



# Unallocated Gold Storage Or Accounts: Avoid This Risk When Buying Gold

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By Nick Barisheff

**T**his is the third of a five part series that is based on a Q&A with Nick Barisheff, CEO of Bullion Management Group Inc. and author of the book “\$10,000 Gold: Why Gold’s Inevitable Rise is the Investor’s Safe Haven.” His book will be released later this year but is [available now for pre-order on Amazon.com](#). In our first article, we discussed the single most important reason for gold’s primary upward trend pointing to \$10,000. The second part provided insights in the unwillingness of people and the media to see the real benefits of owning physical gold. In this third article, we look at the risks to avoid when buying precious metals.

Let’s take a look at a couple of cases, starting with a story out of Poland. 50,000 Polish citizens, who invested in gold with a local company called Amber Gold, lost all of their invested money. According to Huffington Post.com, investors lost an estimated 163 million zloty, or 40 million Euros. For many of the victims, the loss represented a large part of their savings, which disappeared along with the company itself.

In a similar fashion, Forbes reported recently that “over 5,000 investors were bilked out of 380 billion Yuan, or \$59.62 billion USD, in a scheme involving Loco London gold since 2008.” The Chinese gold scam was based on a gold futures trading system, but details on the workings of the scam were not released (and will probably remain unknown).

On the other hand, smart money seems to be making wiser choices regarding bullion ownership. Consider hedge fund manager Kyle Bass or Greenlight Capital’s David Einhorn, who reportedly favour ownership of physical gold bullion bars in allocated storage in a secure vault.

The golden lesson to be learned from these stories is that making the right choice on a bullion product is the single most important success factor. The result of a bad choice carries the risk of losing your money, which is hard to accept when the chosen asset was meant to be a safe haven.

## Risks associated with buying gold

There are three main risks that everyone should be aware of when buying gold:

1. Gold scams
2. Paper gold
3. Gold in unallocated storage

Gold scams barely deserve additional explanation. Fake gold bars and numismatics are as old as gold, but with gold’s rise, have become more sophisticated. In September, the New York Post reported that as many as 10 fake gold bars — made up mostly of relatively worthless tungsten — were sold recently to unsuspecting dealers in Manhattan’s Midtown Diamond District, and that at least one gold bar filled with tungsten showed up in England last March. A reputable dealer will stand by their product and welcome a



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third-party appraisal, which you should take advantage of if there is any question in your mind about the bullion being purchased.

Paper gold can be a risky investment. A simple rule of thumb: Gold derivatives (ETFs, certificates, leveraged contracts, futures or options) are useful for trading, but do not act as a form of wealth preservation. Only physical gold in allocated storage can fulfill that role.

There have been significant questions raised over the holdings of precious metals exchange-traded funds (ETFs). Since it is standard practice for Authorized Participants, such as banks and brokerage houses, to contribute baskets of purchased or borrowed assets to ETFs, the bullion therein may be borrowed. In the event of a 2008-style financial crisis, the lending institutions would have first claim to the gold when borrowed, leaving shareholders in a precarious position.

Only bullion products that do not compromise the fundamental attributes of gold should be considered. Those attributes are: liquidity; no counterparty risk; and independent of management skills.

### **Titled gold ownership is key**

Most people fail to understand that they can buy gold yet not own that gold, in the same way as leasing a car is different than owning a car. In fact, titled ownership of gold is similar to any other purchase you make. When buying a house, there is a fairly structured process that transfers the physical asset to the buyer. The same applies for gold. Buying gold or silver should require proper documentation that transfers title to the purchaser.

The concept of titled gold ownership means that you first need to have a transfer of title to a particular bar or bars. You then place the bar(s) in allocated storage under a custody agreement. The banks or financial institutions cannot then lease out those bars, because they can't access the allocated bullion.

“Unallocated” storage means you own part of a pool of gold with no title to any particular bar. Precious metals held in this form do not entitle the holder to specific bars, and the holder only ranks as an unsecured creditor of the dealer or bank in the event of an insolvency or bankruptcy. This bullion can be considered part of the general pool of metal held by the dealer or bank, and may be lent out without the owner's knowledge or consent. As a result, storage fees are much lower than for full custodial storage and are not paid until the account is closed or the bullion delivered.

