

The Rationale for Purchasing Physical Gold and Silver

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There are many reasons why an investor should hold a portion of their assets in physical Precious Metals. The reasons are more rational than conventional wisdom would have you believe. Gold and Silver are important components of a well-diversified investment portfolio. This whitepaper will paint a broad view of Gold and Silver ownership and then narrow its focus to the rationale of owning the physical assets as opposed to holding paper instruments, such as ETFs.

Gold

The recent Great Recession of 2008 revealed just how ineffective traditional diversification strategies can be under market stress. Not only did stocks and bonds fall, the so-called “alternative investments” meant to balance and protect the portfolio — hedge funds, real estate, oil — all fell hard too. However, investors who held Gold in their portfolios saw it carry positive returns, even through the economic downturn.¹

Gold is a non-correlated asset in which you may take a physical position. In fact, a ten-year study of Gold’s performance in a variety of financial and macroeconomic environments found almost no correlation to U.S. equities and Treasury bills and a very low correlation to government and corporate bonds, world equities, and REITs. Even among other basic commodities, only Silver showed any correlation to Gold.

In many long-term periods, Gold’s correlation to the S&P 500 proved to be lower than that of other alternative investments such as real estate and oil. In fact, Gold prices also performed better than did those investments.

In the chart below, the column “*March 2000-2013*” examines the correlation over the last 13 years; the middle column begins with the financial collapse to the present time; the right column examines the correlation during the inflationary times of the 1970s and 1980s. As you can see, Gold is the most non-correlated asset regardless of the time period.

Correlation	March 2000-2013	May 2007- March 2013	1970-1985
S&P 500 - REIT	0.59	0.85	0.83
S&P 500 - GOLD	0.26	0.28	0.58
S&P 500 - OIL	0.42	0.62	0.66

Precious Metals are borderless currencies. An ounce of Gold is the same ounce of Gold anywhere in the world. Gold gets its value from universally accepted laws of supply and demand, not from government promises, regulations or laws. As a result, Gold and Silver have typically held their value in times of war, national disaster and economic crisis.³

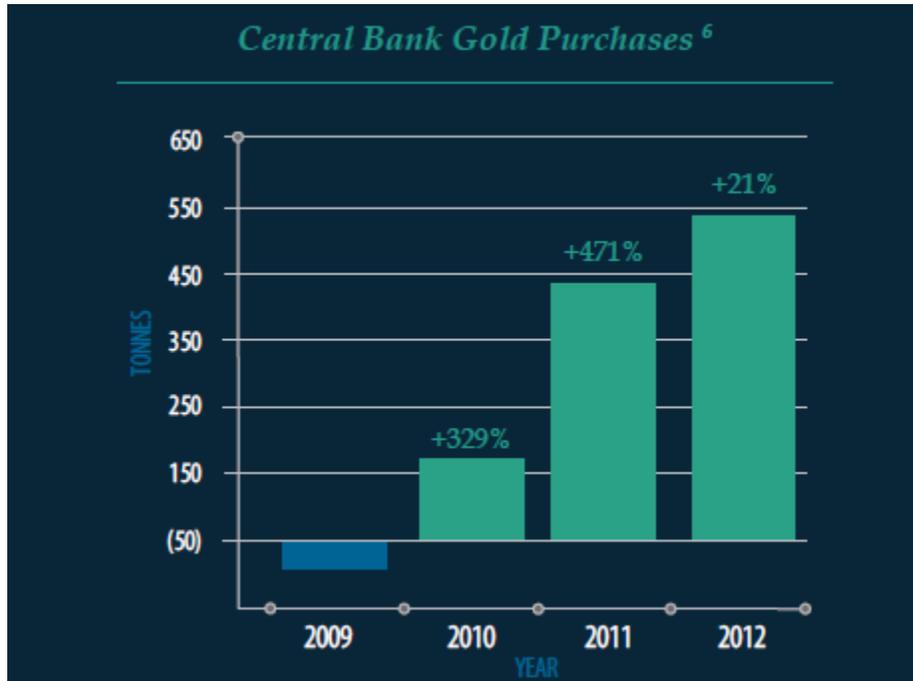
The chart below demonstrates that Gold prices also fared very well when compared with the S&P 500, oil and real estate. Although the primary function of Gold is to provide a simple, highly liquid and non-correlated asset, many investors have certainly not ignored the price appreciation.



