

# Precious Metal Investments: A Gold Rush or Another Bust?

“In 2014, a U.S. Senate committee found that in 34 federal cases more than 9,000 victims had lost at least \$300 million to precious-metals scams<sup>1</sup>...” Precious metals scams involve high-pressure sales tactics, cold-calling, and fear-mongering. Companies are using social media to target their ads to those who already have a pre-disposition to believing the claims made by these precious metals scammers.

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## Precious metals **key terms**?

**Bullion** is usually available in ingots and bars. It is often sold with only a small markup and the price should not differ greatly from the **melt value** - which is the value of the metal if it were to be melted down and sold. **Numismatic coins**, are collectible coins whose price depends on the market for the collectibles. Investing in numismatic coins may be highly risky and speculative.

## How do they **identify you**?

Companies are getting better and better at targeting their advertising. Companies can select to only target, for example, retirees with a certain political ideology. Precious metals scammers may attempt to bond with you over an ideology, building up trust with you before they go into their sales pitch. See Jeremy Merrill & Hanna Kozowska, *How Facebook fueled a precious-metal scheme targeting older conservatives*, Quartz, November 19, 2019. Available at: <https://qz.com/1751030/facebook-ads-lured-seniors-into-giving-savings-to-metals-com/>.

Also, you may click on a link that you think is from a news agency or a well-known television personality, and you will be directed to a precious metals site that is completely unrelated to the news site. Social media companies may also sell your information as a lead to the precious metals scammers. Alternatively, these companies may simply be cold-calling.

## What happens **post leads**?

Some precious metals companies will call you repeatedly, and try to establish a bond. After they accomplish this, they may begin to engage in fear-mongering. For example, companies may state that the economy is due to collapse, or that the government changed the law and can now seize your retirement account. They will use fear in an attempt to get you to buy their product.

## How does the **transaction work**?

After the companies have convinced you that you need to buy their precious metals, they may suggest that you open a **self-directed IRA** (“SDIRA”). These SDIRA companies allow you to use retirement funds to buy non-traditional assets, like precious metals, that traditional custodians may not allow. SDIRA’s typically have no duty to tell you of any risks of any of the products in which you may be investing. These risks can include a lack of disclosure, liquidity or the risk of fraud in your investment.

Salespersons from these metals companies may attempt to have you liquidate your traditional retirement accounts, move to a self-directed IRA, and then buy the precious metals, all in the space of a few phone calls. They may “walk you through the process” by calling your broker with you, filling out the form and having you e-sign (potentially without even giving you time to read their forms). They may say things like “you do not have time to read it, the economy can collapse today!”

These forms may give the salesperson the ability to purchase precious metals that you did not agree to buy. The coins the salesperson purchases are often numismatic coins, without a market, and the price is heavily inflated. When you receive your statement from the SDIRA, it may reflect the melt value and the difference between what you paid and what the coins are worth can show a loss of anywhere from 33 to 70 percent of the amount you originally invested. Salespersons may receive undisclosed commissions on this sale. Because there is no market for the coins, and these companies will generally not buy their coins back, you may be stuck with a high percentage loss.

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<sup>1</sup> Jeremy Merrill & Hanna Kozowska, *A precious-metals scheme used fear and Facebook to trick older conservatives out of their savings*, Quartz, November 18, 2019. Available at <https://qz.com/1749695/facebook-ads-targeted-fox-news-fans-for-shady-silver-coin-scheme/>.

## RED FLAGS of investing in precious metals

1. *High pressure cold calls:* If you are receiving unsolicited calls, be extra cautious with giving out your personal information. Even if you clicked on a link that indicated interest in precious metals, some precious metals companies employ high pressure tactics to try and get you to invest *now* without doing your due diligence. Be careful with all links you click because they may direct you to a scam site.
2. *Statements meant to induce fear:* Precious metals companies may try and sell you on the value of their product by stating that the stock market is unpredictable and will crash, or that the government can steal your retirement accounts.
3. *Guarantees:* Nothing in life is guaranteed, especially not investments. Be careful anytime anyone tells you that this product can never lose money or it will “definitely” make money.

## How to Protect Yourself

- Ask questions!
  - *What licenses do you hold?* Anyone providing investment advice must be licensed as an investment adviser. If they state that they are, look them up using <https://adviserinfo.sec.gov/> or call our office at 303-894-2320.
  - *How are you paid?* Most likely people are receiving commissions, and may be receiving higher commissions by selling you numismatic coins as opposed to bullion.
- Do not be swayed by fancy titles, like “executive vice president of sales.”
  - Many salespersons will try and elevate their position in the company to try and impress you that such an “important” person would be calling you.
- Be wary of oral agreements that you cannot get in writing
  - Guarantees of profits or reduced loss are always red flags and are rarely, if ever, honored.
- If it sounds **too good to be true**, it probably is.
  - For example, companies will use review aggregators that show them having 100 percent customer reviews. Be skeptical of this numbers. Maybe the company with a 100 percent rating is threatening lawsuits against anyone who gives a bad review or maybe the company bought reviews to make themselves look better.
- Call us!
  - If you are unsure, call the Colorado Division of Securities at (303) 894-2320. We cannot provide investment advice, but we are happy to discuss potential red flags.

## The Bottom Line:

*Before making any financial decisions, ask questions, do your homework and contact the Colorado Division of Securities at 303-894-2320 with any questions.*

