A Guide to Investing in *Gold*

WORLD GOLD COUNCIL

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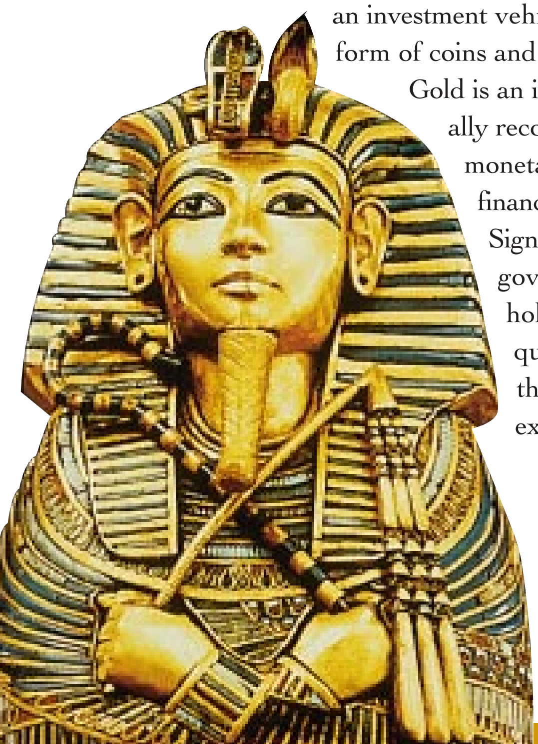
HISTORIC ROLE OF GOLD

Gold's unique physical properties, its luster, easy workability, and virtual indestructibility have given it a special place in the history of the world. Over centuries, gold has been prized for its rarity and beauty. One of the earliest records of gold used as money dates from 560 BC, when King Croesus of Lydia, today's western Turkey, created a coin emblazoned with his own image. Before coinage, many commodities were used as a medium of exchange — cattle, cocoa beans, shells and hides, to name but a few. As the idea of the guaranteed gold coin gained gradual acceptance, gold became the formalized basis of economic life.

Like ancient cultures, our modern society still recognizes the value and beauty of gold. Gold jewelry continues to adorn us; gold is used as an industrial metal in electronics, dentistry and other applications as well as an investment vehicle in the form of coins and bars. Gold is an internationally recognized monetary and financial asset. Significantly, governments hold one quarter of all the gold in existence.



GOLD SUPPLY

The supply of gold is limited by nature itself: thousands of pounds of ore are required to produce just one precious ounce. Gold is so scarce that all the gold that has ever been mined (approximately 135,000 metric tons) would fit into a cube measuring just 20 yards on each side.

What's more, the amount of new gold mined each year is relatively small despite the use of advanced mining technology. New supplies generally add less than 2% per year to the world's total stock of gold. Around three quarters of annual mine production comes from the top ten gold-producing nations.

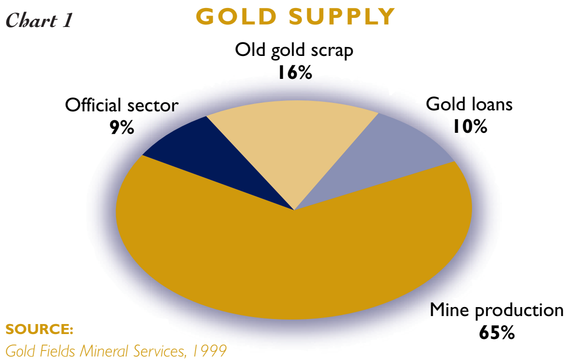
Top Ten Gold-Producing Countries

1. SOUTH AFRICA
2. UNITED STATES
3. AUSTRALIA
4. CANADA
5. CHINA
6. INDONESIA
7. RUSSIA
8. PERU
9. UZBEKISTAN
10. GHANA

Source: Gold Fields Mineral Services, 1999

There are four major components which make up the available supply of gold each year: 1) new mine production; 2) reclaimed scrap, or gold reclaimed from jewelry and other industries such as electronics and dentistry; 3) official, or central-bank sales; and 4) gold loans made to the market from official gold reserves for borrowing and lending purposes *(chart 1)*.

Chart 1



Average annual supply (1989–1998)

The past decade has seen an increase in gold's market liquidity as a result of the increase in gold loaned by central banks. It is the availability of this metal that permits a whole range of derivative transactions to be efficiently carried out by various participants in the gold market such as fabricators, refiners, gold mining companies, and hedge funds. The bulk of the gold lent to the market has been transformed into fabricated products. The availability of this supply is highly sensitive to the perception about the future price of gold by hedgers, investors and speculators.

