

Investing in Gold Bullion Coins

Certainty in a Time of Economic Uncertainty



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The ABCs of Gold Investing
How to Protect and Build Your Wealth With Gold

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Introduction

Many first-time investors believe gold is purchased in the form of the bullion bars often depicted in the movies, but in the real world most opt for one-ounce gold bullion coins. For the investor who seeks a basic hedge against economic uncertainties and/or hopes to invest for profit, this is the simplest and most direct way to own gold.* Gold bullion coins are portable, liquid and track the gold price. As minted coins, they come in standardized sizes, weights and purity, making them easy to transact in the global marketplace. As such they are foundational items in the standard gold portfolio.

Produced at national mints in numerous countries -- West Point (United States), Winnipeg (Canada), Pretoria (South Africa), Vienna (Austria) and Perth (Australia) -- they trade at relatively minor premiums over the spot price and are widely owned by millions around the world. Gold bullion coins are generally minted in 1-ounce, 1/2-oz, 1/4-oz and 1/10-oz sizes and occasionally in 1/20th oz. Current pricing can be tracked readily in the financial sections of most local and national newspapers, and on the internet at gold-specific websites like [USAGOLD](#)**.

Gold's bull market and the credit crisis ramp up demand

During the first decade of the 21st century with the arrival of the secular bull market, gold experienced something of a renaissance in the public consciousness, not just in the United States, but on a global basis. Gold bullion coins, generally viewed as a portfolio hedge and store of value, were a major beneficiary of the general trend to gold ownership. Production of the largest selling one-ounce gold bullion coins grew steadily throughout the decade. However, after the Lehman Brothers collapse in 2008 and the start of the global credit and financial crisis, public interest in gold bullion coins accelerated to a new level.

Mintage figures for the popular one-ounce American Gold Eagle, a bellwether for the overall market, provide a telling example. In 2006, the Mint produced 237,510 one-ounce coins. In 2007, production fell to 140,016, but by 2008 production had jumped to 710,000 coins. In 2009, at a time when the financial press was expressing optimism about a recovery, investors purchased another 1,493,000 coins. The heightened demand spilled over to early 2010. In short, Wall Street's loss of investor confidence translated at least in part to the gold market's gain.

* Investors seeking an additional layer of safety and privacy often opt to diversify their holdings with pre-1933 gold coins. (For details, please see: *Investing in Pre-1933 Gold Coins: Asset Preservation & Profit Potential* by Michael J. Kosares)

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Shortages and potential shortages: What they mean to the gold investor

Repeated strong demand has resulted in chronic production slowdowns and frequent stoppages at the national mints. The U.S. Mint, for example, introduced a system of rationing production in order to deal with the growing supply-demand imbalances. This rationing in turn caused frustration, and sometimes panic, among investors. At times during 2008, buyers were turned away by gold brokerage firms having difficulty meeting their bullion coin orders.

Premiums - the add-on paid over the melt value of a gold coin - briefly reached the 12% to 15% level at the height of the buying frenzy. (Normally gold bullion coins trade at a premium of 5% to 6%.) The underlying premium remained 2% to 3% higher than normal for months after the peak as the market sorted itself out.

In June, 2009, the mint suspended its rationing program as supply caught up with demand, but as the year progressed another wave of strong demand forced the mint to delay the issuance of the 2010 mintage by roughly 60 days. Stopping the 2009 production long enough to switch over to the 2010 coin, the Mint reasoned, would have created more bottlenecks. Even today, the U.S. Mint continues to limit its production of fractional Eagles to maximize one-ounce coin capacity.

It is instructive to note that, by the time the credit crisis arrived in 2008, the gold bullion coin market had already been in the throes of steadily increasing demand as a result of the secular bull market. The failures and ensuing bailouts only confirmed to many the reasons why they had purchased gold in the first place, fueling unprecedented bullion coin demand. (Please see "Why Gold, Why Now" available as part of this introductory information packet.) Long-time gold market observers believe that this burgeoning demand could become a permanent fixture. As governments and central banks worldwide continue to counter the systemic financial crisis with enormous bailouts and credit schemes, prudent investors increasingly will view gold as an evergreen aspect of their portfolios.

