THE ESSENTIAL GUIDE TO

Investing in Precious Metals

How to begin, build and maintain a properly diversified portfolio

David L. Ganz

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Metal Values Used in this Book

Generally speaking, this book uses $1,500 as a rounded number when referring to gold and $35 to $45 an ounce when referring to silver. The market and the price of the precious metals are so volatile as to make it easier to use the generalized number than the specific. Where calculations are given, the actual numbers utilized are provided. Troy ounces are converted from grams on the ratio of 1:31.1035.

WEIGHT OF A COIN IN TROY OUNCES

Troy weight is easy to calculate once you get the basics. There are 31.1035 grams in a single troy ounce, and 12 troy ounces in a troy pound. If a gold coin like the British sovereign is involved, you take its gross weight in grams (7.5739773), multiply by its fineness (.9167 fine) and then divide by 31.10352

About the Author

David L. Ganz (b. 1951) has traveled the world and had a multi-faceted career. He authored *A Beginner's Guide to Better Coins* in 1965, the same year he started writing the monthly column "Under the Glass" for *The Coin Shopper*. He began writing a column with the same name for *The Coin Collector*, published by the Lawrence Brothers of Anamosa, IA., in 1967, the same year he joined the American Numismatic Association. By 1969, he moved the column to *Numismatic News*, changed its frequency and became the paper's Washington Correspondent (1969-1973).

From that vantage point, he covered the battle in Congress to restore the right for Americans to own gold, witnessed the Hobby Protection Act creation, reported on the legislation that evolved into America's bicentennial coins and other laws passed by Congress. A graduate of Georgetown University's School of Foreign Service with a B.S. in Foreign Service, he received his law degree from St. John's University Law School in 1976. The following year, he wrote the seminal law review article "Toward a Revision of the Minting & Coinage Laws of the United States" which appeared in volume 26 of the *Cleveland State Law Review* 175-257 (1977), and was reprinted in its entirety in *The Numismatist*. Many of the suggested revisions have since been individually enacted by Congress.

He has written more than 30 books on a variety of subjects (from "A" [for *A Critical Guide to Anthologies of African Literature*] to "Z" [*Zoning Law*], and a number of coin books, recently including *The Smithsonian Guide to Coin Collecting* (2008), *Profitable Coin Collecting* (2008), *Rare Coin Investing* (2010), and *America's State Quarters* (2008).

In 1974, President Nixon appointed him to the U.S. Assay Commission, and later that year, as a journalist, he testified before the House consumer affairs subcommittee on coinage matters, the first of more than a dozen times since that he has addressed Congress on gold, silver and other coinage matters. In the fall of 1974, he was invited on the Congressional inspection trip to Fort Knox, and is now one of the "last standing" who have visited and taken floor tours of all U.S. Mints and bullion depositories. Over the past quarter century, he has also been a contributing editor to *Gold Coins of the World* by Arthur L. Friedberg and Ira Friedberg and served as a consultant to several precious-metal based international coin programs.

After serving on various committees of the American Numismatic Association from 1969 to 1984, and acting as the organization's legislative counsel, he was elected to the ANA Board (1985) and served for a decade, culminating with his becoming 48th President (1993-1995). Treasury Secretary Lloyd Bentsen designated him as a charter member of the Citizens Commemorative Coin Advisory Committee, and it was in that capacity that he became a critical advocate for the State quarters program that has brought over 130 million Americans to collecting these distinctive numismatic items. He served as mayor of Fair Lawn N.J., for seven years, and was recently re-elected to a fourth three-year term as Bergen County Freeholder (a county supervisor).

When he's not doing all of this coin and political stuff, he has practiced law in New York City for more than 30 years as senior partner in Ganz & Hollinger, P.C. He has three adult children and resides in Fair Lawn, N.J., with his wife Kathy and their four felines.

About APMEX

APMEX is one of the world's largest Internet-based precious metals retailers, offering competitively priced Gold, Silver, Platinum and Palladium products 24-hours a day, 7-days-a-week on its website at www.APMEX.com.

Individual investors, families, individual collectors, investment advisors, family trusts, investment funds and other individual investors from around the world come to APMEX for precious metals assets and related depository services. In addition to convenient web access, APMEX assists customers through dedicated telephone representatives trained in asset allocation and investment diversification. Phone support is available at 1-800-375-9006.

APMEX stocks a broad range of precious metals products, with over 3,500 different items in both coin and bar form, including products from sovereign governments. The company carries:

- All U.S. Mint bullion products (including gold, silver and platinum American Eagles)
- All Royal Canadian Mint products (such as gold, silver and platinum Maple Leafs and bars)
- A wide selection of semi-numismatic and numismatic collectible coins
- Supplies to help protect and display bullion coins, bars and coin collections

APMEX continuously updates buy and sell prices on the website to ensure transparency and full disclosure.

