

Madiba mania: let the buyer beware

■ The combination of Nelson Mandela and gold has proved to be a successful marketing pitch. But can the market sustain the high prices at which these so-called collectable medallions trade? **Margarete King** investigates

SOUTH AFRICANS LOVE MADIBA AND THEY love gold. Undeniably, the former statesman and the precious metal are part of the fabric of this country's identity. Put them together and they create a powerful, even intoxicating, appeal to our emotions. But investment decisions made when intoxicants are flowing freely are seldom good ones, even when buyers are snapping up commemoratives of former president Nelson Mandela struck in gold.

As a result, high prices are being asked for Mandela coins and medallions, and, experts say, investors are going to burn their fingers when reality sets in and the heady prices come down to earth.

Perhaps the flagship of these commemoratives is the Mandela/FW de Klerk medallion, issued by the South African Gold Coin Exchange (SAGCE). The medallion, which contains an ounce of 24-carat gold, was retailing for R40 000 at the Scoin Shop, the SAGCE's retail arm, in early October 2011. At that time, the actual precious metal in the medallion was worth R13 155, according to Bloomberg.

"Prices are exorbitant," Peter Wilson, the chairman of the National Association of Numismatic Societies, says of the market for modern medallions in general. "People are buying with the expectation of making a huge profit. I don't think the prices are sustainable. Let the buyer beware."

Morné de la Guerre, a director of auctioneers Stephan Welz & Co., says: "People are buying because they think it is going to be an investment.

"Don't get into the market if you don't know the

market. This is true whether you want to buy old collectable coins or modern ones."

Experts in the field of coin collecting (numismatics) say the dangers for buyers are that:

■ Commemoratives such as the Mandela/De Klerk medallion are often referred to as "coins". The fact that they are medallions, and not coins, has financial implications for buyers (see "Scoin Shop 'misinforms' public" on page 14).

■ The prices of the medallions are set by the companies that distribute them, and there is no reliable external way to obtain an indication of their fair value, such as a listing in a respectable catalogue.

■ Prices rise rapidly soon after a medallion is issued, but it is unlikely that a buyer will be able to lock in the early price rise. This is because:

□ Resale is not guaranteed. The vast majority of coin dealers will not buy these medallions, and so resale depends on their being bought back by the original retailer or being sold via an online auction.

□ If the original retailer does buy back the medallion, there is a wide difference between the price you will be offered as a seller and the retail price.

■ The medallions are marketed as collectors' items, but they are not collectables in the accepted sense of the word. Rarity is one of the qualities of a collectable; anything that is still being produced cannot be rare.

The SAGCE and the Scoin Shop feature prominently in this article because:

■ The SAGCE is a prolific distributor of medallions; and



ILLUSTRATIONS: COLIN DANIEL

■ The Scoin Shop, as the only retail chain of coin and medallion shops in the world and a high-profile advertiser, has made medallions much more accessible to the average non-collector than has been the case in the past.

To be clear, this article does not accuse the SAGCE and its retail arm of doing anything illegal. It would simply like to caution readers to make sure they fully understand the implications of buying a medallion, especially if they view it as an investment.

It must be noted the Scoin Shop does not sell only Mandela medallions. It sells other medallions, as well as Krugerrands and other coins issued by the South African Mint. And to be fair, it is not only the Scoin Shop that sells Mandela-related commemoratives.

The price rises of Mandela medallions are impressive, and buyers can be excused for expecting to turn a healthy profit. The Mandela/De Klerk medallion referred to at the start of this article and now selling at R40 000 was launched in 2006 at a price of "somewhere between R14 000 and R17 000", according to a Scoin Shop sales assistant.

And opportunities keep presenting themselves as more medallions arrive on the market. The SAGCE's 2011 Mandela South Africa rugby set, for example, moved from its September launch purchase price of R19 500 to a retail price of R21 000 in a month.

The Mandela bi-metallic medallion showed a price rise of 25 percent in the space of a month from issue

(see "SA Gold Coin Exchange prices" on page 16).

Sales consultants at Scoin Shop outlets visited and telephoned by PERSONAL FINANCE consistently stressed that rises in the prices of the medallions were rapid after issue and accelerated even more after a particular issue was sold out and the market of buy-backs and resales kicked in.

At the same time, the sales consultants emphasised that buying a medallion is an investment, and it is for the long term. They recommended that the medallion should be held for at least three years, preferably five, after purchase.

