

The Lowdown on Buying and Selling Silver

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These days, with the stock market's wild ups and downs and an uncertain economic outlook, investors are considering alternative investments in precious metals like gold and silver. But taking a plunge in the silver market isn't as clear-cut as buying into a mutual fund. So before you exchange your hard-earned green for some silver, it's a good idea to nail down the basics. Here's what you need to know.

How do You Buy Silver?

Just as with gold, investing in silver can take numerous forms. Broadly speaking, silver investors have two options right from the outset -- invest in the physical metal or purchase a financial security that moves with the price of silver.

If it's actual silver that an investor seeks, he or she can choose to buy coins, bars or rounds (privately minted coins).

"Silver bars are made of (nearly) pure silver, and they normally trade at a small premium above (the prevailing market) value for silver," says Chris Zeches, vice president of Zeches Financial Services, a wealth management firm based in Tucson, Ariz.

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Silver bars can be purchased from major banks as well as bullion dealers.

Investing in silver coins presents another fork in the road for investors. On the one hand, there are collectible coins that often rise and fall in value based on factors having to do with the demand for that particular collectible. While those coins contain silver, the metal usually isn't the primary driver of the price, according to Zeches, who cautions against buying collectible coins if you're just interested in a silver investment.

By contrast, bullion coins work much like silver bars, deriving their value solely from the amount of silver they contain.

"If an investor is looking to specifically invest in silver, (he or she) may want to invest in the bullion coins because the collector coins also have numismatic value," Zeches says. "The bullion coins can be purchased through the U.S. Mint as well as through authorized dealers, while the collector coins can be purchased through collectors and private sellers."

Be Careful With Real Silver

While the price of silver is determined by trading on the commodities market, investors who buy physical silver still need to be careful about their investments, says Terry Hanlon, president of Dillon Gage Metals in Addison, Texas.

To start, Hanlon says that buyers interested in bullion coins can use a software tool on the U.S. Mint's website to find recommended dealers. To avoid scams, it's also a good idea to vet the dealer with some simple Internet research.

But even if you work with a trustworthy dealer, Hanlon says many novice silver investors fail to do the homework necessary to understand the minutiae of silver trading. The result is that they often buy at too high of a price to make any real money or rely too much on the dealer and make investments that aren't right for them, he says.

Investing in Silver Without Physical Ownership

Bars and to a lesser extent bullion coins hold a "high glamour factor" for some investors, says David Christensen, CEO of ASA Gold and Precious Metals Ltd., based in San Mateo, Calif. But putting the allure of owning physical silver aside, many investors choose either an exchange-traded fund, or ETF, or stock in a silver mining company for their investment, Christensen says.

ETFs are widely used investment vehicles that track indexes or commodities. Investors interested in buying silver through an ETF typically look at iShares Silver Trust (trading symbol SLV), which tracks the price for silver. Most discount brokerage houses offer investors access to SLV or other similarly organized ETFs.

Investors should remember that when they buy an ETF, they aren't buying real silver. Instead, they are making a bet that the price of silver will go up. It's just like buying stock, Christensen says, adding that many investors prefer ETFs because they offer a very high level of liquidity.

For investors willing to take on more risk and possibly earn a greater profit, Christensen says there also are mining stocks to consider.

"Stocks of mining companies are going to be higher in risk because investors assume the risk of the company along with the price of the commodity," Christensen says.

That means that it's possible for the price of silver to go up and for your investment to lose money because the company is poorly run or unable to effectively exploit its silver mines.

But even if you've got the appetite for risk, investing in mining stocks may not be for every investor, says Christensen who points out that securities in those companies may not be as easy to trade as a share in an ETF. And in some cases, investments in mining companies are restricted from public trading altogether if they are organized as closed-end funds.

Which Method is Right for You?

With so many ways to own silver, it's easy for the average investor to be confused about how he or she should approach the market. According to Zeches, the decision often comes down to a preference between physical possession and nonphysical forms of ownership. But other investors such as Hanlon insist nothing beats actual silver.

"I think everybody should own the real thing, meaning physical coins and bars," Hanlon says.

For Hanlon and others, physical silver or gold isn't just an investment; it's the ultimate hedge against economic uncertainty because both commodities also have been used as currency in the past. Given silver's historical role as a currency as well as its industrial uses, many believe no matter what happens with the economy, precious metals will hold their value.

But putting aside the particulars of investing in precious metals, Christensen recommends that investors think about silver and gold as they would any other investments. "As with any investment, each investor needs to decide what type of holding is right for them based on their needs (in terms of) growth, liquidity and risk tolerance," Christensen says.

Common Mistakes

Many investment advisers tout the value of owning precious metals like silver, but investors who buy silver without doing their homework might be wasting their time and money, says Stephen Todd Walker, managing director of Oppenheimer & Co. in Philadelphia.

According to Walker, many investors foolishly squander their money by chasing the market, buying silver when it's high and selling when it's low.

"Investors tend to flock to safety when times are tough or when fear is in the air, which is why one sees so much interest in precious metals at the moment," Walker says. "But buying at record highs might not be prudent."

While investing in silver can be profitable, Christensen says it's a bad idea for investors to become fixated on precious metals in general or silver in particular.

"Precious metals should never be the sole focus of any investor's portfolio," Christensen says. "The sector remains highly volatile and should be considered a portfolio diversifier rather than the whole portfolio."

An Invaluable Hedge

While many investors view silver as a solid way to diversify a portfolio's asset allocation, some investors view silver and other precious metals as an invaluable hedge against an uncertain economic outlook.

"The reason an investor would want to invest in silver is because, like gold, it is money and a hedge against future [Federal Reserve](#) quantitative easing and the unsustainable spending by Congress," says Doug Eberhardt, author of "Buy Gold and Silver Safely."

But according to Eberhardt, the downside of silver is it tends to be more volatile than gold. Because of that volatility, Eberhardt recommends that those who invest in precious metals do so with a portfolio that has 75% gold and 25% silver.

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