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Shaikh Zoaib Saleem zoaib.s@htlive.com Domestic gold price 34,000 33,000 32,000 31,000 30,000 29,000 2Apr18 International spot price 1,400 1,350 1,300 1,250 1,200 1,150 2Apr18 28 Mar 19

Don't get tempted by lower gold prices

Buy the metal only if you need to rebalance your gold allocation

DOMESTIC FALL

You should never let short-term swings in the prices of any asset impact your portfolio's allocation

Gold has been on a steady decline over the past couple of months. From ₹33,262 per 10 grams on 1 February to ₹31,854 on 28 March, its price has declined by over 4%. During the same period, the international spot price of gold remained stable with a marginal decline of less than 1%. The fall in the domestic price might tempt you to buy gold. But before doing so, understand why the price is falling and when should you consider buying.

THE RUPEE FACTOR

India is pre-dominantly dependent on imports for domestic demand for gold. This essentially means that we pay in dollars to buy gold. So when the Indian rupee weakens against the US dollar, the price for our imports goes up and vice-versa.

Gaurang Somaiya, forex and bullion analyst at Motilal Oswal Securities said there has been no change in the overall gold demand in the Indian market. "The change in price is purely due to the appreciation of the rupee. Over the past few weeks, there has been a strong inflow of funds in the markets which has resulted in rupee appreciation. The international gold prices have continued to remain stable in the same period, while the price in India has seen some correction," he said.

In September-October last year, the rupee had depreciated significantly to reach ₹74.38 against the US dollar. In the same period, domestic gold prices went up to its highest levels in the past six years. The rupee appreciated back to ₹69.03 against the US dollar on 28 March. Since 4 February, the rupee has appreciated 3.85%; gold price in India has come between 1 February and 28 March, gold price in India fell by over 4%, but international spot price has been stable with a marginal decline of under 1% down by 4.23% in the same period.

However, the rupee might not strengthen further significantly in future forward and, hence, gold price may remain stable in the medium term. At the same time, the expected upside to gold price is also limited. Naveen Mathur, director (commodities and currencies), Anand Rathi Shares and Stockbrokers Ltd, said that ₹33,000 to ₹33,500 should be a good level to look forward to about six months down the line. "It is very difficult to have a very firm longterm price outlook due to the dynamic geo-political risks involved. The uncertainties of US-China trade tensions or another event like Brexit are still looming," he said.

SHOULD YOU BUY?

Financial advisors believe that your decision to buy gold should not be dependent on the prevailing price, though you can take advantage of a reduction. "When gold prices fall, like you do a rebalancing in other asset classes like equity by buying more when prices fall, you can do the same for gold, provided you have a clear strategy that your overall exposure to gold does not exceed 5-10%," said Vishal Dhawan, founder and CEO, Plan Ahead Wealth Advisors. For investors with higher risk appetite, Dhawan suggests a 5% allocation and 10% for those with lower risk appetite.

Gold should ideally be a part of any portfolio. "Gold's position in asset allocation continues to be very logical as it was proved when gold beat other asset classes in 2018. Investors can continue to buy gold based on their asset allocation. It is important that investors buy gold through regular purchases, rather than trying to buy in lump sums," he said.

The most convenient way to buy the yellow metal at present is to buy sovereign gold bonds that are issued by the Reserve Bank of India from time to time. It helps you accumulate gold in non-physical format, and also pays you an interest of 2.5% per annum. The other methods could be buying a gold exchange-traded fund or digital gold, wherein you can delay taking physical possession, which eliminates the risk of loss and theft. Read more at bit.ly/2Ue20cf.



But never let short-term swings in the price of any asset impact your portfolio's allocation.

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