"The value of the coin increases in the first five years. After that, it starts to level off. That's why we recommend you keep it for three to five years," a sales manager at an outlet said.

In an interview with PERSONAL FINANCE magazine, SAGCE and Scoin Shop chairman Alan Demby said: "We don't want buyers to have the impression that they will make a quick buck. We want you to accumulate your collection over time.

"If you want to make a quick buck, you should not go into any collectors' market."

In De la Guerre's opinion, a person holding a Mandela medallion will not get his or her money back in the short term. "If the client buys and after a week is happy with the price increase and wants to sell, he won't be able to," he says.

De la Guerre adds that it will be difficult to >>>

>> find a buyer other than the SAGCE, no matter how long you hold on to the medallion.

And Wilson asks: "What kind of resale market for these medallions will there be? Try to sell one of these sets to another dealer and see how far you get."

One place where the medallions do trade is on auction website Bid or Buy.

The SAGCE sent a statement to PERSONAL FINANCE in response to this article before publication. Part of it reads: "As a unique offer to its customers, the South African Gold Coin Exchange provides an exchange platform that undertakes to buy back products it has sold – a policy that sets us apart from any other participants in this market, including the mints."

PERSONAL FINANCE's investigations showed that consultants were quite careful to say that while the Scoin Shop would buy back medallions bought from it, this was not guaranteed. The sales manager quoted above said a buy-back would depend on whether there were any of the particular medallion in stock. If the Scoin Shop already had stock of a particular medallion, it was less likely to buy it back, she said.

De la Guerre backs that up: "If SAGCE still has stock, they won't buy. Any dealers who hold stock of any coin won't buy back that same coin."

If the Scoin Shop does want to buy back your medallion, don't expect to receive anything like the prevailing selling price. There is a very wide difference between that and the price you will be offered.

The gap is known as the buy/sell spread, or the commission.



Morné de la Guerre: Don't get into the market if you don't know the market

The Mandela/De Klerk medallion was retailing for R40 000 in early October 2011, when this article was written, but the Scoin Shop was offering to buy it back for R25 000.

No one would expect a dealer – or a retail chain – not to take a commission. The price difference between the selling price and the buying price covers the overheads and profitability of the shop that has given you the opportunity to trade.

But the least you can expect is that sales consultants point out that the spread exists and make explicit the size of the commission. This was not the experience of this reporter. When posing as a potential buyer, salespeople told her only about the price rises that the "coins" were experiencing and referred to the spread only when pressed.

The spread was mentioned only when approaches were made in the guise of a seller. In the one instance where a salesperson became specific enough to provide figures, he used the example of the Scoin Shop selling a "coin" for R50 000 and buying it for R44 000. That's a commission of 10 percent, he said. Actually, it's more than 13 percent, but let's not quibble when actual examples, rather than hypothetical examples, show the spread is so much more.

Wilson says that, typically, a dealer will charge commission of between 10 percent and 20 percent.

The Scoin Shop will store your purchase free of charge. This certainly does help to offset the size of the commission, given the security risk and added insurance that your medallion or coin would incur if you have to make your own arrangements.

The SAGCE's statement says: "We provide our

SCOIN SHOP MISINFORMS' PUBLIC

THE SCOIN SHOP MISINFORMS THE PUBLIC BY NOT making the distinction clear between a coin and a medallion, and this has financial implications for the buyer, Natanya van Niekerk, the deputy general manager of the South African Mint, says.

"Their Mandela 'coins' are all medallions. To say that they are selling Mandela coins is a blatant misrepresentation," she says.

"Before a South African coin can be issued, it goes via the Governor of the Reserve Bank and has to be approved by cabinet and signed off by the Minister of Finance. A medallion goes through no process."

The Mint of Norway manufactures the Mandela medallions for the South African Gold Coin Exchange, Van Niekerk says.

There are two financial implications to buying a medallion:

- You pay VAT on a medallion. You do not pay VAT if

you buy a South African coin that is legal tender.

- Collectability. Van Niekerk says that in the international market, less than 10 percent of numismatists collect medallions. "That immediately makes medallions less attractive, because the market is so small," she says.

Van Niekerk emphasises that the Scoin Shop is a legitimate dealer, and adds: "I don't want to put anyone down. The biggest concern is that these aren't coins. That's a big thing."

In the Q&A section of the Scoin Shop website is the question: "What is the difference between a coin and ... medallion?" The explanation is less informative than Van Niekerk's. It says "a coin is money and therefore has a monetary value emblazoned on it". This is prefaced by a phrase saying that the word "coin" can be used as an all-encompassing term.

