



STATE OF MAINE
OFFICE OF THE STATE TREASURER

39 State House Station, Augusta, ME 04333-0039

www.maine.gov/treasurer

HENRY E.M. BECK, ESQ.
State Treasurer

GREGORY OLSON
Deputy Treasurer

April 24, 2023

Senator Margaret Rotundo, Chair
Representative Melanie Sachs, Chair
Joint Standing Committee on
Appropriations and Financial Affairs

Testimony in Opposition to L.D. 734, *An Act to Authorize the Treasurer of State and Municipalities to Invest in Gold, Silver and Other Precious Metals*

"In varying degrees, just about all of us are intrigued by gold. Throughout human history, humans have been influenced by this heraldic metal. We have envied those who have it, pitied those who do not, moved to where it could be mined, and fought or robbed one another to obtain more of it."

Strong, R. A.¹ (2009). Gold. In *Portfolio Construction, Management, & Protection* (5th ed., p. 388). South-Western Cengage Learning.

Chairs and Honorable Members:

We respectfully oppose L.D. 734. The question that should be asked by the Committee is not whether precious metals are a good investment. Precious metals may be a good investment. Rather, the Committee should ask **whether precious metals are an appropriate investment within the State's internal investment portfolio that is sourced by tax dollars and used to pay our expenses and expenditures on a frequent basis.** We believe precious metals are not.

Dollars coming from taxpayers directly to the State or through the Federal government must be invested with safety, liquidity and yield (in that order) in mind. It is somewhat unclear which investments² in

¹ **Bob Strong** taught at the University of Maine as a Professor of Investment Education and Professor of Finance. He now serves on the University of Maine Board of Visitors. His textbook on portfolio management is used at many other institutions.

² Investment in precious metal futures or precious metal related public or private equities are not a proper investment for State government and would contravene current statute and policy. Hypothetically, investments in companies in the precious metal business are allowed through the purchase of the highest rated commercial paper instruments and corporate bonds.



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precious metals are contemplated by L.D. 734. It seems most likely the bill intends to allow investment in physical precious metal assets or certificates.

Such investments are not sufficiently **safe** for the short-term investing³ conducted by State government. Precious metals have a price volatility that could lead to losses if the State had immediate cash needs. The same is true for public equities and Treasury does not invest funds within the general cash pool in public equities. Losses, especially in fiscally difficult times, will invite warranted public attention and disappointment. Consider this chart⁴ that shows the price of gold in USD on the London Fix in the past year.

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GOLD, 1D, LBMA, QUANDL 1986.10 -7.95 (-0.40%)



³ By law, Treasury may not invest in federal obligations with maturities exceeding 36 months or commercial paper or corporate bonds with maturities exceeding 24 months.

⁴ Yields on federal paper are also volatile but it is important to keep in mind that in a federal paper transaction, the State is a buyer. If the State were to invest in precious metal assets, hold them and need to sell them, the State as a seller bears the risk of price volatility. T Bills (maturities of 4-52 weeks) are bought at a discount and are guaranteed to pay back face value at maturity. Treasury Notes (2-3 year maturities) pay a fixed rate of interest every six months until they mature plus face value. Other federal obligations like Fannie Mae debt securities have a fixed interest rate. Further, the State can better plan and budget by knowing the guaranteed maturity dates and yields of federal paper. The same is not true of precious metals.



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Storing physical bars of precious metals would be costly and could present **liquidity** challenges especially if the State's investment in precious metals is meant to reduce inflation risk. Precious metals could bring **yields** in a volatile market but would require active management beyond current practice.

Overall, Maine law and the Treasurer's investment policy are wisely conservative and successful. For example, earnings on the B.S.F. alone were \$1,797,065.70 in February 2023 and fiscal year-to-date earnings as of the end of March 2023 were \$55,983,707.29.

We do appreciate the sponsor's interest in our functions and make no judgment about investments in precious metals made by individuals and others, but respectfully object to these changes to State law governing investments of public dollars.