



Practitioners' Insights: Investing in Gold

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Why evaluate gold as an investment?

1. Portfolio Diversification
2. Safe Haven
3. Hedge Against Inflation / Rupee Depreciation
4. Case for Upside in Tail Risk
5. Case for Upside on Demand/Supply

Performance of Gold in Indian Context

Chart 2: Gold has delivered positive returns over the long run, outperforming key asset classes

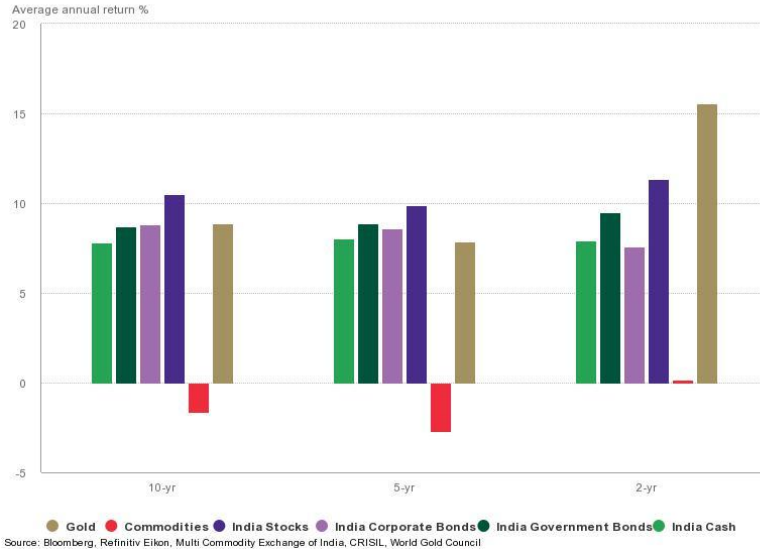
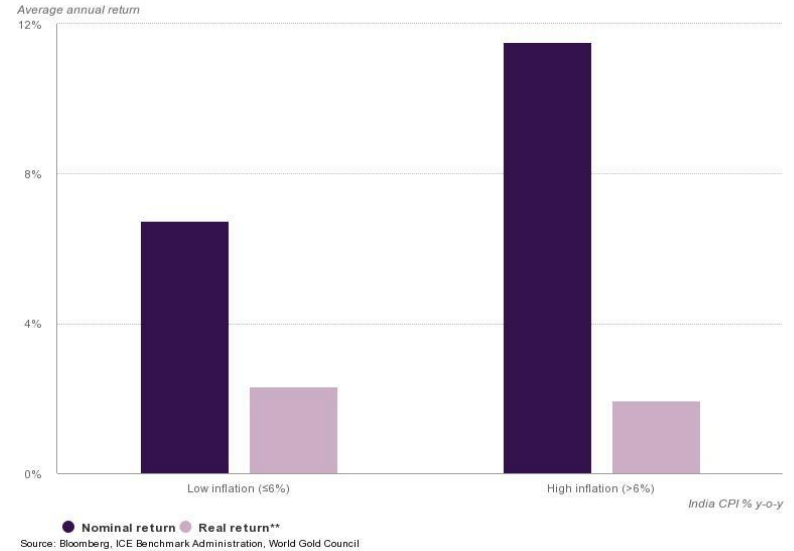


Chart 3: Gold has historically rallied in periods of high inflation





How Much To Allocate?

Depends on Reason for Allocation!

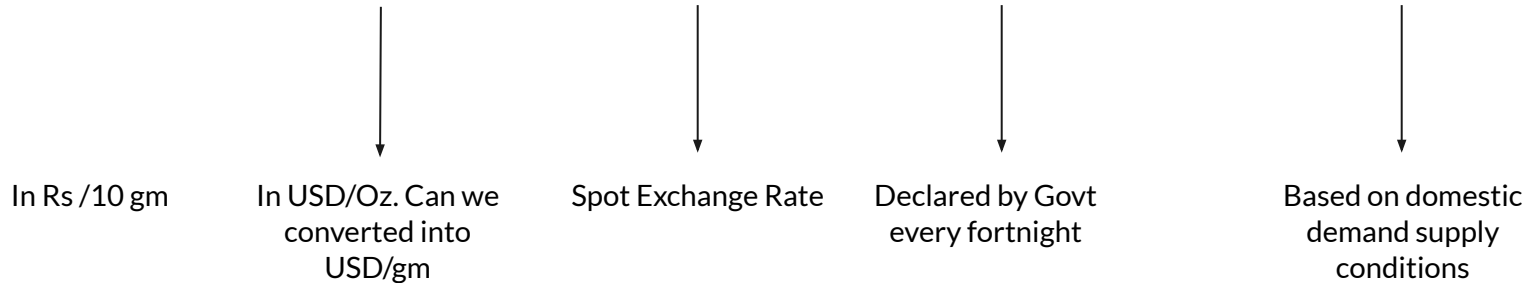
Diversification/Inflation Hedge - A 10%-20% Allocation reduces standard deviation significantly with small decline in average returns. Higher allocations do not help proportionately.

