Beginner's guide to investing in gold: The major ways to buy and trade gold, and the benefits and drawbacks of each

- **Individual investors can invest in gold in two ways: physical bullion (bars or coins), or securities (stocks, funds) that represent gold.**
- **While bullion is a more direct, "pure" way to own gold, securities are easier to hold and can appreciate.**
- **Analysts recommend investing 5 to 10% of your portfolio in gold, as a long-term inflation hedge and diversifier.**
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Gold is seen as a safe haven investment in uncertain times, a hedge against inflation and paper assets.

Ah, gold. It's rare, accepted everywhere, and governments can't print it at will. These are the reasons that some folks — fondly known as "gold bugs" — have always invested heavily in the honey-hued metal. And in times of financial chaos, they're not the only ones.

"History has shown that during economic slowdowns, from the Great Depression to the COVID-19 pandemic, gold appreciates in value," says financial analyst James Jason of Mitrade, a commodities trading platform.

No matter what the state of the economy, gold offers a good way to diversify your assets. Many financial advisors recommend keeping anywhere from 5% to 10% of your portfolio in it — perhaps up to 15% in times of crisis.

Individuals have two main ways to invest in gold:

- Physical gold, or bullion (the most obvious, but not necessarily the least expensive)
- Gold securities such as stocks, funds, and futures (less of a pure play, but more convenient)

Let's go digging into both.

How to invest in physical gold

Physical gold comes in many forms and sizes, each with its own characteristics and costs.

Gold bullion

Bullion often refers to gold in bulk form, usually bars or ingots. Typically, gold bars are poured and ingots are pressed (a cheaper production method). As a result, bars command a higher premium, or added cost, over the daily spot price of gold than ingots.

Ranging in size from quarter-oz. wafer to a 430-oz. brick, bars, and ingots are stamped with purity, origin, weight, and where the bullion was minted. Not all gold is equal, especially when it comes to purity and weight. Investment-grade gold is at least 99.5% pure.

Bullion bars and ingots are sold by banks and gold dealers. Banks often offer physical gold at a lower-markup than dealers but finding a branch that actually has it may be harder.

Gold coins

Minted coins are another common way to buy physical gold. Not to be confused with old rare coins that numismatists collect, these coins are new, minted by governments for investors. The prices they fetch are based on their gold content — aka their "melt value"— plus a 1%-5% premium.

Although several governments issue gold coins, for maximum liquidity, most buyers stick with the most widely circulated and recognized:

- American Gold Eagle
- Australian Gold Nugget
- Canadian Maple Leaf
- South African Krugerrand

Minted bullion coins are available from major banks, coin dealers, brokerage firms, and precious metal dealers.

Pros and cons of physical gold

For many people, the whole point of owning gold is to own the physical stuff. It's the actual metal that has most of the inherent investment advantages.

