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MODES OF INVESTMENT IN GOLD

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Abstract:-Gold is a shinning yellow and very precious metal which has always remains a centre of attraction for ladies and traders from very past. Gold is also a symbol of power and wealth. Although, many generations has come and go but the craziness, attraction and love for gold is still intact in people nothing has changed. Now, if we look at the current scenario in this regard then the results we get are as follows:

Keywords:shinning yellow , craziness, attraction and love , Investment In Gold.

INTRODUCTION :-

According to GFMSA, total of 174,100 tonnes of gold have been mined in human history, as of 2012.
The consumption of gold produced in the world is about 50% in jewellery, 40% in investments, and 10% in industry.
India is the world's largest single consumer of gold.
Indians buy about 25% of the world's gold, purchasing approximately 800 tonnes of gold every year, mostly for jewellery.
India is also the largest importer of gold; in 2008, India imported around 400 tonnes of gold.
Indian households hold 18,000 tonnes of gold which represents 11% of the global stock and worth more than $950 billion.

Earlier gold was used as currency. But, now it is looked as an option of investment by investors. This article is for investors mainly for retail investors those who want to invest in gold but because of lack of knowledge in this regards they refused to invest their savings in it. This article will cover the following questions and help them in gaining knowledge regarding gold investment and modes of investing in it.

Why to invest in gold?
How much to invest?
What and how to invest in gold?
Why to invest in gold?

From ancient civilizations through the modern era, gold has been the world's currency of choice. Over the last decade, gold has shown itself to be a reliable investment choice. The market price of gold has multiplied by 5 over the last 10 years and is climbing almost every year. Not only is gold a steady way of securing savings, it also has a very good return of investment ratio. People who invested a portion of their savings 10 years ago now have profits of 4-5 times their investment on top of having their savings secured against the weak currency in the prevailing political unrest and inflation. So, we can say this investing money in gold is worth because it is a hedge against inflation. It is worth investing in gold for a one more very valid reason that is the, gold is negatively correlated to equity investments. . In addition, many top investment advisors recommend a portfolio allocation in commodities, including gold, in order to lower overall portfolio risk.

HOW MUCH TO INVEST?

It depends on the investor how much percent of portfolio he would like to invest in. A majority of the financial planners recommends around 15– 20% allocation of the total portfolio to Gold. This number may be vary from person to person there is no bondage on it. He should invest only that much amount of money in gold for which his need is not going to arise in near future because gold is a long-term investment, so use it to plan for future, not for present.
What and how to invest in gold?

There are two options of investing in gold:

1.Solid gold/real gold/physical gold (gold coins, gold bars and gold jewellery)
2.Non- physical gold (gold ETF, E-gold, gold fund of funds, gold future)

SOLID GOLD:

Solid gold is just that - solid. It is a physical asset that which can be holds, touch, feel and see. It can be in forms like bars, coins and jewellery. Bars and coins are also called gold bullion because they come in stamped and refined weight of precious metal that is gold.

Types of solid gold:

Gold bars:

Gold bars are the most often bought form of gold bullion and are acquirable from almost any certified gold seller all over the world. Therefore it's one of the easiest ways of investing in physical gold;

gold bars come in various sizes and weights (ranging from super light bars to heavy kilogram bars). They're also the easiest to measure form of gold bullion.

Types of Gold Bars:

Cast Bars: Cast bars are produced by pouring gold into a cast; they are the simple version of a gold bar.
Minted Bars: Minted bars are stamped bars made out of cast bars. Usually the stamped cast bars are a little more expensive as the cast bars.

Gold bar weights:

There are many different gold bar sizes all over the world. The smallest gold bar made by man is a 0.3 gram bar (generally produced for jewel purposes) and the largest is a 250 kg bar (owned by Mitsubishi).

Purity:

Most gold bars in the world consist out of 99% to 99.5% pure gold, meaning they are close to 24 k in purity. Gold bar are the purest form of gold bullion, more pure as the general gold coin or jewellery.

Prices:

If an investor want to invest a large sum of money into gold bullion is to buy as heavy as possible gold bars he can acquire. It is better to buy 1 large bar as several small ones. This is because the gold bar manufacturers add production costs to the market price of the gold bars they sell.