Counterfeiting expensive, unprofitable

Counterfeit bullion coins are rarely, if ever, encountered. Most counterfeiting occurs in scarce and rare numismatic coins where the value of the item exceeds the bullion content by many multiples. In the case of bullion coins, it typically would cost more to produce a counterfeit than it would to simply purchase the same coin in the open market. Thus, there is no profit to the enterprise. The risk of procuring counterfeit coins is further mitigated by purchasing from a firm well-connected in the supply chain. Since the larger retail gold brokerages buy gold bullion coins from wholesalers who hold contracts to purchase directly from the mints, the investor is further assured that he or she is buying genuine items.

Bullion bars - less expensive but not as liquid as coins

Most experts recommend that investors avoid bullion bars. Although the end cost is marginally less than of coins, complications come into play upon liquida-

tion. It is much simpler and less costly to counterfeit bars making the practice more common. Most dealers will not buy before performing an assay test, a chemical analysis that determines the gold's purity. Generally speaking, gold firms will not establish a settlement price until after the bars have been delivered to their location or depository and inspected -- a condition which presents difficulties if the client is anxious to capture a price. Similarly, bullion bars could also present problems for those wishing to trade gold for merchandise in the event of an economic breakdown. The individual receiving the gold bullion has no way of knowing whether the bars are real or counterfeit. Thus, bars present noted trade and exchange difficulties which we counsel our clientele to avoid.

That being said, on occasion we place bars in retirement trust plans where the metal is stored at a depository on the client's behalf. Because it is stored at the depository and never leaves the account, it can be resold without the usual review and/or assay procedures, thus circumventing the liquidity concerns. Should the client take delivery of the bars, the liquidity problem once again comes into play.

The marginal added cost of bullion coins is a small price to pay when weighed against the potential disadvantages of owning bars. From the time of Lydia's Croesus, who was the first to mint gold coins (and from whom the legend of the Midas Touch evolved), the coining of gold served to standardize weight and purity and thus to facilitate trade and commerce. Today's gold bullion coins are the descendants of the coins first minted by Croesus.

Final note

Gold bullion coin investors should take note of one more important consideration. Financial problems in the past tended to remain isolated both geographically and institutionally. As we have seen in recent months, with the advent of trillion-dollar derivatives' positions and interlocking counterparty risks across a range of institutions, that historical prototype of the financial crisis has undergone a change.

Now, a problem at one financial firm on Wall Street can quickly transfer to another with devastating results, and then to still another, and so on. In the contemporary economy, this domino effect can transcend national boundaries as well. Now when an institution sneezes in Europe another in the United States or Asia catches cold -- or vice versa -- and the disease progresses from there. Where thousands of investors might be at risk in earlier episodes of financial meltdowns, now millions can be exposed through a single event. The precarious nature of the modern financial infrastructure has not gone unnoticed by private investors all over the globe. And, as a result, investors seeking certainty in these uncertain times have overwhelmingly turned to gold.

Though the growing global market bodes well for the price in the long run, it could prove disappointing for those who would like to own gold but have not gotten around to accomplishing that mission. The potential gold owner who waits

for a crisis to hit the front pages before adding gold to his or her portfolio runs the risk of being closed out of the market.

The single-most important lesson drawn from the 2008 financial crisis with respect to the gold bullion coin market is that the gold industry -- from the mints to the local coin shops and largest national firms -- is much too small to handle the onslaught of demand when millions are seeking protection all at the same time. Should some future crisis reach the boiling point, there is a strong probability supply problems in bullion coin production will resurface. The best recourse for the ordinary investor is to prepare ahead of time, and take to heart the old aphorism that the best time to buy gold is when things are quiet.



Austrian Corona



Minted: 1915

Actual Gold Content: 0.9803 troy ounce

In the years before the Krugerrand and Maple Leaf became standard fare for bullion investors, the Austrian 100 Corona fulfilled the function of a gold bullion coin in many gold portfolios. The Austrian 100 Corona had been in regular production at the Austrian mint from 1908 to 1914. Later, the coin was issued to commemorate the reign of Franz Joseph, and as a restrike, bearing the date, 1915.

