



FINANCIAL PREPAREDNESS

"One of life's most painful moments comes when we must admit that we didn't do our homework, that we are not prepared." ~ Merlin Olsen

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Paper vs. Physical Precious Metals

Last week [I wrote about precious metals](#). This week I want to distinguish between "paper" precious metals (in the form of ETFs, futures, etc.) and physical precious metals (the actual elements Au, Ag and Pt). During normal times, the two have nearly identical investment returns (less the ETF expense ratios). But they are very different investment vehicles and should be used for different purposes and held in different "accounts."

There are a number of ETFs that provide exposure to the price of precious metals. The first thing you should note is that many of these ETFs are managed by woke investment managers such as Blackrock that probably secretly loathe precious metals, which should give one pause.

It shouldn't come as a surprise, then, that I know of only two such ETFs that have a prospectus that requires them to own 100% of the physical metal that they're supposed to own and is regularly audited by an independent third party. A close reading of the other prospectuses reveals that they're worded in such a mealy-mouthed way that they don't actually have to own 100% of the physical metal that they're supposed to. Shocking, right?

Unlike physical metal that you hold yourself, ETFs have annual expenses. The expense ratios of the three most popular precious metals ETFs range from 0.25% to 0.50%, which is

not insignificant, especially since they stayed below their 2011 highs for an extended time (nine years for gold and 14 years for silver and platinum).

Precious metals ETFs are easy for Hot Money/Dumb Money/Weak Hands to get into and out of. These investors are generally unsophisticated and impatient, with little or no understanding of or appreciation for precious metals, and will usually panic and sell as soon as their “Greater Fool” investment strategy explodes in their face.

The value of precious metals ETFs depends on the electrical grid and Internet remaining up, the stock market remaining open, and brokerage firms remaining solvent, whereas physical metals depend on none of those things.



Physical precious metals are a lifeboat for long term financial survival. They are a time machine into which you can store your wealth until some point in the future when sane, civilized policies (such as the rule of law, property rights, free trade and honest money) have been restored. In a way, they're like an old sports car in your garage that you haven't gotten around to restoring yet: they may have little value now and you may never get to use them, but eventually, they could be a very valuable asset for your children or grandchildren.

Unlike precious metal ETFs, physical precious metals offer the possibility of complete privacy, especially if you pay for them in cash and sell them to an individual. Currently, privacy doesn't command a premium among investors, but under a confiscatory

government, it could become a highly prized option.

Additionally, I'm sure plenty of precious metal sellers never report their realized gain on their income tax return, especially since a private sale doesn't generate a 1099 like the sale of an ETF would.

While I have no qualms about selling precious metals ETFs when investor sentiment, prices and a client's weighting in them are very high, generally I am loathe to sell physical precious metals, as I view them as the bedrock of my personal sovereign wealth fund. Moreover, having a hoard of one ounce silver pieces during an extended Grid Down and/or Without Rule of Law situation could help ensure that you could obtain the resources you need to survive.

Regarding the taxation of gains from the sale of precious metals, as [this article](#) states, "Physical precious metals [as well as ETFs that own them] are [considered by the IRS to be] 'collectibles'....If collectibles are held over one year (long-term), sales are taxed at the 'collectibles' tax rate — the taxpayer's ordinary [income tax] rate capped at 28%. It's different for regular capital assets like securities [e.g., stocks]: individuals in the 10% and 15% ordinary income tax brackets pay 0% on long-term capital gains (LTCG); individuals in the 25%, 33% and 35% tax brackets pay 15% on LTCG....This translates to *materially higher tax rates on collectibles for all taxpayers in all tax brackets* vs. regular LTCG tax rates. For this reason, many CPAs recommend clients invest in physical precious metals inside their IRAs." (emphasis added)

You seldom hear about this potential disadvantage (if you're in a high marginal tax bracket when you sell precious metals at a gain) of investing in precious metals, especially during a mania. I have always had my clients use their IRAs to obtain exposure to (non-physical) precious metals for this reason (unless they simply didn't have enough money in their IRAs to do so).

In conclusion, physical precious metals and precious metals ETFs are different investments that should be held in different accounts to achieve different goals.

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