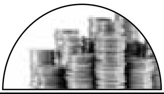
# Gold must constitute 10-15% of portfolio



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**Vishal Dhawan**

AS AN investor, you would have noticed two commodities swinging wildly over the last couple of weeks — silver and oil.

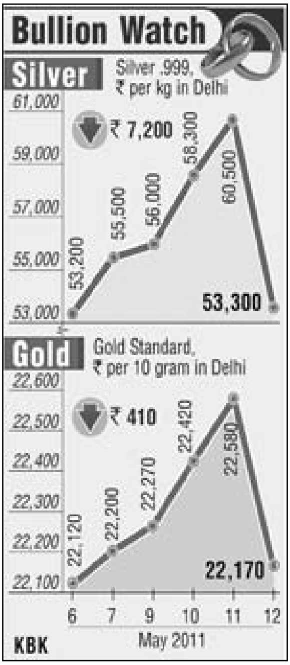
The swings in silver have obviously been far more worrisome with the prices falling by more than 30 per cent over a very short period. Oil, to a lesser extent, has also swung violently over the last few weeks.

With gold prices also close to record highs, a large number of investors are concerned about their strategyto be followed. Lets try to address some of their concerns.

**Is it gold's turn next to witness a sharp fall?** While there are multiple reasons for the significant swings in commodity prices ranging from increased margins from commodity exchanges to interest rate hikes in India and China, it is important to understand the reasons for the fundamentals behind the price increase in gold.

**Significant increase in money supply:** Ever since the housing crisis in the United States and the subsequent impact on financial markets due to the collapse of Lehman Brothers, there has been a significant amount of money that has been pumped into the world economy by central banks.

Since the supply of money has increased significantly, there is an expectation that money in its traditional form will continue to lose value. Gold is being seen as a safe haven in this environment.




**If you have less than 10 per cent of your portfolio in gold, you should continue to buy. If you have in excess of 15 per cent of gold in your portfolio, you should sell.**

**Diminished supply from central banks**: A large number of central banks were selling gold till a few years ago, providing a continuous supply of gold and keeping prices suppressed. This has changed in the recent times, with central banks like India and China actually increasing their holdings of gold to diversify their US dollar dominated currency. This increased demand from Central banks has helped in both keeping the prices steady as well as providing confidence to investors who hold gold.

**Track record of being a good hedge against inflation:** Over the long periods of time, gold has demonstrated the ability to be a good hedge against inflation. With a large number of central banks raising interest rates to combat inflationary trends, gold is being increasingly looked at as a part of the portfolio to hedge against inflation.

**So what should you do now?** Ensure that gold makes up 10 per cent to 15 per cent of your overall portfolio with its track record of diversifying portfolio risk and low correlation to equities, it is a critical part of your portfolio. If you have less than 10 per cent of your portfolio in gold, you should continue to buy. If you have in excess of 15 per cent of gold in your portfolio, you should sell. Use volatility to your advantage by buying in tranches if gold prices fall. You also have the option of buying gold funds that allow you to invest systematically through Systematic Investment Plans (SIPs) or Systematic Transfer Plans (STPs).

*(Vishal Dhawan is a Certified Financial Planner and founder of Plan Ahead Wealth Advisors. He can be reached at vishal@planaheadindia.com.Check out our new website www.planahead.in)*