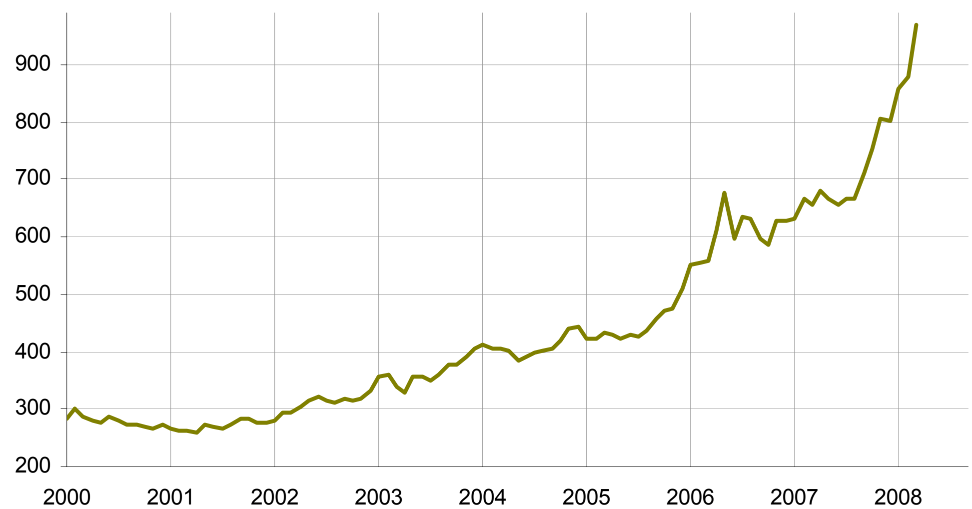
# Five Myths of the *GOLD MARKET*

**GOLD'S** bull market continues, the noisy setbacks to hot money aside.

And as the long-term price of gold moves steadily higher, so a growing number of private individuals are quietly choosing to store a portion of their wealth in physical gold bullion.

Gold: $ per ounce (monthly average)




*Source:* BullionVault

Like you, these investors are looking to put their money to work after watching gold outperform stocks, bonds and foreign currencies for more than 6 years. They are also looking for facts and advice on the metal.

What's driving this bull market in gold prices? Why might investors worldwide keep growing their holdings?

And what's the best way to buy, hold or trade gold — at low cost — with the minimum of hassle. . . ?

The global finance industry stands ready with its pat answers, of course. But plain facts and good advice about gold are just as hard to come by as they are when you're trading equities or bonds.

*Falling for the No.1 gold myth, for instance, would have cost you 11 cents in the Dollar at today's prices back in November last year.*

*In fact, this myth signaled "sell" at the start of 2001 — just before gold turned higher after a two-decade bear market, leaping three times higher by the start of 2008. . .*

# Gold Myth #1: *"It's all about oil"*

**LISTEN** to any pundit or metals analyst talking about the price of gold today, and chances are they'll tell you to watch oil.

The price of crude oil, in fact, has become crucial to the bull market in gold — or so you might think.

*"We need oil to break and hold above $60 for gold to rise further,"* agreed the traders and dealers interviewed daily by Bloomberg at the start of 2007.

But while oil and gold both soared to new record highs throughout last year, their short-term movements failed to show the kind of tight correlation you might expect from watching CNBC.

Indeed, whatever link might exist between oil and gold, it failed to hold firm during the "commodity bull" of the last half-decade or so.

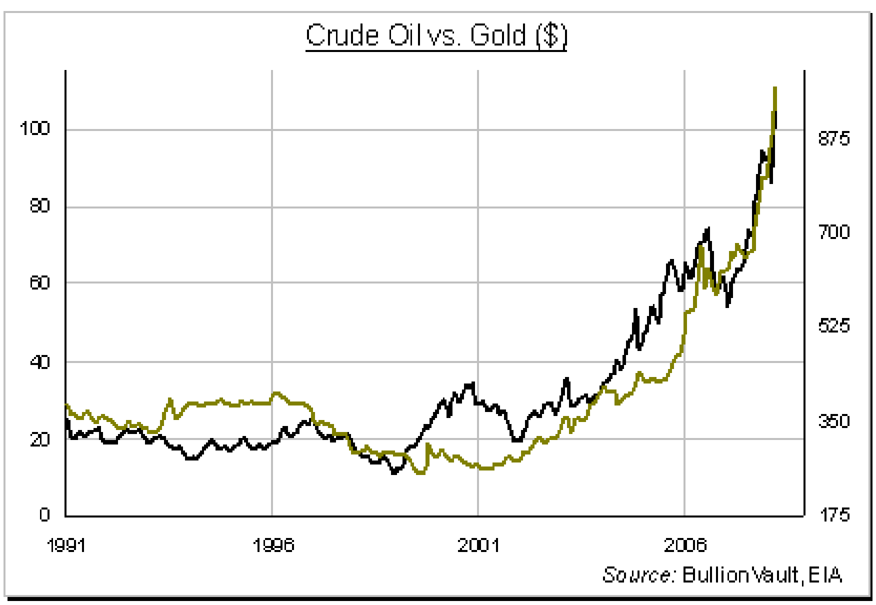
Crude oil first turned higher in 1999; gold didn't get started until 2001. Oil struggled in late 2007, while gold continued to hit new monthly records.

