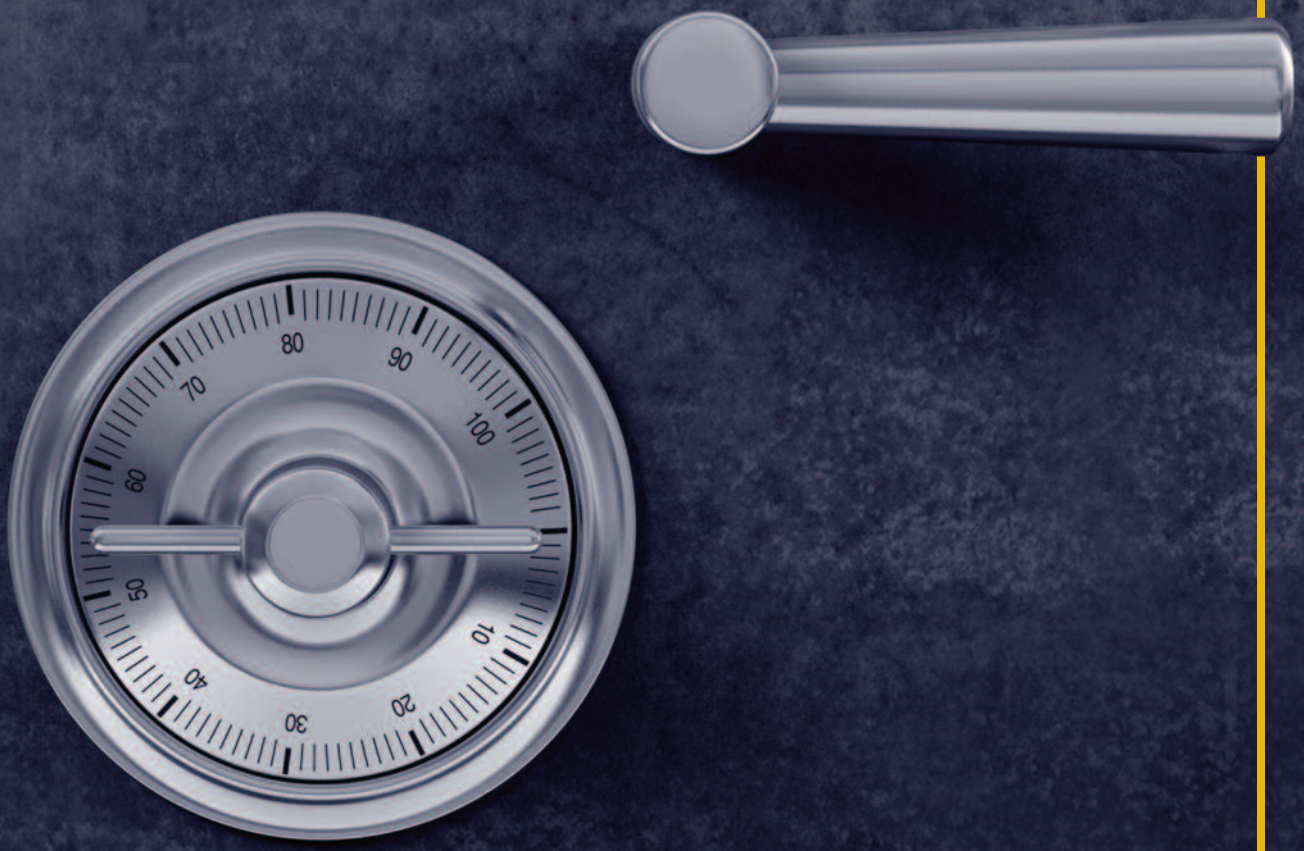
Exchange Certified Bullion

The "Safe" Precious Metals Strategy



Gold • Silver • Platinum • Palladium

How to Buy (and Sell) Certified Exchange Bullion

Safety – Purity – Liquidity – Flexibility

The recent financial crisis has dramatically heightened investor interest in precious metals. Gold and silver are legendary as a store of value during times of crisis and as a hedge against runaway inflation. No wonder investors are falling all over themselves trying to add precious metals to their portfolios. Unfortunately, many are paying too much and getting too little in return.

While there are plenty of ways to increase your exposure to gold — including ETFs, mint certificates, coins and bullion — perhaps the cheapest, safest and most flexible way to own precious metals is through good delivery ***Good Delivery Vault Receipts*** (GDVRs). Haven't heard of ***Good Delivery Vault Receipts***? You have plenty of company; most individual precious metals investors haven't either. ***In fact, buying and selling physical metals like gold, silver, platinum and palladium using vault receipts is one of the best-kept secrets around.***

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Governments, refiners, major banks and bullion dealers have been using GDVRs to buy metal for years, saving millions of dollars in mark-ups, mark-downs and premiums. Many of the same bullion and coin dealers who sell metal to the public at "retail" prices use GDVRs to buy their metal "wholesale" with no mark-ups and a level of safety and security unmatched in the industry. By the time you finish reading this report, you will be able to do the same thing.

Buying and selling precious metals using good delivery ***Good Delivery Vault Receipts*** eliminates dealer mark-ups on the buy side and dealer mark-downs on the sell side. Because GDVRs can be offset in the global futures market, they provide precious metal investors with tight bid / ask spreads unheard of in the retail dealer market. GDVR holders also gain the ability to buy or sell into the most liquid precious metals market known to man – a critical advantage in today's global economy. Not only can these advantages save investors serious cash compared to more "traditional" forms of precious metals investing, they can mean the difference between owning and not owning metal.

Remember August 2008….right before the stock market meltdown triggered the financial crisis? Coin dealers literally ran out of coins; many had two to three week

Figure 1: Good Delivery Vault Receipt (GDVR) Advantages

- Preferred trading and storage system relied upon by government Treasuries and mints, refiners, fabricators – such as jewelers – investment banks, precious metals funds, certain ETF-type investment vehicles.
- Liquid, transparent market means tight bid /ask spreads – no mark-up on the buy, no mark-down on the sale. No dealer commissions. Total transactional cost is roughly $150. ($50 per contract commission and $100 for the GDVR – no matter the number of bars.)
- Grants title to actual, assayed metal in the form of serial numbered bars. Actual bars can be shipped directly to you. This is not possible with ETFs.
- Highest purity and consistency available. Regular audits by the exchange and other agencies.
- Can be pledged as collateral, sold or gifted to a third party, exchanged for coins or placed in private trust or retirement plans.
- Can sell call options against them to generate income.
- Not one penny has ever been lost in exchange-traded metals due to counterparty risk, despite wars and the Great Depression.

backlogs. By the time there were enough coins to meet market demand, prices rose substantially, leaving behind lots of disappointed, empty-handed buyers. Investors who bought precious metals using ***Good Delivery Vault Receipts*** had no trouble buying as much gold, silver and platinum as they desired. They were able to execute their orders in a matter of seconds – just as if they had been buying shares on the NYSE.

Unlike ETFs such as the Gold Share SPDR (GLD) or IShares Silver Trust (SLV), good delivery ***Good Delivery Vault Receipts*** are not just backed by metal; they convey title to *specific, numbered, metal bars stored in bonded exchange warehouses* – not a pro-rata share of some omnibus allocation (undifferentiated units) of bullion, medallions or coins.

"Because GDVRs grant title to matching serial numbered bars, they are considered industrial receipts and are not reportable as financial assets."

Because GDVRs grant title to matching serial numbered bars, they are considered industrial receipts and are not reportable as financial assets. Warehouse receipts for omnibus precious metals storage (sometimes known as "pooled metal") generally are classified as monetary instruments, representing dollar value claims, not specific metal, and generally have more rigorous reporting requirements.

According to the most recent legal opinion we have received, ***Good Delivery Vault Receipts*** stored offshore are not considered to be reportable financial instruments either. However, such legal issues should ***always*** be double-checked with your tax and legal professionals as laws, regulations and legal interpretations can and do change.

(Note: See Appendix C for legal memorandum written by Michael Chatzky, international law specialist.)

While there are certain and substantial advantages to keeping metal in an exchange warehouse (*we'll cover this later in our report*), holders of ***Good Delivery Vault Receipts*** can have their physical gold, silver, platinum and palladium bars shipped to them anytime, anywhere in the world. ETFs like GLD and SLV may be backed by actual metal, but shareholders cannot take physical delivery of specific bars. GDVR holders can.

Warehouse Depository Receipts

What is a good delivery ***Good Delivery Vault Receipt***? It is what the buyer receives if he or she decides to take delivery of a futures contract and what the seller of a futures contract delivers. It is title to actual metal. ***Good Delivery Vault Receipts*** can be pledged as collateral, placed in trust, held in certificate form or sold privately to an individual or institution. While there are silver and gold commentators who disparage futures as "paper", future contracts covering GDVRs must either be offset prior to a specified delivery period or they result in delivery of the actual metal.

Even though the vast majority of contracts are offset before delivery takes place, 1% to 4% of precious metals futures contracts typically result in physical delivery, with physical metal actually changing hands. 4.5% of gold contracts and 7.3% of silver contracts resulted in delivery in December of 2008. Gold deliveries also exceeded 8% of futures open interest during the famous (or infamous depending on whether you were long or short) Hunt Brothers run-up in the early 1980s.

These deliveries were not "paper" metal, but the real deal: pure, refined gold, silver, platinum and palladium in standardized bar form with the highest consistency and purity available anywhere. Metal deliverable against gold futures is guaranteed not less than .995 fine, against silver not less than .999 fine, and against platinum and palladium not less than .9995 fine. It is this connection to physical bullion that keeps futures prices and cash prices so tightly correlated.

Later in this report we'll show you how to use the futures market to "store" and earn interest on your metal. You'll also learn how to use options to generate income from your gold and silver holdings — turning an asset that traditionally has no cash flow into a "dividend-producing" investment that can generate significant income — as well as other strategies used by sophisticated metal traders.

For now, let's focus on the basics. Since good delivery vault receipts are almost always bought and sold using futures contracts traded on exchanges (rather than over-the-counter bullion or coin dealers), let's delve into futures contracts and see how they work. Don't worry if you are not familiar with them. They aren't that difficult to understand.

