

Physical Gold vs Gold stocks, which is a better investment option for you?

Gold is considered by many as the best hedge against inflation, but there are several options when it comes to Gold, Physical Gold, Paper Gold like Gold ETFs and so on.

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Gold is a highly sought-after investment. Because of its characteristics as a "store of wealth," gold has frequently been used as a hedge against inflation in financial markets. But when it comes to gold, investors have two broad options, physical gold and gold stocks. Which suits you the best, find out with Business Today.

Physical Gold

Often, when people say they are investing in gold, it is usually physical gold in the form of jewellery, gold coins, bars, etc.

The biggest benefit of investing in physical gold is the fact that the owner gets to keep possession of the asset and there is no third-party risk involved. Moreover, the owner can sell the asset whenever and wherever he/she wants to.

This does not mean that it does not have any cons. Physical gold needs to be stored securely. Moreover, it is bought at a premium which is not the case of paper gold.

Paper Gold

Gold stocks are securities correlated with the price of actual gold. They could be gold mining stocks, gold certificates as well as Gold ETFs.

Gold mining stock is a share in a firm that engages in gold mining. Whereas a gold exchange-traded fund (ETF) is a fund like any other ETF. It trades on a stock exchange. And finally, gold certificates are official document that implies you own gold that is not physically in your possession.

They can be bought without paying a premium, which is not the case with physical gold. Furthermore, there is no storage cost involved.

But the biggest con of paper gold is the third-party risk involved in investing.

Vishal Dhawan, Board Member, Association of Registered Investment Advisors (ARIA) told Business Today "Physical gold provides the comfort and security of physical ownership but has concerns about purity, storage, and safety, along with the relative inefficiency of the sales process. Physical gold bought in a jewellery form should ideally not be considered as an investment though, as it is more likely to be consumption item."

Whereas, he says that there are several benefits of investing in paper gold. "The advantage of gold ETFs is that it gives you access to the potential movements in gold prices without the challenge of purity and physical storage and security concerns, and is also easy to sell."

He also points out several options and strategies that investors can opt to invest in gold stocks. "Gold mutual funds which invest in gold ETFs, though slightly more expensive as compared to gold ETFs, lend themselves well to strategies that involve cost averaging like systematic investment plans (SIPs) and Systematic Transfer Plans (STPs). Gold mining funds typically buy international stocks of gold mining companies and can therefore be very volatile as they could go up significantly when gold does well and fall significantly when gold falls. They should ideally be used by more aggressive investors and should also be bought through averaging strategies like SIPs/STPs to protect against the higher volatility in these kinds of gold funds".
