COLLECTION: INVESTMENT GUIDE

GOLD INVESTMENT NOW!

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Summary

Gold as an investment

Of all the precious metals, gold is the most popular as an investment. Investors generally buy gold as a way of diversifying risk. The gold market is subject to speculation as are other markets, especially through the use of futures contracts and derivatives. Gold price has shown a long term correlation with the price of crude oil.
This suggests a reason why gold is sold off during economic weakness.

Gold price

Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times. Many European countries implemented gold standards in the latter part of the 19th century until these were temporarily suspended in the financial crises involving World War I.[citation needed] After World War II, the Bretton Woods system pegged the United States dollar to gold at a rate of US$35 per troy ounce. The system existed until the 1971 Nixon Shock, when the US unilaterally suspended the direct convertibility of the United States dollar to gold and made the transition to a fiat currency system. The last currency to be divorced from gold was the Swiss Franc in 2000..

Since 1919 the most common benchmark for the price of gold has been the London gold fixing, a twice-daily telephone meeting of representatives from five bullion-trading firms of the London bullion market. Furthermore, gold is traded continuously throughout the world based on the intra-day spot price, derived from over-the-counter gold-trading markets around the world (code "XAU"). The following table sets forth the gold price versus various assets and key statistics on the basis of data taken with the frequency of five years.

Influencing factors

Today, like most commodities, the price of gold is driven by supply and demand including demand for speculation. However unlike most other commodities, saving and disposal plays a larger role in affecting its price than its consumption. Most of the gold ever mined still exists in accessible form, such as bullion and mass-produced jewelry, with little value over its fine weight — and is thus potentially able to come back onto the gold market for the right price. At the end of 2006, it was estimated that all the gold ever mined totalled 158,000 tonnes (156,000 long tons; 174,000 short tons). The investor Warren Buffett has said that the total amount of gold in the world that is above-ground, could fit into a cube with sides of just 20 metres (66 ft). However estimates for the amount of gold that exists today vary significantly and some have suggested the cube could be a lot smaller or larger.

Warren Buffett

Given the huge quantity of gold stored above-ground compared to the annual production, the price of gold is mainly affected by changes in sentiment (demand), rather than changes in annual production (supply). According to the World Gold Council, annual mine production of gold over the last few years has been close to 2,500 tonnes. About 2,000 tonnes goes into jewelry or industrial/dental production, and around 500 tonnes goes to retail investors and exchange traded gold funds.

Why invest in Gold?

Gold is respected throughout the world for its value and rich history, which has been interwoven into cultures for thousands of years. Coins containing gold appeared around 800 B.C., and the first pure gold coins were struck during the rein of King Croesus of Lydia about 300 years later. Throughout the centuries, people have continued to hold gold for various reasons. Below are eight reasons to own gold today.

A History of Holding Its Value
Unlike paper currency, coins or other assets, gold has maintained its value throughout the ages. People see gold as a way to pass on and preserve their wealth from one generation to the next.

Weakness of the U.S. Dollar
Although the U.S. dollar is one of the world's most important reserve currencies, when the value of the dollar falls against other currencies as it did between 1998 and 2008, this often prompts people to flock to the security of gold, which raises gold prices. The price of gold nearly tripled between 1998 and 2008, reaching the $1,000-an-ounce milestone in early 2008 and nearly doubling between 2008 and 2012, hitting around the $1800-$1900 mark. The decline in the U.S. dollar occurred for a number of reasons, including the country's large budget and trade deficits and a large increase in the money supply.

Inflation
Gold has historically been an excellent hedge against inflation, because its price tends to rise when the cost of living increases. Since World War II, the five years in which U.S. inflation was at its highest were 1946, 1974, 1975, 1979 and 1980 (as of 2012). During those five years, the average real return on the Dow Jones Industrial Average was -12.33%, compared to 130.4% for gold.

Deflation
Deflation, a period in which prices decrease, business activity slows and the economy is burdened by excessive debt, has not been seen globally since the Great Depression of the 1930s. During that time, the relative purchasing power of gold soared while other prices dropped sharply.

