iGold Advisor

Independent Analysis of the Precious Metals Markets

Precious Metals ETFs

A comprehensive guide to buying gold and silver with the click of a mouse

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So you've decided to invest in precious metals -- congratulations for thinking outside the box of conventional asset classes. Whether you've arrived at this point due to the recent turbulence in the stock market, or you'd like to diversify into an asset class that *will always maintain some intrinsic value*, or you'd simply like to profit from an increase in the price of gold or silver, you've made an important step toward protecting your wealth and profiting in the future. And if you've followed our analysis in other reports, you know why we anticipate significant rises in the price of both metals in the coming years.

Once you've decided to take this step, you'll be met with what may seem like an overwhelming number of ways to invest in the precious metals market, each with its own positive and negative aspects. There are gold and silver coins, rounds, and bullion bars for purchase in stores and online. There are storage options from personal safes to offshore vaults to segregated and pooled accounts. There are futures contracts and options contracts. Each of these vehicles has its own particular merits.

And now thanks to the advent of ETFs (exchange-traded funds), it is easier than ever to invest in gold or silver. ETFs allow individual investors to participate in the precious metals market with the same ease as if they were buying or selling a regular stock, through any full service or online brokerage.

Yes, with just a few clicks of a button, you can own gold or silver, without worrying about checking the purity of coins or bars, high shipping costs, storage fees, loss, or insurance concerns.

Compared with the underlying metal that has been a treasured object since the dawn of human history, precious metals ETFs are a relatively new phenomenon. The first open gold ETF, the State Street Global Advisors SPDR Gold Trust (ticker GLD) has existed since only 2004. The fund, of which each share represents roughly 1/10 of a troy ounce of gold, holds its metal in bullion form in vaults in London. Through buying shares of GLD, an individual investor can take ownership of as much gold as desired at any time the stock market is open.

The Proliferation of ETFs

This would all be very simple, except that in the last decade, the number of ETFs dedicated to the precious metals market has gone from one to over 50.

Each ETF is structured differently. Where once there was only one gold bullion ETF, there are now:

- Open gold ETFs
- Closed gold ETFs
- Gold ETNs (exchange-traded notes)
- Gold trusts that <u>do not allow</u> investors to take delivery of gold
- Gold trusts that <u>do allow</u> investors to take delivery of gold
- Gold futures ETFs
- Short gold ETFs
- Leveraged gold ETFs
- Gold covered call ETNs
- Gold in foreign currency ETFs
- Gold hedged ETFs

And, each of these types of funds is also available for silver!

For a new investor in the precious metals space, the number of options can be overwhelming. Typical investment advisors are likely of little help, because not only do they tend to know very little about the significance of gold and silver to an overall portfolio, they are even less likely to be educated on the differences between all the options in the precious metals ETF world.

Let us be crystal clear: **it strongly matters which gold or silver ETF you choose.** Choosing the wrong fund can cost you thousands of dollars over the course of several years. From ETF management fees, to tracking error, to counterparty risk, to tax ramifications-- each fund behaves quite differently. While one ETF might be more appropriate for a short-term horizon, it would be completely unsuitable for a long-term investment. **Indeed, I have seen some investors be correct on the long-term direction of the price of gold, but lose money nonetheless due to the wrong choice of ETF.** The decision is that important.

Here is where this guide will help. We review each of the gold and silver ETFs in detail. Each ETF is researched by digging through fund prospectuses, comparing historic charts, tracking fees and expenses, and much more. We provide guidance on the suitability of each fund for both trading and long term investment. We do the heavy lifting so that you can save countless hours and quickly make the best choice for your individual needs.

What more, we are an independent research and analysis firm. We do not sell these ETFs, and we make no commission off your decision to invest through them. We receive no compensation from the funds for profiling or recommending them.

We present to you here, simply: our unbiased investigation on the gold and silver ETF world.

Types of Funds

Throughout this report you will see references to several different types of exchange-traded products. What these funds all have in common is that they trade on standard US stock exchanges, and can be bought or sold at any time the market is open, without early withdrawal penalties or any of the other operational issues of standard mutual funds.

The funds you see in this report will fall into one of three categories:

- Open ETF
- Closed ETF
- ETN

Open ETFs are funds that typically aim to directly track the price of an asset on a daily basis. Shares are created and retired as investors buy and sell them on the open market. This allows them to track the price of the underlying commodity with high accuracy, because investors cannot generally bid or sell the price of the fund above or below its Net Asset Value.

