

Are You an Informed Investor?

Precious Metals and Coin Investments

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During market uncertainty, some investors are tempted to move money into investments perceived as “safe,” like gold, silver, and other precious metals, hoping that a rise in the price of precious metals will offset any losses in stocks and bonds. Unfortunately, it is a myth that precious metals are safe investments – like all commodity-focused investments, their prices can fluctuate dramatically. Investors must remember their objectives and realize precious metals investments are not foolproof and may not provide desired investment returns. While there may be room in diversified portfolios for precious metals, investors should consider ensuring precious metals fit their goals.

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

- **Mutual funds containing precious metals.** Although some mutual funds have gold, platinum, or silver in their names, no more than 10 percent of the fund’s assets are invested in the metal itself because mutual funds by law must earn 90% of their income from securities, and commodities are not securities.
- **Stock in precious metal mining companies.** Purchasing stock in a precious metal mining company is more volatile than purchasing physical precious metal because of the risks associated with mining. Mining companies’ profits are tied to the metal’s price and operational costs. Beware of “shell” mining companies, which raise investor funds fraudulently and conduct no actual mining.
- **Precious metals as an exchange-traded product.**

An investor purchases shares in a trust representing ownership of a portion of actual precious metal bars. These trusts may have hidden costs diluting the holder’s interest. Investors holding shares in a precious metals Exchange Traded Fund (ETF) may be subject to higher rates of taxation than other types of funds. Investors should review the prospectus and consult their tax professional.

- **Precious Metals Certificates of Deposit (CDs).** Precious metal CDs differ from traditional CDs because they are tied to the metal’s price. If the metal’s value decreases, the investor only gets back their principal. The interest rate may vary from a regular CD.

Things to consider when investing in precious metals:

Underlying these products are physical precious metals, which investors have been adding to their portfolios for many years. Recently, there have been new twists on precious metals scams.

Bullion, Numismatic, and Semi-Numismatic Coins

When researching precious metals dealers, investors must exercise due diligence. These dealers often are not registered to provide investment advice or obligated to have investors’ best interests in mind. Commissions and profits drive their recommendations, which may include persuading investors to sell existing investments and purchase coins with high markups and low liquidity. A precious metals dealer may sell precious metals in different forms, such as:

- **Bullion.** Bullion is highly refined precious metal in the form of coins or bars and has no market value over the melt value of the precious metal. Dealer markups, known as a spread, typically range from 1% to 10%.
- **Numismatic Coins.** A numismatic coin’s value is higher than its melt value due to its collectability. Dealer markups can range as high as 30%.

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There is less liquidity in this market because demand for numismatic coins is lower than for bullion.

- **Semi-numismatic Coins.**

The sale of semi-numismatic coins has been the subject of several regulatory enforcement actions. Some dealers make misleading claims that semi-numismatic coins are just as collectible as numismatic coins. They fail to disclose that the coins are worth no more than their melt value. Markups range from 25% to over 100% of melt value.

Be Cautious of Self-Directed Individual Retirement Accounts (SDIRAs)

Many securities regulators have seen an increase in complaints about fraudulent investment schemes using SDIRAs, where the SDIRA custodian was used to give an air of credibility to a fraudulent scheme. Similarly, the U.S. Securities and Exchange Commission (SEC) has brought numerous cases in which promoters of fraudulent schemes steered investors to SDIRAs.

SDIRA Custodians Do Not Vet Precious Metals Dealers or Their Sales Practices

Some precious metal dealers push investors into opening a SDIRA account to hold precious metals investments. SDIRA rules permit investors to hold a broader set of assets than is permitted by traditional IRAs. Consequently, investments held in a SDIRA may lack the disclosure and liquidity of more traditional investments, increasing the risk of fraud. A SDIRA owner, not the

custodian, is responsible for performing any due diligence on the legitimacy of investments in their account. A SDIRA owner may be surprised when their first statement shows the value of their metals has decreased by the spread taken by the seller – as much as 75%. (For more information, please see [Investor Alert: Self-Directed IRAs and the Risk of Fraud.](#))

Beware of Red Flags for Precious Metals Offers When a Firm:

- Uses cold calling or unsolicited emails;
- Uses ads 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;
- Advises liquidating pre-existing investments to fund precious metal investments, including through SDIRAs;
- Encourages financing the purchase through loans; and,
- Fails to disclose their commissions and fees in writing.

Protect Yourself:

- Ask the dealer about their compensation, qualifications, and how their products meet your financial needs (get their responses in writing);
- Independently verify the value of the precious metals to be

purchased;

- Get a second opinion about whether investing in precious metals is right for you;
- Check the background of the firm and the representatives offering to sell precious metals;
- Compare premiums and fees; and,
- Research properly valuing precious metals before investing.

The Bottom Line

Investing in precious metals could cause significant losses immediately upon completing the transaction, especially if the dealer takes an exorbitant markup. It is not unusual for the market value of the precious metals to be lower than the value of the other assets investors liquidated to fund their purchase. Do your homework, ask questions. If you have concerns about a precious metals offer, [contact your state or provincial securities regulator](#). You can report suspicious activities to the [Commodities Futures Trading Commission \(CFTC\)](#) toll-free at (866) 366-2382.

To learn more, contact the Louisiana Office of Financial Institutions, Securities Division |

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