SPDR UNIVERSITY

Investing in Gold: A Strategic Alternative

Explore the unique characteristics of gold and the value it may bring as a diversifier and mitigator of risk and volatility. Learn how you can add the potential benefits of this precious metal to your portfolio.

Unique Attributes of Gold

A Strategic Asset

Accessing Gold

Overview of SPDR Gold Shares

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A Highly Valued Asset

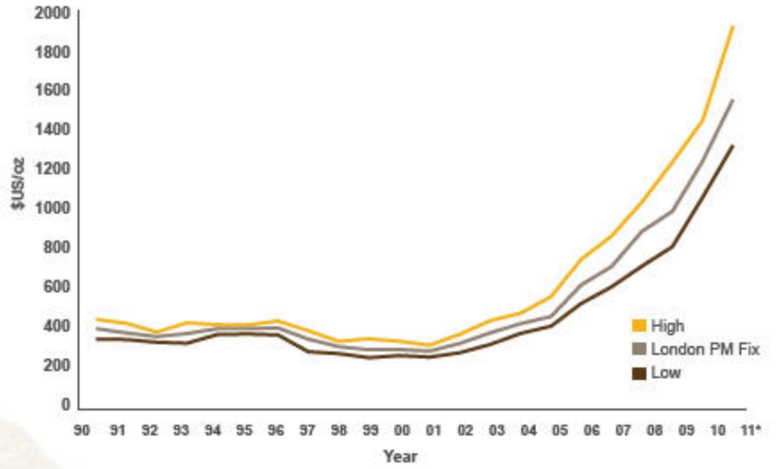
Gold's unique performance characteristics have contributed to its increasing popularity as an investment option in recent years.

Over the past decade, gold prices have risen significantly, with the sharpest increases occuring within the past three years.

Gold Prices; 1991-2011 | Gold Prices; Year over Year

Gold Prices; 1991-2011

enlarge



*2011 dates are through September 30, 2011. Source: World Gold Council, www.gold.org.
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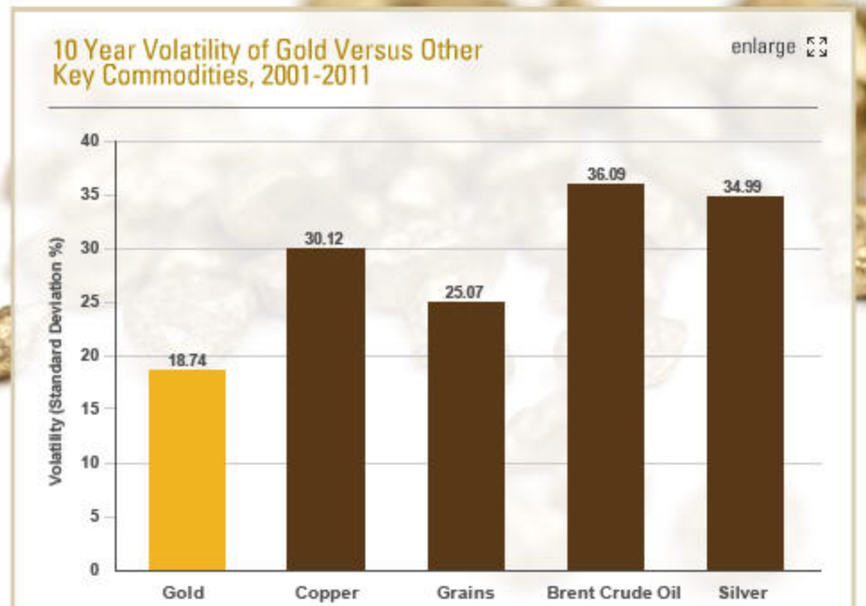
Gold and Other Commodities

Many investors tend to equate the behavior of gold to that of other commodities. But, gold prices have historically been less volatile than other commodities, for a number of reasons.

- Most commodities are consumables, and prices are driven solely by global production and demand. Gold, on the other hand, is both a consumable and an investable asset.
- Unlike commodities such as oil, gold is produced on nearly every continent, helping protect the supply against production disruptions in a particular country or region.
- Nearly all of the gold ever mined still exists and much of it is in near-market form. As a result, recycled gold frequently comes back on the market, potentially reducing the possibility of price spikes.



