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Investing in Gold jewellery, Gold ETFs or Gold Bonds? Five Things You Must Know

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Commodities | Written by Sandeep Singh | Updated: May 06, 2018 14:45 IST

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Investors interested in gold are always on a lookout for best ways to maximise returns. While physical gold provides high liquidity, demat gold investment options such as gold ETFs (exchange-traded funds)and sovereign gold bonds (SGBs) provide price consistency, say financial planners. Those looking to purchase gold often wonder about the good time to buy the yellow metal as well as the taxation polity on their investment. Experts suggest refraining from buying gold on the basis of sentiment alone. But first, let's learn more about the three basic ways of investing in gold: physical gold, gold ETFs and gold bonds. (Also read:

Physical gold, gold ETFs and gold bonds - a quick guide

Physical gold is the gold you purchase in physical form. Be it jewellery or coins or any other form, physical gold is purchased in current gold price plus 'making charges'. This is the fee a jeweler 'charges' for providing the desired amount of gold in your preferred shape, a gold chain or ring for instance. It is primarily because of the 'making charge' that the price of physical gold varies from one jeweller to another.

Gold ETF is like a mutual fund, except that the money realized from a pool of investors goes only in gold. In other words, gold ETFs track physical gold price. Unlike physical gold, gold ETF units are determined in dematerialised or demat form. Gold ETF, therefore, requires a demat account. Also unlike physical gold, gold ETF price is consistent.

Besides physical gold, investment in gold can be made in two more basic forms: gold ETFs and gold bonds.

SGBs pay interest on gold investments, payable every six months. The rate of interest is 2.5 per cent. Gold bonds or SGBs are purchased through authorised banks, non-banking finance companies (NBFCs)or stock exchanges.

Here are five things you must know before you put your money in gold:

1. Physical vs demat gold

Investors preferring to purchase gold in physical form should look at minimising the making charges. Jewellers time and again offer discount on making charges, especially around the festival season, say experts. It is always best to check with a jeweller about making charges on different products. "Acquiregold either in demat form or in the form of gold coins if you are purchasing from physical market. An investor can also keep a small part of his investment to benefit from the fluctuations in gold prices by trading frequently in either physical market or futures market," Gaurav Katariya, research head-commodities, Arihant Capital Markets, told NDTV. (Also read: Physical Gold, Gold ETFs Or Gold Bonds: Where To Invest Your Money?)

2. Should you invest in gold?

Gold has been a preferred choice for investors with a low- risk appetite to obtain safety. This is why gold and equities or equity-related asset classes have historically shown an inverse correlation, say experts. "Investment towards gold should not be on the basis of sentiment, but it must be ascertained according to financial objective and portfolio size. That said, gold serves as a safe haven, especially during geopolitical events and domestic turmoil," Dinesh Rohira, founder and CEO, 5nance.com, told NDTV.

3. Key factors to watch out for

Credit ratings agency CARE Ratings expects global gold prices to remain range-bound around $1,350 per ounce in the short term. In the medium term, geopolitical tensions in West Asia, increasing US government debt and rising inflation pressures, volatility and lower equity markets could support gold prices, the agency added.

"Looking at the overall geopolitical scenario and a fantastic performance in the first quarter of 2018, it seems that the yellow metal will continue its north further said.

4. Is this the right time to purchase gold?

Many experts advise use of gold as a hedge against volatility, uncertainty and inflation.

"After remaining flat for over five years, it (gold) witnessed a positive momentum although it is partially driven by geopolitical concerns... Further, with a spike in inflation, gold provides a good hedge and this level can be seen as a good entry point to stay invested for a duration of another five years," Mr Rohira of 5nance.com explained.

5. Tax implication:

The tax treatment for investment in physical gold or gold ETF is the same. However, it is slightly different in Sovereign Gold Bonds (SGB), explains Rahul Agarwal, director, Wealth Discovery/EZ Wealth.

Tax treatment for gold investment			
Aspects	Physical Gold	Sovereign Gold Bond	Gold ETF
Lock In	No	5 Years	No
Tax Implication	LTCG Tax 20% (With Indexation benefit) after 3 years holding (or) Tax at slab rate before 3 years	No LTCG Tax on redemption; LTCG Tax 20% (With Indexation benefit) after 3 years holding (or) Tax at slab rate before 3 years (AND) Interest Income Taxed at applicable slab rate	LTCG Tax 20% (With Indexation benefit) after 3 years holding (or) Tax at slab rate before 3 years

"If SGB's are held till maturity there is no tax implication. All three forms of investment are able to avail indexation benefits for the computation of Long-term capital gain," Mr Agarwal added.