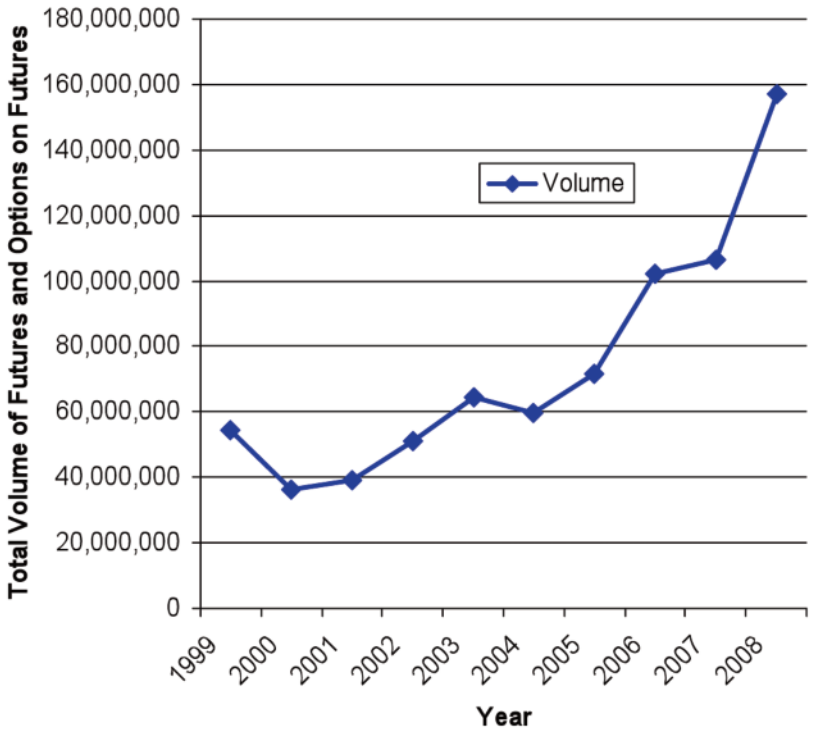
Precious Metals Futures Contracts

A precious metals futures contract is an agreement between a "buyer" and a "seller". The *seller* of a futures contract agrees to deliver metal to the *buyer* of the contract for a certain price on a fixed date in the future. The *buyer* of a futures contract agrees to take delivery of the metal under the same terms. The *buyer* of a futures contract is said to be "long" the market. The *seller* of a futures contract is said to be "short" the market. It's that simple. You don't need possession of the underlying metal to sell it short in the futures market.

Futures contracts do not involve the purchase and sale of the actual investment instruments until after a specified date in the future. (*Hence the term "futures".*) Because no delivery takes place prior to a specified period, no money changes hands until delivery occurs. Until that happens, both buyer and seller must post margin with their respective brokers. Margin requirements are set by the individual exchanges and, for the most part, based on volatility, not price.

Margin to trade a futures contract is not a down payment on a loan as it is in stocks. It is a performance bond which guarantees your broker that you are good for

Figure 1: Global Precious Metals Futures and Options Volume 1999-2008



Data Source: Futures Industry Association (FIA)

Over 160 million contracts have traded in the past decade alone without a single default. This record surpasses any other physical metals trading alternative by a wide margin.

Sample Vault Receipt

ScotiaMocatta Depository
A Division of The Bank of Nova Scotia
26 Broadway
New York, NY 10004-1703 K 70
Telephone: 212-912-8530

ISSUE DATE 30JUN05

NEGOTIABLE
RECEIPT NO: S76857

APPROVED DEPOSITORY RECEIPT FOR
SILVER (NEW YORK MERCANTILE EXCHANGE COMEX DIVISION)

Received for the account of SCOTIAMOCATTA

(the "Depositor") and stored in the vaults of the undersigned at the above address, FIVE (5) bars said to contain silver as indicated hereon. Detailed specifications of bars covered by this receipt have been recorded by the undersigned as indicated on said bars.

Bar Identification Marks			
Serial No.	Weight (Ounces)	Weight (Kilos)	Brand
1950077-48	1030.30		HAND
1950077-49	1010.10		HAND
1950077-47	1001.20		HAND
1950077-45	1031.10		HAND
1950077-46	1051.30		HAND
TOTAL	5124.00		

Storage Charge: $18.50 per contract per month

Withdrawal Charge: $13.00 per bar

Charges are subject to change and, unless we hold a resale certificate on file, are subject to applicable N.Y. State and City Sales Tax.

Said bars are being held by the undersigned as bailee, subject to the provisions of Article 7 of the Uniform Commercial Code and the terms and conditions hereof.

Said bars are deliverable at said vaults to the depositor or person to whom or to whose order this receipt is endorsed or, if this receipt is endorsed in blank, to the bearer hereof or, at the demand of such person entitled to delivery, to an Exchange approved carrier for delivery to another Exchange approved depository, upon surrender of this receipt properly endorsed, and upon payment of the storage and other proper charges.

The undersigned claims a lien for storage and other proper charges and for expenses for notice, advertisement and sale.

Storage charges are payable on date of issue of this receipt to the end of the current month and monthly thereafter in advance on the first business day of each month. If storage charges are overdue, the holder shall be charged interest at prevailing rates.

This receipt is accepted with the understanding that the undersigned is not responsible for weight, fineness or content of said bars except as received.

S 32064

INSURANCE

"ScotiaMocatta Depository ("SMD") has arranged insurance with certain Lloyd's Underwriter's and Insurance Companies on the commodity covered by this receipt while in storage at SMD and payment of losses recoverable thereon shall be made to the holder of this receipt. Details as to period, coverage, exclusions and other provisions from time to time in effect are available from SMD. This insurance may be discontinued, cancelled or terminated at any time, in which case 30 days' notice will be published in the *Financial Times* and the *Wall Street Journal* and written notice will be mailed to holders of receipts as shown on the records of SMD. Failure to give such notice shall impose no obligation of any kind upon Lloyd's Underwriters and Insurance Companies as specified. Losses due to the loss of a warehouse receipt are not covered."

SCOTIAMOCATTA DEPOSITORY

Smith

AUTHORIZE SIGNATURE

TRANSFER
NOTIFY SMD IN WRITING WHEN RECEIPT IS TRANSFERRED

a fixed amount of losses. Not only do you not have to pay any interest on your margin deposit, you can receive interest while using the money to back-up your positions. How? By posting margin with your broker in the form of U.S. Treasury bills. Since the T-bill is backed by the U.S. government, it is nearly as good as cash, so most commodity brokers accept it. Meanwhile, you get to keep the interest earned from that T-bill. That means you can hold precious metal in the form of a futures contract and earn interest on the money posted to hold it. You cannot do this with ETFs, coins or bullion. Because they are title to actual metal, you can also use ***Warehouse Depository Receipts*** to margin a futures position.

"That means you can hold precious metal in the form of a futures contract and earn interest on the money posted to hold it. You cannot do this with ETF, coins or bullion. Because they are title to actual metal, you can also use Good Delivery Vault Receipts to margin a futures position."

Precious metals futures contracts are standardized, making them easy to buy and sell. Contract sizes are fixed and the purity of the underlying metal is guaranteed. (*Figure 2 shows the contract sizes of precious metals futures traded on US exchanges.)* Standardization fosters incredible market liquidity. About 160 million precious metals futures and option contracts changed hands in 2008 alone.

All futures market participants know exactly what they are buying and selling;

Figure 2: Precious Metals Futures Contracts, Domestic

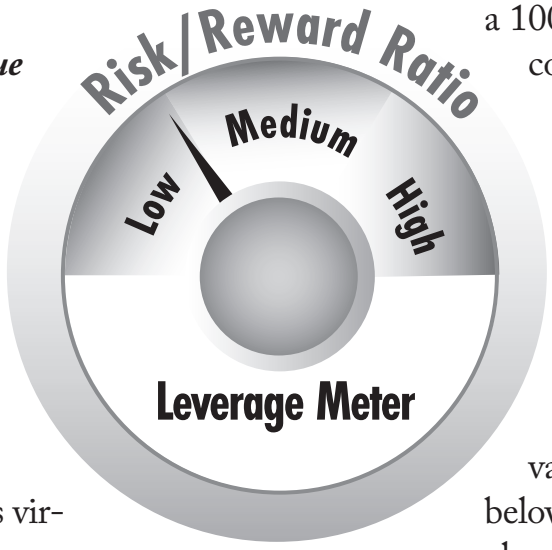
Contract	Size	Futures Trading Hours*	Liquid Trading Months**
Gold	100 oz.	6pm (Sun) – 5:15 pm (Next Day)	Feb, Apr, Jun, Aug, Oct, Dec
Mini Gold	33.2 oz.	6:25pm – 5:30pm	All months
Silver	5,000 oz.	6pm (Sun) – 5:15 pm (Next Day)	Mar, May, July, Sept, Dec
Mini Silver	1,000 oz.	6:25pm – 5:30pm	All months
Platinum	50 oz.	6pm (Sun) – 5:15 pm (Next Day)	Jan, Apr, July, Oct, Dec
Palladium	100 oz.	6pm (Sun) – 5:15 pm (Next Day)	Mar, June, Sept, Dec

**Electronic trading and Eastern Time. Pit sessions stagger from 8:20am to 1:30pm.*
*** Futures contracts are available for all calendar months but may not be as liquid as the ones listed above. You can take and/or make delivery in **all** trading months.*

they don't worry about counterparty risk. This is accomplished with rock-solid, independent exchange clearing corporations. Clearing corporations just may be the most revolutionary development in the history of modern finance. The exchange clearing corporation acts as buyer to all sellers and seller to all buyers, guaranteeing *all* counterparties are made good on their trades. That's why every participant is required to post margin and why that margin is adjusted daily with movements in the market.

> ***"Since the inception of the modern-day clearing corporation in 1925, not one penny has been lost due to a counterparty default; that means you don't need to worry about your dealer going out of business or refusing to buy back your holdings when it comes time to sell."***

Since the inception of the modern-day clearing corporation in 1925, not one penny has been lost due to a counterparty default; that means you don't need to worry about your dealer going out of business or refusing to buy back your holdings when it comes time to sell. There is always a market in which you can do business and your counterparty risk is virtually eliminated.



"Dialing Up" or "Dialing Down" Leverage

Futures have a wild and woolly reputation because of margin. There are plenty of stocks (and mining shares) that are far more volatile on a percentage basis than precious metal futures. What gives futures this reputation is not the market itself, but the amount of leverage available to traders in futures. As we noted earlier, margin in futures is a performance bond, not a loan. Consequently, there are no "paper" gains or losses in futures; all gains and losses are real. Money is physically added to or deducted from your futures account each day depending upon the movement of the underlying market.

