

ABC BULLION BEGINNER'S GUIDE TO PRECIOUS METALS

2020 EDITION



ABC[®]
BULLION

A PALLION COMPANY

WELCOME

Dear Investor,

Thank you for downloading the ABC Bullion Beginner's Guide to Precious Metals.

For thousands of years, people have turned to gold and other precious metals as a safe store of wealth. But, if you are new to precious metals, you are probably wondering how it all works, and why physical gold and silver are such great investments.

This guide provides the answers, looking at why to buy physical gold and silver, as well as some of the frequently asked questions people have regarding how to buy and store precious metals.

Whether you are a first time, individual investor looking to protect your wealth, or a SMSF Trustee looking to diversify, ABC Bullion has been Australia's specialist in physical precious metals since 1972.

We look forward to assisting you.



Janie Simpson

Janie Simpson
MANAGING DIRECTOR
ABC Bullion



@ABCBullion

TABLE OF CONTENTS

FREQUENTLY ASKED QUESTIONS	2
MAIN REASONS TO INVEST IN GOLD & SILVER	3
CAPITAL GROWTH RETURNS	4
LOW INTEREST RATES	5
PORTFOLIO DIVERSIFICATION	6
ECONOMIC UNCERTAINTY & INFLATION	7
CURRENCY HEDGING	8
WHY SILVER IS ALSO A GREAT INVESTMENT	10
CAN SILVER OUTPERFORM GOLD?	11
THE ABC BULLION INVESTOR CENTRE	13

To discuss this report, please contact
our Client Service team on
1300 361 261
or email comms@abcbullion.com.au

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FREQUENTLY ASKED QUESTIONS

This section contains answers to some of the key questions we are asked by new clients regarding investing into physical bullion, which we hope you find useful. If you have other questions, please contact us on **1300 361 261** or via email at **comms@abcbullion.com.au** and one of our experienced staff members will be happy to assist you.

WHAT IS THE SPOT PRICE?

The spot price is the current trading price of a metal as listed on global metal exchanges, which we use as a benchmark for our pricing. The spot price is based on large, bulk orders of bullion and doesn't take into account the cost of making the metal into coins or bars, transporting it, storing it or retailing to the investor.

WHAT IS THE PURITY OF PHYSICAL GOLD AND SILVER BARS AND COINS?

To be classified as an investment grade physical gold bar or coin, the product must be at least 99.95% pure. For silver, the minimum purity is 99.90%. All bullion products sold by ABC Bullion are sourced direct from our internationally accredited ABC Refinery and other accredited manufacturers, and either meet or exceed investment grade standards.

WHY ARE THE SELLING AND BUY BACK PRICES DIFFERENT?

The difference between our sale and our buy back price is called a 'spread'. The spread allows for different trading and handling costs associated with us selling and buying precious metals. Like any trader, we make a small margin on sales of bullion, and we make a small margin on the bullion we buy back.

CAN ABC BULLION STORE PRECIOUS METALS FOR ME?

Yes. ABC Bullion stores physical gold and silver for thousands of clients. Through our sister company Custodian Vaults, we can also provide private safety deposit boxes which clients can use to store precious metals and other valuables like cash and jewellery.

IS BULLION STORED WITH ABC BULLION INDEPENDENTLY AUDITED?

Yes. All precious metals stored with ABC Bullion, either in Pool Allocated, Secure or Premium storage are externally audited bi-annually.

HOW OFTEN WILL MY BULLION BE VALUED?

Bullion valuations are available online twenty-four hours a day. ABC Bullion also emails a quarterly valuation to clients with metal in storage, so as a minimum, you will receive four updates a year.

DO I HAVE TO PREPAY FOR BULLION PURCHASES?

No, there is no need to prepay. You order your metal first, either online, over the phone, or in our showrooms in Sydney and Perth. Once you've locked in your order, you will receive an invoice which you can arrange payment for via EFT, BPAY, credit card, or cheque.

HOW EASY IS IT TO SELL BULLION AND HOW LONG DOES PAYMENT TAKE?

Selling can be done either online, via a phone call, or in our offices. ABC Bullion will repurchase any metals we store instantly. ABC Bullion will make payment to your designated bank account with funds typically received within two business days.

CAN I PICK MY BULLION UP OR HAVE IT DELIVERED TO ME?

