

WOODWARD FINANCIAL
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WFA IN THE COMMUNITY

Jim Miller was
elected to the
Galloway Ridge
Board of Direc-
tors, a CCRC in
Pittsboro, NC.

Ben Birken will
be serving as
the Treasurer
of the Friends
of the Chatham
County Library.

Jim Miller now
serves on the
Board of Direc-
tors of the Dur-
ham Orange
Estate Planning
Council.

The Woodward Advisor

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How Good Is Gold?

Gold is trading near a record high (in nominal terms) at over \$1,600 an ounce and interest in the commodity seems to be growing. This is a typical pattern seen during difficult times when investors seek a hedge against financial uncertainty, which can be found in abundance as we speak.

With worries about the debt ceiling, high unemployment, a weak dollar and the European debt contagion hitting the headlines on a daily basis, it's understandable that people are looking for a safe haven. But let's step back and ask a few important questions. Who is buying gold? Is it in fact safe? What are you really getting when you buy it?

It seems that the leading buyers of gold these days

are central banks around the globe trying to diversify away from the U.S. dollar and get a short-term hedge against inflation. Other buyers include hedge funds and institutional traders, some of which are simply speculat-



ing. All of these buyers have managed to drive up the price, which in turn has captured the attention of the individual investor.

While it can correlate highly to inflation at times, over the long term, gold is actually a terrible hedge

against inflation. From its previous peak of \$667 per ounce in 1981 to its current price of over \$1,600 an ounce, gold has compounded at approximately 2% per year versus over 3% per year for inflation (Consumer Price Index).

On the other hand, common stocks, as measured by the Standard & Poors 500, compounded at an annual rate of approximately 11% (including dividends) during this 30-year period.

What exactly is the utility of gold? Of course, we know that it's used in jewelry, but beyond that, what does gold do? Well, not a whole lot. Gold doesn't produce any earnings, it doesn't produce a dividend or cash flow, and it certainly doesn't manufacture any goods or services.

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WFA Ranks as Top Advisor



For the second year in a row, Woodward Financial Advisors has been named by *Financial Advisor* magazine as one of the top financial advisory firms in the United States.

This coveted honor was extended to only a small number of firms across the

country. Our ranking is a direct tribute to the success and loyalty of our clients, colleagues, and friends of the firm.

We truly appreciate the confidence you place in us every day, and we thank you for allowing us the opportunity to serve you.

Harness the Power of Time with a Roth



A 21 year old who invests \$1,000 per year for 8 years in a Roth IRA would have \$200,000 in tax-free savings by age 65 given an 8% annual return.

BEHIND THE SCENES . . .

In April, Linda Patchett, Ben Birken, and Kendra Hudson attended the Southeast NAPFA Conference in Columbia, SC.

Do you have a child or grandchild who had a job over the summer? If so, then Roth IRAs are a great way to begin a financial conversation with your "student" and at the same time provide an incentive plan for long-term savings.

Roth IRAs are a particularly good long-term savings vehicle for a youngster with occasional earnings. A child with earned income may contribute up to \$5,000 per year to a Roth IRA and years from now benefit from the Roth's tax-free withdrawals in retirement. *Note that in any given year, Roth IRA contributions cannot exceed the amount of the child's total earned income.*

A child that invests \$1,000 a year for just the next eight years could accumulate nearly \$200,000 of tax-free savings by age 65 given an 8% annual return on the account. Of course, contributions every year would grow that number even faster. It goes without saying that investment returns lower than 8% would also alter the outcome – as would premature withdrawals.

Think about providing an incentive for the youngster in your life to establish good savings habits. Here's how: Help them set up a Roth IRA at a mutual fund company, kick-start the account with a \$500 initial contribution, and then match 50% or 100% of every dollar the child contributes. Encourage future contributions by continuing your match each year if you can afford to do so.

How Good is Gold? . . .

As famous investor, Warren Buffett, puts it, "Gold gets dug out of the ground in Africa, or someplace. Then we melt it down, dig another hole, bury it again and pay people to stand around guarding it. It has no utility. Anyone watching from Mars would be scratching their head."

Gold profits are based purely on price appreciation driven by supply and demand. At present, demand is high and some analysts believe that production has already peaked.

Gold costs roughly \$400 an ounce to produce and sells at nearly four times that number today. So, from a

timing standpoint now would appear to be late in the game.

Warren Buffett recently spoke at his annual Berkshire Hathaway conference regarding gold's current valuation and had the following to say:

"You could take all the gold that's ever been mined, and it would fill a cube 67 feet in each direction. For what that's worth at current gold prices, you could buy all - not some - all of the farmland in the United States. Plus, you could buy 10 Exxon Mobils, plus have \$1 trillion of walking around money left over. Or you could have a big cube of metal. Which would you

take? Which is going to produce more value?"

Could the price of gold go higher still? Of course. However, our view of gold as a stand-alone investment is that it does not provide significant long-term value, especially at today's price. Rather, it represents a short-term trading opportunity from time to time.

At Woodward Financial Advisors, we prefer to stick to a strategic asset allocation policy for the long-term, a portion of which might include mutual funds that track the prices of a broad basket of commodities, not just the one commodity that's grabbing the most headlines.

Smart Financial Decisions. Professional Guidance.