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Why gold bonds in secondary market are better investment than the new issue

BY NARENDRA NATHAN, ET BUREAU | OCT 16, 2017, 06.30 AM IST

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The new series of [gold bonds](#) will be available for purchase on the first three days of each week starting 9 Oct, till 27 Dec.

The Reserve Bank of India (RBI) will fix their price on a weekly basis. This 'on tap' facility can be useful for [investors](#) who want to buy small quantities of [gold](#) in a staggered manner. The RBI, which has increased the investment cap for individuals from 0.5 to 4 kg, has restricted the Rs 50 initial discount to investors who apply for the bonds online.

Should you subscribe to this new series of gold bonds? Investors should decide whether they need to allocate more money to gold and get in only if their existing gold allocation is very small. The long-duration of the bonds—eight years, with the option to exit only from the fifth year—is discouraging. “My problem with gold bond is its long duration.

Why you should ignore new gold bonds

These bonds are at a disadvantage both in terms of price and yields

| Bond issue date | Issue price ₹ | Coupon | LTP* ₹ | Running yield |
|-----------------|---------------|--------|--------|---------------|
| 24 SEP 2017 | 3,150 | 2.75 | 2,800 | 3.09 |
| 24 AUG 2017 | 3,119 | 2.75 | 2,800 | 3.06 |
| 24 MAR 2017 | 2,916 | 2.75 | 2,780 | 2.88 |
| 24 NOV 2017 | 2,957 | 2.50 | 2,783 | 2.66 |
| 23 NOV 2017 | 2,684 | 2.75 | 2,810 | 2.63 |
| 25 MAR 2017 | 2,893 | 2.50 | 2,756 | 2.62 |
| 25 MAY 2017 | 2,901 | 2.50 | 2,799 | 2.59 |
| 24 FEB 2017 | 2,600 | 2.75 | 2,798 | 2.56 |
| 25 JUL 2017 | 2,780 | 2.50 | 2,770 | 2.51 |

*Last traded price. Source: NSE. Data as on 11 Oct 2017

Equity generates better returns than gold in the long term, so no need to get into gold for better returns,” says Mukund Sheshadri, Co-Founder, MSVentures Financial Planners. Also, investors should not buy these bonds, simply because they are available. “Since the new bonds are not offering any substantive additional benefits, buying the existing gold bonds from the [secondary market](#) makes better sense,” says Suraj Saraogi, Managing Director, New Berry Group.

The earlier series of bonds are available in the secondary markets at lower prices and offer higher yields. These bonds are now trading at around Rs 2,800, which is significantly lower than the price of the new bonds, even after adjusting for the Rs 50 discount. The running yields on the existing bonds are higher than the 2.5% offered by the new bonds. “Penetration of gold bonds may not go up much in this series as well,” says Dinesh Rohira, Founder and CEO, 5nance.com.

The 'on tap' facility can be useful for investors who want to buy small quantities of gold in a staggered manner.

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However, the volume of the gold bonds traded in the secondary market is not great, so purchasing them will be useful only for those retail investors who want to buy in small quantities. Even if you want to invest a substantial sum, it will be best to stagger your purchase else the discount in the secondary market may get eroded because of large buy orders. **"In addition to the price impact, buying in small quantities makes sense now because of contradictory signals in gold,"** says Vishal Dhawan, CEO, Plan Ahead Wealth Advisors.

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