Different Bars in Different Regions:

Gold bars are made all over the world, in various countries and continents. They differ from each other because of different standards followed by countries all over the world at the time of manufacturing gold bars. Below is a list of types of different gold bars that exist:

Kilogold Bar: It is the most popular gold bar in the world. It is widely used by European private investors and is about 32.5 oz in weight.

Tola Bar: the Tola is a weight unit used for gold in various Asian countries like India and Pakistan. Tola Bars come in 10 tola bars and 1 tola equals 3.75 oz.it is very popular worldwide with private investors.

London "Good Delivery "Bar: this is the most well known type of gold bar, in the world, it has the standard "gold bar look". It is 400 oz(12.4 kg) in weight and is mainly used by banks.

Tael Bar: it is a Chinese gold bar. The name comes from the weight unit the Chinese use to measure gold; Tael. The tael weight unit is used in China, Hong Kong, Vietnam and Taiwan. The tael gold bar is usually manufactured in biscuit form.
Mitsubishi Bars: Mitsubishi is a Japenese company and produces rainbow gold bars since 1990 in different kind of forms and shapes. Unlike other gold bars, the Mitsubishi bars only have 75% purity.

Baht Bar: The Baht bar is a Thailand bar. These gold bars are weighted in the Baht weight unit that is used in Thailand. Baht bars come in 10 baht form. 1 baht equals 4.9 oz

Ornamental Gold Bars: Ornamental bars are special bars and are often produced in limited edition versions. They are sold with a higher premium because of their rarity.

Gold coins:

Gold coins are around since thousands and thousands of years and are the second most popular gold bullion, after gold bars, for private investors. For investors, coins are commonly bought from private dealers at a premium of about 1-5% above their underlying gold value.

The advantages of gold coins are:

Their prices are conveniently available in global financial publications.
Gold coins are often minted in smaller sizes (one ounce or less), making them a more convenient way to invest in gold than the larger bars.
Reputable dealers can be found with minimal searching and are located in many large cities.

Caution: Older, rare gold coins have what is known as numismatic or "collector's" value above and beyond the underlying value of the gold. To invest strictly in gold, focus on widely circulated coins (gold bullion coins) and leave the rare coins to collectors.

Different Bullion Coins in different regions:

There are many gold coins for sale in the world. Below are a few of the most popular ones:

Krugerrand (South African): the krugerrand also has a 91.67% pureness and is around since 1967. The kruggerrand is widely recognized and used as an investors' coin all over the world.
Gold Eagle (American): the Gold Eagle has a 91.67% pureness and has been around since 1986 and is heavily used by private investors in the United States but also elsewhere in the world.
Brittania (United Kingdom): The Brittania consists out of 91.67% pure gold and has been minted since 1987.
Gold Nugget (Australian): the Gold Nugget has a 99.99% pureness has been produced since 1986. It is the most popular coin in Australia and is also used by private gold investors in the rest of the world.
Maple Leaf (Canadian): The Maple Leaf consists out of 99.99% gold and is around since 1979.
Gold Panda (Chinese): The gold Panda is Chinese bullion coin made since 1989 with a 99.90% pureness. It is rarer as all the above coins.

Weights:

Almost all modern gold bullion coins all over the world weigh exactly 1 oz, which equals 31.1 grams. However, 1/20 oz, 1/10oz, 1/4 and 1/2 and oz coins are also quite common.

Purity:

All of the common gold bullion coins have a gold purity ranging between 90% and 99.99%.

Prices:

The prices of gold coins vary heavily. A good rule of thumb when buying gold coins as an investment in gold is to never pay more as 5% above coins' worth in gold

Gold jewellery:

Buying gold jewellery as an investment in gold bullion is also an option. For smaller investments or for personal use, jewellery can be a good choice. But if, the plan is for investing a large amount of money in gold or purely as an investment then buying gold coins and bars are best options. The major difference with other bullion is that jewellery is usually more expensive because it needs to be crafted. But the advantage of gold jewellery is that it can be used both as fashion and as an investment. In case of investment in jewellery requires a safe place like a bank locker or a home safe for keeping them safe and secure from theft. Common forms of gold jewellery are Golden Necklaces, Golden Rings, Golden Pendants, Golden Earrings and Golden Bracelets.