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Growing Demand

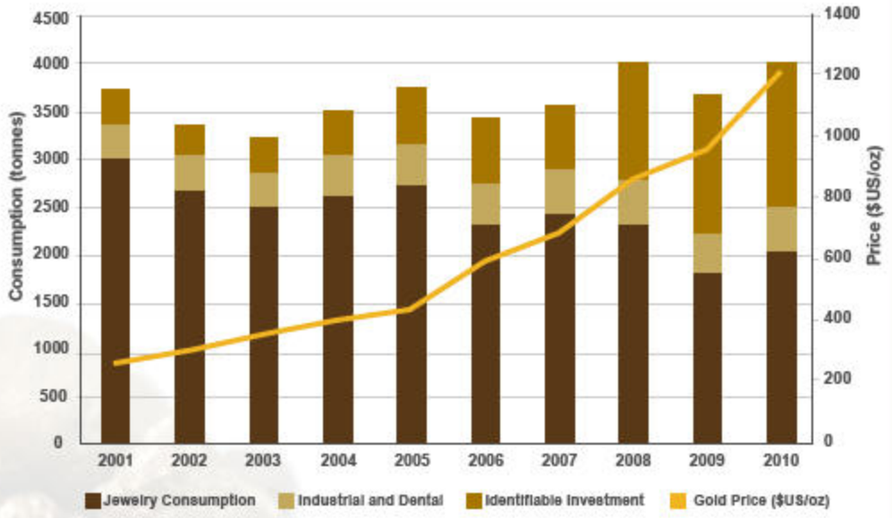
While most gold is still used for the manufacture of jewelry, the fastest-growing area of demand in recent years has been for investable gold.

Over the past decade, demand for gold outpaced miners' capacity to produce it, with scrap gold and official sector sales filling the supply gap. Production largely declined until 2008, when rising prices encouraged miners to deliver more gold to the market.

Sources of Gold Demand | Demand Is Outpacing Supply

Sources of Gold Demand, 2001-2010

enlarge



Source: Thomson Reuters GFMS, Gold Survey 2011.

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Gold as a Unique Asset Class

Gold possesses unique qualities that make it different from both traditional asset classes and other commodities.

- Stock and bond prices are driven by investors' assessments of a company's fundamentals, creditworthiness and valuations. Commodity prices are driven solely by investors' assessments of whether the supply will meet the demand of individual and industrial consumers.
- Commodity prices may spike if production is disrupted. However, since gold is mined on nearly every continent, production shortfalls in one region can often be made up by increased supply from another. Scrap gold and sales from currency reserves can also fill supply gaps, which have contributed to gold's historically lower volatility relative to other commodities.
- During market downturns, gold prices have often risen, as many investors have perceived gold as a stabilizing and liquid investment in times of economic and political uncertainty.

