GoldCore

A BEGINNER'S GUIDE TO

Investing in Gold

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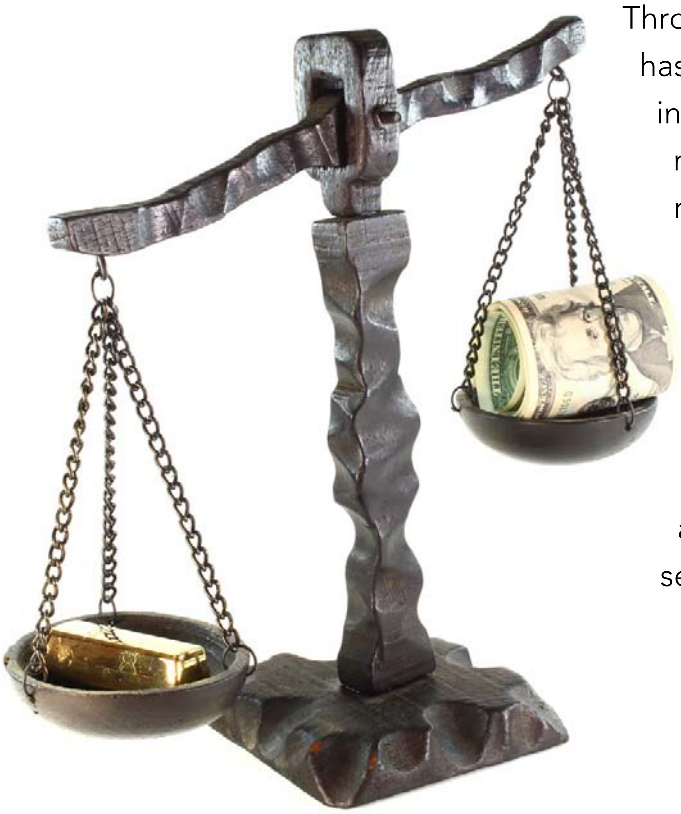
INTRODUCTION

Gold has been sought after for its unique blend of near indestructibility, beauty, rarity and because of its status as a means of exchange and universal currency par excellence for centuries.

Empires and nations have sought to possess gold as a medium of international exchange, as a store of wealth and in order to increase and preserve power. Individuals have used gold as a store of wealth and as insurance against the fluctuations and depreciation of paper money and to protect against other macroeconomic, systemic, geopolitical and monetary risks.



Throughout history, perhaps no other asset in the world has had the universal appeal of gold and this appeal has increased in recent times due to the very significant macroeconomic, systemic, geopolitical and monetary risks facing our modern global financial system and economy.

Successful investing is about the diversification and management of risk. In layman's terms this means not having all your eggs in one basket. We know from history that markets can and do crash and if you are not properly diversified your nest egg can be severely affected.

