

Investor Advisory: Precious Metals and Coin Investments

Predictions and concerns around volatility in the domestic and global economy have driven some investors to move their savings into alternative investments including precious metals such as gold and silver. Precious metals investments are typically more popular during economic downturns, fueled by investors' desire for something they perceive as having less risk. The hope is that gold and silver prices move inversely to the prices of stocks and bonds – when stocks are down, the value of precious metals may be up.

However, all investments carry some form of risk and an investment in precious metals is no different. An investor needs to know their investment objectives and understand the risks that come with a precious metals investment. Precious metals are commodities, and like other commodities, their price can fluctuate dramatically. While there may be room in a diversified portfolio for precious metals, investors should consider several factors to determine if precious metals fit their investment objectives.

There are a variety of ways to invest in precious metals, each with its own level of risk.

Precious metals mutual funds and exchange-traded products (ETPs): There are many mutual funds and ETPs, including exchange-traded funds (ETFs), that can provide investors with exposure to precious metals. These pooled investment vehicles may provide a lower risk approach to get exposure to precious metals. Mutual funds and ETPs can invest a portion, or even all, of their assets in precious metals, precious metals mining companies, or related instruments like commodity futures. Mutual funds and ETPs with significant exposure to precious metals should be easy to identify because their names must convey their focus on precious metals. Their portfolio holdings will also be readily available to review on the internet. However, investors should note that mutual funds and ETPs can have varying legal structures and tax implications, and necessarily carry some level of fees that impact returns.

Stock in precious metal mining companies: Purchasing stock in a precious metal mining company can be more volatile than purchasing physical precious metal because of the risks associated with the business of discovering and mining the metal. Mining companies' profits are

tied to the metal's price, among other factors, meaning that metal prices and operational costs should impact the price of the stock. Also beware of "shell" mining companies— companies that raise investor funds for fraudulent purposes and conduct no actual mining.

Precious metals certificates of deposit (CDs): Precious metal CDs differ from traditional CDs because they are tied to the price of the metals. Some banks attract investors with promises of a share in the rising value of gold or silver. However, if the commodity decreases in value, the investor only gets their principal back, and the interest rate may vary significantly from that of a regular fixed-rate CD.

Underlying all these investment products are precious metals in their physical form, which investors have been adding to their portfolios for many years. Recently, there have been new twists on precious metals scams. Below is information investors should consider before investing in precious metals.

Bullion, numismatic, and semi-numismatic coins

Investors must exercise due diligence when researching precious metals dealers because these dealers are often not licensed or registered to provide investment advice or obligated to have investors' best interests in mind, contrary to a regulated broker-dealer or investment adviser. It is important to understand what products and services a precious metals dealer legally may offer before working with them.

A precious metals dealer may sell precious metals in different forms:

Bullion. Bullion is highly refined precious metal in the form of coins or bars. Bullion does not have material market value over its intrinsic or melt value (i.e., the market value of the precious metal). Precious metals dealers sell bullion at a small markup known as a spread. While there is not a standardized spread, typical spreads range from 1% to 10%. Bullion is usually sold in uniform increments of .01 oz., .05 oz., 1.0 oz., 5.0 oz., and 10.0 oz. Consumers can easily check current bullion prices per ounce from publicly available sources.

Numismatic coins. A precious metals dealer may buy and sell numismatic (collectible) coins. A numismatic coin has a higher value than its melt value because of its age or rarity. For example, a 1913 Liberty Nickel is old, rare, and sought after by coin collectors because of its unique history. When selling numismatic coins, the precious metals dealer will likely take a higher markup on the transaction, perhaps as high as 30%. Also, there is less liquidity in the numismatic market because there is less demand for numismatic coins than for bullion.

Semi-numismatic coins. The sale of semi-numismatic coins has been the subject of several enforcement actions by securities regulators and the [Commodity Futures Trading Commission](#)

[\(CFTC\)](#). Some precious metals dealers use misleading pitches such as claiming semi-numismatic coins have the same rarity as actual numismatic coins. In reality, the coins being sold to investors are often not rare or sought after at all. The weights and mints of these coins may be unusual or atypical, but the coins themselves are no more valuable than their melt value. In some instances, investors can only sell the coin back to the dealer from whom they bought it. Sellers of semi-numismatic coins often do not disclose that the amount they are selling the coin for is not the actual value of the coin, but the melt value of the coin plus the seller's mark up. In some cases, the mark up ranges from 25% to over 100% of the melt value.

Be cautious about investing in precious metals through self-directed IRAs (SDIRAs)

State securities regulators and the U.S. Securities and Exchange Commission have seen an increase in complaints and enforcement cases related to fraudulent investment schemes tied to SDIRAs, in which an SDIRA custodian was used to give an air of credibility to the scheme.

IRA custodians DO NOT vet precious metals dealers or their sales practices

Some precious metal coin sellers push investors into opening SDIRAs to hold their "precious metals investment." An SDIRA is an account held by a trustee or custodian that permits investment in a broader set of assets than is permitted by most traditional IRA custodians. Investments held in an SDIRA may lack the disclosure and liquidity of more traditional investments such as stocks, bonds, and mutual funds, and may carry an increased risk of fraud. SDIRA custodians do not review or perform any due diligence on the quality or legitimacy of investments held in an SDIRA. Many consumers are shocked to receive their first statement from an SDIRA custodian showing that in the first month or quarter of ownership of precious metals, the value of their metals has decreased by the spread taken by the seller – anywhere from 25% to 75%.

Beware of red flags for precious metals offers when a firm:

- Uses cold calling or unsolicited emails;
- Uses TV, radio, and social media advertisements designed to instill fear about the economy in favor of precious metals;
- Touts political or religious affinity;
- Creates a false sense of urgency by claiming limited supply or encourages financing the purchase through loans arranged by the firm;
- Advises investors to liquidate their existing retirement investments to fund investments in precious metals, including through SDIRAs; or
- Fails to disclose their commissions and fees in writing.

Investing in precious metals collectibles such as semi-numismatic or atypical precious metals could cause the investor to lose a significant portion of their funds immediately upon completing the transaction. This is especially true if the dealer is marking up the coins at an exorbitant rate. In many cases that have been brought by securities regulators, the actual market value of the precious metals was substantially lower than the value of the securities and other retirement savings investors had liquidated to fund their purchase.

How investors can protect their retirement savings:

- Ask the precious metals dealer directly how they are paid for their services, what their qualifications are, and how their products meet your financial needs (get their response in writing).
- Independently verify from a reputable source the value of the precious metals to be purchased.
- Get a second opinion about the benefits and risks of adding precious metals to your portfolio.
- Check the background of the firm and the representatives offering to sell precious metals.
- Compare premiums and fees. Be sure to research how to properly value a precious metals purchase before investing.

Bottom line

Do your homework, ask questions, and if you have concerns about a precious metals offer, contact the North Dakota Securities Department. You can also report suspicious activities and information to the CFTC toll-free at (866) 366-2382.

Contact the North Dakota Securities Department

Phone: 701-328-2910

Email: ndsecurities@nd.gov

Website: www.securities.nd.gov