No country is more closely associated with classical and sovereign Europe than Austria - the home of the famous Hapsburg dynasty which dominated central Europe for nearly 700 years. Franz Joseph portrayed on the obverse of the Austrian 100 Corona is generally characterized as 'the last great monarch of Europe,' and the self-proclaimed 'last monarch of the old school.' The reverse of the 100 Corona depicts the imposing double-headed imperial eagle of the Hapsburg dynasty. The Hapsburg emperors viewed themselves as inheritors of the Holy Roman Empire, entitled to rule the world, thus the double-headed eagle looking simultaneously east and west, sword and sceptre embraced in the right talon and the globus cruciger (the cross-bearing orb) in the left.

Although the 100 Corona is no longer in production, it is still readily available in the marketplace and usually at favorable pricing in terms of premium when compared to contemporary bullion coins. Too, at the time of sale, an investor is likely to receive slightly less than you would for the same weight in most contemporary bullion coins.



Mexican 50 pesos



Minted: 1947

Actual Gold Content: 1.2057 troy ounce

The 1947 Mexican 50 peso, like the 1915 Austrian 100 Corona, served the function of a bullion coin during the 1960s and 1970s, and is generally available today. It too is a restrike, that is, a coin that was reissued for a number of years with the same date -- 1947 -- in order to assure it would not gain a numismatic premium.

Known popularly as the Centenario because it commemorates the 100-year anniversary of Mexico's independence, the Mexican 50 peso restrike is generally found in uncirculated condition. The obverse depicts a winged Liberty against a backdrop of the volcanos Ixtaccihuatl and Popocatepetl, named after two star-crossed lovers in Aztec mythology. The reverse depicts the eagle holding a snake in its beak and perched on a cactus. Legend has it that the Aztec people, after wandering in the desert for 200 years, founded Tenochtitlan (which later became Mexico City) on the spot where they saw an eagle and snake so described.

The Mexican 50 peso is the largest of the gold bullion coins at 1.2057 ounces fine gold and, as such, was the first bullion gold coin to trade in excess of \$1000. From 1949 to 1972, 3.9 million 50 peso coins were struck and distributed globally. Though the restrikes trade at modest premiums to the gold price, the older mintages from 1921 to 1931 command significantly higher premiums. Many consider the Mexican 50 peso to be one of the most artistically pleasing gold coins available.



South African Krugerrand



Minted: 1967 - Present

Actual Gold Content: 1.0 troy ounce

The history of South Africa is inextricably bound to gold. Since the time the metal was first discovered in the Transvaal by Alec "Wheelbarrow" Patterson in 1873, the international ebb and flow of gold's fortunes figured directly in the fortunes of South Africa itself. The two Boer Wars in the late 19th century, between Dutch (Afrikaners) and British settlers, were essentially territorial battles over the South African gold fields. Paul Kruger, whose portrait graces the obverse of the famed Krugerrand bullion gold coin, led the Afrikaners and in 1883 became the first president of the new South African Republic. At the end of the 19th century, the Second Boer War culminated in defeat of the Afrikaners resulting in British accession to sovereignty.

Shortly thereafter, the Union of South Africa became the largest gold producing country in the world -- a position it held for most of the 20th century with production at times accounting for as much as one-third the world's total output. Now, the South African mines, some of the deepest in the world, are in decline, and South Africa ranks as the world's second largest producer behind China.

The first Krugerrand was minted in 1967 as a gold bullion coin, the value of which was based upon the international spot price of the metal. The concept of a one ounce gold coin tied to spot gold's fluctuations quickly caught on. Nearly 50 million have been minted since 1967.

The Krugerrand is an alloyed coin at 22 karats, or .9167 purity. Denominated as one ounce of gold, it is struck with no face value indicated on the coin. Quite often contemporary investors purchasing Krugerrands are surprised to discover the coin they purchased bears a date other than the current year. This is testimony to the coin's duration as a market item and the strong secondary market it enjoys.



