

Money Wise

Monday Money Wise • Tuesday Property
Wednesday High Life • Thursday Learning
Friday On the Road • Saturday Tech & Gadget

Colin Bloodworth points out the ways to invest in bullion – and the risks involved

Some Useful Nuggets on Buying Gold

Last week's column examined the pros and cons of investing in gold. On the one hand it is virtually indestructible, can be easily fashioned into coins, bars or jewelry, and has been considered a store of value since time immemorial. It has risen some 500 percent in value since 2001, is seen as a safe haven in times of crisis, and its supply is limited.

On the other hand, it pays no interest or dividend, there is invariably a mark-up or spread as with any investment, there could be storage or security issues and the price could fall and remain low for many years as it did between 1980 and 2000.

The most compelling reason for owning gold right now is the threat of a fall in the value of paper money as a result of countries printing their way out of recession. The US has been leading the way in this respect but now Japan is jumping on the bandwagon and there is wider talk of currency wars where countries seek to devalue their currencies to make their exports more competitive. In this situation there are no winners and investors will flock to buy real assets such as gold.

Most experts would agree that a holding of between 5 percent and 10 percent of a portfolio would be reasonable. But how can you buy gold? Here are some options.

Buying from a dealer

Certain gold coins are not only widely recognized; they are also legal tender in their home countries. In Switzerland, Austria and Germany private investors are buying gold bars the size of a credit card that can be broken into one gram pieces and used as a currency in an emergency. You can also buy gold coins or bars in Britain where they can be stored and insured for an additional fee. In all cases, as with any investment, take care and check out fully the company you are dealing with. As with any investment, do expect a mark-up or "spread." Therefore see gold as a medium- to long-term investment.



Gold jewelry

Prized by ladies, jewelry has a special place in India, where a downturn in the economy does not appear to have dampened demand. Care should be taken anywhere when buying gold jewelry.

The Jakarta Globe recently featured a dealer who made himself unpopular in the trade for teaching customers how to test the purity of the gold. Where the value of the gold jewelry is concerned be aware that there is a very high mark-up so if times are hard and you have to melt it down don't expect to get anything like the price you paid, unless you have held it a very long time.



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Gold bullion through mutual funds

This is one way to invest in the physical product without taking delivery or having to worry about storage and insurance. But you still have to cover the cost through fund charges. Cashing in is like any regularly traded mutual fund. For those who wish to diversify there are also funds that combine gold holdings with other metals such as silver and platinum.

Gold mining stocks or funds

This is another way to access the gold market but it's a little more speculative, particularly if you invest in individual mining companies. A mining fund would be less risky as it will invest in a range of companies with geographical diversity. There are a number of well-established international funds. As a general rule, mining shares will rise more rapidly than the price of gold when the latter is rising but fall faster when it is on the way down, reflecting the fixed overheads.

Buy a metal detector!

This is not recommended unless you have years with nothing to do and you like wandering in open spaces. It worked last month for an Australian who unearthed a staggering 5.5 kilogram gold nugget worth at least \$300,000. If you came across a similar find you might have some explaining to do when you bring it back through customs. It would be far better to keep your day job and tuck some of your savings into gold the conventional way.

Colin Bloodworth, director of PPI Indonesia, has spent over 20 years in Indonesia. If you have any questions on this or a related subject you can contact the writer at indonesia@ppi-advisory.com