* "My thesis is simple – bullion is safe, while stocks are riskier. Let me outline for you a dozen of reasons.

1. **Intensive Research**. Stock investing requires intensive research. For gold stocks, it also requires understanding a wide range of mining concepts. Advanced technical knowledge is essential. Are you willing to plow through hundreds of quarterly and annual reports and figure out what is in the ground and at what cost? Is it cheap or expensive to mine?

2. **Forward Hedging**. Many mining companies learned to hedge against falling prices during the 20-year gold bear market. Hedging in a bear market enhanced their returns. However, hedging in a bull market surrenders earnings potential; it may result in lower profits or even losses. It is true, many companies have already unwound their hedges, but you should make sure this is the case for your stocks. Just read Jason Hommel's recent revelations about Barrick's presumably unwound hedges!

3. **Naked Short Selling.** Understanding naked short selling is a must. It has nefarious effects. You should know how it works and how to detect it. It occurs when hedge funds and others short a stock without borrowing it in the first place. It is illegal. For them it is very profitable. For you, it will mean huge losses. It is hard to prove. It is hard to prosecute. The small investor is practically helpless. So, you should be alert. It may never hurt you, but it could today, or tomorrow, or at any point in the future. You can do very little about this risk.

4. **Government Expropriation**. Populist governments love it. It does happen only in limited jurisdictions, but it happens. When it does, the government takes the company's property. Your company loses it. Your stock takes a hit. You cannot avoid this risk.

5. **Government Contract Renegotiation**. When governments see a very profitable company or industry, they reach to grab part of its wealth. They may resort to expropriation, but this means running a company. Management requires skill and effort. Governments do not have them, so it is a lot easier to take *more* of what others have already produced. Increasing royalties is quick and easy. The government simply re-negotiated the contract. The investor cannot avoid this risk.

6. **Punitive Government Taxation**. Yet another means for a greedy government to grab more. It simply raises the profits tax. It gets more, while investors get less. It frames it in terms of "Windfall Profit Tax" or some other similar euphemism. The investor cannot avoid this risk.

7. **Mining Risk**. Mining is risky. Acts of God tangle even the best-laid plans. Quakes or floods could set back a mine months or years behind. Repairing damages could be costly. Revenue could be lost. Mine problems could badly affect the bottom line and the stock. The investor cannot avoid this risk.

8. **Management Risk**. This risk is present in every company. Typical are management fraud and incompetence. Many other examples are possible. Moreover, in mining it may take additional forms complicated by the nature of the industry. The risk is always present for *any* company stock. However, there is no such risk for bullion.

9. **Stock Overdilutions**. Investment bankers or lenders play these games. They profit handsomely from them. When bankers extend a loan, they keep an option to convert their debt to equity. When they sell new stock, they keep some stock warrants for themselves and for their best clients. The result in both cases is the same – a rise in the amount of outstanding shares, known as *stock dilution*. This lowers earnings per share. It increases selling pressure on the stock, as investment bankers decide to sell and cash out. Overdilution often occurs in small exploration or junior mining companies in need of cash. Their management is mostly made of honest geologists and mining engineers; however, Wall Street can easily fool them with glib talk and financial mumbo-jumbo. With physical bullion, such a risk does not exist.

10. **Resource Leverage**. Gold analysts tout this one the most. If the price of the commodity goes up by 10%, then earnings go up a multiple of that, say 30%. Yes, this is true, but the risk on the downside also multiplies. If the commodity goes down a little, your stock will likely go down a lot. Leverage cuts both ways! More importantly, leverage multiplies risk!

11. **Rising Production Costs**. In inflationary times, commodity prices rise. Of course, that is why investors love to invest in them. However, production costs must rise too. Mining and energy companies have been constantly struggling over the last 3-4 years with rapidly rising cost. Even worse, for many of them, cost prices rose faster than revenue prices. Essentially, rising costs have been "eating" a big chunk of margins and of the profits.

12. **Price Suppression**. This is an especially serious problem for "political" commodities like gold and oil, where governments have the habit of jawboning and manipulating the commodity price. Lower prices benefit consumers and politicians, but hurt investors. One cannot avoid this risk."

*** The above 12 reasons are excerpts from Krassimir Petrov, Ph.D. published on Feb. 25, 2008 for Financial Sense Editorials.**