Closed ETFs are funds that do not aim to directly track the price of the asset, but rather they invest their proceeds into a set amount of that particular commodity. As the commodity changes in value, this will typically be reflected in the price of the fund's shares. Yet the fund can vary in price above or below the intrinsic value due to other factors, such as special tax treatment, or simply due to investor sentiment at the given time.

You will see in each fund's Financial Data section the amount above or below the Net Asset Value that the fund is trading at, if any. For Open ETFs, this will typically be zero. For Closed ETFs, it will vary at either a premium or a discount to Net Asset Value.

ETNs or Exchange-Traded Notes, differ from ETFs in several ways. Whereas ETFs own underlying shares, contracts, or tangible commodities, ETNs are notes that are designed to merely mimic the price of an asset. So ETNs are always a credit liability of the issuing party, whereas ETFs hold underlying assets. ETNs sometimes have an advantage in accuracy of tracking the underlying asset, but they will often come with a higher set of fees (expense ratios).

In most cases, ETFs will be more suitable to long term investments, due to the lower credit risk. ETNs are usually only useful for shorter-term trades of less than a year.

Precious Metals and Taxes

Comprehensive tax guidance is beyond the scope of this report, due to the complexity of the US tax code, individual financial situations, and the ever-changing nature of tax laws. You should consult with a qualified tax advisor for individual tax questions.

With that said, we will provide a general outline of the tax laws in effect at the present time for US investors in precious metals.

Precious Metals Taxes Throughout History

For the vast majority of human history, there have been no taxes on precious metals ownership, because precious metals have been used directly as money.

In the United States up until 1933, the value of the US Dollar was set to 1/20 an ounce of gold. In other words, an ounce of gold was worth $20. While an individual's income or property may have been taxed, once your money (gold) was saved, it was not subject to further taxes when you wanted to spend it.

In 1933 during the midst of the Great Depression, President Roosevelt outlawed private ownership of gold, and devalued the US Dollar so that it now took $35 to buy the same ounce of gold.

In 1971 President Nixon fully removed the US Dollar from all convertibility to gold at any price, and in 1975 it became legal once again for American investors to own gold.

Yet the gold that was once tax-free money was now treated as a collectible, and taxed in the same category as stamps and fine art. This system remains in place to this day.

Current Laws

As a 'collectible', gold and silver receive a higher tax rate than most other investments regardless of the amount of time held. The standard tax rate on collectibles is currently 28%, compared to 15% on long-term capital gains.

One of the benefits of certain precious metals ETFs and ETNs is that they are structured to receive better tax treatment than gold and silver bullion held privately.

In our Fund Review section below, you will see a Tax Category under the Key Investment Intelligence section. You will see one of three categories listed:

Collectible - This fund is taxed the same way as gold or silver bullion, i.e. at the 28% rate, regardless of how long the fund is held. Typically, this will be the Open ETFs, those funds that directly invest in precious metals and aim to closely track the metal's price on a daily basis.

ST / LT Capital Gains - This fund is taxed in the same way as most regular stocks are; that is, it is eligible for taxation at the 15% long-term capital gains rate if it is held for over one year, with higher rates if it is held for under one year. Typically, this will be the Closed ETFs, those funds that own a set amount of precious metals and do not directly track the metal's price on a daily basis. Additionally, ETNs usually fall in this category.

Futures - This fund is taxed as if it were a futures contract. This means that all gains are taxed as 60% short-term gains and 40% long-term gains, regardless of how long the fund is held. This creates a combined maximum tax rate of 23% for certain high-income individuals, and less than that for people with lower incomes. These funds must be marked to market at the end of the year, meaning investors must realize all gains in the fund each year and pay taxes on those gains, regardless of whether or not they actually sell shares. These funds also typically pass through some of their gains to shareholders which triggers an IRS K-1 form to be required, which can sometimes cause additional complications during tax reporting.

