

FTC Consumer Alert

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

Investing In Bullion and Bullion Coins

If you're thinking about investing in bullion or bullion coins, the Federal Trade Commission (FTC), the nation's consumer protection agency, says your best bet is to research your options and get smart. Being uninformed can have serious consequences.

Bullion is a bulk quantity of precious metal, usually gold or silver, assessed by weight, typically cast as ingots or bars, and sold by major banks and dealers. You also can buy bullion as coins.

Bullion coins are minted from precious metal, usually gold or silver, and bought for investment purposes from major banks, coin dealers, brokerage firms, and precious metal dealers. Their value is based on their gold or silver bullion content. Prices fluctuate daily, depending on the price of gold and silver in the world markets. Perhaps the best-known bullion coins are the American Gold Eagle, the Canadian Maple Leaf, the Australian Gold Nugget, and the South African Krugerrand.

The U.S. Mint has produced gold, silver and platinum bullion coins since 1986, and guarantees their precious metal content. The Mint produces two types of bullion coins:

- *Proof bullion coins*, which are specially minted for collectors and usually sold in a protective display case directly by the Mint.
- *Uncirculated bullion coins*, which are minted for investment purposes and sold to a select number of authorized buyers based on the current market price (the spot price) for the precious metal plus a small premium charged by the Mint.

Foreign governments also mint coins, but they may not be produced to the same standards as U.S. coins and they aren't guaranteed by the U.S. government. The value of foreign bullion coins depends primarily upon the coin's melt value – the basic intrinsic bullion value of a coin if it were melted and sold. A bullion coin's condition – its "grade" – isn't the most relevant factor in determining its price.

Investigate Before You Invest

Investing in bullion or bullion coins is a big decision. If you're thinking about it:

- Ask for the coin's melt value. The melt value for virtually all bullion coins and collectible coins is widely available.
- Consult with a reputable financial advisor you trust who has specialized investment knowledge. You may want to talk to other investors, too.
- Shop around. Most banks offer gold bullion, often at a lower markup than dealers. You also can enter the name of the coin into an online search engine to compare prices from other dealers.
- Get an independent appraisal of the specific asset you're considering. The seller's appraisal might be inflated.

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- Consider additional costs associated with the investment. You may need to buy insurance or a safe deposit box, or you may need to rent offsite storage to safeguard your bullion. These costs will cut into the investment potential of bullion.
 - Be wary of buying bullion or bars that won't be delivered to you, but rather to a "secured facility," by the seller or a third party. When you buy metals without taking delivery, you face the risk that the metal doesn't exist, isn't of the quality described, or isn't properly insured.
 - Walk away from sales pitches that minimize risk and sales representatives who claim that written risk disclosures are just formalities required by the government, and therefore not necessary. Reputable sales reps are upfront about the risk of particular investments.
 - Refuse to "act now," regardless of the consequences. Any sales pitch that urges you to buy immediately is a signal to walk away and keep your money in your pocket.
 - Check out the company by entering its name in a search engine online. Read whether other people have something to say about their experiences with the company. 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.
 - Ask for a guarantee or certificate of authenticity for the bullion's precious metal content. Research the company behind the guarantee or certificate because certificates of 'authenticity' can be faked.

Tip-offs to Rip-offs

Bullion scams often involve false claims about content, rarity or value:

False Claims – Unscrupulous sellers often overprice their coins, lie about the bullion content, or try to pass off ordinary bullion coins as rare collectible coins. Some fraudulent dealers may even try to sell coins that aren't bullion coins at all. Others may try to sell bullion pieces with the same design as coins from the U.S. Mint, but in different sizes. Indeed, private mints issue coins that look like bullion coins minted by foreign governments, but may have little or no gold content. Your best defense is to study the market and choose your dealer carefully.

Leveraged Investment Scams – Leveraged investments are high-risk investments that can result in the loss of even more money than you originally invested. Typically, in a leveraged investment scam, a telemarketer or website will state that the price of metal is about to skyrocket and that you can make significant profits by making a small down payment for the metal, often as low as 20 percent. According to the marketer, by paying only 20 percent of the purchase price, you can get more metal than if you had to pay 100 percent of the purchase price.

In reality, you have borrowed money – as much as 80 percent of the purchase price of the metal – from a financial institution that claims it will hold the metal for you, and charge you monthly storage fees and interest charges. Rather than sending you a bill for those fees, the institution will reduce your equity in the investment. Once your equity falls below a certain level (for example, 15 percent of the purchase price), the financial institution will issue an "equity call," requiring you to pay additional money to bring your equity above the equity call level. If you can't pay or refuse to pay additional money, the lender will sell the metal to pay off your loan and send you a bill if the sale of the metal does not cover the amount you owe.

These investments are high-risk because you will receive an equity call if the price of the metal goes down, stays flat, or simply doesn't go up enough to offset the mounting storage and interest charges.

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 Collectible 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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