Clearly, Van Niekerk does not agree.



customers ... free safe custody and have a reputable international auditing firm that performs our audits, including customers' safe custody stock, in accordance with accepted accounting practices."

One reason that dealers are not interested in buying the medallions from the initial purchaser is that many believe the medallions are overpriced to begin with. So who determines prices and what factors go into the calculation?

"Prices change all the time. We have to phone HQ every day," a Scoin Shop sales consultant said.

So headquarters – the SAGCE – determines the prices. How does it do this?

As "Factors that affect value" on page 19 explains, the intrinsic value of the underlying metals is one factor in determining the price.

The 2011 Mandela South Africa rugby set moved from its early September launch price of R19 500 to a retail price of R21 000 in a month. The gold price in rands was little changed between early September and early October. (The gold price's fall of more than \$200 in that time was neutralised by the rand weakening by more than a dollar against the US currency.)

So if changes in the price of gold do not account for the Mandela rugby set's 7.7-percent increase in a month, what does? "Supply and demand," the salespeople said repeatedly when asked about what factors drive price other than the underlying metal price. "Supply and demand."

The SAGCE's statement to PERSONAL FINANCE says: "The value of a medallion is not only determined by the ruling gold price but also takes into account the limited mintage, the event and/or person commemorated on the reverse of the medallion, and the

demand for that particular medallion."

Demby said in the interview that the launch price is determined by the need to cover the basic cost of the metals, plus "the mark-up, commissions, marketing costs, fees and a small profit".

When asked why the Mandela medallions have a tendency to rise in price in the first month or two after launch, before all the coins have been sold, Demby said repeatedly: "I don't have an answer."

It's common cause that in the collectible market as a whole, dealers have plenty of leeway to determine prices. Knowledge on the part of potential buyers and external price guidelines can act as brakes on this dealer discretion.

One line of thinking is that a coin or medallion is worth what anyone is prepared to pay for it, and let the buyer beware. In order to avoid losses, you, as a potential buyer, would presumably want to establish the fair value of the piece in which you are interested.

The problem is there is no certain and respectable external reference for you to use as a benchmark for the price of the medallions that the SAGCE issues.

If you were interested in an older coin or medallion, you could obtain a rough indication of fair value in a number of ways.

Annual catalogues provide guidelines to what prices have been realised for the sale of coins and medallions. For example, *Hern's Handbook on South African Coins and Patterns*, by Brian Hern, is respectable and authoritative. Hern has also written a book on medallions struck during the Kruger republic and Anglo-Boer War period.

"Prices are regulated by the regular publication of catalogues. These reflect prices being >>>

SA GOLD COIN EXCHANGE PRICES

MANDELA MEDALLIONS ARE MINTED BY THE MINT OF Norway under licence from the Nobel Institute, a non-profit organisation, the South African Gold Coin Exchange (SAGCE) says. The SAGCE is the official distributor of the medallions. These are the statistics PERSONAL FINANCE has been able to gather for two of the medallions mentioned in this article:

Mandela Bi-metallic medallion

5.1 gram gold outer ring with 2.68 gram silver inner

Launch date: August 2011

Launch price: R6 000

Retail price on October 5, 2011: R7 500

Value of metal on October 5, 2011: R2 180 (R2 156.97 for the gold plus R23.01 for the silver)

Increase in price in about first two months: 25 percent

Number of sets minted: 4 000

2011 Mandela South Africa rugby set

Half-ounce gold medallion and one-ounce silver medallion

Launched: early September 2011

Launch price: R19 500

Retail price on October 5, 2011: R21 000

Value of metal on October 5, 2011: R6 844.43 rounded off (R6 577.38 for the gold plus R267.05 for the silver)

Increase in price in first month: 7.7 percent in a month

Number of sets minted: 2 011

>> realised at coin shows and auctions and by dealers who are members of the South African Association of Numismatics Dealers," Wilson says.

"Catalogues can be relied on as a fair measure of what is happening. A coin will have to be traded at a particular price a couple of times before Mr Hern will take that as the ruling price."

But the prices of medallions issued by the SAGCE do not appear in *Hern's* or in international catalogues such as the Krause catalogues (properly known as *The Standard Catalog of World Coins*).

De la Guerre says another indicator is the prices achieved at official auctions, dealers and coin fairs.