Finally, the world's central banks and official institutions can also be net sellers of gold. World official sector activity is a dynamic process that combines both purchases and sales of gold. Over the long term, official sector reserves have remained remarkably stable. In the past 10 years, official sales have accounted for an average of 9% of the total annual supply of gold.

Reasons for reducing a nation's official gold reserves range from distress selling to portfolio reallocation of a nation's reserve assets. On certain occasions, the gold used for minting legal tender coins has been obtained from official reserves.

GOLD DEMAND

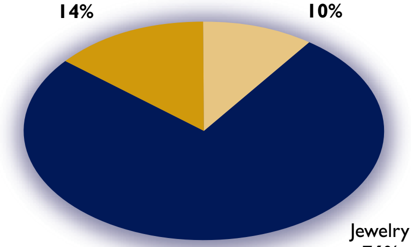
There are three major sources of demand for gold: (1) jewelry fabrication; (2) industrial applications; and (3) investors *(Chart 2)*. The largest source of demand is the jewelry industry. Gold's workability, unique beauty and universal appeal make this rare precious metal the favorite of jewelers all over the world. In recent years, demand from the jewelry industry alone has exceeded global mine production. This shortfall has been bridged by supplies from scrap, official sector sales as well as the release of gold into the market by various participants for the purposes of gold borrowing.

Besides jewelry, gold is used in a variety of industries including aerospace, medicine, electronics and dentistry. The electronics industry needs gold for the manufacture of computers, telephones, televisions and other equipment. Gold's unique properties provide superior electrical conducting qualities and corrosion resistance. In dentistry, gold alloys are popular because they are highly resistant to corrosion and tarnish.

Finally, there are investors, hedgers and speculators. Depending upon market circumstances, the investment component of demand can vary substantially from year to year.

Chart 2

GOLD DEMAND



SOURCE:
Gold Fields Mineral Services, 1999

Average annual demand (1989–1998)

THE PRICE OF GOLD

The gold market is highly efficient. Five international trading centers — New York, London, Zurich, Tokyo and Hong Kong — provide continuous trading, 24 hours a day. For historical reasons, the world looks to London for price leadership. There prices are set twice daily at the "London Fix," a bidding procedure carried out by five of the world's largest gold dealers.

Gold's price performance is reported every day in major newspapers around the world along with prices for stocks, bonds, mutual funds, commodity futures and options.

WHY INVEST IN GOLD

The reasons for investing in gold have remained much the same over history:

- **Long-term store of value**
- **Asset of last resort**
- **Highly liquid**
- **Asset diversifier**

Long-term store of value

Gold has acted as a reliable "store of value" because it fulfills the functions of money:

- It is portable and divisible. Its weight is a good measurement of a unit of value.
- It is indestructible, relatively scarce, and cannot be "manufactured".
- It is easily recognizable and acceptable as a form of payment.

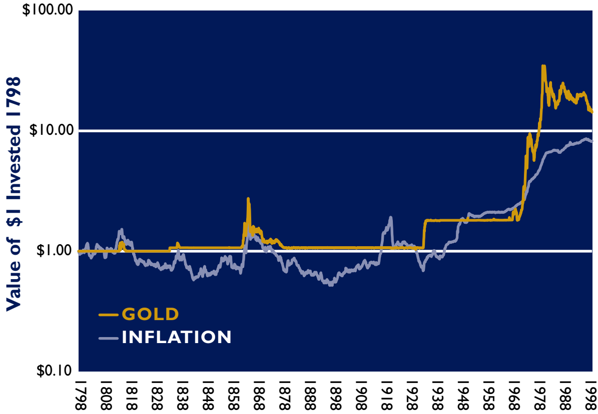
Through both hard times and times of plenty, gold endures. Market cycles are permanent facts of life but gold has maintained its long-term value. In contrast, most currencies (including the U.S. dollar) and industrial commodities have generally declined. This is why gold is often purchased as a hedge against inflation and currency fluctuations. And why so many investors around the world see gold as the “ultimate asset” — an important and secure part of their investment portfolio.

Chart 3 demonstrates that gold has kept up with the US inflation rate over the past 200 years.

Chart 3

THE VALUE OF GOLD HAS REMAINED REMARKABLY STABLE OVER TIME

200 YEARS OF GOLD VS. INFLATION



Topline Investment Graphics

In other words, the value of gold — what it can buy in real goods and services — has remained remarkably stable over time. For example, a man’s suit in sixteenth century

England at the time of King Henry VIII cost the equivalent of one ounce of gold, roughly the same as a suit would cost today.

