

How to Buy Gold

Many advisers believe that gold deserves a spot in your investment portfolio because it is a diversifier.

Smart Money Magazine, June 24, 2011

In times of financial panic, inflation, and even deflation, people come out of the woodwork touting the safety of owning gold. These so-called gold bugs believe that gold is the only true currency, especially in times of extreme stress.

Now, thanks to exchange-traded funds, gold-vending machines and jewelry swaps, investors have more ways to buy and sell gold than ever before. Many advisers believe that gold, and other precious metals and commodities, deserve a spot in your investment portfolio because they act as a diversifier. Others say that gold and other commodities aren't investments, but collectibles, because gold itself can't produce returns.

But before you join the gold rush, keep these tips in mind.

Don't expect any return.

- **A streaky investment.** Gold, in U.S. dollar terms, returned 17.7 percent per year from 2001 to 2010. But gold doesn't always run. From January 1980 through the end of 1999, for example, gold lost nearly 60 percent of its value relative to the U.S. dollar.
- **An uncorrelated investment.** Gold doesn't move in tandem with other assets, so it can serve as a good diversifier in an investment portfolio. Some financial advisers recommend keeping up to 5 percent of your portfolio in gold to help stem portfolio volatility.

There are many ways to buy gold.

- **The real deal.** Gold bars and coins are the best option for those who want to keep their gold close at hand. Jewelry represented 54 percent of total gold demand in 2010, according to the World Gold Council.
- **Funds and ETFs.** Some gold exchange-traded funds, like the SPDR Gold Shares (GLD), are backed by actual gold, although shareholders don't have the option of taking possession. ETFs are easy to buy and sell. GLD's expense ratio is just 0.4 percent.
- **Stocks.** Gold mining stocks offer investors a way to bet on gold demand. Mining company profits can change rapidly with the price of gold, so when gold's price goes up, mining stocks tend to go way up, and vice versa.

Keep it safe. Investors who opt to hold actual gold must keep certain considerations in mind.

- **In the bank?** Banks rarely insure the contents of their safe deposit boxes, so you're on your own if the bank gets robbed.
- **At home?** Homeowners' insurance policies generally cover very little gold stored in the home, even with a special rider. Some insurers, for example, have a \$200 limit in total on money, bank notes and bullion, according to the Property Casualty Insurers Association of America.

- **In a pool?** No, not your swimming pool. Gold dealer Kitco offers pooled accounts, where your gold is held along with other customers'. The gold is insured against theft and damage.

What not to do when buying gold.

- **Don't be a sucker.** To avoid getting suckered into the latest scam, buy from a reputable dealer with at least 10 years in the business, and make sure your merchant buys from wholesalers supplied directly by the U.S. Mint.
- **Don't pay too much.** Never pay premiums of more than 8 percent over the spot price of gold for a one-ounce coin.

For more reading: The U.S. Mint does not sell investment gold directly to the public, but it has information on where to find American Eagle coins [here](#). Metals dealer [Kitco](#) has a web site that combines news and commerce. [The World Gold Council](#), an industry trade group, also hosts a wealth of information.