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# The Top 10 Reasons to Hold Gold, Bar None!

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With gold working up the gumption to walk through \$1,000 for the third time in this historic climb, Fools are encouraged to step into a broader understanding of the fundamental factors behind the metal's [gilded outlook](#).

Before we dive back in, let's recap the [first five reasons to hold gold](#) from Part 1:

1. The United States is **awash in a sea of trillions**.
2. **Derivatives** are falling from a massively [frothy peak](#).
3. As spending skyrockets, government **revenue** is set to contract sharply.
4. **Quantitative easing** is a very slippery slope.
5. The [U.S. dollar](#) is set for a **sustained decline**.

1.

## 6. Inflation Looms

Of all the reasons to hold gold, the debate over potential

scenarios for the onset of inflation remains the most unnecessary obstacle to understanding gold's outlook. We must not let the inflation debate muddy the waters for gold, since frankly, all scenarios are now [supportive of gold](#). Whether you're convinced we'll see runaway hyperinflation, a deflationary spiral, or stagflation, the *direction* for gold is unaffected.

Washington has [shown its cards](#), Fools. A deflationary spiral clearly was deemed the most unacceptable consequence of this crisis, resulting in an implied guarantee that further economic contraction would be met by ever-increasing sums of stimulus. In this policy environment, therefore, inflationary forces do not hinge upon economic stabilization. While it's true that recovery could [exacerbate inflationary forces](#) as liquidity starts circulating through the economy, inflation can certainly take hold without it ... and I believe it will. I view looming inflation as a currency event rather than an economic event, and see [stagflation](#) as a likely outcome. No matter which scenario unfolds, though, this environment is ripe for gold.

## **7. A question of confidence**

When Treasury Secretary Tim Geithner told a group of students in China on Monday that their country's U.S. dollar holdings are "very safe," the crowd broke into laughter. Holding more than \$1 trillion in U.S. debt, China's concerns are justified. In March, Prime Minister Wen Jiabao admitted he too was "concerned about the safety of our assets." In stark terms, a former Chinese central bank advisor warned Monday that "another financial crisis triggered by a dollar crisis could be inevitable" if the U.S. fails to reduce deficits and increase savings. Hou Huimin of the China Gold Association relates the discussion back to gold: "the US dollar ... may retreat from being the international reserve currency. If that happens, whoever holds gold will be at an advantage."

As revealed in April, China is indeed holding more gold ... [1,054 tonnes of it](#). Precious metals analysts see China's accumulation

signaling a "broader shift in central banks' attitude towards gold," potentially "re-igniting gold's relevance as a monetary asset." Meanwhile, China is leading a charge to increase the role of its own currency in international trade, instituting \$95 billion in dollar-dodging currency swaps with nations from South Korea to Argentina. A bi-lateral trade deal with Brazil may also seek to skirt the greenback, while up to 50% of China's trade with Hong Kong could be conducted in yuan by 2010. The ascendancy of China's currency on the international stage can be seen as a challenge to the dollar's de facto reserve currency status. In fact, the BRIC countries (Brazil, Russia, India, and China) presented a [unified front](#) at the G20 summit in April, proposing a new global reserve currency to replace the dollar, based upon a basket of currencies ... including gold. All of these developments stem from diminishing confidence in the U.S. dollar as a product of Nos. 1 through 6 above.

### **8. Gold remains cheap**

Then-Fed Chairman Paul Volcker faced some [tough challenges](#) containing inflation in the late 1970s, but in terms of scale, his predicament was undeniably tame compared to the pickle we're in today. And yet, gold remains more than 50% below the inflation-adjusted peak from 1980. Given the fundamental deterioration of the dollar's outlook over the past year, I consider gold primed to establish last year's high above \$1,000 as a new long-term floor.

### **9. Gold is relatively scarce**

Unlike paper money, gold cannot be created out of thin air. Despite a 7% rise in overall demand in 2008, including a 27% surge from bullion ETFs like **SPDR Gold Shares** (NYSE: [GLD](#)), global mine production fell 3%. Successive market shocks, from [soaring costs](#) to [crashing prices](#), disrupted the global pipeline of mine development projects. Low-cost producers like **Goldcorp** (NYSE: [GG](#)) were driven to [quarterly losses](#), while [operational snags](#) plagued

South African miners like **Gold Fields** (NYSE: [GFI](#)) and **AngloGold Ashanti** (NYSE: [AU](#)). All told, **Randgold Resources** (Nasdaq: [GOLD](#)) CEO Mark Bristow indicated last December that global gold supply could contract 15% over the next five years as a result of insufficient investment in future supply. Poised for some very timely organic production growth, I continue to view intermediate miners **Yamana Gold** (NYSE: [AUY](#)) and **Agnico-Eagle Mines** (NYSE: [AEM](#)) as substantial long-term [investment opportunities](#).

#### **10. The ultimate safe haven**

I have held no punches in my assertion that the ongoing equity rally is [fundamentally unsustainable](#) given the [deteriorating condition](#) of the domestic economy. During the last market sell-off, investors flocked to U.S. Treasuries in droves as a conventional safe haven. As concerns mount over looming inflation and a [damaged dollar](#), however, I believe that investors will increasingly turn to gold as the ultimate safe haven.

The above 10 reasons to hold gold provide a timely primer on the metal's fundamental outlook. I expect substantial volatility going forward, so I caution against trying to [time short-term movements](#). While I lament the unfortunate circumstances that would take us there, I expect a substantial increase in the price of gold to offer healthy gains and critical protection for the well-positioned investor.