

Golden Years

Investors look to precious metals to add diversification to their retirement accounts

By Allen Sykora

MORE AMERICANS ARE LOOKING for a way to add luster to their individual retirement accounts—gold. They are taking advantage of little-known U.S. tax regulations to buy precious metals, coins and bars for their IRAs.

Some rules and fees exist that don't apply to other kinds of IRA investments. The metals must be stored in a depository, for instance, and there are storage fees.

Still, some investors consider precious metals worthwhile for a small portion of their IRA portfolio, for many of the same reasons they buy precious metals in general: They diversify the portfolio, they're a hedge against inflation, and an insurance policy against disasters like this fall's stock-market meltdown.

Similarly, financial planners interviewed for this article included skeptics who oppose putting metals in IRAs, though not for reasons having to do with IRAs themselves. These critics tend not to recommend direct ownership of precious metals in general, citing limited liquidity and the lack of interest or dividend payments. These critics favor using other hedges in IRAs, such as Treasury Inflation Protected Securities, or proxies for precious metals, such as mining stocks.

Gold's history as an investment is spotty. After a record high of \$850 an ounce in 1980, gold was low for nearly three decades before finally hitting a new peak in January. During that time, the Dow Jones Industrial Average soared from below 1,000 to above 10,000. But since 2001, gold has far outperformed equities, with the spot price roughly quadrupling to a record of \$1,032.50 in March before pulling back.

To buy precious metals in a retirement account, investors need a self-directed IRA, which is a type of retirement account that can invest in almost any kind of asset except life insurance and collectibles. Companies that offer self-directed IRAs and metal-investing services include **Sterling Trust Co., GoldStar Trust Co. and The Entrust Group.**

"It's a fairly small segment of our business, roughly 10% in terms of number of accounts and assets held," says Kelli Click, vice president for marketing and product development at Sterling Trust, in Waco, Texas. "But it is a growing trend and definitely one we've noticed in the last couple of years," she

says. As of early in the fourth quarter, the firm administered some 62,000 IRAs with assets of more than \$4 billion. Ms. Click put the value of metals in those IRAs at \$380 million to \$400 million. The number of IRAs at Sterling Trust that hold metals, meanwhile, is up 150% so far in 2008, she says.

GoldStar Trust had 7,200 retirement accounts holding precious metals totaling a little more than \$400 million early in the fourth quarter, says Trey Hightower, trust officer for GoldStar in Canyon, Texas. Metals IRA transactions surged some 700% over the prior 16 months, he adds.

The Entrust Group reports that of its 50,000 clients with approximately \$4 billion in self-directed IRAs early in the fourth quarter, close to 1% of the accounts held metals, with value estimated at \$11 million. Some \$10 million worth of those metals holdings came since Jan. 1, and 4% of all new assets purchased by clients this year were metals, the company says.

George Cooper, senior account executive with the bullion dealer **USA GOLD-Centennial Precious Metals** in Denver, says that he fields 30 to 50 phone calls a day about coins or precious metals, and that half of the inquiries are for IRA investments. "In the springtime, we had a lot of interest in gold because of the price," Mr. Cooper says.

GoldStar's Mr. Hightower, meanwhile, says his company kept getting calls this autumn even as gold prices retreated. The callers were looking for a safe haven as the credit crisis intensified, he says. "We do have folks coming in thinking, 'I'm going to make money,'" Mr. Hightower says. "But we have a lot who have expressed that they want to preserve what they do have."

Investors often buy gold not as an investment but as a "currency of last resort," says Hugh Bromma, chief executive of The Entrust Group in Reno, Nev. "Gold has not historically outperformed the stock market," he says. "So the person using their IRA is looking for a safe haven for cash."

Nevertheless, he describes the investment as "only suited to people who know how precious metals, such as gold, work." They should be aware of risks of commodities generally and the potential for volatility, he says.

David Morgan, an independent precious-metals analyst and founder of **Silver-Investor.com**, in Spokane, Wash., says many Americans "don't have a clue" that they can include metals in their IRAs. He advocates metals because of their negative correlation to other assets, particularly equities. Gold tends to perform best when "needed most," when more

traditional asset classes decline, he says.

Mostly older investors are buying gold for their self-directed IRAs, after opening new accounts or performing rollovers or transfers from their previous IRA custodian. Investors should check out potential custodians before making a move, says IRA consultant Ed Slott of Ed Slott & Co., Rockville Centre, N.Y. Also take care to transfer the IRA correctly—preferably from trustee to trustee—to avoid creating a "taxable event," Mr. Slott says.

Once the account is open, investors select a bullion dealer from which to purchase metal. The dealer sends purchased metal to a depository, which notifies the account custodian when the metal arrives.

Commissions and fees are one of the considerations when choosing a custodian or a dealer, but industry officials also cite service, such as how quickly a dealer can deliver metal. Annual fees charged by IRA custodians range from \$50 to \$250 for administration; storage charges are mostly around \$90 to \$100. There also are bullion-dealer commissions.

How favorably a fee-based financial planner or adviser looks on gold as part of an IRA hinges partly on whether they like gold as an investment for any kind of portfolio.

"I wouldn't tie up too much of the IRA in that, but it's not bad for a piece, just to hedge your bets," says Mr. Slott, who adds that he advises investors to maintain sufficient liquid assets in case of an emergency. (Custodians of IRA accounts say it can take from a few days to a couple of weeks to get a check.)

"I'm not a fan," says Sheryl Garrett, founder of the Garrett Planning Network, in Shawnee Mission, Kan. Ms. Garrett prefers TIPS to protect against inflation. "You'd actually get a positive return," she says. "No matter what, there is some interest paid. And it's secure—as secure as anything can be."

Ms. Garrett says other commodities, like oil or natural gas, are better than gold as an inflation hedge. The price of gold, she says, is too dependent on jewelry demand.

Mary Erl, founder of Nestegg Financial Advisors in Gurnee, Ill., says gold "generally does work" as an inflation hedge, but she also favors TIPS. Gold offers a psychological advantage in that investors can hold it in their hands, she says. But there are other ways to own precious metals in IRAs, she says, such as mining stocks, which earn dividends and avoid storage costs.

The metals analyst Mr. Morgan and Jim Pupilava, a money manager and chief executive of San Diego-based PFS Group, argue for holding physical metal and not relying solely on mining stocks. While prices trend together, there is some divergence.

Mr. Pupilava points out that while gold was down 10% for the year, the American Stock Exchange's Gold BUGS Index was down more than 50%.

"When the price of the metal goes up, the mining stocks can go up two or three times faster," he says. This is because higher gold prices mean rising profits for mining companies. Plus, the value of their underground reserves increases. "Conversely," he adds, "when the price of metals goes down, you can see the price of stocks go down even further." ■■■■

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