

Golden Choice For Bailout Inflation Protection

John Dobosz, 11.26.08, 11:50 AM EST

Gold and gold miners have taken flight in recent days as the world begins to focus on an inflationary future.

Since the problems associated with the current financial crisis began to take on a particular menace last summer, the response of our monetary institutions has involved moves that most students of economics would call inflationary, like aggressive reduction in targeted short-term lending rates and credit creation at a feverish pace.

Thanks to the deflationary forces that accompanied the unwinding of leverage in the financial system and in the flagging economy at large, the dollar actually rallied and gold suffered big time. From a post Jimmy Carter high of \$1,011 in March, spot gold tumbled 30% down to \$712 an ounce.

Now, however, investors seem to be awakening to the inflationary impact of the moves by the Federal Reserve and the Treasury Department. Over the past three weeks, gold has staged a rally, and over just the past week, it has looked more like a lift-off. Spot gold was above \$830 for much of this holiday-shortened trading week, a gain of more than 15% from lows earlier this month, with most of that coming just since Thursday.

Moving higher more rapidly than gold bullion itself are shares of gold miners. The Philadelphia Gold and Silver Mining Index (XAU) added nearly 43% in just the past three days. This could indicate simply that the miners were more deeply oversold, or, if it persists, it could mean that investors are looking for escalating gold prices down the line. Either way, it looks like gold and the miners are staging a decent rally that could last until the first quarter of next year, according to Curt Hesler, editor of Professional Timing Service.

Hesler has several mining stocks that he likes for playing the new buoyancy in gold shares, from blue chips like Goldcorp (nyse: GG) to smaller names like Yamana Gold (nyse: AUJ) and the tiny like US Gold Corp. (amex: UXG). For smaller investors, perhaps it's best to buy a basket of miners and jump on the train.

A great way to get into gold miners is through the Fidelity Select Gold (FSAGX) fund, a diversified grab bag that holds a small amount of gold bullion and a long roster of mining companies. Its biggest holdings are in Barrick Gold (nyse: ABX), Goldcorp and Newmont Mining (nyse: NEM) and Agnico Eagle (nyse: AEM).

The expense ratio of FSAGX is one of the things to like most about this fund. At 0.81% it's nearly half the 1.47% charged by most precious metals funds. Another nice feature is that it trades throughout the day, and you can get in and out when you like and even use limit orders when buying. ■

