Eight questions to ask before investing in gold

Answers to these eight key questions may help you decide:

1. What is the role of gold in a portfolio?

Diversification helps investors smooth out their returns during the ups and downs of financial markets. Gold is often recommended as a suitable way to diversify a portfolio because over time it tends to hold or rise in value during stock crashes. It's quite common to hear gold described as 'insurance' for investors, helping to maintain the overall value of their portfolio in times of geopolitical uncertainty, high inflation, and market volatility.

2. How is gold priced?

'Spot' is the current price in the marketplace at which 1oz of gold can be bought or sold for immediate delivery. It is determined in global metal exchanges and changes all the time. While the spot price is generally quoted in the media, it is only a reflection of the price investors can expect to pay as a retail investor. This is because a premium is charged over the spot price by manufacturers and suppliers of bullion to cover operating, fabricating, storing, transporting and other costs. Subtracting the spot price at the time of purchase from the retail price reveals the premium they charge.

3. Is physical bullion the best option?

Physical bullion products are available in the form of coins and bars. It is vital to know who made these products and who is selling them. Researching their history and reputation will go a long way to ensuring investors are buying genuine products with verified weight and purity.

For some, direct ownership of bullion is very important. This is because it removes the potential for 'counterparty risk'. Counterparty risk is defined

as the likelihood that any third-party involved might default on its contractual obligation.

Another thing to consider is storage. To prevent loss or theft, a suitably secure home safe is usually a minimum requirement. Alternatively, investors in physical bullion could consider a bank safety deposit box or a professional depository service.

4. How else can investors buy gold?

Shares in one or more gold mining companies may offer some exposure to the gold price. With an online share trading platform, not only is it a quick and easy trade to execute, but this method removes the personal requirement for physical storage. Theoretically, at least, as the price of gold rises, so does the value of a gold producer's shares and potential dividends.

But not all gold mining companies are equal. To stand the best chance of generating a return on investment, it's essential to complete due diligence to fully understand the business. The size and stability of the company, the quality of its management, its ESG strategy, even political considerations are among a plethora of factors that may affect the company's future profitability.

Exchange traded products (ETPs) have become incredibly popular in recent years. ETPs seek to track the price of a benchmark index – in this case, gold. Providing another option for investors who do not wish to store the metal themselves, they're also easy and convenient to trade via a share trading platform.

As with shares, it's incumbent on the purchaser to thoroughly research products on offer. Key questions to consider include: Who is the product issuer? Who are the counterparties? Who holds legal title to the gold backing the product? Can investments be redeemed for physical gold, and if so, how?

Gold accounts operate much like bank savings accounts. Monetary deposits are converted to gold with the value of overall holdings going up or down in line with the spot price. Different features and benefits are available and again, it's crucial for investors to know whether the provider holds enough underlying metal to cover the value of total deposits.

5. What does 'allocated' and 'unallocated' gold mean?

Gold backing these types of products is offered in formats the industry calls 'allocated' or 'unallocated'.

Allocated is considered the safest from an investor perspective. It is held in investment grade form, typically 400oz or 1kg gold cast bars. These bars each have unique identifiers (typically a serial number) and are stamped with their size and purity, as well as the name and hallmark of the refiner that fabricated them. Allocated gold sits in a vault where it is owned outright by the investor who has legal title to it.

Unallocated gold refers to gold held in a variety of forms, including gold sitting in a vault, doré (partially refined) gold sourced from gold miners, scrap gold from gold jewellery aggregators, and gold that is currently being minted or cast into specific bars or coins. Unallocated gold is not necessarily in investment grade form.

6. How easy is it to sell gold?

Liquidity refers to the efficiency or ease with which gold can be converted into cash without affecting its market price. Daily turnover in the gold market typically averages in excess of USD 150 billion, making it one of the most liquid asset classes on the planet. So, when it comes to selling your gold, there will always be plenty of buyers willing to pay the right price.

Like any investment, however, there are exit fees to consider. In the case of physical bullion, the fee is represented by the difference in the 'bid' price (i.e. spot plus premium paid on purchase) and the 'ask' price (amount the buyer is willing to pay to buy your gold). Look for organisations which keep this 'spread' as tight as possible.

7. How much gold should investors own?

Inevitably, investors seeking portfolio diversification with gold will ask themselves how much they need to help lower risk and improve returns. The question of what percentage of overall assets should be represented by gold has been the subject of numerous academic studies.

According to the World Gold Council, adding between 6% and 10% asset allocation to gold in the average US portfolio has made a tangible improvement to performance and boosted returns on a sustainable, long-term basis.

Ultimately, everyone's financial circumstances and objectives are unique, but knowledge of these parameters could prove critical in the decision-making process.

8. Where can investors buy gold?

The Perth Mint offers gold buyers a renowned range of coins and bars, issued one of the first gold ETP products in Australia, and has attracted a large international client base for its depository storage services.

As sole owner of The Perth Mint, the Government of Western Australia guarantees all its liabilities (including unallocated metal), ensuring it is one of the lowest risk precious metals enterprises in the world.

Other benefits include the Mint's London Bullion Market Association-accredited refinery; the official Australian legal tender status of its bullion coin program; the lowest cost gold ETP on the Australian Securities Exchange; vaults built to the same standard as those operated by central banks; and comprehensive storage solutions including the option to invest in unallocated precious metal with zero storage fees.

For full details see:

- The Australian Bullion Coin program
- Perth Mint Gold (ASX:PMGOLD)
- Depository storage

This report has been compiled by The Perth Mint

The Perth Mint is Australia's largest and most highly accredited precious metals enterprise. It offers a comprehensive suite of investment options, storage solutions, and physical bars and coins for purchase. With assets under management valued at more than AUD 6 billion, The Perth Mint is trusted by some 70,000 clients across 130 countries to safeguard their wealth.

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