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**How to Invest in Gold** **May 2010**

We at Helvetic Investments have recommended investors to diversify into currencies and assets we believe that will be healthy in the long term – including the investment of a certain fraction of investors' wealth into gold. As we have been asked on several occasions on how to implement such an investment, we now produce this article – as a broad guide to investors. A specific evaluation of the investor's assets and liabilities, present liquidity and future liquidity needs as well as an analysis of the existing investments and the time horizon for the investments should be completed before investing.

Facing the European Union's bailout in Southern Europe, high-running deficits in many leading countries, central banks purchasing low quality bonds in order to bail out certain institutions and to provide liquidity, many investors ask themselves: is it about time to have a certain part of their wealth in gold?  Even the price seems high – currently USD 1'215 per ounce.

Gold has fascinated humans throughout history and has been the storage of wealth in times of crisis – but has for many years lagged performance compared to investments into the real economy. Lately gold has performed well. As the outcome of the financial crisis, which began in late 2008 with the fall of Lehman in New York, is still uncertain, a number of investors adopted the old-fashion thinking of having some wealth stored in gold. Simply as part of a well diversified portfolio.

We here highlight the most common ways of investing into gold, as well as the pros and cons for each investment approach.

**ETF**

The simplest and commonly chosen method is buying directly into segregated investment funds holding only gold as asset.  ETFs (exchange traded funds) are getting ever more popular as their assets are segregated from the custodian's and the bank's balance sheets. On the other hand, the investor is relying on a functioning stock exchange to buy and sell his ETF-shares, and he has no direct access to his fraction of the fund's holding of gold – or said differently: he owns a certain fraction of the fund's gold – but he will never see it. The expense of buying and holding gold through an ETF will be about the normal brokerage fees for buying a stock, plus the fund's running and storage costs – which is around 0.4 % per year.

Two gold ETFs which are popular and efficient:

The biggest ETF is the **SPDR Gold Trust** (ticker GLD.US) incorporated in the US. It is very closely covered with physical gold by its custodian; HSBC. Its market value is close to US$50 billion. The investment objective of the Trust is to reflect the performance of the price of gold bullion, less the Trust's expenses. For further details, please see [https://www.spdrs.com/](https://www.spdrs.com/).


**GLD.US: 22.05.06-28.05.10**
**Source: Bloomberg**

Another alternative is the smaller **SGOL**, which is also an ETF traded in the US (ticker SGOL.US). The shares represent beneficial interest in the Trust, which in turn holds allocated physical gold bullion bars stored in secure vaults in Zurich, Switzerland on behalf of the custodian, JPMorgan Chase Bank through its sub custodian UBS. Each physical bar is properly segregated, individually identified and allocated towards the property of the Trust. All physical gold conforms to the London Bullion Market Association's (LBMA) rules for good delivery. For further details, please see [http://www.gold-prices.biz/gold-bullion-etf-in-switzerland-sgol/](http://www.gold-prices.biz/gold-bullion-etf-in-switzerland-sgol/).


**SGOL.US: 09.09.09-28.05.10**
**Source: Bloomberg**

## Gold mines

Gold mining consists of the processes and techniques employed in the exploration of gold (and its related output). Investing in gold mines is riskier than buying gold itself – over time, the volatility is around 2 to 3 times above that of gold's. Due to the gold mining company's production cost – certain leverage on the underlying gold price has been built in, making such investments highly volatile and may not always correlate to the gold price in the short run. A popular way to invest into gold mines is the **Market Vectors Gold Miners ETF** in the US (ticker GDX.US).

GDX is traded in the US and covers broadly North American miners – mining gold and related output. For further details, please see http://www.vaneck.com/funds/GDX.aspx. For investors seeking protection against a crisis in the real economy – or for diversification, the investment into gold miners is normally not recommended, as the production costs as indicated (mainly oil and other mining costs), can affect the miner's results adversely to the gold price – at least for a while.


**GDX.US: 22.05.06-28.05.10**
**Source: Bloomberg**

When investors prefer not to hold their gold through "paper investments" but require direct access – or direct access on demand – ETF investments and gold mines will not be the right choice. Physical gold investments should be adopted.

**Physical gold**

**Coins** – in most cases beautifully minted and representing 1 ounce of gold – are basically more suitable for collectors than for investors, as the value generally – and for the moment – by far exceeds the value of the gold they represent, and the coins may be difficult to obtain.

**Account gold (ounces)** is in many ways easy to handle and relatively liquid. The investment is similar to buying a foreign currency. Seeking delivery of the ounces can be difficult and the investor has the bank as a counter-party risk (the gold technically is on a current account) as the bank holds the gold on its balance sheet. Depending on the jurisdiction where the bank is situated, there might be government guarantee for current account holdings – but normally with a limitation on the guaranteed amount.

**Account gold (bars)** secures a smoother delivery, in case the investor wants to take advance of his right to receive physical delivery. The gold bars are normally 1kg in size.

In regard to physical delivery of account gold, investors in some jurisdiction will face the issue of paying **VAT** when taking delivery. In Switzerland there is no VAT payable for physical delivery of gold.

**In case you require an analysis of your portfolio – or want to diversify into gold – or to optimize an existing gold investment, kindly inform the Helvetic Team – we will be happy to be of assistance.**

Your Helvetic team/JW