

Nervous investors reaching for gold

Advisers have many options when buying the metal for clients

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For market-tossed investors seeking refuge in gold, there are many ways to invest in the illustrious nugget — ranging from purchasing physical gold to investing in futures contracts or other securities.

For psychological reasons, many investors these days are opting to take possession of gold bars and coins.

"I think it gives them comfort — it's a physical asset, and it's readily exchangeable for any goods or services, or cash," said Stephen Gray, chief operating officer of Levitt Capital Management LLC in Boca Raton, Fla. "It's something they can hold on to" when they see their wealth evaporating in the equity markets, he said.

Advisers have several options when it comes to buying gold for their clients.

First, there are collectible — or "proof" — coins. These are uncirculated coins with special dyes and packaging that sell at a fixed price. Generally, they sell at a premium to gold prices since there's only a limited number produced.

In the United States, the American Eagle gold proof coins can be purchased directly from the U.S. Mint.

Then there are gold bullion coins. These coins, which have enjoyed the biggest surge in demand in the past year, may be purchased through a network of authorized dealers, which includes brokerage companies, precious-metals firms, coin dealers and certain banks.

Many countries mint these coins, with the most popular designs being the U.S. American Eagle, Canada's Maple Leaf, Australia's Kangaroo, Austria's Philharmonic, China's Panda and South Africa's Krugerrand.

Advisers can find a list of authorized retailers and dealers on the U.S. Mint site.

BUYING BULLION



Gold collectibles: American Eagle gold proof coins from the U.S. Mint.

Generally speaking, bullion coins are cheaper than proof coins, and their prices fluctuate with the price of gold and with supply/demand fundamentals.

Over the past year, demand has spiked. In February, the U.S. Mint sold 113,500 one-ounce Eagle bullion coins, up from 92,000 in January and from 24,000 a year earlier.

"They've increased their production, but the demand is still outstripping supply," said Glen Kirsch, executive vice president at Asset Strategies International Inc., a Rockville Md., company that specializes in precious metals and is a U.S. Mint authorized dealer.

As a result, investors can expect to pay premiums of 10% to 20% above spot gold for bullion coins, depending on the country, said John March, chief technical analyst at Santa Monica, Calif.-based Superior Gold Group, a precious-metals brokerage firm.

Then there are gold bars, which can be snapped up in sizes ranging from a single ounce to 400 ounces, and can be purchased from a refinery or their distributors.

Some of the better-known re-fineries include Johnson Matthey PLC in London, PAMP in Castel San Pietro, Switzerland, Perth Mint in Australia and Rand Refinery in Germiston, South Africa. Many of these refineries make lists of authorized distributors available on their websites.

Some financial advisers favor coins over bars, noting that coins are smaller and easier to sell than bars. "If you have a 1-kilogram bar, you can't shave off some of it — you have to sell the whole bar," said Mr. March.

Also, bars can be tampered with. "Someone could take a 100-ounce bar, and drill a hole in it, take out some gold and put something else in there and seal it over" without the investor knowing it, said Mr. Kirsch. In the gold rush of the early 1980s, there were reports of warehouses filled with gold-painted bricks that were being passed off as gold bars.

However, some advisers, such as Mr. Gray, prefer bars over coins for price reasons. "With coins, there are a lot of collectors out there in addition to investors, so the supply can dry up rather quickly," he said. As a result, investors will pay more per ounce for coins than bars, Mr. Gray said.

STORING GOLD

Either way, finding a reputable distributor or retailer is critical when buying gold. "If it's Sam & Bill's gold-melting shop, you're not sure" what you're getting, said Mr. March.

Storing gold also requires a little know-how.

For investors jittery about storing gold in their homes or buried in their backyards, there is always the option of investing indirectly in gold through certificate programs, depository accounts, exchange traded funds, mining stocks and gold futures.

Mr. Kirsch, for example, is bullish on the Perth Mint certificate program, which gives investors a certificate confirming their ownership of gold that is stored at the mint, which is owned by the state of Western Australia. That means the state government guarantees the program, he said.

Depository and pooled accounts work in a similar fashion, with the investor's account rising and falling with the value of gold. However, experts caution potential investors to do their homework to ensure the broker buying the gold and the entity storing it have solid reputations and good track records, and that the gold actually exists.

Gold ETFs are also an option. The New York Stock Exchange's offering, which trades under the symbol GLD, tracks the price of gold bullion. "It's very easy, very quick, very secure, and it will move with the price of gold," said Mark Johnson, manager of the USAA Precious Metals and Minerals Fund in San Antonio.

Then there are gold-mining stocks and mutual funds. On the upside, investors in mining stocks don't face storage fees or theft concerns, and their capital gains rate is only 15%, far lower than the 28% rate on ETFs and gold bullion, Mr. Johnson noted.

Also, mining stocks use leverage and pay a dividend, which means investors could potentially get a bigger bang for their buck than by owning gold. On the downside, however, investors are placing a bet on a mining company's ability to find gold and get it out of the ground in a profitable way.

"I make a strong distinction between gold and gold securities," Mr. Kirsch said. "Securities are ultimately a piece of paper, and if the mine goes belly up, they're not going to send you a gold bar in the mail."

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