Sovereign gold bonds Series II 2021-2022 open for subscription: Should you invest?

By NIKHIL WALAVALKAR

What's on offer

The SGBs will be issued to investors at Rs 4,842 per bond. Each bond tracks the price of one gram of gold. If the investor applies online and pays using digital modes, then she gets a discount of Rs 50 per bond. For such an investor the price will be Rs 4,792 per bond. Investors are also paid interest on a half yearly basis, at the rate of 2.5 percent. The bonds will be listed on the exchanges. At the time of maturity, the investor will be paid an amount equivalent to the value of gold prevalent then.

What works

SGB has a tenure of eight years and has an exit option for investors after five years, on each interest payment date. Gold exchange traded funds and gold fund of funds charge expenses – around half a percent each year. SGBs have no costs associated with them. For long-term investors, SGBs are more attractive than gold mutual funds. If you hold the SGB till maturity, then all the profits are exempt from capital gains tax. Interest earned is added to your income and taxed as per your slab rate.

What does not work

Traditionally, these bonds have traded at a discount to the spot prices in the exchanges. The average volumes traded on the stock exchanges are rising gradually. Due to high demand in the recent past, in some cases, the SGBs are trading at slight premium to the spot prices of gold issued by IBJA – Indian Bullion Jewellers Association. However, “If you want liquidity, then you may have to sell SGBs at a discount to gold prices,” says Parul Maheshwari, Certified Financial Planner.

Should you invest?

Gold prices have been flat over the last one year. However, the downward trend in gold prices appear to have come to an end, according to many experts. Expectations of sticky inflation, negative real yields on bonds, debasement of fiat currencies, tensions in Middle East and trade wars can support gold prices going forward. Navneet Damani, Head Research-Commodities and Currencies.

Vishal Dhawan, Founder and Chief Financial Planner, Plan Ahead Wealth Advisors says, “After the rally in stocks in CY2020, many investors may be sitting on profits in their equity portfolio. Gold has a negative correlation to stocks and acts as a hedge in volatile times.”

Gold can be an effective diversifier of your portfolio when both the equities and bonds are quoting at record prices. You should have at least 10 percent allocation to gold through a combination of SGB and gold ETFs, depending on your financial goals and liquidity requirements. Joydeep Sen, Corporate Trainer – Debt says, “If you are keen to buy and hold for long term, then SGB is the ideal option. However, if you are investing for a shorter tenure or want interim liquidity, then you can look at gold ETF or gold fund of funds.”

“Like equity and real estate, returns offered by gold are lumpy in nature. Investors need to have minimum seven years view while investing in gold,” adds Dhawan.SGBs can be a cost-efficient option and can be bought in small tranches round the year to avoid timing risk. Issue closes on May 28, 2021.