TYPES OF JEWELLERY:

Gold Coated Jewellery:

Most of the gold jewellery is gold coated, either filled or plated. Gold coated jewellery is not recommended when buying gold as an investment; simply because the gold will slowly wear off, if wear it regularly. Gold filled jewellery is usually made of a cheap metal with an outside layer of gold. There's also “gold plated or gold washed” jewellery typically has a thinner layer of gold and has less endurance as gold filled jewellery.

Solid Gold Jewellery:

Generally, solid gold jewellery is made out of around 18k gold or higher. Gold jewellery is hardly ever made out of pure 24 k gold. An advantage of solid gold jewellery is that it hardly “wears off”. At the time of making purchase of solid jewellery always make sure that only hallmarked jewellery prefers to purchase from much known shops or showrooms.

Tips for investing in gold jewellery:

At the time of purchasing jewellery, a buyer has to compare the price of jewellery with the actual daily gold market price to see how much the actual gold inside the jewellery is worth and how much he is paying for the jewellery on top of the actual gold price (for the crafting and precious metals or stones). Also compare different jeweller shops with each other for the best price.

Advantages of owing physical gold:

The biggest advantage is that investor really owns the amount of gold he invests in.
Investor can touch, hold and feel his bought gold.
It works as a universal currency which could be used to pay in desperate times because it has an equal value over the entire world.

Drawbacks of owning physical gold:

Storage & Safety: Physical gold requires storage like a safe or bank locker and risks associated with physical gold like theft or losing it also cannot be ruled out.

Emotional Touch: Most of the times jewellery or ornaments have an emotional value attached to it. Hence it cannot be considered as a liquid asset in times of crisis.

Costs involved: It involves some expenses like making charges, locker charges, if insured then insurance premium and so on.

Taxation: In case of physical gold, the minimum holding period is 3 years for benefit of long term capital gain. If sold before 3 years one has to pay short term capital gain taxed at the individual tax slab. In case of other forms of investment in gold the period for long term capital gains is holding period of more than 1 year.

Wealth Tax: Physical gold also attracts wealth tax

NON-PHYSICAL GOLD:

Non - physical gold and are bought and sold on the stock exchange like other stocks. The main advantage to investing in physical gold is that there is no need to store and secure the gold. Other advantages are transparency in pricing, tax efficiency, assurance of purity, affordability and easy convertibility into cash. An investor can access his portfolio whenever and wherever he wants.

Types of Paper gold:

Gold Exchange Traded Funds (ETFs):

Gold ETF is the most efficient form of paper. Investor gets shares in a fund that derives its value from the market price of the gold in its portfolio. Gold ETFs are sold in units where 1 unit represents 1 gram of gold, and are listed on the stock exchanges, where they are traded.

These units are held electronically in the Demat form. The NAV of the gold ETF changes according to the variation in gold prices. Investors do not incur any wealth tax and the income is taxed at a lower rate if the units are held for more than a year.

To be able to invest in gold ETFs, it requires a demat account and a trading account with a broker. This involves account opening charges (Rs 500-750) and maintenance charges (up to Rs 500 a year). There is also the fund management fee (or expense ratio, usually 1% per year), which gets deducted from the NAV of the fund, and the brokerage for the transaction (0.25%-0.5%).

Tip for investors: Buy only those gold ETFs which have consistently high volumes on the exchange and a low expense ratio.

E-gold:

This is another form of investment in paper gold, offered exclusively by the National Spot Exchange Limited (NSEL). It can be bought by setting up a trading account with an authorised participant in the NSEL. These are similar to gold ETFs in that each unit of e-gold is equivalent to 1 gram of physical gold and the e-gold units are fully backed by an equivalent quantity of gold kept with the custodian.

E-gold offers better liquidity than most gold ETFs and the pricing is also transparent. The transaction costs and brokerage involved in e-gold is also lesser than that for gold ETFs (Rs 5 for each transaction worth Rs 1 lakh). These units are also available for trading for longer duration on the exchange (from 10 a.m. till 11.30 p.m. on week days). E-gold also allows conversion to physical gold, but at a cost. E-gold provides the flexibility to the investor to retain his investment in paper form or convert it into physical gold if he so desires.