Let's say I buy a 100 ounce Comex Gold contract at $900 per ounce. One hundred ounces of gold at $900 an ounce gives this contract an underlying value of $90,000. Yet the "initial margin" required to trade this contract is only $5,400 as we write this. Should the value of my account drop below $4,000, I must post enough new cash or T-bills to bring the initial margin back to $5,400. ($4,000 is known as "maintenance margin.")

Now let's say I post the required $5,400 margin and buy a gold futures contract for $900 and the next day gold

rallies $20 per ounce to $920. $20 times the 100 ounce contract size equals $2,000. This amount is placed in my account the next day.

Where does the money come from? Ultimately, from the trader who sold me my contract. I can take this $2,000 from my account and do what I want with it as long as I maintain enough margin capital to hold my position.

Now let's assume that instead of rising $20, gold drops $20 per ounce the next day. $2,000 is removed from my account. My account balance is now my initial $5,400 minus $2,000 or $3,400 total. Because my account has dipped below the $4,000 maintenance margin, I must add enough to bring it back up to $5,400.

If instead of dropping $20, gold drops $60 per ounce, my account would be negative. A $6,000 loss subtracted from my $5,400 initial balance leaves me with a $600 debit. If I do not fund the account immediately, my position would be liquidated and I would be held responsible for the additional $600. You can see how big leverage in a market like gold can quickly lead to margin call problems. This is where futures traders get into trouble and where futures get a bad rap; it's not the underlying markets, but the way margin is used and, unfortunately, abused.

But what if I wanted to take delivery of the metal itself? Instead of posting the minimum margin required, I would post $20,000 and keep the $70,000 it would cost me to buy 100 ounces of physical gold at $900 per ounce in a money market fund or FDIC-insured CD earning interest. Gold would have to decline almost $200 per ounce before I got into any margin trouble. Meanwhile, I would earn interest on the bulk of my capital.

When it came time to take delivery of my bullion bars, I would place the excess capital back in my account, my gold would be weighed and my account would be debited for the exact weight of the gold bar(s) assigned to my account. I would also be charged a one-time $100 ***Good Delivery Vault Receipt*** issuance fee for each metal — not per contract or per bar, but per delivery. That's it. There would be no need for margin since my metal was now fully paid for.

No Mark-ups, Mark-downs or Dealer Commissions

One of the biggest advantages of buying precious metals in the futures market using ***Good Delivery Vault Receipts*** is cost. Outside of the roughly $50 per contract "round turn" commission to buy the futures contract and the approximately $100 delivery fee, my net cost to buy gold when it was trading at $900 per ounce was virtually zero.

Figure 3 shows a comparison of the costs to buy good delivery gold via GDVRs in the futures market versus other methods. Cost savings for silver, platinum and palladium are often much larger since the over-the-counter dealer market for these metals is much smaller and vulnerable to wide bid / ask spreads.

Figure 3: Cost of Good Delivery Gold vs. Other Methods

	Spot Price	Commission /Markup	Fees	Net Price/Oz
GDVR Gold	$900/oz	$50 per 100 oz	$100	$901.50
American Eagle	$900/oz	8% Premium: $72/oz		$972.00
Cash Bullion	$900/oz	4% Premium: $36/oz		$936.00

Note: Table lists current, typical premiums.

Premiums for coins – especially numismatics – can climb much higher, sometimes exceeding 30% or more of melt value. If you are a collector, this is fine; but if you want a pure play on the metal itself, numismatics can be very expensive – especially when it's time to sell. Good delivery ***Good Delivery Vault Receipts***, on the other hand, can be sold via the futures market, guaranteeing you will receive the market price for your metal. (*See page 11 for delivery details.*) None of the other traditional methods of owning precious metals can do this.

How to Buy Metals Using Good Delivery Warehouse Depository Receipts

Step 1: *Decide how much metal you want to buy.* GDVRs result from taking delivery of a futures contract. (*See Figure 2 for standardized contract sizes. See page 4 to learn how futures contracts work.)* If it is less than 1 kilo (32.15 ounces) of gold, 1,000 ounces of silver, 50 ounces of platinum or 100 ounces of palladium, then you cannot buy metals using GDVRs.

(*Note: The Chicago Board of Trade's 32.15 ounce (Kilo) gold and 1,000 ounce silver contracts were sold by the Chicago Mercantile Exchange (CME) to NYFE / LIFFE in March 2009 and are in the midst of changing trading platforms. The transition should be complete by the time you read this.)*

Step 2: *Open an account with a futures (commodity) broker who is familiar and comfortable with the delivery process.* You cannot buy futures contracts or GDVRs in your stock account; you need a separate commodity account. Some online futures brokers *will not* allow you to take or make delivery on futures contracts. You will probably need a full service broker.

*(Note: **The RMB Group** at **800-345-7026** or **312-373-4970** is a commodity broker that understands the delivery procedure and can explain it to you.To see a checklist of this procedure, turn to page 11 of this report.)*

Step 3: *Fund your account.* If you intend to take physical delivery of your metal, consider funding the account

with *at least* 30% of the cash it would cost to buy the quantity of metal you have decided on.

(*For example: if you were planning to buy 5,000 ounces of silver and silver was trading at $13 per ounce, your fully-paid bars would cost $13 x 5,000 or $65,000. Although you could fund the account with less, your initial deposit should be at least 30% of $65,000 or $19,500 for each 5,000 ounce unit you wish to buy. This lowers the risk of a margin call prior to the delivery period. Remember, you will need to send the balance of the funds prior to delivery to take possession of the actual metal.)*

> ***"You cannot buy futures contracts or GDVRs in your stock account; you need a separate commodity account. Some online futures brokers will not allow you to take or make delivery on futures contracts. You will probably need a full service broker."***

Step 4: *Buy the near-month futures contract* and wait for the delivery period. Your cost is now locked-in at the price at which you purchased the futures contract. (*See Figure 2 on page 6 for liquid trading months.*)

Step 5: *Take delivery of your metal.* Holders of long contracts can announce their intention to take delivery on "First Notice Day", which falls on the last trading day prior to the delivery month. Delivery can occur any time during the delivery month and is the "sellers option." This means the seller determines when and at which warehouse delivery occurs. At the completion of delivery, the buyer will be issued ***Warehouse Depository Receipts*** granting title to actual, serial numbered bars held in a bonded exchange warehouse.

What Happens After Delivery

Prior to delivery, your bars will be weighed and your broker will receive an invoice for the exact weights of the bars assigned to you. Your futures account will then be debited for this amount and you will receive confirmation that your account contains a GDVR for your newly-purchased metal. Your bars will remain in the exchange warehouse, unless you decide to redeem your GDVR and ship them somewhere else. You are responsible for all transport and insurance costs.

Storage fees are flat rate, minimal and include insurance. Current monthly storage fees are $12.00 per 100 oz. gold bar, $5.00 per 1,000 oz. silver bar ($25 for 5,000 oz.), $15 per 50 oz. platinum bar and $15 per 100 oz. palladium bar. It currently costs an additional $25 to remove your metal from the exchange warehouse. **Any metal removed from an exchange warehouse must be**

re-assayed before it can be considered "good delivery" and be placed back in the warehouse for delivery against futures contracts. These costs can be substantial and range from $400 to $800 per bar. But cost is not the only factor. There is a time element as well. It can take weeks to have metal re-assayed.

Market conditions can change dramatically in a matter of hours, never mind weeks. As you'll discover later in our discussion of the last bull market in metals, the ability to sell quickly can be the difference between profit and ruin. That's why you should also keep your GDVRs on file with your broker or in a position where they can be sent quickly to your broker.

GDVRs Are Like Stock Certificates

Stock certificates prove ownership of shares. ***Warehouse Delivery Receipts*** prove ownership of metal. GDVRs can be issued in paper or electronic form and exchanged and/or endorsed over to third parties just like a stock certificate. Because of the need to endorse, ***Warehouse Delivery Receipts*** are not classic "bearer" instruments. GDVRs can be pledged as collateral, exchanged for coins or metals in foreign warehouses, or placed in trust. However, the exchange must be notified of any change of title and all storage charges paid before an exchange can take place.

Since they convey title to actual metal, GDVRs can be used as margin. Like stock certificates, you can leave GDVRs in your account with your broker (street name) or have them sent to you. Keeping them with your broker will enable you to sell your metals at any time in the futures market.

Keeping your good delivery GDVRs with your broker enables you to sell calls against your metals holdings, turning an instrument that typically contains no cash flow into a "dividend-producing" investment.

Figure 4: Standard Delivery Procedure*

1) Buyer declares intent to take delivery on First Notice Day – typically last trading day prior to delivery month.

2) 1st Day – Short declares intent to deliver and Clearing Corporation matches oldest long with delivering short (FIFO). Long is notified.

3) 2nd Day – Long now owns physical metal. Bars are weighed and Long is invoiced. Futures are offset at previous day's settlement. Gains or losses on futures position are posted to the account. Short delivers Good Delivery Vault Receipt (GDVR).

4) 3rd Day – Long's account is debited for cost of bars.

**Your futures broker handles most delivery procedures. Shipping metal out of the warehouse is your responsibility.*

Mini Gold & Silver Exceptions

There are two critical exceptions to the ability to take delivery of specific, serial numbered bullion bars using futures contracts. These exceptions belongs to the Mini Gold and Mini Silver contracts traded on the NSYE / LIFFE and it applies to holders of less than 3 mini contracts in gold and less than 5 mini contracts in silver.

The delivery specifications of these contracts require a position of at least 3 Mini gold contracts and at least 5 Mini Silver contracts to guarantee physical delivery. A 3-contract position in Mini Gold would be satisfied with the delivery of a 100-ounce bar or 3 Kilo bars. A 5-contract position in Mini Silver would be satisfied with delivery of one 5,000 oz. bar or five 1,000 oz bars. Smaller positions would be satisfied with a Warehouse Depository Receipt (WDR) for partial, allocated interest in a larger bar(s) rather than a specific bar.

This means *positions less than three contracts, in NYSE / LIFFE Mini gold and 5 contracts in Mini Silver cannot be considered true substitutes for the purchase of physical bullion but do offer much cheaper alternatives to allocated or "pooled" metal*.

This strategy is identical to selling covered calls in the stock market, only against your gold and silver instead of individual shares. This strategy is extremely difficult and potentially expensive to do for coins, bullion not in exchange warehouses or certificates issued by independent dealers, mints and leverage houses. A covered call strategy can be particularly effective during slow periods — typically the summer in the metals. NYMEX (formerly Comex) 100 oz. gold and 5000 oz. silver options are extremely liquid. Platinum and Palladium do not have viable option markets at this time, nor do the smaller gold and silver contracts.