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A Portfolio Diversifier

Diversification Benefits

Traditional Asset Classes

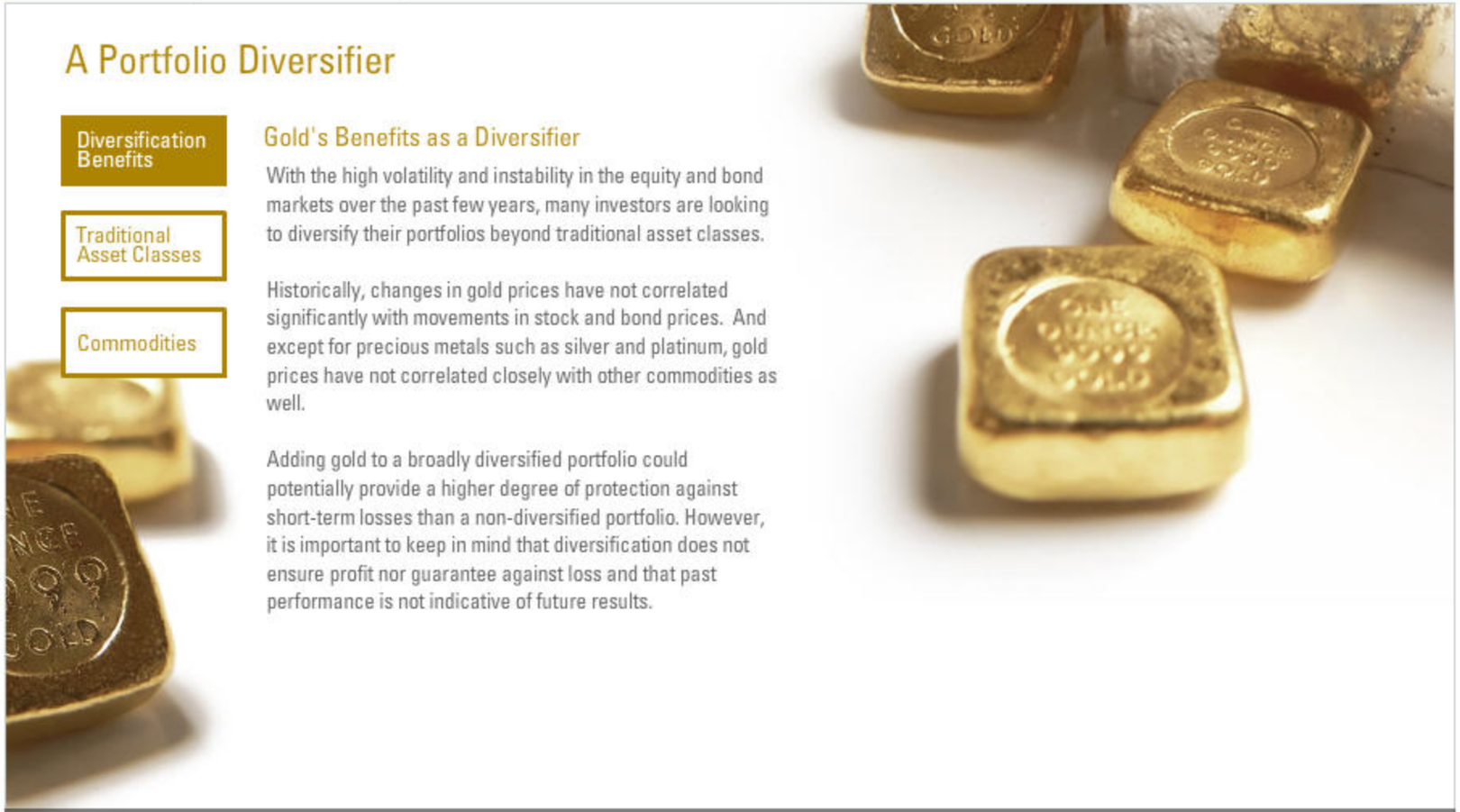
Commodities

Gold's Benefits as a Diversifier

With the high volatility and instability in the equity and bond markets over the past few years, many investors are looking to diversify their portfolios beyond traditional asset classes.

Historically, changes in gold prices have not correlated significantly with movements in stock and bond prices. And except for precious metals such as silver and platinum, gold prices have not correlated closely with other commodities as well.

Adding gold to a broadly diversified portfolio could potentially provide a higher degree of protection against short-term losses than a non-diversified portfolio. However, it is important to keep in mind that diversification does not ensure profit nor guarantee against loss and that past performance is not indicative of future results.



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A Portfolio Diversifier

Diversification Benefits

Traditional Asset Classes

Commodities

Gold Versus Traditional Asset Classes

Gold prices have not historically correlated significantly with those of traditional asset classes.

- Over the past five years gold has had a negative correlation with both the S&P 500 and 3-month Treasury Bills.
- During this same period, gold prices have correlated most strongly with foreign stock prices and investment-grade bonds, but even here the correlation has been less than 20%.

5-Year Weekly Correlations of Key Asset Classes and Gold, 2007-2011

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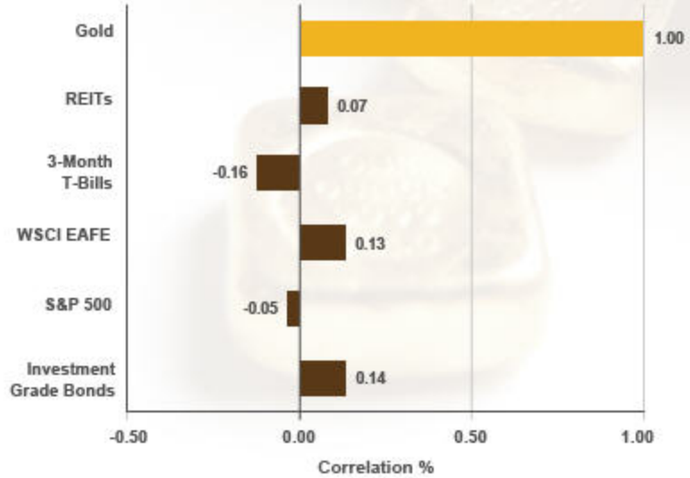

