

# Dept. of Financial Institutions: Investor alert: Beware of precious metals schemes designed to drain retirement savings

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MADISON, Wis. – The [Wisconsin Department of Financial Institutions \(DFI\)](#) today warned Wisconsin investors to beware of precious metals schemes designed to drain retirement savings.

“Investors concerned about predictions that a recession is looming may be tempted to move their nest eggs into precious metals such as gold and silver, which typically enjoy more popularity during economic downturns fueled by investors’ desire for something safe,” said DFI Secretary-designee Cheryl Olson-Collins. “While there may be room in a diversified portfolio to allocate some funds into precious metals, precious metals dealers are often not licensed or registered to provide investment advice to retail investors. Unlike financial professionals, who have a fiduciary responsibility to clients, these dealers are not obliged to have investors’ best interests in mind.”

As a result, commissions and profits often drive their recommendations, which may include persuading retail investors to tap retirement savings to purchase coins with high markups and low liquidity. The following information is designed to notify investors about fraudulent offers of easy profits from rising prices in precious metals and describes ways to spot offers that could be scams.

**Information to Consider Prior to Purchase: Bullion, Numismatic, and Semi-Numismatic Coins**

A precious metal dealer may sell a variety of precious metals in different forms. The most basic transaction is where a consumer purchases bullion. Bullion is highly refined gold and silver in the form of coins or bars. It does not have material market value over its intrinsic or melt value. Thus, precious metals dealers selling bullion often do so at a small markup, which is also known as a spread. While there is not a standardized spread for the industry, typically precious metals dealer spreads will vary around 1% to 10%. Bullion is typically sold in uniform increments of .01 oz, .05 oz, 1.0 oz, 5.0 oz, 10 oz. Consumers can easily check market resources for the most up-to-date price for a set quantity of bullion.

A precious metal dealer may also be involved in the business of selling numismatic coins, typically to coin collectors. A numismatic coin is one that has a higher value than its melt value (the value of the amount of gold or silver its minted on) because of its age or rarity – for example, a 1913 liberty nickel minted is both old and rare and is sought after by coin collectors because of its unique history. In this case, the precious metal dealer will likely take a higher mark up on the transaction, often reaching nearly 30%. There is also much less liquidity in the numismatic market because there is not nearly the market for numismatic coins as there is for bullion.

The sale of semi-numismatic coins have been the subject of recent enforcement actions brought by the DFI's Division of Securities in collaboration with other state securities regulators and the [Commodity Futures Trading Commission \(CFTC\)](#). Precious metals dealers pitch semi-numismatic coins as having the same rarity as actual numismatic coins, but in reality, the coins being sold to investors are not rare or sought after at all. The weights and mints of these coins are unusual or atypical, but the coins themselves are no more valuable than what they can be melted for. In some instances, the investor can only sell the coin back to the broker they purchased the coin from.

Sellers of semi-numismatic coins may not disclose to consumers that the amount they're selling the coin for is not the actual value of the coin, but the melt value of the coin and the seller's markup, which in some cases has ranged from 25% to over 100% of the melt value.

### **IRA Custodians Do Not Vet Precious Metals Dealers or Their Sales Practices**

The division's recent enforcement actions involved sellers who pushed consumers into opening "Self-Directed IRA" (SDIRA) accounts to hold their "precious metals

investment.” A SDIRA is an account held by a trustee or custodian that permits investment in a broader set of assets than is permitted by most traditional IRA custodians, such as precious metals, real estate, promissory notes, tax lien certificates, and private placement securities. Investments held in a SDIRA may lack the disclosure and liquidity of more traditional investments and have an increased risk of fraud. SDIRA custodians do not review or perform any due diligence on the quality or legitimacy of investments held in a SDIRA. Many consumers are shocked to receive their first statement from a SDIRA custodian showing that in the first month or quarter of ownership of precious metals, the value of their metals has decreased by the spread taken by the seller – anywhere from 25-75%.

The division has seen an increase in complaints of fraudulent investment schemes using SDIRAs, where the SDIRA custodian was used to give an air of credibility to a fraudulent scheme. Similarly, the [U.S. Securities and Exchange Commission \(SEC\)](#) has brought numerous cases in which promoters of fraudulent schemes steered investors to SDIRAs.

### **Beware of Red Flags for Precious Metals Offers When a Firm:**

- Uses cold calling or unsolicited emails;
- Uses television, radio, and social media advertisements designed to instill fear about the economy in favor of precious metals, or touts political or religious affinity to prospective clients;
- Creates a false sense of urgency by claiming limited supply or encourages financing the purchase through loans arranged by the firm;
- Advises retail investors to liquidate their pre-existing retirement investments to fund investments in precious metals;
- Advises retail investors to invest in precious metals through SDIRAs;
- Fails to disclose their commissions and fees in writing.

Investing in semi-numismatic or atypical precious metals could cause the investor to lose a significant portion of their funds immediately upon completing the transaction, especially if the firm is marking up the coins at exorbitant rates without prior disclosure. For example, Metals.com charged investors prices for gold or silver bullion averaging from 100% to more than 300% of the melt value or spot price of that gold or silver bullion. In many cases, the actual market value of the precious metals sold to investors was substantially lower than the value of the securities and other retirement savings investors had liquidated to fund their purchase.

## **How Investors Can Protect Their Retirement Savings:**

- Ask the precious metals dealer directly how they are paid for their services, what are their qualifications and how their products meet your financial needs (get their response in writing);
- Independently verify from a reputable source the value of the precious metals to be purchased;
- Get a second opinion about the benefits and risks of adding precious metals to your portfolio;
- Check the background of the firm and the representatives offering to sell precious metals;
- Compare premiums and fees. Start by knowing the daily spot price of the metal and comparing premiums. Spot prices are quoted in troy ounces, or about 31.1 grams. First, convert the spot price to the equivalent weight of the coins you are comparing, then use this formula: subtract the spot price from the sales price. Divide that number by the spot price, then multiply by 100 to determine the premium percentage you'll be charged.

Before making any financial decisions, the DFI recommends investors do their homework, ask questions, and contact the DFI's Division of Securities at [DFISecurities@dfi.wisconsin.gov](mailto:DFISecurities@dfi.wisconsin.gov) and (608) 266-2139 for more information. If you have concerns about a precious metals offer, contact either the DFI's Division of Securities, the [Wisconsin Department of Agriculture, Trade, and Consumer Protection \(DATCP\)](#) toll-free at (800) 422-7128 or [DATCPHotline@wisconsin.gov](mailto:DATCPHotline@wisconsin.gov), or report suspicious activities and information to the CFTC toll-free at (866) 366-2382.