Hunt Mania Revisited? Liquidity is the Biggest Advantage of GDVRs.

GDVRs are one of the cheapest ways to buy precious metals in bulk. ***Because GDVRs can be bought and sold in the futures market, they are the most liquid way to own physical metal.*** This could be very important. Why? One only need recall what happened during the last big bull market in the metals…

When gold and silver prices peaked after the Hunt Brothers run-up in 1980, many metal investors decided to take profits. When they did, disarray in the dealer market meant legions of dealers were not willing to take the other side of the trade and buy without huge discounts, mainly because they were not capitalized to absorb the inventory risk of gyrating markets. Others, in spite of sales claims, never intended to buy anything back. There were notable exceptions, but the

dealer network — from "Mom and Pop" shops in small towns to high profile dealers spending millions in promotions — essentially froze up, some literally taking their phones "off the hook."

Spreads in the coin market were crushingly large as dealers, afraid of getting stuck with depreciating inventory, pulled their bids and backed away from the market. Thousands of precious metal holders wound up being right the market, but because they couldn't sell at a decent price, wound up stuck with their metal and losing fortunes anyway.

If you were a metals investor in the early 1980s, you know it wasn't pretty. Although the exact figures are impossible to know for sure, it is estimated that of the roughly 4,700 dealers and leverage houses doing business prior to the 1980 collapse, at least 2,000 disappeared in the ensuing three years.

Think it can't happen again? Many of the same conditions leading up to the Hunt mania and crash are percolating in metals right now, including shortages of physical metal in the dealer market and rising premiums. Certain analysts believe the rally in metals is just beginning and that the mania stage — when the market goes vertical and late-to-the-party investors pay anything not to miss the rally — is a year or two away. Markets like this can reverse on a dime, making the ability to sell into a liquid one even more important. *Here's what you do when it comes time to sell your GDVR…*

How to Sell Metals Using Good Delivery Warehouse Depository Receipts

Step 1: *Make sure you have enough good delivery Good Delivery Vault Receipts posted with your futures broker for the amount of metal you want to sell or enough back-up margin to carry a short position until you can deliver them.* If you've kept your GDVRs with your futures broker, you don't need to do a thing. Remember, any metal you may have removed from an exchange warehouse must be re-assayed before it can be re-delivered.

Step 2: *Sell enough of the near-month futures contracts to cover the amount of metal you want to sell*. Your sale price will be locked in at the price you receive.

Step 3: *Wait for the delivery period beginning the first trading day of the delivery month and tell your broker you intend to deliver your GDVRs against your short futures.* The clearinghouse will offset your futures contracts at the price of the previous day's settlement and deliver your GDVRs against the oldest outstanding long. Your account will be credited for the full amount of your metals sale. (*See Figure 4: Delivery Procedure on page 11*.)

Using the Futures Market to "Store" Metal

Many sophisticated metals traders never take delivery of their metals, choosing to "store" them in the futures markets instead. How is this possible? It is actually quite easy. Because any long position will eventually result in the delivery of specific bars if held long enough, futures prices track cash prices very closely. Since futures traders can "dial up" or "dial down" their leverage (*see page 7*) depending upon the amount of margin they back their position with, it is possible to heavily or fully margin a long futures position and treat it just like an equivalent position in the physical metal itself.

"…we are effectively buying gold for $3.50 per ounce less than the spot price. Instead of paying $938 per ounce, we are effectively paying $934.50 per ounce for our gold."

Since futures margin can be posted in the form of a T-bill, investors who "buy" silver, gold, platinum and palladium can earn interest on the money they are using to hold their metals positions. Since futures do not have to be fully margined, holders of futures contracts can redirect some of the cash they would have spent buying gold into interest rate instruments with a higher yield than T-bills.

Futures contracts are not charged storage fees since there is no physical gold delivery until the delivery period. Since these fees are "implied", they are built into the prices of more distant futures contracts. So is lost interest. Known as "carrying charges", they are the reason more distant futures contracts are more expensive the further out in time you go.

Let's look at an actual example…

As we write this in March 2009, the April 100 ounce gold contract is the delivery (also known as the "spot") contract. It is trading for $938 per ounce for a contract value of $93,800. (100 oz. contract size times the price.) The December futures contract is going for $945 per ounce for a contract value of $94,500 or $700 more. This $700 is what the market believes it would cost to own physical gold in terms of storage charges and lost interest. $700 is the "carrying charge" or "cost of carry".

Let's see if the market is right…

In eight months, December will be the "spot" or delivery month. Eight months of storage charges for a 100 oz gold bar at $12 per month comes to $96. That leaves $604. Divide this by $93,800 (the current cost of 100 ounces of gold) and you get 0.64%. Divide this by 8 and multiply times 12 to annualize and we find out the gold futures market is pricing in lost interest at an annual rate just below 1% , or 0.966% to be exact. The $945 per ounce price of December gold takes into consideration 8 months of storage and lost interest of 1% — which approximates the T-bill rate. So the "carry" reflected in the $945 price of the December contract is correct.

What if we could do better than 1% on our money?

In this case we can. We went to www.bankrate.com and discovered we could

purchase an 8-month, FDIC-insured CD at a 4-star bank with an interest rate of 2.4 percent — more than twice the amount discounted by the gold price. What would happen if we posted 30 percent margin to hold our December futures contract and took the rest of the money we would have used to buy gold and invested it in this CD. Why 30 percent? This gives gold plenty of room to fluctuate without generating a margin call. Thirty percent of the $93,800 (for 100 ounces) spot price is $28,140. While we could post part of this in T-bills, for simplicity's sake, let's assume we post cash. This leaves us $65,660 to buy our FDIC-insured CD.

"And while there is a place for coins and physical metal held off-exchange in secure locations in every portfolio, to attack perhaps the cheapest, most reliable, and most liquid way to buy and sell bullion is to do a disservice to each and every precious metal investor."

Eight months of interest on $65,660 at a rate of 2.4% is $1,051. This is $351 *more* than the $700 discounted by the December futures. ***Wouldn't it make sense to buy the December futures contract, not pay storage charges and earn more interest rather than take delivery of the April contract, give up the interest and pay for storage?*** Yes it would. Our true cost to buy 100 ounces of gold winds up being $351 less than the cost of spot gold because of the additional interest we were able to earn. Divide this by the 100 ounce contract size and you get a savings of $3.51 per ounce.

By buying the December futures, margining it up 30 percent and taking the rest of the cash and investing it in a super-safe, FDIC-insured CD at a higher interest rate than the T-bill priced into the market, we are essentially buying gold for $3.50 per ounce less than the spot price. Instead of paying $938 per ounce, we are effectively paying $934.50 per ounce for our gold.

What's more, we can sell out-of-the-money call options against our December gold or silver futures contracts, generating premium income and lowering our costs even further. We can apply the same simple math to silver, platinum and palladium to determine whether to buy and physically store these metals or let the market "store" them for us. Professional traders use the futures market to buy and "store" their metal this way all the time.

No Delivery Failures for Gold, Silver, Platinum or Palladium – Ever!

Not comfortable with "paper" gold? Remember, if we hold the December contract until the end of the delivery period in December we get physical gold. We may run the numbers again and find out it makes more sense to close out our futures position and "store" our metal in a more distant contract, but we're not concerned about not being able to take delivery of our metal if we want it. Not one ounce of GDVR gold, silver, platinum or

palladium has ever failed to deliver – even when bullion and coin dealers refused to answer their phones during the Hunt mania – not one ounce, *EVER*. For all practical purposes, the Clearing Corporation (seller to all buyers and buyer to all sellers) has virtually eliminated counterparty risk.

It is not surprising that the folks making the biggest noise about only owning physical metal and coins are dealers or those affiliated with dealers – the very same people who are charging big premiums to buy physical metals. Many of these dealers lay off their risks in the very same futures and options markets they disparage on a regular basis as "paper." And while there is a place for coins and physical metal held off-exchange in secure locations in every portfolio, to attack perhaps the cheapest, most reliable, and most liquid way to buy and sell bullion is to do a disservice to each and every precious metal investor.

Here are a few more ways you can use Good Delivery Vault Receipts and/or futures contracts to augment the metals portion of your portfolio…

Buying Calls to Own Bullion

Since precious metals futures contracts can and often do result in delivery of bullion of the highest purity (in the form of individual serial numbered bars), we can use options on futures contracts as a method of buying and selling metal.

Buying a call gives the holder of that call the right, but not the obligation, to be long a futures contract at a specific price for a limited amount of time. Since the call buyer does not have the obligation to buy the underlying futures contract, all he or she would lose is the price of the option. Options typically cost a fraction of the price of the underlying metal, freeing up capital that would be committed to owning gold.

Here's an example…

Let's say I wanted the exposure of 100 ounces of gold in my portfolio, but didn't want to post futures market or tie my capital up in the physical metal. From our example of storing gold in the futures market, we know that December gold futures are trading at a price of $945 per ounce or $94,500 per contract as we write this. Instead of buying the futures or taking immediate delivery, we could purchase an in-the-money December $850 call giving us the right but *not the obligation* to own a 100-ounce December futures contract between now and the expiration of this option in late November at a price of $850. This option currently costs $16,300. Since we don't have the obligation to buy, gold could go to zero and all we would lose is $16,300.

Let's say gold rallies to $1,300 per ounce before then. We could either exercise our right to be long a futures contract at $850 per ounce and take delivery or we could sell a futures contract against our position, locking in the $450 per ounce difference. $450 per ounce times the 100 ounce contract equals $45,000. Subtract the $16,300 we paid for our call option and you get a net gain of $28,700. If gold falls below $850 per ounce and stays there past option expiration day in late November we

could lose the entire premium, but no more. And we didn't have to tie up the $94,500 it would have cost us to buy 100 ounces of gold outright.

But what if we wanted to risk less than $16,300?

Instead of buying a call option granting us the right to buy gold at $850 per ounce we could have purchased an option granting the right but not the obligation to buy gold at $1,100 per ounce. Because our right to buy is at a much higher price, this option is significantly cheaper – costing $6,700 rather than the $16,300 for the $850 call. Should gold head to $1,300 per ounce prior to option expiration in late November this call would be worth at least the difference between our right to buy at $1,100 per ounce and the market price of $1,300. The $200 per ounce difference times the 100 ounce contract size is $20,000. Subtracting the $6,700 premium we paid for our right to buy at $1,100 gives us a net potential gain of $13,300. If gold is below $1,100 at expiration we will lose our entire option premium, but no more.