Asset of Last Resort

Gold is known as the "asset of last resort". Throughout history, national currencies have come and gone but gold has remained remarkably stable. Gold is an asset which does not depend upon any government's or corporation's promise to repay. It is not directly affected by the economic policies of any individual country and it cannot be repudiated or frozen as in the case of paper assets. For these reasons, one quarter of all the gold in existence is held by governments, central banks and other official institutions as part of their international monetary reserves. There is nothing to suggest that gold's reliability as a long-term store of value will change in the future, despite there being from time to time a more attractive "money" safehaven such as the U.S. dollar, for example, or the Swiss Franc.

Highly Liquid

Gold is among the most liquid of the world's assets. It can be readily sold 24-hours a day in one or more markets around the world. This cannot be said of most investments, including stocks of the world's largest corporations. In addition, the trading spreads on bullion are comparable to those on stocks and bonds (which are considered to be liquid assets). Finally, it takes about the same amount of time to execute a trade in gold as it does for stocks and bonds.

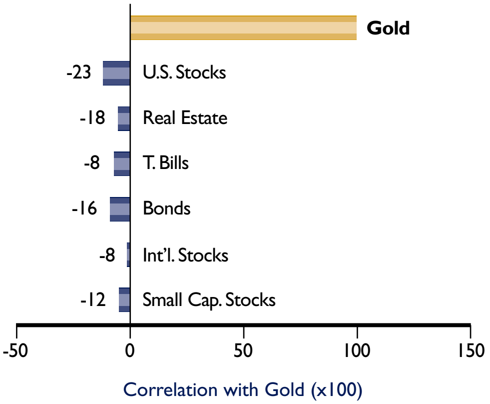
ASSET DIVERSIFIER

Whether your investment approach is conservative or aggressive, gold can play a vital role in diversifying your portfolio. For this reason, many experts urge investors to keep a portion of their total assets in gold. Since most portfolios are invested primarily in traditional financial assets such as stocks and bonds, adding gold to a portfolio introduces an entirely different asset. The purpose of diversification is to protect the total portfolio against fluctuations in the value of any one asset class. Gold does exactly that.

Gold's ability to serve as a diversifier is due to its *low-to-negative correlation* with stocks and bonds. The economic forces that determine the price of gold are different from, and in many cases opposed to, the forces which determine the prices of most financial assets. For example, the price of a stock depends on the earnings and growth potential of the company it represents. Likewise, the price of a bond depends on its safety, its yield, and the yields of competing fixed income investments. The price of gold, however depends on different factors including the supply and demand for gold, the status of the U.S. dollar, the state of inflation and interest rates. While the effect of these factors on the gold price are somewhat complex, the important point to remember is that they

Chart 4

GOLD IS NEGATIVELY CORRELATED TO OTHER ASSET CLASSES



cause the price of gold to move independently of the prices of other assets in a portfolio.

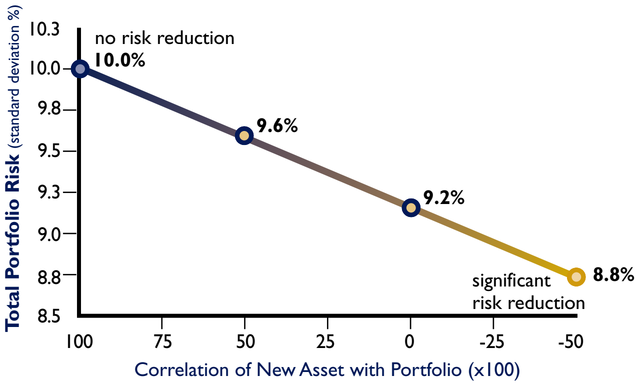
Gold is the only asset that is *negatively correlated* with other asset classes as demonstrated in *Chart 4* above. Therefore, its price generally moves in the opposite direction from other asset classes such as U.S. stocks, Treasury bills, and bonds.

Due to its negative correlation to other asset classes, gold can reduce portfolio volatility or risk. *Chart 5* illustrates how a negatively-correlated asset (like gold) can lower portfolio volatility or risk. In this example, a new asset is added to a portfolio with a risk level of 10% (as measured by standard deviation) to amount for 10% of its total value. The more negative the correlation between the new asset and the pre-existing portfolio, the lower the overall level of volatility will be for the new portfolio. For example, if the new asset is perfectly correlated with the pre-existing portfolio (that is, the correlation is 100), then adding any amount of the new asset will not change the level of portfolio risk. However, if the new

asset has a correlation of less than 100, (say 50), it reduces portfolio risk slightly to a level of 9.6%. If the new asset has a correlation of 0, then the portfolio's risk is reduced modestly to a level of 9.2%. Finally, if the correlation of the new asset has a correlation of -50 (similar to gold's correlation with U.S. equities), then portfolio risk is reduced significantly, to a level of 8.8%.

