," she added.

Ms. Bennett, who moved her clients out of domestic equities at the end of 2007 when the market was double what it is today, anticipates a heavy allocation to gold "for the rest of our lives."

Using gold in a portfolio for the long term also makes sense to Robert Levitt, president of Levitt Capital Management LLC, a Boca Raton, Fla.-based firm with $350 million under management.

At 10%, gold is Mr. Levitt's largest holding.

"I haven't been below 4% in gold since it was $300 an ounce," he said. "We will be forever in gold."

But Mr. Levitt hedges within his allocation by holding gold in emerging currencies that are likely to decline in value, as well as the U.S. dollar and through a gold-mining company ETF, Market Vectors Gold Miners ETF (GDX), offered by Van Eck Securities Corp. of New York.

$2,000 AN OUNCE?

Robert Levitt: *Investments in gold have been good to him.*

"Our outlook is that gold will be well above $2,000 an ounce by the end of 2010," he said.

Assuming gold might reach such stratospheric levels only further muddies any analysis of its use inside a portfolio, said Bert Whitehead, president of Cambridge Connection Inc. in Franklin, Mich.

"Gold used to be a hedge against the dollar, but now all the speculators have pushed the price to where it is overvalued," he said.

Mr. Whitehead, who advises clients on a flat-fee and retainer basis, said he will recommend up to a 2% allocation to gold "for those clients who are really paranoid."

"As a store of value, it's kind of cut-and-run money, so when my clients buy it, I have them take delivery of it and keep it in a safe," he said. "I suppose gold is important if there's a worldwide monetary collapse, which is pretty remote."

As a hedge against inflation, gold might also fall short, said Bill Cheney, an economist with John Hancock Financial Services Inc. in Boston.

"We could have inflation, but it might be lower than other developed countries — in which case the dollar could remain strong," he said. "And there won't be an inflation problem until the world economy recovers, and once it is recovering, people will be less scared, and the price of gold will go down."

Virtually any real asset, not just gold, can be used as a hedge against inflation, according to Mr. Schreiner.

"You could buy a pile of rocks and put them in your backyard, and that would be a hedge against inflation," he said. "After the currency corrects, just turn around and sell the rocks."

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