Geopolitical Uncertainty
Gold retains its value not only in times of financial uncertainty, but in times of geopolitical uncertainty. It is often called the "crisis commodity," because people flee to its relative safety when world tensions rise; during such times, it often outperforms other investments. For example, gold prices experienced some major price movements this year in response to the crisis occurring in the European Union. Its price often rises the most when confidence in governments is low.

Supply Constraints
Much of the supply of gold in the market since the 1990s has come from sales of gold bullion from the vaults of global central banks. This selling by global central banks slowed greatly in 2008. At the same time, production of new gold from mines had been declining since 2000. According to BullionVault.com, annual gold-mining output fell from 2,573 metric tons in 2000 to 2,444 metric tons in 2007 (however, according to Goldsheetlinks.com, gold saw a rebound in production with output hitting nearly 2,700 metric tons in 2011.) It can take from five to 10 years to bring a new mine into production. As a general rule, reduction in the supply of gold increases gold prices.

Increasing Demand
In previous years, increased wealth of emerging market economies boosted demand for gold. In many of these countries, gold is intertwined into the culture. India is one of the largest gold-consuming nations in the world; it has many uses there, including jewelry. As such, the Indian wedding season in October is traditionally the time of the year that sees the highest global demand for gold (though it has taken a tumble in 2012.) In China, where gold bars are a traditional form of saving, the demand for gold has been steadfast.

Demand for gold has also grown among investors. Many are beginning to see commodities, particularly gold, as an investment class into which funds should be allocated. In fact, SPDR Gold Trust, became one of the largest ETFs in the U.S., as well as one of the world's largest holders of gold bullion in 2008, only four years after its inception.

Portfolio Diversification
The key to diversification is finding investments that are not closely correlated to one another; gold has historically had a negative correlation to stocks and other financial instruments. Recent history bears this out:

The 1970s was great for gold, but terrible for stocks.
The 1980s and 1990s were wonderful for stocks, but horrible for gold.
2008 saw stocks drop substantially as consumers migrated to gold.
Properly diversified investors combine gold with stocks and bonds in a portfolio to reduce the overall volatility and risk.

The Bottom Line
Gold should be an important part of a diversified investment portfolio because its price increases in response to events that cause the value of paper investments, such as stocks and bonds, to decline. Although the price of gold can be volatile in the short term, it has always maintained its value over the long term. Through the years, it has served as a hedge against inflation and the erosion of major currencies, and thus is an investment well worth considering.

Where it come from?

Gold is a chemical element with the symbol Au and atomic number 79. It is a bright yellow dense, soft, malleable and ductile metal. The properties remain when exposed to air or water. Chemically, gold is a transition metal and a group 11 element. It is one of the least reactive chemical elements, and is solid under standard conditions. The metal therefore occurs often in free elemental (native) form, as nuggets or grains, in rocks, in veins and in alluvial deposits. Less commonly, it occurs in minerals as gold compounds, such as with tellurium as calaverite, sylvanite, or krennerite.

As the metallic native element mineral, gold structurally belongs to the isometric copper group. It also forms a solid solution series with the native element silver (Ag) to which it is often naturally alloyed (electrum). Other common natural gold alloys are with copper and palladium (Pd).

Gold resists attacks by individual acids, but it can be dissolved by aqua regia (nitro-hydrochloric acid), so named because it dissolves gold. Gold also dissolves in alkaline solutions of cyanide, which have been used in mining. It dissolves in mercury, forming amalgam alloys; it is insoluble in nitric acid, which dissolves silver and base metals, a property that has long been used to confirm the presence of gold in items, giving rise to the term acid test.

This metal has been a valuable and highly sought-after precious metal for coinage, jewelry, and other arts since long before the beginning of recorded history. In the past, the Gold standard has been implemented as a monetary policy, but it was widely supplanted by fiat currency starting in the 1930s. The last gold certificate and gold coin currencies were issued in the U.S. in 1932. In Europe, most countries left the gold standard with the start of World War I in 1914 and, with huge war debts, did not return to gold as a medium of exchange. The value of gold is rooted in its medium rarity, easy handling, easy smelting, non-corrosiveness, distinct color and non-reactiveness to other elements; qualities most other metals lack.

