A BEGINNER’S GUIDE TO INVESTING IN PRECIOUS METALS
Dear Investor,

Thank you for downloading the ABC Bullion first time investor’s guide.

For thousands of years, people have turned to gold and other precious metals as a safe store of wealth. But, if you are new to precious metals, you are probably wondering how it all works, and why physical gold and silver are such great investments.

This guide provides the answers, looking at why to buy physical gold and silver, as well as some of the frequently asked questions people have regarding how to buy and store precious metals.

Whether you are a first time, individual investor looking to protect your wealth, or a SMSF Trustee looking to diversify, ABC Bullion has been Australia’s specialist in physical precious metals since 1972.

We look forward to assisting you.

Janie Simpson
MANAGING DIRECTOR

ABC Bullion

TABLE OF CONTENTS

FREQUENTLY ASKED QUESTIONS ON HOW TO BUY GOLD & SILVER 4
MAIN REASONS TO INVEST IN GOLD & SILVER 6
CAPITAL GROWTH RETURNS 7
LOW INTEREST RATES 8
PORTFOLIO DIVERSIFICATION 10
ECONOMIC UNCERTAINTY & INFLATION 11
CURRENCY HEDGING 12
WHY SILVER IS SUCH A GREAT INVESTMENT 15
LEARN MORE AT THE ABC BULLION INVESTOR CENTRE 17

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FREQUENTLY ASKED QUESTIONS

This section contains answers to some of the key questions we are asked by new clients regarding investing into physical bullion, which we hope you find useful. If you have other questions, please contact us on 1300 361 261 or over email at info@abcbullion.com.au and one of our experienced staff members will be happy to assist you.

WHAT IS THE SPOT PRICE?
The spot price is the current trading price of the metal as listed on the metals exchanges, which we use as a benchmark for our pricing. The spot price is based on huge, bulk orders of bullion and doesn’t take into account the cost of making the metal into coins or bars, transporting it, storing it or retailing to the investor.

WHAT IS THE PURITY OF PHYSICAL GOLD AND SILVER BARS AND COINS?
To be classified as an investment grade physical gold bar or coin, the product must be at least 99.95% pure. For silver, the minimum purity is 99.90%. All bullion products sold by ABC Bullion are sourced direct from internationally accredited refiners, including our own ABC Refinery, and either meet or exceed investment grade standards.

WHY ARE THE SELLING AND BUY BACK PRICES DIFFERENT?
The difference between our sale and our buy back price is called a ‘spread’. The spread allows for different trading and handling costs associated with us selling and buying precious metals. Like any trader, we make a small margin on sales of bullion, and we make a small margin on the bullion we buy back.

CAN ABC BULLION STORE PRECIOUS METALS FOR ME?
Yes. ABC Bullion stores physical gold and silver for thousands of clients. Through our sister company Custodian Vaults, we can also provide private vaults which clients can use to store precious metals, as well as other valuables like cash and jewellery.

IS BULLION STORED WITH ABC BULLION INSURED?
Yes. All precious metals stored with ABC Bullion, either in pool allocated metal or in secure or premium storage come with complimentary insurance. This is arranged through underwriters at Lloyd’s of London.

IS BULLION STORED WITH ABC BULLION INDEPENDENTLY AUDITED?
Yes. All precious metals stored with ABC Bullion, either in pool allocated metal or in secure or premium storage are externally audited, on a quarterly basis.

HOW OFTEN WILL MY BULLION BE VALUED?
Bullion valuations are available online twenty-four hours a day. ABC Bullion also emails a quarterly valuation to clients, so as a minimum, you will receive four updates a year.

DO I HAVE TO PREPAY FOR BULLION PURCHASES?
No. There is no need to prepay. You order your metal first, either online, over the phone, or in our showrooms in Sydney and Perth. Once you’ve made your order, you will receive an invoice, which you can arrange payment for, either via EFT, cheque or BPAY.

HOW EASY IS IT TO SELL BULLION & HOW LONG DOES PAYMENT TAKE?
Selling can be done either online, with a phone call – or in our offices. ABC Bullion will repurchase any metals we store instantly. ABC Bullion will make payment to your designated bank account with funds typically received within 1 to 2 business days.

