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Is It Time To Buy Gold Again?

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A Note from Andrew Gordon

My commodity specialist, David Dutkewych, believes that we're about to flood the markets with paper currency, and Europe and China will be joining us in the fun.

And that could only mean one thing: Inflation.

I believe David's inflationary expectations for the US will prove true, much to my regret. But Europe and China are different stories. The ECB seems determined NOT to print money right now. And Germany is backing them up. Germany has veto power (unofficially of course).

So David's scenario for Europe is no sure thing. And, yes, Chinese banks will be lending more, thus putting upward pressure on prices. But if the inflationary threat in China continues to recede, more lending won't necessarily lead to crazy inflation in the giant Asian country. And inflation in the US is at least two years off, by my calculations.

However the inflationary threat is out there, and if Europe and China unleash more paper currency into their economies, that threat could become very real as soon as 2013. Gold's time will be then, but many may want to start getting ready now.

Dear Insider Fortunes Reader,

I hope everyone enjoyed their Thanksgiving holiday with family and friends. I know I did. I always have a hard time getting back into the swing of things after a relaxing day, but in a way I do miss the markets. Keeping up with the Thursday football scores just doesn't do the trick.

There was plenty of economic news to digest this week. Here are some highlights:

- The US lowered their Q3 GDP growth rate to 2% from 2.5%. Bearish but not surprising.
- China says their factory sector shrank the most in 32 months. Very bearish and a bit surprising.
- Germany failed to find enough buyers for their 10-year bond auction. Extremely bearish and surprising.

All of these bearish developments are very bullish for gold. People buy gold when bad things are happening for two reasons.

One is, the gold bugs and true believers count on gold retaining its value if everything else crashes. It's the ultimate refuge, if you will.

Secondly, it's well known that gold goes up when other assets, markets and economies sink into the quagmire of uncertainty and fear.

About a month ago, if you recall, I told you that it was time to buy gold. Now I don't want to brag because picking the exact timing of an investment taking off is about the hardest thing an investor can do. All you can

do is use all the information at your disposal and all your experience to give it your best shot. I have to admit, I'm not right all the time and there are instances I do get it right but not for the reasons I anticipated.

But this time I hit the nail on the head. Gold immediately took off and ran from $1,636 an ounce up to $1,800 an ounce by November 8th.

Since then gold has pulled back and is now trading at $1,694 an ounce.

With the European and US economic woes continuing, I see this latest pullback as perfect opportunity to cash in on gold again.

It's not just me who believes this. I keep a close eye on the central banks and they agree with my assessment. They've been purchasing gold.

If fact, central banks are buying gold at a record pace, says the World Gold Council.

So far this year central governments – led by China, India, Brazil, and Russia – have bought a net amount of 350 metric tons, easily beating last year's net purchases of 76 metric tons and the previous high of 180 metric tons back in 1988.

This year's gold demand from central banks is the most in over 40 years. And we could easily see another 100 metric tons bought in the fourth quarter.

The World Gold Council sees this not simply as short-term tactical buying, but as a new long-term trend. This is bullish for long-term gold prices. With the US and Europe fighting a losing battle with their massive debts, centra lbanks are losing their faith in the US dollar and the euro as a store of value.

Our Political Leaders Next Gift: Hyperinflation

What else will help support higher gold prices?

The European Central Bank (ECB), the US, and China are all itching to fire up the ol' money-printing machine. If they do, sooner or later it'll give us what I call a "slow-motion default." Instead of paper currency diving and bond holders getting screwed overnight, the exact same thing happens over a period of years as inflation eats away at the value of "fiat" money and pushes bond prices to ever-lower levels.

That makes inflation one of the most sneaky, destructive and cowardly policies politicians could pursue. So in that case hyperinflation must be coming our way, right?

Here's my take…

Europe – As Europe's debt crisis worsens, the ECB is debating whether it should expand bond purchases by printing money. Publicly it's saying it's not going to do this.

I don't believe it. I think sooner or later the ECB will succumb to the allure of printing money.

And when it does, the only remaining question would be how much leeway Germany gives to the ECB in creating shiny new euros.

Germany is standing in the way of an ECB bailout, but the sooner the crisis spreads to Germany (and believe me it will), the sooner and the bigger the bailout will be. This new flood of cash from Europe's printing presses will swing the door wide open to the ravages of inflation. And gold will be there, once again welcoming with open arms everybody wishing to escape Dodge.

Germany's failed bond auction on Wednesday (it sold only 65% of its bonds) shows investors are looking for higher yields. Will the US be next? <u>It's not only possible, I believe it's inevitable.</u>

US – It is hard to believe, but our bond market remains the strongest in the world. This will likely drive the US dollar higher in the near-term, giving our politicians a false sense of security and a green light to institute another round of debt monetization.

In reality, US interest rates are much too low for the degree of debt in the US. As investors demand higher yields, the demand for US treasuries will start to diminish and rates will then being to climb. Rising rates and inflation will drive investors to gold, as the viability of US debt comes into question.

China – So much for China's fight against inflation. Its economy is slowing down too much for China's nervous leaders. So now they're turning their attention towards boosting growth. A lot of things out of China you can't believe.

But this statement from the Chinese Vice-Premier, Wang Qishan, has the ring of truth. He said that "ensuring growth is the overriding priority," and "unbalanced growth would be better than a balanced recession."

China began tightening in October 2010. It has been effective. China's inflation rate has fallen from a high of 6.5% to 5.5% but at the expense of industrial production. It has slipped to a one-year low. And China's GDP growth has also slowed from 9.7% down to 9.1%.

Now that inflation is less of a risk, China will be more willing to pump cash into its economy: Another bullish development for gold.

Look at this chart on gold. Gold prices have held up nicely at the $1,650 - $1,700 level after its current pullback.

So when you look at the big picture, especially how events in the US, Europe and China are conspiring to jack up the money machines in those countries, it adds up to a massive catalyst for gold.

To get back in or add to your existing gold position, I recommend the SPDR Gold Shares (GLD).

If you want some extra leverage, then buy the PowerShares DB Gold Double Long ETN (DGP). It is designed to double the moves of gold. So if gold goes up 5%, DGP should go up 10%. However, the opposite is also true! If gold goes down 5%, DGP will likely go down 10%.

So, I'd like to hear from you. Are you worried about inflation and a dollar that could go down the drain? And is that driving you to buy gold? Or are you waiting for gold to dip before buying? Let me know by by clicking here, strolling to the bottom of my article, and submitting a comment.

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