Invest in Gold bonds, but not too much: Experts

By *Prashant Mahesh*, *Sanket Dhanorkar*, ET Bureau | Jul 18, 2016, 04.09 AM IST

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MUMBAI: The fourth tranche of sovereign gold bonds is set to open on Monday. Wealth managers are recommending investors to subscribe to these bonds amid prospects of a weaker rupee against the dollar.

These bonds are issued in denomination of one-gram of gold and in multiples thereof. Minimum investment in these bonds shall be one gram with a maximum buying limit of 500 grams per person per fiscal year (April-March). The gold bond gives you the benefit of gold price investment, but you never own the physical gold. You own a bond paper, which can also be in digital form, and enjoy the liquidity as the bonds are listed on the BSE and the NSE. The issue price has been fixed at Rs 3,119 per gram.

Investors can subscribe to these bonds by buying from issuing banks, post offices, designated agents or from the NSE or the BSE.

"Post Brexit, the US dollar will be a strong currency. As the rupee depreciates, gold investors will benefit," said Vishal Dhawan, chief financial planner at Plan Ahead Wealth Advisors. He believes these gold bonds are a good opportunity for investors to balance their portfolio.

Gold bonds score over ETFs (exchange-traded funds) or physical gold as there are no fund management charges or hassles of storage and costs associated with it. However, ETFs or gold savings fund score for those wanting to do staggered or SIP (systematic investment plan) investments over a period of time. Budget 2016-17 has proposed that redemption of the bonds by an individual be exempt from the capital gains tax, if held for 8 years till maturity.

"This is an efficient way to invest in gold as you get 2.75 per cent interest, and there is no capital gains tax on redemption if held till maturity," said Amol Joshi, founder, Plan Rupee.

Though experts maintain that these bonds remain the most efficient way to invest in gold but they also caution against taking undue exposure to the metal. The issue price for the new series of bonds is Rs 3,119, almost equivalent to Friday's closing spot gold price of Rs 3,115 per gram.

Gold has been the biggest outperformer among all asset classes this year, up 23 per cent from the turn of the year. The sharp run-up in gold prices, recently, has taken some of the sheen away from this investment avenue.

"Gold bonds remain the best route for taking exposure to gold," admitted Raghvendra Nath, MD, Ladderup Wealth Management, but reckons the asset class itself does not look appealing relative to many other options. "Gold may not provide meaningful return over the next few years if a 'risk-on' sentiment sets in globally," added Nath.

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"A traditional bank fixed deposit will offer higher yield without worrying about erosion in the principal," he argued. Vivek Rege, CEO, VR Wealth Advisors said, "it does not make investing sense at this price. Any income from interest rates could get nullified if the gold price itself takes a hit going forward." Most advisors suggest not extending gold allocation beyond 5-10 per cent of one's portfolio.

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