CAN I PICK MY BULLION UP OR HAVE IT DELIVERED TO ME?
Yes. Any products purchased through ABC Bullion can either be collected from our offices in Sydney or Perth. Alternatively, ABC Bullion can arrange to deliver metals anywhere in Australia, or internationally.

CAN ABC BULLION WORK WITH MY FINANCIAL ADVISER OR MY ACCOUNTANT?
Yes. ABC Bullion works with a number of leading financial advisory and accounting groups.
MAIN REASONS TO INVEST IN GOLD & SILVER

Whether worn as jewellery or held in investment grade bars, tablets or coins, physical gold and silver are some of the world’s oldest asset classes.

The demand for physical gold and silver as an investment remains strong today. Over the last 15 years, this physical demand has continued unabated. There have been a number of factors that have contributed to this demand including:

- Capital growth returns
- Low interest rates
- Portfolio diversification
- Currency hedging
- Economic uncertainty and inflation

This guide examines the reasons that underpin demand for gold. A specific mention is also made of silver, another excellent investment.

CAPITAL GROWTH RETURNS

Like most investments, it is instructive to take a long term view. For example, since the turn of the century, the price of gold in Australian dollars has risen from $443 per ounce to over $1,550 per ounce by the end of 2016. This is a strong performance, with gold outperforming most traditional assets over this same time period.

This performance is highlighted in the table below, which shows the returns over 3 years, 10 years and 15 years for gold in Australian dollars, compared to other more traditional assets including the stock market and superannuation funds.

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>3yr</th>
<th>10yr</th>
<th>15yr</th>
</tr>
</thead>
<tbody>
<tr>
<td>Physical Gold (AUD)</td>
<td>5.54</td>
<td>7.04</td>
<td>7.43</td>
</tr>
<tr>
<td>Stock Market</td>
<td>6.60</td>
<td>4.40</td>
<td>7.90</td>
</tr>
<tr>
<td>Cash</td>
<td>2.40</td>
<td>4.10</td>
<td>4.60</td>
</tr>
<tr>
<td>Retail Superannuation</td>
<td>7.40</td>
<td>5.30</td>
<td>6.60</td>
</tr>
</tbody>
</table>

Source: ABC Bullion, IRESS, Cor Capital, Chant West, RBA

The above table indicates that over the past 10-15 years, the return on gold priced in Australian dollars has outperformed every other asset class represented. Returning more than 7% per annum for the past decade, it has nearly doubled the return on cash and has also outperformed returns on retail superannuation investments.

With historical returns like these, it’s not hard to see why many investors allocate a portion of their investment funds to precious metals.
LOW INTEREST RATES

Historically, gold prices tend to strengthen most in environments where interest rates are low.

This is because low interest rates encourage people to withdraw from the bank (since it is not earning much interest) and move their money into other asset classes.

The graph below indicates physical gold priced in Australian dollars has returned 24% per annum on average, in periods where interest rates are very low. Right now, Australia and the majority of the developed world is in an environment where interest rates are at record lows and likely to stay low for some time yet. The graph below also shows that during periods of low interest rates, gold returns outperform other investment assets, like stocks.

**AVERAGE ANNUAL RETURN WHEN ‘REAL’ INTEREST RATES ARE 2% OR LESS**

![Graph showing average annual return for stock market, cash, and gold (AUD)]

Source: Reserve Bank of Australia, IRESS, Cor Capital
PORTFOLIO DIVERSIFICATION

In the context of your investment portfolio, the age old adage that you shouldn’t put all of your eggs in the one basket rings true. Over the long term, asset classes like equities and bonds have been shown to be great investments but the importance of diversification is key. Precious metals and in particular gold are great diversifiers, because they historically tend to rise in value when other assets are falling.

The chart below shows the average return over the worst 5 years on the Australian stock market, as well as the return of gold in Australian dollars, and cash, in those same years.

As you can see, in years where the stock market experienced major falls, gold held up well, rising by nearly 40% on average. The lesson here is that including gold in your investment portfolio typically helps balance out your investment returns.

ECONOMIC UNCERTAINTY & INFLATION

Today, health and life insurance are commonplace. Similarly, gold is an excellent form of “investment portfolio insurance” because of its reputation as a hedge against economic uncertainty and inflation.

Historically, gold tends to perform well whenever there are recessions, rising geopolitical tensions, or economic slowdowns and financial market volatility, like the recent Global Financial Crisis (GFC). Gold also does well during periods of high inflation, historically returning close to 15% per annum in these environments.