Takeaway on Precious Metals Taxes

Which type of fund you choose will depend on your unique financial situation, and whether or not you intend to hold the fund as a long-term investment or a short-term trade. While there are positives and negatives to each type of fund, in general *we prefer those funds that either most closely track the price of gold or silver (Open ETFs, taxed as 'collectibles') or those funds that offer the tax advantages of ST / LT Capital Gains (Closed ETFs).*

Our Fund Recommendations

Investing in precious metals is an important financial decision, and it is even more important to execute that decision properly. While the market has gotten more complex in recent years, we are here to help you navigate it. Although no two individuals will have exactly the same financial goals or risk tolerance, we have tried to narrow our focus in this report to two main groups:

A) Long-term investors (over 1 year)
B) Short/intermediate-term traders (under 1 year)

In each fund review, we will provide suitability analysis for each of these groups of investors. This analysis takes into consideration all of the data we have available to us and provides a quick reference point with which to evaluate each fund.

Finally, we provide our Top Recommendations, one fund each for gold and silver, for both the investor and trader. These are the best funds we would recommend to anyone looking for a safe, efficient, and low-cost way to invest in the precious metals.

Investing Strategies for Precious Metals

As an investor with a time horizon of at least five years, our recommended investment strategy, whether you have chosen one or several of these funds to invest in, is to *dollar-cost average* your way into your holding. This means that you will buy the same dollar amount of each precious metal (via shares in the fund) at a set interval, say every month, regardless of the price. This way, you take out the emotional impact of trying to time the exact bottom in the market.

Know that on certain months you will buy more shares and on certain months you will buy less. That is okay. No one, even the best investment professionals in the world, can pick the exact best time to buy. By dollar-cost averaging into the market over a number of months (or years), you will establish a position at a good cost basis. Assuming you plan to hold the assets for at least five years, and that the investment thesis (that precious metals will rise in value) plays out, you will be assured a healthy profit without excessive worry.

It should be an exciting time to be in the gold and silver markets over the next few years. Here's to your success.

-Christopher Aaron, Founder
iGold Advisor

1) GLD - SPDR Gold Shares
2) IAU - iShares Gold Trust
3) DGL - PowerShares DB Gold
4) DGZ - PowerShares DB Gold Short
5) SGOL - ETFS Physical Swiss Gold
6) PHYS - Sprott Physical Gold Trust
7) GTU - Central Gold Trust
8) OUNZ - Merk Gold Trust
9) GLDI - Credit Suisse X-Links Gold Covered Call
10) GEUR AdvisorShares Gartman Gold/Euro
11) GYEN - AdvisorShares Gartman Gold/Yen

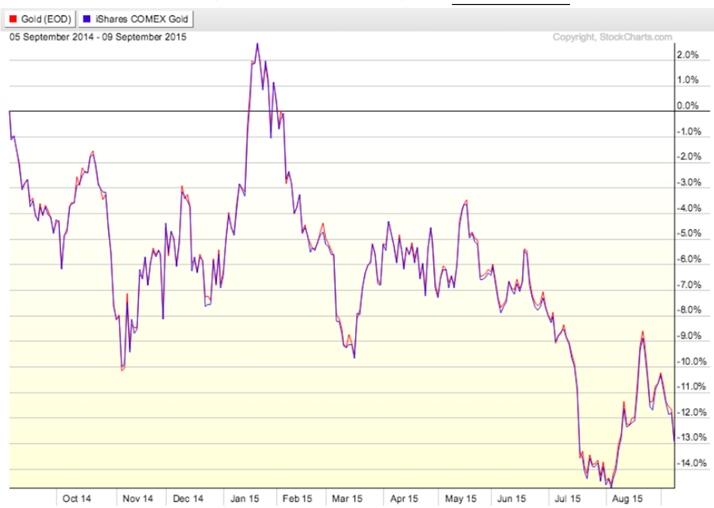
The funds in this section are primary gold funds, which either hold physical gold or seek to track the price of gold. The category contains Open ETFs, Closed ETFs, and ETNs. These funds may be suitable for long term investors or short-term traders, depending on the individual fund and the investor's risk tolerance. Each fund will be reviewed in detail, with key fund data, financial data, and proprietary analysis provided. In addition, one and five-year relative performance charts are provided comparing the fund's performance to the price of the underlying objective, usually gold in US Dollars, with some exceptions as noted.