In addition, an APMEX subsidiary, Citadel Global Depository Services, provides maximum security of precious metals through an exclusive partnership with a global leader in security-related vaulting services. APMEX also helps long-term investors take advantage of precious metals individual retirement accounts (IRAs), by working with IRA administrators and precious metals depositories.

Finally, APMEX provides useful research, information and education through daily commentaries and weekly market reports. Registration is free on the website at www.APMEX.com.

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“A ONCE IN TWO OR

THREE GENERATION

OPPORTUNITY TO

NOT ONLY OBSERVE

PRECIOUS METALS

MARKETS, BUT TO <u>BE</u>

THE MARKET....”

A Precious Metal Moment

This is a precious moment in time – a precious metal moment. Psychological and market barriers of yesteryear have been breached. The United States and other major economic countries have virtually unsustainable government debt. Gold market highs of 1980 have been swept aside. The year 2011 was filled with milestones.

Gold first pushed past $1,500 an ounce, then went to $1,900 before beginning a gyration. Silver moved above $30, then $40, retreated to $30 an ounce and threw smelters into a tizzy. Platinum switched with gold for top dog, and the Dow Jones Industrial Average (DJIA) swung like a Duncan yo-yo.

Multiple vintage U.S. gold coins.

American inflation was under control, the U.S. dollar was under attack, foreign currencies were in their ascendancy and coins, including bullion and trade coins, were in their heyday.

Using prices in here may suggest to you that this book will be dated in another year. Nonsense. It is part of history, and if you are buying and selling precious metals, you are a part of it. That is exciting – a once in two or three generation opportunity to not only observe precious metals markets, but to *be* the market, or at least a component in it.

If you are serious about precious metal investing, you will need to see

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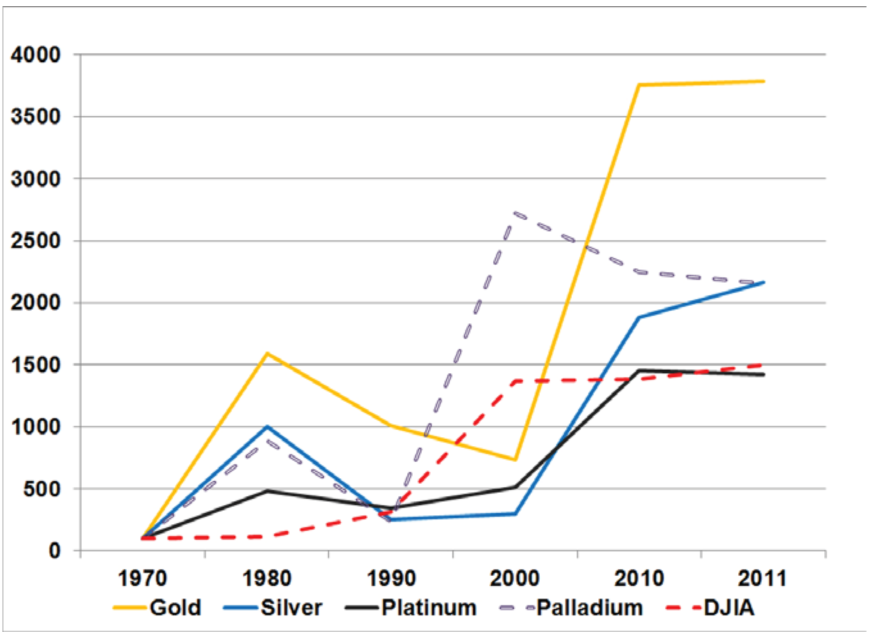
INDEXED PERFORMANCE OR PRECIOUS METALS AND THE DOW JONES INDUSTRIAL AVERAGE (1970 = 100)



the numbers, watch the market go up and down, and memorize some of the formulas and decide what to put your money into. You could:

- Buy bullion product such as ingots and bars.
- Buy bullion coins such as the American Eagle, Canadian Maple Leaf or South African Krugerrand.
- Acquire semi-numismatic precious metals coins such as pre-1933 U.S. gold coins or pre-1921 U.S. silver dollars
- Acquire numismatic precious metal coins in superior condition (generally encapsulated)
- Buy stock or certificates in a gold-acquiring company.
- Buy certificates or warehouse receipts for gold.
- Acquire gold coins in MS-60 or MS-61 condition (a little more expensive than a pure bullion purchase, but good value).
- A combination of many variations on this approach.

My suggestion: use this book as your reference point to help you through the analysis that you have to do every time you want to buy or sell.

It is an exciting time for anyone who has followed the precious metals market for the last half century. Gold is behaving in a manner that does not correspond with prior performance. Silver is not being squeezed, but has catapulted in value.

