

ALABAMA SECURITIES COMMISSION

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Investor Alert: Beware of Gold-Related Investments

MONTGOMERY, ALABAMA (October 20, 2010) – With gold prices reaching record highs, investors are increasingly turning to gold-related investments. The Alabama Securities Commission (ASC) today reminded investors to be cautious about jumping onto the gold bandwagon.

“The soaring price of gold has sparked a modern-day gold rush among investors eager to recover stock market losses. But it’s still a Wild West out there and dangers abound for prospective gold investors,” said ASC Director Joseph Borg.

The ASC has issued an Informed Investor Alert developed by the North American Securities Administrators Association (NASAA)¹ to help investors spot the risks of gold investments.

“It is a myth to say that gold is a safe investment. An investment in gold is not foolproof,” Borg said. “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.”

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 may seem like a very tempting investment.

There are many ways to invest in gold, including buying actual gold or making gold-related market investments in mutual funds, exchange-traded funds and futures, as well as shares of gold mining companies. This investor alert examines each of these options and explains what investors need to know about each before deciding to invest.

Borg also advises investors to beware of gold investment scams. For example, in one typical scheme, a seller offers to sell actual gold bullion and then retain the investor’s gold in a “secure” vault with a promise to sell the gold for the investor as it gains in value. In many instances, the gold does not exist. In another typical scenario, a company encourages investors to cash out of their poor-performing investments to purchase gold, which may be nothing more than “fool’s gold.”

“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,” Borg said.

¹Note: ASC is an active member of NASAA. Organized in 1919, the North American Securities Administrators Association (NASAA) is the oldest international organization devoted to investor protection. NASAA is a voluntary association whose membership consists of 67 state, provincial, and territorial securities administrators in the 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Canada, and Mexico.

Investor Alert:

Are you an informed investor about 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.
- 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.

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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.

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The ASC cautions potential investors to thoroughly scrutinize and research any investment opportunity or offer. Contact the ASC with inquiries concerning securities broker-dealers, agents, investment advisers, investment adviser representatives, financial planners, registration status of securities or debt management programs, to report suspected fraud or to obtain consumer information. The ASC provides free investor education and fraud prevention materials in print, on our website and through educational presentations upon request.

For more information contact Dan Lord, Education and Public Affairs Manager, 334-353-4858.

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