FUND #1 IS AVAILABLE IN THE FULL REPORT

--- Fund # 2---

Fund Data		Financial Data	
Name	iShares Gold Trust	52-Week High/Low	12.65 / 10.43
Symbol	IAU	Shares Outstanding	535M
Exchange	NYSE	Avg Volume	3.3M
Type	Open ETF	Market Cap	$5.9B
Inception Date	1/2005	Net Assets	$5.9B
Short fund?	No	% above/below NA	0
Leverage amount	None	P/E	N/A
Expense Ratio	0.25%	Dividend (per year)	0

1 Year Performance vs. Gold: <u>Excellent</u>



5 Year Performance vs. Gold: <u>Excellent</u>

Key Investment Intelligence

Backed by phys bullion?	Yes	Tax category	Collectible
Vault location(s)	Toronto, London, NYC	Periodic share issuance?	No
Can receive bullion?	No	Suitable for LT Investing?	Yes
Min redemption amount	N/A	Suitable for Trading?	Yes

<u>Summary Analysis</u>

The second gold open ETF on the market, IAU is liquid enough for all but the largest investors. Each share is roughly 1/100 of an ounce of gold, making smaller purchases easier than with GLD. IAU holds gold in allocated and unallocated form. It tracks the underlying price of gold extremely well in both the short term and long term.

Management fees are lower than the comparable GLD fund. Individual investors may save money in the long run with IAU. Larger investors may favor the higher liquidity in GLD.

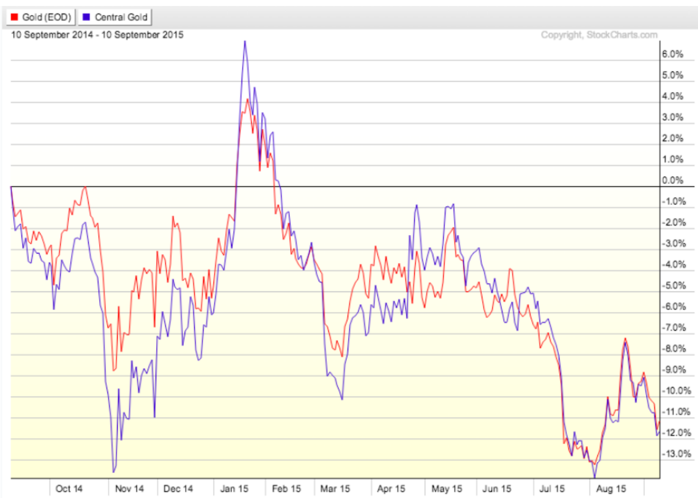
Note that for US investors this fund will be taxed at a 28% 'collectible' tax rate even on long-term holdings, the same as they would for gold bullion. This rate is higher than the 15% long-term capital gains tax seen in some other funds.

FUNDS #3 - 6 ARE AVAILABLE IN THE FULL REPORT

--- Fund #7 ---

Fund Data		Financial Data	
Name	Central Gold Trust	52-Week High/Low	46.73 / 37.22
Symbol	GTU	Shares Outstanding	19.3M
Exchange	NYSE	Avg Volume	56,000
Type	Closed ETF	Market Cap	$738M
Inception Date	7/2003	Net Assets	$786M
Short fund?	No	% above/below NA	-6.1% (discount)
Leverage amount	None	P/E	N/A
Expense Ratio	0.35%	Dividend (per year)	0

1 Year Performance vs. Gold: <u>Good</u>



5 Year Performance vs. Gold: <u>Fair</u>

Key Investment Intelligence

Backed by phys bullion?	Yes	Tax category	ST / LT Capital Gains
Vault location	Toronto	Periodic share issuance?	Yes
Can receive bullion?	No	Suitable for LT Investing?	Yes
Min redemption amount	N/A	Suitable for Trading?	No

<u>Summary Analysis</u>

GTU has been on the market longer than PHYS, making it the first purely gold bullion closed-end trust. It has much of the same benefits as PHYS: eligible for long-term capital gains treatment, can trade at a premium to NAV, and its gold is held in allocated form in Toronto.

It also suffers from the same downsides as PHYS, which are that it can trade at a discount to NAV, and it is prone to share issuance that can adversely affect the share price in the short-term.

GTU does not have convertibility for individual gold delivery. It does offer redemption in cash at 95% of NAV, which might be useful only during extreme bear markets when the discount to NAV exceeds 5%.

Finally, GTU is less liquid and currently trades at a significant discount to PHYS. For these reasons, while GTU is suitable for long-term investment, individuals would likely be better served purchasing PHYS instead. GTU is not recommended for short-term trading due to liquidity and NAV concerns.