Gold coins that in the 1930s and before had virtually the same value as the denomination stamped on their face or reverse now have a worth that is substantially more. A U.S. $20 gold piece (which once had $19.99 in gold) now multiplies 0.9675 troy ounces by the daily price of gold on the London spot market and finds its metal worth over $1,500 – before adding any numismatic value.

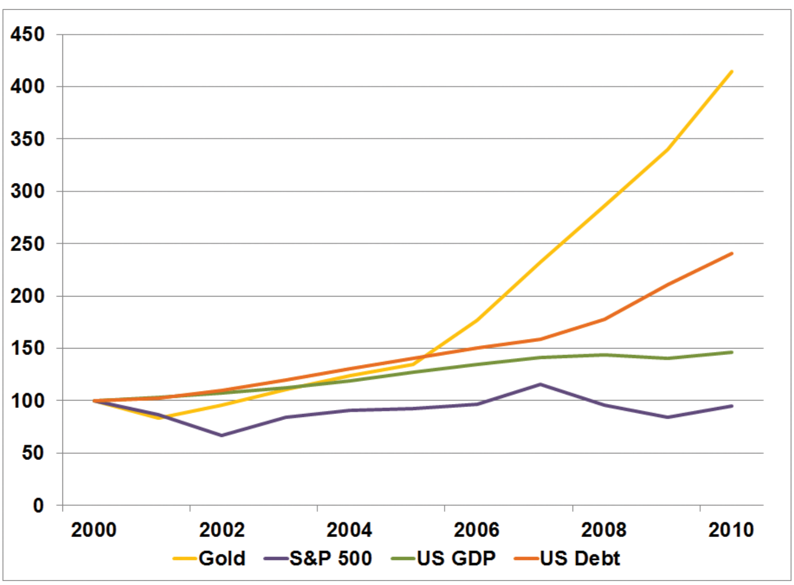
What's true for gold is even more so for silver: even the simple 1942-45 War nickel (with .05626 troy ounces of silver) is worth just about $2 as silver crosses the $35 an ounce mark.

There are now precious metal legal tender coins struck by the U.S. Mint at the direction of Congress (which encouraged gold ownership through their legislation) that include gold, silver, platinum and, starting in 2011, palladium. Since 1985, the U.S. Mint has sold over 250 million ounces of silver to the public. Gold total sales are around 24 million ounces. At current market prices, that's over $11 billion in silver and more than $36 billion in gold.

Why the current interest in gold, silver and precious metals? In this book, I will provide information to help you understand and comprehend both the current and historical elements of gold, silver and precious metals as both an investment and a monetary instrument.

As the calendar turned to the year 2000, it appears that a new age also dawned on investments. The "lost decade" of the stock market up to 2010 is more than just a play on words. Almost every investor in America saw their portfolios stagnate or drop up to 50% as the S&P 500 (one of the broadest indicators of stock prices in the U.S.) failed to significantly improve during the decade. However, as you can see from graph below, gold held its value or increased during the same period while the U.S. debt significantly increased

INDEXED COMPARISON OF THE S&P 500, GOLD, U.S. DEBT, AND U.S. GROSS DOMESTIC PRODUCT (GDP) 2000 = 100



and the U.S. Gross Domestic Product (GDP) did not keep up with the increase in the debt.

The negative correlation between the historical results of the S&P 500 and gold (the two indices seem to move in opposite directions during the same time frame) is an important concept to recall as we continue to review precious metals as a part of a diversified portfolio.

In the early 1950s, Harry Markowitz wrote a thesis on portfolio theory which proved mathematically, among other theories, that a portfolio with an allocation among asset groups showed increased performance over other investment methods. Markowitz won the Nobel Prize in Economics and the book, *Modern Portfolio Theory*, laid a foundation for decades to come for financial advisors to follow.

Unfortunately, during the severe financial crisis in the U.S. in 2008 (and which seems to continue), portfolio allocation among cash, stocks and bonds did not provide balance as these asset classes moved generally in the same direction in a relative high, positive correlation. Was Markowitz wrong in his prize winning theory? No, the mathematics are correct, rather it was the asset classes that may have been wrong. If an investor had included gold as an asset class along with cash, stocks and bonds during the “lost decade,” the performance of the entire portfolio would have improved proportionately with the allocation of gold.

Therefore, one could conclude that a balanced portfolio is one that includes asset classes that are not all positively correlated, but rather, some of the asset classes must have a negative correlation to other asset classes. With some asset classes in positive asset correlation and some asset classes in negative correlation, the Markowitz prize winning theory begins to take effect and the entire portfolio begins to improve in performance.

What is that asset class that can be added to cash, stocks and bonds to provide the negative correlation? If history is our guide, then gold, silver and precious metals would be that fourth asset class.

There is little doubt that today the American people are waking up to the imbalance in their portfolios and have begun to vote with their wallets making this the precious metals moment in this decade by adding gold, silver and precious metals as the fourth asset class.