Yes. Any products purchased through ABC Bullion can either be collected from our offices in Sydney or Perth, or ABC Bullion can deliver metals anywhere in the country.

CAN ABC BULLION WORK WITH MY FINANCIAL ADVISER OR MY ACCOUNTANT?

Yes. ABC Bullion works with several leading financial advisory and accounting groups.

MAIN REASONS TO INVEST IN GOLD AND SILVER

Whether worn as jewellery or held in investment grade bars, tablets or coins, physical gold and silver are some of the world's oldest asset classes.

The demand for physical gold and silver as an investment remains strong today. Over the last 20 years, this physical demand has continued unabated. The factors that have contributed to this demand include:

- Capital growth returns
- Low interest rates
- Portfolio diversification
- Economic uncertainty and inflation
- Currency hedging

This guide examines the reasons that underpin demand for gold. A specific mention is also made of silver, another excellent investment.

"We've been trading and storing gold for clients since 1972. This helpful guide explains some of the key reasons people are investing in bullion today."

Janie Simpson,
Managing Director
ABC Bullion



CAPITAL GROWTH RETURNS

As with any investment, one should take a long-term view. For example, since the turn of the century, the price of gold in Australian dollars has risen from \$443 per ounce to over \$2,150 per ounce by the end of 2019. This is a strong performance, with gold outperforming most traditional assets over this same time period.

This performance is highlighted in the table below, which shows the returns over 1 year, 5 years, 10 years and 15 years for gold and silver in Australian dollars, compared to other more traditional assets such as the stock market, bonds, property and cash.

PERCENTAGE RETURNS TO DECEMBER 2019				
Asset Class	1 year	5 years	10 years	15 years
Gold	19.1	8.0	6.0	9.5
Silver	17.7	5.5	3.2	7.4
Shares	23.8	9.1	7.8	7.9
Bonds	7.3	4.2	5.7	5.7
Listed Property	19.6	11.2	11.6	4.9
Cash	1.5	1.9	2.9	3.9

Source: ABC Bullion and [Chant West](#); compounding returns per annum

The above table indicates that over both the short and long term, the returns on gold and silver priced in Australian dollars performs competitively with other asset classes. Returning 9.5% per annum over 15 years, gold has returned more than double the returns posted by cash and property and exceeded the returns on shares and bond.

With historical returns like these, it's not hard to see why many investors allocate a portion of their investment funds to precious metals.

GOLD FUN FACT 1:

Australia is the world's second largest gold miner, producing approximately 321 tonnes (or \$23 billion worth) of gold per year.

China is the largest, producing about 391 tonnes of gold per year.



LOW INTEREST RATES

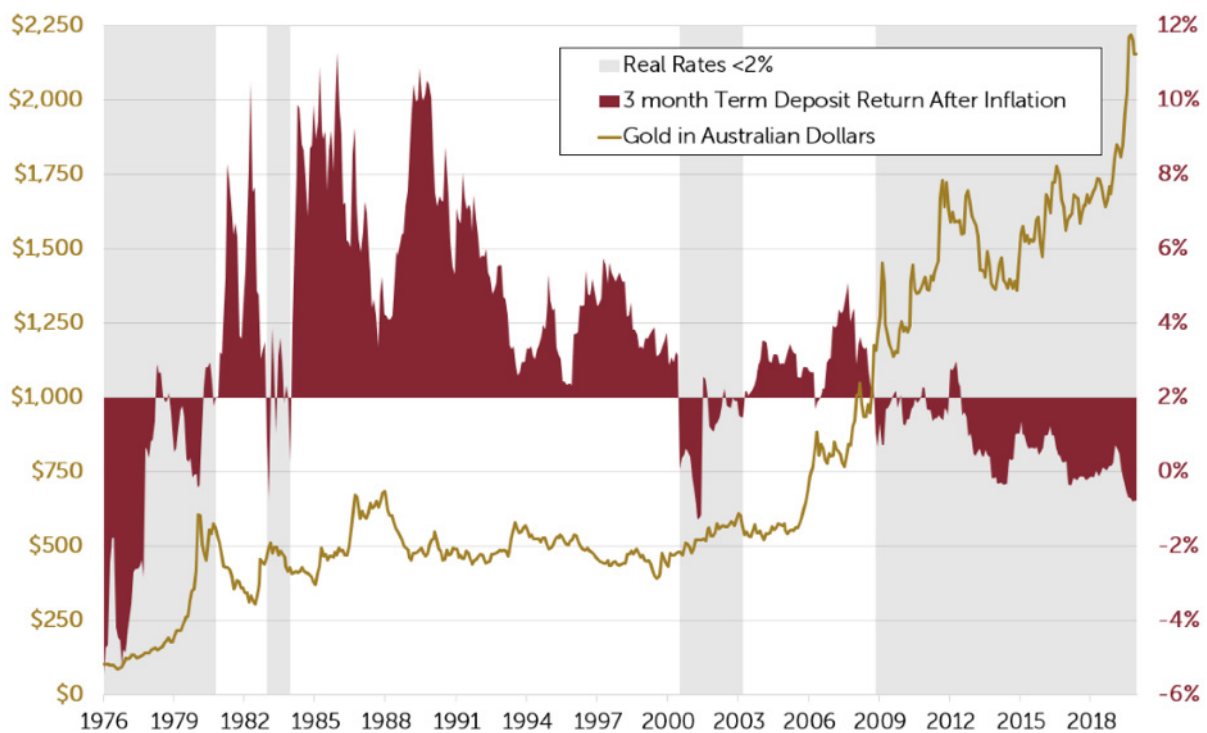
Historically, gold performs well in environments where interest rates are low and particularly when after inflation (“real”) returns are below 2% per annum.