All of these facts lead prudent investors to precious metals. With so many economic risks on the horizon, including escalating global debt levels (some USD $72 trillion higher today than when the GFC hit), our prediction is that gold will continue to be considered an excellent hedge and will remain a great way to protect wealth.

With interest rates at record lows, and central banks around the world printing money, we are at risk of higher inflation in the coming years. As a hedge against currency devaluation, owning physical gold is an ideal insurance policy.
CURRENCY HEDGING

Gold acts as a natural currency hedge for the Australian investor. This is because any fall in the Australian dollar (AUD) has historically led to an increase in the price of gold.

Many economic forecasters expect the AUD to fall in the years ahead, as the economy goes through a period of slower economic growth.

Indeed, some economists see the AUD falling as low as $0.50 versus the US Dollar (USD). Whilst this might sound like a huge fall, it would not be historically unusual. The chart below, which plots the value of the AUD vs. the USD over the last 20 years, highlights this.

In 2000, before Australia’s great commodity boom, the AUD was trading at $0.50 versus the USD. If the AUD returns to that level in the coming years, it will be a huge boost to Australian gold investors. The table below looks at potential gold price targets in the coming years and highlights the return potential for investors in precious metals.

<table>
<thead>
<tr>
<th>USD Gold Price ($)</th>
<th>AUD/USD Exchange Rate</th>
<th>AUD Gold Price ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1,000.00</td>
<td>0.50</td>
<td>2,000.00</td>
</tr>
<tr>
<td>1,250.00</td>
<td>0.50</td>
<td>2,500.00</td>
</tr>
<tr>
<td>1,500.00</td>
<td>0.50</td>
<td>3,000.00</td>
</tr>
<tr>
<td>1,750.00</td>
<td>0.50</td>
<td>3,500.00</td>
</tr>
<tr>
<td>2,000.00</td>
<td>0.50</td>
<td>4,000.00</td>
</tr>
<tr>
<td>2,400.00</td>
<td>0.50</td>
<td>4,800.00</td>
</tr>
</tbody>
</table>

Source: ABC Bullion

If you feel that the AUD is set to a period of decline, investing a portion of your investment portfolio in gold has the potential to generate good returns.

Physical gold has outperformed all other asset classes since the turn of the century. There are a number of factors that should push Australian dollar prices higher in the coming years.

Jordan Eliseo, Chief Economist
ABC Bullion
WHY SILVER IS ALSO A GREAT INVESTMENT

Much of this guide has been devoted to gold. However just like gold, physical silver can also provide an excellent investment opportunity. Over the 16 years from 1999 to December 2016, silver prices rose by nearly 6.5% per annum in Australian dollar terms.

SILVER IS AN INDUSTRIAL METAL

Unlike gold (which is mostly seen as a monetary savings asset), silver is also widely used for industrial purposes. Indeed, silver’s electrical conductivity, thermal resistance and reflective qualities are highly sought after.

Whether it is electronic products like mobile phones, cameras, laptops and monitors, or medical equipment like X-ray machines, they all contain physical silver, and silver’s application continues to rise. This adds another element to the silver story, encouraging people to accumulate the metal.
CAN SILVER OUTPERFORM GOLD?

The affordability of silver compared to gold makes it an excellent option for investors to begin their precious metal investment portfolio. And although silver prices are historically low at the moment, silver can outperform gold, especially in environments where both metals are rising in price.

An example of this is shown in chart below. Over the period between December 1999 and April 2011, gold prices increased by about 275% in AUD terms. The silver price increased by 431% in AUD terms.

Since 2011, gold has outperformed silver, but the below chart highlights just how profitable an investment in silver can be in certain environments.

GOLD AND SILVER PRICES (IN AUD)

As Australasia’s leading bullion dealer, ABC Bullion brings you the ABC Bullion Investor Centre - Australasia’s leading precious metals investment portal. It contains a wealth of knowledge on the key factors influencing the physical gold and silver markets, as well as research into currencies, interest rates, share and fixed income markets, property and superannuation.


Join the ABC Bullion Investor centre by visiting abcbullion.com.au/investor-centre and establish your precious metals investment account with ABC Bullion today.
For more information on investing in precious metals, please contact our Client Services team on comms@abcbullion.com.au, call us on 1300 361 261 or visit any of our showrooms.