Canadian Maple Leaf



Minted: 1979 - Present

Actual Gold Content: 1.0 troy ounce

Canada made its entry in the competitive bullion gold coin market in 1979 with the Maple Leaf, the first pure gold bullion coin -- a concept which quickly garnered a significant share of market interest. In early advertisements, Maple Leaf coins were pictured flowing from a gold bullion bar -- an artifice which effectively made the point that bullion gold coins' pricing was related to the spot price. At the time of its unveiling, the Maple Leaf's only competitor was the South African Kruggerand -- a coin alloyed with copper to 22 karat. It is produced in one-ounce, one-half ounce, quarter-ounce and one-tenth ounce sizes.

Early Maple Leaf bullion coins were minted at .999 purity, but in 1982 the Royal Canadian Mint went to the .9999 pure gold coin -- the standard to which it produces coins today. Each coin bears the .9999 purity stamp along with the date, the weight and the face value. The Canadian Maple Leaf is a legal tender gold coin -- a status that allows it to be used as currency and in debt settlements. The earlier issues with the .999 stamp trade at a discount to the later mintages.

The Maple Leaf gold coins were a major beneficiary of the credit and financial crisis which began in 2008. That year the Royal Canadian Mint reported an unprecedented jump in bullion coin sales -- from 278,600 ounces in 2007 to 896,000 in 2008. Whereas the other national mints had trouble keeping up with demand, the Winnipeg mint seemed much better equipped to deal with the onslaught, and Maple Leaf availability remained steady throughout the 2007-2009 period.



Chinese Panda



Minted: 1982 to Present

Actual Gold Content: 1.0 troy ounce

Long before China became the top gold producer in the world, it made its mark in the gold market with the Panda series of gold bullion coins. China's contribution differs from its competitors in two distinct ways -- the reverse design featuring the endangered panda bear changes annually, and second, each coin is minted as a limited edition. The largest mintage historically is projected for 2010 at 300,000 one-ounce coins. The smallest one-ounce mintage was 13,352 in 1982, the first year of issue.

In 2001, the Chinese mint decided to freeze the design -- a decision which provoked a protest. Thus in 2003, it reverted to the policy of an annual design change. On the obverse, Beijing's Temple of Heaven is featured annually.

Pandas are official legal tender coins issued by the Peoples' Bank of China and are minted in Shanghai and Shenyang. It is produced in one-ounce (troy), one-half ounce, one-quarter ounce, one-tenth ounce and one-twentieth ounce sizes. Mintages are consistently small when compared to other gold bullion coins, thus adding to their longer-term appeal in the collector market. The coin is minted as .999 fine gold, 24 karat.



United States Eagle



Minted: 1986 to Present

Actual Gold Content: 1.0 troy ounce

The American Eagle gold bullion coin is the most popular among investors in the United States. Over 13 million of the one-ounce coin have been minted and distributed since the coin was introduced in 1986. In 2009 alone, 1,493,000 American gold eagles were produced. In 2008, at the height of the credit-financial crisis, the mint was forced to go to an allocation system because it could not keep up with burgeoning demand. Still, it produced 710,000 one-ounce coins during the course of the year. By way of comparison, the U.S. Mint produced a little over 140,000 one-ounce coins during the relatively quiet year of 2007.

The 1986 American Eagle began life as an idea presented by Congressman Ron Paul to President Ronald Reagan's Gold Commission in 1981. Congress enacted the "Gold Bullion Act of 1985" and quickly thereafter the Eagle became one of the most popular gold coins in the world. The Gold Bullion Act stipulates that the gold used for producing American Eagles comes from newly mined sources within the United States.

The obverse depicts lady liberty striding from the coin -- a reproduction of Augustus St. Gaudens' famous design for the Double Eagle commissioned by President Theodore Roosevelt in the early 20th century. The reverse displays a family of gold eagles with the male carrying an olive branch and flying above the nest, the fine gold weight of the coin and its face value.

American eagles are legal tender coins minted in one-ounce, half-ounce, quarter-ounce and tenth-ounce sizes. Produced at the West Point Mint, it is an alloyed coin at 22 karats, or .916 fine. The 1986 to 1991 mintages have Roman numeral dates. Arabic numeral dates are used on successive mintages.