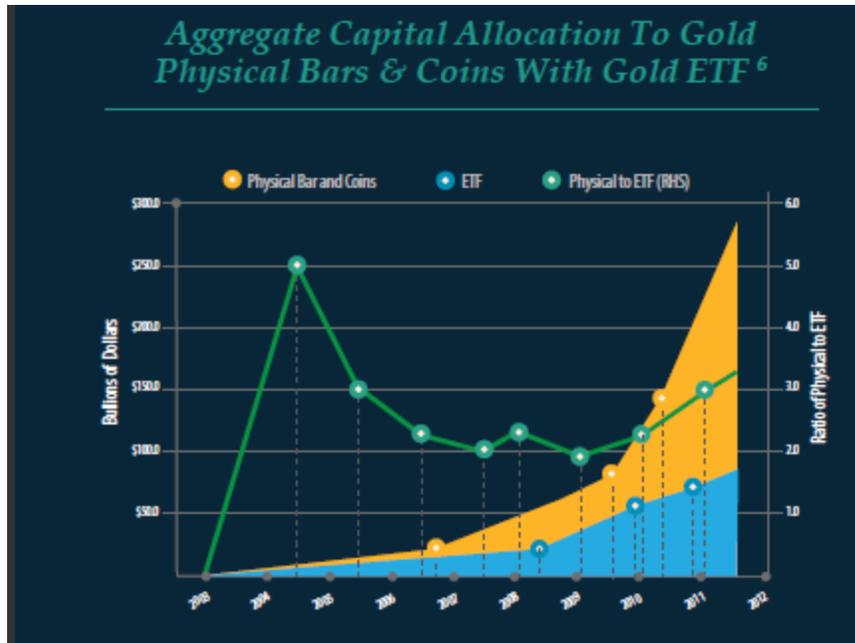
Gold has proven to be an effective hedge against inflation. While money supplies and GDPs expand with government policies, the world supply of Gold is relatively finite. That's why the relative purchasing power of Gold has typically increased or remained stable during times of inflation. There are many examples of how Gold maintains purchasing power, but the example of a men's suit is easy to understand. In the 1800s, a \$20 Gold coin, which contains 0.9675 oz of pure Gold, would have purchased a nice gentleman's suit. In 2013, with the price of Gold at \$1300, you could buy a nice suit, plus a shirt and a tie to match. Buying Gold is like buying an insurance policy for purchasing power.

Despite the almost universal disappearance of the Gold Standard, central banks around the world still accumulate Gold to ensure the safety and security of their economies. Though they were net sellers at the height of the financial crisis in 2009, central banks reversed course as soon as the global economy inched toward recovery. And they continue to accumulate Gold today. As you can see from the chart below, central banks accumulated nearly 550 metric tonnes of Gold in 2012. That's more than 20 percent of the total output from Gold mines around the world.⁵

The chart below displays the Gold Purchases, in tonnes, by central banks during 2009 (in which they were net sellers) to 2012 (in which they were net buyers).



Investors use both ETFs and physical products as a means to invest in Gold and Silver. The ETF is advantageous for the short-term trader and the physical is more preferred by the long-term investor. The Gold ETF has recently celebrated its 10th anniversary and according to the World Gold Council, the aggregate capital allocated to the asset at the end of 2012 was about \$83 billion. In this same 10 year period, investors have aggregate capital allocation of over \$270 billion. This would indicate a more than three to one preference for physical Gold.



The table below matches investor's objectives, economic expectations and time horizons to a preference toward physical Gold or toward a Gold ETF.