Source: StyleADVISOR, SPDR ETF Strategy and Consulting, as of 06/30/2011.
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A Portfolio Diversifier

Diversification Benefits

Traditional Asset Classes

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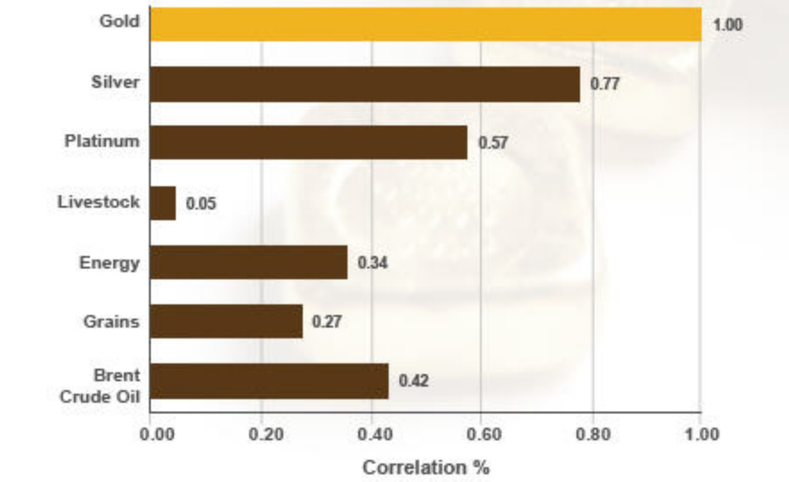
Gold Versus Other Commodities

Gold's unique characteristics have helped to protect it against price spikes that have often affected other commodities.

- Gold prices have correlated most closely with other precious metals like silver and platinum, which share similar characteristics.
- Gold prices have correlated less closely with those of consumable commodities like oil, grains and livestock, which are driven solely by supply and demand.

5-Year Weekly Correlations of Key Commodities Versus Gold, 2007-2011

enlarge



Source: LBMA, LME, World Gold Council, as of 6/24/2011.
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A Risk Manager

Many investors have added gold to their portfolios to potentially help manage risk, as gold prices have historically been less volatile than other asset classes. This has made gold a particularly attractive portfolio diversification option during the market and economic uncertainties of the past few years.

Volatility of Gold Versus Other Asset Classes

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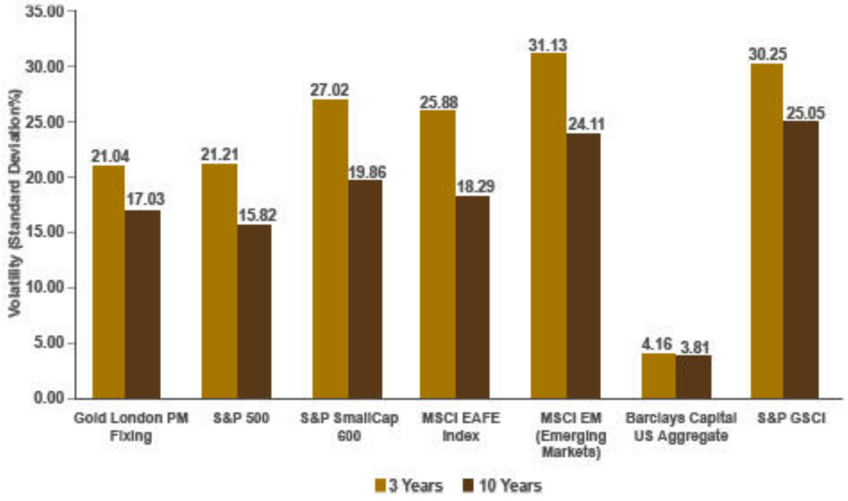

Source: StyleAdvisor, SPDR ETF Strategy and Consulting, as of 06/30/2011.
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A Hedging Asset

- An Inflation Hedge
- A Dollar Hedge
- An Uncertainty Hedge

An Inflation Hedge

Gold has historically been used as a hedge against inflation, as it has often outperformed other asset classes in times of rising costs.