When people are earning very little on their cash, or that return is less than inflation, they withdraw their savings from banks and move it into other asset classes that will provide a fair return.

The chart below shows physical gold priced in Australian dollars compared to periods when the return on a 3 month term deposit after inflation was below 2% per annum. Gold provided healthy returns during the high-inflation 1970s and post 2008 financial crisis when central banks artificially suppressed interest rates.

With Australia and the majority of the developed world in an environment where interest rates are at record lows and likely to stay low for some time yet, investors should consider gold to help boost portfolio returns.

PERFORMANCE OF GOLD WHEN REAL INTEREST RATES ARE 2% OR LESS



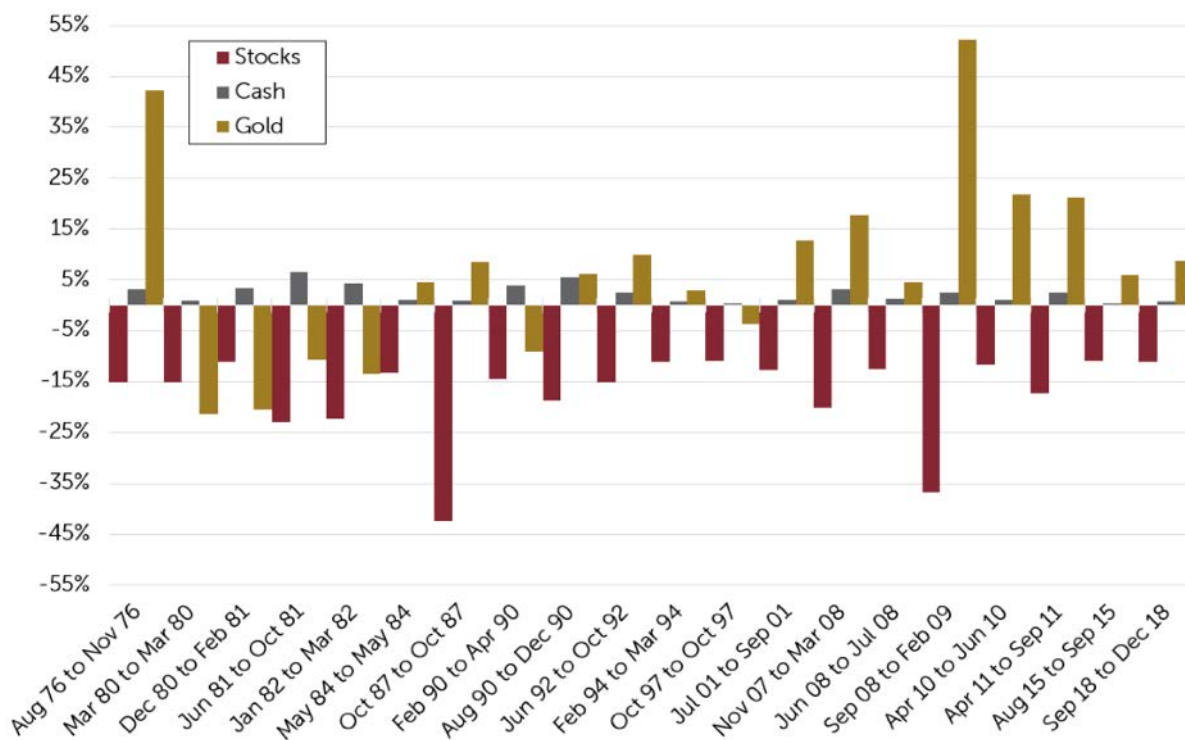
Source: Bloomberg, Reserve Bank of Australia

