

INVESTING IN GOLD

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The physical gold market provides investors several product options. The choice of tangible gold product is largely a matter of the investors' goals and resources. Gold is primarily purchased as a store of wealth, as a "hedge" against inflation, and as insurance against the fluctuations and depreciation of paper money. Though less common, gold is also purchased for its bartering potential. If necessary, fractional gold products (those that contain less than one troy ounce of gold) could be used as a medium of exchange. However, because silver is available in smaller denominations and therefore more convenient, it is the preferred barter metal. Even a one tenth ounce gold coin would cost approximately \$150.00. Varying "premiums" (which include dealer premiums and commissions, all shipping costs and insurance) and IRA regulations are also important to consider when deciding between the different vehicles. Currently, the U.S. Internal Revenue Service (IRS) allows gold to be included in a self-directed IRA if certain rules are followed. It is important to remember that this discussion focuses on one gold investment vehicle, the purchase of physical gold in the form of gold bullion, semi-numismatic and numismatic coins, and fungible gold certificates.

GOLD WEIGHTS AND MEASURES

When buying or selling gold, it is useful to better understand the relationships between weight (mass), fineness (or purity) and the gold content of these gold objects.

The Troy Weight System

The Troy Weight System is the universal system customarily used to weigh gold and other precious metals. The actual gold weight (AGW) of a bullion coin or bar is the amount of fine, pure, or intrinsic gold content in troy ounces. It is typically used to describe gold coins. In this investment context, it is the weight and purity of the *gold content* that is important, NOT the gross weight of the coin or bar (which often contains other base metals- see below). This distinction is often a source of confusion.

The Gold Karatage System

Pure gold is too soft for day-to-day monetary use and is typically hardened by alloying with copper, silver or other base metals. The gold content of alloys is measured in karats. Karat denotes the amount of gold by weight in an alloy, known as the fineness (or purity).

The gold karatage system is used to identify the fineness (or purity) of gold as a fraction of 24 parts. Pure gold (or fine gold) is 24 karat which has a fineness of .9999 or 99.99% (pure gold is 24 karat out of 24 possible parts). One karat is 1/24th gold purity by weight. 10 karat is the minimum recognized purity of an alloy to be called "gold" in the United States. The popular jewelry alloys in the U.S.A. are:

22 karat or 22/24ths by weight of gold (91.67% pure gold) marked as **22K or 22kt**
18 karat or 18/24ths by weight of gold (75.00% pure gold) marked as **18K or 18kt**
14 karat or 14/24ths by weight of gold (58.33% pure gold) marked as **14K or 14kt**
10 karat or 10/24ths by weight of gold (41.67% pure gold) marked as **10K or 10kt**.

The following list can be used as a guide for determining gold fineness and percentages in the U.S.:

24 karats = .9999 fineness = 99.99% gold purity
22 karats = .9167 fineness = 91.67% gold purity
18 karats = .7500 fineness = 75.00% gold purity
14 karats = .5833 fineness = 58.33% gold purity
12 karats = .5000 fineness = 50.00% gold purity
10 karats = .4166 fineness = 41.66% gold purity

GOLD BULLION COINS AND BARS

Probably the most popular way to invest in physical gold is gold bullion. The defining characteristic of gold bullion is that its market value is determined by its gold content and purity plus a “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) over the spot price of gold. Gold bullion is generally sold in two forms, bars and coins.

Gold Bullion Coins

Many countries—including the United States, Canada, China, Australia, and South Africa mint official legal tender gold coins each year, which are primarily meant for collectors and investment purposes and are not meant for circulation. These government backed gold bullion coins derive their value from the gold content, rather than face value as money, although they are legal tender. The market value of the coins is generally about equal to the market value of the gold content, not the face value (“legal tender value”). For example, a 2010 1 oz. Gold American Eagle with \$50 face value is worth and would sell for approximately \$1450.00, the current spot price of gold plus the “premium” (which includes dealer premiums and commissions, all shipping costs and insurance), using the current spot price and applicable as of today, December 17, 2010. Though these coins differ in purity and actual physical size (including all alloys), they are popular because they all contain exactly one troy ounce of gold. An investor should expect to pay between a 3% to 7% per ounce “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) on these bullion coins. The “premium” will vary with daily market conditions and by supply/demand conditions for each individual coin. The table below lists the most well known of these government minted gold coins.