- When governments pump money into the economy to stimulate growth, inflation often results, which can decrease purchasing power and drive down stock prices. Investors have often purchased gold during inflationary periods to protect the value of their money.
- Rising commodity prices can raise the costs of mining precious metals such as gold. Producers pass these costs on to purchasers, which can drive up gold prices, increasing its attraction as an investment option.

Performance of Gold Versus Other Asset Classes in Years when the CPI Is Over 5%

enlarge

Source: FactSet, SPDR ETF Strategy and Consulting, as of 09/30/2011.
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A Dollar Hedge

Historically, gold has often moved in an opposite direction as the dollar, for several reasons.

- Because gold is priced in dollars, a falling dollar may make gold more expensive for dollar-based consumers to purchase, and a rising dollar may make it more affordable.
- Gold's history as a monetary asset has inspired investors to buy it to protect the value of their money when the dollar is declining.
- A falling dollar often strengthens other currencies, allowing non-dollar-based consumers to purchase gold at more attractive prices, generating demand that may drive gold prices higher.

Gold's Inverse Relationship with the US Dollar, 1981-2011

enlarge

Source: FactSet, Bloomberg, SPDR ETF Strategy and Consulting, as of 09/30/2011.
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An Uncertainty Hedge

Historically, investors have often flocked to gold in reaction to certain economic and geopolitical events. Since the financial meltdown of 2008, gold has risen to its highest levels in decades as nervous investors have sought it as a potential safeguard against the effects of the ongoing global credit crisis and lingering economic weakness in the US and Europe.

Of course, there is no guarantee that gold prices will continue to rise or that these future economic and political events will cause similar price spikes.

Movements of Gold Prices in Response to Events ($US, 1990–2010)

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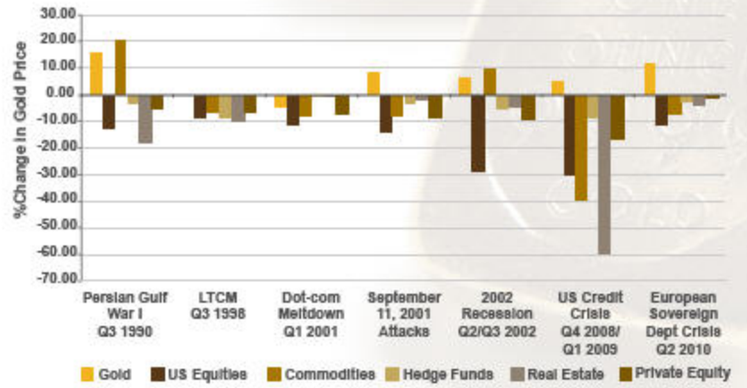

Source: World Gold Council, *Gold: alternative investment, foundation asset (October 2010).*
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Gold ETFs

Gold ETFs offer investors a cost-effective way to own gold without the added costs and logistics of physical ownership.

- Each share represents a proportional interest in the current price, minus administrative expenses of a quantity of gold held by a trust.
- Shares can be bought and sold on exchanges at market prices during normal trading hours.
- Management expenses are generally lower than those charged by gold account custodians.
- Share values are backed by the physical gold in the trust, and an updated list of specific holdings is accessible to the public at all times.

The next section offers an overview of SPDR Gold Shares, the first and largest gold ETF in the world.

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Attributes and Structure

Launched in 2004, SPDR Gold Shares (GLD) was the first US listed commodity ETF. GLD offers investors an innovative, relatively cost-efficient and secure way to access the gold market without the added logistics of buying, storing and insuring physical gold.

What differentiates GLD from other gold ETF products on the market?

- Market leadership. GLD was the first bullion-backed ETF, and remains the largest, with $58 billion in AUM[1] and unmatched participation from a variety of retail and institutional investors.
- Liquidity. GLD is the most liquid gold ETF in the world, trading $2.1 billion in average daily dollar volume over the past 12 months. This is more than 26 times greater than the average daily dollar volume of any other gold ETF during this period of time.[2]
- Vaulting. GLD is custodied by leading gold custodian HSBC Bank USA, N.A. The gold is held in a vault in London, the hub of gold bullion trading and the most liquid gold market in the world.
- World Gold Council backing. SPDR Gold Shares is sponsored by an affiliate of the World Gold Council, recognized world-wide for its expertise, research and insights into the gold market.

