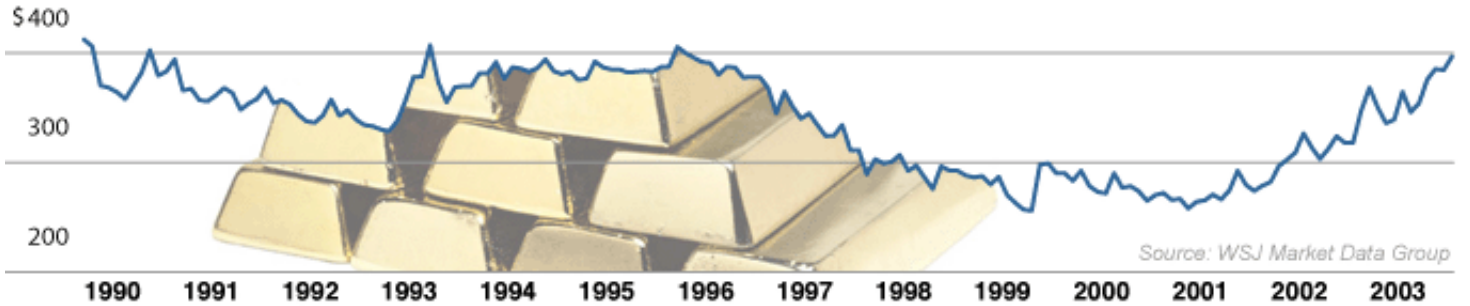


Gold prices in dollars per ounce

GOLD HAS CLIMBED steadily as investors seek an alternative to stocks and bonds. Fears of terrorism, inflation, a sagging dollar and bulging U.S. deficits have also given investors reason to flock to gold.

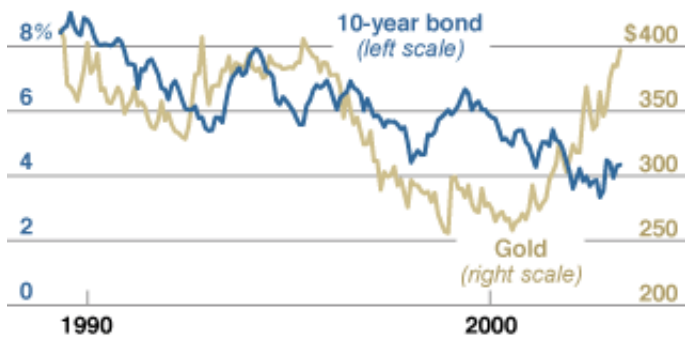
"It's like an insurance policy. People go into gold because something else isn't working," says John Hathaway, manager of Tocqueville Gold mutual fund.

The price of gold recently surpassed \$400—a seven-year high. The latest rally, which began in 2001, ended a 20-year slump. The precious metal, considered a hard asset with enduring value that is a relatively safe investment, has surged more than 50% from its 2001 lows.

What's behind the gold rally?

- **Terrorism Fears:** Amid worries and uncertainty over terrorism and war, some investors two years ago began to move their money from stocks into gold as a hedge.
- **Inflation Anxiety:** The gold market is an excellent indicator of inflation expectations. Gold prices reflect where inflation rates will go; prices have risen, so inflation rates are likely to climb.
- **Weak Dollar:** Gold is priced in dollars, so a weaker U.S. currency makes gold more affordable for buyers using rival currencies such as the euro, pound and yen.
- **Swollen Deficits:** The huge U.S. budget and trade deficits pressure the economy, which in turn hurts the dollar. Gold tends to rally as the dollar weakens.

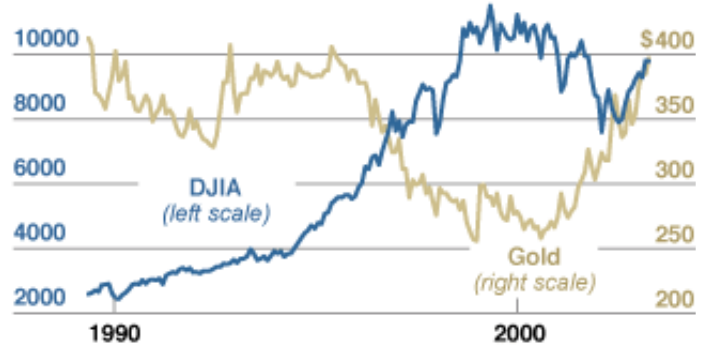
Gold prices stacked against benchmark Treasury yields



GOLD IS LIKELY to keep shining as a hedge for investors amid U.S. economic uncertainty. The possibility of U.S. interest rates languishing at rock-bottom levels for months will keep downward pressure on a weakened dollar. For example, global financial fears such as growing trade tensions between the U.S. and its trading partners may hurt the dollar. Terrorist threats also tend to fuel investor interest in hard assets.

In addition, the supply outlook is set to support gold prices. While demand for gold is likely to continue to increase, annual production, which stabilized in 2001, isn't expected to rise over the next five to seven years.

Gold prices compared with the Dow industrial average



Sources: Thompson Datastream, WSJ Markets Data Group

Investors tend to turn to gold as stock markets decline. Yet, due to the dollar's shaky performance, the rise in stocks this year hasn't undercut gold's gains. Tom Roseen, a research analyst at fund tracker Lipper Inc., says equities and gold are now moving "in tandem" on a weekly basis.

Leonard Kaplan, president of money-management firm Prospector Asset Management, says core macroeconomic fundamentals are driving the current gold bull market, and the long-term trend is for gold to continue to rally because the dollar is sliding.

GOLD HAS YIELDED impressive returns over the past few years. The average cumulative total return for gold funds in the year to Nov. 13 was 49%, more than double the 22% return of the Standard & Poor's 500 for the period, according to Lipper. The average annualized three-year return for gold funds is 48%, compared with a drop of 6.9% for the S&P 500.

According to AMG Data Services, gold and natural-resource funds reported inflows of \$207 million (2.6% of assets) in October. Open interest in gold futures on the Commodity Exchange has hit record levels and is holding up under serious pressure.

Despite its recent run-up, gold carries its own set of investment risks and has had poor long-term returns. The average annualized 10-year return for gold funds was only about 1.3% through the end of August, according to Lipper. In fact, only 0.2% of all investable assets in stock funds are in gold-oriented funds, Lipper says.

Many investment advisers say keeping a small amount of precious metals—typically less than 5% of assets—can help diversify your portfolio. But having no metals is also fine.

By Mali Fleming at mali.fleming@wsj.com

There are several ways to invest in gold:

- **Buy gold coins or bars.** They are typically bought through bullion dealers. Gold coins, such as the American Eagle, or older collectibles, can be bought at a local bank or through a dealer.
- **Gold certificates.** A certificate that shows ownership of gold bullion held by a financial institution for safe storage. There is a fee for storage and insurance.
- **Gold mutual funds:** This method of investing in gold stocks may be the safest because it allows for diversification among many stocks, such as mining or exploration companies, with professional guidance. Fees vary from 0.4% to more than 4%.
- **Gold mining stocks.** Shares of mining companies depend on the price of gold, but they also hinge on the companies' future and management. Price movements are generally more volatile than the price of gold itself.
- **Diversified commodities fund.** They generally invest in the metal and are considered less risky than other gold assets because of a broader focus.
- **Gold futures and options.** A futures contract is traded on one of the futures exchanges, such as the Comex. You have to go through a qualified broker.
- **Jewelry:** The largest consumption of the precious metal each year is through jewelry purchases, a major method of savings in developing economies.