“Do you believe that gold coins are expensive? Well, you’re about to find out how gold can be part of your investment strategy at a variety of price points.”

CHAPTER 1

Keys to the Precious Metals Market

I. Buying and selling precious metals

Buying and selling precious metals – gold, silver, platinum and palladium – can be fun and profitable. It can be a lucrative investment, a way to plan for your golden years of retirement with real gold.

There are also other opportunities to extend your interest into "rare and unusual" coins. You can buy bullion legal tender coinage, or bars of silver, platinum, palladium and gold in a variety of sizes, weights, designs, and packaging.

LEGAL TENDER: IT IS WHAT IT IS


An 1877-S Trade Dollar

Legal tender is simply a law of compulsion.

First used in China, Marco Polo described how the Chinese emperor required his subjects to accept paper money on pain of death. That incentive compelled them to comply.

Our coinage laws initially made all coin a legal tender with limitations. For instance, cents are legal tender to 25 cents. That is, you can't force someone to take more than 25 cents in change or payment. Dimes, quarters and half dollars were traditionally legal tender up to $10.

Originally, gold was legal tender for its fully declared value, weight, and measure. Today, precious metal coinage has a nominal legal tender value declared and usually stated on the coin. It could be a silver dollar with legal tender value of $1, a commemorative coin with a legal tender value of $5 or a bullion item like the 5-ounce silver America the Beautiful coin with a legal tender value of 25 cents.

The "legal tender" value is simply an accounting device. It bears no reality to the cost of production, the metal in the coin, or anything other than what the Mint recommended, or the legislature demanded.

Legal tender does mean, for example, that you can take a platinum $50 bullion coin worth around $700 on the open market, and go to the post office and demand $50 worth of postage stamps.

Or you can do what I did a few years ago when I took an old 1877-S Trade dollar in Very Fine condition with a legal tender value of $1 and asked the Mint to exchange it for a new Presidential dollar. The Trade dollar was valued on the open market at $175, while the Presidential dollar was worth $1.

But the Mint did the exchange at Grand Central Station terminal in New York City, even though the staff cautioned me that the older coin was worth "a lot more."

2. Gold coins aren't always expensive

Do you believe that gold coins are expensive? Well, you're about to find out how gold can be part of your investment strategy at a variety of price points.

A 1/10 ounce $5 gold coin

Although silver may be more in your price range at about $40 an ounce, don't think gold is out of your reach. An investor can acquire a fractional portion of an ounce of gold in coin form, ingot form, or even a physical paper share, which is like a shareholder with stock in a company. A 1/10 ounce gold American Eagle coin can be purchased for under $200 when gold is trading at about $1,600 an ounce.

3. Silver the early favorite for coins

Silver's history is as fascinating as gold's. Silver is a metal that our Founding Fathers insisted on using in our coinage, but America had no native silver mines. Coin production depended on private individuals bringing silver to the Mint, mostly Spanish coins that were then melted.

A silver peso

Silver was the metal of choice for much of the world's coins until 1965 when the price jumped above $1.29 an ounce. That allowed U.S. coinage, and that of many other countries, to be melted for its precious metal content. After that, silver became a significant investment vehicle in the form of medallions, ingots, flatware and bags of U.S. silver coins.

4. Platinum and palladium join the group

A platinum coin from Australia

Two other precious metals are platinum and palladium, which are from the platinum family of metals. They are rare metals and were not known to the ancients. Today they join gold and silver as the basis for the U.S. Mint precious metals coin and bullion program.

Palladium coinage was directed by Congress to begin in 2011, and soon it will join platinum as another great metal that has some commercial potential.

A Canadian palladium coin

There is considerably less platinum and palladium available than there is gold and silver, and the market is more volatile. Although there are many platinum and palladium bullion coins and products (ingots, bars, rounds and so forth), the number of coins originally intended for circulation are few and the number of collector-oriented items many.

5. U.S. Mint promotes precious metal sales

Selling bullion, bars, ingots, coins and medallions made of these precious metals is big business for the U.S. Mint, which began the modern era of precious metals sales in 1986. Since then, the U.S. Mint, backed by a network of dealers, has sold more than 250 million ounces of silver, 24 million ounces of gold, and about a half million ounces of platinum.

A 5 ounce silver bullion coin from the U.S. Mint

Valued at today's market, silver sales top $7.4 billion, aggregate gold sales are at $38.8 billion and platinum totals $984 million. All told, that comes in $46 billion worth of metals sold by the U.S. Mint.

6. Government holdings of gold

Yes, Virginia, there is gold in Fort Knox. In fact, the United States is the world leader in gold holdings with over 8,965 metric tons or about 261 million troy ounces. Value: $483 billion. And truly, a nation or governmental entity that controls that much gold has a say at the table over its future, but it's not enough to influence the gold market as a whole.