But SAGCE medallions probably won't be reflected on these forums because they are relatively new products. "They haven't really found their feet in numismatic terms," he says.

Wilson concurs: "One has to be very careful when buying. You won't find prices of modern medallions such as those issued by the SAGCE in any international catalogue."

You will find SAGCE medallions for sale on Bid or Buy and eBay. But you would have to treat the prices achieved there with a certain amount scepticism, and there is no guarantee a price that has been achieved in an online auction will be repeated.

The best way to obtain an estimate of the value of a coin or medallion is to speak to a broad range of people who know the business.

You could also do a price test: telephone dealers and see what they would pay you if you wanted to sell the coin or medallion that you currently want to buy. If the price they offer is 10 to

HOW THIS ARTICLE WAS RESEARCHED

THE SOUTH AFRICAN GOLD COIN EXCHANGE (SAGCE), which owns the Scoin Shop chain, initially refused to answer questions put by PERSONAL FINANCE. The queries arose out of concerns raised by a reader who is a financial planner with the Certified Financial Planner accreditation.

The questions included ones about the SAGCE's repurchase policy, the size of the spread between the sale and the purchase price of coins and medallions, and whether Scoin Shop staff were incentivised to sell by the use of commission.

Alan Demby, the chairman of the SAGCE, said in his reply: "This is not the first time that we, in company with other similar organisations, have been accosted by loaded questions, most often submitted to your and other publications by failed coin dealers. For this and other reasons, the South African Association of Numismatics Dealers (SAAND) has asked its members to direct all such matters to SAAND."

When approached for comment, Glenn Schoeman, the

chairman of the SAAND, said: "I cannot comment about an SAAND member unless they are acting unethically."

As a result, PERSONAL FINANCE gathered information about the Scoin Shop by visiting three outlets posing as a potential buyer and making inquiries by telephone to another three outlets in a different province. Some of the information provided by these salespeople has been used in this article and some of the salespeople have been quoted, but they have not been named because that does not seem relevant.

Prices and launch dates for the medallions were supplied by Scoin Shop salespeople – numerous attempts were made to verify these facts with outside sources, but with no success.

When this article was completed, it was sent to the SAGCE for fact-checking and comment. The SAGCE sent back a statement and then also arranged a meeting with Demby, although neither specifically rebutted any points in this article. Relevant sections of the statement and interview have been included.

5 percent less than the price you are being asked to pay, then it's not a bad buy, because good collectible coins appreciate slowly over time, and you need to factor in a reasonable buy/sell spread. Be wary if the dealers are not prepared to pay anywhere near the price of the coin or medallion you want to buy.

In Wilson's opinion, the value of the underlying precious metal should be your anchor for a modern medallion.

In this case, it is most imprudent to pay a premium that is out of reach of the metal content," he says.

"People are buying [Mandela medallions] not as collectors would. They are buying as investors; they are speculators, and speculators quite often burn their fingers. They don't research what they are buying. If they behaved this way when buying on the stock market, they would also burn their fingers."

Wilson makes it clear that he is not criticising the Scoin Shop for selling the medallions.

"They produce some beautiful stuff and they are doing a wonderful job," he says. "They also do some fairly clever marketing.

"But some things ... I just grin and walk away."

In retailing terms, the Scoin Shop has been a big success. It has 22 outlets in South Africa and three in Britain. All are located in heavy traffic areas, such as malls and airports. The outlets this writer saw were bright, airy and modern, and the salespeople friendly and helpful. As a result, the world of coins and medallions has become accessible to a far wider range of people than ever before.

Demby is quoted in a British online retailing magazine, *Shopping Centre*, as saying: "We've worked out the formula and perfected our offering.

"We've demystified buying gold, and we aim to make collecting accessible to the man in the street. We do for coins what McDonald's did for burgers, what Starbucks did for coffee and what Louis Vuitton did for designer fashion." (The article, "Going for gold", was published at www.shopping-centre.co.uk on December 15, 2010.)

"Shopping centres are a comfortable place for people who are not knowledgeable about coins," it quotes Demby as saying. "We employ helpful salespeople rather than experts – that's part of the appeal for people who have never bought coins before, and it makes us more accessible."

British newspaper *The Guardian* didn't flinch from tackling the Scoin Shop on its vulnerabilities – "flogging high-priced gold to gullible consumers" – in its article on the Scoin Shop on September 15, 2011 ("The gold shop coining it at Westfield Stratford City" on www.guardian.co.uk).

