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Press Release

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State cautions investors about gold schemes

Anchorage, Alaska – The state Division of Banking and Securities is cautioning Alaskans about the risks of gold and gold-related investments. With gold prices reaching record highs, investor interest in the commodity has increased. But so have the potential risks.

Following the lead of the North American Securities Administrators Association, the oldest international organization devoted to investor protection, state securities regulators are advising Alaskans to be cautious about jumping onto the gold bandwagon. They have issued an alert to help investors spot the risks of gold investments and to be aware of gold investment scams.

"The soaring price of gold has sparked a modern-day gold rush among investors eager to recover stock market losses. But it is a myth to say gold is a safe investment, and dangers abound for prospective gold investors," said Lorie Hovanec, director of the Division of Banking and Securities. "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."

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 tempting investment.

"Regulating these kinds of investments and keeping Alaskans aware of unscrupulous practices in securities markets is part of our mission to protect consumers and help promote a healthy economy and strong communities," said Susan Bell, commissioner of the state Department of Commerce, Community and Economic Development, who oversees the Division of Banking and Securities. "Governor Parnell has proposed strengthening laws against financial exploitation and other securities fraud. But there is no substitute for caution and good due diligence when considering new investments."

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. Each of these options is examined below, with explanations about what investors need to know before deciding to invest.

Questions or concerns may be directed to the Division of Banking and Securities by phone at (907) 269-8140 or (907) 465-2521, or by e-mail at dbsc@alaska.gov.

Things to consider before jumping on the gold bandwagon:

There are 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.

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.

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.

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.

Buying gold online
As with any online transaction, be sure to go through a reputable dealer. When researching bullion dealers, caution should be exercised because no dealers are authorized or affiliated with the U.S. Mint.

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. However, if 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.

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.

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.