COIN	KARAT	PURITY	GOLD CONTENT (in troy ounces)
American Eagle	22	91.67%	1
American Buffalo	24	100%	1
Canadian Maple Leaf	24	100%	1
Australian Kangaroo	24	100%	1
Austrian Philharmonic	24	100%	1
Chinese Panda	24	100%	1
South African Krugerrand	22	91.67%	1

Fractional gold coins are coins that contain less than one Troy ounce of gold. Most of the coins listed above can also be purchased in $\frac{1}{2}$, $\frac{1}{4}$, or $\frac{1}{10}$ troy ounce increments. Similarly to the 1 oz. coins, the “premium” for fractional coins varies with market conditions and by individual coin (i.e. American Buffalo vs. Australian Kangaroo). Additionally, for the fractional coins, the “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) does vary with the size of the coin, “the smaller the coin the larger the premium.” Here, “size” and “smaller” are referring to the *gold content* of the coin. The total weight of the coin including alloys and shape are irrelevant. For $\frac{1}{2}$ ounce coins the investor should expect to pay a 6% to 9% “premium” (which includes dealer premiums and commissions, all shipping costs and insurance); for $\frac{1}{4}$ ounce coins a 9% to 12 % “premium” (which includes dealer premiums and commissions, all shipping costs and insurance); and for $\frac{1}{10}$ ounce coins a 12% to 16% “premium” (which includes dealer premiums and commissions, all shipping costs and insurance).

Many investors prefer these coins since many gold bullion coins are allowed in self-directed IRA’s. To be eligible as IRA investments, gold coins must be at least .995 fine (99.5% pure) and be legal tender coins. This provision makes Canadian Gold Maple Leaf coins, Australian Kangaroo Nuggets and Austrian Philharmonics acceptable precious metals IRA investments. Gold American Eagles (91.67% purity) are an exception to the purity requirement with 91.67% purity, but ARE allowed in the self-directed IRA. Conversely, many gold coins, such as Krugerrands (91.67% pure) and old Double Eagle gold coins (90% pure), are not legal investments for precious metals IRAs.

There are multiple advantages when acquiring gold bullion coins. Firstly, they have a relatively low “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) when compared to other gold investments. Secondly, as they derive their value from intrinsic gold content, it is a great store of value. Thirdly, they are backed by the issuing government for content and purity and are considered legal tender in the issuing country. Additionally, gold bullions coins are allowed in self directed IRA’s with certain regulations. One disadvantage to purchasing fractional bullion coins results from the varying “premium” (which includes dealer premiums and commissions, all shipping costs and insurance); “the smaller the coin, the larger the premium.” This discourages investors from investing in fractional gold bullion coins as “survival coins” (if needed for barter) due to the higher “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) on smaller denominations of gold coins that would be most convenient if needed for barter.

Gold Bullion Bars

Gold bullion bars refined and produced by large, independent companies (i.e. Johnson Matthey, Engelhard, and Credit Suisse). The purity for most bars is 99.5% or higher and will vary depending on the refinery and the refinery’s location. Most bars manufactured in the United States and other Western countries are 99.99% pure (24 karat). The bars are produced in a wide range of gold weights and the manufacturers stamp their name, the weight, and the purity of the gold onto the gold bar. This makes the gold bullion bars easy to identify and to sell or exchange. The most common gold bars are one ounce, ten ounce, and kilo (32.15 ounces) weights. The total physical size and shape of the gold bar including alloys will vary by refinery. Gold bullion bars have no legal tender status, as they are produced commercially.