More importantly for anyone trying to time a purchase of either gold or energy plays, short-term fluctuations in the gold price have next-to-nothing to do with movements in oil. From 1983 to 2006, the average correlation between their weekly price changes was a mere 0.10.

Yes, the link improves if you look at the three years ending Dec. '07, but it only rises to 0.42, little better than gold's link with non-US stock markets. It would be nearer 1.00 if gold really was "all about oil".

## Gold doesn't track base metals either

Fact is, the correlation between gold and oil varies wildly, falling to precisely zero during the first three months of 2007 as Philip Walker noted for the highly-rated GFMS consultancy.




Compare gold with base metals, and it's the same story. Even though the correlation of gold with copper, zinc, nickel, aluminum and the rest has been nearly twice as great since the early '80s as gold's link with oil, it remains low — below 0.20 on average. Of course, both the oil and base-metal correlations vary over time. Late in 2007 they ranged well above the historic norms. The runaway gold bull market of the 1970s also saw oil soar to record highs, too. But what correlation there is — just 0.10 long term, suggesting a causal link of just 1% according to the principles of statistical analysis — still says other factors are more important than oil alone.

*Gold is much more than a mere proxy for energy prices — and if you want to hedge yourself against oil prices, then oil is what you should buy.*

*Pundits who tell you otherwise make the classic mistake of confusing recent events for a law of nature. But there's plenty more mis-information in the gold market, however. . .*

# Gold Myth #2: *"It's all about the Dollar"*

**ALONG** with crude oil, orange juice and small-nation economies, gold has been priced in Dollars ever since Great Britain stopped being so great.

The Pound Sterling lost its crown as the king of world currencies, and the US Dollar became the world's premier measure of globally-traded assets — including gold bullion.

But that doesn't stop gold from holding value for British, Japanese or Canadian investors, of course. Nor has it stopped the metal rising dramatically against all major currencies over the last half-decade.

You wouldn't know it, however, from reading "professional" analysis of how the gold market moves.

"*Gold rising in other currencies is usually seen as a bullish sign,*" according to a Reuters report. Rising gold prices, in other words, lead to higher gold prices!

"*Gold in Japanese Yen and Euro terms are leading/confirming the onset of potentially more substantial upside,*" according to an analyst at Barclays Capital in London. Yet gold has been rising versus all paper currencies for more than three years now, with the Swiss Franc and Japanese Yen sliding fastest against the metal in 2007.

"*The Dollar [today] posted losses against major rivals,*" said another market update recently, "*thereby increasing demand for gold.*"

That word — "*thereby*" — is lazier than a Sunday afternoon asleep on the sofa!

But such throwaway comments do more harm than simply making contestants on reality TV shows look smart. They also demote gold to merely the inverse of Dollar strength.

Priced in Dollars, gold will of course display a perfectly negative correlation with Dollars priced in gold. Yet too many financial journalists take this idiot's truism to be a valuable insight.

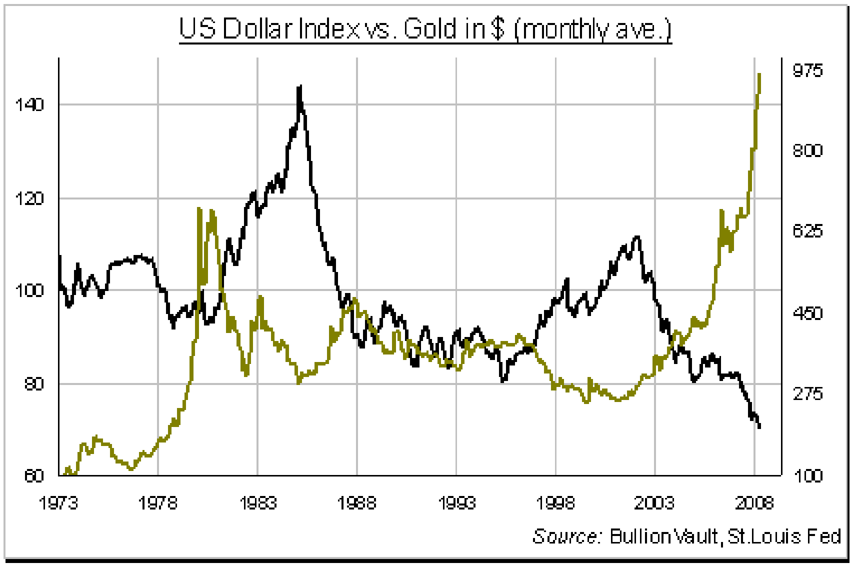
## Gold beats all currencies since 2001

In reality, gold's gains versus the Dollar have far outstripped the Dollar's losses against all other major currencies since 2001. Look at what the trade-weighted Dollar Index is telling us, for instance.

There was a time when this basket of Euros, Yen, Sterling and the nine other major currencies figuring in US trade deals really did mirror the Dollar price of gold. "The daily closes of the US Dollar Index and gold had an utterly massive negative correlation of -0.956 up until Q2 2005," as Adam Hamilton notes for Zealllc.com.

"Squaring a correlation gives an r-square value," he goes on, "which statisticians use to explore potential causation. Gold and the dollar ran a stellar r-square of 91.4%!"