Are we saying gold is going to $1,300 per ounce? Not necessarily. We're giving you one example of how to use call options to play gold, retain the ability to take delivery of the a ctual metal, and not commit a lot of capital to the play.

Selling Puts to Buy Bullion

If you are a precious metal investor, we bet something like this has happened to you: you decide gold (or silver) is going up, but don't want to "chase the market". You place an order for your metal at a lower price and the market declines, but not enough to trigger your order. The market subsequently explodes, leaving you holding the bag. How would you like to earn a "consolation prize" for not getting filled on your order or own your metal below the market? Professional traders have been doing this for years. It's called "selling puts". To do it effectively, you want to own gold or silver at a lower price and be willing to pay for it in full at that price.

Option buyers pay money in exchange for the right, but not the obligation to buy something, at a set price, for a limited time. Think of the $16,300 our hypothetical call buyer paid for his December $850 call in the previous example. That is money out of the option buyer's pocket which he will need to subtract from any gains made. The option buyer is like an insurance policyholder; he or she has essentially purchased "opportunity insurance" on the price of the underlying market.

Option sellers (or "writers") receive money for the obligation to buy or sell the market, at a specific price, for a limited amount of time and get to keep this money no matter what. Put option sellers have an obligation to buy the underlying market at the strike price of the put. Let's say I wanted to own 100 ounces of gold but didn't want to pay the going rate of $945 per ounce. I could either place an order with my broker to buy a gold futures contract – let's say $850 per ounce – or I could sell an $850 put option and collect a "premium" for something I wanted to do anyway. As we write this, the premium for a December $850 gold put is $6,500 or $65 per ounce when divided by the 100 ounce contract size.

If gold doesn't go down to $850, I will not have to live up to my obligation to buy gold at $850 per ounce and I get to keep the $6,500 – not a bad consolation price. If gold dips below $850 per ounce and stays there into option expiration, then I have to live up to my obligation to buy at $850 per ounce and be willing to accept the risk (which could be substantial) of owning and possibly taking delivery on that contract. However, I still get to keep the $6,500 I received for agreeing to do this. That makes the net cost of my gold $850 per ounce minus the $65 per ounce I received for my put option — or $785 per ounce. ***Bullion dealers, banks, money managers and professional traders use this method to buy gold and silver on the cheap, all the time.***

How to Get Started

You cannot use the techniques in this report with your stock broker. Nor can you implement any of these strategies — including buying bullion with ***Good Delivery Vault Receipts*** (GDVRs) — in a stock account. You need a commodity (futures) broker who is familiar with the delivery procedure and is willing to help you with it. Many online brokers are geared to trading only, and may not let you take delivery.

The brokers at the **Rutsen Meier Belmont Group (RMB Group)** know the delivery procedure inside and out and can help you implement it in your metals portfolio. **RMB Group** trades a lot of options and can help you integrate these flexible financial tools into your portfolio as well. You can reach the **RMB Group** toll-free at **800-345-7026** or **312-373-4970** direct. They'll send you everything you need to get started.

Want to learn more about futures and options? Tell the **RMB Group** you read this report and they'll send you their easy-to-understand ***RMB Short Course in Futures and Options***, a $14.99 value, absolutely free.

Good Delivery FAQs

(Frequently Asked Questions)

Q: Why haven't I heard of good delivery *Warehouse Depository Receipts* before?

A: *Few people outside the industry know about them and those in the industry have a vested interest in keeping them unknown. And, of course, there is the stigma about futures. Most people look the other way when any kind of futures product is mentioned – even if it involves the cheapest, most liquid, most flexible and most secure way to buy gold, silver, platinum and palladium. Hopefully, this report showed how to use prudent margin management to make these products work for you.*

> ***"If you plan on holding your metals for less than a year, it may make sense to "store" them in the futures market to qualify for the preferential 60-40 futures tax treatment."***

Q: What are the tax consequences of GDVRs?

A: ***GDVRs*** *have a two-tiered tax structure. The first occurs during the time you own the futures contract; the second becomes effective once you take delivery. Let's say you buy a May 5,000 ounce silver futures contract in April with the intention of taking delivery in May and pay $12 per ounce, locking in that price and silver subsequently rises to $13 per ounce the day before you accept delivery. On that day, your futures position will be automatically closed out and you will receive a* ***Good Delivery Vault Receipt*** *for 5 serial numbered 1,000 bars at the same price.*

Your $5,000 gain in the futures contract will be taxed at a futures rate of 60% long term and 40% short term. All futures and futures options are taxed at this rate no matter what the holding period. The tax basis for your physical bars is now $13 per ounce. They will be treated just like any other asset, requiring you to hold them at least a year to qualify for long-term capital gains treatment.

If you plan on holding your metals for less than a year, it may make sense to "store" them in the futures market to qualify for the preferential 60-40 futures tax treatment. Of course, that assumes your position is profitable. We recommend checking with your tax professional before making any tax-based decisions.

Q: I don't trust warehouses. How do I know my metal will be safe?

A: *Not one single ounce of good delivery metal bought and sold on a futures exchange has failed to deliver – not one, ever. One of the exchange depositories was located beneath the World*

Trade Center on September 11th. Every single ounce of metal was recovered. You can always have your metal shipped to you or you can physically go to the warehouse and retrieve it yourself. Remember, your ***Good Delivery Vault Receipt*** *grants you title to specific, serial numbered bars – not a pro-rata share of some "pools"; this is* <u>your</u> *metal. You can have your bars shipped anywhere, but are responsible for all shipping, insurance costs and potential customer duties and reporting requirements if you ship them overseas. We know of a dealer who buys metal via futures, picks it up from the warehouse and then sells it at a mark-up to investors. He places it in his carry-on luggage.*

However, please be advised that taking the metal out of the warehouse defeats the cost advantage of owning metals via ***GDVRs*** *because you will need to have your bars re-assayed before putting them back in the warehouse to be considered "good delivery" against the sale of a futures contract. This can be expensive – running anywhere from $400 to $800 per bar as we write this.*

Q: What is the difference between GDVRs and pooled gold?

A: *They are different instruments entirely.* ***GDVRs*** *grant title to specific bars.* ***GDVRs*** *can be bought and sold using the futures market. You can exchange* ***GDVRs*** *for actual metal and remove it from the warehouse should you choose to.*

<u>Note</u>*: Since they are based on future contracts,* ***GDVRs*** *are standardized. You cannot use* **Good Delivery Vault Receipts** *to buy metal in quantities less than 1 kilo (32.15 oz.) of gold, 1,000 ounces of silver, 50 ounces of platinum or 100 ounces of palladium. If you are purchasing smaller quantities of metal,* ***GDVRs*** *are probably not for you.*

Q: I already own bullion bars in the standardized sizes covered by Good Delivery Vault Receipts and want to know how to make them "good delivery" so I can sell them using the futures market?

A: *All bars must be assayed before they can be put into exchange warehouses and considered good delivery. We've listed a number of exchange-approved warehouses in Appendix A of this report. You can give them a call and get a list of their approved assayers. Once your metal is accepted as "good delivery" and placed in a warehouse, you will be issued a* ***Warehouse Delivery Receipt*** *(****GDVR****). It is just like a stock certificate.*

Because it is title to actual metal, you can post it with your futures broker and use it as margin. You can now use the futures market to sell your position — gaining the liquidity and the convenience of this worldwide market. When it comes time to sell, simply call your broker and sell, just like a stock.

Q: How do I pledge my GDVRs as collateral, place them in trust, or exchange them like coins or other metal?

A: *As indicted above, your* ***Good Delivery Vault Receipt*** *acts much like a stock certificate. You can change title or endorse it over to a third*

party just as you would a stock certificate. However, you must inform the exchange warehouse and make sure all storage fees are paid.

Q: What if the government confiscates gold like FDR did in the 1930s? Wouldn't the central location of the Exchange Warehouse make it easier to do?

A: *We get this question a lot and remain puzzled by it. The US was on the gold standard in the 1930s. Roosevelt's confiscation order was an attempt to devalue the dollar (it worked) to halt the deflationary slide of the Great Depression. The US and the world are no longer on a gold standard, so what could be gained by the confiscation of gold? To begin with, it would be a logistical nightmare and yield tiny revenues relative to the time, trouble and expense. Why chase golden "pennies" when you can extract billions from the citizenry with a simple tax law change?*

The gold market is such a small part of global financial architecture that confiscation makes absolutely no sense unless all major nations of the world decided in secret to go back on the gold standard. The odds that global governments would agree to submit to the rigors of a gold standard after years of being able to print their own money and dictate their terms of trade are slim and none — and "slim" just left the building. Can you imagine China giving up the right to control the value of the yuan?

But let's say that, against all odds, the entire industrialized world decided to go back on a gold standard and give up their sovereign rights to their currencies. Gold would skyrocket, soaring to $30,000 per ounce and beyond. (Divide all the currency in the world by the all the gold ever mined and you get an insanely high dollar per ounce figure.)

Even if this extremely unlikely event did take place and the government decided to confiscate all privately-held gold, holders of ***GDVRs*** *would be paid out the difference between their original purchase price and the new, wildly-inflated price in cash. (The Clearing Corporation is buyer to all sellers and seller to all buyers, guaranteeing counterparty risk.)*

Remember, you do not have to keep your metal in the warehouse. If you truly believe confiscation is possible, you can always take possession of the metal by exchanging your ***GDVRs*** *for the actual bars and storing them wherever you choose.*

Q: Are good delivery vaults in danger of running out of metal? Could such a situation cause a "short squeeze" where buyers (longs) could not get delivery from sellers (shorts)?

A: *No. Markets are two-way streets. Depending on price action, they always have equal attraction for a certain number of buyers and sellers. That's when trades take place. There is always a price at which someone would be willing to sell; it may be a high price, but it does exist.*

As prices rise, large inventory holders called "natural sellers" such as miners, refiners, scrap dealers, private and public mints, multi-million dollar funds and sophisticated investors are in-

clined to sell. These professionals tend to take the other side of individual investors' trades. Most of the metal held by these industry professionals is already "good delivery" in the form of certified vault transfers, and ready to be transferred into exchange warehouses to meet investor demands.

Should a seller "walk away" from his or her obligation, the exchange and clearinghouse will make sure the buyer is made whole. The clearinghouse will go into the open market, if necessary, to arrange the required delivery. That's why there has never been a default in the untold millions of ounces of precious metals transferred via ***Good Delivery Vault Receipts*** *and the commodity exchanges.*

The largest series of exchange-certified warehouse inventories in gold ran about 8% of futures open interest in 1980 when fears of defaults were running just as hot as they are now. That's a far cry from 100%.