PORTFOLIO DIVERSIFICATION

Investors should heed the old adage that you shouldn't put all of your eggs in the one basket when constructing their investment portfolio. Over the long term, asset classes like equities and bonds have been shown to be great investments, but the importance of diversification is key. Precious metals, and in particular gold, are great diversifiers because they historically tend to rise in value when other assets are falling.

The chart below shows the return of gold and cash when the Australian stock market fell more than 10%.

GOLD AND CASH RETURNS WHEN STOCKS ARE DOWN MORE THAN 10%



Source: Bloomberg. Periods when monthly consecutive returns of ASX All Ordinaries exceed negative 10%.

In periods where the stock market experienced major falls, gold has usually produced positive returns in addition to exceeding those of the traditional safe haven, cash – demonstrating that including gold in your investment portfolio typically helps balance out your investment returns.

ECONOMIC UNCERTAINTY AND INFLATION

Today, health and life insurance are commonplace. Similarly, gold is an excellent form of “investment portfolio insurance” because of its reputation as a hedge against economic uncertainty and inflation.

Historically, gold tends to perform well whenever there are recessions, rising geopolitical tensions, or economic slowdowns and financial market volatility, like the Global Financial Crisis (GFC). Gold also does well during periods of high inflation.

All of these facts lead prudent investors to precious metals. With so many economic risks on the horizon, including escalating global debt levels over \$250 trillion, our prediction is that gold will continue to be considered an excellent hedge and will remain a great way to protect wealth.

With interest rates at record lows, and central banks around the world printing money, we are at risk of higher inflation in the coming years. As a hedge against currency devaluation, owning physical gold is an ideal insurance policy.

"Physical gold performs competitively against other asset classes. Several factors should push Australian gold prices higher in the coming years."

John Feeney,
Sales Manager
ABC Bullion

GOLD FUN FACT 2:

The last Australian to win a real physical gold medal at the Olympics was Sarah Frances “Fanny” Durack, who won the 100m freestyle in Stockholm, Sweden, way back in 1912. The medal she received weighed 24 grams and was worth about USD \$15 when she won it. Today, it would be worth closer to USD \$1,250.



CURRENCY HEDGING

Gold acts as a natural currency hedge for the Australian investor. This is because a fall in the Australian dollar exchange rate will increase Australian gold prices as gold is primarily priced in US dollars.

The mining boom saw the Australian dollar rise substantially, with the local currency at one point trading well above parity with the USD back in 2011. This is captured in the chart below, which plots the value of the Australian dollar exchange rate against the US dollar since it was floated.

AUSTRALIAN / US DOLLAR EXCHANGE RATE



Source: Reserve Bank of Australia

While the AUD has fallen since its peak in 2011, further weakness is possible with the RBA determined to maintain low interest rates and consider quantitative easing as they attempt to get the Australian economy and inflation back on target.

The potential for gold prices to rise in USD terms combined with the likelihood of a lower AUD make physical gold a compelling investment.

CURRENCY HEDGING (cont.)



Just as importantly, from a risk management perspective, gold provides portfolios with a natural foreign currency exposure, one that will arguably do a far better job balancing out their portfolio than international shares would. With overseas equity markets at all-time highs, and a high correlation to the local stock market, they may not provide the sort of diversification investors require.

If you feel that the AUD is set to enter a period of decline, investing a portion of your investment portfolio in gold has the potential to generate good returns.

GOLD FUN FACT 3:

The chemical symbol for gold is 'Au', from the Latin word aurum meaning "shining dawn" and from Aurora, the Roman goddess of the dawn. In 50 B.C., Romans began issuing gold coins, which they called the Aureus.



