

Gold prices at six-year high; time to rethink about gold mutual funds?

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Gold prices touched six-year high on Monday and commodity analysts believe that the prices may go up further. Is it time to take a second look at gold as an asset class, especially gold mutual funds? Many financial planners and investment consultants have stopped recommending gold as a diversification tool after the yellow metal lost its sheen in the last few years. Will they change their stance now that it has bounced back to a multi-year high?

Gold surpassed \$1,400 an ounce on Monday. Driven by the prices, gold funds are offering 3.97 per cent returns in one week and 7.87 per cent returns in one month.

“The scenario of falling interest rates in the backdrop of failing growth and trade war along with the addition of geo-political threat in middle-east has created a perfect scenario for gold bulls. Gold has underperformed to other financial assets over 3-4 years and it started to catch-up since a year now,” says Kishore Narne, Head- commodities and currencies, Motilal Oswal Financial Services Ltd.

Narne believes that the momentum in gold prices would continue to push higher with potential targets of Rs 36,000/10gms by the year end seems very much possible and Rs 40,000 – 45,000/10gms as potential targets in rupee terms by

2020. "We advise caution in short term as the sharp rally could see some corrections, but investors can look to buy on dips," he adds.

Investment advisors are not enamoured by the glitter yet. They believe that investors should not invest in gold with high expectations. "It doesn't make sense to invest in a gold fund or gold bonds or gold ETFs because gold prices have gone up. For a conservative or moderate investor 5-10 per cent allocation to gold is sufficient," says Gaurav Monga, Director, PxG Consultants.

Most mutual fund advisors used to ask investors to take a modest exposure of 10 per cent in gold for diversification. They used to recommend gold as a hedging mechanism, as it is supposed to steady the portfolio when everything else goes wrong. The yellow metal has proved its worth during global crisis in 2008. However, since then it has lost its charm.

"Taking tactical calls in gold is not advisable for retail investors. It is actually very late for a tactical call as the prices have gone up already. Moreover, gold is not an asset that can give you good average returns. It should only be there for diversification," says Gaurav Monga, Director, PxG Consultants.

Vishal Dhawan, Founder, PlanAhead Wealth Advisors, also believes that investors shouldn't add gold to their portfolio simply because the prices are at multi-year high. He says you should add gold to your portfolio based purely on your original asset allocation plan.

"Gold funds are not a bad investment, but it should suit your portfolio. If you are a conservative investor who wants to save for gold for a later stage in life, it is better to go via the SIP mode. However, if you are an aggressive investor, you might look at international equities for diversification. The price of gold also depends on the international markets so that would be beneficial," says Vishal Dhawan, Founder, PlanAhead Wealth Advisors.