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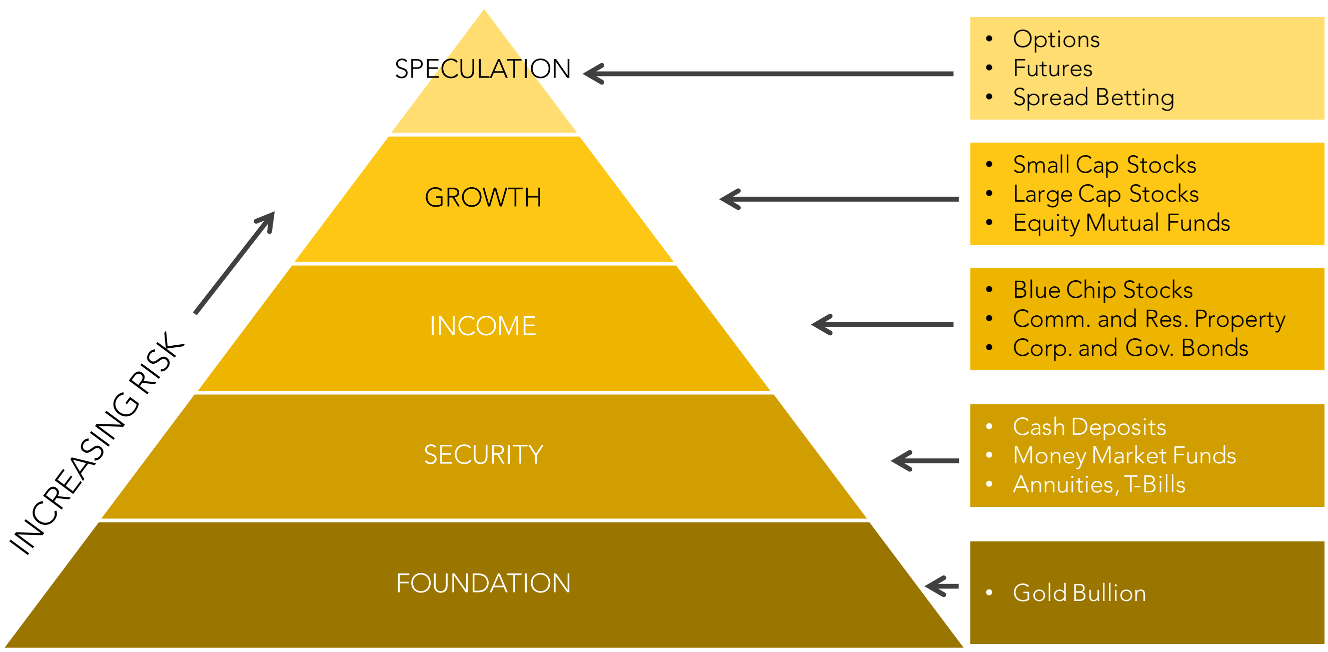

Figure 1: The Investment Pyramid

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So a healthy portfolio (see Figure 1) will include a wide range of assets including a diversified portfolio of equities with exposures to different market sectors and regions; a portfolio of different countries' bonds; a diversified property portfolio; a cash component and a 5-20% allocation to gold related investments and gold bullion. In these uncertain times, it is important to be cautious and risk conscious and counterparty and systemic risk should be considered.

The key is to determine what amount of each asset class to have and to own assets that will weather the onslaught of inflation, deflation, stagflation and even hyperinflation.

Some exposure to gold should be included in all diversified portfolios. A good rule of thumb would be a minimum allocation of around 10% to gold and related gold-investments.

One's motivation for buying gold is fundamental to deciding in which form you should buy it.

- Are you a speculator, investor or saver?
- Do you wish to take a short term speculative position in gold?
- Are you investing for the short, medium or long term?
- Or are you diversifying, saving or using gold as a form of financial insurance?

INVESTING IN PHYSICAL GOLD

Physical gold should form a part of every properly diversified portfolio. Gold remains a universal finite currency, held by every central bank of note in the world. And central banks have become net buyers of gold in recent years and look set to remain net buyers for the foreseeable future due to their massive foreign exchange reserves and concerns about the dollar, euro, pound and all fiat currencies. As JP Morgan famously said, *"Gold is money. Everything else is credit."*

"Gold is money. Everything else is credit."

In the same way that the family home should not be regarded as an investment, gold bullion is not an investment per se, rather it is money and it is a form of 'saving for a rainy day' or of financial insurance. It is to be taken possession of or stored with a secure third party and should not be traded. One does not trade an insurance policy and thus as a form of savings and financial insurance, physical gold should not be traded.

Gold is money and is the ultimate safe haven asset and a great way, if not the best way, of ensuring wealth preservation and for passing wealth from one generation to the next. Once the solid base or core holding of gold bullion is achieved in a portfolio then other investments in gold such as mining stocks and mutual funds and other more speculative gold investments can be considered.

MODERN BULLION COINS

Modern bullion coins allow investors and store of value buyers to own physical gold bullion. Bullion is precious metal in its purest form and gold bullion coins are investment grade (between 0.90 and 0.9999 fineness) legal tender coins.