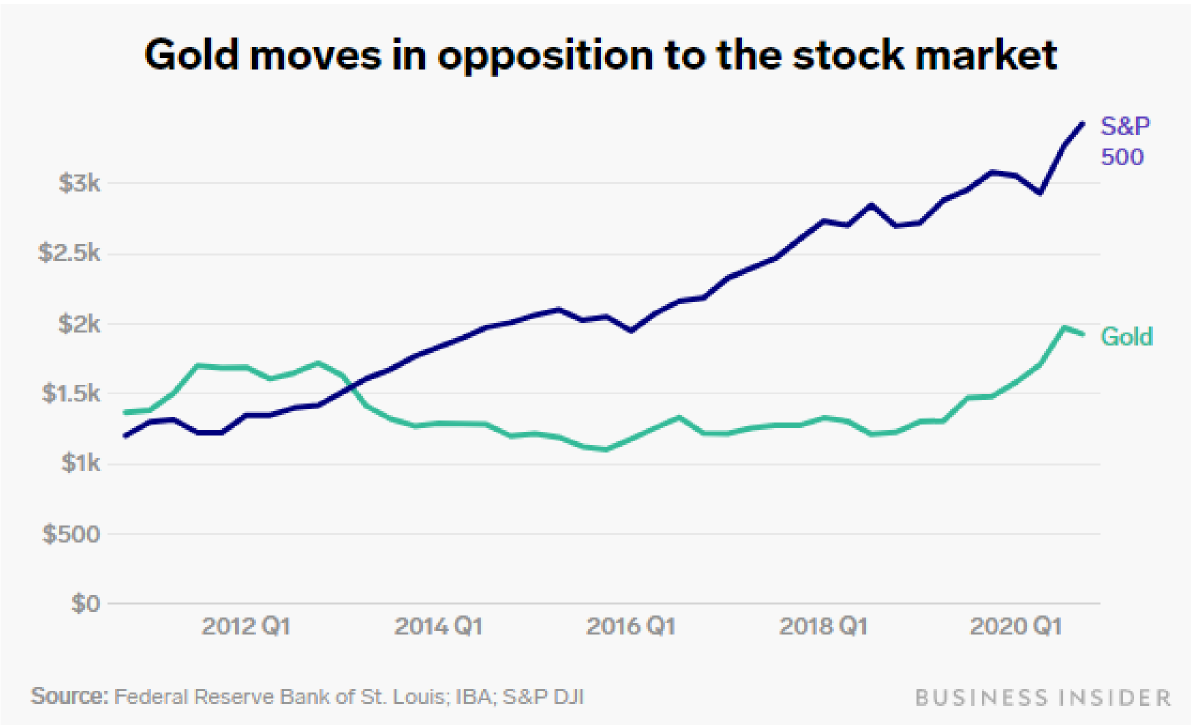
Advantages of physical gold

- **Inflation hedge.** Advocates argue that, as a tangible asset, gold maintains an intrinsic value that always reflects the cost of living. There's an old saying that an ounce of gold equals the cost of a quality business suit. That held in 1934 when men's suits fetched $35, and it does today too, with gold close to $2,000 an ounce (of course, that suit better be a Boglioli).
- **Counterweight to stocks.** Like other commodities, gold acts as a counterfoil to equities, usually moving in the opposite direction of the stock market. Case in point: When the subprime mortgage meltdown began in 2008, ushering in the Great Recession, gold—which for years had been trading in the $400-600 range—shot up to $1,000 per ounce and kept going for the next three years.
- **Safe haven.** Gold's seen as a safe haven in uncertain times or whenever there's socio-political turmoil. After the 2016 Brexit vote, its price rose over 10% in one month, for example. "Owning gold," says Dennis Notchick, a certified financial planner at Stratos Wealth Advisors, "appeals to individuals who are concerned about the collapse of global markets or other threats to a government's ability to back its currency."
- **Virtually indestructible.** "Physical gold cannot be hacked or erased," says Charles Stevens, COO of Bullion Box Subscriptions. (Remember, we're thinking in catastrophic terms here.) "Gold cannot be destroyed by a natural disaster and it will not get worn down in time."

Drawbacks of physical gold

- **Expensive to hold.** Storing gold at home carries enormous risks of theft or loss. Keeping it in a commercial facility incurs storage costs, often based on the size and value of the holdings (anywhere from .5% to 2%). If you're not using a professional storage facility, you'll want to insure your gold, too — another ongoing charge.
- **Illiquid.** Physical gold can't be sold with a press of the button or a call to a broker. Even with dealers acting for you, a sale can get days or weeks to settle, plus you have to arrange for shipping.

- **Does not produce income or profit.** A $1,000 investment in bullion buys $1,000 — period. Physical gold doesn't generate interest or dividends. The only potential for appreciation is if there's a jump in prices that lets you sell at a profit (and even that can be compromised by the time, effort, and various assessment costs that accompany selling).



How to invest in gold securities

Given the hassles and limits of bullion, gold securities — in the form of stocks, funds, or options — are often a better choice, especially for novice investors.

They may not be as pretty, but they're infinitely more practical:

Gold stocks

Buying shares of companies in the mining, refining, or other aspects of the gold production business is one way to play. About 300 of these companies, aka "miners," are listed on major stock exchanges. Their share prices generally reflect the movement of the metal itself. However, "the growth and return in the stock depend on the expected future earnings of the company, not just on the value of gold," notes the World Gold Council, an industry trade group.

Gold ETFs and mutual funds

More conservative investors can buy shares in gold-oriented mutual funds or exchange-traded funds (ETFs). These funds have varying investment approaches: gold-backed ETFs tend to invest directly in physical gold, while mutual funds favor gold mining stocks. Some funds invest in both. But all offer a liquid, low-cost entry into the gold market that is more diversified, and so lower-risk, than buying equities outright.

Gold options

More seasoned investors might consider an option on a gold futures contract. Like any financial option, these represent the right — but not the obligation — to buy or sell an asset (gold in this case) at a specific price during a specified window of time. You can buy an option to bet on whether gold's going up or going down, and if the market moves the opposite way, all you've lost is the small amount you've paid for the option.

Gold options trade on a division of the Chicago Mercantile Exchange (CME) known as COMEX. Gold options can be bought on gold bullion or on gold ETFs.

