

# **How to Invest in, Buy, Sell, Store and Insure Precious Metals in Canada. Over 30 Tips on How to Buy and Sell Precious Metals on Ebay**



## **1 Introduction**

Should you invest in precious metals? We will leave this to your discretion. If you believe that you should we will give you some ideas as to how you can invest in precious metals.

We are not precious metals dealers, sellers or professionals; however, we consider ourselves knowledgeable enough to provide advice and recommendations on this subject. Information provided here is based on personal experience and extensive research of the topic. Please do your own due diligence and let us know if you find any inaccuracies in this report.

There are two common ways to invest in precious metals: you can purchase physical items or buy shares of mining/exploration/royalty companies. We will discuss both options below. In addition, there are other ways available to sophisticated investors such as future contracts (which are not discussed here).

## 2 Physical Precious Metals

There are 2 types of physical precious metals you can own: metals that you own and store yourself (at home, a safe deposit box, etc.) and metals that are registered on your name, which – depending on the investment option you have chosen – may or may not be physically delivered to you.

### 2.1 Physical Precious Metals That You Can Store Yourself

When you buy physical items for investment purposes buy items that are easy to sell. If you buy an item with a substantial discount to its precious metal content value but the item does not have a hallmark on it – it would be harder to sell it in the future.

The purity of precious metal is called fineness, it is expressed in parts per thousand. For example, if you have a 0.925 silver coin it means that the coin is 92.5% silver. You will never buy a product that is 100% gold/silver/platinum/palladium: these precious metals will always be alloyed (i.e. mixed) with some other metal(s) to make them harder. The purity of gold is sometimes defined in terms of karats (or carats). 24 karats represent 99.9% purity of gold. Therefore, 18 karat gold is 22 parts gold and 2 parts another metal (forming an alloy with 91.67% gold). Do not confuse karats of gold with carats (or karats) of precious stones; the latter represent weight (1 carat being equal to 200 mg).

Regardless of whether you store your precious metals in a safe deposit box or at home, it should be insured. Banks do not trust you by default and always verify your ID, income, credit history, etc. Similarly, you should not trust any bank by default when you store your valuables with it. Since the contents of your safe deposit box are not insured by your bank/credit union, you should do it yourself. For example, [Hugh Wood Canada Ltd](#) is one of the few insurance companies that insure valuables such as precious metals and stones, collectibles, art, stamps and even wine.

Religious items such as pendants are considered less valuable and have a much smaller premium (i.e. market value of a coin or a bullion minus the intrinsic value of its precious metal content).

Note that in Canada, physical metals cannot be held in Registered programs such as RRSP, RESP, TFSA, etc.

There exist several types of physical precious metals, which we will discuss in due course below:

- Bullions (section 2.1.2)
- Numismatic coins and collectible items (section 2.1.3)
- Junk coins (section 2.1.4)
- Silverware and flatware (section 2.1.5)
- Jewelry (section 2.1.6)

## 2.1.2 Bullions

Bullions are precious metals in the form of bars, coins, ingots or rounds. NWT mints silver bullions in the form of [bullets](#). Bullions are cheaper to buy in the form of bars, ingots or rounds. Many people prefer rounds because they resemble coins and because cases and holders for them are cheaper and easier to find on the market.

The value of bullions is determined by the spot price of the metal they contain and its fluctuation corresponds to the fluctuation of the precious metal prices.

The smaller the denomination of the bullion the higher the markup per ounce ([oz](#)<sup>1</sup>) that you will pay. For example one 10 ounce (1\*10oz=10oz) bullion will have a lower markup (per oz) than ten 1 ounce (10\*1oz=10oz) bullions. If you buy [legal tender](#) coins (for example, Canadian Maple Leaf or US Eagles coins) they will have a much higher markup per oz than bullions minted by private mints.




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<sup>1</sup> Precious metals are always measured in troy ounce which corresponds to 31.1034768 grams. If you want to weigh your bullions or coins you can buy a scale that weighs in 0.01 gram increments, such as the [American Weigh Scales scale](#) up to 100 grams or the [Smart Weigh scale](#) up to 200 grams. Moreover, you can buy a scale that weighs in 0.1 gram increments, such as the [American Weigh Scales scale](#) up to 1 kg.

It might be a good idea to buy scale calibration weights (such as this [Smart Weigh 50 gr weight](#)) which helps you to make sure that your scale is precise.

If you buy legal tender coins from different Government Mints (e.g. in the US, Australia, Canada, South Africa, etc.) choose coins that have the lowest premium/markup to the precious metal content (i.e. pure metal value) at the moment of your purchase. The lowest mark up coins are not less valuable than the highest mark up ones, but they might be more available on the market or people might prefer to buy other types of the coins at the moment. Preferences and availability may change and you might be able to sell the same coins with a higher mark up than what you paid for them.

In Canada, the easiest way to buy legal tender gold/silver coins and bullions is from banks; however, it is not the cheapest way. Banks offer coins with a high markup (especially for silver coins), with costly delivery and high commission rates.

One can come up with a number of ideas as to how to buy valuable coins for less money. We will discuss two of them below.

Many Canadian silver coins have very low mintage numbers, and in many cases [BU coins](#) have lower mintage numbers than [Proof coins](#). Look for Canadian silver coins with the smallest mintage available (based on [Charlton Press Catalogs](#)), as they represent a very good value. Note that US silver coins are usually more expensive than comparable Canadian coins, even though US coins mintage numbers are usually much higher.

The other idea has to do with discrepancies between catalogs, namely occasional discrepancies in mintage numbers. Some of these discrepancies between different catalogs might be due to differences between, for example, quantity sold vs. quantity minted. You can take advantage of such discrepancies and buy valuable coins cheaper if the seller assumes a high mintage number for a coin whose actual mintage number is low. Some examples of discrepancies are listed below.

[Charlton Canadian Coins](#) catalog and Krause's [2009 North American Coins & Prices](#) catalog have different mintage numbers for the following coins:

**1 dollar RCMP 1994**

Charlton's catalog - 65,295 and 178,485 for BU and Proof coins, respectively (page 68);

Krause's catalog (the coin is referred to as KM 251) - 61,561 and 170,374 for BU and Proof coins, respectively (page 361).

**1 dollar 125 Anniversary 1998**

Charlton's catalog - 81,376 and 130,795 for BU and Proof coins, respectively (page 69);

Krause's catalog (KM 306) - 79,777 and 120,172 for BU and Proof coins, respectively (page 361).

(Note that Krause's catalog also has the coin's name wrong: 120th in lieu of 125th Anniversary Royal Canadian Mounted Police).

### **1 dollar Voyage 2000**

Charlton's catalog - 62,975 and 121,575 for BU and Proof coins, respectively (page 71);

Krause's catalog (KM 401) - 60,100 and 114,130 for BU and Proof coins, respectively (page 363).

### **1 dollar 50 Anniversary 2001**

Charlton's catalog - 53,668 and 89,390 for BU and Proof coins, respectively (page 71);

Krause's catalog (KM 414) - 65,000 and 225,000 for BU and Proof coins, respectively (page 363).

Eric Jordan's [Modern Commemorative Coins: Invest Today - Profit Tomorrow](#) book and Krause's [2009 North American Coins & Prices](#) catalog have different mintage numbers for the following coins:

### **5 dollars 1999-W Gold American Eagle**

Krause's catalog - 48,426 for BU coins (page 302);

Jordan's book - 6,000 for BU coins (page 128).

### **10 dollars 1999-W Gold American Eagle**

Krause's catalog - 34,416 for BU coins (page 302);

Jordan's book - less than 6,000 for BU coins (page 132).

Based on Jordan's book, \$10 and \$5 Gold Eagle coins are the rarest fractional gold coins since 1933, but they are not that rare according to Krause's catalog. In addition, Krause's catalog does not have any information about 2006-W, 2007-W, 2008-W \$5 and \$10 Gold Eagle coins. (W uncirculated Gold Eagle coins were struck on specially burnished blanks and carried the "W" mint mark, otherwise there is nothing unusual about them.)

This information could be updated in future editions of these catalogs, but if you notice discrepancies contact the author of the book and verify who is right. If you compare Canadian coins in Charlton's catalog vs. Krause's catalog, Charlton's catalog usually provides more accurate information.

### 2.1.3 Numismatic Coins: Collectible, Numismatic and Ancient Coins

Coins (or collectible items from precious metals) that are rare or ancient will often have a considerably higher monetary value than their precious metal value. Numismatic coin's value depends on its metal value, quality of the coin and its rarity. (However, note that the price of numismatic coins does not necessarily move in the same direction as the price of precious metals.) The most important feature of such coins is that collectors are ready to pay for them. In general, if a coin is valuable now it will be more valuable in the future but this is not a strict rule that you will necessarily make money from reselling it. If you want to study numismatics the first step will be to purchase a numismatic catalog, e.g. [Krause Catalogs](#) for US/World coins or [Charlton Press Catalogs](#) for Canadian coins. It might be a good idea to visit a local library to review these catalogs before you buy them, since there are many versions/editions of these catalogs and they are not cheap.<sup>2</sup>

Coins are labeled as good, very good, fine, very fine, extra fine and uncirculated. The best explanation of coin grading can be found [here](#).

If you want to use a software program that would help you with Canadian coin collecting then you may consider [Coin Manage Canada](#), which is a useful tool. It is not expensive and it is updated regularly. It includes many options and provides accurate and up to date coin values. Another way to get an idea about prices of numismatic coins is [Numismaster](#) which you can subscribe to.

When investing in numismatic coins, it is very important to find a knowledgeable and reputable dealer who can help you buy good quality coins. However, it does not mean that you do not need to know and understand what you buy. Here are a few points you might want to consider:

- Do not buy newly minted coins from the Canadian (or US) [Mint](#), since you can normally buy the same coins a few years later for a cheaper price even if the price of precious metals goes up.
- Try to buy older coins; the older the coin the more valuable it will probably become in the future.
- Never borrow money to invest in numismatic coins even if you think you know the market (unless you are an experienced professional).
- Never touch numismatic coins with your bare hands and do not allow anybody else to touch them unless (cotton) gloves are used. Numismatic coins are graded based on their quality; if you touch a numismatic coin with your bare hands you will most likely damage it (even if you do not immediately see it).
- Never clean your coins.

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<sup>2</sup> If you buy books on [Amazon.ca](#) or [Chapters.com](#) you can enroll in [Ebates](#) or [Canadian Rebates](#) to get cashback from your purchases.

If you are not planning to invest some serious money in numismatic coins, you may consider investing in other forms of precious metals. Investing in numismatic coins also has a number of disadvantages. Some of them are listed below:

- If you buy a numismatic coin and then want to sell it, it may lose in value or it might take a while until you find a buyer.
- A numismatic coin will lose in value if it is damaged (even if you merely drop it once or touch it with your bare hands).
- Premiums on numismatic coins are significantly higher than on bullions, bars and rounds.
- Since you are likely to buy insurance for numismatic coins, there will be more people who know that you own them.
- You need to spend more money on insurance and storage of your valuables.
- If you buy rare coins and you pass on, your heirs might sell your collection much cheaper than it is really worth. You should educate your spouse/children about your valuables.
- Although investing money periodically makes a lot of sense (see this [infographic](#) which explains why), you will not probably be able to use the [dollar cost average](#) strategy when investing in numismatic or collectible coins.

Where you can buy numismatic coins:

- Coin shops;
- Coin shows;
- Traditional auctions;
- [Royal Canadian Mint](#);
- Online auctions, such as [Ebay.ca](#) and [Delcampe.com](#)

One of the best investments you can make is to buy coins from the Canadian Mint that are sold for face value but are in fact silver ones. These deals are called 20 for 20, 50 for 50 and 100 for 100. Explore the following link [here](#). If the value of silver goes up, your coins will increase in value; if the silver price drops you can always sell the coins for the same price (face value) you purchased them. In other words, you cannot lose with this investment idea.

#### **2.1.4 Junk Silver Coins (Canadian Pre-1968 Coins)**

[Canadian junk silver](#) is silver coins minted for circulation. If coins have been in circulation they usually do not have any value except for their precious metal “melt” value. The value also depends on the rarity of the coin but do not assume that your circulated coins are rare. Dimes, quarters, half dollars and dollars minted between 1920-1967 are 80% silver. Dimes and quarters minted in 1967 and 1968 are 50% or 80% silver. It is difficult to differentiate between 50% and 80% 1967/68 silver coins, since they all look similar and have the same weight. Buy coins minted before 1966 to avoid 50%

silver coins unless you already pay for them as 50% silver coins. For coins minted between 1920-1966, there is an easy way to figure out the pure silver weight: simply multiply 0.6 oz by dollar of coinage. For example, 5 dollars of 1960 quarters would correspond to  $0.6 \times 5 = 3$  ounces of pure silver. Multiplying 6 ounces by today's silver price (which you can get [here](#)) gives you the "melt value" (i.e. the precious metal content value) of the coins. You can also use [NGC coin melt values calculator](#).

US silver coin denominations can be found [here](#). Note that in addition to dimes, quarters, half dollars and dollars, USA minted silver 5 cent coins between 1942-1945.

Occasionally, junk silver coins can be bought on [Ebay.com](#), [Delcampe.com](#) or other auction sites with a small discount to the [spot price](#) (i.e. market price of silver). When you sell your junk silver coins, you usually get less money than what the silver spot price currently is. If you sell your coins to a coin dealer then s/he will only accept the coins with a discount to the spot price. If you sell them through Ebay or another auction you will have to pay auction service fees. You will only get the spot price for the coins if you sell them privately which might be problematic with large quantities of coins, security-wise.

If you are not sure that a coin you have is silver (or gold), here are a couple of tips. First, if a coin is magnetic, then it contains at least some nickel, steel, cobalt or other magnetic element. Coins that contain silver or gold are rarely magnetic. Even 1968 50% silver coins are not magnetic. Another way to check what metal a coin is made of is to measure its density, which is the ratio between the coin's weight and the weight of the same volume of water. Read this [Measure a Coin's Density](#) article to understand the process. However, never check your numismatic coins this way. Since this verification procedure may damage coins, it is only good for junk silver/gold.

### **2.1.5 Silverware and Flatware**

Many people do not consider silverware as investment but investing money in it has a number of advantages:

- You can use it at home and you do not need to store it in a vault.
- Silver has antimicrobial properties known for centuries and using silverware is beneficial to your health.
- Even used silver items will most likely appreciate in value over time.
- When you sell personal property you do not pay income tax on the gain (see a tax advisor to get more details).
- In many cases you can buy silverware with a discount to the spot price of silver.

Estate sales and Ebay.com are probably the best places where you can purchase silverware. Before buying silverware make sure that it is stamped "sterling" (i.e.

925/1000 of silver). Less often, the hallmark will be 0.925 (or 925), 950, 800, etc., which indicates the purity of silver. Most (true silver) silverware sold in North America is sterling silver and it should always be hallmarked with a stamp. In some cases you will not find the purity of the silver stamped as a number, but it will be stamped with a hallmark representing purity. For example, a hallmark with a walking lion indicates that the item is sterling silver or 925/1000. You can find a wide collection of silver hallmarks from all around the world [here](#).

In many cases Ebay sellers describe their items as ‘silver items’ but in reality the items are silverplated rather than actual silver. If there is no mention of ‘sterling’ in an item’s description, ask the seller about it before buying; do not assume it is actual silver based on the item’s photo. Silver items from other countries might not bear the ‘sterling’ hallmark and it would be difficult to (re)sell them in USA/Canada. If an item has the “EP” stamp (EP standing for electro-plated) or just a hallmark of the manufacturer, it is not silver but silverplated.

There are many books explaining how to collect/invest in silverware or sterling flatware, such as [Starting to collect Antique Silver](#) and [Sterling Flatware, An Identification and Value Guide](#).

If you know languages other than English you may consider buying silver items from international Ebay sites. Thus, if you know French you can buy French silverware from [Ebay.fr](#). The most common hallmark for French silver is [head of Minerve](#) (tête de Minerve). French silverware is often sold on [Ebay.fr](#) with a discount to the spot price and it represents a very good value<sup>3</sup>.

Do not buy items that are ‘weighted’ (loaded with cement) such as (some) candelabras or bowls because nobody knows how much silver is there. Weighted items are usually marked ‘weighted’ on the bottom.

There is usually no problem to sell household items privately or through auctions. However, if your precious metal item is rare and in a good condition it would be a good idea not to keep hold of it.

### 2.1.6 Jewelry

Investing in jewelry might be a good idea, in particular, if you want to move from one country to another, as you can wear (at least some of) your jewelry while traveling. However, purchasing jewelry is not the best investing option. First, jewelry is art and

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<sup>3</sup> Search for term “argent massif” which means 950/1000 or 800/1000 silver. “Argent massif 1er titre” and “Argent massif 2eme titre” are 950/1000 or 800/1000 silver, respectively.

when you buy a unique product you have to pay a premium (in particular, if you buy it from a reputable seller). Second, if you are not a jeweler yourself you will not be able to identify the purity of the metal, since you cannot always rely on the hallmark alone. Finally, when you need to sell your jewelry, you may fail to sell it as a piece of art and may need to sell it for its precious metal ‘melt’ value alone. On the positive side, if/when you sell jewelry you will not (most likely) need to pay income tax on the gain since jewelry is normally considered personal property (again, see a tax advisor for more details).

### 2.1.7 Suggestions and Options for Storage

It is very important to store your physical high value precious metals items in [Intercept Shield coin boxes, covers or albums](#). The technology behind Intercept Shield has proven to be very effective against corrosion. You cannot order from the Intercept Shield [site](#) directly but there are many dealers who sell their items, including dealers on Ebay.

Cases and holders for coins and bullions can be bought from different numismatic stores or [Ebay](#). However, if you collect bullions or medals with unusual sizes or forms you may want to consider [Light House](#) or (outside Canada) [Leuchtturm](#). Many Ebay dealers sell bullion holders, such as [Air-Tite holders](#), and many of them ship to Canada.

It is important to store your items in a place that is not humid; you can use different dehumidifiers, such as [Rechargeable Stack-On](#) (which can be charged from a standard wall socket) or [Silica Gel Desiccants](#) (which can be reused if you warm them up and evaporate the moisture). To check humidity of the storage place consider using [humidity indicators](#).

You can store your physical items at a bank safe deposit box. However, you will not be able to access the safe deposit box when your bank is closed, including cases of "[bank holiday](#)". Safes are not highly “safe”, contrary to what the name implies, because there have been cases when their content was either confiscated (see one example [here](#)) or “lost” (see two examples [here](#) and [here](#)). Such cases are rare but you might not sleep well knowing that your valuables may disappear.

You can use a private non-bank depository. In Canada there are several options: [Nova Vaults](#) (in Nova Scotia), [Alpha Safe](#) (in British Columbia), [Speedy Security Vault](#) (in Ontario) and [Safe Box](#) (in Ontario). If you want to use this service outside of Canada you may consider [Manfra, Tordella & Brookes](#) and [Sarasota Vault Depository](#) (in USA), [DAS Safe](#) (in Austria).

It is not a good idea to store your precious metal items at home due to security reasons. However if you still decide to do so, here are a few suggestions (the idea when you store your valuables at home is to be creative):

- You can store your valuables in your attic and/or in the insulation. It is unlikely that thieves will search in fiberglass insulation.

- Generally, it is a good idea is to store valuables in places that nobody would think of, such as inside your freezer, inside a printer (replacing the tuner), inside a drill box, inside a sock in the bottom of your sock drawer, buried in a container in the back yard, underneath a potted plant, inside of a DVD case, in a coffee box or a tool box. Such places may damage your high value collectibles or jewelry, but they might be good for junk silver/gold. Putting your precious metals items under the mattress will not make them safe but will only add to your back pain (you should have only one item under your mattress which is your bed).

- Some other options are hidden storage places, such as the [Hidden Wall Safe](#), [Pringles box](#), [Wall Clock](#) or an actual [safe](#) which you can mount under your table.

## 2.2 Physical precious metals that are registered on your name

Physical precious metals that are registered on your name may or may not be physically delivered to you, depending on the investment option you have chosen.

These options include:

- Trusts (section 2.2.1);
- Investment through companies that buy/sell and store precious metals for you (section 2.2.2);
- Deposit programs (section 2.2.3).

### 2.2.1 Precious Metals Trusts

Trust is a convenient and low-cost way to invest in physical silver, gold, platinum or palladium bullions, and it provides secure storage of physically segregated bullions. Investors can hold an interest in these precious metals by buying units of the Fund directly on the [Toronto Stock Exchange](#). Units of many Trusts can be redeemed for actual physical bullions (subject to minimum redemption amount). Precious Metal Trusts may be held in Registered programs.

Some Precious Metals Trusts traded in Canada are [Sprott Physical Gold Trust](#), [Sprott Physical Silver Trust](#), [Sprott Physical Platinum and Palladium Trust](#), [Brompton Precious Metals Trust](#). Precious Metals Trusts traded in USA are, among others, SPDR Gold Shares Trust (symbol [GLD](#)) and iShares Silver Trust ETF (symbol [SLV](#)). However, these

2 trusts do not physically deliver precious metals and many people believe that they do not actually have all the precious metals they sell units for. There are many other similar trusts but GLD and SLV are the biggest of all for gold and silver, respectively. One of the US trusts that is traded on the US stock exchange and can deliver physical gold to your door (including Canada) is Merk Gold Trust. This fund is good for you if you want to avoid wire transfers when buying or selling gold, if you generally buy in small quantities, if you like the option of taking physical delivery in the form of coins or if you want to own ETF that contains audited gold.

Taking possession in OUNZ does not trigger a tax event as you are simply taking possession of what you already own. Please refer to this [site](#) for the investment prospectus.

In addition to privately managed trusts, the Royal [Canadian Mint](#) has recently started an Exchange Traded Receipts (ETR) Program that allows you to invest in gold and silver. [Silver ETRs](#) are listed on the Toronto Stock Exchange and traded in Canadian and U.S. dollars under the symbols [MNS](#) and [MNS.U](#), respectively. [Gold ETRs](#) are listed on the Toronto Stock Exchange and traded in Canadian and U.S. dollars under the symbols [MNT](#) and [MNT.U](#), respectively. To quote the Royal [Canadian Mint](#) (date of access: March 2014): “We do not offer units or shares in a trust, Exchange Traded Fund (ETF), or mutual fund. We offer ETRs which represent a direct beneficial ownership in physical silver held by the Mint. <...> ETRs may be redeemed at the option of the ETR holder for physical silver bullion or cash on a monthly basis. <...> The Royal Canadian Mint believes that the ETRs are competitive in respect of purity, costs and redemption features. <...> Each ETR represents an undivided beneficial interest in physical silver bullion entitling the holder thereof to physical silver bullion with a minimum purity of 99.9%.” Note that these ETRs have very thin trading volume and might be illiquid if/when you decide to sell them.

### **2.2.2 Companies that buy, sell and store physical precious metals for you**

It make most sense to discuss companies offering these services by 3 types of storage services: segregated allocated, unsegregated allocated and unsegregated physical backed storage types.

#### **Segregated Allocated (or segregated) storage**

Specific coins and bars (which include serial numbers) are physically segregated, stored and registered in your name. With segregated storage, the investor owns specific bars and coins and can take physical delivery upon request. This is the most secure form of storage.

There are several very reputable companies that buy/sell and store metals for you. For example, Kitco (one of the biggest private precious metals companies in Canada) has its popular [Canadian Allocated Storage program](#). This program allows you to purchase precious metals from Kitco and have them stored on a segregated allocated basis in highly secure storage facilities in Canada. Canadian Allocated Storage account holders can add to their precious metal holdings, sell off all or part of the holding or withdraw their holdings at any time.

The following reputable companies can store metals on segregated allocated basis in a country of your choice:

[www.Goldmoney.com](http://www.Goldmoney.com)

[www.BullionVault.com](http://www.BullionVault.com)

[www.HardAssetsAlliance.com](http://www.HardAssetsAlliance.com)

[www.BMGBullionbars.com](http://www.BMGBullionbars.com)

Each company from this list has its own unique benefits and none is better than the other. [BMGBullionbars.com](http://www.BMGBullionbars.com) is the only company from the above list that is approved for registered plans and it is located in Canada.

### **Unsegregated Allocated (or allocated) storage**

Physically segregated gold/silver (usually in bar form) is registered in the name of the storage service provider. Investors do not own specific bullions/bars; the bars are generic and the investors own part of the pool of the precious metals, based on money invested. [Central Fund of Canada](#) (Symbols: CAD [CEF.A](#) and USD [CEF.U](#)) and [Bullion Management Group](#) (BMG) are examples of companies offering unsegregated allocated storage. Both CEF and BMG Funds can be held in Registered programs.

When you buy CEF shares you invest in approximately 40% silver and 60% gold. Since CEF shares are traded on stock exchange, they can be traded with a discount (i.e. cheaper) or with a premium (more expensively) to the assets the fund holds. The bigger the discount the better value you get for your money. Click [here](#) to see the exact breakdown of the CEF assets and whether the shares are traded with a discount or a premium.

From our experience, if CEF shares are traded with a very high (about 10% or higher) premium, the precious metals market is close to a top and precious metal prices will go down soon. This is a very good investor sentiment indicator. However, note that if the fund is traded with a significant discount it does not necessarily mean that the market is

near a bottom; trading with a significant discount can last for a long period of time, without the market reaching the bottom.

Finally, note that CEF claims to be a segregated and allocated storage fund; however, shares cannot be redeemed for physical metals and this is the reason why it is included in the unsegregated allocated category in this report.

BMG Funds are all open-end mutual funds that provide a low cost option of owning precious metals bullions/bars. You cannot take delivery of your gold and silver if you invest in BMG funds. BMG has a gold fund ([BMG Gold Advantage Return BullionFund](#)) that even pays dividends. We have tried to investigate where this [BMG gold fund](#) gets income that pays dividends, but the company did not answer our email query.

### **Unsegregated Physical Backed (or unallocated) storage**

Unallocated investment is an unsecured claim on a provider where the claim is 100% backed by physical metals in various forms. As a result, your investment is subject to the storage company's default risk. This is the least secure and the least desirable form of storage. Examples would be gold or silver certificates sold by banks. Most stock brokers and banks offer these gold and silver certificates. They are a much cheaper way to invest in gold and silver because the premium is cheaper on certificates than on physical bullions.

One obvious disadvantage of this type of storage is that you might not always be able to take delivery of your gold/silver, since the storage is unallocated and there are no safekeeping charges or insurance fees. In most cases, you have exposure to the price of the metals and not to the physical metals themselves. The majority of gold and silver certificates are in a sense promissory notes: i.e. the bank is promising that it will trade these certificates for physical metals upon your request. Since it is merely a promise, it does not guarantee that this is what will necessarily happen.

This is the exact quote taken from one of the Canadian bank's precious metals certificates description: "...you have the option of redeeming for cash or a conversion into physical bars <...> based on availability". It is not exactly clear how you can own something which you will receive only if it turns out to be available.

[ScotiaMcLeod](#) offers the RSP Gold Certificate where gold is allocated to the investor. The site does not specify if there is any storage fee (we believe that there are no fees implying that the storage is nevertheless unallocated).

### **Some Comments and Personal Recommendations (all storage types):**

It would be a good idea to invest only with companies that will deliver your precious metals upon your request.<sup>4</sup>

Consider investing only when metals are stored in a Segregated Allocated account. If you do not pay an annual storage fee (at the very least) then your account is most likely not Segregated Allocated. If you hold bullions in your Segregated Allocated account you should be given serial numbers, the exact weight and fineness of the bullions that are allocated to you.

It might be a good idea to store precious metals outside your country of residence if you can afford it, in case you need to leave the country.

Finally, note that Royal Canadian Mint storage is more reputable than any bank storage facility.

### **2.2.3 Deposit Programs**

Deposit programs allow banks to store precious metals on your behalf. Some examples are discussed below.

The BMO [Gold](#) (or [Silver](#)) Deposit Program allows you to buy gold (or silver) which can be delivered to you or stored at a third party storage facility (which is not disclosed) approved by BMO Nesbitt Burns. Based on BMO site information, this gold (or silver) is allocated to the owner, although this does not quite make sense: the owner does not pay any storage fee and the third party facility, not the BMO, is responsible for any loss or damage of the gold (or silver).

[Questrade](#) and Scotia [iTrade](#) are among companies that allow you to invest in precious metals in your Registered Programs. They enable you to buy, hold and trade real gold in your RRSP. Your bullion investments with Questrade are segregated and stored at the Royal Canadian Mint in physical allocated form. Bullion investments with iTrade are held at Scotia Mcleod; their web site does not indicate whether the storage is segregated/allocated (due to lack of this information we would consider the storage to be unallocated).

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<sup>4</sup> Note that you can invest in precious metals in your RRSP/TFSA with some of the companies mentioned in this report. However, you cannot request physical delivery of your metals due to restrictions of these registered programs, regardless of whether the company itself delivers physical metals.

[Cache Metals](#) allows you to buy, hold and trade real gold and silver in your RRSP and TFSA. Your bullion investments are segregated and stored at Laurentian Bank in physical form. The web site does not indicate whether the storage is allocated.

### **3 Investing in Mining Companies**

Companies that are in a precious metals business are mainly mineral exploration companies, mining (production) companies and royalty companies. As the name implies, exploration companies (also called ‘junior mining companies’) explore but often do not find gold/silver. Of all mining companies, they are the riskiest type of investment. Mining (production) companies are companies that have already found precious minerals and mine for them. Royalty companies sponsor developing precious metals mining producers in exchange for a royalty on future production. They have less exposure to production and that is why they are the least risky.

There are several ways to invest in mining companies. You can buy:

- Shares (common or preferred)/Warrants/Rights/Bonds;
- Mutual funds;
- ETFs.

#### **3.1 Individual Shares, Warrants, Rights and Bonds**

Common shares (also known as shares/equities/stocks) are a form of ownership of a corporation. Holders of common shares control the company and have voting rights; they also may or may not receive dividends. In general, prices of shares of mining companies are correlated with precious metals prices: when prices of precious metals go up/down prices of shares of mining companies go up/down, respectively.

Preferred shares are generally considered a hybrid between common shares and bonds. Holders of preferred shares do not usually have voting rights but (normally) receive dividends.

If a mining company has issued both common and preferred shares, all preferred shares holders should be paid dividends in full (including payments in arrears) before common shares holders can be paid dividends.

Since prices of shares of each given mining company may fluctuate significantly, it might be a good idea to consider investing in (precious metals) ETFs or Mutual Funds where diversification minimizes the risk.

Bonds are debt investments: investors lend money to corporations (or government) for a period of time, normally at a fixed interest. A typical bond pays interest on a monthly or quarterly basis; occasionally, bonds can skip interest payment. Bonds can be bought or sold prior to their maturity, and their price may fluctuate.

Warrants are securities that give the holder the right to buy a particular number of securities at a certain price before a due date. These securities are usually the company's shares but sometimes they allow the purchaser to buy the stock or bonds of another entity.

Rights are a short term privilege granted to shareholders to purchase additional shares directly from the issuing company.

### 3.2 Mutual Funds

Most precious metals Mutual Funds own shares and/or bonds of different mining companies. The price of a Mutual Fund is determined once a day and it is the same price whether you sell or buy it.

Some Sprott Mutual Funds may hold physical gold/silver bullions as well as mining shares/bonds (e.g. [Sprott Gold & Precious Minerals Fund](#) and [Sprott Canadian Equity Fund](#)). Thus, [Sprott Silver Equities Class](#) invests mostly in silver mining companies and silver bullions.

Also, [Dynamic Strategic Gold Class](#) and [Dynamic Strategic Resource Class](#) funds hold physical gold in them.

You can review the full list of precious metals funds at the [Fund Library site](#).

One disadvantage of precious metals Mutual Funds is that the [MER<sup>5</sup>](#) is high as compared to other types of Mutual Funds and ETFs. Moreover, precious metals Mutual Funds do not usually pay any dividends.

### 3.3 ETFs

ETFs are similar to Mutual Funds but they are traded on stock exchanges (unlike Mutual Funds that are offered by financial institutions) and their price may fluctuate significantly even during the same day. They are also defined as indexes that represent the precious metals sector, such as the BMO Junior Gold Index ETF (symbol [ZJG](#)) which

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<sup>5</sup> Management Expense Ratio, i.e. how much it costs you to invest in a particular fund, the lower the MER the better.

invests in Junior Mining companies, and the iShares S&P/TSX Global Gold Index Fund (symbol [XGD](#)), which invests in global mining companies. Both abovementioned ETFs are traded in Canada.

Two of the most popular ETFs traded in USA are the Market Vectors Gold Miners ETF (symbol [GDX](#)), which invests in a diversified blend of primary gold small-, mid- and large- size companies world-wide, and the Market Vectors Junior Gold Miners ETF (symbol [GDXJ](#)), which invests in small- and medium- size companies in the gold/silver global mining industry.

Some disadvantages of ETFs are:

- You have to pay commission to a broker when you buy or sell ETFs (and it is very expensive in Canada comparing to the USA). There are only a few ETFs that you can buy/sell commission-free, e.g. [iTrade offers 50 such ETFs](#). Most brokers do not offer commission-free ETFs.
- You still have to pay the MER fee although it is much lower comparing to a similar Mutual Fund.
- Most Canadian ETFs are very thinly traded and may become illiquid when you need to sell them.
- You cannot have free pre-authorized contributions (i.e. [dollar cost averaging](#)) to ETFs; every purchase will involve a brokerage commission.

The biggest advantage of ETFs as compared to Mutual Funds is that their MER is significantly lower. Here is another article about [ETFs vs Mutual Funds](#).

### **3.4. How to Make Money in Mining Shares**

The mining business is tricky; the Klondike Gold Rush is not the only time in history when people made or lost fortunes. Mining shares are one of the most volatile assets in the world. If you look through a monthly/quarterly update of any precious metals fund in Canada that has been in business longer than 10 years you will see that its price has had several substantial (over 25%) yearly fluctuations since its inception.

You get the best deal for precious metal companies' shares when they are down 40-50% or even lower. Like in any other industry you will make money when nobody else wants to buy shares that are down that low. The mining business will not go away and even if the sector is down 80% (which is rare but may happen), it will recover eventually. The more it goes down the more it will go up in the future.

You have to be very patient with this investment and invest most of your money when it is significantly (e.g. 50%) down. If you do not know how to evaluate individual stocks

then the best thing is to invest in precious metals ETFs when shares of precious metal mining companies are significantly down or consistently invest in low cost precious metals Mutual Funds (monthly/bi-weekly), i.e. the [dollar cost average strategy](#).

Stocks, bonds, warrants, rights, ETFs and mutual funds are all eligible for Registered plans.

#### 4 Conclusion

Taking stock, remember that precious metals are not a panacea, they are just another type of investment that does not correlate with the stock market and the real estate market. Similar to any other market, you can gain or lose money; everything depends on the exact timing of when you buy or sell. Unlike other investments, physical precious metals themselves have value and they will not drop to zero. However, they can drop substantially to make you feel miserable. As a result, it might be a good idea not to invest too much money in physical precious metals and consider additional investment options.

#### 5 Resources to Explore

Below are several good books and web sites to explore the subject of precious metals further:

Books to read:

- [\\$10,000 Gold: Why Gold's Inevitable Rise Is the Investor's Safe Haven](#) by Nick Barisheff;
- [The Golden Revolution: How to Prepare for the Coming Global Gold Standard](#) by John Butler;
- [Currency Wars: The Making of the Next Global Crisis](#) by James Rickards.

Sites to review:

- [The Gold Tree-Forms of gold investment,uses and sources of gold](#) – infographic
- <http://streetwisereports.com/> – publications on the natural resource sector
- <http://silver-investor.com> – one of the best sites on how to invest in silver
- <http://www.caseyresearch.com> – one of the best publications on how to invest in natural resources
- <http://www.coincommunity.com/> – a coin forum
- <http://mcalvanyweeklycommentary.com/> – weekly economics and precious metals podcasts
- [http://www.nunet.ca/link\\_main.html](http://www.nunet.ca/link_main.html) – links to different numismatic sites

If you are interested in investing in US coins consider listening to this [podcast](#).

## **Appendix: Some Advice and Recommendations for How to Buy and Sell on [Ebay](#)**

Ebay is an online auction service used to buy and sell items.

### **How to Buy**

- It is important to remember that your goal is to make money which does not mean that you should necessarily win every auction on Ebay. It is not an ego game: nobody knows you and nobody cares whether you won a particular item. (See this [infographic](#) about differences in investment psychology between men and women; women are better investors than men because they do not have the male ego).

- Before bidding, always decide what maximum price you are willing to pay and never bid for a higher price. If someone overbids you and you have reached your maximum price, simply move on and do not bid again. You will have another opportunity later. If you are winning more than 25% of auctions you bid on, you are probably losing money.

- Try to bid only once, the more bids an auction has the more buyers it attracts. After bidding you will get an email from Ebay encouraging you to increase your bid – disregard it. As explained above, you should bid only once, setting the price to the maximum you are willing to pay for the item.

- Do not bid too early, the best strategy is to bid at the last minute, right before the auction ends.

- Check out auctions that do not have any bids and end relatively soon. It is human nature to think that there is something wrong with these auctions and many potential buyers overlook bargains.

- Skip auctions that have over 20-25 bids if you want to get a bargain.

- If someone overbids you it does not mean that the item is worth more, it only means that another bidder is willing to pay more. You will get an email notifying that you were overbid and encouraging you to bid again. As before, disregard it and move on to other auctions.

- Put as many items as you can in your "watch it" list. If nobody buys the item you are interested in after the auction ends, contact the seller to check whether s/he is willing to

sell it for a cheaper price than the auction price was. In many cases sellers will agree to sell their items cheaper.

- Buy in lots/bulks to save on shipping charges.
- If you also speak languages other than English try international auction sites (e.g. ebay.fr). You will have much less competition and, as a result, significantly lower prices.
- Days to buy on Ebay.com (meaning the auction should finish that day), from best to worst, are Friday, Wednesday, Tuesday, Saturday, Thursday, Monday, Sunday. Sunday is the worst day since most people prefer to buy on Sunday.
- If you buy on [Ebay.ca](#) use [Ebates](#) or [Canadian Rebates](#) to get cash back.
- Buy on [Ebay.ca](#) to avoid customs. Only precious metals of 0.999 percent purity that are bought in USA and shipped to Canada are not subject to duty, NAFTA fees or GST (see [Canadian Customs Tariffs](#)).
- Buy when there is a major event such as Olympics Games, elections, Christmas, etc., that would keep other buyers away from their computers.
- Enroll in Ebay news and if they offer discounts for sellers shop that day, since there will be more items to buy.
- Find out if a particular Ebay seller has his/her own web site and visit it; the seller might sell the same items cheaper on his/her site.
- If you buy from non-Canadian Ebay sites always send a message to the seller and ask about shipping charges. This way, you will know if the seller is willing to communicate, to begin with, and you will also find out if the shipping cost you see on his/her Ebay page is indeed accurate (in many cases it is not).
- If you know the item you bid on well (you do not merely rely on sellers' pictures) - choose auctions with the worst quality pictures or without pictures at all. Such auctions would attract fewer potential bidders.
- Similarly, if you know the item you bid on well, choose auctions with a poor description of the items, since such descriptions also attract fewer bidders.
- When you search for items, include misspelled words in your search (e.g. in addition to 'candelabra', search for 'canedlabra').

- Even if you do not think you are going to win the auction still bid for the item you are interested in. You might win it or sometimes you might get a 'Second Chance Offer' if the final winner (who overbids you) does not end up buying the item (i.e. does not complete the transaction).

- If you bought the item but the purchase experience was not satisfactory (you did not receive the item, received a wrong item or the item turned out to be broken, etc.) you can always contact your credit card company and ask for a refund (regardless of the Paypal protection). Your credit card company might not necessarily refund you but asking never hurts.

- As explained above, if you buy silver items never assume that 'silver' in the item's description really means silver: it might be silverplated, its color might be silver or it might be only 10% silver. When in doubt always ask the seller; sellers might provide ambiguous descriptions but they are usually honest when asked upfront. Do not buy if the seller answers that s/he is not sure whether the item is silver.

- Buy from individual sellers rather than from professionals, who have thousands of feedbacks. Professional sellers attract too many (returning) bidders who increase the final price of the items you want to buy.

- Privacy-wise, it might be a good idea to set your Ebay feedback profile to 'private' (by default, it is set to 'public'). However, note that if your feedback profile is private you can buy, but not sell, on Ebay.

- Consider buying items that have less than 0.999 precious metal purity. If you hold such items long enough before reselling them, you might not need to pay tax on your capital gain (if you have realized a gain), since they may be considered personal or collectible property. Seek tax advice before pursuing this strategy.

- You can retract your bid on an Ebay auction before the auction is over if you made a mistake. Some conditions apply: e.g. the request should be reasonable and the seller or Ebay need to approve your request. See the full list of conditions [here](#).

- If the seller offers shipping insurance for extra cost, check whether Ebay or Paypal guarantee to refund you in case your item does not arrive. If they do, there is no need to also pay for the shipping insurance offered by the seller.

- If you think that the shipping charge is excessive send a message to the seller before you bid and ask if s/he would reduce the shipping cost. Do not ask this question after you have bid or won the item.

- Most people like bidding round numbers (e.g. \$5.00), bid with one or two more cents (e.g. \$5.02). In many cases this simple technique can increase your winning rate.

- Most auction activity happens in the last 5 minutes of the auction. You are the 'winner' only when the auction is over.

- Keep in mind that if a particular Ebay seller has lots of positive feedback it does not necessarily mean that this user is a good seller. If this seller has never sold but only bought items before, this will still result in good feedback on his/her profile. Click on the feedback itself and check what his/her seller's only feedback is. A rating of 99.5% or below is bad. Be sure to read all the negative comments.

- If the item you want to buy on Ebay is being sold as "Buy it Now", send a message to the seller and ask for a discount or free shipping. If the item has been for sale for a long period of time a motivated seller might offer a discount. If you want to know how long the item has been for sale on Ebay, Ebay allows you to search the history of sellers' successful and unsuccessful sales in the last 15 days.

- Even if the seller's Ebay page indicates that the seller does not ship to Canada send him/her a message asking whether s/he can make an exception for you. Many sellers will indeed be willing to agree.

- Try to be creative about other strategies and avoid competition from other bidders; you can only make money if you buy cheap.

- Platinum coins usually have a much lower premium. Platinum is quite rare (rarer than gold) and when it is traded below price of gold it represents good value.

(In addition, consider reviewing the [Ebay Precious Metals Guide](#).)

## **How to Sell**

- Sell on Ebay.com rather than on other Ebay sites (such as Ebay.ca, Ebay.fr); more bidders participate in Ebay auctions from USA than from any other country.

- Your auction should finish on Sunday when most potential bidders are at home.

- Sell when it is cold outside (winter) and more people stay indoors.

- Do not sell during major national events (Olympics, football games, elections, etc.)

- It is better to allow people to bid on an action rather than use the 'Buy it now' option. Most people want to bid/win (i.e. compete) and not just buy items right away.

- If you are absolutely sure that your item will sell well, start your auction with the initial price of \$0.99. A valuable item with a cheap price attracts more bidders and more bidders attract even more bidders.

- Respect international buyers and be ready to specify international shipping charges quickly if requested.

- Do not sell to people from countries where the postal system is not reliable.

- Always ship with a tracking number.

- Find out in advance all the details of the insurance policy of the shipping company you want to deal with (in case the item is lost or damaged when being mailed). Keep in mind that if you ship expensive precious metal items, shipping insurance might not cover them. Avoid selling items (on internet auctions) that you cannot buy shipping insurance for.

- Use best quality pictures and always provide several pictures of the items you are selling. Never take photos of an item holding it with your bare hands. If you do have to hold it, always wear cotton gloves. If possible, make readable pictures of the hallmarks of your item.

- Write short but informative descriptions. Always describe the metal of the item, its weight, hallmarks (if any), any dents on the rim your item has. Find out if similar items have been sold in the past and put links as references.

- After selling the item never ship it within at least 3 business days (regardless of how the payment is received). Seller's payment may bounce and you may lose money. If you are going to delay shipping for several days as advised, always mention that in the terms of sale.

- If you sell a lot of items consider having several (Ebay) accounts. Some buyers are not honest and may provide lots of false negative feedback. If this happens to you, you may then switch to your other account.

- If you sell high value item(s) and you want your buyers' identities to remain anonymous you might consider Ebay's private listings.

- Once in a while Ebay has promotions and you can put your items for sale for free (or with a reduced Ebay fee). Wait and be ready to use those promotions to save on fees.

- Do not use slang in the item's description or when communicating with potential buyers. Not everybody is fluent in English. Do not make jokes or use phrases that can be misinterpreted. Avoid grammar mistakes or misspelled words.

- If one description does not sell the item – change your wording. Be flexible, always modify descriptions and compare sales' results.

- When a potential buyer asks you something you should reply fast, provide a full answer and anticipate further questions. Always tell the (potential) buyer what the next step would be and guide them through the process.

- Do not use words such as 'I think' or 'may be'. Your description of the item should be precise and accurate. Avoid wordy descriptions; if your description has to be long, separate every 3-4 lines with a blank line, this will make your description more readable.

- Do not use a variety of font colors in your description as this does not look professional and serious buyers will avoid you.

- Buyers have more trust in sellers who guarantee to take/accept items back (in the original condition, of course). If you sell authentic items, such promise should not be an issue for you and it will make your auction more trustworthy.

- Exceed expectations of the buyer either by fast shipping or adding an extra small item (as a gift) to the sold item. This will result in good feedback, attracting more buyers in the future.

- Mention your other auctions (if you have more than one) when describing your item. Dealing with fewer buyers minimizes your time per transaction.

- Since the price of precious metals may fluctuate significantly, if you want to sell an item that has recently appreciated in value – sell it fast rather than put it up for a 7 day auction.

- List the same item you are selling under a number of similar categories (such as collectibles & antique; medals & military), not just one.

- Use the invisible counter option to know how many people have visited your auction.

- If you have sold a mediocre item for much more than you anticipated – do not assume it will necessarily happen again. If you have sold a valuable item for much less

than you anticipated – do not think it will happen again either. In either case, try to find out why this happened (perhaps, the price of precious metals has gone up/down, you listed the item in a wrong category, or the item description was good/bad, etc.) and take that into account for your future sales.

-Always be honest. If the item is in bad condition, do not lie and always explain what the problem is. Emphasize it or even highlight it. People often only read the key words in the item description and might easily miss problems with the item. It is better not to sell an item rather than get bad feedback because someone missed something important in the item description.

Read [How to Buy, Sell, and Profit on eBay: Kick-Start Your Home-Based Business in Just Thirty Days by Adam Ginsberg](#) for better understanding of buying and selling techniques.

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