Thirteen nations and two international organizations, The International Monetary Fund and the European Central Bank, have about 26,307 metric tons of gold in their holdings. That's $1.56 trillion when valued at about $1,600 a troy ounce.

The United States currently has about 30.9% of the world's gold reserves. If you add the next three nations with the largest reserves (Germany with 3,400 tons, Italy with 2,450 tons and France with 2,400 tons), they don't quite equal the American hoard.

The American economy, however, depends not on how much gold it holds, but what it produces and what it can buy in the marketplace. The dollar is not convertible by the holder to gold; it is usable to purchase goods and services. And the United States still produces a lot more of these than other nations.

7. Bullion, numismatic coins marry

A price analysis of the gold, silver, platinum and palladium market for bullion coins shows that immediately after minting, bullion coins have value because of their metal content only. However, as time passes, many of the bullion coins become collectible as the specific dates of years past are desired by collectors who wish to build a set with one coin from each year. These older year bullion coins are bid up in the marketplace to include premiums in excess of the metal content, with aggregate value representing a collectible or numismatic value.

Many of today's numismatic or collectible rarities began their lives as bullion coins. In fact, some of the great numismatic collections were built buying gold coins for little more than their bullion value.

Legendary coin collectors John Jay Pittman, Louis Eliasberg and Harold Bareford all took advantage of this.

8. Precious metals now!

Precious metals have an imprecise definition, and may change over time, but they nonetheless have a number of commonalities. Here are some general traits:

- Rare or scarce.
- Available in limited quantity
- Chemically less reactive than other elements
- High luster
- More ductile than other metals
- Higher melting points
- Historically used as currency
- Traded in commodity markets
- May have a value that increases and decreases over time.
- Display good tensile strength and conductivity
- Price reflects scarcity or rarity but may vary

9. An example of my precious metal retirement

Back in 1998, I decided to buy $10,000 worth of "rare coins" and turn them into a retirement plan. The coins were all "rare coins," but none were terribly expensive. Because it is the best known and most followed precious metal, a secondary portfolio was also devised consisting of gold coins that would legally be called "rare and unusual," but also inexpensive. None cost over an average of about $100 each.

There were 103 gold coins in that portfolio. The gold coins came from 54 countries or issuing authorities (the United States is a country; a ducat dated 1789 from Venice, Italy, is from an issuing authority). The average cost of the 103 coins was $85.73; the total weight of all 103 coins was a shade over 17 ounces (12 troy ounces of gold equals a troy pound) and the average weight of each gold coin was about 0.16 troy ounces (which at $303 an ounce, the average price in 1998 would have meant that there was a core melt value of the coins of about $5,100).

Today, when evaluating the 1998 portfolio strictly on the basis of the precious metal content, the results are startling. Gold is a product that shows to be a bona fide investment. Here is the growth from 1998 to 2011.

- 103 gold coins (same as 1998)
- 17.09 troy ounces – weight of gold coin portfolio
- $1,625/troy ounce – market price of gold
- $27,776.43 – value of metal in the 103 coins
- $18,774.25 – profit on the portfolio
- 9.8% – annual rate of return compounded over 12 years
- 2.75% – Dow increase compounded 1998-2011
- 2.5% – rate by which gold outpaces the Consumer Price Index, 1998-2011

From this, it is clear that gold is in the catbird seat.

10. Owning precious metals: the choices

You can buy or acquire precious metal in many different forms.

In Table 1, starting on page 26, are the prices and premiums for various bullion coin products on a random date, March 18, 2011: The London Fix on each of the principal precious metals was:

- Gold $1,420
- Silver $35.15
- Platinum $1,720
- Palladium $720

11. A word about pricing

Historical pricing in the precious metals field may be confusing, especially for gold. That's because there is a "free market" price set by negotiation between business parties, and an "official" price at which world governments value the gold held in their reserves.

From the mid-1830s until 1933, gold was officially priced at $20.67 an ounce – the same price it held in the marketplace. Then, in 1933, President Franklin Roosevelt devalued the dollar by raising the official price of gold to $35 an ounce. The

FIXED VALUE OF A SILVER DOLLAR

Weight .7734 troy ounce multiplied by the price of silver.

At $10 an ounce: $7.73
At $20 an ounce: $15.46
At $30 an ounce: $23.20
At $40 an ounce: $30.94

TABLE 1: MODERN ISSUES CURRENTLY BEING SOLD WITH PREMIUM COST COMPARISON.

