Your Simple Guide to Investing in Gold

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Gold can be a very useful way to diversify your portfolio. It’s relatively rare, and its value often doesn’t move in line with other assets such as equities or property.

At *Capital %26 Conflict*, we’ve said that gold provides insurance for your portfolio. Most people should probably allocate around 5%-15% of their portfolios to gold or gold-related investments.

So the follow-up question is: how should you **invest in gold**?

Investing in physical gold

Physical gold is worth holding because it’s a universal finite currency, held by most central banks.

In the same way that the family home should not be regarded as an investment, gold bullion is not an investment per se, rather a form of ‘saving for a rainy day’ or of financial insurance. You shouldn’t trade your gold. You wouldn’t trade an insurance policy, so don’t trade your gold.

Gold is a good way to ensure wealth preservation and for passing wealth from one generation to the next. Once you’ve got some gold bullion in your portfolio, then other investments such as mining shares, investment funds and other more speculative gold investments can be considered.

Modern bullion coins and bars

Modern bullion coins allow investors to own investment-grade gold legal tender coins at a small premium to the spot price of gold as quoted on the markets.

The value of bullion coins and bars is determined almost solely by the price of gold, and thus follows the bullion price.

Gold, silver, and platinum are all available in the form of bullion coins, minted in the UK, the US, in Canada, South Africa, Austria, Australia, China and other countries. Most bullion coins are minted in 1/10oz, 1/4oz, 1/2oz %26 1oz form (and some can be bought in 2oz, 10oz %26 1 kilo). However, one-ounce gold bullion coins such as Krugerrands or Britannias are by far the most popular for both small investors and high-net-worth individuals who see the advantages of owning legal tender bullion coins, either in their possession or in depositories, and recognise the advantages of the divisibility afforded by them.

Buying investment-grade gold bullion for investment is stamp-duty free and tax free (VAT exempt) in the UK and EU due to the EU Gold Directive of 2000.

Semi-numismatic and numismatic gold coins

Numismatic or older and rare coins are bought not solely for their precious metal content, but also for their rarity and their historical, aesthetic appeal. They are leveraged to the gold price, which means that the price of these coins will generally increase faster than the gold price in a bull market and will decrease by more when gold is in a bear market.

The British gold sovereign (originally the one pound coin) is the most widely traded and owned semi-numismatic gold coin in the world. It’s worth noting that British gold sovereigns are also exempt from capital gains tax (CGT).

Gold certificates

The Perth Mint Certificate Programme is the only government backed precious metal certificate programme in the world. It allows you to own investment grade gold which is stored in vaults in the Perth Mint of Western Australia.

The gold is stored in a government mint and insured by Lloyds of London.

That said, this is ‘unallocated gold’. That means that you don’t own actual gold, you own a promise from the Perth Mint to give you back your gold if you want it. (With ‘allocated gold’, you are the legal owner of the gold, and the account provider is the custodian.)

There are no initial or ongoing shipping, insurance, holding or custodial fees and thus it is one of the most cost effective ways for investors to own bullion over the long term.

Most investors opt to own their bullion in unallocated accounts as there are no insurance or holding fees on them, and there is the flexibility of being able to transfer to an allocated account simply by paying small fabrication fees should the investor deem it necessary.

Allocated accounts

Allocated gold accounts allow an investor to buy gold coins and bars from a bullion brokerage which will transfer or ship the bullion to an individual's account in a depository or bank. They involve ownership of specific gold and the owner has title to the individual coins or bars. Due diligence should be done on allocated gold account providers and the history, security, credit rating and net worth of the provider is of vital importance.

Two respected providers are Bullion Vault and Gold Money. They offer allocated accounts where gold can be instantly bought or sold. Every gold bar is audited and accounted for and it is considered a safe way to own bullion.

Digital gold currency or e-gold

Digital gold currency (DGC) – 'goldgrammes' or 'e-gold' – are also increasingly popular. There are no specific financial regulations governing DGC providers, so they operate under self-regulation. DGC providers are not banks and therefore do not need to comply with bank regulations, and there are concerns that there are unscrupulous operators operating in this emerging sector.

Digital gold is primarily used by clients to **buy gold** for saving or as an investment and/or as electronic money amongst users.

Investing in paper gold

Another approach is to invest in companies that either mine gold or are exploring for new gold deposits. Some companies are both miners and explorers.

If you're going to invest in mining companies, it's a good idea to diversify your investment across several companies. Investing in a miner is riskier than investing in gold itself.

You can also invest in gold via financial products such as options, futures and spread betting.

With all of these products, you're betting on the future movements in the gold price. You don't own any gold, and you don't have the right to take possession of any gold.

All of these products give you the opportunity to 'leverage' your investment. In other words, you can borrow to boost the size of your bet. That will boost your profits if the gold price goes in the right direction, but it can also increase your losses if things go wrong. You could end up losing all of your original investment, or potentially a sum greater than your original investment.

Gold exchange-traded funds (ETFs)

These are funds that track the price of gold.

Two of the more popular are the **Streettracks Gold Shares** (NYSE:GLD) and in London, ETF Securities' **Gold Bullion Securities** (LSE:GBS). They can be bought through stockbrokers.

There is normally an annual administration fee of between 0.4% and 0.5%.

Name of ETF	**Ticker**	**Annual fee**	**Editor's comments**
ETFS Gold Bullion Securities	LSE:GBSS	0.40%	Physically-backed sterling-denominated gold ETF. Can be held in a Sipp, but not an Isa.
ETFS Physical Gold	LSE:PHGP	0.39%	Physically-backed sterling-denominated gold ETF. Can be held in a Sipp or an Isa.
ETFS Physical Gold	LSE:PHAU	0.39%	Physically-backed dollar-denominated gold ETF. Can be held in a Sipp or an Isa.
ETFS Physical Swiss Gold	LSE:SGBS	0.39%	If you don't trust the UK or US governments you may want to invest in gold held in Switzerland.
ETFS Short Gold	LSE:SBUL	0.98%	A way to bet on the gold price falling. Most suitable for short-term holdings.
ETFS Leveraged Gold	LSE:LBUL	0.98%	Designed to deliver double the rise in gold (and double the fall).

ProShares Ultra Gold	NYSE:UGL	0.95%	Designed to deliver double the rise in gold (and double the fall).
SPDR Gold Trust	NYSE:GLD	0.40%	US-listed physically-backed gold ETF – the most popular with investors.
ETFS Gold Bullion Securities	LSE:GBSS	0.40%	Physically-backed sterling-denominated gold ETF. Can be held in a Sipp, but not an Isa.
ETFS Physical Gold	LSE:PHGP	0.39%	Physically-backed sterling-denominated gold ETF. Can be held in a Sipp or an Isa.
ETFS Physical Gold	LSE:PHAU	0.39%	Physically-backed dollar-denominated gold ETF. Can be held in a Sipp or an Isa.