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Are You Holding the Right Kind of Gold?

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After reading my article title you may be thinking, “Here is another wealth adviser downplaying the long-term gold bull market.” Quite the contrary: For years I've been a big fan of having an allocation to gold and, to a lesser degree, silver, and it’s easy to conclude that the long-term trend in gold and silver is still intact. More importantly, I fully understand all the reasons why smart investors own gold, but what I've recently discovered is they may be holding the wrong kinds of gold.

The mass media and “status quo” financial advisers poke fun and often ignore the concerns of gold believers. Their elitist position seemingly cannot fathom why anyone would want to have anything other than stocks, bonds, and mutual funds. Interestingly enough I identify with “gold bugs.” (They are conservative investors, yet somewhat fearful of this country’s trajectory.

They are most concerned with:

- The negative impact of our national debt and government addiction to over spending.
- The fundamental shift from self-reliance to a reliance on the government and redistribution of wealth.
- Protection against an over-valued, vulnerable, and possibly manipulated stock market.
- Possible dollar devaluation or the possible loss of reserve currency status it currently enjoys.

This prolific sentiment is echoed by a recent study cited in Dan Kennedy’s recently released book about baby-boomers and seniors, which notes that 60 percent of boomer & senior men and 40 percent of boomer & senior women “view gold as the best investment.” Furthermore, the study found that those polled “don’t necessarily believe [gold] is the safest, but they do believe long term it’s the best investment for them.”

I share all of this to illustrate this significant demand (whether right or wrong) will actually increase over the following years as the faith in Washington bureaucrats continues to deteriorate and our national debt continues to skyrocket.

The problem, however, is that if you believe in the long-term trend in gold, while your reasoning for having gold is perfectly legitimate, you may not be holding the optimal type of gold. You may actually be holding what I would consider fool’s gold.

My reasoning for saying this is deeply rooted in historic proof; consider the gold confiscation act of 1933 by Franklin D. Roosevelt:

Taking advantage of a wartime statue that was never repealed, FDR issued Presidential Proclamation 2039 that forbade the "hoarding of gold coin, gold bullion, and gold certificates." The most severe penalty for not turning in your gold to the nearest member of the Federal Reserve Bank was $10,000 (equivalent to $180,000 today) and up to 10 years in prison.

In 1933, the dollar was convertible to gold, rendering the government unable to print more money as it does so diligently today. Politicians were forced to be more fiscally conservative. Without the ability to print more money they did the next best thing. They promptly confiscated all privately owned gold in America.

The price given to U.S. citizens being forced to turn in their gold?

$20.67 an ounce.

Not even a year later, in January 1934, the Gold Reserve Act was established and a new price of gold was established at $35 per troy ounce. From $20 to $35 per ounce in less than a year; talk about the greatest risk free trade of all time!

This historic event that took place 80 years ago is very relevant today.

Why?

Because you may be holding the wrong kind of gold investments if you're truly concerned about the issues I outlined above. This one key consideration is vitally important and if not taken seriously may have significant consequences. And it all boils down to something so simple and so profound, yet so often overlooked: reporting.

I divide physical gold investments into two camps:

One, those that are reportable and subject to confiscation (aka fool's gold) and two, those that are non-reportable and not subject to confiscation. Reportable gold investments include all gold and silver bullion and most gold and silver coins and are considered as commodity transactions and as such reported to the government and appropriate regulators.

Very, very few gold or silver investments are non-reportable to the government.

I believe the majority of gold investors are holding gold for all the right reasons, the hidden danger is that they are holding the wrong kind.