Table Of Investment Attributes Aligned With The Associated Form Of The Gold Position

Investment Attributes of Gold	Physical Gold	Physical Gold & Gold ETFs	Gold ETFs
Easily passed down to 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			●
Tangible asset, just in case of emergency	●		

We would like to address two common misconceptions about physical gold ownership:

1) **Misconception #1:**

a. **Storing physical Gold & Silver can be expensive.**

There are a wide variety of storage solutions available in the marketplace today, and some can offer physical Gold storage on a similar cost basis as the management fee of a Gold ETF. The purchaser is not required to ever take ownership. Their products can be shipped and stored in a fully segregated and fully allocated storage facility.

When the assets are to be sold, the owner may sell their items having never taken possession. However, if at any time they wish to take possession of their products, they can withdraw the same products they stored in any increments available. With a Gold ETF, you need to own enough shares to redeem over several million dollars at a time and the only product available is 400 oz gold bars.

2) **Misconception #2:**

a. **Gold and Silver are not liquid assets.**

Although physical Gold and Silver are not as quickly liquidated as an ETF, they are still highly liquid. Certain Precious Metal dealers allow prices to be locked in on physical Gold and Silver products with a simple phone call, and processing of payments often takes place shortly after.

Silver

Likewise, Silver has a long history as a store of value. Silver has been considered a precious element for nearly 6,000 years. It was first used as a currency in 700 B.C. and has had a role as a trading metal in nearly every ancient and modern culture. From the drachma of the ancient Greeks, which contained 1/8 oz Silver, to the Roman denarius and the British pound sterling, which designated a specific weight amount of the element, Silver has long held a special place as a store of value.

Today, its intrinsic value persists. It is considered a secure and affordable investment and has earned a place in the portfolios of many different types of investors for that very reason.⁷

For investors, silver is an attractive investment because it diversifies investment assets, has shown competitive growth in recent years, and preserves wealth against the ravages of inflation. Also, because it has an inherent value that is immutable and permanent, it provides a stability that stocks and other funds cannot deliver. Accordingly, many experts suggest that investors should include it among their investment assets.

When you compare Silver prices to dollar values, an even more compelling picture emerges. Take, for example, the years between 1971 and 1981, in which the U.S. dollar lost more than half of its value, while Silver prices rose nearly five times. The chart below displays Silver's historical price movements between 2000 and 2012.⁸

Although Silver is scarce compared to many other elements and resources, it is the most plentiful and least expensive of those elements that have earned Precious Metal status. Precious Metals are valued

for their beauty and relative scarcity in the Earth's crust. Other unique qualities include their plasticity, high resistance to corrosion, reflectiveness and conductivity.

Historical Silver Prices 2000-2012

Year	High	Low	Average
2012	37.23	26.67	31.15
2011	48.70	26.16	35.11
2010	30.70	15.14	20.16
2009	19.18	10.51	14.66
2008	20.92	8.88	15.02
2007	15.82	11.67	13.39
2006	14.94	8.83	11.57
2005	9.23	6.39	7.22
2004	8.29	5.50	6.65
2003	5.97	4.24	4.85
2002	5.10	4.24	4.60
2001	4.82	4.07	4.37
2000	5.45	4.57	4.95

Prices in US Dollars

Source: The Silver Institute

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5. <http://numbersleuth.org/worlds-gold/>
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7. The Silver Institute – www.silverinstitute.org
8. The Silver Institute: *Ibid*

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*. This arrangement combined high-security storage with state of the art technology and extremely competitive rates. 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.

Mr. Garofalo's professional experience includes:

- Owner and operator 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. The collection also included artifacts from Oregon Trail medal sculptor Avard Fairbanks, among many others.
- 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.
- President of Securities Research Company of Watertown, MA. Founded in 1933, SRC is the nation's oldest stock charting firm and has continuously published the preeminent stock charting books and wall charts since its inception. He was the catalyst in creating an online version of these popular chart products.

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).