The value of bullion coins and bars is determined almost solely by the price of gold and thus closely matches the spot price of gold as quoted on international markets.

Gold, silver and platinum are all available in the form of bullion coins, minted in Australia, the UK, the US, Canada, South Africa, Austria, China and other countries. The most popular bullion coins in the world are American Eagles from the US Mint, Australian Kangaroos from the Perth Mint, Sovereigns and Britannias from the Royal Mint (UK), Maple Leafs from the Royal Mint of Canada, Philharmonics from the Austrian Mint, Krugerrands from the South African Mint and Pandas from the People's Republic of China Mint.

Most bullion coins are minted in 1/10 oz, 1/4 oz, 1/2 oz & 1 oz form but some can be bought in 2 oz, 10 oz & 1 kilo form. However, one ounce gold bullion coins 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 coins.

The British Gold Sovereign, originally the one pound coin, is the most widely traded and owned gold coin in the world. British gold sovereigns are becoming increasingly popular again internationally and especially in the UK. In the UK, this is because they are not

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subject to capital gains tax (CGT). All post-1837 gold sovereigns are legal tender and have a legal tender face value and thus are capital gains tax free. This is obviously a significant benefit to UK investors vis-à-vis other gold investments and other investment and savings vehicles.

Due to the 'EU Gold Directive,' passed in 2000, buying investment grade gold bullion for investment or as a store of value is stamp duty free and tax free (VAT exempt) in the UK and EU and in most jurisdictions internationally.

GOLD BULLION BARS

Gold bullion bars allow investors and store of value buyers to own physical bullion. Bullion is investment grade gold and gold bars are normally of 0.9999 fineness or 24 karat pure and trade at a small premium to the quoted spot price of gold.

There is little difference between owning gold bullion coins and smaller gold bullion bars and it is often a matter of individual preference. It is important to ensure that you own gold coins or gold bars from a well-known and trusted mint or refinery. Recently, there has been a slight shift in demand for gold bars with a laminated tamper-proof display card, with each bar having its own serial numbers.

The value of bullion bars is, like bullion coins, determined almost solely by the price of gold and thus closely matches the spot price of gold.

Larger bars are not generally taken delivery of due to the cost of insured delivery and the security implications of having very large amounts of bullion outside the chain of integrity – say in a safety deposit box, in an office or in a private residence.

A London Good Delivery Bar weighs 400 troy ounces and is quite expensive – 400 ounces multiplied by the spot price of gold per ounce. Therefore, for typical retail investors - it is prohibitive in terms of cost. Thus, London Good Delivery Bars are normally the preserve of large companies, banks and other institutions and indeed central banks. High net worth clients tend not to buy London Good Delivery Bars as they realise the advantage of a divisible gold holding and being able to sell some of their holdings at different times.

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. Sometimes, they are leveraged to the gold price which means that the price of these coins may surpass and increase faster than the gold price in a bull market – due to their historical and aesthetic value and to their rarity. Conversely, they may decrease by more when gold is in a bear market or is falling in value. Numismatics and semi numismatics can be bought from numismatic dealers and some bullion dealers with the requisite expertise. One should always work with established and trusted counter parties. Compare prices and make sure you are getting value for money.

Rare U.S. gold and silver coins such as $20 Liberties, St. Gaudens, Peace and Morgan Silver dollars in collectible certified form remain popular with some investors and collectors. These rare coins are carefully hand selected by numismatists for their eye appeal and quality and are certified for grade & authenticity by the PCGS (Professional Coin} Grading Service) or the NGC (Numismatic Guaranty Corp.)

Also quite popular are high-quality pre-1933 gold coins graded MS-65 or better by either the PCGS or the NGC. They are bought by both collectors and investors and most opt to take possession of these older coins unless they have invested in significant quantities.

