WHAT IS BEST WAY TO OWN PRECIOUS METALS?

SPROTT
ASSET MANAGEMENT

Precious metals have been a store of wealth for millennia. Owning coins, bars or jewelery used to be the only option to invest in gold, silver or platinum, but today's investors have a number of alternatives. In addition to bars and coins, they can also hold precious metals certificates, metals-backed exchange traded funds and closed-end funds.

BARS AND COINS

Bars and coins are the most direct way to hold precious metals. Government minted bars and coins like the American Gold Eagle or Canadian Maple Leaf have a guarantee of purity and can be purchased through authorized dealers. However, when holding bullion directly, investors are responsible for its storage and insurance and their ongoing costs. Also, bullion dealers charge a mark-up to your purchase price of coins and bars and buy them back at a discount. As well, bars and coins may not be easily traded.

In the U.S., precious metals are considered to be collectibles like art, rare books and fine wine. Provided you hold it for more than 1 year, for tax purposes, the capital gains tax on your net gain from selling a collectible is 28%. This level of tax is considerably higher than the tax rate on most net capital gains, which is an average of 15% for most taxpayers, according to the IRS[1]. If you sell a collectible in less than 1 year, the proceeds will be taxed as ordinary income.

PROS	CONS
• Direct ownership of bullion. • Able to purchase in small dollar amounts.	• Mark-ups to spot prices when buying; mark-downs when selling. • Inconvenient to buy and sell. • Responsible for storage and insurance, and ongoing related costs. • In the U.S., taxed as a collectible at 28% if held more than 1 year.

PRECIOUS METALS-BACKED EXCHANGE TRADED PORTFOLIOS

Precious metals exchange-traded portfolios are a popular way to gain exposure to precious metals without the inconvenience of storing and insuring the physical bullion. Exchange Traded Funds (ETFs) and Closed-End Funds provide investors with access to physical bullion with the daily liquidity of an exchange-traded security.

EXCHANGE TRADED BULLION FUNDS

Exchange Traded bullion Funds are open-ended funds that issue shares backed by metals. Investors do not have direct beneficial ownership of the bullion and have no option to exchange their shares for physical metal. If investor demand outpaces available shares on a given trading day, the ETF will issue more shares to satisfy the demand and acquire more metal with the proceeds. Conversely, when there are more investors selling than buying, the ETF will redeem shares and sell the equivalent value of metal.

While bullion ETFs mostly hold allocated metals, they also hold unallocated metals to facilitate the creation and redemption of shares. In addition, the custodian that stores the metal is typically a bullion bank, which can create counter-party risk in the event of bankruptcy or insolvency.

In the U.S., for tax purposes, bullion ETFs are considered collectibles by IRS. The capital gains tax on an investor’s net gain from selling a collectible is 28%.

	PROS	CONS
ETFs	• Liquid. • Convenient – easy to buy and sell. • Cost effective. • Typically trades at net asset value • Able to purchase in small dollar amounts.	• Cannot be redeemed for bullion. • Can hold futures contracts, certificates and unallocated metals. • Counterparty risk – bullion bank. • In the U.S., taxed as a collectible at 28% if held more than 1 year.

CLOSED-END BULLION FUNDS

Closed-End Bullion Funds are similar to the ETFs, but issue units through initial public offerings and follow on offerings and can cancel units through buybacks. The units are usually fully backed by allocated bullion. Because there is a fixed number of units at any given time, they may trade at a premium or a discount to their net asset value, depending on investor demand and whether there is an option to redeem for physical metal.

Some closed-end funds, such as the Sprott Physical Bullion Trusts, are considered Passive Foreign Investment Companies (PFIC) and may offer more favorable tax treatment compared to coins, bars, precious metals certificates and ETFs for non-corporate U.S. investors.

