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Ken Berry, JD • Oct. 10, 2022



When stock prices start to plummet—as they did in late September—individuals often turn toward alternative investments, such as gold and other precious metals. Traditionally, gold has been viewed as a viable “hedge” to stocks, but it comes with its own set of risks. Notably, the gold market can be even more volatile than the stock market, so this type of investment certainly isn’t for the faint of heart.

Nevertheless, if you’re still attracted to the glitter of gold, consider the various methods of investing as well as the tax consequences. Here are five possibilities.

1. Physical gold: If you want to actually touch your gold—and maybe even bury your

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mutual fund, generally tracking an index or reflecting the fluctuating price of gold. You can acquire and sell shares of gold ETFs through brokers. This provides more liquidity than some other methods.

4.. Gold mining stocks and funds: Gold mining stocks are traded on the stock market, so they're subject to the same risks as other stock investments. But gold mutual funds generally aren't as volatile as individual stocks. You can purchase shares just like other mutual funds.

5. Gold coins: This option may be more attractive to collectors. For instance, several countries issue special coins—including the American Eagle and the Canadian Maple Leaf—for the collectibles market. Generally, the cost is the spot market for gold, in addition to a small commission and minting fee.

Note that you generally can't include collectibles like gold coins in an IRA, but there's a special exception for American Eagle and Canadian Maple Leaf coins.

What are the tax angles? There's no current income tax due on an investment in gold while you hold it. Instead, you realize a gain or loss when you sell your physical gold or shares. Generally, shares of gold-based assets like gold mining stocks and mutual funds are taxed at a maximum tax rate of 20% (15% for certain moderate-income investors), just like with most other capital assets.

However, gold collectibles (e.g., coins) are taxed at a maximum 28% rate. Keep this important distinction in mind.

Bottom line: Make sure you understand all the investment and tax ramifications before you invest. Rely on your professional advisors for guidance.

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