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This Dhanteras, are you buying gold jewellery, bonds or ETFs?

A major benefit of sovereign gold bonds is that it provides a 2.5% per annum interest on the amount invested

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Just ahead of the festive gold buying on the occasion of Dhanteras, gold prices in India reached near a 6-year high on 31 October to touch ₹32,620 per 10 grams. It was at □31,622 on 2 November. The prices may remain around the same levels for some time now with analysts maintaining a stable outlook for the precious metal in the near term.

In the next three months, **gold** is expected to be around □32,000, said Naveen Mathur, director, commodities and currencies, Anand Rathi Share and Stock Brokers. “The events of the past few months like rupee depreciation have now been taken into account and it will now remain stable at these levels. I don’t think it has too much strength for price moving upwards significantly,” he said.

Traditionally, Indians buy gold on Dhanteras, irrespective of the prices, as it is considered auspicious. But before you go out gold shopping this season, remember that financial planners suggest gold should not exceed 10% of your **portfolio**. We list out the different forms of gold you can buy and their major pros and cons.

Jewellery

This is the most common way of buying gold. The biggest positive in purchasing gold jewellery is the instant gratification as you can use it—regularly or occasionally. Moreover, liquidity is never a concern if you hold gold in the form of jewellery, as you can sell it in times of need.

However, there is also a flip side to buying jewellery, that too regularly. First, determining the purity of the metal could be tricky for most retail consumers and you will have to go by the seller’s word. Second, apart from the cost of gold, you also pay for the making charges of jewellery, which could be as high as 25-30% of the cost of gold, in case of delicate and intricate designs. Third, when you sell the jewellery, you will have to forego the amount spent as making charges.

Gold coins and bars

The other common form of buying gold is through coins or bars. Coins usually come in smaller sizes, weighing a few grams, whereas bars mostly come in multiples of 100 grams. You can buy these from jewellers or banks, though not all banks sell gold.

The big positive to this mode of buying gold is that purity of the metal is certified and the coin or the bar will have a hallmark. However, the same might not be available at small jeweller stores; so check before you buy. There are also no making charges and these coins and bars can be resold to the jewellers if you need to liquidate the holding. Though there is no making charge, the sellers usually charge a markup to the tune of 2-3% of the prevailing market price.

The flipside here is the cost of storage. There is also an element of risk of theft. Also, remember that banks do not buy back the gold they sell. This means you will have to sell gold bought from a bank to jewellers.

Gold ETFs and Funds

Moving from physical gold to paper or electronic form is also an option. The oldest option is buying gold through gold exchange-traded funds (ETFs) or gold mutual funds that invest in **gold ETFs**.

Gold ETFs passively track the prices of gold; when gold prices go up, your net asset value also goes up and vice-versa. They invest all their money in physical gold, and only keep the minimum required to meet liquidity needs. The major benefit of investing in gold through this route is that you eliminate the costs of storage and risk of theft. Moreover, there are options to make periodic investments through SIPs.

The flipside of investing in gold ETFs or funds is that you have to pay fund management fee as these are managed by asset management companies. This could be to the tune of 1% of your investments per year in case of an ETFs and about 1.5-1.8% in case of a gold mutual funds.

Sovereign Gold Bonds

Another way to buy gold is through the government of India's sovereign gold bond scheme. Gold bonds are issued by the RBI and, as per the latest update, will be issued every month between October and February. The next tranche will be open for **subscription** from 5-9 November.

The scheme also provides a 2.5% per annum interest on the amount invested in bonds. This amount is credited directly to the subscriber's bank account. And even if the value of gold declines, you continue to earn interest. The interest amount is taxable but the capital gains arising out of redemption of these bonds are exempt from tax.

The disadvantage of the scheme is that it has a lock-in of five years. However, you may sell it through secondary market trading.

E-Gold

Some fintech companies offer options to buy and then sell gold online. Mobikwik has been the latest fintech platform to have started selling gold digitally through their mobile app. Other platforms offering this are Paytm and PhonePe.

The unique feature here is that you can buy gold for as low as 1, and there are no charges at the time of buying. But if you want the delivery, it can only happen in multiples of 1 gram. You will also have to pay making charges for coins as well as delivery charges. For instance, Paytm charges 374 and 404, as making charges for 1gm and 2gm gold coins, respectively. In case of redemption, you might have to pay a bank transfer and convenience fee.

You can avoid taking delivery of physical gold only for a fixed period of time. For instance, Paytm and PhonePe allow you to hold your gold only for five years, after which you have to take the delivery mandatorily. In PhonePe, if someone buys less than 2gm of gold over a period of 2 years, a fee of 0.05% per month is charged for storage and insurance.

What should you do?

All the modes of buying gold have their pros and cons. But financial planners say sovereign gold bonds are the best way to buy gold at present. "These bonds also pay an interest of 2.5% per year, in addition to the change in gold price. Though the supply for these bonds in the secondary market is not very high, now the tranches are quite frequent, so that should not be a constraint. Gold ETFs, in our view, are the second best option, mainly because they give you an ability to do an SIP equivalent," said Vishal Dhawan, founder and chief executive officer, Plan Ahead Wealth Advisors.

With gold prices firming up, and volatility and corrections in the equity market making retail investors jittery, gold investments might appear attractive. However, it is important to maintain your asset allocation. *Mint Money* recommends you should have only 5-10% of your portfolio in the form of gold investments.

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