Let's assume however, that it was 100% or more. The exchange would have gone into open market to meet its commitments and in the process, driven prices much higher. Instead of $850 per ounce gold and $52 per ounce silver in 1980, you would have seen gold in excess of $2,000 per ounce and silver well over $100. Either way, the holder of ***GDVRs*** *would have benefited. They would have been able to sell into this rally instantly, unlike holders of coins or other precious metal non-"good delivery" alternatives.*

Bottom Line: If you are bullish metals and long with ***GDVRs****, short squeezes are something to be desired, not feared.*

Appendix A

Approved Exchange Warehouses	Gold	Silver	Platinum	Palladium
Main Offices				
Brink's, Inc. 580 Fifth Avenue, Suite 400 New York, New York 10036 USA phone: 718-949-2186	Yes	Yes	Yes	Yes
Manfra, Tordella & Brookes, Inc. 90 Broad Street New York, New York 10004 USA phone: 212-981-4516	Yes		Yes	Yes
HSBC Bank USA 1 West 39th Street, SC 2 Level New York, New York 10018 USA phone: 212-525-6439	Yes	Yes	Yes	Yes
ScotiaMocatta Depository, A Division of the Bank of Nova Scotia 230 International Airport Cntr Blvd Bldg C Ste 120 Jamaica, New York 11412 USA phone: 212-225-6330	Yes	Yes	Yes	Yes
Delaware Depository Service Company, LLC 3601 North Market Street Wilmington, Delaware 19802 USA phone: 302-765-3884		Yes	Yes	Yes

Note: New NYFE/LIFFE electronic futures warehouse information not available yet. Many, if not most of the above, expect to be approved for these contracts as well.

Appendix B

Weighmasters	Gold	Silver
Ledoux & Company Weighmasters 359 Alfred Avenue Teaneck, NJ 07666 USA phone: 201-837-7160 fax: 201-837-1235	Yes	Yes
HSBC Bank USA Weighmasters 1 West 39th Street, SC 2 Level New York, NY 10018 USA phone: 212-525-6439		Yes

Appendix C

INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE

THIS ARTICLE DOES NOT CONSTITUTE TAXATION ADVICE, AND NOTHING CONTAINED IN THIS SYLLABUS IS INTENDED OR WRITTEN TO BE USED OR CAN BE USED BY ANY TAXPAYER, OR MAY BE RELIED UPON OR USED BY ANY TAXPAYER, FOR THE PURPOSE OF AVOIDING OR BEING PROTECTED FROM ANY PENALTY THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED.

VAULT RECEIPT FOR GOLD BULLION

Each United States person who has a financial interest in or signature authority or any other authority over any foreign financial accounts in a foreign country must report that relationship each calendar year by filing a United States Department of the Treasury Form TD F 90-22.1 (REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS) with the United States Department of the Treasury in Detroit, Michigan on or before June 30th of the succeeding year if the accounts have an aggregate value in excess of $10,000 at any time during the calendar year. Extremely serious penalties can be imposed for the failure to file this report or for the filing of a false or fraudulent report. In addition, the financial interest in or authority over the account must be reported on the applicable income tax return of the filer.

The definition of a "foreign financial account" applies to foreign bank accounts, foreign securities accounts, and other foreign financial instrument accounts. The definition also encompasses any foreign account in which its assets are held in a commingled fund and the account owner holds an equity interest in the funds. However, the General Instructions to United States Department of the Treasury Form TD F 90-22.1 (REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS) specifically indicate that individual bonds, notes, or stock certificates held by the filer do not constitute a financial account.

Thus, the ownership of a vault receipt evidencing ownership in a specifically identifiable item of gold, such as a gold bullion bar containing a registered serial number, would generally not constitute a reportable interest in a foreign financial account with respect to United States Department of the Treasury Form TD F 90-22.1 (REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS). Such a receipt would generally not represent an ownership interest in a financial account, provided that no commingling occurs.

However, the ownership of a vault receipt or other instrument reflecting the ownership of a non specifically identifiable asset (such as evidencing the ownership of a portion of a commingled fund or evidencing the value of an asset class, such as representing an ownership interest in the value of one troy ounce of gold – without any such specifically identifiable item of gold being identified) would likely require the filing of United States Department of the Treasury Form TD F 90-22.1 (REPORT OF FOREIGN BANK AND FINANCIAL ACCOUNTS).

Professional advice should be received to determine if a particular vault receipt transaction is a reportable transaction for the purpose of these rules

Taxes are generally due on gains arising from the disposition of the asset evidenced by the vault receipt.

The United States Congress has enacted federal legislation that defines the term "monetary instruments." (Title 31 United States Code Section 5312) Under this statutory definition, the term "monetary instruments" includes United States coins and currency, and permits the Secretary of the Treasury to prescribe additional classifications of monetary instruments by issuing regulations. The Secretary of the Treasury has issued such regulations. (31 Code of Federal Regulations Section 103.11(u)) These regulations are contained in Title 31 of the Code of Federal Regulations which contains the heading "Financial Recordkeeping and Reporting of Currency and Foreign Transactions." 31 Code of Federal Regulations Section 103.11(u) contains a lengthy comprehensive list of what the Secretary of the Treasury has determined to be "monetary instruments." Generally, these items include currency, traveler's checks, negotiable instruments that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or pass title upon delivery, incomplete instruments that are signed but with the omission of the name of the payee, and securities in bearer form to enable title to the securities to pass upon delivery.

However, 31 Code of Federal Regulations Section 103.11(u)(2) expressly states: "Monetary instruments do not include warehouse receipts or bills of lading."

As a vault receipt is functionally similar to a warehouse receipt in that both receipts are issued by the party holding the stored item and evidence the title of the assets being stored by the issuer of the receipt for the titleholder of such assets, it is thus likely that a vault receipt evidencing ownership in a specifically identifiable item of gold, such as a gold bullion bar containing a registered serial number, would generally not constitute a "monetary instrument" for the purpose of "Financial Recordkeeping and Reporting of Currency and Foreign Transactions."

This summary is a generalized explanation that should not be relied upon without seeking professional legal advice that applies the current applicable rules and laws to your individual situation.

Respectfully Submitted,

Michael G. Chatzky,
Attorney-at-Law

Note: This memorandum was prepared by Michael G. Chatzky, an attorney with over 39 years experience in the fields of foreign and domestic trusts, corporate an limited liability company structures business ventures and federal and international taxation and wealth protection.

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Appendix D
METALS TRADING GLOSSARY

Abandon: To elect not to exercise or offset a long option position.

Acid Test: The act of subjecting precious metals to specific acids, or combinations of acids, to determine the fineness of the precious metal.

Actual Cash Value: The redemption value of a contract.

Actual Gold or Silver Content: The amount of precious metal present in an alloy, given as a percentage, a fineness, or a troy weight.

Actuals: The physical or cash commodity, as distinguished from commodity futures contracts.

Ad Valorem: Value, used in connection with the levying of a tariff on imports.

Alloy: Metal made by the fusion (combination or mixing) of two or more metals. Any silver or gold less than 999 purity is an alloy.

American Option: An option that can be exercised at any time prior to or on the expiration date. (Also see "European Option".)

Approved Delivery Facility: Any bank, stockyard, mill, storehouse, plant, elevator, or other depository that is authorized by an exchange for the delivery of commodities tendered on futures contracts.

Arbitrage: A strategy involving the simultaneous purchase and sale of identical or equivalent commodity futures contracts or other instruments across two or more markets in order to benefit from a discrepancy in their price relationship. In a theoretical efficient market, there is a lack of opportunity for profitable arbitrage. (See "Spread".)

Assignment: Designation by a clearing organization of an option writer who will be required to buy (in the case of a put) or sell (in the case of a call) the underlying futures contract or security when an option has been exercised, especially if it has been exercised early.

Ask: The price level of an offer, as in bid-ask spread.

At-the-Money: When an option's strike price is the same as the current trading price of the underlying commodity, the option is at-the-money.

Automatic Exercise: A provision in an option contract specifying that it will be exercised automatically on the expiration date if it is in-the-money by a specified amount, absent instructions to the contrary.

Avoirdupois: Weight system most commonly used in the United States for most everything the American public deals with, except precious metals and gems.

.0625 ounce = 1.7719 grams
one ounce = 28.350 grams
16 ounces = one pound (453.59 grams)

Back Months: Futures delivery months other than the spot or front month (also called deferred months).

Backwardation: Market situation in which futures prices are progressively lower in the future delivery months than in the nearest delivery month. For instance, if the gold quotation for January is $360.00 per ounce and that for June is $355.00 per ounce, the backwardation for five months against January is $5.00 per ounce. (Backwardation is the opposite of "contango"). See Inverted Market.

Base Metal: Nonprecious metal that serves as a base for gold-filled, gold-plated, silver-plated or any nonprecious metal covered by a precious metal.

Base Price: Silver-metal value of one dollar in coin, based on the face value and weight of the coin.

Basis: Difference between the spot and futures price.

Bear Spread: (1) A strategy involving the simultaneous purchase and sale of options of the same class and expiration date, but different strike prices. In a bear spread, the option that is purchased has a lower delta than the option that is bought. For example, in a call bear spread; the purchased option has a higher exercise price than the option that is sold. (Also called "Vertical Bear Spread".)

(2) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a decline in prices but at the same time limiting the potential loss if this expectation does not materialize. In agricultural products, this is accomplished by selling a nearby delivery and buying a deferred delivery.

Beta (Beta Coefficient): A measure of the variability of rate of return or value of a stock or portfolio compared to that of the overall market.

Bid: An offer to buy a specific quantity of a commodity at a stated price.

Bid-Ask Spread: The difference between the bid price and the ask or offer price.

Bimetallism: Monetary standard where the monetary unit is defined and redeemed in two metals, such as gold and silver.

Black-Scholes Model: An option pricing model initially developed by Fischer Black and Myron Scholes for securities options and later refined by Black for options on futures.

Bulk Metal: the term used when referring to accumulations of coins, sterling silver, scrap jewelry, and so forth.

Bull Spread: (1) A strategy involving the simultaneous purchase and sale of options of the same class and expiration date but different strike prices. In a bull vertical spread, the purchased option has a higher delta than the option that is sold. For example, in a call bull spread, the purchased option has a lower exercise price than the sold option. (Also called "Vertical Bull Spread".)

(2) The simultaneous purchase and sale of two futures contracts in the same or related commodities with the intention of profiting from a rise in prices but at the same time limiting the potential loss if this expectation is wrong. In agricultural commodities, this is accomplished by buying the nearby delivery and selling the deferred.