Many investors choose gold bullion bars due to the low “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) when compared to other gold investments, even when compared to gold bullion coins. The “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) will vary by specific refinery, by daily market demand conditions, and by gold content. In the case of gold bullion bars, the premium will decrease as the “size” of the bar increases, “the “larger” the bar the smaller the premium”. Here, “size” and “larger” are referring to the *gold content* of the coin. The total weight of the coin including alloys and the shape of the bar are irrelevant. Similarly to the premiums on gold bullion coins, this change in premium discourages investors from purchasing gold bullion bars for barter potential as the smaller value bars that would be most convenient for trade have higher premiums upfront. However, this change in “premium” (which includes dealer premiums and commissions, all shipping costs and insurance), “the larger the bar, the smaller the premium” is advantageous for the investor purchasing gold bars as a store of value. We only recommend COMEX deliverable bars that are used in future delivery contracts. Currently a premium between 2.25% and 4.75% premium on these bars can be expected. As the physical market tightens, these premiums will likely increase.

Because gold bullion bars have smaller premiums than gold coins, they are ideal for self-directed IRAs. Regulations that govern IRAs call for a minimum purity of only 99.5% (24 karat), however, most gold bullion bars are 99.99% pure. Additionally, they must be hallmarked by a New York Mercantile Exchange (NYMEX) or Commodity Exchange Inc. (COMEX) -approved refiner/assayer or national government mint. These bars are available in the following gold weights: 1 ounce, 10 ounces, kilo (32.15 ounces), 100 ounces, and 400 ounces.

SEMI-NUMISMATIC AND NUMISMATIC COINS

Unlike bullion coins, the value of numismatic coins is not based on the amount of gold contained in the coin (the gold content) but solely on the price that a willing buyer will pay for the coin in an open competitive bid system. These “rare” coins are collected and valued for their scarcity, individual beauty, age and condition.

Semi-numismatic coins are those that are either numismatic coins of a low grade or fairly common coins that still have some collector’s value. The primary value of these coins comes from the gold content, not the collector’s value. Semi-numismatic are less expensive than true numismatic coins, but they do carry a higher “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) than regular bullion coins because they are in demand among some collectors. The higher premium also results from the limited supply of these coins, as they are no longer produced. These are the same coins that in higher uncirculated grades are called numismatic, “slabbed” or graded coins.

American Semi-Numismatic and Numismatic Coins

The term semi-numismatic gold usually refers to circulated United States gold coins struck prior to 1934 that carry a relatively small premium over the spot price. American semi-numismatic and numismatic coins are no longer in production; therefore have higher “premiums” (which includes dealer premiums and commissions, all shipping costs and insurance) when compared to bullion coins and bars. Semi-numismatic coins in higher uncirculated grades are called numismatic, “slabbed” or graded coins. Typical grades are XF, AU and uncirculated MS-60s, MS-61s and MS-62s.

If a client does decide to buy American semi-numismatic coins, it is better to purchase those with fine or almost uncirculated lower grades of uncirculated coins (MS60-MS62) or the circulated grades of XF or AU, not numismatic grades. Clients should expect to pay a “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) of 9% to 15% over the coin’s gold content value. The following table includes some NNA recommended American semi-numismatic coins.

COIN	GOLD CONTENT	YEAR MINTED
\$20 St Gaudens	.9675 oz.	1907-1933
\$20 Liberty	.9675 oz.	1849-1907
\$10 Liberty	.4838 oz.	1838-1907
\$10 Indian	.4838.oz	1907-1933

American Numismatic Coins

For investment purposes, NNA does not recommend American numismatic coins PERIOD. Over the past ten years, the appreciation rate of numismatic coins has been less than **half** the appreciation rate of gold bullion coins. Even worse, the “premiums” (which include dealer premiums and commissions, all shipping costs and insurance) charged by many firms are so high, the investor is never able to recover the initial investment even with gold’s rising price. The most common of these numismatic coins are the \$5 Liberty, \$5 Indian, \$3 Indian, \$2.5 Liberty, \$2.5 Indian, \$1 Liberty type 1, \$1 Liberty Type 2 and \$1 Liberty Type 3. NNA believes the low appreciation rates and the high “premium” (which includes dealer premiums and commissions, all shipping costs and insurance) on these eight coins make them unattractive for purchase.

