

# Why the Mania Phase in Gold May Be Upon Us

By Jeff Clark

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That's right: the long-awaited Mania stage in gold may be nigh. How can I make such a claim? After all, some have been screaming "It's here! It's here!" for months or even years. So I propose that instead of simply declaring that Mania time is near, I lay out the facts and see if you come to the same conclusion.

First, let's agree on the personality of a Mania. A Mania begins with a fleeing or panic from customary investments toward what seems to be the asset of the day; it ends in an astounding run-up in price. For gold, while the over-exuberant profit seeking is yet to come, the stage is now being set for the Mania's beginning: investors are fleeing real estate, bonds and, increasingly, blue chip stocks because their prospects are so bleak. Even TIPS (Treasury Inflation-Protected Securities), according to Morgan Stanley, are failing to keep up with inflation because the official CPI to which they're tied understates inflation by underweighting, for example, the past year's 40% increase in gasoline and 130% increase in corn. The very investment designed to protect from inflation is falling short, since its gauge is more cheerful than accurate.

So, what will fleeing investors flee *to*? A hint is found in the never-say-die price of oil. You may not be buying oil at these levels, *but somebody is*, the underlying message being that even though some commodities appear expensive, they represent something more tangible than paper money and more profitable than conventional equities.

Although I believe this is evidence of what's to come for gold, it's not my reason for declaring the Mania close at hand.

To get to my answer, consider what occurs in the economic and monetary landscape just before a gold Mania...

Inflation is drowning your life – everything at the store costs staggeringly more than last year, and gasoline prices force changes in your driving habits. The government tries to bring inflation under control, but instead the currency of your nation takes a scary nosedive. Investors abruptly push up interest rates. The stock market is in a downward spiral, dropping literally every day. Foreign investors are dumping your country, and loans all around you are defaulting. Unemployment is rising. Your household wealth is plummeting (with damage from both the real estate and the stock markets), and there's no end in sight to inflation.

Would you concur this is the kind of environment that leads directly to a rush into precious metals?

I've got news for you... *it's already happening*. The country of Vietnam is experiencing every one of those maladies... inflation is an incredible 27%, interest rates are over 8%

(they rose 100 basis points in one swoop), the stock market was down *every day* in May, and unemployment has more than doubled (from 2% in '07 to 5.1% in '08).

And here's the interesting part: how did the Vietnamese public react to all this? Did they dollar-cost average down on equities? How about real estate; that's always a long-term winner, right? What about bonds? Maybe inflation-protected securities? Or did they just sit on cash? How about none of the above. The economic and monetary problems in their country have sent the Vietnamese *fleeing to gold*. And not gold stocks; gold bullion. Furthermore, they're hoarding (and hiding) it from their government.

Hard figures on the size of the local gold trade aren't available, but current estimates are that the public owns 16 million ounces, including 1.3 million ounces imported in the first quarter of 2008. Of this, only about 10% has been deposited into banks (which actually pay 2.5% interest on gold). The remaining 90% presumably is under mattresses (or hanging around the owner's neck).

And the trend to gold is spilling into other financial areas. After a long period of quoting land prices in Vietnamese dong, landlords are now setting prices in gold in order to avoid the dong's devaluation. Nguyen Trung Vu, general director of the Ky Moi Real Estate Co, said that while it is complicated to quote prices and make transactions in gold, "I think that making transactions with payment in gold will become a trend."

My question to you is, what happens when Americans flee their currency, as the Vietnamese have? What happens when inflation isn't just an annoyance but becomes lifestyle-altering, as in Vietnam? What happens when the stock market continues to plunge and all traditional investments are losing investments, as in Vietnam? What happens when the dollar loses so much value that the average citizen scrambles for a safe harbor for their money?

Well, the stage is set. Account statements for the first half of the year are in the mail, and they aren't pretty. What alternatives are left? To where will American investors send their dollars?

When it dawns on the general public that, as in Vietnam, no conventional asset is safe – let alone profitable – gold will take off. Our flight to quality is just around the corner because it's already happening an airplane ride away.

There is other hot-off-the-press evidence that the golden pot is starting to boil...

1. It is possible the central banks of Russia and Argentina are buying gold. There is also unconfirmed talk that the central bank of China and other sovereign wealth funds may be buyers. Since these countries have trillions more cash than Western central banks have gold, it is easy to envision a scenario where central banks as a whole become net buyers, even if some countries continue selling.

2. Over 50 countries are now experiencing double-digit price rises. Ukraine is now at 29%, and in the Gulf states inflation is out of control. Russia is at 15%, and India is close behind at 11%. China is on the cusp, at 7%. Interest rates are still below inflation rates in much of the emerging world.
3. The supply/demand picture for gold is getting tighter every month... Older mines are playing out, rising costs threaten the marginal operations, and large new deposits are simply not being discovered. Yet demand in all categories is up – industrial, jewelry and investment. And the potential for investment dollars to flee to gold is tremendous; consider that the sum total of the world's paper financial assets (including equities, bonds and bank deposits) equals US\$74.5 trillion. Yet the value of all physical gold held by private investors and central banks is just US\$1.1 trillion. A mere 5% of that going into gold would be \$3.725 trillion. What do you suppose that would do to the gold price?

The Gold Mania is nigh. In fact, our research shows this is the last summer you will be able to buy gold for 3 figures. Do you have enough? Perhaps the most transparent way to find the answer is to ask: will you feel like you bought enough gold when it's selling for \$2,000 an ounce?

*Jeff Clark is the editor of **BIG GOLD**, a Casey Research publication focused on the safest ways to profit from the current bull market in gold.*

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