

An Analysis of Gold Mining Shares, Gold ETFs and Physical Gold

By Mike Garofalo, *President*
Citadel Global Depository Services, Inc.

Gold has been considered as a store of value for thousands of years. Wars have been fought over it and kingdoms have fallen because of a lust for it. Today, however, gold is seen as an investment. There are numerous ways to invest in gold and all of them have benefits and drawbacks depending on the investor, their timeframe, and their point of view. As you know, not all investments are appropriate for all investors.

Let's explore each of the 3 most popular ways of owning gold and see which, if any, may be appropriate for you.

Mining Shares

Shares of well-known mining companies are believed to be the most conservative method of investing in gold. Stocks such as Newmont Mining Corp, Barrick Gold Corp and GoldCorp are well traded and price indications are very easy to obtain.

Advantages

The advantages of owning well-known mining shares are:

- Easily purchased or sold through any broker or online,
- Price indications are everywhere,
- Shares can be held electronically so that they can be traded easily,
- Settlement is quick,
- Stocks value can easily be tracked with your other stocks, bonds and mutual funds,
- Gold mining stocks may be purchased on margin, unlike physical gold,
- You can purchase gold mining companies in specific countries to avoid certain geographical risks.

Disadvantages

The disadvantages of owning well-known mining shares are:

- These shares are correlated to all other stocks in your portfolio,
- They offer little portfolio diversification,
- Value can be based on management activities, rather than the value of the gold mined,

- Weather or other environmental conditions can affect the stock value,
- There are exploration risks with mines,
- Mining accidents can affect stock value,
- A stock of any company can go down to zero – there is no inherent value in the piece of paper,
- Stocks can be affected by analysts' expectations,
- Stocks can be affected by general market movements,
- It is a registered investment – the sale is reportable by company to the IRS.

ETFs

Exchange Traded Funds (ETFs) have been in existence for more than 10 years. They are a Wall Street investment vehicle with an underlying investment in physical gold. They provide a convenient way to invest in gold. Probably the most well-known gold ETF is GLD, the undisputed leader in precious metal gold ETFs.

Advantages

The advantages of owning gold ETFs are:

- They are easily purchased or sold through any broker or online trading site,
- Price indications of value are available everywhere,
- Excellent for traders who like to take advantage of sudden and rapid market price movements as trading is orderly, regulated and fast,
- Settlement of funds is quick,
- An ETFs' value can easily be tracked with your other stocks, bonds and mutual funds,
- ETFs are excellent for investors with short term time horizons,
- Gold ETFs may be purchased on margin, unlike physical gold,
- You can purchase ETFs that invest in certain geographical gold investments, thereby avoiding certain geographical country risks,
- There is a strong market for ETFs- over \$80 Billion invested in gold ETFs over their 11-year existence.

Disadvantages

The disadvantages of owning ETFs are:

- There is no inherent value in the ETF – it is a promise of ownership printed on a piece of paper,
- You can exchange your paper for physical 400 ounce gold bars, if you have a minimum of 100,000 shares of GLD (roughly equivalent to \$13 Million Dollars),
- A 400 ounce gold bar is large, heavy and inconvenient to trade,
- ETFs offer little portfolio diversification, as they are paper investments like stocks and bonds and are subject to market fluctuations,
- The value can, in part, be based on management activities, rather than the price movements of gold,

- An ETF's value can, theoretically, go to zero, since it is only paper.
- The custodianship of actual gold held is not required to be audited, so you don't know exactly how much gold is backing the ETF.
- The price of ETFs, like stocks, can be affected by analysts' expectations,
- ETFs, since they are part of the stock market, their price can be affected by general market movements.
- There are management fees in all gold ETFs,
- It is a registered investment – so your sale of an ETF is reportable by company to IRS.

Physical Gold

Physical gold coins, rounds and bars require some safekeeping and accurate values may not be immediately known for rarer items or those with a collectable value as well. Gold like other valuables requires being safeguarded and must only be purchased through reputable sources. Some of the most popular physical gold coins are Gold American Eagle bullion coins, Canadian Maple Leaf bullion coins and South African Krugerrand bullion coins.

Advantages

The advantages of owning physical gold coins, rounds or bars are:

- Easily purchased or sold through dealers, anywhere in the world,
- Always has an inherent value due to the presence of the physical precious metal,
- Recognized as a store of value for more than 5,000 years,
- Price indications of spot are published everywhere,
- Private investment – no one knows that you have it.
- Very easy transfer of wealth from generation to generation,
- No registration of assets,
- The least-correlated asset in relation to stocks, bonds and mutual funds,
- Great liquidity with very small buy/sell spreads,
- You own the physical gold rather than a paper “promise to pay,”
- Central banks, the largest buyers of gold in the world, are buying physical gold, not paper gold,
- Massive market with more than \$270 Billion invested in physical gold over the last 10 years.

Disadvantages

The disadvantages of owning physical gold coins, rounds and bars are:

- They must be stored and protected at all times.
- Difficult to obtain insurance on physical gold,
- Investors pay a premium over spot to acquire physical gold,
- Must be purchased from a reputable vendor to insure both authenticity and quality.

About Mike Garofalo, President, Citadel Global Depository Services, Inc.

Mike Garofalo is a 35 year veteran precious metals trader and professional numismatist. Over his career, he has transacted or supervised more than \$2 billion in sales of Precious Metals and numismatic items. Mr. Garofalo began his career with APMEX in June of 2008. He was named Vice President of the company in 2009 and contributed to many aspects of APMEX operations including executive management, new business development, product management, and marketing.

He successfully spearheaded the effort to permit APMEX to become one of 13 companies world-wide that are Authorized Purchasers from the United States Mint. He also led the effort to expand APMEX's business internationally.

In 2011, APMEX created a wholly-owned subsidiary called *Citadel Global Depository Services, Inc.*, and the purpose of Citadel was to offer self-directed investors a secure storage option which was provided through an exclusive arrangement with *Brinks*. Mr. Garofalo was named President of Citadel in 2011 and continues in that role to this day. Citadel was launched in March of 2012 and today is one of the premiere storage service providers in the United States.

Prior to joining APMEX, Mr. Garofalo was the President of *Liberty Numismatics*, a national numismatic firm specializing in classic United States commemorative coinage. He was retained to acquire and then to liquidate the "*Oregon Trail Collection*" in 2006, the most extensive collection of coins and memorabilia relating to the Oregon Trail commemorative half dollar. Amassed over 30 years, this collection of several thousand items included rare artifacts from Oregon Trail coin designers and internationally-famous sculptors James Earle Fraser and his wife, noted sculptor Laura Gardin Fraser.

He also served for many years as Editor of the *Commemorative Trail*, an award-winning journal published by the Society for United States Commemorative Coins. Mr. Garofalo also served one term as that national organization's President and one term as Vice President.

Mr. Garofalo is a respected author, having published numerous articles and he is an expert in a number of areas of numismatics. He is a lifetime member of the American Numismatic Association (ANA), and numerous other numismatic organizations. He is also a member of the International Precious Metals Institute, Inc. (IPMI). He also serves as the Oklahoma Representative on the State Affairs Committee for the Industry Council for Tangible Assets (ICTA), the lobbying arm of the precious metals industry.,