Foreign Semi-Numismatic Coins

Due to the small collector's value of foreign semi-numismatic coins and the limited supply (as they are no longer being produced), the "premium" (which includes dealer premiums and commissions, all shipping costs and insurance) for these coins is higher than those for bullion coins and bars. Therefore, they cost more per ounce to purchase. On the positive side, they do bring a larger "premium" which includes dealer premiums and commissions, all shipping costs and insurance) when the coin is liquidated. Below is a list of gold coins to consider for purchase.

COIN	GOLD CONTENT	YEAR MINTED
French 20 Franc	.1867 oz.	1853-1914
British 1 pound Sovereign	.2354 oz.	1871-1968
Netherlands 10 Guilder	.1947 oz.	1875-1933
Swiss 20 Franc	.1867 oz.	1883-1949
Austrian 100 Corona	.9802 oz.	1908-1915
Austrian 4 Ducat	.4438 oz.	1915 only
Austrian 1 Ducat	.1109 oz.	1915 only
Denmark 20 Kroner	.2592 oz.	1873-1912
Denmark 10 Kroner	.1296 oz.	1908-1909
German 20 Mark	.2305 oz.	1871-1914
Mexican 50 Peso	1.2057 oz.	1921-1947

While there are many more foreign semi-numismatic coins, this is the list of the coins NNA feels are the best and most recognized worldwide. These coins are durable, 22 karat gold and liquid anywhere in the world. "Premiums" (including dealer premiums, commissions, all shipping costs and insurance) should be between 4% and 12%. These percentages will vary depending on the rarity and availability of that particular coin. The number of semi-numismatic coins on the market at any given time is not steady since they are no longer being produced. Some firms selling gold have these coins graded by the Profession Coin Grading Service (PCGS) or Numismatic Guaranty Corporation (NGC) and then sell the coins as rare numismatic coins with very high premiums. This is a very common trap but should be avoided.

FUNGIBLE GOLD CERTIFICATES

Fungible gold certificates allow investors to own physical gold without taking actual possession of the gold. In this program, the investor pays 2%-3% premiums over spot gold price to buy into an inventory of large gold bars and gold coins. In a fungible gold certificate program, banks issue gold certificates for gold which is unallocated. Additionally, when the investor liquidates he/she receives the current spot price of gold.

One program disadvantage is if an investor decides he wants physical delivery of his gold purchase, he will pay the current premium associated with that gold coin or bar. Another potential disadvantage is the program is not open everyday.

This is a great program for investors moving in and out of gold during a calendar year. Fungible gold certificates reduce storage concerns and reduce cost of shipping gold when an investor is ready to sell. This program does not charge for storage or insurance. If an investor liquidates and then buys gold back within one year, he will only pay 1% on the amount reinvested up to the amount sold that calendar year. For example, a client buys 100 ounces of gold. Later that year, he decides to sell his 100 ounces. Lastly in this calendar year, the client decides to reinvest and purchase 120 ounces of gold. He will be charged only a 1% premium on 100 ounces and 2%-3% on the remaining 20 ounces.

