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## A rush on gold in tough times

BY SANDY SHORE

Investors who have forsaken shaky financial markets for the safety of gold must feel a little bit like prospectors.

As the worst recession in at least a generation spreads, so too does the clamor for gold bars and coins, assets less likely to go up in smoke like so many derivatives and asset-backed securities.

"I've never seen a case where demand was so high and supply was so short," said Chicago coin dealer Harlan Berk, who has been in the business 44 years.

Spikes in demand for gold coins this year appear to run parallel with the mounting woes on Wall Street.

In August, as the Federal Reserve pumped \$62 billion into the U.S. banking system and rejected requests for mortgage finance giants Fannie Mae and Freddie Mac to take on more debt, sales of the popular American Eagle coin were suspended for a week.

The U.S. Mint was unable to get enough gold blanks from suppliers to match demand, Mint spokesman Michael White said.

### COIN SHORTAGES

In late September, when a massive bailout for the nation's biggest banks failed, sales of the American Buffalo coin were suspended until Nov. 3 because of shortages.

Yet even before the full extent of the financial crisis was known, investors had begun to load up on gold and other assets that could be held in the hand.

By early spring, investors were snapping up precious metals such as gold, silver and platinum, said Beth Deisher, editor of Coin World trade magazine.

Gold for April delivery shot up to a record of \$1,033.90 an ounce on the New York Mercantile Exchange on March 17. According to a report by the National Bureau of Economic Research released this month, that was just three months into the U.S. recession.

That correlation continued throughout the year as Wall Street institutions fell.

"People sensed there was something going on that they didn't quite understand," Deisher said.

In the third quarter, when the government bailed out Fannie Mae and Freddie Mac, the Fed gathered the chiefs of major banks on Wall Street to plot a rescue, and Lehman Brothers descended into bankruptcy protection, gold sales went into high gear, said Natalie Dempster, head of the World Gold Council's North American investment unit.

U.S. demand for gold coins and small bars jumped 600 percent and international demand rose 121 percent, according to the council.

"The fact that gold is nobody else's liability was really an extremely important trait for investors in Q3 that were growing increasingly mistrustful of financial institutions in general," Dempster said.

To get gold as stocks began to fall, investors were willing to pay.

"You saw people paying premiums to get coins and small bars," Dempster said. "The refiners, etc, just wouldn't have been set up to produce that amount of gold, the same way as any other product."

Compounding the shortage somewhat, Deisher said, was a decision years ago to offshore some of the tasks that go into making U.S. gold coins.

Under the law, gold used in U.S. coins must be mined domestically. However, the government contracts with private companies to fabricate blank coins for striking with images such as the American Eagle. One of those companies is Gold Corp., owned by the government of Western Australia and operator of the Perth Mint.

Demand for gold coins continued to grow as economic news from Wall Street and Washington grew more ominous.

### **DEMAND PEAKS**

In early October, the Dow Jones industrial average closed below 10,000 points for the first time since 2004. At the same time, coin dealers saw demand hit a peak, and bullion coins were fetching huge premiums, said Larry Shepherd, executive director of the American Numismatic Association.

"That's created a shortage not only in the secondary market, where shops are competing with each other to find enough supply to meet the demand, but it's also created a real shortage in the primary market where the Mint itself is having difficulty getting enough supply to meet demand," he said.

At his coin shop in downtown Chicago, Berk advises customers to plan ahead when arranging purchases, as much as two to three months.

It's frustrating, but "you learn to live with it," he said.

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