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Legacy cold storage

Web searches for “Where to buy gold?” are running at their highest since at least 2004, but “Where and how do you store it?” is the question before the house. Constant readers can recite the monetary case for gold in their sleep. The complications of actually possessing it are another matter.

“So to understand what the real issue is,” Simon A. Mikhailovich, co-founder and managing partner of The Bullion Reserve, a physical gold-storage and logistics company, advises colleague James Robertson, Jr., “just imagine a world where people have bearer bonds and bearer shares.” And imagine that you have to audit them and, when the time comes to sell, safely extract them from the vault, present them and yourself to a brokerage house (without getting mugged) and persuade that broker-dealer that you and the certificates are legitimate. “I mean,” Mikhailovich continues, “it’s a massive inconvenience if there’s no good infrastructure available to institutions and individuals to do this.”

No physical storage problems attend the purchase of SPDR Gold Shares (GLD, on the NYSE Arca), needless to say. However, GLD is not gold itself but a first cousin once removed, as the GLD prospectus itself makes plain:

Gold held in the Trust’s unallocated gold account and any Authorized Participant’s unallocated gold account will not be segregated from the Custodian’s assets. If the Custodian becomes insolvent, its assets may not be adequate to satisfy a claim by the Trust or any Authorized Participant. In addition, in the event of the Custodian’s insolvency, there may be a delay and costs incurred in identifying the gold bars held in the Trust’s allocated gold account.

The storage question speaks to the fundamental reasons that one chooses to own, or not to own, the legacy monetary asset. Convenience does not feature among the top reasons, which would probably include these: Gold has no counter-party risk, no credit risk and is globally liquid.

Home storage, the first and most basic storage option, requires that you, Scrooge McDuck, assume the combined role of guard, assayer and bookkeeper, assigning to yourself the sundry functions that Mikhailovich outlined. As the spirit moves, you can remove your treasure from its hiding place and do what no bitcoin owner can do. You can touch it. However, others, too, might touch it.

One year ago, thieves broke into a home in Morris Township, Pa., and made off with a reported 30 pounds of gold and silver, which the owner had carefully secreted in cardboard boxes, the local ABC affiliate WTAE reported.

Perhaps, then, a bank safe deposit box? It’s not so easy to find one. As David P. McGuinn, president and founder of Safe Deposit Specialists, tells Robertson, the classic safe deposit box has become the stepchild of today’s digital banking business. Following the likes of Capital One Financial Corp., HSBC Holdings plc, Barclays Bank plc and Citigroup Inc., JPMorgan Chase & Co. stopped offering new safe deposit boxes at its more than 4,700 Chase branches nationwide in 2021. Current box-holders are unaffected, though the clock may be ticking. Barclays gave its grandfathered box-holders five years to clear out.

A time-sensitive storage idea: The First Republic Bank branch on Canal Street in lower Manhattan is offering

safe deposit boxes to customers with \$100,000 or more on deposit. How long JPMorgan’s newest acquisition will continue to offer this accommodation is anyone’s guess.

The Federal Deposit Insurance Corp. does not cover the contents of a safe deposit box, but third-party insurance can protect against burglary, fires, floods, natural disasters, bank negligence and fraud, according to Jerry Pluard, president and co-founder of Safe Deposit Box Insurance Coverage, LLC. His company quotes a fee of 21 basis points a year, or \$950, for coverage on assets worth \$455,000 in a box buried in the vault of a New York City bank.

How does a bank failure impinge on the access of a customer to his or her safe deposit box?

On its FAQs page, the FDIC has an answer: probably not at all when the failed bank is absorbed by a healthy one. In the event of a depositor payoff, there is this complication: “[T]he FDIC will send a letter to you informing you of the closing,” the agency’s site says. “The letter will instruct you on how you can remove the contents of your box. Access to the safe deposit boxes is typically granted to the safe deposit holders the next business day after the closure.”

