

Zaner Group

Financial Services Since 1980

December 2011

GOLD FUTURES VS GOLD EXCHANGE TRADED FUNDS (ETFs)

Traders today have a variety of instruments they utilize for **trading** gold. Two of the most popular are gold futures and gold exchange traded funds (ETFs). It is our opinion that gold futures offers numerous advantages over gold ETFs for day-trading, swing-trading and other trades where the intention is to hold a long or short position for a relatively short period of time.

This report's side-by-side comparison attempts to highlight some of the basic differences and similarities. It is also our opinion that futures trading easily accommodates short-selling, scalping and day-trading. However, ETF day-trading and scalping must be done within the context of NYS Exchange Rule 431 and the rules for short-selling gold ETFs will vary from brokerage firm to brokerage firm.

The table on page 2 offers a comparison of features and benefits which will be of interest to traders. Table on page 3 illustrates a more efficient use of capital offered by trading futures.

Gold Futures vs. Gold ETFs Basic Facts and Specifications

	COMEX GOLD FUTURES (GC) {1}	GOLD ETF (GLD / IAU) {1}
Where Traded	COMEX futures exchange	Securities exchanges
Underlying	Gold	Gold
Size of one contract	100 ounces	
Size of 1 share		Based on the price of 1/10 of an ounce of gold
Ability (not obligation) To Take Physical Delivery	Yes	Yes
Commissions	Negotiated commission charged on a per-contract basis.	Negotiated commission and may be charged on a per-trade basis or on a per-share basis.

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

150 S. Wacker Dr., Ste. 2350, Chicago, IL 60606
1-800-USA-MORE Fax: (312) 277-0150
e-mail: info@zaner.com www.zaner.com

Zaner Group

Financial Services Since 1980

Gold Futures vs. Gold ETFs Comparison Features and Benefits for Trading

	COMEX GOLD FUTURES (GC) {1}	GOLD ETF (GLD / IAU) {1}
Average daily \$Volume Source: CME Group	\$13 - \$15 billion	\$1.6 billion (GLD)
Management Fee	Zero	.40 annually
Trading Hours	Sunday-Friday 6:00 pm – 5:15 pm ET	Monday-Friday 9:30 am – 4:00 pm ET
Options	Yes	Yes
Tax Treatment (U.S.) {2}	Section 1256 tax treatment (60% LTCG; 40% STCG)	Treated as a collectible for Long-Term Capital Gains tax treatment
Spread Trading Opportunities {3}	Yes.	No
Pattern Day Trading Rules {4}	No	Yes
Short Selling Restrictions	No	Yes
Overnight Gap Risk	No	Yes
Margin	A performance bond set by the Comex (CME Group) As of December 1, 2011 it was \$11,475 per 100 oz. Contract	Maximum 50%, as per Reg T margin rules
Day-Trade Margins	Yes, and often as low as \$1,000 per contract (but up to the discretion of the brokerage firm)	4:1 leverage for approved Pattern Day Traders

Explanatory Notes

Found on page 4

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

150 S. Wacker Dr., Ste. 2350, Chicago, IL 60606
1-800-USA-MORE Fax: (312) 277-0150
e-mail: info@zaner.com www.zaner.com

Zaner Group

Financial Services Since 1980

Efficient Use of Capital

A single futures contract is based on 100 ounces of gold. A single share of a gold ETF is based on 1/10 of one ounce of gold. Traders seeking to trade in units of less than 100 ounces will find an advantage and flexibility with gold ETFs. But it is our opinion that traders seeking to trade based on comparable sized trading units will find that futures offers a more efficient use of capital, as illustrated in this table. {5}

Assume a gold price of \$1,500 per ounce	
One Comex gold futures contract is valued at \$150,000	1,000 shares of GLD trading at \$150 equal \$150,000
Margin requirement to initiate a long or short position is \$11,475 (as of December 1, 2011) Futures margin is not a deposit or down payment, but represents a performance bond (i.e. earnest money).	\$150,000 to purchase 1,000 shares. If bought on margin, then \$75,000 cash deposit is required and \$75,000 bought on margin (which involves a cost of capital, since the trader is borrowing funds from the brokerage firm)
Scalpers and Day-Traders are often able to trade gold futures by posting a day-trade margin. Requirements will vary from firm to firm but are often as low as \$1,000 per contract.	Recognized pattern day traders can trade with a leverage ratio of 4:1

To balance out this presentation requires a reminder that the benefits that can come from leverage must be balanced against the additional risk that accompanies leverage. It is possible for trading losses to exceed the initial performance bond requirement in the trader's account and could result in a substantial loss greater than the cash balance in the account.

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

150 S. Wacker Dr., Ste. 2350, Chicago, IL 60606
1-800-USA-MORE Fax: (312) 277-0150
e-mail: info@zaner.com www.zaner.com

Zaner Group

Financial Services Since 1980

Explanatory Notes

1. GC is the symbol for Comex gold futures. Specific contracts are defined by the delivery date, hence the need for an expanded quote symbol. GCV11 is the symbol for the October 2011 gold futures contract. GCG12 is the symbol for the February 2012 gold futures contract. GLD is the symbol for SPDR Gold Shares. IAU is the symbol for iShares Comex Gold Trust.
2. Under Section 1256, there is no holding period and all profits or losses are accorded 60% long-term capital gain treatment, 40% short-term capital gain treatment. Section 1256 is not applicable for hedgers. When gold is held in an ETF, the IRS treats gold as collectible for long-term capital gains tax purposes. As such, gains from the sale of a gold ETF are subject to a capital gains rate of 28% if held for more than one year. Gains from positions held less than one year are taxed at ordinary income rates.
3. Spreads involve simultaneous positions, long one contract and short another (i.e., long February 2012 gold futures/short April 2012 gold futures contracts). There are two generally accepted reasons for placing spreads orders. One is to attempt to profit from perceived disparities in contract month prices due to supply/demand shifts. A second is to attempt to profit from perceived changes in spread differentials due to increasing or decreasing short term interest rates. Spread trading is not any less risky than holding an outright long or short futures position.
4. Per NYSE Exchange Rule 431, pattern day traders must maintain minimum equity requirements of \$25,000. There is no similar rule for day-trading futures.
5. Mini-gold futures contracts are also available for trading. The contract size is 33.2 ounces per contract. Micro-sized gold futures contracts are also available for trading. The contract size is 10 ounces per contract. NOTE: Mini and micro-sized futures contracts have the same leverage as the regular sized gold futures contracts.

Transactions in futures, options on futures and forex are speculative in nature and involve a substantial risk of loss.

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

150 S. Wacker Dr., Ste. 2350, Chicago, IL 60606
1-800-USA-MORE Fax: (312) 277-0150
e-mail: info@zaner.com www.zaner.com

Zaner Group

Financial Services Since 1980

We invite you to join the thousands of other Zaner clients who have enjoyed our offerings of industry-leading technology and dedicated client support at competitive commission rates.

The first step is to complete our no-obligation, one page Account Application, which can be found at our website (Open An Account) or by pasting this link into your browser:

http://www.zaner.com/3.0/how_to_open_an_account.asp

Transactions in futures, options on futures and forex are speculative in nature and involve a substantial risk of loss. Trading is not suitable for all investors. You should carefully consider whether trading is suitable for you in light of your circumstances, knowledge and financial resources. All known news and events have already been factored into the price of the underlying commodities discussed.

Trading futures, options and forex is speculative in nature and involves substantial risk of loss.

150 S. Wacker Dr., Ste. 2350, Chicago, IL 60606
1-800-USA-MORE Fax: (312) 277-0150
e-mail: info@zaner.com www.zaner.com