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… buy it by the pocketful. By Tim Treadgold

PORTFOLIO POINT: Owning physical bars of gold can give an investor and sense of security … and mild anxiety.

Next time your investment adviser suggests you add a little gold to your portfolio ask how you'll do that? Better still, ask whether he or she has ever actually owned any gold – not a piece of paper allegedly backed by gold, but a solid chunk of the stuff.

Chances are the answer will be no, because actually owning a bar of gold is not a widespread experience despite countless studies recommending it as an investment safe haven, and as a means of reducing portfolio volatility.

Gold's preferred entry points for investors are via shares in gold mining companies, exchange-traded funds offered by a number of organisations, or certificates issued by gold depositories such as the Perth Mint. In most cases what you really own is a promise from someone that they are either looking after your gold, or that your money is being invested in gold.

This is not always a satisfactory situation, as the shareholders in Gold Link Income Plus discovered last year when their company plunged into crisis after botching a gold investment strategy. Precisely how professional managers lost money in gold when the gold price was rising strongly remains one of the investment world's best kept secrets.

Losing money in gold is not confined to dud strategies. Many gold mining companies have also been disappointing investments with a series of recent poor results, including cost blowouts at St Barbara Mines, a mill failure at Crescent Gold and the financial collapse of Monarch Gold.

Gold itself might be a rock solid investment, especially in uncertain times, but too many of the man-made methods of owning it are flawed, and in most cases you don't actually own the gold but rather a promissory note, which, in most regards, is no different to a share certificate.

Collectibles, such as coins and medallions, are also flawed in a pure investment sense because you are either paying a premium because someone says a product is rare (when it might not be), or because of a price attached to artwork on the item. In a nutshell, a coin or medallion is not a pure gold investment.

The problems with this entire situation are obvious: you are possibly being directed into owning an item that is not a pure gold play, by a person who has no experience in actually owning gold. Worse still is the advice dished out on owning a piece paper that someone claims is backed by gold but might actually be backed by a novel piece of speculation on the future movement in the price of gold; in other words: gambling.

There is a solution. Last year, in the interests of research, I popped into the Perth Mint and bought two five-ounce bars of gold. The purchase process was an experience in itself, but nothing compared with walking down the street with $9000 worth of metal in my trouser pockets – neatly balanced with five ounces in one pocket and five in the other.

Amusing as it was to have physical possession of the gold bars it was also very obvious that gold is not something you walk around with in your pockets. For a start, 10 ounces of the stuff is actually quite heavy, and there is a great sense of insecurity in holding something that can so easily be stolen.

Thirty minutes after taking possession, my gold was back underground, safely locked in a safe deposit box – although admittedly not one as safe as that at the Mint, and not insured because banks cannot insure the contents of boxes because they do not know what's really in them.

Insecurity aside, astute investors will have spotted the central theme of what it means to have a small gold holding in a portfolio. While virtually every other category of investment has been falling in value, those two bars of gold have held their value and, depending on the daily gold price and exchange rate, actually risen marginally.

The latest measure is that a $9000 investment made roughly nine months ago is today valued at $9800, a gain of 8.8% -- not much better than a term deposit, but in an investment class that is the oldest in the world.

Is owning a bar of gold recommended? No. Gold undoubtedly remains a core part of any well-balanced investment portfolio. It is the ultimate "hard commodity" and this is a time in the investment cycle when commodities rule and man-made paper products are tumbling in value.

But, a bar of gold is more than an object of value. It is an onerous responsibility.

Owning a physical bar was just something that I needed to do after many years of studying the geology of gold and writing stories suggesting investors maintain some exposure to the metal because of its unique historic features of being a safe haven in troubled times, long-term purchasing power, and diversity.

Security, however, is the major worry and while a bank vault is the safest place available to most people it can never be absolutely safe. Nor can a private safe, as the late Kerry Packer discovered when $5 million in bullion was stolen from his Sydney office … and never recovered.

So, if a gold bar falls into the "white elephant" category (albeit a very small and valuable white elephant) what is the best way to attain gold exposure.

The answer is one of the products offered by the Perth Mint, a certificate program with a government guarantee, the only one of its type in the world, as the Mint is owned by the West Australian government, and the Australian government ultimately stands behind the states.

Two types of certificate are available, and while they are another piece of paper, they entitle the owner to either an allocated piece of gold (your gold held in the Mint vault) or an unallocated piece of gold (your gold used in the Mint's gold fabrication business).

Allocated gold attracts an annual management (storage) fee. Unallocated has no fee attached because the Mint uses the gold – a classic win-win situation: you own the gold, the Mint gets to use it free of charge.

Perth Mint treasurer Nigel Moffatt told Eureka Report that most investors start with the unallocated certificate. "That is at no charge because we use the gold in producing our coins, medallions and other collectibles," he said.

"But, if you suddenly think Armageddon is just around the corner and you want physical possession of your own gold, you can convert the certificate to physical and we will make it into bars or coins of your liking and store it, or you can pick it up."

Of the two programs available unallocated is the most popular, accounting for about 90% of the Mint's certificate business because it is fee-free.

Interestingly, the Mint does not advertise its certificate program. “It’s rather interesting,” Moffatt said. “There we were 10 years ago launching a product that gave an individual the opportunity to invest in gold at little cost, buying it at very close to spot price, with no storage charges, and a benefit to use because it took away our cost of borrowing metal to run the business.

“But marketing it was a terrible problem. For every 1000 investors in the stockmarket there is probably one interested in gold. We look at every possible way to promote this product, including newspaper advertising, but nothing worked until the internet came along.

“What has worked is Google and other search engines. Investors look up gold, they discover what we offer and they come to us.”

But, there is a problem. The unallocated part of the Mint’s certificate program has a ceiling – it’s how much gold the Mint can sell through its coin, medallion and collectible programs. “Yes, there is a limit, though we think it’s got a few years yet,” Moffatt said.

Other gold marketing organisations try to match the Mint for a secure exposure to gold. None come close.