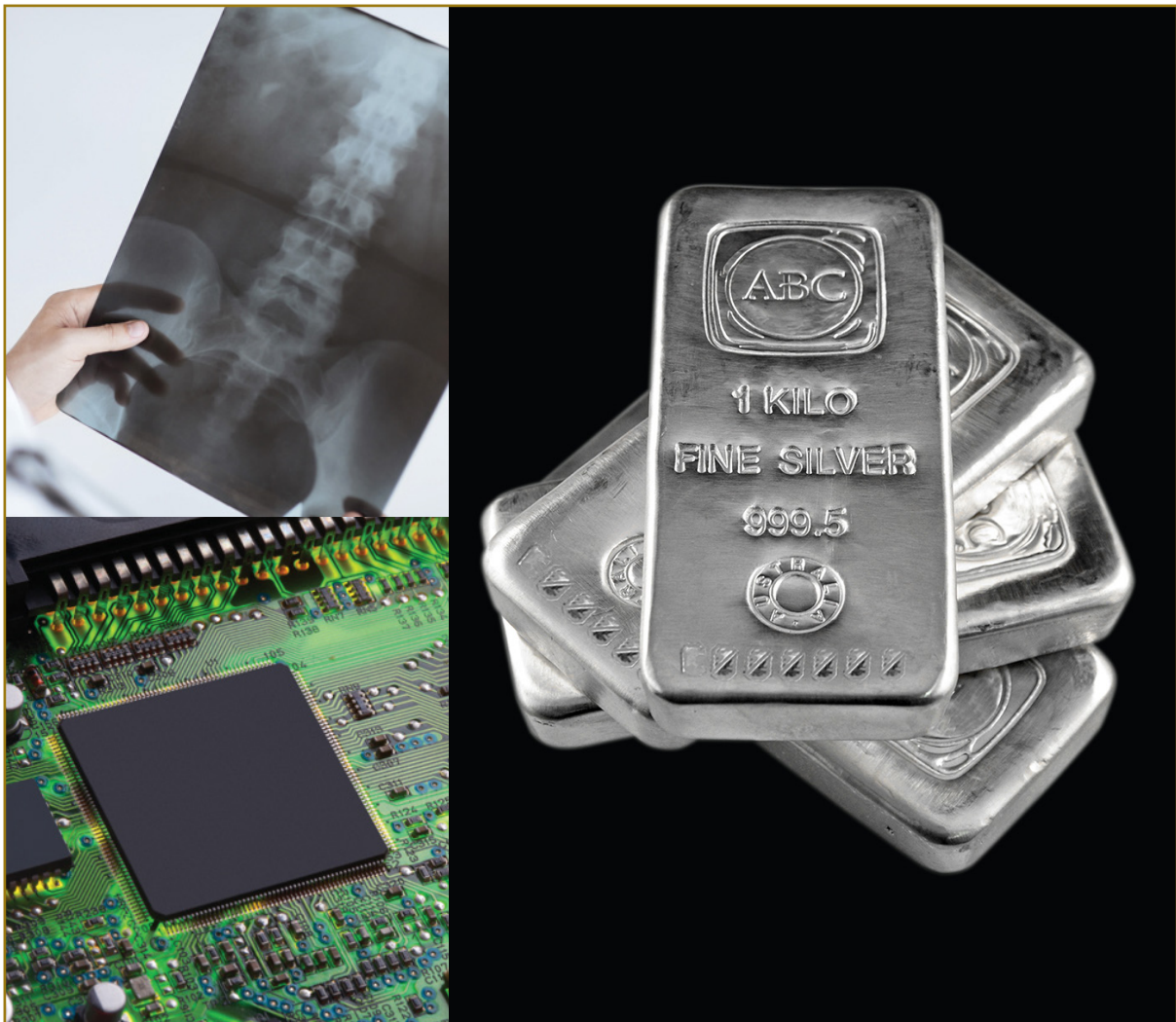
WHY SILVER IS ALSO A GREAT INVESTMENT

Like gold, physical silver can also provide an excellent investment opportunity. Over the 15 years from 2004 to December 2019, silver prices rose by 7.4% per annum compounded in Australian dollar terms.

SILVER IS AN INDUSTRIAL METAL

Unlike gold (which is mostly seen as a monetary savings asset), silver is also widely used for industrial purposes. Indeed, silver's electrical conductivity, thermal resistance and reflective qualities are highly sought after.

Whether it is electronic products like mobile phones, cameras, laptops and monitors, or medical equipment like X-ray machines, they all contain physical silver and new applications of silver's unique qualities continue to be found. This adds another element to the silver story, encouraging people to accumulate the metal.

