

Get a hold on your gold

AKSHAYA TRITIYA SPECIAL If you want to buy gold as an investment, get sovereign gold bonds. Also, restrict the yellow metal to 5% of your portfolio

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MUMBAI: Do you buy gold every time you want to make an investment? Well, gold demand in India touched 4,345.1 tonne in 2018 compared with 4,159.9 tonne in 2017 and in line with the five-year average of 4,347.5 tonne, according to a report by World Gold Council. Clearly, Indians continue to buy gold. However, filling your investment with gold might not be a wise decision. On the occasion of Akshaya Tritiya, let's look at different ways to own gold and whether it makes sense to buy it.



GOLD JEWELLERY

If you are buying jewellery for use, you need to consider it as an expense. If you are buying gold jewellery for investment purposes, you should stay away from jewellery. Say the price of gold is ₹3,050 for 1 gram with 22K purity—gold jewellery is available in 6k-24K purity. If you purchase a 10gm-22K gold chain, the price of gold will be ₹30,050. "For jewellery, you have to pay making charges, which can range from 8%-22% of the value of gold," said Aditya Pethé, director, Mumbai-based WHP Jewellers. You also have to pay goods and services tax (GST) of 3%. At 10% making charges and 3% GST, the cost of your gold chain will now be ₹34,046.65—additional cost of ₹3,996.65. Meanwhile, the price of 10gm gold chain in Tanishq is around ₹39,224 (before discounts). Also if there are studded gems, the cost will go up further. You will lose all the additional cost when you sell it. "It carries the feel of physical possession but due to the high making charges, it reduces the resale value," said Pawan Agrawal, founder of Invest-Guru.in.



GOLD COINS AND BARS

Gold coins and bars are another option to buy physical gold. You can buy it from jewellery stores, e-commerce websites and banks. Unlike jewellery, you can buy coins and bars in 24K purity. However, like gold jewellery, you have to shell out for making charges. "The charges can range between ₹100 and ₹1,000 for gold coins and bars," said Pethé. The price of a 1gm 24K gold coin in Tanishq is around ₹3,900. This compares with ₹3,285.1, which is the price of 1gm of 24k gold. If you are storing coins and bars in a bank locker, you will also need to factor in the cost of storage.

Gold coins and bars can work as an investment option if you don't have access to paper gold.



DIGITAL GOLD

You can also buy gold on digital platform for as low as ₹1 through fintech apps. There are no transaction costs while buying gold. GST at the rate of 3% is applicable. A 10gm of 24K gold, including taxes will cost ₹33,110.68. "The gold is sourced directly from refiners such as MMTC and avoids," said a PayTM spokesperson. Customers can buy up to ₹1.5 lakh worth of gold in a day. "The prices on the app change dynamically. Depending on the day's price, customers can buy approximately 0.00003gm of 24K gold for ₹1," the spokesperson said. Though it may be cheaper at the time of buying, remember that after five years you have to mandatorily take out the gold you have accumulated in the digital form into physical gold. Also, you have to pay a cost for delivery.



GOLD BONDS

Sovereign gold bond allows you to invest in gold through a bond where the underlying asset is gold. You get a fixed 2.5% per annum return on the investment amount above the price change in gold. You can buy sovereign gold bonds through a bank and distributor when the application is opened to public. "Sovereign gold bonds are the pre-

ferred investment option because they pay a coupon rate unlike other instruments and have no cost," said Vishal Dhawan, founder of Plan Ahead Wealth Advisors. Interest will be credited biannually to your account. But it has a lock-in period. "Opt for it if you are investing for long-term, as it has 8-year duration and can only be accessed post a 5-year lock-in," said Dhawan. If you are looking at gold for investment purposes and are willing to stay invested for the long-term, sovereign gold bond is a good option.



GOLD ETFs

Gold exchange traded funds (ETFs) track prices of gold. "It can be bought and sold any time. Your investment horizon could be long-term or short-term for investing in gold ETFs," said Agrawal. You need to have a demat account. "ETFs have costs of brokerage and the demat account," said Dhawan. A demat account can cost you nil to ₹3,000 depending on the platform you are using, according to Agrawal. There are annual account maintenance charges. The gold ETF expense ratio ranges 0.5%-1%, according to Value Research. If you are looking to accumulate gold in a paper form, you can consider gold ETFs. However, take stock of the cost attached to it.



GOLD MUTUAL FUNDS

In gold mutual funds the underlying asset is gold ETFs. You do not need a demat account to invest in gold mutual

funds. "Gold fund of funds has the cost of the ETF plus the fund as well," said Dhawan. As per Value Research, the expense ratio on gold mutual funds range from 0.5% to 1.5%. Hence, the cost to invest in gold mutual funds will be higher than gold ETFs. The only convenience is you don't need a demat account. Also, gold mutual funds may be suitable because it is an easier way to stay invested in ETFs.



GOLD SAVING SCHEMES

In this scheme, customers either deposit gold or cash for a fixed period of time and at the end of the period, they can buy gold for an amount equal to the money deposited plus some bonus amount. "This may not be the most preferred way to invest in gold because at the end of 11 months you have to purchase gold from the same shop itself. You do not get money back," said Agrawal. If you are looking to buy jewellery, such schemes are not advisable. "The government discourages such schemes as there have been cases of jewellers running away with the customers' money at the end of the policy term. So the government limited the scheme's maturity period to 12 months only," said Pethé.



ISTOCK

WHAT YOU MUST DO

Gold is not an investment instrument. It is a hedge against inflation. In your overall investment portfolio, if you want gold, it should not be more than 5%. "With physical gold there is an added burden of safety and storage," Agrawal said. You need to align your financial goals, review your affordability and then decide how you want to invest in this precious metal because glitter alone is not enough for your overall financial plan.

GOLD RUSH A ready reckoner on buying gold this Akshaya Tritiya							
PRODUCT	JEWELLERY	COINS AND BARS	SOVEREIGN GOLD BONDS	GOLD ETFs	GOLD MUTUAL FUNDS	SAVINGS WITH JEWELLERS	DIGITAL GOLD
Source	Jewellers	Banks, non-banking finance companies, jewellers, online	Banks and distributors	Stock exchange	Mutual fund houses, distributors or online platforms	Jewellery stores	Online platform
How to buy	Physical visit to jeweller or online	Physical visit to jeweller or bank branch	Apply when bonds are open to public	Online mode	Physical or online mode	Physical visit or online	Apps and websites
Advantage	Physical possession	Physical possession	Get 2.5% fixed interest per annum, no additional charges	Can be bought and sold anytime, nominal cost	Can be bought and sold anytime, no demat account required, can do monthly investment	Monthly savings	Low value, option of selling or converting to physical gold
Disadvantage	High making charges, reduced resale value, hard to sell due to emotional reasons	Requirement of storage space, making charges	8-year tenure with option to exit from 5th year	Required demat account	Higher expense ratio than gold ETFs	The returns are low, have to mandatorily buy jewellery, no flexibility	Mandatory delivery of physical gold after 5 years
Charges	Making charges: 6-35%;	Making charges of ₹100-₹1,000	Nil	0.5-1% expense ratio	0.5-1.5% expense ratio	Making charges of 6-35% will be applicable	Charges that have to be paid at time of delivery of gold
Who should buy	You wish to use it to wear it and not as investment	You want to have gold in physical form	If you are looking at gold for investment, opt for it	Gold ETFs can work for you if you want immediate liquidity	If you want a disciplined way to invest on a monthly basis in gold, you can consider it	May work for those who don't have access to other investment options	If you are looking to buy gold at small ticket size and need physical gold

Source: InvestGuru.in, HT Research