



Third Quarter 2024

Owning Gold is Gaining Popularity

When you can buy gold along with your groceries at Costco, there's clearly increased desirability to owning gold. But before you get too carried away with your gold stash, there are a few things you need to understand.

Warren Buffett's bias against gold is that it does not build value through growth or pay interest, unlike dividend stocks, bonds and savings accounts. There is no compounding over time. Its value derives directly from demand.

Unless you opt to own gold through an Exchange Traded Fund (ETF), you will find gold is a lot easier to buy than it is to sell.

Gold jewelry can usually be sold online or offline to a local jewelry store or pawn shop. Gold coins, also referred to as bullion coins, are a different matter. They are considered an investment or store of value, rather than a consumer item. You can look up the current value of bullion coins produced by national mints via an online gold bullion market such as Monex, Money Metals Exchange or JM Bullion. The listed price is not, however, what you will receive when selling your coins. Dealer costs, handling charges and delivery fees can quickly reduce profits from rising gold prices.

Online gold buyers tend to offer the highest price, but you can't walk in with your coins and walk out with money. There is considerable trust involved in an online transaction. You need to make certain the buyer is reputable. Better Business Bureau ratings and reviews are a start. Local coin shops and pawn shops provide the benefit of immediate cash and personalized service, although they typically offer lower prices. Pawn shops tend to provide the least value for your coins and may not deal honestly with novice sellers.

If you make money selling your gold, the government will want its share. The IRS classifies precious metals, including gold, as collectibles. This applies to gold bullion coins and bars as well as exchange-traded funds that invest in physical gold and other precious metals. Physical holdings in gold or silver are subject to a capital gains tax equal to your marginal tax rate, up to a maximum of 28%. Short-term gains for gold you hold for less than a year are taxed at the ordinary income tax rates that apply to income such as wages or interest.

Sales of physical gold or silver need to be reported on Schedule D of Form 1040 on your tax return. A loss from selling gold can be used as a tax deduction. Depending on the type of metal you are selling, Form 1099-B must be submitted to the IRS at the time of the sale. An IRS form may also be required when bullion is purchased based on the amount of bullion you purchase, how it is paid for and the mint year.

Storing gold can also be problematic. Homeowner's insurance typically has a \$200 limit of coverage for gold and silver bars or coins. While you could pay an additional premium and install security devices, keeping gold at home has risks. Bullion Vault holds its customers gold in vaults in London, Zurich, New York, Toronto or Singapore, but there is a cost.

Before you purchase gold as an investment, inflation hedge, disaster protection or other reasons, make certain you understand why you are purchasing the gold, where you will store it and how you will sell it if you need funds. Gold bullion is not a readily liquid source of funds, and it comes with a degree of personal risk if you plan to keep it in your home. You also need some way of letting your heirs know where your gold is in the event of a personal problem or death.

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