Some gold investors worry about possible government confiscation in the event of a monetary or systemic crisis. Pre-1933 coins offer an additional layer of protection against privacy intrusions including gold confiscation. Numismatic and semi numismatic older gold coins were exempted from the ban on private gold ownership enacted by the U.S. government in 1933 and have been treated as collector items ever since. Given the extremely low level of gold ownership internationally today, we believe confiscation of individual citizen's gold is extremely unlikely. Desperate governments are far more likely to nationalise large gold mining companies or banks and other institutions with large depositories of gold. Insured delivery of bullion and numismatics is usually some 1%-2% of the total value. Insured storage of bullion and numismatic coins in an allocated account will cost some 1% per annum. Investors should choose their storage provider carefully, making sure of a high credit rating and or that their depository is established, respected and trusted internationally. Given the scandals and financial crises seen in the banking sector in recent years, there is an increasing preference for storing bullion and numismatics in mints and specialist depositories.

GOLD ACCUMULATION PLANS

Recently, gold based savings products have been introduced to meet the investment needs of people internationally who want to hold physical gold in their investment portfolios or wish to diversify their savings.

Gold Accumulation Plans (GAPs) are similar to conventional savings plans in that they are based on the principle of putting aside a fixed sum of money every month. The fixed sum then buys gold every trading day in that month.

The fixed monthly sums can be small, and purchases are not subject to the premium normally charged on small bars or coins. Because small amounts of gold are bought over a long period of time, exposure to short term variations in price is contained reducing risk for buyers.

GAPs offer customers the unique opportunity to start accumulating physical gold using a daily average pricing methodology. This helps eliminate the risk of buying into a speculative bubble.

At any time during the contract term (usually a minimum of a year), or when the account is closed, investors can get their gold in the form of bullion bars or coins. Should they choose to sell their gold they can also get cash.

One of the first Gold Accumulation Plans in the western world, GoldSaver was launched by GoldCore in May 2010. The world's largest commercial bank, Industrial and Commercial Bank of China (ICBC) and the World Gold Council launched the first gold accumulation plan in China. Over one million accounts had already opened in 2010 alone.

India recently saw the launch of its first gold accumulation plan. The World Gold Council, the market development organisation for the gold industry, launched it in conjunction with Reliance Capital.

Leading financial academics and personal finance experts have endorsed the concept of saving in gold over the long term and this sector is set to grow in the coming years.

As with all investments and savings products, the safety of the counter parties and in particular the safety of the counter party storing the gold in the gold accumulation plans is very important.

GOLD CERTIFICATES

The Perth Mint Certificate Programme is the only government backed precious metal certificate programme in the world. It allows investors to own bullion in unallocated or allocated accounts. The Perth Mint retains its AAA credit rating from Standard and Poor's and Moody's and is one of the safest and securest ways to own investment grade gold bullion. 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.

Gold certificates are liquid and can be sold easily – soon investors will be able to buy and sell in real time online. 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. Every gold bar is audited and accounted for and it is thus considered a safe way to own bullion. Bullion in a format of your choosing (coins or bars) can be shipped internationally from an allocated account or from an unallocated account once it has been converted to allocated.

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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. Allocated accounts 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, financial standing, credit rating and security of the provider is of vital importance.

DIGITAL GOLD CURRENCY OR E-GOLD

Digital Gold Currency, 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.

However, two of the more respected providers who have rightly garnered trust are Bullion Vault and Gold Money. They offer allocated accounts where gold can be instantly bought or sold just like any foreign currency. Every gold bar is audited and accounted for and it is thus considered a safe way to own bullion. Digital gold is primarily used by clients to buy gold for saving or as an investment and/ or as electronic money amongst users.

GOLD BULLION IN PENSIONS

Most progressive jurisdictions internationally now allow their citizens to own gold bullion in a pension. The poor performance of equity markets in recent years, the poor performance of investment managers and the high costs of

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pensions means that returns in many pension funds internationally have been very poor. Having an allocation to gold in a portfolio has been shown to both reduce the volatility of the entire portfolio and also to enhance returns.

An example of a pension fund that has bought gold is the University of Texas Investment Management Co., the second-largest U.S. academic endowment. It took delivery of almost $1 billion in gold bullion in 2011 and is storing the bars in a vault in New York.