But this relationship broke down nearly two years ago, and the




correlation sank to -0.40 as the gold price for European, Japanese, British, Canadian, Australian and Indian investors also doubled or more in terms of their local currencies.

In short, "the old Dollar-weak-gold-strong thesis is no longer valid," says Hamilton. And the truth is, that thesis never got chance to grow very old in the first place.

## The ultimate hedge against *ALL* currency risk

During the 20 years between 1982 and 2002, the average correlation linking weekly gold prices and weekly moves in the Dollar Index ran to just -0.31. Gold then switched for a brief period to mirroring the Dollar's fast-fading fortunes on the currency markets more closely. But since the spring of 2005, it's been back to business as usual. And the upshot for investors like you? During the current bull market in gold so far, a US citizen looking to protect himself against the decline of the Dollar would have made *three times as much* profit holding gold instead of Euros. More importantly still, his swiftest gains came when the Dollar held steady or only slipped a little against its major rivals.

In other words, a bearish view of the greenback would have been best-rewarded by adding gold to your portfolio. But gold is about much more than the Euro-Dollar exchange rate. It acts as "a global currency" as Anthony S.Fell, chairman of RBC Capital Markets in Toronto puts it, "the only one that is freely tradable and unencumbered by vast quantities of sovereign debt and prior obligations."

No matter where you earn or hold your money today, your capital gains would have been greater in gold over the last 5 years than in any major world currency.

*Pure gold bullion can also offer you security against falling stock and bond markets, too. But again, not quite in the way most people expect...*

# Gold Myth #3: *"Gold goes up when everything else goes down"*

**DURING** the sudden slump in world equity markets at the start of March 2007 — and again in August '07 — "gold failed to be a safe haven, and it failed quite badly," as one analyst put it.

In fact, the metal dropped more than 8% inside two weeks last spring. The S&P, meanwhile, lost less than 5%.

"Gold [was] caught in the same flight from risk as the emerging market share prices," says Matthew Turner, an analyst from the Virtual Metals consultancy. But isn't gold supposed to offer a risk-free haven of safety in times of trouble?

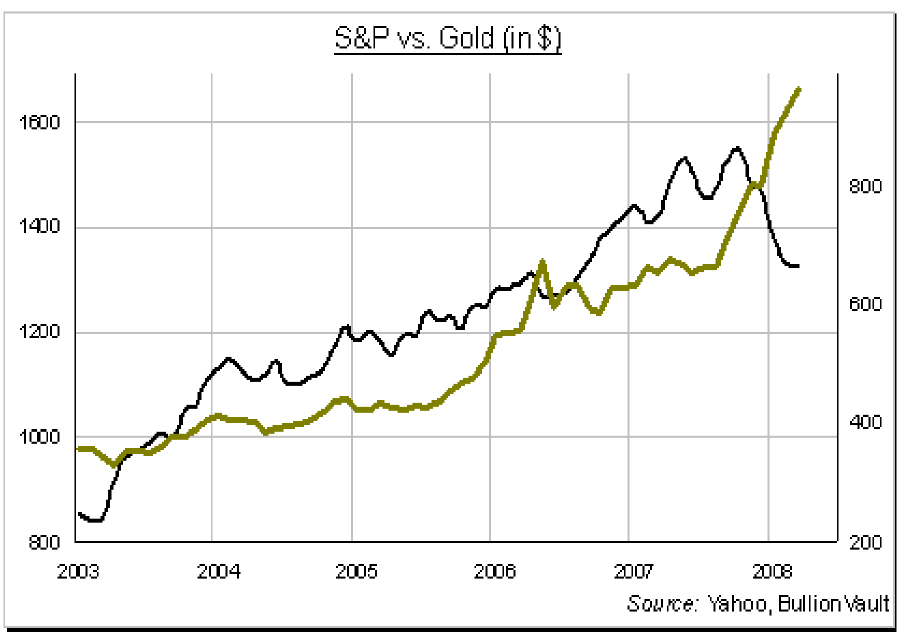
From the Russian invasion of Afghanistan in 1980 to the terrorist attacks of 9/11 . . . Black Monday in Oct. '87 to the hedge-fund collapse of LTCM nine years later . . . what's bad for stocks and bonds is good for gold — right? That's why gold investors deserve their "ghoulish" tag. They simply can't wait for Armageddon to hit, because they'll get rich — just in time to get fried!

Yet detailed research shows that, over a 30-year period, there was on average no correlation between the weekly returns on gold and the weekly returns on stocks.

Not positive or negative. Simply none — or as near as damn it.

## Gold versus stocks: The lesson of history

"This conclusion is consistent with previous research covering more recent, shorter time periods," says Katharine Pulvermacher, author of this research on behalf of the World Gold Council. Week-to-week changes in equity prices have no impact on gold.




So you're sure to be disappointed if you want the metal to bail you out when the stock market takes a dive. But what about longer term? Glance at the last four decades of data, and you'll find that gold really can move in opposition to paper securities — but only if you bide your time.

Between 1994 and 2000, back when "irrational exuberance" ruled on Wall Street, gold prices sank on average by 7.6% year-on-year. An equal mix of US equities and bonds, on the other hand, would have given you 10.7% returns annually on average.