	Price of Metal*	Premium	Total Cost	% Premium
90% Silver Coins - $100 Face Value	$ 2,552.00	$ 58.63	$ 2,610.63	2.30%
90% Silver Coins - $1,000 Face Value	$ 25,520.14	$ 514.50	$ 26,034.64	2.02%
Gold - 1 oz Chinese Panda Coin .999	$ 1,417.50	$ 77.04	$ 1,494.54	5.43%
Gold - 100 g cast bar	$ 1,417.50	$ 59.29	$ 1,476.79	4.18%
Gold - 100 g Minted Bar .9999	$ 1,417.50	$ 59.29	$ 1,476.79	4.18%
Gold 10 oz Cast Bar Johnson Matthey	$ 1,417.50	$ 59.29	$ 1,476.79	4.18%
Gold Bar 1 oz	$ 1,417.50	$ 31.00	$ 1,448.50	2.19%
Gold Bar 1 oz Perth Mint	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Bar 10 oz Perth Mint	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Bar 5 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Buffalo 1 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Eagle 1 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Eagle 1/10 oz	$ 141.75	$ 58.63	$ 200.38	41.36%
Gold Eagle ½ oz	$ 708.75	$ 58.63	$ 767.38	8.27%
Gold Eagle 1/4 oz	$ 354.38	$ 58.63	$ 413.01	16.54%

TABLE 1: MODERN ISSUES CURRENTLY BEING SOLD WITH PREMIUM COST COMPARISON.

	Price of Metal*	Premium	Total Cost	% Premium
Gold Krugerrand 1 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Maple 1 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Maple 1/10 oz	$ 141.75	$ 58.63	$ 200.38	41.36%
Gold Maple ½ oz	$ 708.75	$ 58.63	$ 767.38	8.27%
Gold Maple 1/20 oz	$ 70.88	$ 58.63	$ 129.51	82.72%
Gold Maple 1/4 oz	$ 354.38	$ 58.63	$ 413.01	16.54%
Gold Philharmonic 1 oz	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Gold Philharmonic 20 oz	$ 28,350.00	$ 58.63	$ 28,408.63	0.21%
Kitco 500 oz Cast Silver Bar	$ 17,640.00	$ 410.00	$ 18,050.00	2.32%
Olympic Gold Maple 1 oz 2008	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Olympic Gold Maple 1 oz 2009	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Olympic Gold Maple 1 oz 2010	$ 1,417.50	$ 58.63	$ 1,476.13	4.14%
Olympic Silver Maple 1 oz 2008	$ 35.28	$ 4.22	$ 39.50	11.96%
Olympic Silver Maple 1 oz 2009	$ 35.28	$ 4.22	$ 39.50	11.96%
Olympic Silver Maple 1 oz 2010	$ 35.28	$ 4.22	$ 39.50	11.96%

TABLE 1: MODERN ISSUES CURRENTLY BEING SOLD WITH PREMIUM COST COMPARISON.				
	Price of Metal*	Premium	Total Cost	% Premium
Palladium Bar 1 oz	$ 729.00	$ 40.00	$ 769.00	5.49%
Palladium Bar 1000 g	$ 23,437.35	$ 1,189.00	$ 24,626.35	5.07%
Palladium Maple 1 oz	$ 729.00	$ 55.00	$ 784.00	7.54%
Platinum Bar 1 oz	$ 1,721.00	$ 83.00	$ 1,804.00	4.82%
Platinum Bar 10 oz	$ 17,210.00	$ 580.00	$ 17,790.00	3.37%
Platinum Eagle 1 oz	$ 1,721.00	$ 156.42	$ 1,877.42	9.09%
Platinum Eagle 1/10 oz	$ 172.10	$ 22.55	$ 194.65	13.10%
Platinum Eagle ½ oz	$ 860.50	$ 86.21	$ 946.71	10.02%
Platinum Eagle 1/4 oz	$ 430.25	$ 47.73	$ 477.98	11.09%
Platinum Koala 1 oz	$ 1,721.00	$ 156.32	$ 1,877.32	9.08%
Platinum Maple 1 oz	$ 1,721.00	$ 156.32	$ 1,877.32	9.08%
Platinum Noble 1 oz	$ 1,721.00	$ 156.32	$ 1,877.32	9.08%
Silver Bar 10 oz	$ 352.80	$ 19.20	$ 372.00	5.44%
Silver Bar 100 oz	$ 3,528.00	$ 162.00	$ 3,690.00	4.59%
Silver Bar 100 oz RCM Minted	$ 3,528.00	$ 162.00	$ 3,690.00	4.59%
Silver Bar 1000 oz	$ 35,280.00	$ 670.00	$ 35,950.00	1.90%