Chart 5

HOW A NEGATIVELY-CORRELATED ASSET (LIKE GOLD) REDUCES PORTFOLIO RISK



WHEN AND WHERE TO BUY BULLION

Gold can benefit you as an investor in a number of ways. Gold is a long-term store of value, as well as a highly-liquid, internationally-recognized asset of last resort. It can diversify (and thus stabilize) your portfolio, offering protection against market fluctuations. Gold is also easy to buy and sell, any time, anywhere in the world.

"Is now the right time to buy?" With gold, the answer is always the same: "yes". Gold is

an investment for the long run. The right time to buy gold is when you understand what it is and what it can do for your portfolio.

Gold bullion is available through precious metals and coin dealers, selected brokerage firms and banks throughout the U.S. As with any investment, it is always advisable to check the terms of the purchase agreement, procedures and prices offered by the dealer. Prospective investors should consult their financial advisor regarding tax laws or other circumstances.

INVESTMENT FORMS

Gold Bullion

International refiners make it convenient for investors to own bullion by offering gold bars in a variety of weights and sizes, ranging from one troy ounce to 400 troy ounces, the size of an internationally-traded "London good delivery" bar. (One *troy* ounce equals 1.09714 regular, or *avoirdupois* ounces.)

Broker commissions on buying and selling gold bars are minimal, and in most cases, purchasing bars is the most cost-efficient means

of owning gold. Bars bearing the "hallmark" (logo) of internationally recognized refiners are the easiest to sell. These refiners "assay" or test the metal for its purity or fineness. The bars are generally stamped .995 (99.5% pure gold) or higher purity, along with the individual bar's weight. Gold bullion bars can be purchased from selected commercial banks, brokerage houses, and precious metals dealers.

Gold Bullion Coins

Gold bullion coins are popular with investors because they combine intrinsic value with artistic beauty. The bullion coin represents an investment in pure gold, and because it is legal tender, its authenticity is guaranteed by the country of origin. The bullion coin bears a face value that is largely symbolic; its true value depends on its gold content and the daily price of gold.

Bullion coins are minted in affordable weights such as 1⁄20, 1⁄10, ¼, ½, and one ounce. Coins make valuable gifts. Bullion coins can be easily bought and sold virtually anywhere in the world. Prices for the most popular one-ounce coins are quoted daily in most of the world's newspapers. Prices for bullion coins are based on the underlying price of gold bullion, plus a small premium of 4-8%. Some popular bullion coins include the American Eagle, Australian Kangaroo Nugget, the Austrian Philharmonic, the Canadian Maple

Leaf, and the South African Krugerrand. Banks and dealers make a market to buy and sell these bullion coins in much the same way as they do for regular bullion.

Your Choices for Owning Gold — Physical Delivery or Storage

You can choose the method of purchase and storage that best meets your needs. For instance, you can take physical delivery (direct possession) and enjoy the security of having your investment in your own hands. Or you can buy bullion through a storage program, in which case your broker, banker or dealer will use a secure, third-party depository to hold and protect your gold for a small fee.

Holding a gold storage account is an attractive alternative to purchasing physical metal. In the case of a gold storage account, an institution such as a commercial bank or a precious metals dealer has the obligation to deliver upon demand by the investor, a stated quantity and fineness of gold in accordance with the issuer's terms and conditions. Most companies that

offer this type of investment issue regular statements that track the purchase and sales activities of their investors' holdings, similar to statements issued by major brokerage firms when reporting on equity transactions.

An investment in a storage account is identical to an investment in bullion. With a gold storage account, however, the investor does not have to pay fabrication charges for small quantities. Also, because the gold is stored at the issuing institution, there are no delivery charges. Most institutions permit the investor to conduct transactions over the telephone.

Usually gold held in storage accounts is "pooled" with the gold of other investors in a third-party depository. This form of ownership is referred to as *unallocated*. Unallocated ownership is defined as a specific but undivided interest in a gold bar. Delivery of the pool is guaranteed by the issuing institution. Unallocated purchases are a less expensive way for investors to own gold.

Allocated accounts assign a specific bar (or bullion coin), numbered and identified by hallmark, weight and fineness to a particular investor.