Many countries now allow gold bullion to be held in a pension providing it is with a trusted and secure third party.UK citizens can as of April 2006 invest in gold bullion through their Self-Invested Personal Pensions (Sipps). US citizens could already do so in their Individual Retirement Accounts (IRA's).

Some jurisdictions including the UK and Ireland, have introduced new types of personal pension schemes that hold investments until you retire and start to draw a pension income. They are designed for people who want to manage their own fund by investing in asset classes of their choice. Investments made in gold bullion are topped up in the form of tax relief, meaning individuals can often claim a significant amount back depending on the income tax band they fall in to.

Gold bullion is allowed in pensions providing it is investment grade gold which is gold of a purity not less than 995 thousandths or 99.5% pure and which is in the form of a bar, or of a wafer, of a weight accepted by the bullion markets. The bullion must be immoveable and stored with a secure third party. It cannot be taken possession of and used as a "pride in possession" article.

Thus ETFs, some digital gold providers, allocated gold accounts and gold certificates are all allowed in many pensions today.

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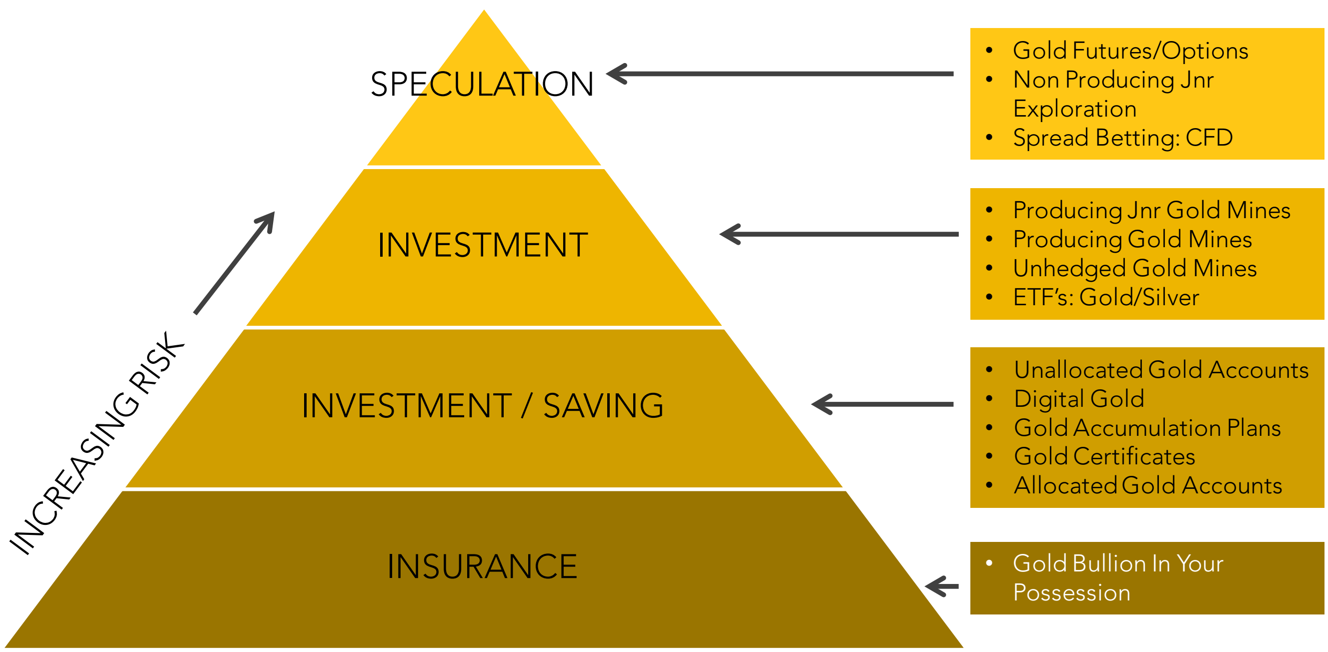

Figure 2: The Gold Investment Pyramid

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INVESTING IN PAPER GOLD

Investing in paper gold is very different to and more high risk than investing in physical gold.

