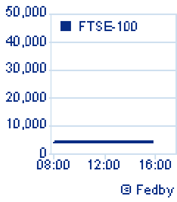

Company News

Friday 20 February, 2009

Where can private investors buy the cheapest gold?

By Rob Mackinlay

US private investors are using an unconventional method to get their hands on physical gold and silver in increasing numbers. It is a complex, lengthy process, but significantly cheaper gold and silver is available at the end of it.

In the UK, data from *Financial Express* suggests that retail investors are equally obsessed by precious metals but appear less adventurous when it comes to seeking out the cheapest buying methods, something that may require thought now that gold again has hit $1,000 an ounce.

For serious gold and silver investors the idea of buying futures contracts instead of physical gold would be sacrilege. With allegations of price manipulation and shortages of physical metal few are prepared to put their faith in any products backed by pieces of paper.

However the futures market is where more and more US investors are turning to when they want to buy physical metal at the lowest prices. While UK investors don't have the same access (the metal warehouses are all in the US) they appear to have a similar opportunity via physical exchange traded funds (ETFs) and exchange traded commodities (ETC), some of which can be exchanged for physical metal for one-off fees of £500.

Unlike futures-backed investment products which never actually take delivery of gold and silver, but continuously renew their investments in the paper markets, sophisticated investors wanting to get their hands on the real thing, buy the contract in the deliverable month and wait for it to expire.

JB Slear, a gold and silver broker based in Arizona specialises in helping high net worth clients take delivery of gold and silver futures contracts. He said that overseas buyers could face particular problems: "We're finding more restrictions being applied to overseas buyers, seems one of the four warehouses will not allow overseas deliveries. We have just been told this by one of the Comex warehouses today. I don't know if this is a lack of communication or not so, for the sake of all, we need to consider this a rumour till we have more people claiming the same problem."

Slear tells his clients that they may have to wait more than two weeks to take delivery as delays and complications in the process have become increasingly commonplace more so now than during the Christmas season. In some cases this has fuelled concern that stockpiles are running out. Slear is not convinced by this explanation and blames skeleton warehouse staffing for most of the delays.

But he said that the level of interest in this method of buying gold and silver had increased significantly between November and December.

The reason for the interest is obvious. Slear said: "I know of no other place in this country that offers a price equal to the Comex exchange, nothing comes close. Even with my Premium Delivery Service added, it's far more reasonable to buy from Comex."

Like others involved in the gold market, Slear believes that there are real shortages of precious metals that have yet to be exposed. But he recognises the futures market as a last resort for people who can't buy metals at reasonable prices elsewhere: "If a buyer wants to buy a physical product and cannot find it locally, he or she can go to my firm's web address to transact that business. My business model is a last resort purchase arena for those who need to protect their personal wealth."

He says there is anecdotal evidence that this activity is widespread enough to be affecting warehouse stocks as high net worth clients remove metal from warehouses.

But, he says that the activity has yet to show up on Comex warehouse stock data: "I find it interesting that the Comex numbers don't show any movement at all as far as deliveries are concerned. I have spoken to three of the warehouses and each facility confirms the fact that the metals are being moved out, and in size. One of my clients says that when she went to "will call" her purchase, that the "will call" staging area for deliveries was stacked high and busy. Seems curious that the warehouse numbers reported through Comex, are not showing any reductions. In the Comex defence though, I don't know how long it takes them to account for the movements. I just keep my head down and focus on the job allotted me. That is to get the gold into my clients' hands as fast as possible. It seems the worst case scenario, a G7 currency crisis, is not going away, so I can't blame anyone for being scared."

Silver analyst Ted Butler has observed that demand for physical rather than cash delivery on futures contracts has been increasing. He said: "Yes, there were 2,100 contracts delivered in the January silver futures contract. That was very high, the highest

Latest News

Analyst recommendations: Lavendon upgrade, Wolfson downgrade
Today's recommendation and price target changes cover 12 companies across seven sectors ... **more >>**
24 Apr 2009 14:00

World Gold Council: Gold conspiracy would dwarf Madoff
If gold conspiracy theories are true they will make the Madoff scandal "look like ... **more >>**
24 Apr 2009 11:10

Announcements roundup: Gold gears for bears
Miners dominate the risers on the FTSE 100 but oil and banks also gain as sterling ... **more >>**
24 Apr 2009 09:20

Ark Therapeutics: Shorting is not a bad idea
Ark Therapeutics' shares are up more than 53 per cent at 50p after hitting a 32.5p ... **more >>**
24 Apr 2009 07:30

World Gold Council: Investors consider cheap gold via ETF redemptions
Shares in gold exchange traded funds can be redeemed for physical gold and a number ... **more >>**
24 Apr 2009 07:00

Budget inaction means REIT distribution under strain, say BPF and REITA
The REIT sector was a big loser from yesterday's Budget says Peter Cosmetatos, finance ... **more >>**
23 Apr 2009 17:30

Announcements roundup: FTSE 100 down, Debenhams beats forecasts
The FTSE 100 closed down 0.31 per cent or 12.43 points at 4,018.23 despite a rally ... **more >>**
23 Apr 2009 16:42

Comments ...