The journalist, Ben King, quotes Demby as saying: "I suppose the detractors will argue that about us, but we're not selling to investors – we're selling to collectors, who tend to take a long-term view and buy a



large spread of coins over time rather than buying a huge amount of gold overnight."

The SAGCE statement says: "Our customers are educated and well informed, and have historically seen the benefits of collecting over time. That 80 percent of our customers are repeat customers is proof of such benefit."

It also says: "It has taken 16 years for the Mandela medallion market to grow to its current size, with the first Mandela medallion having been launched in 1994. While the medallion was considered to be overpriced at the time, today it trades at over 1 000 percent [of] its launch price."

Wilson agrees the Scoin Shop is stimulating interest in medallions and coins among the general public. >>

EDUCATING BUYERS

THE SOUTH AFRICAN ASSOCIATION OF NUMISMATICS Dealers (SAAND) would like to stimulate interest in coins and develop knowledge about them, Glenn Schoeman, the chairman of the association, says.

Last year at the annual Durban coin show, the SAAND held a full-day seminar to which it invited up-and-coming businessmen. "It was a bumper day," Schoeman says.

The seminar discussed the gold price, the pros and cons of investing in gold and coins, and sharks in the industry.

"These guys were brought into something new," Schoeman says. "An educated buyer is a happy buyer."

If you would like details about SAAND's public information and education programme, which was published in January 2012, you can telephone Schoeman at 011 873 5090 or email him at glenn@gcsmint.co.za

>> But, he asks, what is a good price for the products on offer? "Is it what a person is prepared to pay? And is a person persuaded to buy by a lot of sexy glossies?"

He comments that "if there are enough people on the treadmill, you will do well".

But the more people who buy in, the more fragile the value becomes. That is because the ultimate fact in collecting is rarity. And every new Mandela medallion issued by the SAGCE comes with the same image of Mandela, because the Nelson Mandela Foundation has given permission for the use of only one image.

Wilson says replication and large numbers of medallions coming on to the market are a problem. He says that in the 1960s and 1970s the number of medallions struck (the mintage) to commemorate any particular event was much lower than now.

"Then, mintages of 30 were not unusual; mintages of 500 were highly unusual," he says.

Mintages for modern medallions are much higher: for Mandelas, a few thousand seems to be average, although smaller mintages are reserved for issues with particular cachet.

Wilson says a good example of highly collectable medallions are those from the great era of medallion striking during the Anglo-Boer War.

"Thirteen countries in Europe struck medallions

related to the war, and a majority of the medallions were pro-Boer. These are highly collectable and avidly sought after, and prices are rising in direct proportion. The supply is finite. With modern medallions, the supply is not finite," he says.

There are very few collectors of modern medallions, Wilson says. The tendency for modern medallions is that, a few years after issue, they exchange hands at the intrinsic value of the underlying metal.

The size of the buy/sell spread and the possible difficulty of finding a buyer may come as a big disappointment if customers keep their eyes only on the selling price, but there is the solace that Mandela commemoratives could have an in-built premium waiting to be unleashed.

A salesperson at a Scoin Shop, on being told that this reporter had "a Mandela/De Klerk medallion to sell", politely suggested she hold on to it until the inevitable death of Mandela.

De la Guerre says that when Mandela dies, "the stuff is going to skyrocket".

He believes the price spike that will follow Mandela's death could last for anything from six months to two years. "Then the bottom will fall out of the market. The same happened with Diana."

The Princess of Wales, who died in August 1997, was the subject of mountains of commemorative coins and medallions issued across the world, from her homeland to Australia to Niue, from the time of her engagement until after her death.

"The whole market is determined by supply and demand," De la Guerre says. "I don't want a Diana collection of coins if someone comes in here offering one for sale. They overpaid at the time they bought."

He says that at the moment there is no stopping the rise in the prices of Mandela medallions.

"When the market is saturated, prices will come down to the right level."

To anyone who already holds a Mandela medallion, De la Guerre's advice is to get out when you have a buyer and can make a profit you are happy with.

"Don't be greedy – if you get a buyer and make a profit, don't try to call the top."

Demby told PERSONAL FINANCE magazine that, in his view, buying coins and medallions should be part of a balanced portfolio, but only once you have accumulated shares, property and cash.

His philosophy is that you should invest 90 percent of your funds equally in these three asset classes. The remaining 10 percent should be invested in gold, with two-thirds of that in bullion such as Krugerrands and one-third in collectables such as medallions.