Both pooled accounts and certificates are unallocated accounts. A paper gold certificate is just an IOU. Vendors of unallocated gold products will take advantage of the fact that many people are not aware of the pitfalls when it comes to gold, and don't read the fine print. Thus, when they need their gold the most, it may not be there for them.

Nick's advice is unequivocal and clear: For every bullion product, be it a fund or bullion itself, it's crucial to demand documentation that legally gives title to specific physical bars. The buyer should not accept IOUs, paper proxies or derivatives. Everyone can apply this simple test: Can the investment opportunity be explained in a few words and in an understandable way? If not, it's too complex and therefore too risky.

### **Avoiding the worst: A checklist**

Before putting your signature on a purchase, take Nick's advice and read the fine print. It should be clear that you own the bullion, that it's held in allocated storage for you and that you can ask for physical delivery should you so choose. If these points are not clear, you may be buying gold in an unallocated



storage account, which is to be avoided for the reasons discussed earlier. If you are not sure, then ask for professional advice or move on to another service provider.

To help people make the right choices, Nick has compiled a simple checklist that anyone can use to assess the risks associated with a particular bullion purchase. The idea is simple: If you can answer ‘yes’ to every question, then you are likely to own the bullion. If any answer is ‘no’, you should raise a red flag.

1. Is the investment structure of the service easy to understand (i.e. not complex)?
2. Will you receive the bullion in case of insolvency of the market maker (the bank or brokerage firm)?
3. Is it clear from the documentation that the title of specific physical bars is legally and directly transferred to you?
4. Is it clear that you will NOT receive an IOU as a legal document with your purchase?
5. Are the terms and rights concerning the insurance and security of allocated storage straightforward?
6. Does the bullion come in the form of Good Delivery bars, and is it stored in the vault of a London Bullion Market Association (LBMA) member?
7. Are you sure that you are not buying discount bullion, which is bullion at no premium to the spot price? Real physical bullion is not discounted.

### How Nick Barisheff's company has anticipated these risks

The services offered by Nick's company, Bullion Management Group Inc. (BMG), reflect the principles that he believes, summarized in the term “uncompromised bullion”.

For global investors seeking a safe haven for their financial assets, the BMG BullionBars program provides the most secure, cost-effective and transparent way to purchase and store investment-grade Good Delivery gold, silver and platinum bullion. Clients may take delivery at their discretion or request the BMG storage option. BMG's custodial storage agreement with The Bank of Nova Scotia provides for bullion storage on an allocated and insured basis in Toronto, New York and Hong Kong. For each bullion bar purchased and stored, a physical BullionDeed is issued that shows the owner's name, bar weight, assayer, purity, fineness and the bar serial number. This process ensures that each bar is allocated to the purchaser and is in fact uncompromised bullion.

The company also offers three funds: BMG BullionFund is the world's first and only open-end mutual fund trust that purchases equal dollar amounts of gold, silver and platinum bullion; BMG Gold BullionFund is an open-end mutual fund trust that purchases gold bullion; BMG Gold Advantage Return BullionFund couples monthly fixed cash distributions with an underlying asset of physical gold bullion. Again, Nick's principles of uncompromised bullion apply to each of these funds.

We invite people to look at BMG's services as a primary example of a safe and secure gold bullion investment.



*Nick Barisheff is the founder, president and CEO of BMG Group Inc., a company dedicated to providing investors with a secure, cost-effective, transparent way to purchase and hold physical bullion. BMG is an Associate Member of the London Bullion Market Association (LBMA) and an Associate Member of the Responsible Investment Association (RIA) as well signatory to the Six Principles of Responsible Investments (United Nations endorsed Principles for Responsible Investment – PRI).*

*Widely recognized as international bullion expert, Nick has written numerous articles on bullion and current market trends that have been published on various news and business websites. Nick has appeared on BNN, CBC, CNBC and Sun Media, and has been interviewed for countless articles by leading business publications across North*



America, Europe and Asia. His first book, *\$10,000 Gold: Why Gold's Inevitable Rise Is the Investor's Safe Haven*, was published in the spring of 2013. Every investor who seeks the safety of sound money will benefit from Nick's insights into the portfolio-preserving power of gold. [www.bmgbullion.com](http://www.bmgbullion.com)