Bullion: Precious metal in negotiable or tradable shape, such as a wafer, bar, ingot or sometimes as coins and jewelry.

Bullion Coin: A coin that sells at a price close to the value of the metal in the coin.

Butterfly Spread: A three-legged option spread in which each leg has the same expiration date but different strike prices. For example, a butterfly spread in soybean call options might consist of one long call at a $5.50 strike price, two short calls at a $6.00 strike price, and one long call at a $6.50 strike price.

Buyer's Market: A condition of the market in which there is an abundance of goods available and hence buyers can afford to be selective and may be able to buy at less than the price that previously prevailed. (See "Seller's Market".)

Calendar Spread: (1) The purchase of one delivery month of a given futures contract and simultaneous sale of a different delivery month of the same futures contract; (2) the purchase of a put or call option and the simultaneous sale of the same type of option with typically the same strike price but a different expiration date. (Also called a" Horizontal Spread" or "Time Spread.")

Call: (1) An option contract giving the buyer the right but not the obligation to purchase a commodity or other asset or to enter into a long futures position; (2) a period at the opening and the close of some futures markets in which the price for each futures contract is established by auction; or (3) the requirement that a financial instrument be returned to the issuer prior to maturity, with principal and accrued interest paid off upon return. See Buyer's Call, Seller's Call.

Carat: Unit of weight for gemstones. See also Karat.

Carrying Charges: Cost of storing a physical commodity or holding a financial instrument over a period of time. These charges include insurance, storage, and interest on the deposited funds, as well as other incidental costs. It is a carrying charge market when there are higher futures prices for each successive contract maturity. If the carrying charge is adequate to reimburse the holder, it is called a "full charge." See Negative Carry, Positive Carry, and Contango.

Cash Market: Market where transactions for purchase and sale of the physical commodity are made, under whatever terms are agreeable to buyer and seller and are legal under law and rules of the market organization, if such exist.

Cash Price: The price set or fixed at the current moment, usually daily, for the immediate settlement of transactions. The price can differ at the same time in separate markets.

Cash Settlement: A method of settling certain futures or option contracts whereby the seller (or short) pays the buyer (or long) the cash value of the commodity traded according to a procedure specified in the contract. Also called Financial Settlement, especially in energy derivatives.

Clearing Organization: An entity through which futures and other derivative transactions are cleared and settled. It is also charged with assuring the proper conduct of each contract's delivery procedures and the adequate financing of trading. A clearing organization may be a division of a particular exchange, an adjunct or affiliate thereof, or a freestanding entity. Also called a clearing house, multilateral clearing organization, or clearing association.

Closing-Out: Liquidating an existing long or short futures or option position with an equal and opposite transaction. Also known as Offset.

Coin Gold: The alloy used to make gold coins, which may differ from country-to-country, or in different coins minted in the same country.

Coin Silver: The alloy used to make silver coins. When used as a designation on silver items in the United States, it must be 900 fine with the deviations allowed by the United States Stamping Act.

Combination: Puts and calls held either long or short with different strike prices and/or expirations. Types of combinations include straddles and strangles.

Commodity Option: An option on a commodity or a futures contract.

Contango: Market situation in which prices in succeeding delivery months are progressively higher than in the nearest delivery month; the opposite of backwardation.

Contract Grade: The grade of a commodity required to be delivered on a futures contract.

Contract Month: Month where a given contract becomes deliverable, if not liquidated before the delivery date.

Cover: (1) Purchasing futures to offset a short position (same as Short Covering); see Offset, Liquidation; (2) to have in hand the physical commodity when a short futures sale is made, or to acquire the commodity that might be deliverable on a short sale.

Covered Option: A short call or put option position that is covered by the sale or purchase of the underlying futures contract or other underlying instrument. For example, in the case of options on futures contracts, a covered call is a short call position combined with a long futures position. A covered put is a short put position combined with a short futures position.

Custom Smelter: A smelter reliant on concentrate purchased from independent mines instead of its own captive sources.

Delta: The expected change in an option's price given a one-unit change in the price of the underlying futures contract or physical commodity. For example, an option with a delta of 0.5 would change $.50 when the underlying commodity moves $1.00.

Derivative: A financial instrument, traded on or off an exchange, the price of which is directly dependent upon (i.e., "derived from") the value of one or more underlying securities, equity indices, debt instruments, commodities, other derivative instruments, or any agreed upon pricing index or arrangement (e.g., the movement over time of the Consumer Price Index or freight rates). Derivatives involve the trading of rights or obligations based on the underlying product, but do not directly transfer property. They are used to hedge risk or to exchange a floating rate of return for fixed rate of return. Derivatives include futures, options, and swaps. For example, futures contracts are derivatives of the physical contract and options on futures are derivatives of futures contracts.

EFP (Exchange for Physical): A trade between two parties where one of the parties buys the physicals and sells the futures contracts and the other party sells the physicals and buys the futures contracts. Such an EFP is made up of four parts: the purchase and sale of futures contracts coupled with the simultaneous sale and purchase by the same two parties of an equal quantity of the physical commodity. Such transactions may be mutually agreed upon by the two parties to the transaction.

Electrolysis: Process used for refining metals where the metal is deposited on a cathode from a solution or molten mass.

Electroplating: A thin layer of precious metal is fused onto a base metal by using an electrical current to plate.

European Option: An option that may be exercised only on the expiration date. See American Option.

Exercise: To elect to buy or sell, taking advantage of the right (but not the obligation) conferred by an option contract.

Exercise Price (Strike Price): The price, specified in the option contract, at which the underlying futures contract, security, or commodity will move from seller to buyer.

Expiration Date: The date on which an option contract automatically expires; the last day an option may be exercised.

Extrinsic Value: See Time Value.

Fabricator: A company which makes semi-fabricated products from refined metals and occasionally from scrap.

Face Value: The value of a coin, paper money or other currency as imprinted, stamped or marked on that unit.

Fine: Also fineness. The designation of purity of a precious metal in relation to 1000 parts. For example, 900 fine gold has 900 parts of pure (fine) gold and 100 parts of an alloying metal or metals, which means it is 90% pure gold.

Fine Gold: Pure gold without any alloy metal to contaminate it.

Fineness: Ratio of pure metal to total weight. In bars and coins it is usually expressed as a decimal percentage.

Fine Ounce: An ounce of pure, actually 999 pure, precious metal.

Fine Weight: The actual weight of the pure gold or silver in a coin, ingot, bar or other item with a precious-metal content as opposed to the item's total weight, which includes the weight of the alloying weight.

Fix: To set the price of gold or silver daily on trading days. The London Gold Market fixes the prices twice daily (AM & PM fix).

Force Majeure: A clause in a supply contract which permits either party not to fulfill the contractual commitments due to events beyond their control ranging from strikes to export delays in producing countries.

Forward Contract: A cash market transaction in which two parties agree to the purchase and sale of a commodity at some future time.

Free Coinage: Law or policy which provides that all who deposit bullion at the mint are entitled to receive in exchange coins of equal weight, less minor charges.

Full Value: The value of a precious-metal alloy before taking into consideration wear, and assay and refining costs.

Futures Contract: An agreement to purchase or sell a commodity for delivery in the future: (1) at a price that is determined at initiation of the contract; (2) that obligates each party to the contract to fulfill the contract at the specified price; (3) that is used to assume or shift price risk; and (4) that may be satisfied by delivery or offset.

Futures Option: An option on a futures contract.

Gilt: A base metal dipped in a gold solution or bound to metal with a very thin gold electroplate.

Gold Electroplate: Thin coating karat gold is applied to a base metal by electrical current; it must be at least 7-millionth inch thick. See Heavy Gold Electroplate.

Gold Filled: A product that has a layer of at least 10K gold mechanically bonded by heat and pressure to a base metal. G.F. is the abbreviation.

Gold Flashed: Also gold-washed. A thin film of gold applied to a base metal, as in electroplating, but with less than seven-millionth inch thickness of karat gold.

Gold Overlay: Also known as gold plate and rolled gold plate. These terms can be used as markings on gold-layered products without a fractional prefix only if the gold weight is at least 1/20 of the total weight of the metals.

Gold Plate: see Gold Overlay.

Heavy Gold Electroplate: similar to gold electroplate, but the finish must be at least 1-ten-thousandth inch thick.

Historical Volatility: A statistical measure of the volatility of a futures contract, security, or other instrument over a specified number of past trading days.

Implied Volatility: The volatility of a futures contract, security, or other instrument as implied by the prices of an option on that instrument, calculated using an options pricing model.

Ingot: A bar of metal cast from a mold.

In-The-Money: A term used to describe an option contract that has a positive value if exercised. A call with a strike price of $390 on gold trading at $400 is in-the-money 10 dollars. See Intrinsic Value.

Intrinsic Value: A measure of the value of an option or a warrant if immediately exercised that is "in-the-money": the non-time premium component of an op-

tion. The amount by which the current price for the underlying commodity or futures contract is above the strike price of a call option or below the strike price of a put option for the commodity or futures contract.

Inverted Market: A market where the nearer months are selling at premiums over the more distant months; characteristically a market in which supplies are in shortage.

Junk Silver: U.S. silver coins with no numismatic (collectible) value.

Junk Sterling: Sterling that holds no value other than its 92.5% silver content because of damage or poor craftsmanship.

Karat: Measurement of purity used in showing the fineness of gold. One karat is 1/24 pure gold, 24-karat gold is pure 999 fine.

Karat Gold: Gold usually used in jewelry manufacturing that is at least 10 karats or better. By U.S. law the metal has to be at least 10K or it cannot be called "gold".

Liquidation: The closing out of a long position. The term is sometimes used to denote closing out a short position, but this is more often referred to as covering. See Cover, Offset.

Liquid Market: A market where selling and buying can be accomplished with ease due to the presence of a large number of interested persons willing and able to trade substantial quantities at small price differences.

Local: An individual with exchange trading privileges who trades for his own account, traditionally on an exchange floor, and whose activities provide market liquidity.

Long: (1) One who has bought a futures contract to establish a market position; (2) a market position that obligates the holder to take delivery; (3) one who owns an inventory of commodities. See Short.

Margin: The amount of money or collateral deposited by a customer with his broker, by a broker with a clearing member, or by a clearing member with a clearing organization. The margin is not partial payment on a purchase. Also called a Performance Bond.