So in a R10-million portfolio, he said, the allocation to medallions would be R300 000. "That puts it in perspective."

He summed it up: "You have to have a balanced portfolio. Most people come short because of fear and greed. Be realistic and take a long-term view. You could buy property in Clifton and overpay." □

THE GOLD COIN PROTECTION GAP

GOLD COINS AND MEDALLIONS ARE NOT REGARDED AS financial products, so their sale is not regulated by the Financial Advisory and Intermediary Services (FAIS) Act.

If gold coins and medallions were regulated under the FAIS Act, some of the key facts that salespeople would have to disclose are:

- Whether they earn commission, the amount of commission earned and whether any non-cash incentives were in place;
- How liquid the product is;
- Any material risks associated with the product;
- Concise details of how the value of the investment is determined; and
- Information concerning past investment performance (if you ask for the information).

In addition, the salespeople and the companies they represent would have to put your interests above their own. If you were unhappy with the advice you received or product you were sold, you would be able to complain to the Ombud for Financial Services Providers.

But as long as gold coins and medallions are not covered by the FAIS Act, don't expect the level of transparency and protection that applies to the sale of most financial products.

Factors that affect value

THE VALUE WE PUT ON AN ITEM IS DETERMINED BY how much we want it. But a number of factors intertwine to determine the desirability – and therefore the value – of a coin or medallion. (For brevity, the word “coin” only will be used from here, but the same dynamics apply to medallions.) The main factors are:

■ **The intrinsic value of the metals used.** If you buy a precious metal coin, you can be assured of its being worth at least the underlying value of the metal or the metals of which it is made.

Don't make the mistake of thinking there is more gold in a 24-carat one-ounce gold coin than in a 22-carat one-ounce gold coin. For example, South African Gold Coin Exchange medallions are made from 24-carat gold, which means the gold is 99.99-percent pure. Krugerrands are 22-carat coins, meaning that alloys have been added to reduce the purity to 91.67 percent. But a medallion containing one ounce of 24-carat gold and a one-ounce Krugerrand both contain exactly the same amount of gold: one troy ounce, or 31.1 grams.

■ **Rarity.** As a rule of thumb, the more scarce a coin or medallion is, the more valuable it is. But age does not equal scarcity. Very old Roman and Chinese coins are worth very little because there are so many of them.

On the other hand, the 1913 Liberty nickel (pictured on this page) is worth millions of dollars because there are only five known specimens.

■ **Condition.** “The better the condition a coin is in, the

higher will be its assigned grade and the more it will be worth,” the South African Mint says on its website (www.samint.co.za).

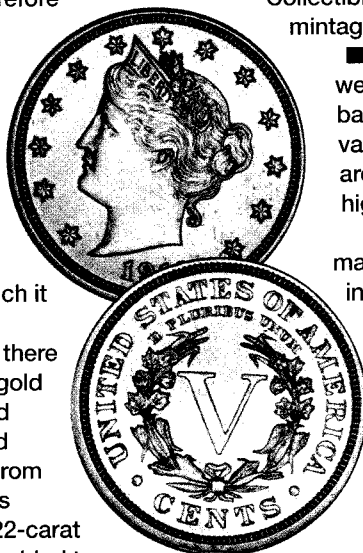
As a general rule of thumb for assessing the value of a particular coin, the mintage (the total number of that type of coin minted) interacts with the number of coins remaining in existence and with the condition of the particular coin.

“Buy first for rarity and then for condition,” Brink Laubscher, a partner at Cape Town Coins and Collectibles, says. “The third criterion is how many of the mintage is still surviving.”

■ **Demand.** The South African Mint says on its website: “How many collectors want it and how badly they want it will greatly influence coin values. Some coins that are relatively plentiful but are more popular with collectors may command higher prices than scarcer coins.”

■ **Historic interest.** *Veldponde* – coins manufactured by the Boers under siege conditions in the veld in 1902 – are among the most iconic South African coins. They have obvious historical interest; they have a story. And provenance (the chain of ownership) is one of the defining characteristics, along with rarity, of an object that is a true collectable.

Mandela coins and medallions tap into a sense of history, but only those coins that are somehow distinguished from the rest – a coin actually used by the former president or a medallion owned by him – have historic interest that adds to their value.