Pros and cons of gold securities

Like any financial asset, gold securities have both benefits and drawbacks.

Advantages of gold securities

Along with some of the general benefits of gold ownership, securities offer:

- **Liquidity.** Trading as they do on major exchanges, gold securities are obviously easier to buy and sell than bullion. No storage costs, either — aside from any management or account fees your broker or fund manager might charge.
- **Compounded returns.** While dividends offered by miners are typically average at best, they are greater than no dividends at all, which is what you get from physical gold. And there is also the possibility of appreciation in the share price.
- **Low initial investment.** The most cost-efficient way to invest in general, mutual funds and ETFs let you in on the game at a far lower cost. With the spot price of an

ounce of gold around $2,000, $180 for a share of the SPDR Gold Shares ETF (GLD) — equal to 1/10th of an ounce of gold — is, well, spot on.

Drawbacks of gold securities

- **Volatility.** Just as with any company, a miner's operating costs, reserves, and management all play a factor in its performance. As a result, shares prices tend to be more volatile: If bullion sinks 10%, gold stocks often plummet 15%. Miners definitely "have a higher speculative aspect to them," says investment strategist Lyn Alden, who follows precious metals and currencies.
- **Systematic risks.** A gold mining company's share performance also reflects in political and economic conditions in its native country. Some of the biggest operations are in Africa, Russia, and Latin America — places that have known their share of turbulence and are often avoided by socially responsible and institutional investors.
- **You don't own gold.** Gold securities are less of a pure play. They represent physical gold but you don't have the right to redeem them for the actual metal. So they don't provide the protection against a paper currency or financial market meltdown that the metal itself does.

The financial takeaway

So, should you go for the gold? Though it usually becomes part of the conversation during times of economic crisis or political uncertainty, gold as part of your portfolio makes sense anytime — as a diversifier of your holdings, if nothing else.

But how much to invest, and what form to invest in, depends on your own tolerance for risk and desire for convenience.

Here are 5 reasons the outlook for gold may still be bright

Fiscal stimulus and low global rates

Investors have flocked to gold this year partly because of the low-interest-rate environment, adding to a rally that has broadly been in place since last June.

The US government's record-low interest rates to combat the harm of the pandemic have depressed the dollar and led to negative real yields, or those adjusted for inflation. This gives gold a competitive edge, as it bears no interest of its own and investors don't sacrifice lost interest income by holding it when bond yields and savings rates are low or near zero.

A weaker dollar

The weakening dollar is among the market factors aggressively driving the push into gold.

When the US currency weakens, it makes assets priced in dollars, such as gold, more attractive. That has been a major catalyst for the surge in gold's price over the past few weeks.

And despite investors' hopes for a new stimulus package, deadlocked negotiations have not ignited dollar strength.

Investor flows into ETFs and futures

Worldwide gold holdings by exchange-traded-funds — which give investors exposure to the gold price without the hassle of owning and storing the metal — **rose to 3,365 tons** this year, **Bloomberg reported**.

That's more than the gold held by the German central bank and second only to the US, which holds more than 8,000 tons of gold reserves and is the world's biggest official holder of bullion.

Some large hedge funds have switched their exposure away from gold futures into ETFs, a popular investment vehicle for investors, because of recent volatility. ETFs are now a go-to option for anyone wishing to obtain exposure to precious metals;

last week was especially strong for silver, as **iShares' SLV fund** was one of the most widely traded on a retail platform.

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Options positioning

Traders and investors in gold derivatives, a way of betting on future price movement, are overwhelmingly bullish through the rest of 2020, data from CME Group indicated: For every sell, or put, position for options that expire in December, there are three buy options held.

While forecasts for gold have ranged to $5,000, the most popular option is a December call option at $2,000 an ounce, meaning the owner of that contract is betting on the price trading at that level, at least, by the end of 2020. CME's data suggests that some investors think the option to buy gold at $3,000 might also be a good deal by the end of the year.

An uncertain economic and geopolitical backdrop

At any given time, geopolitical risks are driving market sentiment. The outcome of the US presidential election is impossible to predict, and US-China relations have deteriorated, sowing some worries in otherwise buoyant markets.

Another threat to gold's rally is the development of an effective COVID-19 vaccine that can be distributed widely and quickly. But in the meantime, the economic outlook remains uncertain, and growth is fragile.

Central banks are expected to be fairly slow in lifting their foot off the liquidity presses, meaning governments can let their economies create inflation as they recover. Rising inflation could play into the hands of holders of gold, which can act as a hedge against rising prices, while bonds are likely to be sold off as inflation erodes fixed-income returns.