

Why One Ounce of Gold Can Cost More, or Less, Than Another...

Edited from an article by Michael B. Clark

Have you ever noticed that two bullion coins which contain the exact same amount of the same precious metal, can sometimes sell for a different price?

For example, at the time of this writing, the spot price of gold is \$787.50 per ounce. Yet, numerous dealers quote a selling price of \$830.80 for some one-ounce coins.

Why might this be? After all, each contains exactly one ounce of gold. Should not an ounce of the same precious metal, like shares of the same company stock, always have one price at any given time?

Certainly, it seems like it should be that simple, but with precious metal bullion coins, it is not. The fact is that an ounce of a given precious metal -- be it gold, silver, or platinum -- can, for a variety of reasons, cost either more or less than another ounce of the same metal in the same market.

How can this happen? Where does the additional cost for these gold coins come from in the first place?

Well, it's all about a pricing thing called "coin premiums."

A **premium** is the additional cost of a bullion coin above and beyond the market value of the precious metal commodity it contains. For example, with gold at a spot price of \$787.50 as mentioned above, an investor can expect to pay a premium over the gold price.

In general, this additional cost over the spot price for any bullion coin stems from a number of factors, including the manufacturing, distribution, and administration costs incurred by the mint or refiner in making the coin, plus a "mark-up" representing the cost of sale and the profit for the wholesaler selling the coin to a retail dealer. The retail dealer, in turn, will also "mark-up" its wholesale price of the coin to cover its own sales costs and realize a small profit when selling the coin into the investor market.

This series of incremental price increases applied to the coin as it passes through the distribution chain is a typical market mechanism present in virtually every other industry in existence, from food to auto parts, and houseplants to sporting goods.

And, just as market forces of "supply and demand" largely determine the value at which all goods and services can be sold in their respective markets, the level of a given coin's availability (supply) versus its popularity (demand) also directly influences the prices at which different coins will sell for in the market place, even though they may contain the same amount of the same metal!

In fact, in some unusual market conditions, the available supply of a given coin, when balanced against its market demand at any given time, can have a *pronounced* impact on the coin's premium. Unusual demand for a specific coin type can drive its premium level *significantly* higher than that of very similar coins in certain circumstances.