Where should your money have been in the mid to late '90s? Not in gold, that's for sure! But this longer term relationship cuts both ways.

Between 1970 and 1980 — the last decade of runaway inflation in the developed world — stocks and bonds lost 1.6% per year on average. Whereas gold's annual gains, meantime, averaged 19.9% – and this very same pattern of gold up, stocks down returned at the start of the 21st century, too. Between New Year's Eve 1999 and the start of 2003, the S&P averaged a loss of 15% per year. Gold, on the other hand, returned more than 7.9% year-on-year.

In short, says history, gold prices rise when stocks keep on sliding. It most often falls when equity markets keep rising. As you can see, this link between gold and the S&P held solid for six years running from Jan. '97.

But then something changed. Stock markets and gold starting moving higher together. "2003 provided an exception to the rule that gold prices tend to vary inversely with those of financial assets," as John Hathaway put it for Tocqueville Asset Management at the time. Yet 2004 then proved an exception to the rule too — as did 2005, 2006, and the first half of 2007.

Until the global banking crisis began in August 2007, in fact, the gold price only served to beg the question more urgently still.

Whatever happened to gold as a safe haven?

*Grinding losses in stocks and bonds during the '70s drove investors to seek safety in gold. They fled into bullion once again as the Tech Crash wore on at the start of this decade.*

*Now gold is rising once more as the Dow, FTSE, Nikkei and Dax all tick lower. But the price action from 2003 to 2007 — when gold rose together with stocks — says something else is going on, too.*

*So we need to step back, and take a look at what's happening to the value of money itself. . .*

# Gold Myth #4: *"Gold is the perfect hedge against inflation"*

**The 1970s** didn't just curse the developed world with cheap German wine and the Bay City Rollers.

That decade gave us soaring inflation, too.

Gold's stellar run up to $850 per ounce also came in the '70s. So gold, therefore, must deliver its strongest returns when the cost of living shoots higher. Right?

Wrong. "In the long run, stocks have thrashed gold as great long-term hedges against inflation," says Jeremy Siegel, professor of finance at Wharton University, Pennsylvania.

In short, the common opinion of gold is wildly amiss.

## How gold dropped 15% in 25 years

Just look at the last quarter century. Consumer prices in the United States, even on Washington's own data, have doubled since 1982. Gold simply failed to keep pace. In fact, it dropped 15% of its purchasing power over that time.

At its lowest point, back in 2001, gold's loss of purchasing power for US investors reached beyond 75%. The broad S&P index, on the other hand, stood more than eleven times higher, even as the Tech Crash pushed US equities into a nosedive.

How can we square this fact with gold's huge returns in the inflationary '70s?

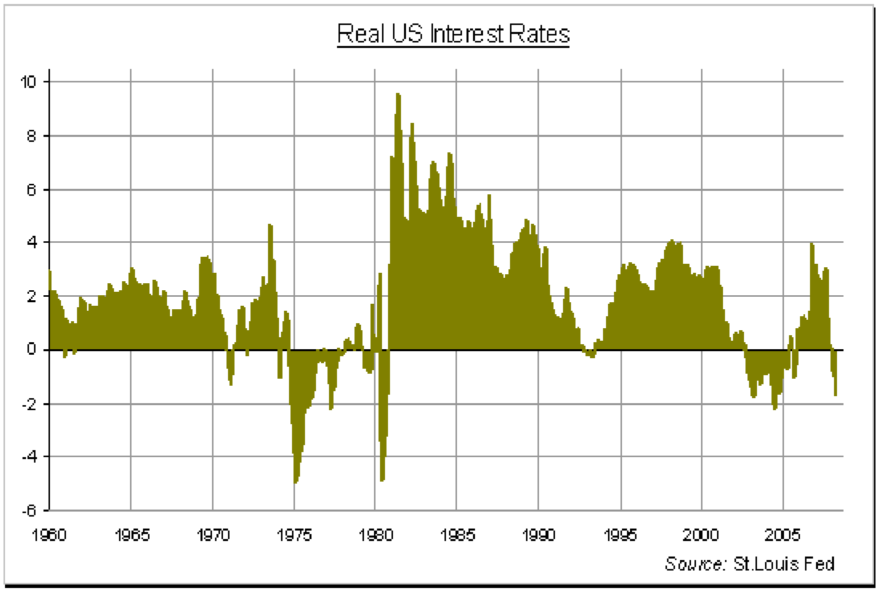
"Well," you might guess, "perhaps gold only responds to rapid inflation — the nasty kind we got 30 years ago, rather than the 'mild' case our money has suffered ever since?"

But again, you'd be wrong. Between 1980 and '81, consumer price inflation in the US destroyed 17 cents of the Dollar's purchasing power, a severe depreciation by any reckoning. Yet the Dollar price of gold dropped 40% during that same period.

Look further back — even to when physical gold stored in government vaults underpinned the Dollar, just as it underpinned all major currencies — and you'll find that gold almost always made a poor hedge against rising prices.

In the mid-70s, Professor Roy Jastram of the University of California at Berkeley found that gold failed to keep pace with the cost of living during seven inflations in Britain. His data ran across more than three centuries. In the United States, Jastram identified six inflationary periods between 1808 and 1976. They saw the purchasing power of gold fall by more than one-fifth on average!

