

Deal helps Krugerrand investors

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Cape Town - Buying and owning physical gold was recently made easier for ordinary investors through an agreement concluded by the SA Bullion company with the SA Reserve Bank and Rand Refining.

It is usually fairly difficult to get hold of gold in the form of Krugerrands. A limited number of new coins is made available each year, and people generally have to work through coin collectors or coin dealers.

Imran O'Brien, joint head of retail business at SA Bullion, says the issuing of Krugerrands is regulated by the Minister of Finance, and only 500 000 ounces are released each year. Demand exceeds supply.

Investments flowing into gold have swelled by 1 800% since 2000.

SA Bullion has a special agreement with the Reserve Bank which permits it to trade 56 000 ounces in Krugerrands by next year.

SA Bullion chief executive Hilton Davies says in good times gold is a raw material, but in difficult times it's a unit of currency.

Ownership of physical gold in the form of Krugerrands is in his view a safe investment because gold is scarce, creditworthy, and highly liquid (easier to trade). Indirect ownership of gold through gold shares or exchange-traded funds remains exposed to credit risk.

Rand Refinery, the sole producer of Krugerrands, generally makes a profit of 5% on the refining and striking of Krugerrands. Dealers add a further 10%, and if the Krugerrand is sold back to a dealer, the dealer takes a 10% cut.

This additional 25% in charges makes trading in Krugerrands onerous.

SA Bullion has however negotiated a 4% wholesale profit margin from Rand Refinery, which will be passed on to the client.

Davies says investors have since last October been able to buy Krugerrands either via their broker or direct from SA Bullion. So far 1 300 ounces of gold, or about R10m worth of the metal, has been sold in this way.

O'Brien says the initial cost is 1%, but the adviser or broker can add a fee of 0% to 4%. An annual fee of 2% of the gold's market value can then be charged for its safekeeping in Rand Refinery's special vaults in Germiston.

The coins are insured by Lloyds of London.

Davies says a minimum of R500 a month can be invested for buying gold as soon as sufficient money is accumulated for a one-ounce Krugerrand.

The minimum single investment is about R7 800, sufficient for a one-ounce Krugerrand at current prices.

Investors can ask for the gold to be delivered to them for personal safekeeping, but only after three years, otherwise existing gold coin dealers might claim that SA Bullion is undermining them with its lower tariffs.

Investors can also, for instance, invest R100 000, which is set aside to buy Krugerrands over a period of three to six months.

The gold can be resold via SA Bullion at any time, but it would then be subject to capital gains tax..

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