Tail Risk / Safe Haven - Difficult to quantify. 5-20% allocation can be justified given current circumstances



How is Gold In India Priced ?

Indian Price = London Spot Price * USD/INR + Customs Duty + Physical Premium/Discount



May 2019	Rs.32470	\$1281.30	Rs.69.3095	Rs.2989/10 gm	
May 2020	Rs.46036	\$1688.65	Rs.75.6911	Rs.5412/10 gm	



Purity of gold

Market Terminology	What it Means	Investment Implications
18 kt	750 parts of gold per 1000 (i.e 18/24)	Low purity. Suitable for jewellery only.
22 kt	916 parts of gold per 1000 (i.e 22/24)	Typical jewellery gold. Also, some coins like Sovereign, Krugerrand
24 kt	Approx 24/24 gold. Typically 995 & above	Used for investment purposes
995 fineness	995 parts of gold per 1000	Minimum purity for delivery on commodity exchange. Bullion bars.
999 fineness	999 parts of gold per 1000	Used for bullion bars & some coins
999.9 fineness	999.9 parts of gold per 1000	Used for gold coins like Maple Leaf



What are the gold investment options in India

Jewellery	Gold ETFs	Sovereign Gold Bond (SGBs)
Bullion	Gold Futures	Digital Gold
Paper Gold / Gold Certificates from Jewellers	Gold Mining Fund	Overseas options via LRS



Criteria for evaluation

Cost	Access
Tracking Error	Taxation
Liquidity	Risk



Pros & Cons of Options

Investment Option	Pros	Cons
Jewelry	Easy to acquire	High markups Questionable resale value due to purity concerns GST
Physical gold (coins/bars)	Direct ownership	Markups depending on size of purchase Storage Can be difficult to get good price on liquidation GST
Gold certificates/Paper Gold / Gold savings schemes	No need to own physical gold	Only as good as the jeweller that backs them Only a few jewellers issue them Largely illiquid. Can only convert to jewellery



Pros & Cons of Options (Contd.)

Investment Option	Pros	Cons
Gold ETFs	Highly liquid	Fees No upside beyond gold price changes
Futures contracts	Little capital required for large exposure. Highly liquid	Highly leveraged Contracts are time-limited (expire every month)



Pros & Cons of Options (Contd.)

Investment Option	Pros	Cons
Gold mining-focused mutual funds	Diversification Upside from mine development Usually tracks gold prices	Indirect gold exposure Mine operating risks Exposure to other commodities
Sovereign Gold Bonds (SGBs)	Attractive pricing in primary & secondary Annual interest Tax Benefits	Less liquid than ETFs/Futures Government issued Buying in size best during windows of issuance



Pros & Cons of Options (Contd.)

Investment Option	Pros	Cons
Digital Gold	Easy access (24x7) Small size investing possible	Expensive vs many other options Risk of platform & provider GST
Overseas (via LRS)	Removes domestic price distortions More choices to mitigate country & entity risk	Minimum size required is high Cost/time taken to setup can be high



Ranking The Options

	Cost	Tracking Error	Liquidity	Access	Tax Benefits
Jewelry	High	Medium	Low	High	Medium
Bullion	Low	Low	High	Medium	Low
Paper Gold	High	Medium	Low	High	Medium
Gold ETFs	Low	Low	High	High	Low
Gold Futures	Low	Low	High	Medium	Low
Gold Mining Fund	Medium	High	High	High	Low
Sovereign Gold Bond (SGBs)	Low	Low	Medium	High	High
Digital Gold	High	Low	Medium	High	Low
Overseas Options (LRS)	Medium	Low	Medium	Low	Low



Thank You