TABLE 1: MODERN ISSUES CURRENTLY BEING SOLD WITH PREMIUM COST COMPARISON.				
	Price of Metal*	Premium	Total Cost	% Premium
Silver Grizzly Bear 1oz	$ 35.28	$ 6.22	$ 41.50	17.63%
Silver Koala 1 Kg	$ 1,134.25	$ 95.49	$ 1,229.74	8.42%
Silver Koala 1 oz	$ 35.28	$ 4.47	$ 39.75	12.67%
Silver Koala 10 oz	$ 352.80	$ 24.20	$ 377.00	6.86%
Silver Kookaburra 1 Kg	$ 1,134.25	$ 95.49	$ 1,229.74	8.42%
Silver Kookaburra 1 oz	$ 35.28	$ 4.47	$ 39.75	12.67%
Silver Kookaburra 10 oz	$ 352.80	$ 95.49	$ 448.29	27.07%
Silver Lunar 1 Kg	$ 1,134.25	$ 95.49	$ 1,229.74	8.42%
Silver Lunar 1 oz	$ 35.28	$ 4.47	$ 39.75	12.67%
Silver Lunar 10 oz	$ 352.80	$ 25.28	$ 378.08	7.17%
Silver Maple 1 oz	$ 35.28	$ 4.22	$ 39.50	11.96%
Silver RCM Wolf Coin 1 oz 2011	$ 35.28	$ 4.97	$ 40.25	14.09%
Special Gold Maple 5 X 9 pure 1 oz	$ 1,417.00	$ 91.24	$ 1,508.24	6.44%
			AVERAGE=>	9.75%

market price and official price remained more or less the same until 1968, when a two-tiered market (official and unofficial) price began.

It reached its apogee on Jan. 16, 1970, when the official price was $35 an ounce and the free market price fell slightly to $34.90. Since then, it has been a march of progress. Today, the official price of gold is at $42.22 an ounce, while the free market price is some 40 times higher.

This "book price" is what is found in the Treasury Department's balance sheet statement, which is why so many people have a practical difficulty in understanding how bullion coins of today compare with older numismatic coins that once circulated.

Melt value, by contrast, is what the precious metal coin would bring if it were put into the melting cauldron, devoid of manufacturing or distribution costs or any numismatic value. Melt price is what the refinery pays.

But just because the market value of gold is $1,680 doesn't mean the refinery will pay $1,680 for a 1 ounce gold coin. Everybody has to make some money, and the refinery has costs to melt, refine, redistribute and finance the gold in order to bring the gold back to the market.

Today, gold will be priced differently depending on the form of delivery. The differences in price relate directly to the manufacturing, distribution and marketing costs for the issuer. All of these costs are added to the current market price, or spot value, of the gold as a premium.

Gold in bar form carries the lowest costs of conversion and accordingly the lowest premium in excess of the gold spot value. Gold in coin form, as issued by a sovereign government, carries a higher cost of conversion because of the minting cost, and often includes a guarantee of purity and authenticity by the issuing government.

So, with a hypothetical gold 1 ounce bullion coin, here's how the value might look with gold quoted at $1,638 an ounce.

LONDON FIX	$1,638	RETAIL PRICE		BUY-BACK PRICE	
Spot Market	$1,619	Maple Leaf	$1,651	Maple Leaf	$1,611
Melt value	$1,604	1 oz Bar	$1,641	1 oz. Bar	$1,601
Melt price	$1,551	U.S. Eagle	$1,673	U.S. Eagle	$1,631
Official Price	$42.22	Krugerrand	$1,651	Krugerrand	$1,611

There are a number of other prices for buy and sell transactions involving many different sizes, weights and denominations for gold, silver, platinum and palladium. For up-to-date prices, check out the APMEX website, www.APMEX.com.

12. How much precious metal to buy

While the asset allocation in your portfolio is a matter best determined by you to meet your investment objectives, there are certain factors you should consider in your decision.

Just like reviewing your asset allocation in your IRA, 401(k) or other portfolio, your objectives include many considerations, but most likely include the following: (a) analysis of preservation of your investment capital, (b) the "real" return on your investments as a whole ("real" return is the nominal return or the actual return, less inflation over the investment period), (c) your investment period (short term – less than one year, intermediate term – three to five years, long term – more than five years), (d) liquidity (how fast you can turn your investments into cash), (e) your tolerance for risk and uncertainty over the investment period and other considerations.

Generally, a balanced portfolio is one that has both positive and negative correlations among the asset classes. Of course, no asset class always increases every year, but one of the keys to a balanced portfolio is to initiate, maintain and change the allocation between asset classes so that for the time and the season of the investment cycles, you move fund allocation between asset classes, some increasing and some decreasing, based on your view of the economic future. Some of the asset classes tend to move together under certain economic conditions (a positive correlation) and some asset classes tend to move opposite other asset classes (a negative correlation). The concept of a balanced portfolio is to always have some allocation in all asset classes (since it is impossible to correctly predict the economic future) and you balance or re-balance among the asset classes based on your own view of the economic future. This strategy does not yield a real return on every asset class (because of the negative correlation among the classes) but the objective is to have the real returns more than offset the real losses so that the capital is preserved, as well as to provide a net real return on the entire portfolio.