OTHER GOLD-RELATED INVESTMENTS

Numismatic Coins

Unlike bullion coins that are valued solely on the basis of their gold weight, the value of a numismatic gold coin is determined by several factors: its rarity, the number of coins originally minted, and the age and condition of the coin. Numismatic coins are bought and sold within the coin collecting community with little regard for today's gold price. Numismatic coins are cherished for their beauty, historical significance and their potential investment value. Hence, numismatic coins sell at a significant premium over their intrinsic gold content.

Gold Futures Contracts

Futures contracts are firm commitments to make or take delivery of a specified quantity and quality of a commodity during a specific month in the future, at an agreed-upon price. Futures contracts are traded on regulated commodity exchanges, the two largest being the New York Mercantile Exchange COMEX Division (New York), and TOCOM (Tokyo). Investors may take delivery of the "underlying physical" asset at the maturity of the futures contract.

Overall, the futures price is determined by the market's perception of what the "forward carrying" costs for gold ought to be at any point in time. The main ingredient of the gold futures price is the *contango,* the interest cost for holding gold, plus insurance and storage charges.

Gold Options

An option gives the holder the right, but not the obligation, to buy or sell gold at a predetermined price by an agreed date, for which privilege the holder pays a premium.

Gold futures options are traded on regulated commodity exchanges such as The New York Mercantile Exchange COMEX Division and the Bolsa Mercadorias & de Futuros (BM&F) in Sao Paulo, Brazil.

Gold Mining Stocks

Buying a gold mining stock represents an investment in a corporation. The appreciation potential of a gold mining stock is dependent not only on market expectations of the future price of gold, but also on the future earnings and growth potential of the company. It is therefore important to be familiar with the corporate health of the mining company you are purchasing.

GLOSSARY OF GOLD AND INVESTMENT TERMS

ASSAY: To test a metal for purity.

BID/ASK: "Bid" or "buy" is the price a dealer is prepared to pay for gold bullion. "Ask" or "sell" is the price offered by the seller. (See also definition of "Spread" below.)

BULLION: Refined gold that is at least 99.5% pure, usually in the form of bars, wafers or ingots.

BULLION COIN: A legal tender coin whose market price depends on its gold content, rather than its rarity or face value.

FACE VALUE: The nominal value given to legal tender coin or currency (for example a 1-oz. gold American Eagle coin has a face value of $50).

FINE, FINENESS, FINE GOLD: The quantity of pure gold contained in 1,000 parts of an alloy. A normal "good delivery bar" of 0.995 fineness contains 995 parts of gold and 5 parts of another metal. Gold is produced in bars up to a purity of 999.9 (often referred to as "four nines").

FUTURES CONTRACT: A firm commitment to make or accept delivery of a specified quantity and quality of a commodity on a specific date in the future.

GOLD STANDARD: A monetary system based on convertibility into gold; paper money backed and interchangeable with gold.

GRAIN: One of the earliest weight units used for measuring gold. One grain is equivalent to 0.0648 grams.

HALLMARK: Mark, or marks, which indicate the producer of a gold bar and its number, fineness, etc.

KARAT: Unit of fineness, scaled from one to 24. 24 karat gold (or pure gold) has at least 999 parts pure gold per thousand; 18-karat has 750 parts pure gold and 250 parts alloy, etc.

KILO BAR: A bar weighing one kilogram — approximately 32.1507 troy ounces.

LEGAL TENDER: The coin or currency which the national monetary authority declares to be universally acceptable as a medium of exchange; acceptable for instance in the discharge of debts.

LIQUIDITY: The quality possessed by a financial instrument of being readily convertible into cash without significant loss of value.

LONDON FIX: The twice-daily bidding session in London of the five major gold traders, at which the gold price is fixed or set. The London Fix provides the basis for many gold contracts worldwide.

NUMISMATIC: Coins that are valued for their rarity, condition and beauty beyond the intrinsic value of their gold content. Generally, premiums for numismatic coins are higher than for bullion coins.

OPTION: The right, (not the obligation), to buy or sell a commodity or a financial security on a specified date in the future.

PENNYWEIGHT: An American unit of weight for gold. Twenty pennyweights equal one ounce.

PREMIUM: The amount by which the market value of a gold coin exceeds the actual spot value of its gold content. Part of the premium is recovered by the seller at resale.

RESTRIKE: A modern replica of previously issued coins. Governments and their mints can choose to "restrike" a previous issue rather than introduce new coinage.

SPOT PRICE: Sometimes referred to as the cash price. The current price in the physical market for immediate delivery of gold.

SPREAD: The difference between Bid (the price a buyer is prepared to pay for gold) and Ask (the price a seller offers) prices.

TROY OUNCE: A unit of weight, equal to about 1.1 avoirdupois (ordinary) ounces. The word ounce when applied to gold, refers to a troy ounce.

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