In Summary

Bullion:

Coins

- + "premium" currently 3%-7% over spot price for 1 troy ounce coin products
- + Legal tender
- + Backed by the producing government for content and purity
- + Easy to store and transport
- + Globally recognized → highly liquid
- + Currently allowed in U.S. self directed IRA's (Kruggerands excluded)
- + Considered as having physical "beauty"
- + Easy to store and transport
- Fractional sizes have higher premiums. "The smaller the coin, the larger the premium"

Bars

- + "premium" currently 2.25% -4.75% over spot
- + easy to store and transport
- + Currently allowed in U.S. self directed IRA's
- + Easy to identify due to identifying information stamped on each bar
- + "the larger the coin, the lower the premium" if purchasing as a store of value
- "the larger the coin, the lower the premium" if purchasing for barter potential
- Not legal tender

Foreign Semi-Numismatic Coins:

- + premium currently 4%-12% over spot price
- + Globally recognized → highly liquid
- + Most Fractional coins are at low premiums
- + Coin premiums could increase because coins due to limited supply
- + Global demand could increase coin premiums
- + Easy to store and transport
- Not Legal Tender
- NOT currently allowed in U.S. self directed IRA's

American Semi-Numismatic and Numismatic Coins

- + Legal tender
- + Easy to store and transport
- High premiums currently 8%-15% over spot
- NOT currently allowed in U.S. self directed IRA's
- Liquid with larger "bid-ask" spreads in wholesale market

Fungible Gold Certificates

- + Low premium currently 2%-3% over spot
- + No storage fees
- + Insurance provided while in storage
- + High Liquidity and low spreads
- Not legal tender
- NOT currently allowed in U.S. self directed IRA's
- Physical delivery WILL HAVE current premiums

For your convenience, I have also included a summary of current U.S. Internal Revenue Service (IRS) guidelines for including precious metals in the IRA. (copied from www.iracentral.com)

Note: these guidelines are subject to change.

What Precious metals can be purchased

Only gold coins that are legal tender with 0.9999 fineness are allowed in an IRA, with the exception of the American Gold Eagle, which has a fineness of 0.9167% fineness. Other gold coins allowed to be put into an IRA include the American Buffalo, Canadian Gold Maple Leaf, and Australian Gold Nugget. The popular South African Krugerrand is not permitted to be included in an American IRA because it's fineness is only 0.9167%

The regulations that govern gold contributions to IRAs call for a minimum purity of only 0.995%, most gold bullion bars are 0.9999% pure.

Below is a list of precious metals that are acceptable for being held in a IRA account:

Gold

- American Eagle coins¹
- Australian Kangaroo/Nugget coins
- Austrian Philharmonic coins
- Canadian Maple Leaf coins
- Credit Suisse - Pamp Suisse Bars .999
- U.S. Buffalo Gold Uncirculated coins (no Proofs)
- Bars and rounds manufactured by a NYMEX or COMEX approved refiner/assayer or national government mint and meeting minimum fineness requirements²

Silver

- American Eagle coins¹
- Australian Kookaburra coins
- Canadian Maple Leaf coins
- Mexican Libertad coins
- Bars and rounds manufactured by a NYMEX or COMEX approved refiner/assayer or national government mint and meeting minimum fineness requirements²

Platinum

- American Eagle coins¹
- Australian Koala coins
- Canadian Maple Leaf coins
- Isle of Man Noble coins
- Bars and rounds manufactured by a NYMEX or COMEX approved refiner/assayer or national government mint and meeting minimum fineness requirements²

Palladium

- Bars and rounds manufactured by a NYMEX or COMEX approved refiner/assayer or national government mint and meeting minimum fineness requirements²

Minimum Fineness Required:

- Gold .995
- Silver .999
- Platinum .9995
- Palladium .9995

Examples of <i>unacceptable</i> precious metals products		
Austrian Corona and Ducat	Dutch Guilder	Mexican Peso and Ounza
Belgian Franc	French Franc	South African Krugerrand
British Sovereign and Britannia	German Mark	Swiss Franc
Chilean Peso	Hungarian Korona	Rare/Collectable Coins
Columbian Peso	Italian Lira	

¹"Slabbed" coins are not permissible.

²Gold, Silver, Platinum, & Palladium bars must be fabricated by NYMEX or COMEX approved refiners or national government mint.