

U.S. Mint Giving 'Gold Bugs' a New Option

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Investors craving pure gold now have an American supplier: The U.S. Mint plans to unveil today the nation's first 24-karat gold coin at an official strike ceremony at its West Point, N.Y., facility.

Modeled on the traditional buffalo nickel, the American Buffalo coin has a buffalo on one side and a Native American on the other. It comes in two versions, both stamped with a \$50 face value but worth substantially more because they are made of pure gold.

A "proof" version with a high-relief, mirror finish aimed at collectors will sell for \$800, while the less flashy bullion version of the coin -- targeted at investors known as "gold bugs" -- will retail for the price of an ounce of gold plus a 5 to 7.5 percent markup to cover the cost of making and selling it. The \$50 face value is symbolic and set by Congress, just as most commemorative silver coins sold by the mint have a face value of \$1 but are sold for \$35 or more because of their silver content.

The U.S. Mint has sold 22-karat gold coins known as American Eagles since 1985, but Deputy Director David A. Lebryk said the new offering is aimed at investors who want coins that are pure gold. He estimates that the world market in gold coins is divided between sales of 24-karat coins such as the Canadian Maple Leaf, which account for 60 percent of the market, and more durable 22-karat coins, a category dominated by the American Eagle. Last year the mint sold 420,000 American Eagle coins, which also have a face value of \$50 and contain 1 ounce of gold plus some alloy metal for durability.

"There appears to be a market for both," Lebryk said. The mint will produce only 300,000 proof-quality American Buffalo coins but will mint enough bullion coins to meet demand, he said. All the gold will be domestically mined.

The coin's debut in West Point comes at a time when gold prices have spiked and then dropped significantly. Gold prices hit a 26-year high of \$732 an ounce in mid-May but have now dropped more than 22 percent to close at \$568.80 yesterday. The fall has already prompted the mint to drop the planned price of the collector's edition coin from \$875, and the bullion coins will rise and fall with the market.

That volatility makes some financial advisers leery of recommending the coins as an investment. "I don't think it makes any sense at all as an investment," said Greg Evans, a fee-based financial planner with the Millstone Evans Group of the District and Colorado. "Commodity prices are already way up, [and] if you put a high percentage of your assets into things that have already gone up a lot, you're guaranteeing yourself poor returns."

Demand for gold for jewelry and other uses has already started to slump in the face of much higher prices, according to World Gold Council data.

"There are times when gold is good . . . but right now it's in its downturn. It might be good to see where it settles and then go in," said DaRayl D. Davis, a District investment adviser. He recommends that clients put 10 to 15 percent of their assets into high-risk investments, but not all of that should be gold.

Yahoo Finance columnist Robert Kiyosaki, best known for his "Rich Dad" series of books, has been investing in gold since 1972 and said he thinks it is still a good investment.

"I still think gold will go to \$1,500 an ounce. I'm betting against the U.S. dollar. Gold is a hedge against U.S. government mismanagement," said Kiyosaki, adding that his family members have a tradition of saving all their spare change for months on end and then trading all the coins in for a single gold coin. He said he prefers bullion coins like the South African krugerrand because it is readily exchangeable and carries a relatively small premium over its value in pure gold.

The dollar has been strengthening against the yen and the euro based on speculation that the Federal Reserve will continue to raise a key interest rate to control inflation.

Gold has another drawback as an investment: Generally it is taxed as a collectible rather than at the lower long-term capital gains rates associated with investments in mutual funds and stocks.

In the end, small investors would do best to use gold as a small part of their portfolio, said David M. Darst, chief investment strategist for Morgan Stanley's Global Wealth Management Group. He recommends investors put 4 percent of their money in gold because it tends to move in the opposite direction from stocks and bonds and hold its value in times of crisis when other investments fall apart.

"It's an insurance policy you hope not to collect on," he said.

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