Note that Sprott, Inc. (PHYS) has recently made an offer to purchase all the outstanding shares of GTU, in which case owners of GTU would receive an equal dollar amount of PHYS. This deal is still pending.

Section IV - Silver Funds

1) SLV - iShares Silver Trust
2) SIVR - ETFS Physical Silver Trust
3) PSLV - Sprott Physical Silver Trust
4) SLVO - Credit Suisse X-Links Silver Cov Call

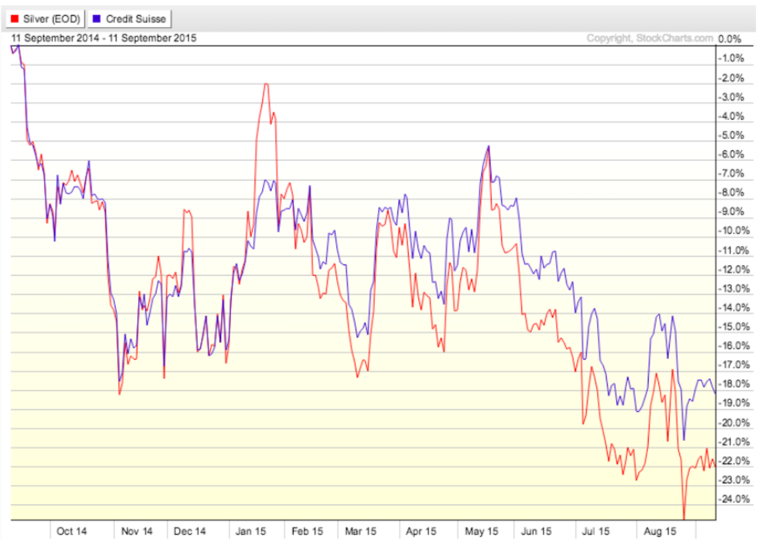
The funds in this section are primary silver funds, which either hold physical silver or seek to track the price of silver. The category contains Open ETFs, Closed ETFs, and ETNs. These funds may be suitable for long term investors or short-term traders, depending on the individual fund and the investor's risk tolerance. Each fund will be reviewed in detail, with key fund data, financial data, and proprietary analysis provided. In addition, one and five-year relative performance charts are provided comparing the fund's performance to the price of the underlying objective, in this case silver in US Dollars, with some exceptions as noted.

--- Fund #4 ---

Fund Data		Financial Data	
Name	X-Links Silver Cov Call	52-Week High/Low	13.79 / 9.65
Symbol	SLVO	Shares Outstanding	2.4M
Exchange	NASDAQ	Avg Volume	19,000
Type	ETN	Market Cap	N/A
Inception Date	11/2013	Net Assets	$24.1M
Short fund?	No	% above/below NA	N/A
Leverage amount	None	P/E	N/A
Expense Ratio	0.65%	Dividend (per year)	8.6%

1 Year Performance vs. Silver: Fair

5 Year Performance vs. Silver: Not Available



Key Investment Intelligence

Backed by phys bullion?	No	Tax category	ST / LT Capital Gains
Vault location	N/A	Periodic share issuance?	No
Can receive bullion?	No	Suitable for LT Investing?	No
Min redemption amount	N/A	Suitable for Trading?	No

Summary Analysis

SLVO is the Credit Suisse equivalent to the gold ETN GLDI. As such, it shares the same objective and is structured in a similar way, but this time for the silver market.

The ETN itself attempts to provide the possibility of a gain if the price of silver increases, while providing a monthly dividend income. The income is generated by selling covered calls on SLV, an options strategy used by some investors when they believe the underlying price of an asset will not rise beyond a certain point. In this case, SLVO is attempting to capture some upside possibility of silver with the income of SLV covered calls.

Selling covered calls limits potential gains. As you can see from the one year chart above, SLVO tends to outperform silver when the silver price is falling, and underperform silver when the silver price is rising

While the premise is interesting, this fund is not recommended. For short-term traders, the fund is too illiquid and does not track the price of silver well enough. Long term investors in silver are usually looking to either protect their wealth, or to profit from a price increase. As an ETN with additional counterparty risk and only a fair tracking record, this fund does not allow for either of these goals.

EVERY OTHER PUBLICLY TRADED GOLD AND SILVER FUND IS REVIEWED IN THE FULL REPORT