INTRODUCTION TO INVESTING IN GOLD

A WEALTH PROTECTION STRATEGY

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To begin a discussion on portfolio diversification with Gold, let's start by examining the reasons investors purchase Gold in the first place. These reasons are not in silos and often intersect, but serve to give us a general understanding of the Gold investor's mindset.

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Why invest in Gold?

- Wealth protection: Gold is used as a portfolio diversification strategy to mitigate risks, reduce volatility and provide insurance against tail-risks.
- Wealth accumulation: Although more often a strategy associated with Silver, the investor's long term view is that prices will go up and there are profits to be made.
- Currency collapse: There are those investors who are certain the fiat monetary systems will collapse and that real Gold and Silver will be needed to purchase goods and services. There is a significantly larger base of investors who do not feel this will actually occur, yet buy Gold as an insurance policy.
- Collectors: Some investors prefer coins that contain a "collectible value" over and above the bullion content. The bullion content provides a valuation floor based on spot prices. The collectible value is determined by supply and demand forces.
    - A coin is currency and is minted by a government mint. Most coins begin as a bullion item, meaning the value of the coin is only the value of the metal content and nothing more. However, over time, some coins will also take on "collectible" value over and above the metal content. This is often referred to as numismatics or semi-numismatics.
    - Common Gold coins include the American Eagle, American Buffalo, Canadian Maple Leaf, Austrian Philharmonic and the South African Krugerrand, which was the first modern Gold coin.
- New Investors: This category is especially important in the U.S. because there are so many people investigating Gold for the first time. These new investors have read about it and heard about it but do not know enough to have formulated a reason to buy.

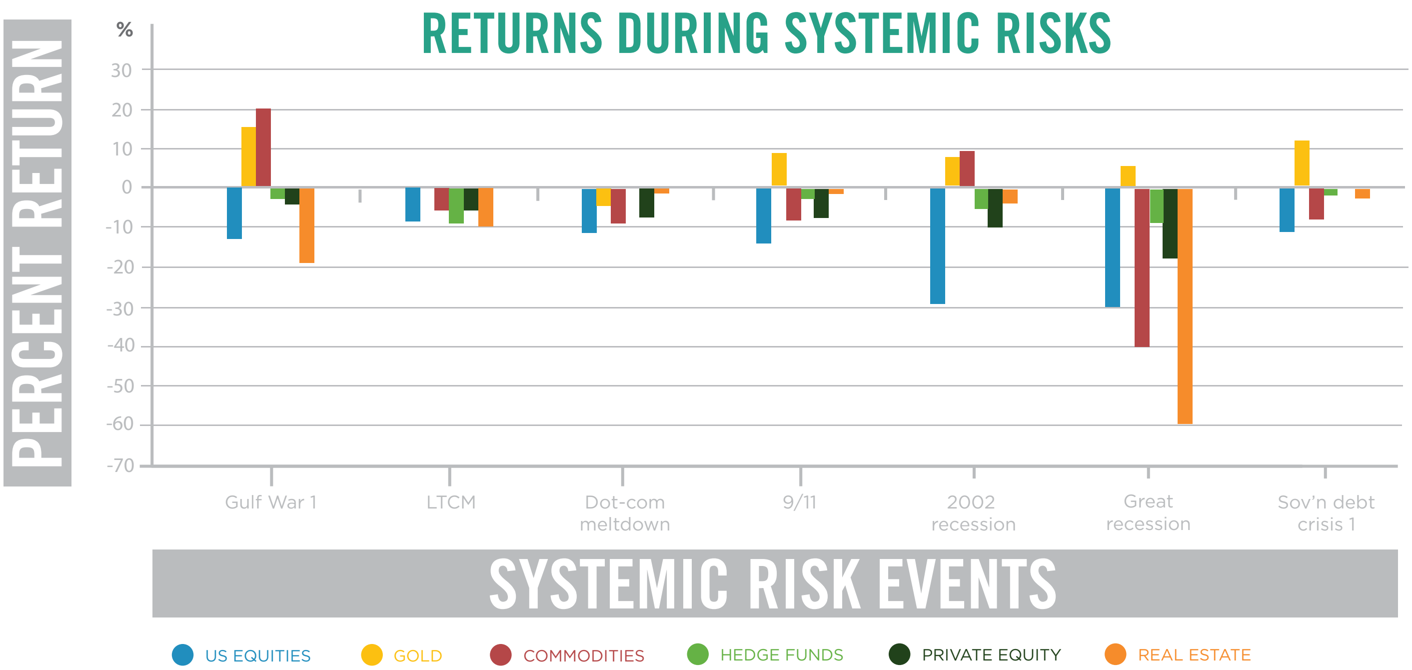
Financial advisors generally view Gold as a wealth protection strategy. Gold provides stability for a portfolio, much like an insurance policy, since its low correlation to the equity markets makes it an excellent diversification asset to help mitigate risks. Advisors prefer alternative assets, like Gold, that have a low correlation to stocks and are highly liquid (in forms smaller than kilo Gold bars).

Chart 1: From January 1990 through March 2014, only Gold displayed a low correlation to stocks:

Correlations based on monthly returns (quarterly for private equity due to data availability) between January 1990 and March 2014

Reference Notes are listed at the end of this article | Source: Bloomberg, World Gold Council

Chart 2: Gold has consistently outperformed stocks as well as other alternatives during tail-risk events.



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What types of physical Gold?

