THE FLYING FRISBY

HOW TO INVEST IN GOLD

BY DOMINIC FRISBY

Introduction

We are living in a world of uncertainty. There is inflation, war, political discontent, financial instability and, perhaps most concerning of all, state incompetence everywhere you look. The case for owning gold, for having wealth stored outside the system, where it is nobody else's liability, is as strong as it has ever been.

There is old Wall Street adage: "Put 10% of your net worth in gold, and hope it doesn't go up." If gold is going up, it usually means there are problems elsewhere.

The adage applies now, as much as it did when it was first coined many decades ago.

How to invest in gold.

There are five ways:

1. You can go old school and buy bullion - coins or bars.

2. You can buy gold stored in vaults in places like London, Jersey, Zurich or Singapore. This gold is allocated to you.

3. You can buy ETFs via your stock broker. These are funds that store gold. The price of the fund tracks the gold price, and you own shares in the fund. (See footnote [1], if you need to understand what an ETF is).

4. You can buy gold companies - refiners, royalty companies, miners and so on.

5. You can buy futures, CFDs or spreadbets.

I'm not talking today about buying mining companies (if you are interested in mining companies, consider a [paid subscription](), as gold mining companies are one of my areas of expertise). Nor am I talking about futures, CFDs or spread betting the gold price. Neither is safeguarding your wealth. They are speculation. In the right market they can make you a lot of money. In the wrong market, they can also lose you a lot.

Today we are talking about old school, physical gold

I'll put to one side arguments about whether gold is a good investment or not (I think it is), and whether I think it is going up or down. I'll simply explain what is the easiest, cheapest and, perhaps above all, safest way to buy gold.

[1] What is an ETF? ETF stands for exchange traded fund. An ETF trades on a regular stock exchange. You can buy or sell it, as you would buy or sell any security. Each ETF specializes in something - it might be gold, it might be bitcoin, it might be a stock index - and it owns whatever it is it specializes in. So a gold ETF would hold gold. In buying the ETF you would effectively own shares in the gold it holds. The price of the ETF would rise and fall with the price of gold. Thus an ETF is a simple way to get exposure to a particular market via a broker.

A note on ETFs

ETFs are a simple way to get exposure to the gold price. It's not really the same as owning actual metal, so the purists tend to veer away from ETFs, but institutions like them, as do traders. They are easy to buy and sell. You buy an ETF just as you would buy any stock or share through your broker. London-listed gold ETFs include **RMAU.L** and **PHAU.L.** The world's biggest is the NYSE-listed **GLD**. Costs - for example storage - are baked into the price.

To buy an ETF, you need an account with a broker, such as Hargreaves Lansdown or Interactive Investor. You deposit money and buy through them.

I steer away from ETFs mainly because they are too easy to get shaken out of. When you buy physical gold, to sell can be a bit of an undertaking, so it's less likely to be done on a whim. Owning physical turns you into a long-term investor. It may be that you never sell at all and end up passing the gold on to your heirs.

So where do you buy gold from?

I've used many bullion dealers over the years. The dealer I like most, and with whom I have an affiliation deal, is the Pure Gold Company. Premiums are low. Quality of service is high. You get to deal with a human being. You can take delivery of your gold or store it online with them in their vaults. They deliver to the UK, US, Canada and Europe, or you can store your gold with them in their vaults. (If you speak to them, tell them I sent you).

In theory, there is not a great deal of difference between an ETF and storing your gold online with a bullion dealer. Both are extremely convenient, whether for buying and selling. Both give you exposure to the gold price. But I favour the storing-it-with-a-bullion-dealer route, as, somehow, you are less likely to sell. ETFs make it too easy to sell and so weaken your hands.

Where are you going to put your gold

Once you've decided where to buy your gold, the next question is: where to put it? Different people with different circumstances have different solutions.