Only the final period in Jastram's study — beginning in 1951 — saw the metal gain value. It continued to gain purchasing power for the next 30 years. By the end of 1980, the




average annual price of gold had risen more than 17 times over. The US Dollar, on the other hand, had lost two-thirds of its value.

But right from that top in the gold price of $850 per ounce in Jan. 1980, it was downhill for the next twenty years. How come?

## The end of one golden bull market. . .

What changed at the start of the '80s? In two words, Paul Volcker. The famously tall chairman of the US Federal Reserve tackled inflation by raising Dollar interest rates to nearly 20%.

Volcker's strong medicine took nearly two years to slow the rate of inflation. But it killed the gold price almost instantly.

"There was a kind of great speculative pressure," as Volcker has since said in an interview; at one of the policy meetings he chaired in late 1979, the Fed noted how "speculative activity" in the gold market was spilling into other commodities; an official at the US Treasury called the gold rush "a symptom of growing concern about world-wide inflation."

What to do? Inflation and gold were both pointing higher — and the grinding decline of the Dollar was to blame for both trends. High interest rates, thought Volcker, would reward cash savers and prop up the currency. Killing the great gold speculation proved a memorable side-effect of the Fed's new "strong Dollar" policy.

By April 1980, the real rate of Fed interest — paid above and beyond inflation — hit its highest level in seven years; gold meantime dropped more than one-third of its price. After 12 months of beating inflation, the real returns paid on the Dollar cut the gold price in half.

Indeed, during Volcker's eight-year reign at the Fed, real Dollar interest rates averaged 4.38% — more than twice the real returns averaged by his successor, Alan Greenspan.

And compared to those risk-free rewards, gold just couldn't compete.

Gold pays you no interest. Indeed, gold costs you to hold it — either by rolling forward contracts in the futures market to maintain a paper position, or through expensive storage and insurance fees on physical bullion.

Yes, these costs can now be vanishingly small if you invest in gold through BullionVault. Buy investment-grade bullion stored in London, New York or Zurich today, and you'll pay down to just 0.12% per year for ultra-safe storage with insurance included. That's less than one-third the cost of holding an exchange-traded trust fund such as StreetTracks GLD.

But even using BullionVault's simple, low cost and highly secure gold ownership service, you still can't turn gold into a fixed-income asset like cash in the bank or a Treasury note. Gold will always be a losing asset next to cash– unless inflation overtakes interest rates.

| | Average 10-year US bond yields after inflation | Total change in gold over period (%) |
|---|---|---|
| 1970-80 | 0.41 % | + 1837 |
| 1980-90 | 5.03 % | – 40 |
| 1990-00 | 3.57 % | – 31 |
| 2000-08 | 1.83 % | + 212 |

*Source:* St.Louis Fed, WGC (monthly data)

## . . .and the start of the next bull market in gold

In short, inflation *does* create the right situation for gold to go higher — but only if interest rates lag. When the real returns paid to cash savers and bond investors starts to shrink, people choose to own gold instead.

Right now — as you'll know from the returns paid on your own cash savings — real returns on government bonds across the world stand near multi-year lows. British gilts are paying less than zero after tax and inflation. US Treasury bonds also yield less than nothing.

Add to this the lesson we saw in *Myth #4* — that "years of low return on risk capital go with years of high returns on gold," as John Dizard puts it in the *Financial Times* — and the fact is that people buy gold when they can't bear further losses elsewhere.

Those losses might come in cash, bonds, real estate or stocks. Holding cash regularly destroyed wealth during the '70s. It has destroyed US savings during a third of this decade so far as well. And when money becomes a losing asset, people everywhere begin turning to gold — a proven store of value across more than 3,000 years of history.

## Why gold is rising today

This is just what's happening today. The real rate of interest paid on the Dollar — the gap between CPI inflation and the US Fed Funds rate — has averaged only 0.47% since the start of 2000. Gold has more than doubled in price.

In the United Kingdom, the same story. Measured against the Retail Price Index, real UK interest rates went negative during the second half of the 1970s; the purchasing power of gold rose by 86% inside five years.

Since the year 2000, real UK interest rates have now paid less than half their average of the 1980s and '90s — and gold has nearly trebled against Sterling.

Remember, the gains in gold of the last seven years have come despite official inflation rates staying low. That's very different from the bell-bottomed '70s. The true common factor has been low bond yields and interest *after inflation*.

## Gold offers you refuge when cash ceases to pay

Ask yourself this: Will the real rate of return paid by the Fed turn sharply higher soon? The gold market doesn't buy it. Nor do bond investors. Five- and ten-year bond yields in the US point to even lower interest rates from here. So too do UK gilt yields and German bunds.

As the sub-prime mortgage disaster continues to destroy wealth for even prime real-estate debtors as banks refuse to lend for fear of taking on yet more bad loans, Federal Reserve interest rates are set to fall further still — rather than rise to double digits — no matter what happens to the cost of living.

The current Fed chairman, Ben Bernanke, has always promised as much. A famous scholar of the Great Depression, he's on record as saying that the Federal Reserve was to blame for that "calamity" during the 1930s. And the lesson he takes from history — matched by what happened to Japan during the "Lost Decade" of the 1990s — is that "asset price crashes have done sustained damage" only when central banks failed to cut interest rates fast enough to keep speculators fed with cheap cash.