1884-S Morgan dollar

Most investors consider the asset classes to be cash, stocks, bonds and the fourth asset class of alternatives or tangible assets. One of the largest assets in the fourth asset class is gold and precious metals and this class has historically held a negative correlation to cash, stocks and bonds. While there are negative correlations among cash, stocks and bonds, there are certain economies when these three asset classes move together (or positively correlate) and without the fourth asset class of gold and precious metals, under those economic conditions your portfolio will be out of balance and you may experience net real losses on your entire portfolio resulting in the loss of your investment capital. Perhaps your portfolio experienced a loss of capital during the U.S. economic crisis of 2008 as all of your allocated asset classes were correlated and all did not provide a real return.

The allocation among the asset classes of cash, stocks, bonds and the fourth asset class of gold and precious metals is one of the most important strategic decisions you will make about your portfolio. My purpose in this book is to assist you in understanding the fourth asset class of gold and precious metals so you can allocate properly for your investments.

Here is a final thought on asset allocation: mathematically, an asset allocation of less than 5% of the total assets most likely will not significantly balance the portfolio. Consider the possible results of this economic scene: if the correlated assets are 99% of the portfolio and the economic conditions are such that the correlated assets do not provide a real return, for example declining in value by 20%, even if the 1% allocation of non-correlated assets increase by 100%, the results are as follows: (1) correlated asset original allocation 97% of portfolio value, after real losses, 79% of original portfolio value; (2) non-correlated asset original allocation 3%, after real returns, 6% of original portfolio value; (3) aggregate of original value after this allocation, 85% of original portfolio value. You can easily work through a variety of scenarios for your own asset allocation among cash, stocks and bonds (sometimes highly correlated) and the fourth asset class gold and precious metals (sometimes highly non-correlated).

13. How to buy precious metals

When buying precious metal bullion coins or products, there are a number of ways that an investor can conclude the transaction. Here are several ways:

- Take physical possession and delivery immediately upon payment.
- Buy it and enter into a storage arrangement with the vendor or third party with ownership in your name.
- Enter into a payment arrangement with the vendor maintaining possession until payment is made in full.
- Make arrangements with an independent warehouse to manage the purchase.
- Leave the purchase with the dealer so the bullion can be easily traded or transferred.
- Buy the equivalent of a "warehouse receipt" where the precious metal is not specifically identified or segregated.
- Buy the equivalent of a "warehouse receipt" where the precious metal is specifically identified or segregated.
- Always obtain a written receipt detailing any coins or bullion purchased.

At one time, the coins of the United States were made of precious metal and the face value of the coins were equal to the value of the precious metals content. What you saw was what you got. Between 1849 and 1933, a gold double eagle with a face value of $20 contained $20 worth of gold (0.9675 troy ounces). And from 1794 to 1965, a silver dollar weighing a little over 3/4 ounce (.7734 troy ounces) contained a dollar's worth of silver.

14. Where to buy precious metals

There are generally three ways to buy precious metals: (1) purchase from a retail establishment in your local geography; (2) purchase from a telemarketer; and (3) purchase online from an Internet retailer. For a more specific review of the differences in each of these buying channels, please see Chapter 14.

For perhaps the last 2,000 years, gold and silver have been available at retail sellers in what is basically an over-the-counter retail presentation. Today, gold and precious metals are available in the U.S. at almost every one of the approximately 10,000 local coin dealers while in Europe and Asia, gold and precious metals are also available at some bank branches. Generally, the local coin dealers are individually owned and operated stores in strip malls and other retail locations and along with the gold and precious metals, offer rare and collectible coins and possibly rare stamps and other collectibles. Because the local coin dealer serves an area and population that is geographically limited, the local coin dealer has a limit on the total annual sales volume and accordingly, maintains inventory and availability only meet that limited demand.

Telemarketing retail began in the 1960s and later years as 1-800 inbound telephone service was developed along with lower and competitive outbound long distance rates. In the U.S., a very few coin dealers seized upon this opportunity and initiated telemarketing businesses in the late 1980s and 1990s, taking advantage of a national market and geography so that annual sales had the potential to be much larger than the local coin dealer model and as a result, larger selections and availability was improved. Over time, the telemarketing model has changed and today there are a few national retailers with telemarketing services.

With the advent of the Internet in the 21st century, almost all retailers started adding an Internet component to the local bricks and mortar businesses. A few Internet retailers have developed over the last 10 years that have taken full advantage of the lower cost model of one central inventory that is wide, extensive and immediately available, lower cost of order taking and processing and provided the customer with 24/7/365 access to buying.

In the U.S. markets, a few retailers have established very large businesses by providing the added convenience and lower cost of the Internet distribution model. In the gold and precious metals markets in the U.S., just like in other retail markets, there are very few large and successful Internet retailers. Purchasing from a large, Internet retailer like APMEX at www.APMEX.com, offers perhaps the best selection for immediate delivery with the convenience of web-based ordering system which does not require (but is at your option) talking to what is often a commission-based salesman either at a local coin dealer or at a national telemarketer.