Investing In Gold

Should I Invest in Gold Funds?

If you are asking, should I invest in gold funds, then the first thing to understand is what gold funds are.

What are Gold Funds?

There are basically two types of gold funds. Mutual Funds and Exchange Traded Funds. Each have their own advantages and benefits. Each are quite different and may not suit everyone. In all matters of finance and investment, always consult with your own personal finance advisor before embarking on any investment.

Mutual Funds

A mutual fund is a organized management group where a number of people pool their investment money and the managers of the fund invest those funds in various investment instruments such as stocks, bonds, short-term money market instruments, and/or other securities and by adroit management of those investments, attains a capital gains and collects the dividend or interest income. If the management is good the investment will realize a profit. If the investment is poor then the investment will record a loss.

The investor 'buys' units' at a set price and the profit/loss of the investment is reflected in the movement of the unit price. The value of a share of the mutual fund, known as the net asset value per share (NAV), is calculated daily based on the total value of the fund divided by the number of shares currently issued and outstanding.

In the US, this is legally known as an "open-end company" under the Investment Company Act of 1940 (the primary regulatory statute governing investment companies), a mutual fund is one of three basic types of investment companies available in the United States. Outside of the United States (with the exception of Canada, which follows the U.S. model), mutual fund is a generic term for various types of collective investment vehicle. In the United Kingdom and western Europe (including offshore jurisdictions), other forms of collective investment vehicle are prevalent, including unit trusts, open-ended investment companies and unitized insurance funds.

In Australia the term "mutual fund" is generally not used, instead the name "managed fund" is used. But this is more generic as the definition of a managed fund in Australia is any vehicle in which investors' money is managed by a third party (NB: usually an investment professional or organization).

Exchange Traded Funds

The other type of fund is the Exchange Traded Fund (ETF). This is quite different in a number of aspects.

The basic idea of a gold ETF was first officially thought of by a investment company, the "Benchmark Asset Management Company" in India. In 2002 they filed a proposal for the basic concept with the Securities and Exchange Board of India. They received regulatory approval for this sometime later and the first gold exchange-traded fund actually launched was in March 2003 on the Australian Stock Exchange under Gold Bullion Securities (ticker symbol "GOLD").

Gold Bullion Securities (GBS) are fully backed by gold which is both deposited and insured. GBS was launched to give financial institutions and private investors the ability to own gold and gain exposure to the price, without the inconvenience of storing physical bars. So here an individual invests in gold, not in a pooled activity as in a mutual fund but as an individual. Whereas the mutual fund might invest in stocks, shares and bonds, the EFT investor is buying an amount of gold which is represented by an account.

After the launch of Bullion Securities on 28 March 2003 in Australia, a number of associated gold ETFs were launched on other stock exchanges. These gold ETFs are grouped under the name Exchange Traded Gold (ETG).

Examples of Gold Funds

Here are some examples of various funds by country in alphabetical order.

Australia

Exchange Traded Gold is listed under:

Gold Bullion Securities (ASX: GOLD)

Lyxor Gold Bullion Securities (LSE: GBS and Euronext: GBS)

Streettracks Gold Shares (NYSE: GLD)

New Gold Issuer (JSE: GLD)

Exchange Traded Gold is run in association with the World Gold Council, and as of January 2007 it held 560.49 tonnes of gold in storage.

USA

The iShares COMEX Gold Trust was launched by iShares on 21 January 2005 and is listed on the New York Stock Exchange (NYSE: IAU). As of January 2007 the fund held 44.45 tonnes of gold in storage.

Switzerland

The ZKB Gold ETF was launched on 15 March 2006 by Zürcher Kantonalbank and is listed in Switzerland (SWX). Shares are sold in 1 kg gold units, with a minimum purchase of one unit. As of January 2007, ZKB Gold ETF held 1.53 tonnes of gold in storage.

Canada

The Central Fund of Canada (TSX: CEF.A and NYSE: CEF) are a public corporation headquartered in Calgary, Alberta, Canada, mandated to keep the bulk of their net assets in a mixture of gold and silver with a small percentage of cash. The custodian of the gold and silver assets is the main Calgary branch of CIBC. As of January 2007, the Central Fund of Canada held 22.79 tonnes of gold and 990.59 tonnes of silver in storage.

United Kingdom

In September 2006 ETF Securities launched ETFS Gold (LSE: BULL), which tracks the DJ-AIG Gold Sub-Index. Unlike other GETFs, ETFS Gold is not backed by physical gold bullion.

So when asking the question, should I invest in gold funds, the answer is yes. In terms of what to invest in? well, for those new or unacquainted with the financial and gold markets as well as those with little time to devote to long hours of analysis and trying to figure out the markets movements, the mutual fund, such as Bullion Fund listed above are probably the safest and easiest way to invest in precious metals