Gold might not beat inflation, but Ben Bernanke is not Paul Volcker. And all this while, real rates of interest in China, Japan, Europe and the UK sit close to — or below — zero.

*History says gold is now set to become the No.1 choice for protecting private wealth once again. Putting a portion of your savings into bullion could also protect you against grinding losses in stocks and bonds, as well as the slow decline of purchasing power amongst all major world currencies.*

*Ready to buy gold? There's only one question left — how to do it . . .*

# Gold Myth #5: *"You can buy gold through your stock broker"*

**YOU** might think it simple enough.

Buy gold. Hold it, securely. Then sell it — for full value — at a time of your choosing.

Gold itself, after all, couldn't be simpler. Sitting at No.79 in the Periodic Table, this mere lump of metal makes no forecasts. It's never hosted a quarterly earnings call or issued executive stock options.

Nor can it ever slip into default; gold doesn't owe anything to anyone.

But look at the huge range of gold-related investments on offer today, however, and you'll soon find that buying and selling gold is a long way from simple.

Only the world's very wealthiest investors, it seems, can own gold outright without incurring huge fees.

*Certificates and "pool" programs* promise to make gold easy — yet they charge more in annual storage fees than mutual funds charge for active stock selection;

*Coins and bars* you can hold in your hand — but only if you're willing to pay huge dealing spreads and high insurance or safety-deposit fees each month;

*Futures and options* let you gear up your investment — but also gear up your losses and margin calls on gut-wrenching volatility;

*Exchange-traded funds* claim to trade like a stock — but rely on complex trust deeds to "track" gold instead of giving you straightforward gold ownership.

So many ways to buy gold — and so many ways to pay more than you need to get less than you want!

You can either own gold. . .or you can avoid high charges. You cannot do both.

With some products, in fact, you cannot do either — the very worst of both worlds for would-be gold investors!

## High cost, high complexity

One bullion fund, for instance, offers an "alternative" for investors wanting the protections that gold can deliver. This alternative holds bullion in trust, leaving its clients short of actual gold ownership.

It then bills up to 5% sales commission — plus a 3% penalty if you leave inside six months. There's a further 1.25% annual management fee on top, and you need to risk $2,500 just to open the door.

What about buying gold through your bank? You'll pay dearly to own "allocated" gold in your name alone. But the alternative — so-called "unallocated" gold — means lending the gold to your bank.

Your loss of property rights would be fully exposed if your bank suffered a crisis and needed to sell assets to cover its debts. Yet that's just the kind of financial shock that most gold investors want to insure against!

How about gold futures or options? Leveraging your stake 20 times over can sound attractive. But rolling each quarterly contract forwards would then cost at least one-sixth of your outlay each year.

You'll most likely face huge margin calls, too. Twenty times gearing cuts both ways in volatile markets — and gold has been twice as volatile as US equities during the last year.

## Gold Coins: A lesson for Doomsday from India

Right at the other end of gold's "complexity spectrum", what could be simpler than a handful of metal? Stash gold coins or small bars under your bed, and you could save money skipping insurance fees, too.

But keeping gold in your home still carries a price tag. Gold dealers on Main Street charge very wide spreads. In the US and Europe, expect to pay between 4% and 7% on both purchase and sale. For rarer, collectible coins, don't be surprised to get only "melt" value — the raw spot price of gold — when you come to sell.

Few gold investors realize it, but this problem of wide-dealing spreads would be sure to grow worse during an economic or social collapse — key scenarios that many gold-coin owners hope to defend against. Ignore the extra risks to your personal safety for a moment; anyone looking to trade gold hand-to-hand amid a "melt up" in prices would get nothing like full value — right at the moment they expect and need it most.

Look at the gold market in India, for instance. As in China, rural India doesn't yet have a formal banking system. Lacking cash savings accounts, people use small gold bars and chunky jewelry to store their wealth for the future.

But the only way to then access this wealth is by selling to a local jeweler (exporting scrap gold is illegal in India) — and Indian gold owners typically lose 10-15% of their sale price in fees.

Strong local demand, in short — plus a very active market — doesn't stop gold dealers from exploiting their monopoly position.

## Paper Gold: Five hidden risks in gold ETFs

A change came to India in early 2007, when Mumbai followed Wall Street and London in launching "paper gold" products. Now Indian citizens can buy and sell exchange-traded gold funds through their stock broker.

India's new "gold ETFs" are modeled on the trusts run in the US and Europe by StreetTracks, LyxOr and iShares. They charge higher fees, but the underlying offer is just the same — and it creates just the same hidden risks for would-be gold buyers, too.

### #1. Promises, Promises

Exchange-traded gold funds aim to "track" the spot price of gold — and so far, that's just what they've done. But the ETFs only give you "indirect access to the gold bullion market" as one of the US funds puts it. These trusts do not give you gold ownership.

"Whatever their promises to pay, they are only paper," as Neil Collins wrote in London's *Daily Telegraph* when the UK's first trust-based gold fund was launched. "[And] as governments have discovered over the centuries, printing is so much easier than finding gold to pay the bills."

Why accept just a "promise to pay" when you simply want to own gold instead?