	PROS	CONS
Closed-End Funds (without a physical redemption feature)	• Liquid. • Convenient – easy to buy and sell. • Cost effective. • Potential tax advantage for non-corporate U.S. investors if held more than 1 year – 15% or 20% capital gain tax rate. • Able to purchase in small dollar amounts.	• Can trade at a significant discount/premium to net asset value. • Counterparty risk – bullion bank. • May hold unallocated precious metals certificates.
Sprott Physical Bullion Trusts (offers physical redemption)	• Liquid. • Convenient – easy to buy and sell. • Cost effective. • Fully allocated metal only. • Redeemable for physical metals*. • Lower counterparty risk – storage with Crown Corporation of the Government of Canada. • Potential tax advantage for non-corporate U.S. investors if held more than 1 year – 15% or 20% capital gain tax rate**. • Able to purchase in small dollar amounts.	• Can trade at a discount/premium to net asset value but the discount is typically reduced due to physical metal redemption feature.

PRECIOUS METALS CERTIFICATES

Precious metals certificates are another way to gain exposure to gold or silver, but without the inconvenience of storing and insuring physical bullion. They are certificates of ownership of the precious metal and can be allocated (fully reserved) but in most cases are unallocated (pooled). Allocated certificates usually correspond to specific numbered bars, while unallocated certificates do not correspond to specific bars and do not provide direct beneficial ownership or title.

They are essentially promissory notes - the issuer, a bullion bank, is promising to exchange them for bullion if requested, but investors do not own the bullion. There is no guarantee that there is a sufficient amount of bullion to back all of the certificates issued.

Bullion banks charge a premium over the spot price and certificates usually require a larger minimum amounts such as 10oz of gold or 500oz of silver. Counter party risk is a key consideration when investing in precious metals certificates. If the issuer of the certificate were to go bankrupt, you may become an unsecured creditor and you may not recover 100% of your investment.

In the U.S., for tax purposes precious metals certificates are considered collectibles by IRS. The capital gains tax on your net gain from selling a collectible is 28%.

PROS	CONS
• No responsibility to arrange for storage and insurance. • Lower mark-ups to acquire.	• Do not always guarantee exchange for bullion. • Counterparty risk of issuer. • No direct ownership. • Not able to purchase in small dollar amounts. • In the U.S., taxed as collectibles at 28% if held more than 1 year.

Investors have a number of options to gain exposure to precious metals – coins and bars, certificates, ETFs and closed-end funds. Bars and coins provide direct bullion ownership, but can be costly and inconvenient to buy and sell. Certificates are more convenient to hold but do not guarantee exchange for bullion and carry counterparty risk. ETFs are liquid and cost effective but do not offer beneficial bullion ownership and cannot be redeemed for metal. We believe that closed-end funds with physical redemption features, such as Sprott Physical Bullion Trusts offer a great way to gain exposure to precious metals. They have the liquidity, convenience and cost efficiency of exchange-traded funds along with a number of compelling advantages which include the ability to redeem for physical metal*, the potential for more favorable tax treatment for U.S. investors and lower counterparty risk by not storing the metals with a non-corporate U.S. bullion bank.

SPROTT PHYSICAL GOLD TRUST	SPROTT PHYSICAL SILVER TRUST	SPROTT PHYSICAL PLATINUM & PALLADIUM TRUST
NYSE Arca: PHYS	NYSE Arca: PSLV	NYSE Arca: SPPP
FULLY-ALLOCATED PHYSICAL METALS	WORRY-FREE STORAGE	EASY TO BUY, SELL AND OWN
REDEEMABLE FOR PHYSICAL METALS*	POTENTIAL TAX ADVANTAGES**	LIQUID

SPROTT ASSET MANAGEMENT

www.sprottphysicalbullion.com

[1] Source: How Are Collectibles Taxed? | Investopedia http://www.investopedia.com/articles/personal-finance/061715/how-are-collectibles-taxed.asp#ixzz4NN4psnC7

* Subject to certain minimums

** For more information, please see "Tax Considerations-U.S. Federal Income Tax Considerations" in the Prospectus and always consult your tax accountant regarding your particular situation.

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