

SPDR GOLD TRUST  
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### **A Case For...**

Gold Preserving Wealth in an Age of Uncertainty

*Gold it is unlike all other elements on earth. Virtually indestructible, this precious metal has been the source of countless fables and has mobilized the growth of nations and financial infrastructures worldwide. Human beings have been utilizing gold as both a form of currency and an investment for thousands of years.*

*As an asset class, gold is unique. Gold is durable and highly liquid, and the economic forces that determine the price of gold are different from the economic forces that determine the price of many other asset classes such as equities, bonds or real estate. A potential hedge against the uncertainty of economic events, political unrest and high inflation, gold offers investors an attractive opportunity to diversify their portfolios potentially reducing overall portfolio risk and ultimately preserving portfolio wealth.*

### **SOLID AS GOLD: THE ENDURING ARCHETYPE**

The history of gold is as old as time itself. With references to gold in the text of Genesis, to the myths of Jason and King Midas and the legend of King Solomon's mines, gold has long been a symbol of wealth, freedom and power. Empires and nations from Charlemagne to the Spanish conquest of the New World and on through to the American frontier movement all were mobilized by the pursuit of gold or built upon its promise.

Though its first use appears to have been for ornamentation, sculpture or jewelry, gold has been employed most prominently through the ages as a store of financial value or as currency. From Ancient Egypt to modern day Britain, gold became the standard medium of exchange for trade and the standard measure upon which monetary systems were based.

### **THE GOLD STANDARD**

Eventually, various forms of currency and paper monies emerged and most modern nations adopted a gold standard (i.e., currency could be redeemed in gold). In its most formal sense, the gold standard was a financial system established with the aim of stabilizing the global economy. It dictated that a nation could not issue currency in excess of the amount of gold it held in reserve. Great Britain was the first to officially adopt the standard in 1821. The rest of Europe followed in the 1870s and the system remained intact until the end of World War I. Following the war, the US was the only country to keep the gold standard. After the war, other countries were allowed to keep reserves of major currencies instead of gold.

When in 1934, the US devalued the dollar by raising the price of gold to \$35 per ounce, holders of gold around the world sold their holdings to the US. By the end of World War II, US holdings of gold accounted for nearly 65% of official world stocks. At their peak in the 1960s, worldwide official gold stocks accounted for approximately 50% or more of all above-ground gold. Central banks were keeping all of this gold as a result of the fixed dollar price and the dollar's convertibility to gold. Gold, in essence, was still the foundation of the international monetary system. Though there was no direct link between gold holdings and national monetary supplies, gold was still the primary reserve asset. Central banks could convert dollar balances into gold at the official price.

Gradually, however, central banks created more money than was consistent with stable prices and the fixed official gold price became unrealistic. As the pivot of the world financial system, the US was faced with the choice of deflating, devaluing or abandoning the system. In 1971, the US abandoned the system and the dollars held by foreign central banks could no longer be converted to gold. In 1973, the US abandoned the gold standard altogether and gold prices were allowed to float freely.

### **USES FOR GOLD TODAY**

Highly malleable, ductile and impervious to tarnishing, gold is one of the most beautiful and useful elements in the world. It can be hammered into sheets so thin that light can pass through, and a single ounce can be drawn into a wire fifty miles long. Gold's chemical and physical properties make it valuable in a wide array of everyday applications. Though jewelry accounts for about 68% of the annual consumption of gold today, gold is also used in telecommunications, information technology and various industrial applications. Highly conductive, gold is used in

the manufacturing of millions of computers each year, as well as millions of televisions, DVDs, video cameras and mobile phones. Additionally, because it is non-toxic and biologically benign, gold has proven to be a valuable tool in the treatment of medical conditions from heart disease and prostate cancer to bacterial diseases and arthritis.<sup>1</sup>

**SUPPLY & DEMAND**

Ever since the gold standard was abandoned, gold prices have been driven by supply and demand. Though it can be found on nearly every continent in the world, relative to many other metals, gold is scarce. In fact, if we were to compress the world's total above-ground stocks of gold into one space, it would amount to a single cube 66 x 66 x 66 feet.<sup>2</sup>

Extracting gold is not easy or inexpensive. At average grades, it takes about five tonnes of ore to yield even one ounce of gold. New mine supply has remained relatively constant for the past five years and grassroots exploration spending has returned to the peak levels seen in 1997. Global demand in 2009 reached 4,026 tonnes. Scrap supply and central bank sales typically make up the shortfall between mine production and global demand (Figure 2).