As to the cost of renting a bank safe deposit box: About \$60 a year for smaller sizes (say, 5 inches wide by 22 inches long by 3 inches high) and a couple of hundred dollars for the larger sizes (e.g., 10 by 22 by 10). Seven gold bars, each the size of an iPhone 6, will fit into the \$60-a-year model. Complete with insurance, the all-in per-annum cost might run to \$1,010, or 22 basis points. Careful when pulling the box out of its slot in the



What's old is new again (Credit: Alamy, H. Armstrong Roberts)

wall. Seven kilo bars represent \$455,000 in value and 15 pounds in weight. As far as that goes, don't lose the key.

Thefts from depositories are rare, Bob Coleman, founder and president of Idaho Armored Vaults, tells Robertson. Not so unusual are robberies en route to depositories.

Thus, on April 17, thieves lifted gold and other valuables worth C\$20 million (\$15 million) from a high-value shipping container in Toronto's Pearson International Airport. The Brink's Co., which coordinated the transfer, has pledged to compensate the victims: "At Brink's, if assets are lost at any point during transfer, we reimburse our customers in accordance with our contract terms." How much better, though, if it hadn't happened at all.

As there are luxury apartments, so there are high-end depositories. At a price, one can store more gold, command more security and thereby more thoroughly disconnect one's physical wealth from the accident-prone financial world. It's as off-grid as you can get without digging a hole in the ground.

Manfra, Tordella & Brookes, one such institution (*Grant's*, Sept. 21, 2018), nowadays serves only an institutional clientele. The Depository Trust Co. of Delaware, LLC (*Grant's*, Jan. 30, 2004),

commonly known as Delaware Depository, says it welcomes customers both large and small. It charges a minimum fee of \$50 a year and operates storage locations in Wilmington and Las Vegas.

Fences and barricades ring the perimeter of the Delaware fortress. Steel-reinforced concrete is the design theme inside. Seven sets of bullet-resistant doors guard the grade III gold vault (the highest rating awarded by Underwriters Laboratories), while Tom Cruise himself might quail before the 24/7 video, motion, sound and vibration detectors. Managing Director Jonathan Potts calls the strategy "defense in depth."

Delaware Depository is insured with all-risk coverage, including "mysterious disappearance," outbound delivery and owner-committed fraud—everything, in fact, except events that Lloyds of London will not insure against, namely, war, nuclear explosions, chemical attacks and alien invasions.

For a fee, the depository will segregate, rather than comingle, your gold. Otherwise, you may not get back the same 2022 one-ounce American Eagle coin that you put in. Non-segregated storage starts at 50 basis points per annum of the daily average market value of the bullion, segregated storage at 1.5% of the same. Deposit \$250,000 or

more, and management says it's willing to talk about discounts. Lower rates may apply to Individual Retirement Accounts.

Another provider, International Depository Services Group, a subsidiary of the Dallas-based precious-metal refiner and trader Dillon Gage, Inc., operates locations in Dallas, Toronto and New Castle, Del. Business is strong across the board, according to Terri Hewitt, managing director. However, as the born-and-bred Texan Robertson observes, "it seems that everything is bigger in Texas." The Dallas facility opened in 2017, expanded in 2019 and now will expand again soon to meet the goldbug stampede. No surprise, then, that the minimum rent for the Texas depository is \$600 versus roughly \$200 for the Delaware and Canada locations.

IDS separately stores all deposits. Gold, platinum and palladium bullion sit within the class III vault, silver on warehouse shelves. The buildings have 24/7 video monitoring, armed guards, alarms and sensors, among other security measures. Lloyd's provides all-risk insurance coverage.

Annual storage fees begin at 65 basis points of the daily average market value of the deposited bullion. Fees fall to 40 basis points after passing the \$250,000 mark, 35 basis points beyond \$500,000, 30 basis points over \$2.5 million and sub-30 basis points in excess of \$5 million. Add handling fees for pick-up and shipping. Visiting hours are available.

For any who would prefer to outsource the details and difficulties of physical ownership, The Bullion Reserve offers to manage one's precious-metals purchases from storage through sale. Catering to high-net-worth individuals and institutions, TBR purchases bullion on behalf of its clients directly from refineries sans commission and arranges storage at depositories both at home and abroad. It charges a management fee of between 0.35% and 1.25% of the market value of assets under management, in addition to expenses of between 0.25% and 0.30%. The minimum investment is \$100,000.

"It's what you would want to do for yourself," says Mikhailovich.

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