[1] NYSE Arca, SPDR ETF Strategy and Consulting, as of 06/30/2011.
[2] Ibid.

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About SPDR University

The Benefits of SPDR Gold Shares

- Easily Accessible
- Transparent
- Flexible
- Secure
- Cost-Efficient
- Liquid

Easily Accessible

Unlike gold mutual funds that can only be purchased once their NAV is calculated after the market closes, GLD is traded on the New York Stock Exchange Arca, allowing investors to buy and sell shares at market prices during normal trading hours.

And with a minimum purchase of one share, GLD offers investors a relatively inexpensive way to add gold exposure to their portfolios.

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The Benefits of SPDR Gold Shares

- Easily Accessible
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- Secure
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- Liquid

Transparent

Estimating how much an investor's gold coins and bars are currently worth can be difficult and time consuming. GLD shareholders, however, can always find updated net asset values and bid and ask prices during trading hours.

The price, holdings and net asset value of GLD, as well as market data for the overall gold bullion market, can be tracked daily at www.spdrgoldshares.com.

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The Benefits of SPDR Gold Shares

- Easily Accessible
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- Secure
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Flexible

GLD shares are listed on the New York Stock Exchange Arca and can be bought and sold throughout the day at market prices like stocks.

To protect against significant losses caused by short-term volatility, investors can also trade shares using limit and stop orders.

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The Benefits of SPDR Gold Shares

- Easily Accessible
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Secure

GLD shares are backed by a specified quantity of individually numbered gold bars held by the Trust, minus management expenses.

The gold itself is in the form of allocated 400 oz. London Good Delivery Bars, and is stored and insured in London by the Trust's custodian, HSBC Bank USA, N.A.

Shareowners can view a listing of these bars at any time at www.spdrgoldshares.com.

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The Benefits of SPDR Gold Shares

- Easily Accessible
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- Secure
- Cost-Efficient
- Liquid

Cost-Efficient

With a minimum entry point of a single share, investors can add exposure to GLD with a potentially lower initial investment than purchasing physical gold or gold mutual funds.

In addition, GLD's management fees may be significantly lower than those charged by other gold funds as well as banks and dealers offering gold accounts.

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- Cost-Efficient
- Liquid

Liquid

Purchasing physical gold can be a time-consuming, research-intensive process. Selling physical gold may be even more difficult, since the owner must either find a private purchaser or pay a seller's premium to a dealer.

GLD shares, on the other hand, are completely liquid. Since they are traded on the New York Stock Exchange Arca, investors can see what the market is offering for shares before they buy or sell and can have greater control over execution prices by placing stop and limit orders. Baskets of shares are created and redeemed according to market demand, creating liquidity.

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How GLD Is Priced

The value of GLD shares at any time will be influenced both by current gold prices and by current supply and demand for shares.

The Net Asset Value (NAV) of the Trust is calculated based on the total ounces of gold owned by the Trust valued at the gold London PM fix of that day plus any cash held by the Trust less accrued expenses. The NAV of each GLD share is calculated based on the NAV of the Trust divided by the total number of shares outstanding.

During normal market hours, the NYSE Arca displays both buy and sell orders. Trades are executed in price order from best to worst, or, if the prices match up, based on the time the buy or sell order was posted. Trade execution prices reflect the current supply and demand for shares, which may not always closely mirror the current NAV.

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SPDR Gold Shares Information

For more information on SPDR Gold Shares (GLD) visit the following resources:

→ www.spdrgoldshares.com
This international site offers research on gold investing, up to the minute spot gold prices, and current information on GLD.

→ SPDR Gold Shares on SPDRS.com
Access detailed information on GLD, including market prices and performance information and product literature.

→ SPDR Gold Shares Fact Sheet

→ SPDR Gold Shares US Prospectus

→ How GLD Shares Are Created and Redeemed
This brief video provides an overview of how shares of GLD are created and redeemed by Authorized Participants in coordination with the Trustee.
Video: 3:53

→ Gold FAQs
Get answers to frequently asked questions about gold and SPDR Gold Shares.
Article: 5 pages

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