

Making Money with Gold and Silver for Beginners

By Matthew Corica

Investors are currently feeling understandably concerned with the current economic climate, and are starting to worry about the longer-term potential for inflation, and the further continuing devaluation of the dollar. I have been routinely asked over the last six months, by my clients and the general public, about the best methods of investing in the gold and silver markets.

Gold is a scarce resource, and in times of economic uncertainty it has been historically known as a safe haven and store of wealth against the deteriorating forces of inflation. Gold unlike other commodities has been hoarded rather than consumed, and what has been mined in the past is still in circulation today. The supply of gold is limited, with the demand side being the main variable currently influencing the long-term market price.

The gold price has tripled since the year 2000 and it has the fundamental potential to continue its long-term bull market due to the current economic cycle. The current price reflects only a fraction of the inflation that has been factored into the global monetary system. Inflation will be playing a larger part in all our lives over the coming years, as governments around the world are aiming at reducing the effects of the current economic crisis via monetary policy.

Silver is in much greater supply than gold, and its industrial uses are much more diverse. Silver is generally more consumed than mined, with some of the difference being offset from recycling. Silver reserves are being sold-off and as a result the inventories have been steadily shrinking on a worldwide basis. Additional to this situation, unlike gold, a significant amount of silver is consumed and disappears from circulation each year. The imbalances between supply-and-demand caused by these shortages make silver an attractive commodity play for anyone wishing to do a little homework and make a business of trading in this market. The gold and silver markets show a strong correlation, and traders than develop their skills trading one market will usually apply those same skills to both.

There are several ways to own gold and silver such as physical ownership, mining stocks and commodity futures. Physical ownership involves buying bullion and storing it yourself or paying for a secure storage facility. Bullion can be ingots cast in various sizes or coins that are valued by the metal quantity instead of rarity. Trading mining stocks, as a method of investing, can be a very profitable way to play the gold and silver markets, and is the more traditional way that investors first enter this sector. The price of gold or silver has to rise faster than the cost of production before mining companies become profitable, which can result in a possible lagging effect compared to other forms of gold and silver investing. Also, when investing in mining stocks you are exposed to the decisions of the directors and any new corporate regulations, which can be a possible negative in these current economic times.

The most efficient and easiest method of participating in the gold and silver markets is by the use of commodity futures. Trading futures is the most profitable way to participate in the potential continuation of the gold and silver price movements, while excluding the inefficiencies that are associated with direct ownership, or trading publically listed mining companies.

Futures contracts give the investor ease of use and the ability to buy or sell without delay. A futures contract is an exchangeable standardised contract, traded on a regulated exchange, and used to buy or sell a fixed quantity and quality of an underlying commodity, at a certain date in the future. Futures contracts can be broken by simply offsetting the transaction. For example, if you buy one futures contract to open then you sell one futures contract to close that market position.

Another advantage available by trading gold and silver commodity futures is the ability to legally short-sell these markets when the economic conditions change. Short-selling is the ability to sell gold or silver creating an open position in the expectation to buy-back at a later time to profit from a fall in the market. The short-selling of commodities is legal and necessary for the markets to function correctly as it creates liquidity and a fair market environment. If you become accustomed to trading metals, and the long-term fundamental economic conditions change, then you can short-sell these markets for potential profit instead of trying to become an over-night expert in alternative markets.

If you have ever had the desire to trade gold or silver, then now is the best time to start learning and becoming involved. Futures markets will always experience rising or falling trends, and with an abundance of free information available on the internet there is no reason for any investor to physically own metals, or trade mining stocks when there are better alternatives and opportunities to make potential profits by trading in the commodity futures markets.

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