### #2. Restricted Dealing

The professional gold market operates 24 hours a day, five days a week. But you can only deal ETFs during your local stock market hours. Missing two-thirds of the trading day could cost you dear when you're timing your purchase and sale.

Big moves of 1-2% regularly occur during the Asian and early London sessions. So far this year, much of the action has begun 90 minutes before Wall Street opened for business.

### #3. No Choice of Location

The major US and European gold ETFs all store their bullion in bank vaults near London, England. But what if you'd like your gold closer to home — say, in New York — or further offshore in Zurich?

BullionVault.com offers you just this flexibility of choice in all three locations — the three major centers of the world's 24-hour gold market. (As it happens, our customers have chosen to store 27 times as much gold in Zurich as they do in New York. . .)

### #4. Currency Conversion

The gold ETFs carry a potentially huge but hidden cost for non-US investors. They also keep US gold traders locked into the world's worst-performing major currency between deals, too.

Why? Because just like gold bullion itself, the main gold ETF shares are priced in Dollars. So they require a foreign currency exchange both on purchase and sale for non-US buyers. Be sure to ask your broker for his forex rates if "paper gold" really is what you want, but don't expect to get anything like best-market prices.

BullionVault on the other hand offers full two-way markets in the world's three leading currencies — Dollars, Euros and Pounds Sterling — with no currency conversion fees to increase your fees. This unique feature also lets US investors take profits in Euros or Pounds, ready to buy back again when the market next dips.

### #5. Shrinking Net Value

This last problem is little-reported, but the major gold ETFs could face a serious glitch in the next year or two.

You see, they all charge 0.4% per year to cover storage, insurance and administration fees — more than three times the standard storage fees at BullionVault. But the real problem is not the expense. The glitch comes thanks to the way this charge is billed.

The funds deduct their annual storage fees from the gold backing each ETF share. This keeps things simple, at least in the short term. But while the value of gold backing each ETF share shrinks, the title on each share stays the same. It still says, most usually, that the shares are entitled to one-tenth of an ounce — even though they are not.

Over time, this gap only grows wider. . . and wider. The first exchange-traded gold fund to launch — Australia's GOLD share — began life in mid-2003. Back then each share was fully matched by one-tenth of an ounce. Today however, after almost five years of shrinkage, each share represents less than 9.85% of an ounce.

You might not think the difference matters too much. The loss is little more than 1.5% after all. And the annual storage fees have to be paid one way or the other.

But in two to three years' time, those same ETF stocks will open up a gap between "title" and real net value of more than 2.0%. . . and then nearer 3.0% per share.

Will the stock market care? For as long as no one minds paying $920 for just $901 of trust-fund gold shares, then no. But the gold ETF companies know it could cause problems. That's why, in May 2005, Gold Bullion Securities — sponsor of the gold ETF programs — said it may consolidate the trusts every three or four years.

Consolidation will mean re-pricing the shares, and the longer the wait, the greater that re-pricing will be. But the stock market, however, may choose to "consolidate" the gold ETFs before then.

Market anomalies rarely exist for too long. What might happen if the price of these trust-based products no longer squares with the spot-price of gold? What will become of these "one tenth" certificates if the market values them one or two per cent cheaper?

Wouldn't it just be simpler if you could own gold bullion — outright, in your name — rather than through a complex trust deed that risks such distortion?

## The tightest spreads, the lowest fees

Gold traders working in the professional market don't put up with trust deeds, of course. Nor do they suffer shrinkage, restricted dealing hours, fat commissions, wide spreads, high storage fees or the risk of consolidation.

Until recently, private investors were locked out of this market. You had to be "ultra high net worth" to join the world's gold dealers, refineries, government agencies and bullion banks in creating the spot price of gold — rather than trying to chase it.

And even then you had to devote $4 million to bullion, just to open the door!

You see, this exclusive club only deals in what are known as "*Good Delivery*" bars. Weighing around 400 troy ounces and warranted to be 99.95% pure gold or better, one *Good*

*Delivery* bar costs a cool quarter-million Dollars at today's prices.

If you're not trading these bars, you're locked out of the vault. *Good Delivery* is all the spot market wants. Weight and purity must come without question. That's why professional gold-dealing spreads run so low — down to just 0.4% and far below.

*Good Delivery* bars are cast by a small group of specialist refiners, each one approved by the recognized gold-dealing communities in London, New York and Zurich. Kept safe inside market-approved bullion vaults — and only ever transported by market-approved couriers — *Good Delivery* bars carry the very highest "integrity".

The professional market won't let you buy part of a bar. But buying one bar or two still won't open the door! You also need to store your gold in a formally recognized vault — and professional storage accounts start from 15 bars upwards.

Taking your gold out of the accredited gold storage system would ruin its *Good Delivery* status — and loss of integrity is the single biggest cost in private gold ownership. Without *Good Delivery*, you cannot access the best prices: either high dealing costs will push you far away from "spot" or complex credit arrangements such as trust deeds and derivatives contracts will prevent you from owning any metal at all.

And it's here that BullionVault.com creates a revolution in private gold ownership. Using its simple and straightforward internet site, you can now access the professional market direct — and you don't need $4 million to open the vault door. BullionVault simply enables you to own physical gold bullion — outright, in your name — at low cost.