Paper gold includes gold futures, gold futures options, some gold ETFs, certain forms of unallocated gold ownership, pool accounts, contracts for difference (CFDs), spread betting contracts, gold stocks and or gold options (see Figure 2).

Gold mining and mineral exploration and the processes used to mine and produce metals are highly technical. Investors in gold production and exploration company stocks need to equip themselves with a basic understanding of the industry, in order to identify possible pitfalls and the risk-reward relationships of entering this investment sector. Investors should generally not buy just one or two stocks, but rather a basket of unhedged stocks or a mutual fund.

Derivatives, such as forwards, futures, options, spread betting and CFDs are normally short term speculations on the future price of gold and other markets such as commodities, shares or bonds, interest rates, exchange rates, or indices.

They are financial instruments which derive their value from or whose price is dependent on the underlying asset. One does not directly own the underlying asset and one does not have a right to take possession of the underlying asset. Leverage or borrowing substantially may increase investment gains but also increases risk as if the price goes against the purchaser they may be subject to a margin call. There is significant leverage involved with derivatives and they are thus considered risky for non-professionals as the potential positive or negative outcome is greatly magnified.

EXCHANGE TRADED FUNDS (ETFS)

Gold exchange-traded products are exchange-traded funds (ETFs), closed-end funds (CEFs) and exchange-traded notes (ETNs) are recently launched financial products that aim to track the price of gold. Gold exchange-traded products are traded on the major stock exchanges including Zurich, Mumbai, London, Paris and New York.

Each gold ETF, ETN, and CEF has a different structure outlined in its prospectus. Some such instruments do not necessarily hold physical gold. For example, gold ETNs generally track the price of gold using derivatives.

Some of the more popular ETFs are the Streettracks Gold Shares (NYSE: GLD) and in London the Lyxor Gold Bullion Securities (LSE: GBS). With both of these ETFs and indeed with most ETFs, one does not own the physical gold bullion rather one owns shares in a trust that owns gold.

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One is therefore exposed to the trustees, the custodians and the sub-custodians. The prospectuses of many of the ETFs have many serious indemnifications with regard to the standard and the purity of the gold meant to be held in the exchange traded fund. These many indemnifications are important as it means that these ETFs carry additional risks and are not the same as owning actual physical gold.

Therefore, many of the ETFs are more akin to derivatives that track the price of gold than actual physical bullion.

Typically a commission of 0.4% is charged for trading in gold ETFs and an annual storage or administration fee of 0.4% is charged. Thus every year the amount of gold or silver backing an ETF share shrinks by that amount. This makes them unattractive as a medium or long term way to invest in gold. They are akin to derivative contracts that track the gold price and one does not own or have title to the underlying asset.

ETFs are more suitable for trading and for use by day traders, hedge funds and institutional players going long and short and speculating on short term movements in the gold price.

GOLD STOCKS

Gold stocks are not gold – rather they are shares in gold mining companies. If the gold price rises, profits of a gold mining company should rise and as a result the share price should rise. There are many factors to take into account and it is not always the case that a share price will rise when the gold price increases. It is important to consider the performance and abilities of the management, auditors and geologists; the conduct of trade unions; a company's gold hedging position; whether it is producing or exploring; its

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cost basis; how much reserves it has in the ground and whether it is subject to political, economic, nationalisation or environmental risk.

Individual gold shares would be regarded as very volatile and high risk. Gold shares are regarded as more speculative as there is a higher risk-reward scenario. However, the added risk can be compensated for by the leverage which can result in higher returns. Such higher returns would be expected from mid and large-capitalisation un-hedged senior gold mining companies with proven reserves and strong earnings which have strong balance sheets and growth in resources and production and effective company management.

