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   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

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INVESTING IN GOLD: A FUTURE PERSPECTIVE
(WHY AND HOW TO INVEST IN 'GOLD' WITH SPECIAL REFERENCE TO COMMON INVESTOR)

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ABSTRACT
With the range of options that an investor can choose from at the present moment, making an investment decision can be truly overwhelming. From the entire gamut of investments, ranging from stocks, bonds, real estate, Govt. securities to rare metals like gold and silver, an investor must create a portfolio that can effectively help him meet his or her short, medium and long term financial goals. With gold prices at an all time high right now, many investors are diverting their attention continuously towards "GOLD" as an investment avenue. This paper presents the advantages, features, benefits, pros and cons, common myths and ways for investing in gold which acts as a positive catalyst for them to take fast investment decision.

KEYWORDS
finance, gold investment.

INTRODUCTION
In the last few years the role of gold has increased not only as a store of value but also as an important alternative asset class providing investment (risk vs. return) benefits. As far as India is concerned, India's savings rate continues to be high, just behind China's. Also, NRI's continue to send money back home - either to their parents and relatives or for further investment. This is same as China and this is what is driving Gold prices to go up in both the countries. Both the countries have taken steps to firm up interest rates to cool off gold prices. Also observing the very high volatility in stock markets and inflationary pressures investors today requires a medium term return oriented products for an investment. Gold as a resultant came out to be a very effective investment instrument (As compared to other investment options) for a common investor as indicated by Graph 1, Graph 2 and Table 1.

The yellow metal is still the most preferred for countering inflation, deflation or currently devaluation. With the gold price hovering around Rs28, 000 per 10 grams the highest ever, investors are worrying whether or not to buy the metal at this rate. The demand for gold has already started dipping as a result.

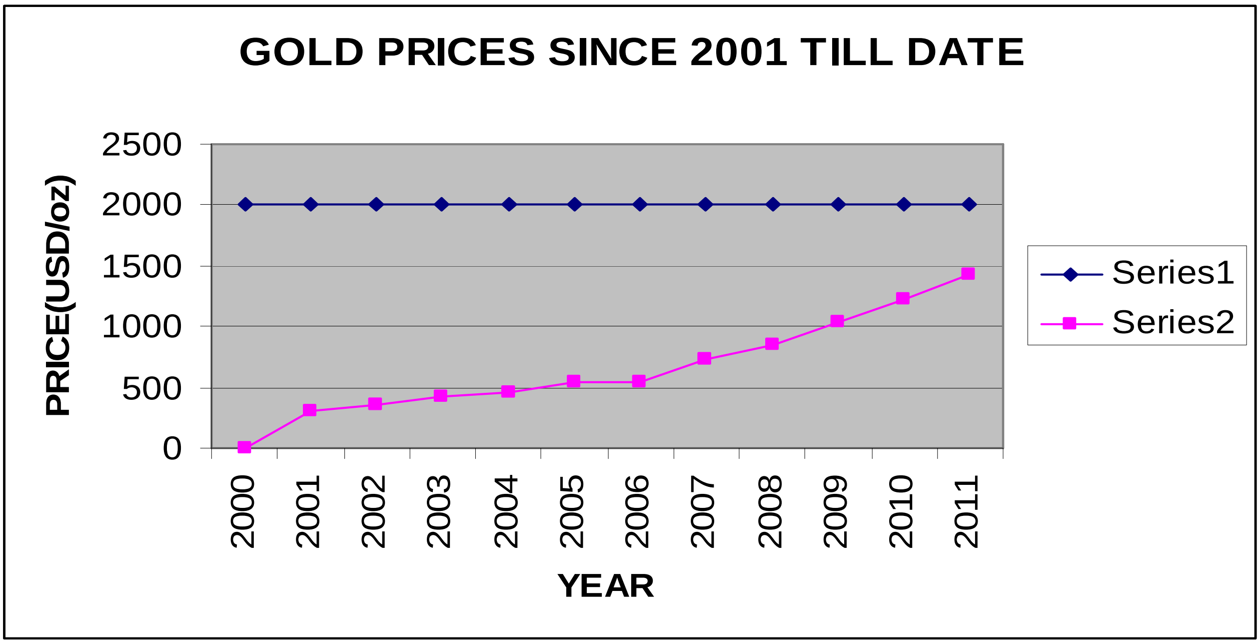
Traditionally in India gold is purchased not only for trading but also for use. Bought mainly by women to tide over rainy days, gold has never disappointed those who invested in it. It has rescued many households and countries at the time of crisis. Equities have depreciated, real estate price have gone down but the price of gold has always remained firm. