



Precious Metals 101: Fundamentals

Fundamental Knowledge of Precious Metals Investing.

Sprott Money is not only the most trusted source of investment grade precious metals in the industry, but we also pride ourselves on being educators within our discipline and work diligently to empower people to seek more knowledge about investing in precious metals. We believe it is imperative that investors have a solid foundation in understanding key terminology used in the buying and storing of precious metals, so that they are able to make sound decisions and be confident about investing. In addition, we firmly believe in the importance of understanding the economic context of the precious metals market, therefore we generate a significant amount of content through blogs, newscasts, and interviews to further empower our clients' knowledge of precious metal investing.

Seek more **Knowledge** about investing in precious metals

The purpose of this educational package is to provide the fundamental knowledge needed for new investors to begin their journey of physical precious metal investment. It seeks to provide a basic understanding of the world of gold, silver and platinum, so investors can become increasingly savvy about their purchases, and reap the rewards of their investment.

Become increasingly **Savvy**

Essentials for Novice Buyers

Basic Definitions

PRECIOUS METAL

A rare metal of high economic value. Less reactive than most chemical elements, precious metals are popularly used in jewelry and regarded as a store of value for investment purposes. The most well-known precious metals are gold, silver, platinum and palladium.

GOLD

A soft and malleable precious metal with a bright yellow colour. Gold is most commonly found in jewelry, investments, and for industrial use. It is a chemical element with the symbol Au and Atomic Number 79. Gold is well-known for its monetary and symbolic value.

SILVER

A white, soft precious metal known for its malleable characteristics and value. Silver is most commonly found in jewelry, high-valued utensils, and as coins and bars for investment purposes. Silver also has numerous industrial and commercial uses. It is a chemical element with the symbol Ag and Atomic Number 47.

PLATINUM

A gray-white precious metal that is highly malleable and ductile. Platinum is a chemical element with the chemical symbol Pt and Atomic Number 78. It has a variety of uses from industrial equipment to jewelry and investment. Platinum is a scarce material and thus, is highly valuable.

BULLION

Bullion is used to describe precious metals bars, rounds, and ingots, produced by mints. The value of bullion is determined by the purity and weight of the precious metals content.

TROY OUNCE

A unit of imperial measure specifically used for measuring the mass of precious metals. A troy ounce is not to be confused with the common 1 ounce, as they have different units of measurement.

1 troy ounce = 1.097 common ounce = 31.1 grams = 0.06857 pounds

INVESTMENT GRADE

Investment grade indicates a degree of purity of the precious metal product that is considered high enough to be tax-free. The investment grade for gold is 99.9% and for silver is 99.99%.

PURITY / FINENESS

The purity/fineness of a precious metal is measured in percentages and indicates how much of an object is made up of the particular metal. Currently, the highest purity for investment grade gold is 99.999%.

What is the purity of:

24karat gold 99.9%

22karat gold 91.7%

Sterling silver 92.5%

FACE VALUE

The monetary value depicted on a coin set by the minting authority, often times the government. Face value differs from the actual value of the coin. For instance, a 1oz Gold Maple Leaf coin has a face value of \$50 but the actual value of the coin is based on the spot price of gold.

LEGAL TENDER

A medium of payment that is recognized by law and the government. Coins created by government mints are recognized as legal tender as they have a face value that can be redeemed as payment.

Types of precious metals

What forms of precious metals can I buy?

Precious metals can be bought as physical coins, rounds, bars, paper ETFs, futures and trusts.

- **Coins:** Precious metals that have a face value, as set by the government. The value is based on the amount of precious metals in a coin.
- **Rounds:** Coin-shaped bullion that do not hold any face value. They are not backed by the government and thus, are not considered legal tender.
- **Bars:** Bullion that is shaped into bars, sheets, wafers or plates. Like rounds, they do not hold any face value.
- **What is the difference between rounds and coins?**
- Coins are minted exclusively by a government-backed sovereign mint and bear a face value. Rounds are coins that do not have a face value and can be minted by a private or sovereign mint.

What is the difference between physical precious metals and ETFs?

Physical precious metals are tangible assets that investors can possess and own. An exchange-traded fund (ETF), on the other hand, is a commodity exchange traded fund consisting of gold or silver-backed contracts and derivatives. They are also a form of “paper” investments. When a gold ETF is redeemed, you do not receive the precious metal but the cash equivalent.

Different Mints

MINT

A facility, either private or government-backed, that produces precious metals/bullion bars and coins.

Examples of Minting Companies:

- Royal Canadian Mint – Canada*
- Australian Perth Mint – Australia*

- US Mint – United States*
- The Royal Mint – United Kingdom*
- PAMP Suisse – Private Switzerland Mint
- Sunshine Mint – Private US Mint
- NTR Metals – Private US Mint

**Government Mints*

Prices

SPOT PRICE

The current market price at which gold, silver, and platinum can be purchased on the spot market. The spot prices are constantly changing as the markets move accordingly.

SPOT MARKET

A market in which gold, silver, and platinum is bought and sold for delivery in the very near future.

ASK & BID

The *Ask* price is the spot price at which precious metals are sold to a consumer. The *Bid* price is the spot price at which precious metals are bought back from a consumer.

PREMIUM

A dollar or percentage amount that is added on to the spot price to arrive at the live product price. The precious metals dealer, the Mint or banks will add a premium.

SPREAD

The difference between the asking and bidding price of a product. The spread helps determine what the precious metals price needs to be in order to create an investment gain.

VOLATILITY

The relative rate at which the price of precious metals moves up and down. If a price moves up and down rapidly over short periods of time, the price has high volatility. If the price almost never changes, the price has low volatility.

How are live product prices determined?

When purchasing from a dealer, distributor or a bank, live product prices are calculated by adding a premium onto the spot price of the metal.

What is the difference between coins and bars and why the difference in price?

Coins and bars differ based on value and production cost. Since coins are legal tender and hold a face value, they have a higher premium than bars, which do not have a legal tender value.

What factors influence the difference in premiums?

Other factors may also influence premiums such as size, purity, the country the metals are from, the minting company that produced the metals, and supply and demand.

Buying

Where can you buy physical precious metals?

Physical precious metals can be bought from banks, jewelers, or bullion dealers. Many investors prefer to go to bullion dealers because they provide the most competitive premiums on products and they offer a sense of security outside of the banking system and government. Banks have very high premiums. Buying from private bullion dealers is also faster, easier and more convenient as less paperwork is required. Many dealers operate with a storefront, over the phone and/or online.

How do you buy physical precious metals?

Physical precious metals can be ordered online, over the phone or in person at a store or bank.

How to choose your dealer:

- Check to see if your dealer is listed on the Better Business Bureau or similar rating agency and if so, what their rating is.

- If it seems too good to be true, it probably is.
- Verify that your dealer does not back order products to avoid not fulfilling your order after payment has been submitted.
- Google search

Storing Your Metals

Where should I keep my precious metals?

There are many options for investors to store their precious metals. Some choose to store it within their own homes while others choose to store it in safety deposit boxes in banks. Sprott Money offers storage options in Canada, U.S., Singapore, Switzerland and the Cayman Islands. All our facilities are private and non-bank.

What does ‘allocated’ and ‘segregated’ storage mean?

‘Allocated storage’ means that your precious metals are recorded under your name and you hold direct ownership of the metals. ‘Segregated storage’ means that your precious metals are stored separately from others in individual boxes assigned to each client.

How to choose your storage facility:

1. **Location** – To prevent the government and the banks from “bailing-in” (confiscate) your precious metals in times of financial difficulty, find a storage facility that is private and outside the banking system. Having a storage facility that is located in a politically and economically stable country is also important because it offers you the added sense of security and peace of mind.
2. **Allocated & Segregated** – Make sure the storage facility you choose offers allocated storage so that you have direct ownership of your precious metals. If you do not wish your precious metals to be mixed up or comingled with other clients’ metals, make sure your storage facility offers segregated storage as well.

3. **Insurance** – Your precious metals should be fully insured by your storage facility or program so that in the event of loss, theft or physical damage to your metals, you will be fully compensated.
4. **Fees** – Find the most affordable storage program while being cautious of scammers and con artists. Remember, “if it seems too good to be true, it probably is.” Generally, fees are calculated on “basis points” which are annual percentage rates, based on how much you are storing (volume) or based on the total value of your storage inventory.
5. **Audit** – Ensure the storage facility you choose undergoes external audits from a reputable accounting firm at least once a year. Storage facilities that allow you to go in to see and count your metals for yourself are a plus.

Precious Metals Market Explained

Important Definitions

COMEX

The Commodity Exchange, Inc. (COMEX) is a division of the New York Mercantile Exchange (NYMEX) in which Gold and Silver are traded.

LONDON FIX

The procedure by which the price fix of gold and silver is determined twice each business day on the London market by the members of the LBMA based on the buy and sell orders at that time. The price fixing provides a recognized rate that is used as a benchmark for pricing precious metals products.

LBMA

The London Bullion Market Association (LBMA) is a wholesale over-the-counter market for the trading of gold and silver.

GOLD / SILVER RATIO

The ratio demonstrating how many ounces of silver it takes to purchase one ounce of gold. Investors use the ratio to evaluate the relative value of silver, which determines if it's an optimal time to purchase gold or silver.

CENTRAL BANK

An institution that manages a state's currency, money supply, and interest rates. They also oversee the commercial banking system of their respective countries. Examples include the Federal Reserve (Fed) of the United States and the European Central Bank (ECB).

FEDERAL RESERVE (FED)

The Federal Reserve is the central banking system of the United States. It consists of 12 regional Federal Reserve Banks, the Federal Open Market Committee (FOMC), a Board of Governors, and numerous privately owned US member banks and various advisory councils. Its key objectives are to maximize employment, maintain stable prices, and maintain moderate long-term interest rates. Having both private and public components, the Fed was designed to serve the interests of both private bankers and the general public.

FIAT MONEY

Inconvertible paper money made legal tender by a government decree. Examples: US dollar, British Sterling, Euro

BULL / BEAR MARKET

A bull market is when a market is performing well and prices have an uprising trend. A Bear market, on the other hand, is when a market is stagnant or falling, causing prices to drop.