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Source: World Gold Council

Of note in 2007 was the sharp increase in the price of gold, starting in September. Gold prices began the year relatively stable, though after news of the financial crisis struck in August investors rushed to purchase gold, pushing up the price. Supply to the market was constrained, falling approximately 3% below 2006 levels, and thus demand for gold remained constrained as well.

Gold currently accounts for 10% of global foreign exchange reserves, and central bank holdings of gold currently account for about 20% of total above-ground stocks. Some gold opponents may point to the risk that central banks could dump their gold reserves back into the market, thus drastically decreasing the price of gold. This fear may stem from the behavior of some central banks during the 1990s, when central banks engaged in broad selling and lending, and the price of gold fell dramatically.

Today, however, the risk of such central bank sales has lessened. In 1999, certain central banks agreed to abide by the Central Bank Gold Agreement (CBGA), which limited the amount of gold they could sell to 400 tonnes a year, and also set a limit on the volume of gold loaned to the market. Signatories of the CBGA represent roughly 39% of all official sector gold holdings in the world this from a mere 18 countries. Additionally, these central banks reaffirmed their confidence in the future of gold as a reserve asset. The CBGA was renewed in 2004 and again in 2009. Since CBGA signatories historically have owned large blocks of gold at one time, the agreement has acted as a reassurance for the markets.

*Precise in a world that isn't.*

## **WHY INVEST IN GOLD BULLION?**

### *WEALTH PRESERVATION*

Gold is an imperishable asset. And unlike equities or bonds, the value of which is dependent on the issuer's ability to pay in the future, gold bullion—a pure form of gold—does not depend on anyone else's ability to pay.

Over time, gold has tended to maintain its purchasing power, especially during periods of economic or political upheaval. It has often been quoted that "With an ounce of gold a man could buy a fine suit of clothes in the time of Shakespeare, in that of Beethoven and Jefferson, in the Depression of the 1930s."<sup>3</sup> In fact, analysis suggests that the real value of gold may fluctuate in the short term, but that it has consistently returned to its historic purchasing power parity with respect to other commodities over the very long term.<sup>4</sup> Consequently, over a long period of time, gold may be an effective tool for preserving wealth.

During periods of economic and political instability, when the value of many other assets may have fallen dramatically, gold has commonly remained a store of value.<sup>5</sup>

### *DIVERSIFICATION*

Market cycles are unpredictable, making timing the market a risk-laden undertaking. Given this volatility, investors should diversify among a variety of different asset classes in order to protect their portfolios against the short-term risks of being absent from top-performing asset classes or of being too heavily concentrated in the lowest performers (Figure 3 below). It is a prudent practice to build portfolios that are well-diversified.

A broadly diversified portfolio that holds a wide range of asset classes—including gold—potentially provides downside protection against short-term underperformance; however, diversification does not ensure profit or provide a guarantee against loss.

### *RISK MANAGEMENT*

Statistical analysis shows that the price movements in gold bullion tend not to move in tandem with those of traditional asset classes, such as equities and real estate. Historically, gold has shown statistically insignificant correlation with equities and other conventional asset classes (Figure 4 above). Although the aim of diversification is to hold a wide array of assets that perform differently from one another under various market conditions, studies have suggested that equity markets tend to become more closely correlated during periods of market turbulence.

Conversely, commodities tend to become less correlated with major asset classes during such periods.<sup>6</sup> Additionally, a 2003 study concluded that not only was gold negatively or insignificantly correlated with major asset classes, but that there was no statistically significant correlation between returns on gold and changes in macroeconomic variables such as GDP and interest rates.<sup>7</sup> In sum, including gold in a portfolio potentially lowers overall risk without necessarily decreasing returns.

## **CONCLUSION: GOLD DOESN'T LOSE ITS LUSTER**

A transcendent store of value, gold is accepted the world over. In an age of increasing concerns about market volatility and political upheaval, at a time when the largest segment of the US population is approaching a potentially prolonged and expensive retirement, the preservation of wealth is paramount. And, due to its lack of correlation with traditional asset classes as well as with major economic variables, gold is a proven asset diversifier. When used in the construction of diversified portfolios, gold potentially helps reduce overall risk and may ultimately help protect investor wealth.

