# Gold prices at 6-year high; should invest in gold funds, ETFs?

BY SHIVANI BAZAZ, | UPDATED: AUG 26, 2019, 04.02 PM IST

Post a Comment

Gold prices jumped to a fresh six-year high on Monday. Experts believe that the prices may continue to go up in the future due to the uncertainties in both the domestic and overseas market. 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 five years. Will they change their stance now that it has bounced back to a multi-year high?

Globally, the yellow metal jumped 1.2 per cent to $1,544 per ounce on Monday.

Big Change:
The end of Five-Year Plans: All you need to know

The scenario of falling interest rates in the backdrop of failing growth and trade war 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, analysts believe. Analysts also say that the momentum in gold prices would continue and by the end of the year, the prices may touch Rs 40,000 – 45,000/10gms.

"The US-China trade war with new tariff announcement has pushed gold and silver prices to a new six-year high as investors rushed for safe-have assets. Depreciating Indian rupee also helped the rise in prices. We expect the current trend to continue for gold and silver," said Pritam Kumar Patnaik, Head Commodities, Reliance Commodities, in a note. "On the MCX, the Gold is likely to move towards 39,900 to 40,000 levels. Saying that 38,800 and 39,000 act as a strong crucial support levels for gold on the downside," Patnaik added.

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.