STATE OF UTAH DEPARTMENT OF COMMERCE

DIVISION OF SECURITIES

Are you an informed investor?

GOLD!

Gold-related investments are on the rise. Historically speaking, the value of gold-related investments fluctuates even more than the stock market. Gold often moves in reverse of stocks and bonds, so when stocks are down, gold seems like a very tempting investment. Before jumping onto the gold bandwagon, there are a few things you might want to consider.

Before you invest in gold, consider this:

1. **Multiple ways to invest in gold:** Investors can put money into actual gold, gold-related market investments (i.e. mutual funds and exchange-traded funds), futures and gold mining companies.

2. **Mutual funds containing gold:** Although several mutual funds have gold in their names, you will not find any with more than 10 percent of assets invested in the metal itself. That is because mutual funds by law must earn 90 percent of their income from securities, and commodities, like metals, are not securities.

3. **Stock in gold mining companies:** Purchasing stock in a gold mining company is more volatile than purchasing physical gold because of the risks associated in discovering and mining the metal. Mining companies' profits are leveraged to the price of gold, meaning that if the price of gold rises by a certain amount, earnings should jump by a greater percentage. If, however, the price of gold were to decline, investors should expect to see mining companies' profits decline in similar fashion. Also be aware of "shell" mining companies, in which a company represents that it is in the gold mining industry when actually it exists solely to raise investor funds for fraudulent purposes.

4. **Gold as an exchange-traded product:** An investor purchases a share in a trust, and the shares represent ownership in physical bars of gold. Each share claims ownership of a small portion of actual gold. These trusts may have hidden costs that dilute the holder's interest in gold. Investors having an investment in a gold Exchange Traded Fund (ETF) may be subject to higher rates of taxation than other types of mutual funds. They should therefore review the prospectus and consult with a tax accountant on this issue.

TO LEARN MORE OR FOR HELP WITH THESE AND OTHER PRODUCTS, CONTACT:

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160 East 300 South, 2nd Floor | Salt Lake City, UT 84111
Phone (801) 530-6600 | Fax (801) 530-6980
www.securities.utah.gov

North American Securities Administrators Association
750 First Street, N.E., Suite 1140 | Washington, D.C. 20002
Phone (202) 737-0900 | Fax (202) 783-3571
www.nasaa.org

5. **Buying gold online:** As with any online transaction, be sure you go through a reputable dealer. When researching bullion dealers, you must exercise due diligence because no dealers are authorized or affiliated with the U.S. Mint.

6. **Gold CDs:** These CDs can be as illusory as "fool's gold". Gold CDs differ from traditional CDs because they are tied to the price of gold. Many banks seduce investors with promises of a share in the rising value of gold. If however the commodity decreases in value, the investor gets only the principal back, and the interest rate may vary significantly from that of a regular fixed-rate CD. Be aware that each CD has its own formula to calculate interest rates and its own set of rules for when the investor can sell the CD prior to the maturity date.

7. **It is a myth to say that gold is a safe investment:** An investment in gold is not foolproof. An investor needs to know his or her investment objectives. Gold may not provide long-term investment returns. Gold is a commodity, and, like other commodities, its price can fluctuate dramatically.

8. **Don't catch "Gold Fever":** Gold attracts a crowd of promoters who would like to take investors' money. Beware of "exploration" companies. Some may offer official-looking geological surveys or financial statements, when in reality there is little or no current production, just an appetite for new money.

9. **Beware of Gold Investment Scams:**

   Scenario #1: A seller who offers to sell actual gold bullion and then retain the investor's gold in a "secure" vault, and later promises to sell the gold for the investor as it gains in value. In many instances, the gold does not exist.

   Scenario #2: A company encourages investors to cash out of their poor-performing investments to purchase gold. The investor ultimately ends up with a large bag of gold-colored coins with no monetary value. Remember, if you are advised to cash out investments and roll funds into a different type of investment, make sure the person advising this is licensed by your state securities regulator.

10. **Precious metal IRAs:** Individual Retirement Accounts (IRAs) make it possible for investors to buy gold with funds they already have. Gold must be insured and physically shipped before going into storage. Metal must be physically stored through an approved depository, meaning investors cannot keep coins in a closet.

Utah Department of Commerce
Division of Securities
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Protecting Investors. Regulating Industry. Promoting Commerce.

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