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### AP Some Advise Adding Metals to Portfolio

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#### Some Advisers Steer Clients Into Metals As a Way to Add Luster to Portfolios

NEW YORK (AP) -- As inflation fears grow, some advisers are steering their clients into precious or industrial metals as a way to add luster to portfolios.

Pinpointing the right vehicle in the world of metals investing isn't easy. But as demand has increased for hard assets to offset rising inflation, more products are cropping up to tempt even small investors into metal.

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Barclays Global Investors, for instance, is planning to launch a new exchange-traded fund tracking silver called iShares Silver Trust, a cousin to two gold ETF funds already trading. The firm filed a registration statement with the Securities and Exchange Commission in June for the new product, but wouldn't comment on a timeline for its launch.

The planned silver ETF captured some attention last month, when a nonprofit U.S. silver industry group urged the SEC to reject the fund because it could buy up enough silver to make the metal too expensive or illiquid. That future demand for silver also

could make a silver ETF attractive to investors.

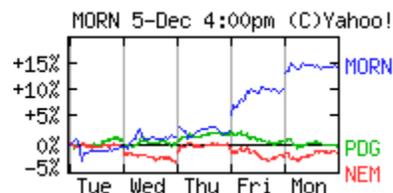
"A lot of people think silver is undervalued right now," says Kirk Kinder, a financial planner in Palm Harbor, Fla. Silver, unlike gold, is often used in industrial operations, and a tight market could create a shortage that fuels demand, he says.

Various precious-metals mutual funds exist, and have long been a place where investors have sought refuge amid a poor-performing stock market and inflationary environment.

Many mutual funds have a mix of gold, platinum and palladium mining companies, and require low minimum investments. Earlier this year, Morningstar Inc. listed American Century Global Gold and Vanguard Precious Metals and Mining among its favorite precious-metals funds.

Buying the stock of a metals producer is the simplest way to gain exposure. Popular gold-mining stocks include Newmont Mining Corp. and Placer Dome Inc., although

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advisers say investing in a public company doesn't provide the same protection from market tumult as a vehicle that invests in a broad mix of metals producers or directly owns various metals.

Another option is a structured note, a vehicle typically offered by financial institutions for wealthy investors. With these notes, investors get a return that is linked to the performance of certain metals over a set period, such as five years. On maturity, investors get their initial principal back, plus a cut of the performance of the underlying metals.

Raymond James Financial Inc. has offered structured notes this year linked to metals and indexes. The firm developed a four-year principal-protected note in June around five industrial metals -- aluminum, copper, nickel, lead and zinc -- and the FTSE/Xinhua Index of 25 Chinese companies. The product, called the China note, is currently up 6 percent, said Fred Whaley, managing director of Raymond James' alternative-investments group in St. Petersburg, Fla.

Clients typically invest \$25,000 to \$50,000 in the notes. "We've been offering them this year because of the interest in commodities," Whaley said. The products are designed to provide exposure to metals, but with added diversification to protect against swings in metals prices. "We have investors who think they want (metals) but don't understand the risk of volatility in the marketplace," he said.

That volatility doesn't appeal to some. Historically, gold has provided stability during times of confusion, but many don't like how its price can languish or soar. Gold has recently traded at its highest price in 18 years, around \$480 an ounce. "I've never been a gold bug," said Neil McCarthy, a financial planner in Roswell, Ga. "It's more speculative than other commodities, from my perspective."

For those who are interested in metals, here are a few basic rules to keep in mind:

-- Plan on a long-term investment, as metals can be illiquid or have heavy tax consequences upon sale. Gains in ETFs, for instance, are taxed at a higher rate, as gold and silver are considered "collectibles" and investors are treated as if they owned the underlying metals. Advisers suggest buying ETFs in tax-deferred accounts, such as an individual retirement account.

-- Keep it simple. An investor can buy gold or silver coins through a precious-metals dealer, but that requires expertise and proper security. While funds charge a fee, metals are kept in a safe place. Simply put, "coins, bullion -- it's just too hard to store," says Matthew Chope, a financial planner in Southfield, Mich.

-- Diversify. With worries that the easy money has already been made in metals like gold, diversification is key. Rather than pick one metal, look for products invested in a metals that can be used for a range of purposes, such as electronics or electrical applications.

-- Limit portfolios to 5 percent-10 percent in alternative investments. Precious metals in particular can be risky and volatile.

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