(1) Initial margin is the amount of margin required by the broker when a futures position is opened; (2) Maintenance margin is an amount that must be maintained on deposit at all times. If the equity in a customer's account drops to or below the level of maintenance margin because of adverse price movement, the broker must issue a margin call to restore the customer's equity to the initial level. Exchanges specify levels of initial margin and maintenance margin for each futures contract, but Futures Commission Merchants may require their customers to post margin at higher levels than those specified by the exchange. Futures margin is determined by the SPAN margining system, which takes into account all positions in a customer's portfolio.

Margin Call: (1) A request from a brokerage firm to a customer to bring margin deposits up to initial levels; (2) a request by the clearing organization to a clearing member to make a deposit of original margin, or a daily or intra-day variation margin payment because of adverse price movement, based on positions carried by the clearing member.

Market Order: An order to buy or sell a futures contract at whatever price is obtainable at the time it is entered in the ring, pit, or other trading platform.

Mark-to-Market: Daily cash flow system used by US futures exchanges to maintain a minimum level of margin equity for a given futures or option contract position by calculating the gain or loss in each contract position resulting from changes in the price of the futures or option contracts at the end of each trading session.

Melt and Assay: The policy of a refiner to melt and test an alloy before making a settlement on purchases of precious metals.

Naked Option: The sale of a call or put option without holding an equal and opposite position in the underlying instrument. Also referred to as an uncovered option, naked call, or naked put.

Negative Carry: The cost of financing a financial instrument (the short-term rate of interest), when the cost is above the current return of the financial instrument. See Carrying Charges and Positive Carry.

Offer: An indication of willingness to sell at a given price; opposite of bid, the price level of the offer may be referred to as "the ask".

Offset: Liquidating a purchase of futures contracts through the sale of an equal number of contracts of the same delivery month, or liquidating a short sale of futures through the purchase of an equal number of contracts of the same delivery month. See Closing Out and Cover.

Open Interest: The total number of futures contracts long or short in a delivery month or market that has been entered into and not yet liquidated by an offsetting transaction or fulfilled by delivery. (Also called "Open Contracts" or "Open Commitments")

Open Outcry: A method of public auction, common to most US commodity exchanges, where trading occurs on a trading floor and traders may bid and offer simultaneously either for their own accounts or for the accounts of customers. Transactions may take place simultaneously at different places in the trading pit or ring. At most exchanges outside the US, open outcry has been replaced by Electronic Trading Platforms.

Open Position: A forward market position which has not been closed out.

Open Trade Equity: The unrealized gain or loss on open futures positions.

Option: A contract that gives the buyer the right, but not the obligation, to buy or sell a specified quantity of a commodity or other instrument at a specific price within a specified period of time, regardless of the market price of that instrument. Also see Put and Call.

Option Buyer: The person who buys calls, puts, or any combination of calls and puts.

Option Pricing Model: A mathematical model used to calculate the theoretical value of an option. Inputs to option pricing models typically include the price of the underlying instrument, the option strike price, the time remaining until the expiration date, the volatility of the underlying instrument, and the risk-free interest rate (e.g., the Treasury bill interest rate). Examples of option pricing models include Black-Scholes and Cox-Ross-Rubinstein.

Option Writer: The person who originates an option contract by promising to perform a certain obligation in return for the price or premium of the option. (Also known as Option "Grantor" or Option "Seller.")

Original Margin: Term applied to the initial deposit of margin money each clearing member firm is required to make according to clearing organization rules based upon positions carried, determined separately for customer and proprietary positions; similar in concept to the initial margin or security deposit required of customers by exchange rules.

Out-Of-The-Money: A term used to describe an option that has no intrinsic value. For example, a call with a strike price of $400 on gold trading at $390 is out-of-the-money by 10 dollars.

Outright: An order to buy or sell only one specific type of futures contract; an order that is not a spread order.

P&S (Purchase and Sale Statement): A statement sent by a Futures Commission Merchant to a customer when any part of a futures position is offset, showing the number of contracts involved, the prices at which the contracts were bought or sold, the gross profit or loss, the commission charges, the net profit or loss on the transactions, and the balance.

Parity: (1) foreign exchange: value of one currency in terms of another as determined by their respective gold backing; (2) commodities: price level at which two delivery points are equalized, after shipping, interest and insurance expenses have been adjusted.

Pit: A specially constructed area on the trading floor of some exchanges where trading in a futures contract is conducted. On other exchanges, the term ring designates the trading area for a commodity.

Plating: The deposition of a layer of metal on an object forming the cathode during electrolysis.

Position: An interest in the market, either long or short, in the form of one or more open contracts.

Position Trading: A trader either buys or sells contracts and holds them for an extended period.

Positive Carry: The cost of financing a financial instrument (the short-term rate of interest), where the cost is less than the current return of the financial instrument. See Carrying Charges and Negative Carry.

Premium: (1) The payment an option buyer makes to the option writer for granting an option contract; (2) the amount a price would be increased to purchase a better quality commodity; (3) refers to a futures delivery month selling at a higher price than another, as "July is at a premium over May."

Price Discovery: The process of determining the price level for a commodity based on supply and demand conditions. Price discovery may occur in a futures market or cash market.

Proof (PR): Coins struck by mints for collectors which are in perfect, mirror-like condition. They are struck much slower than ordinary coins.

Prooflike (PL): Uncirculated coin so perfect that it resembles a proof.

Pure Gold: Gold of 999 fineness or 24-karat gold, with no alloying metal.

Pure Silver: Silver of 999 fineness, with no alloying metal.

Put: An option contract that gives the holder the right but not the obligation to sell a specified quantity of a particular commodity or other interest at a given price (the "strike price") prior to or on a future date.

Quicksilver: Mercury.

Redeemable: Paper money that can be exchanged for bullion or intrinsic value coin at a fixed exchange rate.

Refined: Precious metals that have been melted and worked to separate the precious metals from the alloying metals.

Rolled Gold Plate: Same basic requirements for gold filled, at least 10K gold layered on a base metal, but the proportion of karat gold to the base metal can be less than the 1/20 of total weight if the specific percentage of karat gold is indicated clearly.

Seigniorage: Small minting fee that is obtained from the difference between the intrinsic value and the face value of standard coin.

Seller's Market: A condition of the market in which there is a scarcity of goods available and hence sellers can obtain better conditions of sale or higher prices. See Buyer's Market.

Series (of Options): Options of the same type (i.e., either puts or calls, but not both), covering the same underlying futures contract or other underlying instrument, having the same strike price and expiration date.

Settlement Price: The daily price at which the clearing organization clears all trades and settles all accounts between clearing members of each contract month. Settlement prices are used to determine both margin calls and invoice prices for deliveries. The term also refers to a price established by the exchange to even up positions which may not be able to be liquidated in regular trading.

Short: (1) The selling side of an open futures contract; (2) a trader whose net position in the futures market shows an excess of open sales over open purchases. (See "Long".)

Short Selling: Selling a futures contract or other instrument with the idea of delivering on it or offsetting it at a later date.

Silver Certificate: Paper currency that was issued as legal tender until the 1960's by the U.S. government to represent deposited silver bullion.

Silver Plate: A technique used to reduce the cost of silver articles. By using electrolysis, the base metal is coated with a slight layer of silver.

Slag: Waste matter from smelting.

Solid Gold: One of the most misleading designations the U.S. government allows manufacturers of precious-metal products to use. Means the gold product is not "hollow". The gold item could have as little as 9 karats and still be stamped *solid gold.*

Sponge: Lumpy form of metal with sponge-like appearance produced by casting molten metal into water.

Spot: Market of immediate delivery of and payment for the product.

Spread (or Straddle): The purchase of one futures delivery month against the sale of another futures delivery month of the same commodity; the purchase of one delivery month of one commodity against the sale of that same delivery month of a different commodity; or the purchase of one commodity in one market against the sale of the commodity in another market, to take advantage of a profit from a change in price relationships. The term spread is also used to refer to the difference between the price of a futures month and the price of another month of the same commodity. A spread can also apply to options. (See "Arbitrage".)

Standard Coin: Coin with an intrinsic value whose face value equals its bullion value.

Sterling Silver: An object of jewelry, housewares and so forth that have a fine silver content of 92.5% (925 fine).

Straddle: (1) See Spread; (2) an option position consisting of the purchase of put and call options having the same expiration date and strike price.

Strangle: An option position consisting of the purchase of put and call options having the same expiration date, but different strike prices.

Strike Price (Exercise Price): The price, specified in the option contract, at which the underlying futures

contract, security, or commodity will move from seller to buyer.

Subsidiary Coin: Coins with intrinsic value whose face value is more than the bullion value.

Tael: Chinese system of weight used for precious metals; 1 tael = 1.2034 troy ounces of pure gold.

Technical Analysis: An approach to forecasting commodity prices that examines patterns of price change, rates of change, and changes in volume of trading and open interest, without regard to underlying fundamental market factors. Technical analysis can work consistently only if the theory that price movements are a Random Walk is incorrect.

Thin Market: A market where there are comparatively few offers to sell or bids to buy.

Time Decay: The tendency of an option to decline in value as the expiration date approaches, especially if the price of the underlying instrument is exhibiting low volatility. See Time Value.

Time Value: That portion of an option's premium that exceeds the intrinsic value. The time value of an option reflects the probability that the option will move into-the-money. The longer the time remaining until expiration of the option, the greater its time value. (Also called "Extrinsic Value".)

Troy Weight: System of weight primarily used in the United States for precious metals.

Underlying Commodity: The cash commodity underlying a futures contract. Also, the commodity or futures contract on which a commodity option is based, and which must be accepted or delivered if the option is exercised.

Vermeil (pronounced *vairmay*): An ambiguous word incorrectly thought to apply to gold-covered sterling silver. In fact, vermeil can be applied to many metals, including non-precious ones.

Very Fine (VF): Coins which have circulated slightly but are almost in mint condition. Some wear on high spots is permissible.

Very Good: Well worn coin with main features clear and bold although rather flat.

Volatility: A statistical measurement of the rate of price change of a futures contract, security, or other instrument underlying an option. See Historical Volatility, Implied Volatility.

Volume of Trade: The number of contracts traded during a specified period of time. It may be quoted as the number of contracts traded or as the total of physical units, such as bales or bushels, pounds or dozens.

Wafer: Designation for bullion produced in a small, thin form.

Warehouse Receipt or Warehouse Depository Receipt (GDVR): A document certifying possession of a commodity in a licensed warehouse that is recognized for delivery purposes by an exchange. Grants title to specific, serial numbered bullion bars.

Writer: The issuer, grantor, or seller of an option contract.