## Simple, cost-effective and instant

You can buy and sell as little as one gram of *Good Delivery* gold, and keep it in officially recognized bullion vaults in London, New York or Zurich Switzerland.

This is so much simpler than owning shares in a complex trust or investment fund. Buying gold through BullionVault gives you outright ownership of physical metal. The gold belongs to you — and you alone — with full legal title.

It's also cost-effective. Accessing the professional market in this way will reduce your dealing and storage costs by two-thirds or more compared with buying low-integrity gold in the form of coins or small bars.

Because all trades at BullionVault are settled with *Good Delivery* gold that's already inside the vault, you save money again, as there's no need to pay for shipment. There's also no credit risk; gold buyers can only bid using money that's already in their account — and all trades are settled instantly by our unique online order board. (The software behind it also runs many stock-market settlement systems for some of Europe's very biggest investment banks.)

BullionVault never lends gold to third parties or promises it for future delivery. For as long as you own it, your gold remains your outright property. This can add genuine diversification to a portfolio of shares, cash and bonds.

And since it belongs to you — outright — your gold is also independent of the financial performance of BullionVault. Your property is perfectly safe from the fortunes of our vault operator and bank, too. Your gold cannot be sold to repay anyone else's debts. There is no complex trust deed. You simply own physical gold bullion, held in the form a *Good Delivery* bar.

## A breakthrough for private gold ownership

Launched at the start of 2005, BullionVault now looks after more than $200 million in gold and cash on behalf of more than 17,000 customers worldwide.

BullionVault banks with Lloyds TSB, the only British bank rated by Moodys as AAA — the highest corporate rating they award. BullionVault employs ViaMat, the leading Swiss storage provider, to vault gold bullion on behalf of its clients now totaling more than six tonnes — a larger store of real gold than most central banks hold today.

To prove your ownership of *Good Delivery* gold, BullionVault publishes the complete register of all its gold owners on the internet, each and every working day. Your holding appears under a secret nickname that's known only to you, and the entire list reconciles exactly to the gold bars listed by our vault operator. That bar list is also posted on the BullionVault site for everyone to view as they wish for free.

No other custody business in the world subjects its records to this continual, daily, public scrutiny. It represents a genuine breakthrough in security and transparency.

Because your gold carries the very highest integrity, the spread between prices to buy and prices to sell typically runs to just 0.4% — only one-tenth of the spread you'll pay a gold-coin dealer. Storage charges are also much lower at BullionVault, with full insurance included.

Starting at $4 per month, the cost of storing your *Good Delivery* gold in a professional, market-approved vault reduces to 0.24 cents in the Dollar on bullion worth $20,000 or above. On holdings of $40,000 or more, it falls to the wholesale rate of 0.12%.

That's a fraction of safety-deposit fees charged by retail banks, and just one-tenth the fees charged for "allocated storage" by gold certificate programs. BullionVault's storage charge undercuts the annual fees of the gold ETFs by more than two-thirds.

So how do we make our money? There is a small commission to pay when you buy and sell at BullionVault, starting at 0.8% and quickly reducing to 0.4% and then 0.1% as you add to your investment or trade more frequently.

You can buy and sell up to 600 ounces live on our order board; anything larger, and we'd advise you call us by phone and arrange a deal direct onto the main London bullion market to cut your costs further. BullionVault's online gold market is open 24 hours a day, 7 days a week, and apart from occasional breaks for maintenance in the early hours of Sunday, the website enables you to buy and sell whenever you choose, rather than when your stock brokerage or coin dealer is working.

Investors using BullionVault deal directly with each other — willing seller to willing buyer — using its online order board. The order board lets you set bid and offer prices yourself, giving you the chance to buy on a dip and sell on a rally rather than just settling for whatever price you're quoted.

## Why not trade your free gram of gold now?

BullionVault is the only place in the world where private individuals like you will find this level of flexibility, cost-efficiency and security in the gold market today.

Naming your price — and so "earning the spread" if you choose — is a privilege normally reserved for professional and institutional investors only. And this breakthrough is just part of the reason why BullionVault — based in London, England, the hub of the world's gold trading market — has now been featured by CNBC, the *Financial Times*, *der Stern* in Germany, the *Times* of London, the *Mail on Sunday*, *MoneyWeek* magazine, PrudentBear.com, and many of the leading investment analysis websites including Jim Puplava's Financial Sense and David Fuller's StockCube.

You already own a free gram of gold. It's stored in Zurich, right now, and it belongs to you. To see for yourself how simple it is to use BullionVault, why not log in and offer that complimentary gram for sale?

It won't put you under any obligation to buy gold with us in the future — and at today's prices, realizing the cash value of your free gram could go to covering five months of storage fees on up to $40,000-worth of bullion. It would cut the commission fee on buying four ounces of gold down to zero.

But giving you something for nothing isn't why BullionVault has set aside a complimentary gram of gold in the Zurich vault.

It's there so you can learn for yourself how simple it is to buy, own and sell physical gold bullion — outright, in your name alone — today.

*Gold doesn't need to be complicated — and it needn't be expensive. Add gold to your portfolio through BullionVault and you'll find the process as straightforward as the metal itself.*

*Don't let the financial services industry kid you into paying more than you need for less than you want. Accept no promises and no credit risk. Just a proven store of value, belonging to you.*