The face of a 1913 Liberty nickel (top) and the reverse of the coin. It is one of the rarest coins in the world – there are only five known examples. In 2010, one of the 1913 Liberty nickels, known as the Olsen piece, sold for US\$3.7 million at a public auction. The coin shown in these pictures is the Walton specimen, which was lost to numismatics for more than four decades because its owners were told it was a fake. AP PHOTO/AMERICAN NUMISMATIC ASSOCIATION

HOW THE GRADING SYSTEM WORKS

IN THE SHELDON SCALE SYSTEM USED IN THE United States to grade coins, the prefix MS means “mint state” and refers to a coin that is regarded as uncirculated. The number of imperfections that an MS coin has is shown by its score on a scale from 70 to 60. For example, an MS70 is a perfect uncirculated coin (obviously this is rare), an MS65 has minor imperfections and an MS60 has fairly abundant scratches that can be seen by the naked eye.

Numismatic Guaranty Corporation (NGC) is the most

popular company in the US used for grading the Mandela R5 90th birthday coins (see article on the following page).

The rarity (or otherwise) of a coin in a particular grade can be determined by checking the population reports for a particular coin.

These population reports are available from the grading companies. For example, a member of the NGC Collectors' Society can log on to the NGC website and find out how many R5 Mandela 90th birthday coins have been awarded a particular grade by the NGC.



Store of value

WE HUMANS FIND CRAZY PLACES TO HIDE our valuables in stressful times: inside a curtain rail, in a vase with fake flowers, even at the bottom layer of the cat's litter box.

Those ideas come from contributors to Canadian personal finance website Wallet Pop (www.walletpop.ca). One person suggested chiselling out a handy niche on the top surface of a wooden door. Another stores her money inside a clean tin can, which she puts back on the shelf with the other canned goods. "The secret is the type of can-opener you use. There is a type that cuts from the side so when you put the top back on it looks unopened.")

But owning a Krugerrand doesn't mean you have to stash it in the laundry basket or in the lining of the lounge curtains. The company from which you buy your coin may also offer storage, which is something to throw in the mix when deciding who you will buy from and at what cost.

If you buy through online share trading with First National Bank (FNB), your Krugerrands can be insured and stored at Rand Refinery. The storage fee, calculated daily and charged monthly, is based on the value of the coins. It is charged at an annual rate of 0.86 percent (excluding VAT). See "Other ways to go for gold" on **page 24** for more information on investing via FNB's Share Investing platform.

You can sell or take possession of your coins at any time, but you can't store any Krugerrands you have bought elsewhere along with your FNB-bought coins.

Gold Reef City Mint, located in Germiston, will store your purchases of Krugerrands and gold bars free of charge. You need to give 24 hours' notice to access them, Glenn Schoeman, the chief executive, says.

"Obviously, we don't like the general public to know where the valuables are stored, but clients can be taken to the location and shown their coins and gold bars," Schoeman says.

A firm of accountants audits the stocks, he says.

SA Bullion has made storage of Krugerrands one of the distinguishing characteristics of its business.

It has a special dispensation from the South African Reserve Bank (SARB) and the bank's agent, Rand Refinery, to buy Krugerrands at wholesale prices, Hilton Davies, the founder and managing director of SA Bullion, says.

The coins are stored in Rand Refinery vaults, along with the SARB's gold holdings.

"If a client wants to sell his or her Krugerrands, we sell the coins back to the Reserve Bank," Davies says.



THE FINE PRINT CREATIVE STORAGE AWARD ... goes to all of us who try to outwit thieves and burglars by hiding our valuables in ingenious ways.

ISTOCKPHOTO

"We have an unbroken chain of integrity."

In other words, the coins don't ever leave Rand Refinery unless the owner chooses to take physical possession of his or her investment.

Davies, who was once a director of Allan Gray, has positioned SA Bullion as an investment service licensed with the Financial Services Board. SA Bullion deals with institutional investors, and sister company SA Bullion Investor Services deals with small investors like you and me.

One of the retail products available is the BullionGold Facility, which allows you to make monthly payments or lump sum deposits into a Nedbank call account in your name. When you have enough money in the account to buy a one-ounce Krugerrand, a purchase is automatically triggered.

The minimum monthly investment is R500, and the charges are:

- An upfront charge of one percent;
- Gold-dealing costs, which SA Bullion says are "approximately the same as for JSE equities"; and
- An administration fee of two percent a year (excluding VAT) applied to the daily market value of your holdings. The annual fee is accrued daily and charged monthly and includes a fee of 0.5 percent that is paid to your financial adviser.