Australian Kangaroo



Minted: 1986 to Present

Actual Gold Content: 1.0 troy ounce

The Australian Kangaroo, like the Chinese Panda, incorporates a different design each year. Only in Australia's case it features the famous marsupial, after which it is named. First produced in 1989, the mintages are generally low when compared to other gold bullion coins -- a feature that heightens its appeal as a collectors' item.

The Kangaroo is a pure, legal-tender gold coin (.9999 fine) and comes in one-ounce (troy), half-ounce, quarter-ounce, tenth-ounce and twentieth-ounce sizes. The Kangaroo also comes uniquely in a kilo-sized gold coin weighing 32.15 ounces. The coins come in protective wrappers to protect the delicate pure gold surfaces. The obverse of the coin bears the portrait of Queen Elizabeth II of Great Britain. The coins are struck with their weight, the face value and the purity. All issues are struck by the Perth Mint and valued for their high-quality finish and artistic workmanship.



Austrian Philharmonic



Minted: 1989 to Present

Actual Gold Content: 1.0 troy ounce

The Austrian, or Vienna, Philharmonic is the best-selling gold coin in Europe. Attesting to its international popularity as one of the “pure gold coins” the Philharmonic led sales worldwide in 1992, 1995 and 1996, according to the World Gold Council. In 2008, at the height of the worldwide credit-financial crisis, more one-ounce Philharmonics were sold on a global basis than U.S. Eagles or Krugerrands. Like its competitors, the Philharmonic tracks the gold price and is internationally liquid.

As already mentioned, the Philharmonic is struck in pure, 24-karat gold. The obverse of the coin depicts the great organ in Vienna’s concert hall, home of the famed Vienna Philharmonic Orchestra. The obverse shows an harmonious medley of musical instruments -- a string base, cellos, violins, a bassoon, harp and Viennese horn. The Philharmonic is minted in one-ounce (troy), half-ounce, quarter-ounce and one-tenth ounce sizes with successive face values of 100, 50, 25 and 10 euros respectively. Earlier mintages before the creation of the euro were denominated in schillings

In 2004, the Austrian Mint issued a 1000-ounce gold Philharmonic to mark the 15th anniversary of the popular bullion coin. It has a face value of 100,000 euros. Fifteen coins were struck and they sold out within two weeks of offer. The relief on the coin was sculpted by computer and finished by hand. Each coin took 130 hours to mint. Not to be mistaken for pocket change, the 1000-ounce Philharmonic is listed in the Guinness Book of World Records as the world’s largest gold coin.



United States Buffalo



Minted: 2006 to Present

Actual Gold Content: 1.0 troy ounce

The American Buffalo gold bullion coins are struck by the United States Mint's facility at West Point and have the distinction of being the first pure gold (.9999 fine, 24-karat gold) coins ever struck by the U.S. Mint for public sale as an investment product. Production of these coins was authorized by the Presidential \$1 Coin Act (Public Law 109-145, dated December 22, 2005) which provides for gold bullion to be minted in the form of \$50 legal tender coins, conveying that the content and purity is guaranteed by the United States Government. According to the official U.S. Mint press release on June 20, 2006:

"This American Buffalo Gold Coin will appeal to both investors who choose to hold gold and to others who simply love gold," said Deputy Director David A. Lebyrk during the ceremonial striking at the United States Mint at West Point, where the coins are being produced. "These classic and beautiful American Indian and buffalo designs by James Earle Fraser [a student of Augustus Saint-Gaudens], which have been American favorites since they were first used in 1913, recall a golden age of coin artistry."

"[These bullion coins] portray the images of the revered Buffalo Nickel of 1913, Type 1. The iconic James Earle Fraser image of an American bison graces the reverse (tails side), and Fraser's classic design of an American Indian is featured on the obverse (heads side). The American Buffalo Gold Coin has inscriptions of the coin's weight, denomination and gold content incused on the reverse (Buffalo side) in the design area commonly known as the 'grassy mound.'"

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