Gold spike: Boom times for precious metal

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CHICAGO — The new gold rush is on.

The price of the precious metal is soaring, hitting a record $1,153 an ounce on this week — confounding market analysts who thought there was no way gold would remain so expensive when it first cracked the unheard-of $1,000 mark last year.

The remarkable run has implications far beyond savvy investors. In New York's diamond district, more people started showing up late last year to sell their gold, and the crush hasn't let up, said Anthony Iannelli, owner of Iannelli Diamonds.

"They're bringing in jewelry from the '70s and '80s they don't wear anymore," he said. "They're following the news and see prices are high. They realize they have a little cache, and want to take it out of the vault."

Typically, gold is a safe place for investors to park their money, not something they buy to make money. It doesn't earn any interest, and because it's always sought-after, its value tends to be fairly stable.

For example, when gold first reached $1,000 it was in March 2008, shortly after the collapse of investment bank Bear Stearns. Investors bought it up then because they feared for the stability of the financial system.

This time is different. Investors — think of them as the '09ers — are buying gold to protect themselves against the falling dollar.

Currencies are weak investments around the world because of record-low interest rates. Foreign banks that hold substantial amounts of U.S. debt, such as China's, want to diversify their holdings.

News earlier this month that India's central bank bought nearly $7 billion worth of gold from the International Monetary Fund triggered a frenzy of gold buying.

The surge has been remarkable. Gold is up 7 percent just this month, and 26 percent for the year. Some forecasters see it going to $1,200, $1,500 or beyond — unless the buying frenzy comes to a halt.

Some analysts are panning the gold speculation.

"You just don't see increases like this over the short term" that last, says Steve Condon, director of investor advisory services for Truepoint Capital in Cincinnati. "This isn't materially different from gambling."

Nevertheless, people across the country are cashing in. More than 100 people a day now come to sell their gold at Ernest Perry's antique and estate jewelry store in Charlotte, N.C., up significantly in recent weeks.

But the rising price of gold has put a dramatic dent in jewelry sales, already suffering from the recession. Far fewer customers are looking to buy gold jewelry because of the soaring price, Perry said.

"I think it will just about kill the gold jewelry business" if the price rises and remains above $1,500 an ounce,

Perry said. He predicted silver would become the primary metal used in jewelry if gold prices drive customers out of the market.

For the most part, though, demand for gold is coming from investors and speculators, not from people who actually want to use it.

Demand for gold for jewelry and for industrial and dental uses was already falling during the second quarter, according to the latest data available from the World Gold Council.

Perry said customers looking to sell their gold should go to dealers with plenty of experience and expect to get, on average, about 70 percent of the current price. And there are other ways to get into gold than selling family heirlooms.

There are gold funds, publicly traded gold mining companies and gold bullion or coins, depending on what makes someone the most comfortable. No way is certain to be the safest or most lucrative.

And of course, there's no guarantee the bubble won't burst.

Gold prices could fall when optimism about the economy takes hold again, as happened briefly the first time gold reached $1,000. If that happens, the damage could be long-lasting: Gold reached $850 an ounce in 1980, then took 28 years to return to that level. (Gold's peak in 1980 is about $2,300 in 2009 dollars.)

Anyone who's not sure whether this is a good time to buy can take heart from a Goldman Sachs forecast on Wednesday that said gold prices could reach $1,200 by year's end.

But it's hard to forget what happened with crude oil prices, which shed more than half their value in less than a year after peaking at $147 a barrel in July 2008. No one knows when a seemingly unstoppable rally will end badly.