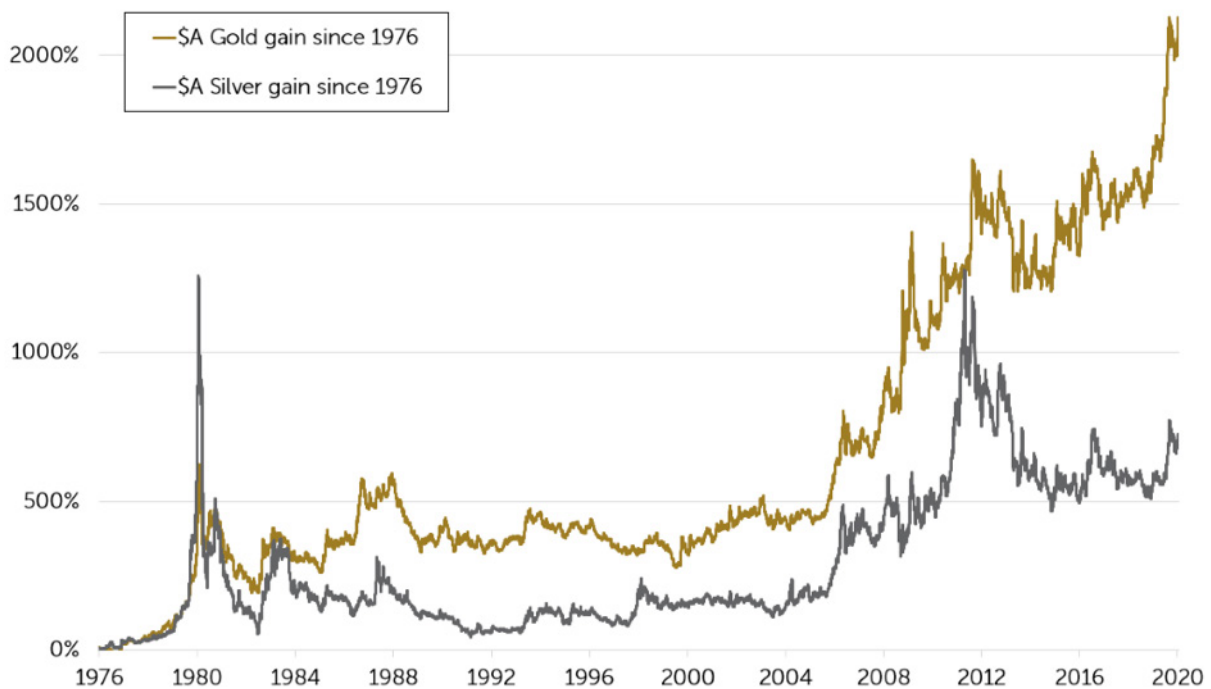


CAN SILVER OUTPERFORM GOLD?

The affordability of silver compared to gold makes it an excellent option for investors to begin their precious metal investment portfolio. And although silver prices are relatively low at the moment, silver can outperform gold, especially in environments where both metals are rising in price.

During the first precious metals bull market in the 1970s, Australian gold prices increased by 635% whereas the Australian silver price increased by just over 1,200%. In the recent bull market from 2000 to 2011, gold rose by 617% while silver peaked at 779%.

AUSTRALIAN GOLD AND SILVER – RELATIVE PERFORMANCE



Source: Bloomberg. Percentage gain in Australian gold and silver prices since 30 January 1976, when gold ownership became legal.

CAN SILVER OUTPERFORM GOLD? (cont.)

Since 2011, gold has outperformed silver, but the chart below highlights just how profitable an investment in silver can be in certain environments.

PERCENTAGE RETURNS TO DECEMBER 2019		
Year Ending	Gold	Silver
2019	19.1	17.7
2018	10.1	0.9
2017	4.3	-3.6
2016	8.6	19.1
2015	-1.1	-4.1
2014	9.5	-9.7
2013	-15.7	-25.2
2012	6.9	7.1
2011	8.9	-9.8
2010	13.4	59.9
2009	-3.1	20.4

Source: Bloomberg; per annum returns to 31 December

With gold and silver having different market dynamics, and thus periods of relative outperformance, diversifying across gold and silver and rebalancing regularly can provide superior returns compared to solely investing in gold or silver.





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