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>> The administration fee includes safe custody and insurance from Lloyd's of London.

When a Johannesburg resident was robbed last year of four Krugerrands and other valuables by two men who entered his home posing as census takers, the crime bought into focus the real threat of losing any physical gold investments you store at home.

Gari Dombo, the managing director of Alexander Forbes Insurance Company, says cover for Krugerrands (and other coins) under household contents insurance differs widely in the market. The things you should look out for in your policy document are:

- A monetary limit per coin;
- A limit on the number of coins covered;
- A limit on overall valuable articles (this is usually a maximum of one-third of the sum insured);
- Whether there is an out-of-safe warranty (in other words, whether your coins are covered by your policy if they are kept outside a safe); and
- Whether cover for theft is limited to forcible and violent entry. (If this is the case and you are conned into letting the thieves into your house – as appears to be the case in the census scam already mentioned – you could find yourself without cover.)

"To be sure, one should discuss your coins with the insurer or broker beforehand so that the policy can be extended as necessary. Failure to negotiate the cover on valuable coins beforehand could well leave you with a very expensive uninsured loss," Dombo says.

Under cover?

A CROSS SECTION OF INSURERS WAS ASKED about how much cover Krugerrands would enjoy under an ordinary household contents policy.

Krugerrands are not covered under Santam's household cover. Donald Kau, the head of corporate affairs, explains that household cover insures the contents of your home – such as furniture, appliances and clothes – for the total sum insured but does not include Krugerrands and coin collections.

You can be insured under Santam's All Risks cover, which "would require you to specify every item and pay a premium for it".

He explains that there is personal effects cover under All Risks which is for a blanket amount set by you. But coins are not covered by personal effects cover, hence the need to specify the items.

"Claims settlement under All Risks cover would be done on the basis of the current replacement value of similar new property, subject to the sum insured being adequate," he says.

1st for Women Insurance Brokers "will indemnify customers for the loss of personal documents, coins or a stamp collection under their home contents cover", Robyn Farrell, the managing director, says. However, cover is limited to R2 500.

"If the item's value exceeds this amount, it can be insured under specified cover," Farrell says.

Mutual & Federal (M&F) insures one Krugerrand

under ordinary household cover, Sedick Isaacs, the group executive for claims, says.

You would have to notify M&F that you have such an asset, Isaacs says.

If your coin was stolen or lost in a fire, the value would be based on the current market value of a Krugerrand, he says. But the claim would be limited to a certain amount. When asked to elaborate on the limit, Isaacs replied: "The value of any one coin is agreed with the underwriters."

If you have more than one coin, Isaacs suggests you discuss this with your insurance broker or financial adviser, who can then obtain quotes and ensure you have the correct cover in place.

If you are an OUTsurance client, your Krugerrands aren't covered under standard household cover, Natasha Kawulesar, the head of client relations, says. They are insured under two separate types of cover:

■ Bonus Benefits, a subsection of OUTsurance's household contents, allows for a maximum amount payable of R1 500 if the coins are stolen.

"The R1 500 benefit is a total value that we would pay under Bonus Benefits for all the coins that were stolen, even if the value of the coins is much higher," Kawulesar says.

■ Out and About cover. "This is usually cover applicable for items that you would take out of the house but is also designed to allow cover for items such as coin collections," Kawulesar says.

"Under our Out and About cover, you would need to provide us with the details of each coin and its value. In the event of a claim, there are various factors to determine the correct replacement value of the coins but it will not exceed the maximum insured value, so insuring for the correct value is vital."

Trouble in store

TO MAKE EXTRA SURE YOUR STAY-AT-HOME Krugerrands and gold bars are safe, you could try out another of the tips from the inventive minds of Wallet Pop. One man suggests you keep valuables between cement bags ("place two bags with a space between them where you hide some stuff, then place a couple of bags on top. It's also fireproof!").

Frankly, I would rather leave coins for safekeeping with a reputable company that knows what it's doing. Just about all of the bright home-made storage ideas have far too much exposure to Murphy's Law – or is it Sod's Law? – for comfort.

One of your children, in a fit of conscientiousness, is going to throw away the gilt-edged kitty litter; your husband is going to give away the tin of all-gold baked beans to charity, your wife is going to call in an organiser to tidy up the mess in the garage ...

Like the plumber who created fake drains to befuddle would-be thieves. "They looked just like real drains but held a pipe filled with money," the man's son told Wallet Pop. "The downside? After he passed on, we had to look inside every drain." □