Some people have a safe at home and keep their gold there. Some keep their gold in safety deposit boxes. Others never take delivery at all, and keep it safely stored in a vault with the dealer in sensible places like Zurich, Jersey or Singapore.

I'm not convinced homes in our "vibrant" British cities are safe, so these are not options I would take, but … I know one guy that has all his gold stored in a sock in his loft. I know another that has buried it in his garden, and only his close family know the location - he has quite a bit of land. I know another that keeps his gold and silver in plain sight - he uses the bars as doorstops. Nuts you may say, but how about this? He got burgled and the burglars didn't take the bars. They obviously thought they were just doorstops.

If - and only if - you have somewhere safe to store it, I'm a great advocate of taking delivery. You get to handle your metal. There are lots of fantastic different coins from around the world to buy - Chinese Pandas, South African Krugerrands, American Eagles, Austrian Philharmonics, Canadian Maples, Australian Kangaroos. The bars are nice too. It's good to handle gold. But I refer you to my above comment about cities today.

What about tax?

Competition amongst ETFs and bullion dealers has conspired to drive down prices, much to the benefit of the consumer. But there is one enormous cost that neither of these methods are able to avoid - tax.

When you sell, you are incurring a Capital Gains Tax (CGT) event - 20% in the UK for higher rate tax-payers and 10% for lower. That's an unavoidable 10 or 20% erosion of any profit.

But there's another method of buying gold (and silver), which, quite legally, avoids this cost altogether. There is a slightly higher premium to spot when you buy, but we are talking about a tiny amount, nothing like 20% CGT. Given the potential savings involved, it's surprising that more UK investors don't buy their gold and silver in this way. The method I'm describing, if you haven't already figured it out, is to buy sovereigns and Britannias.

The gold sovereign used to be the pound coin. Imagine that - a pound coin made of solid gold. It was the pound coin from 1816, after the Great Recoinage, until 1932, when the UK finally abandoned its gold standard. Until then, the pound really was “as good as gold”. 22 carat gold to be precise – that’s about 92% purity. A sovereign weighs about 7gs, which is around a quarter of an ounce.

Such is the devaluation of currency that has taken place over successive generations in the UK, it now takes about 400 pound coins to buy one of these old pound coins.

Despite no longer being on the gold standard, the Royal Mint began producing sovereigns again in 1957 and continues to the present day. A large number of them are actually minted in that well known British heartland, Delhi. (That’s because there is a huge market for them in India).

Technically these coins are legal tender, so they are exempt from CGT.

As sovereigns are so common, the numismatic value is very low. You can pick up 100-plus-year-old Victorian coins at a few percent over spot. You get the history for free.

The main exception is the 1937 sovereign struck for Edward VIII. As he abdicated, the coins were never circulated. One sold in 2014 for over half a million quid. That's some premium.

Gold Britannias – which are an ounce in weight – only began to be issued in 1987. But they too are considered coins of the realm. Despite the fact that an ounce of gold is £1,500, the face value of a Britannia is £100. Don't ask me how that works. I'm sure there's a reason. But, as coins of the realm, they too are exempt from CGT.

The Royal Mint began producing silver Britannias in 1997. They also weigh an ounce. They have a face value of £2 (an ounce of silver is about £16) and are also exempt from CGT.

Sovereigns are not the most beautiful coins in the world - Britannias are nicer - but both make for a considerable saving on CGT (assuming you have made a gain when you come to sell - of course, there is no guarantee of that).

Thank you very much for reading this report. Good luck with your investments, and I hope you enjoy reading The Flying Frisby. Remember the adage: "Put 10% of your net worth in gold, and hope it doesn't go up." If gold is going up, it usually means there are problems elsewhere.

Once again my recommended bullion dealer is the Pure Gold Company. Premiums are low, quality of service is high. You can deal with a human being. You can take delivery of your gold or store it online with them in their vaults. They deliver to the UK, US, Canada and Europe, or you can store your gold with them in their vaults.

Until next time,