

Hayden Kibbey
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Physical Gold Purchasing:

Costs and Concerns: Gold as an emotional investment



Overview:

While gold can be a secure and appreciating asset during uncertain economic conditions, there are significant concerns related to the long-term ownership of physical bullion.

Purchase Procedure:

There are many different options to choose from when purchasing physical metals. One of the largest distributors is SD Bullion. They advertise lowest price guarantees, high Better Business Bureau ratings, and countless 5-star reviews. Nevertheless, their US gold coins sell for significantly higher than spot, limiting their upside potential.

Pricing and Growth History:

At time of writing, the spot price of gold was \$1781.66/oz, while SD Bullion's price was between \$1885 and \$1900 depending on the volume of gold purchased. This represents roughly a **6.6% markup** right off of the bat.

To put this in context, it is important to view the long-term trends of gold pricing. While gold has risen roughly 38% year-to-date, this is not the norm. In fact, over the past ten years, gold has only risen about 2.41% annually. Compared to the S&P 500, which has grown close to 170% at an annual rate of 9.87%, the returns are not as strong.

Prof. Jeremy Siegel, professor of Finance at the Wharton School of Business, authored the book *Stocks for the Long Run* which analyzes the long-term returns of different asset classes. A chart in the addendum illustrates his findings. In real terms, one dollar of gold in 1802 would be worth \$3.26 in 2011. Over the same period, one dollar in the stock market would be worth \$1,348,229. He is quoted as saying that "People call [gold] an insurance policy. I call it a very expensive insurance policy."

In order to make a profit based on the spot markup alone, past evidence would suggest a required 3-year holding period. Of course, future return percentages are not guaranteed, but evidence would suggest more long-term growth in equity investments.

Carry-Cost

Beyond the price of the bullion, owning physical metals brings with it a particular set of challenges. According to HomeInsurance.com, most home insurance policies only cover \$200 worth of losses for specie. Many bullion investors pay to have their gold stored in safe-deposit

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boxes or vaults to ensure security. This investment can seriously diminish positive returns. SD Bullion quotes an insurance cost of \$150 a year for collections up to \$75,000. Alternatively, they will hold your gold at a carry cost of .29%/yr. Transactions, too, involving the gold are subject to additional maintenance fees.

Gold: Emotional Investment, Additional Notes, Addendum

- Dave Ramsey analysis for another opinion: <https://youtu.be/vfU5CwdkSUK>
- Gold is speculative, it produces no profit and only has value that we ascribe to it
- Gold is not effective as an inflation hedge: *The Golden Dilemma* (<https://www.nber.org/papers/w18706>)
- In a true crisis, gold has no value