GOLD STOCK OPTIONS

Stock options are a contract between two parties that expires at an agreed-upon time in the future. The contract purchaser is buying the right, but not the obligation, to buy a gold mining stock (a 'call' option) or sell (a 'put' option) a gold mining stock (the 'underlying') at a specific price, on or before the agreed-upon date, the date of expiration.

Stock options allow for a lot of leverage as a trader can control a large stock position with only a small outlay. However due to the very short term of the option contracts, they can expire worthless with the entire outlay being lost. Stock options allow speculators to make bets on market movement without having to pick an up or down direction. Because of this, stock options traders are often said to be trading volatility rather than price.

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PRECIOUS METAL UNIT TRUSTS OR MUTUAL FUNDS

Instead of personally selecting individual shares, some investors spread their risk by investing in collective investment vehicles specialising in investing in the shares of gold mining companies. These include mutual funds, open-ended investment companies (OEICs), closed-end funds, unit trusts. Two of these funds are the UK-based Blackrock Gold & General Fund and the Canadian Sprott Gold & Precious Minerals Fund by Sprott Asset Management. There are many precious metal funds in the US but investors assume US dollar currency risk when buying them.

Collective investment vehicles are a good way to invest in the precious metal mining sector as an investor's risk is reduced; mutual funds are not dependent on the performance and profits of one or two individual gold mining company and specialists in the field choose a portfolio of gold mining companies.

GOLD FUTURES

Gold futures are traded on exchanges in London, Tokyo, Sydney, Singapore, at the New York Mercantile Comex Exchange (COMEX), the New York Mercantile Exchange (NYMEX) and at the precious metals department of the Chicago Board of Trade (CBOT).

Gold futures contracts are firm commitments to make or take delivery of a specified quantity and quality of gold on a prescribed date at an agreed price. Investors may take or make delivery of the gold underlying the contract on its maturity although, in practice, that is unusual. A benefit for some is that such contracts are traded on margin, so that only a fraction of the value of the contract has to be paid up front. As a result an investment in a futures contract, whether from the long or the short side, tends to be highly geared to the price of gold and consequently more volatile.

They are normally the preserve of some mining companies, speculators, hedge funds and institutions. The leverage makes them a high risk to high reward speculation. Participants are either hedging the gold price or attempting to predict whether the value of gold will rise or fall in the short term. Gold futures contracts are valuable trading tools for commercial producers and users of the metal to hedge their price risk.

Success depends on the price movement of gold during the contract term. Traders in these markets without protective stop-losses can quickly find themselves on the wrong side of a fast moving trade, losing large sums of money. Part of the risk is due to the leverage involved which can result in a speculator losing more than their initial capital outlay. Therefore, futures markets are not for amateurs or novice investors.

GOLD FUTURES OPTIONS

All the bullion banks trade in gold options and a list of bullion banks is available from the London Bullion Market Association (LBMA). Another way of trading options is through the COMEX Division of the New York Mercantile Exchange. The third route would be to contact a futures broker. They are often used to contain risk in the trading of futures.

CFDS OR SPREAD BETTING

Leveraged exposure to precious metals can also be got from CFDs and from spread betting. Rather than actually buying physical gold bullion, both financial products allow a trader to make a 'bet' or a 'contract' based on the price of the underlying security or asset itself. This allows traders to profit from both upward and downward movements in price.

Both products are also margin products, which means traders gain leverage or gearing on their trades and only have to put up a fraction of the full deal, enabling you to make – or lose – a lot more money.

No commissions or taxes are levied in most jurisdictions on spread betting and CFDs. The advantages are that any gains are CGT free and one can also take a view on movements in either direction. The downside is that in a spread bet the spread can be high, your exposure is geared up and short term bets are risky as it is extremely difficult to forecast any markets short term movement. One can lose more than the initial capital thus they are for speculators with very short term horizons rather than investors.

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ASSESSING YOUR OPTIONS

One's motivation for investing in gold is fundamental to deciding how to invest. Are you a speculator, investor or saver? Do you wish to take a short term speculative position in gold? Are you investing for the short, medium or long term? Or are you diversifying; saving or using gold as a form of financial insurance?