Stock lending/short selling changes: Significant increases for 70 companies
The latest stock lending figures from Euroclear show the largest increases at William ... **more >>**
14 Apr 2009 09:39

Commercial Property: A hibernating giant?
Commercial property funds have suffered as over the last two years, and as this asset ... **more >>**
03 Apr 2009 07:00

I can remember, in a non-traditional delivery month. The traditional months for silver are March, May, July, September and December. The other seven months are non-traditional, although that is my terminology. These deliveries are highly indicative of physical demand, as it appears the buyers were the initiators of the transactions."

Do UK investors have a similar option?

So, while US investors are willing to brave the futures market to get their hands on physical metal, this option is not open to UK investors for the simple reason that none of this metal is stored in the UK.

However, the UK is where physical gold and silver ETFs stockpile their metal. Do UK investors have a cheap route into this?

ETF Securities, which also manages Gold Bullion Securities, has confirmed that it offers holders of shares in its ETFs a service that allows investors to turn their shares into physical gold, silver, platinum and palladium.

There is a possibility that using this service could by-pass fees of 10-15 per cent, which brokers charge for buying and selling gold. Tony Baird of Baird & Co would not comment on whether redeeming ETF shares for physical metal was a cheaper route to owning real gold than his service.

Adrian Ash of BullionVault.com said that the process would be highly complex to carry out and may not be any cheaper. He also said that physical ETFs diminish as time passes as the underlying gold is used to pay storage fees.
However ETF Securities said that this NAV issue was the equivalent of the fees charged to hold physical gold. In other words an investor only paid for as long as they hold a 'physical' ETF share and the charges are not accumulated and passed on to new investors.

Ash said that BullionVault did not provide unallocated gold accounts and that he was suspicious of the process because it required transferring metal from an 'allocated' status, inferring ownership of a specific piece of gold in a vault, to 'unallocated' status, where gold of a certain value is owed essentially through a credit note.

It was suggested that this move into unallocated gold accounts might be the result of ISA rules regarding physical assets. ETFS said that all of its products apart from GBS were eligible for inclusion in ISAs, and that the reason the GBS was excluded was because of a slight difference on the physical redemption process.
ETFS offers the service in PHAU (gold), PHAG (silver), PHPT (platinum), PHPD (palladium), PHPM (basket of physical commodities) with a fee at £500 maximum per redemption of any size, while GBS (gold) has the same service at $750 per redemption of any size and its Australian gold product for $1000.

Physical, ETF or something else?

Ben Davies, manager of Hinde Capital's gold hedge fund, says that holding only physical gold may not be the best option for investors. Davies said that a well managed fund could add value saying that his funds aimed to reduce downside volatility and provide returns in excess of the gold price.

He said that: "Hinde Gold Fund holds between 75% and 100% of its assets in allocated gold in secure vaults in Zurich. It provides investors with a secure investment which has capital preservation and growth potential. Real Rates will be at zero a long time so having someone manage your gold for you could pay dividends over the long run."

He said that if individuals want to purchase physical gold they can be charged up to 10-15% fees after retail pricing mark-ups, insurance, transport and storage are taken into account. There is usually a fee to pay to liquidate holdings when the time comes.

He said the Hinde Gold Fund was a cheaper way to buy physical gold inclusive of storage: "we are probably a third of these costs after management and performance fees."

Hinde Capital has a minimum investment level of US$100,000 or the Euro or GBP equivalent. Davies said: "The Fund provides outperformance to the gold price by several elements. Timing allocation shifts, and switching small percentages of the fund between correlated assets as an alternative to bullion, such as the mining equity and other precious metals. Separate to this allocation the Fund on average holds 5-10% in small cap miners, to which the Managers apply a bottom-up approach."

On ETFs he said: "Theoretically regulators could make ownership of gold via an equity very difficult. They could even ban or prohibit ownership. In the US gold is deemed a collectible investment and so taxed at 28% not at the lower capital gains tax rate. Furthermore ETF's charge investors a management fee of approximately 0.40%, and there is a bid-offer spread, so that the value of an investor's interest will erode in an ETF each year if the gold price stays flat.

He said: "Gold ETF providers state that individuals can take physical delivery of gold. This has rarely been done and is certainly not encouraged. The physical gold, if demanded, is placed into "unallocated bullion" accounts. This means the investor has a "general entitlement" to the gold. Just like the fractional reserve banking system ETF providers are relying on the fact that investors will not all demand their gold at the same time. There is a counterparty risk with an ETF. Should the provider go into bankruptcy, the investor will become a creditor. Being involved in a liquidation process would be extremely worrisome."

"Like a bank they may well be unlikely to deliver. The providers also state that they reserve the right to settle on cash not bullion terms under certain or extreme market circumstances. The purpose of investing in Gold is to have one's assets in a definable hard asset, not a paper asset, at such times. The ETF defeats the object and may expose the investor to loss of their investment."

Background
Ted Butler replies to NYMEX.
Who is Ted Butler?
Silver investigation: Stakes are enormous
Silver investigation: CFTC does U-turn
Gold investigation: is it already underway?
Silver ignored by UK investors: will it all be gone by 2034?
Gold conspiracy: Can you afford to ignore it?

Latest
NYMEX responds to Butler claims: 25% short is not manipulative

To comment on this article please contact :
rob.mackinlay@financialexpress.net
Tel. 020 7408 8074

back to top