A total of 174,100 tonnes of gold have been mined in human history, according to GFMS as of 2012.[2] This is roughly equivalent to 5.6 billion troy ounces or, in terms of volume, about 9261 m3, or a cube 21.0 m on a side. The world consumption of new gold produced is about 50% in jewelry, 40% in investments, and 10% in industry.

Besides its widespread monetary and symbolic functions, gold has many practical uses in dentistry, electronics, and other fields. Its high malleability, ductility, resistance to corrosion and most other chemical reactions, and conductivity of electricity have led to many uses, including electric wiring, colored-glass production, and gold leafing.

Most of the Earth's gold probably lies at its core, the metal's high density having made it sink there in the planet's youth. Virtually all discovered gold is considered to have been deposited later by meteorites that contained the element.

A schematic diagram of a NE (left) to SW (right) cross-section through the 2.020 billion year old Vredefort impact crater in South Africa and how it distorted the contemporary geological structures. The present erosion level is shown. Johannesburg is located where the Witwatersrand Basin (the yellow layer) is exposed at the "present surface" line, just inside the crater rim, on the left. Not to scale.
The asteroid that formed Vredefort crater 2.020 billion years ago is often credited with seeding the Witwatersrand basin in South Africa with the richest gold deposits on earth. However, the gold bearing Witwatersrand rocks were laid down between 700 and 950 million years before the Vredefort impact. These gold bearing rocks had furthermore been covered by a thick layer of Ventersdorp lavas, and the Transvaal Supergroup of rocks before the meteor struck. What the Vredefort impact achieved, however, was to distort the Witwatersrand basin in such a way that the gold bearing rocks were brought to the present erosion surface in Johannesburg, on the Witwatersrand, just inside the rim of the original 300 km diameter crater caused by the meteor strike. The discovery of the deposit in 1886 launched the Witwatersrand Gold Rush. Nearly 50% of all the gold ever mined on earth has been extracted from these Witwatersrand rocks.

The Shape of Gold

I have yet to get around to uploading more detailed information about the work that Paragon Resources has been doing in SW Tasmania. That doesn't mean that we've been sitting on our laurels, with fieldwork last summer working toward identifying the source of gold panned from streams but never previously explained.

Most historic work in the Elliott Bay area of SW Tasmania has been focussed on finding lead and zinc mineralisation of a style similar to that found at Rosebery in Western Tasmania. This style of mineralisation formed about 500Ma years ago on an ancient seafloor, but doesn't explain the gold common to the Elliott Bay area. This gold has been known about for about 25years and was thought to be the product of mineralisation formed along the edges of a molten granite-like rocks (a porphyry to be more technical). As it turns out, more recent work by Paragon Resources shows these assumptions to have been incorrect.

The gold we've found turns out to be more closely associated with faults or breaks in the Earth's crust along which fluids have flowed and deposited metals. The size of the breaks are large and it is interesting that they have not previously been identified. This is because similar faults to the north of Elliott Bay are closely associated with gold at both Mt Lyell and at Henty. This style of mineralisation and the setting in which it has been found is also very similar to deposits such as the Golden mile in Western Australia's Kalgoorlie region.

I'll write more about these new discoveries in the future. For now, I want to focus on the gold that we've found. Its not new that we managed to pan gold from these streams. The amount of gold is interesting, given we managed to pan more gold from these streams than we could get from known goldfields elsewhere in Tasmania (Corinna, for example). What is really exciting, however, is that we can infer a distance to the source from the shape and size of the gold grains. This is something that has never been done before in this area.

Most of the gold we found was oddly shaped with grains showing embayments and protrusions (see pictures). We know from studies elsewhere in the world (Townley, 2003) that the shape of gold grains can be an indicator of the distance they have travelled from their source. Gold is soft, and the further it travels the more rounded it becomes (the product of being beaten in the streams). Our gold at Elliott Bay has come only a short distance, probably between 50m and 300m. This means that a source is close by!

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