*Precise in a world that isn't.*

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<sup>1</sup> Gold Uses: Medicine and Health Page. The Gold Institute. September 2004. [www.goldinstitute.org](http://www.goldinstitute.org)

<sup>2</sup> World Gold Council, October 2009.

<sup>3</sup> The United States Geological Survey, 1998.

<sup>4</sup> Jastram, Roy. The Golden Constant: The English and American Experience 1560-1976. New York, New York: John Wiley & Sons, 1977.

<sup>5-6</sup> World Gold Council, An Investor's Guide to the Gold Markets. (US Edition), April 2010.

<sup>7</sup> Lawrence, Colin. Why is Gold Different from Other Assets? An Empirical Investigation. London, United Kingdom: World Gold Council, 2003.

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Shares (the Shares) of the SPDRGold Trust (the Trust) trade like stocks, are subject to investment risk and will fluctuate in market value. The value of the Shares relates directly to the value of the gold held by the Trust (less Trust expenses) and fluctuations in the price of gold could materially adversely affect an investment in the Shares. Investors should be aware that there is no assurance that gold will maintain its long-term value in terms of purchasing power in the future. The Trust does not generate any income and as the Trust regularly sells gold to pay for its ongoing expenses, the amount of gold represented by each Share will decline over time.

The Trust has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the Trust has filed with the SEC for more complete information about the Trust and this offering. You may get these documents for free by visiting EDGAR on the SEC website at [www.sec.gov](http://www.sec.gov). Alternatively, the Trust or any Authorized Participant will arrange to send you the prospectus if you request it by calling 866.320.4053 or contacting State Street Global Markets, LLC, One Lincoln Street, Attn: SPDR Gold Shares, 30th Floor, Boston, MA 02111.

**The prospectus contains material information about the Trust and its Shares which is material and/or which may be important to you. You should read the entire prospectus, including Risk Factors before making an investment decision about the Shares.**

**Shareholders of the Trust will not have the protections associated with ownership of shares in an investment company registered under the Investment Company Act of 1940 or the protections afforded by the Commodity Exchange Act of 1936.** The Trust is not registered as an investment company under the Investment Company Act of 1940 and is not required to register under such act. Neither the Sponsor nor the Trustee of the Trust is subject to regulation by the Commodity Futures Trading Commission. Shareholders will not have the regulatory protections provided to investors in Commodity Exchange Act regulated instruments or commodity pools.

**STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This document includes forward-looking statements which generally relate to future events or future performance. In some cases, you can identify forward-looking statements by terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, potential, it is likely or the negative of these terms or other comparable terminology. All statements (other than statements of historical fact) included in this document that address activities, events or developments that will or may occur in the future, including such matters as changes in commodity prices and market conditions (for gold and the Shares), the Trust's operations, the Sponsor's plans and references to the Trust's future success and other similar matters are forward-looking statements. Investors are cautioned that these statements are only projections. Actual events or results may differ materially. These statements are based upon certain assumptions and analyses the Sponsor made based on its perception of historical trends, current conditions and expected future developments, as well as other factors believed appropriate in the circumstances. Whether or not actual results and developments will conform to the Sponsor's expectations and predictions, however, is subject to a number of risks and uncertainties, including, the factors identified in the Risk Factors section of the Prospectus filed with the SEC and in other filings made by the Trust from time to time with the SEC. Consequently, all the forward-looking statements made in this material are qualified by these cautionary statements, and there can be no assurance that the actual results or developments the Sponsor or the Marketing Agent anticipates will be realized or, even if substantially realized, that they will result in the expected consequences to, or have the expected effects on, the Trust's operations or the value of the Shares. Neither the Sponsor, the Marketing Agent nor any other person assumes responsibility for the accuracy or completeness of the forward-looking statements. Neither the Trust, the Marketing Agent nor the Sponsor is under a duty to update any of the forward-looking statements to conform such statements to actual results or to reflect a change in the Sponsor's or the Marketing Agent's expectation or projections.

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SPDR® GOLD TRUST has filed a registration statement (including a prospectus) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus in that registration statement and other documents the issuer has filed with the SEC for more complete information about the Trust and this offering. You may get these documents for free by visiting EDGAR on the SEC Web site at [www.sec.gov](http://www.sec.gov). Alternatively, the Trust or any Authorized Participant will arrange to send you the prospectus if you request it by calling toll free at 1-866-320-4053 or contacting State Street Global Markets, LLC, One Lincoln Street, Attn: SPDR® Gold Shares, 30th Floor, Boston, MA 02111.