Physical Gold can be broadly classified into three categories:

- Bullion: The value of the coin, bar or round is only equal to the Gold content. There is no collectible value.
    - Coins are actual currency with a face value produced by a government mint. Bars and rounds have no face value and are manufactured at private mints. Coins such as the 1 oz Gold American Eagle, 1 oz Gold Canadian Maple Leaf or 1 oz Gold South African Krugerrand are considered a bullion item.
- Numismatic: The collectible value of the coin exceeds the value of the metal content. Numismatic items are characterized by a very limited supply because of age, mintage, condition and/or rarity. A good example of a numismatic item would be that recently, a rare nickel sold for $5 million.
- Semi-numismatic: There is a collectible value, but it does not exceed the value of the metal content. A good example would be most pre-33 Gold Coins.

What forms of Gold ownership?

There are multiple ways to invest in Gold other than the physical coin, bar or round. Mining stocks, futures contracts, jewelry and exchange-traded funds (ETFs) are other choices. The following is a quick review of each option and a comparison of physical vs. ETF.

Mining stocks are often referred to as a leveraged play on Gold. Mining stock performance may have a very low correlation to Gold spot prices because the investment is not just in Gold, but is a bet on the company management, operational costs, geopolitical environments and other economic forces such as labor disputes. Luck can also be a factor, as mines can underperform or over-perform initial projections.

Futures contracts are best left for professional traders. Futures contracts are about making money by betting on market volatility. Money can be made betting Gold to go up or go down.

Jewelry is the most popular form of Gold investment. It is by far the most popular form of Gold investment in India, the world's second leading purchasers of Gold (China is number one and together they represent more than 50 percent of the world Gold demand). On an annual basis, more than 50 percent of the Gold purchased worldwide is in the form of jewelry. Jewelry will have higher premiums due to manufacturing costs and buy back prices are lower because the jewelry must be melted.

Gold ETFs have been around for about 10 years. During that time, there has been an 8:1 preference for physical Gold. ETFs best serve the "trading" community as they allow for multiple quick trades within the same day. ETFs are favored by traders and physical Gold has been favored by investors (who have a longer term view of two years or more).

Chart 3: Comparison of Gold ETFs vs. Physical Bars & Coins

INVESTMENT ATTRIBUTES OF GOLD	Physical Gold	Physical Gold and Gold ETFs	Gold ETFs
Easily passed down to the next generation	■		
Hedge against inflation		■	
Portfolio balance, non-correlated asset		■	
Tangible asset with recognized intrinsic value	■		
Hedge against loss of purchasing power		■	
Potential for capital appreciation		■	
Asset value available for portfolio leverage			■
Quick liquidity to offset other portfolio losses			■

What are the reporting requirements and tax implications of physical Gold?

Financial advisors are often surprised to learn that there are no reporting requirements for the purchase of Gold or other Precious Metals, unless there is a cash transaction over $10,000. Bank wires, personal and business checks are not considered cash transactions. When the time comes to sell, there are reporting requirements on some foreign Gold coins and Gold bars totaling more than 32.15 ounces (one kilo).

Gold is taxed as a collectible and not as capital gains. You pay tax at the same rate as your ordinary income tax up to a maximum of 28 percent. Gold ETFs are taxed the same as physical Gold except there is no need to self-report as the ETF will do that for you. Physical Gold does require you to self-report any gains or losses.

Key takeaways:

- Gold is a wealth protection strategy that will provide stability and diversification to an investment portfolio.
- Gold is an insurance policy that helps manage risks, especially during a tail-risk (Black Swan) event.
- There are no reporting requirements when purchasing Gold with a bank wire or personal check, which sets up an easy transfer of wealth.
- ETFs are the preferred form of Gold ownership by traders while physical Gold is the preferred form of ownership for investors.

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Peter LaTona is the Director of Business Development for APMEX. LaTona has been with APMEX, Inc since 2009. Under his leadership, the APMEX Trading Department was transformed into the Sales Department that exists today. Previously, sales orders by telephone were discouraged. Today, the APMEX Sales Department focuses on educating our clients, providing them with updated market information, extensive product knowledge and a VIP level of concierge–like service. APMEX's highly trained Account Managers are non-commissioned salaried employees, who are here to help customers make informed decisions. LaTona was also instrumental in the creation and growth of the APMEX Precious Metals IRA business. In his current role, LaTona is responsible for relationships with financial advisors and family offices, as well as developing new sales channels.

Prior to joining APMEX Inc, LaTona enjoyed a 27 year sales management career with AT&T. His career began in Miami, Florida and culminated in Oklahoma City as Director of Sales Development. Upon his retirement from AT&T in 2006, LaTona created a sales consulting business and APMEX, Inc became one of his first clients.

REFERENCES:

Chart 1: From January 1990 through March 2014, only Gold displayed a low correlation to stocks:

Correlations based on monthly returns (quarterly for private equity due to data availability) between January 1990 and March 2014. US equity indices include MSCI U.S., Russell small cap, Russell mid cap, MSCI EAFE and MSCI emerging markets. HFRI used as a proxy for hedge funds. Cambridge Associate index represents private equity. U.S. REITs stand for real estate, S&P Goldman Sachs Commodity Index for commodities and London PM fix for gold. All returns based in U.S. dollars.

Chart 2: Gold has consistently outperformed stocks as well as other alternatives during tail-risk events.

These results display the optimal portfolios that were found for the Gold: alternative investment, foundation asset report published by the World Gold Council in October 2011.

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