When assessing one's gold investment options one must decide what one's motivation is. Once this is done, the primary considerations which should be looked at are the costs (both upfront and possibly recurring annual fees), proximity to your asset and perhaps most importantly today counter party risk.

In the table below we have looked at the various vehicles for accessing the gold market and graded them with regard to cost, ability to take delivery and, most importantly, proximity to your gold and counter party risk.

	Initial Cost	Recurring Cost	Counter party risks	Proximity	Investor suitability	Physical delivery?	
Gold certificates	Med	None	Low	Good	Diversifier	Yes	Consider solvency & credit rating. A sovereign AAA credit rating and govt. guarantee is best.
Bullion bars/coins delivered	Med	None	Low	Very good	Diversifier	Yes	Use safety deposit boxes, home or office safes, and insurance.

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	Initial Cost	Recurring Cost	Counter party risks	Proximity	Investor suitability	Physical delivery?	
Bullion bars/coins stored	Med	Med	Low	Good	Diversifier	Yes	Consider the solvency and credit rating of the depository. Safety and security are key.
Gold bullion in SIPPS	Low	Low	Low	Good	Diversifier	No	Make sure you get impartial fee-based asset allocation advice.
Semi numismatics	High	Low	Low	Good	Diversifier/ Speculator	Yes	Premiums can vary. Get reputable and professional advice before purchasing.
Digital gold	Low	Low	Med	Med	Diversifier/ Speculator	Some do	Concerns over dependence on technology (internet, website, servers, etc.) which is attendant risks.
Exchange traded funds	Low	High	Med	Poor	Speculator	Yes (large minimum)	Suitable for speculators, own shares in a trust and not gold. Annual costs quite high at 0.5% per year.
Precious metal unit trusts	Med	High	Med	Poor	Diversifier/ Speculator	No	High annual charges (funds can have hidden charges). Analyse the prospectus fully.

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	Initial Cost	Recurring Cost	Counter party risks	Proximity	Investor suitability	Physical delivery?	
Gold stocks	Low	Low	High	Poor	Speculator	No	Very volatile. Management, geologist, auditor, trade union, environmental and nationalisation risk. Seek advice.
Gold futures	Low	Med	High	Poor	Speculator	Yes	Only suitable for speculators. High risk, involving leverage. Seek advice.
Spread betting	Med	Med	High	Poor	Speculator	No	Only suitable for speculators. High risk, involving leverage. Need to monitor trading constantly. Seek advice.

In an age of significant systemic risk, proximity to the underlying asset is increasingly important. Investors are increasingly wary of having too many counter parties (brokerages, banks, trustees, custodians, sub-custodians, delegates of sub-custodians etc.) between them and their asset. If storing gold with a third party, it is important that you have a direct relationship with that counterparty and there is not significant intermediation and thus increased risk. Another consideration is the ability to take delivery of gold in the event of a monetary or systemic crisis. The World Gold Council is a good resource for investors looking for established and reputable providers of gold related investments in the UK and internationally.

INVESTING IN GOLD: CONCLUSION

As we have seen, there are major differences in the various motivations for buying gold and ways to buy gold – from trading and speculating to investing and saving.

Holding precious metals in a portfolio can provide distinct benefits in the form of speculative gains, investment gains, hedging against macroeconomic and geopolitical risk and or wealth preservation.

Traditional asset allocation theory, as represented by the investment pyramid, advocates higher risk speculations at the top, with lower risk assets at the bottom. Commodity futures contracts, options and exploration junior mining companies should be placed at the top of the pyramid, while cash equivalents and fully allocated or taken delivery of physical bullion should form the foundation or base.

Experienced and knowledgeable investors have long known that gold and gold related investments can be solid investment choices. Gold is stable in times of global geopolitical instability and when there is economic uncertainty, recessions and depressions. It is important that investors look at their portfolios holistically. Used correctly, gold and gold related investments can be highly effective components of a properly diversified investment portfolio.

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