However, to invest in e-gold, investors need to open a new demat account, different from the one used for transacting in equities or gold ETFs (this would involve account opening charges). The benefit of long-term capital gains tax is only available after three years, unlike gold ETFs and gold Fund of funds, where the same is available after one year. Also, as with physical gold, investors would be liable to pay wealth tax at 1% in case the total taxable wealth exceeds Rs 30 lakh.

Tip for investors: Go for e-gold if you are buying a large quantity of the metal. Small investors, who intend to buy 10-20 gm, will not benefit.

Gold fund of funds:

There is no need of a demat account if an investor invest in a gold mutual fund. Known as gold fund of funds, these schemes invest in a clutch of gold ETFs. Therefore, the NAV is indirectly linked to the price of the metal. The main advantage is that they offer the convenience of investing in gold through the SIP route. There is also no wealth tax implication. Similarly, the tax rate for long-term gains is flat 10% or 20% with indexation if this gold fund of funds is sold after one year of investment.

However, these funds usually entail higher charges as they carry an additional expense ratio of 0.5%, which is over and above the 1% charged on the ETFs in the portfolio. Further, gold funds usually charge a 1-2% exit load if the investment is redeemed within a year.

There are also some international funds which invest in gold mining companies across the globe. Two such schemes-AIG World Gold Fund and DSP BlackRock World Gold Fund-are available to Indian investors. By investing in these schemes, investors get the chance to participate in the rise in gold prices and the resulting profitability of gold mining companies.

Tip for investors: Investors who do not have demat or trading account and don't wish to invest a lump sum can opt for gold fund of funds. However, the charges in these funds are marginally higher.

Gold future:

Commodity exchanges such as the MCX and NCDEX allow investors to take exposure to gold through futures contracts. A futures contract is an agreement to buy (or sell) a specified quantity of gold on a specified date in the future at a predetermined price. If an investor expects gold prices to go up in 3-4 months, he can buy a futures contract by paying a small margin.

On the other hand, if you expect the prices to come down, you can take a short position and sell the gold futures. Investors do not have to put up the entire amount at the time of entering the contract, only a margin of 5% of the transaction value.

Gold Deposit Scheme: (in India)

Gold Deposit Schemes (GDS) are offered by banks in which investors deposit gold for a period of cer¬tain years earn¬ing a fixed rate of interest. Indi¬vid¬u¬als, HUFs, Trusts and Companies can invest in GDS. A minimum of 500grams gold deposit is required in it.

Cus¬tomers will¬ing to deposit their idle gold are taken by the bank. This is melted to check the purity of the gold and then used by Indian Mint. The bank cus¬tomers are pro¬vided gold cer¬tifi¬cates that need to be pro¬vided on maturity. The inter¬est offered by banks on gold deposits is very low. Gold deposits can fetch a return of 1–4%. In case of premature withdrawal of gold deposit scheme it is required to pay a penalty of 20-25% on the interest earned.

Ben¬e¬fits of gold certificate:

The gold cer¬tifi¬cates can be used as loan collateral.
Inter¬est earned on gold cer¬tifi¬cates is free of income tax.
No wealth tax is applic¬a¬ble on gold deposit.
No cap¬i¬tal gains tax on the gold deposit.

CONCLUSION:

In this highly inflated and unrest economic conditions, it would be beneficial for an investor if he allocates 15-20% of his portfolio in gold to hedge against future uncertainties. An investor with large amount of money has to opt for investment in solid for long term period. In other case in which investor just want to hedge his position against risks has to go through investment in non-physical gold. Out of all non-physical gold avenues gold ETF is considered the safest mode of investment in gold. Other modes have their own benefits and drawbacks too, but at last it solely depends on the pre-analysis, careful study of market conditions and comparison made by investor before investing money in gold.

SUGGESTION:

If an investor through investment in non-physical gold then he has to make sure that the broker should be a reliable person. In other case, if investor opts for investment in real gold he has to buy it only from certified seller and has to make sure about gold quality and weight before that.

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