

FTC Consumer Alert

Federal Trade Commission ■ Bureau of Consumer Protection ■ Division of Consumer & Business Education

Investing in Collectible Coins

If you're thinking about buying collectible coins as an investment, the Federal Trade Commission (FTC), the nation's consumer protection agency, has three words for you: research, research, research. In fact, the agency says, there isn't a potential investor around who can afford not to spend time researching the coins, the graders who assess them, and the dealers who sell them.

Collectible coins have some historic or aesthetic value to collectors. The value of many collectible coins exceeds their melt value because their precious metal content is so small. Coin collectors refer to this collectible value as numismatic value, and they say it is determined by factors like the type of coin, the year it was minted, the place it was minted, and its condition – or “grade.”

Dealers who sell collectible coins often have valuable coins graded by professional services. A grader examines the coin's condition based on a set of criteria. Then the grader assigns it a numerical grade from one to 70, and places it in a plastic cover for protection. But factors like “overall appearance” and “eye appeal” are subjective, and the grade assigned to a particular coin can vary among dealers. What's more, fine distinctions between grades can mean big differences in the value or price of a coin. The difference of one grade in the same coin can mean the loss or gain of thousands of dollars in value. Subjectivity in grading means there is real inherent risk in coin investing.

Expect to hold your investment for at least 10 years before possibly realizing a profit. That's because dealers usually sell collectible coins at a markup. It's how they make their money. In addition, the market for numismatic coins may not be the same as the market for precious metals or bullion coins. It's possible that the price of gold can increase while the value of a numismatic coin decreases.

Investigate Before You Invest

If you're thinking of investing in collectible coins, take your time and get to know the subject.

- Ask for the coin's melt value – the basic intrinsic bullion value of a coin if it were melted and sold. The melt value for virtually all bullion coins and collectible coins is widely available.
- Read trade magazines to check the wholesale value of coins. Keep in mind that collectible coins generally sell for a premium or markup over the wholesale price so the dealer can make a profit. You can find up-to-date wholesale value listings in trade magazines, like the Coin Dealer Newsletter and Certified Coin Dealer Newsletter.
- Be clear on the commission or fees that the metals dealer or broker is charging.
- Examine coins in person. It's difficult, if not impossible, to make a practical decision about buying a particular coin based on a photo or a conversation with the seller.
- Ask about the coin's grade. If the coin has been professionally graded, check into the grading service. Is it independent from the dealer? What's its reputation in the industry? Two services

commonly used by dealers are Professional Coin Grading Service (PCGS) and Numismatic Guaranty Corporation (NGC). If you suspect that a coin's grade is fake or has been modified, check out the serial number on the coin's case or the grading document. Most legitimate graders assign a serial number to each coin they grade so buyers can verify the grade independently. You can check the serial number online or on the phone.

- Get a second opinion about the grade and value of the coin you're considering as a double-check on the validity of the grade.
- Get a written copy of the return policy. Many reputable dealers offer a return period if you're not satisfied with your purchase. Fourteen days is typical.
- Ask about buy back policies because they vary among dealers. Some may offer to buy back your coin if its condition is the same as when you bought it from them. Others will buy your coin, but charge you a commission fee. Still others may offer only a store credit.
- Consider the tax implications. The Internal Revenue Service classifies certain gold products as collectibles. Income from the sale of collectibles may be taxed at a higher rate than other investments. Visit www.irs.gov or consult a certified public accountant for more information.
- Check out any coin dealers in a search engine online. Read about other people's experiences. Try to communicate offline if possible to clarify any details. In addition, contact your state Attorney General (www.naag.org) and local consumer protection agency (www.consumeraction.gov). Checking with these organizations in the communities where promoters are located is a good idea, but realize that it isn't fool-proof: it just may be too soon for someone to realize they've been defrauded or to have lodged a complaint with the authorities.

Tip-Offs to Rip-Offs

Scams in collectible coins generally involve false claims about grading, current value or buy back options.

False Grading Claims – Unscrupulous sellers of collectible coins often inflate the grade of their coins. Some dealers grade their coins in-house or through less-than-reputable grading services. Others create counterfeit grading documents or place lower grade coins in cases labeled with a higher grade. Walk away from the purchase if the case appears to have been opened, if documents appear to have been altered, or if a dealer won't show you the grading documents or let you examine the coin case before you buy.

False Claims about Current Value – Some dealers grade their coins accurately, but overprice them or mislead their customers about their value. For example, a dealer may charge \$5,000 for an accurately graded \$10 Indian gold piece, even though the current retail value of the coin may be \$1,750.

False Claims about Buy Back Options – Many sellers of collectible coins offer "buy back" options to give buyers a sense of security in their investment. Dishonest sellers fail to honor the option, or fail to disclose commissions and other fees they attach to the option. In these cases, you may find that your true options are to hold the collectible coins or sell them at a loss on the open market.

Glossary of Gold

Ask Price – The selling price a dealer offers.

Bid Price – The price a dealer pays for bullion or coins.

Bullion – Precious metals like platinum, gold or silver in the form of bars or other storage shapes. Bullion coins are made of these metals, too.

Collector Coin, Historic Coin, or Numismatic Coin – A coin whose value is based on rarity, demand, condition, and mintage; in fact, it may be worth more than its bullion value.

Melt Value – The basic intrinsic bullion value of a coin if it were melted and sold.

Premium – The amount by which the market value of a gold coin or bar exceeds the actual value of its gold content. The seller can recover part of the premium at resale.

Spot Price – The current price in the physical market for immediate delivery of gold; sometimes called the cash price.

Spread – The difference between the buying price and the selling price.

Troy Ounce – The unit of weight for precious metals. One troy ounce equals 480 grains, 1.09711 ounces, or 31.103 grams.

For More Information

Read these publications from the FTC at ftc.gov for more information and guidance about investing in particular gold products:

- *Investing in Gold? What's the Rush?*
- *Investing in Bullion and Bullion Coins*

Check these websites for additional information:

- Commodity Futures Trading Commission – www.cftc.gov
- U.S. Mint – www.usmint.gov
- U.S. Securities and Exchange Commission – www.sec.gov and www.investor.gov
- American Numismatic Association – www.money.org
- National Futures Association – www.nfa.futures.org
- World Gold Council – www.gold.org

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Watch a video, *How to File a Complaint*, at ftc.gov/video to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.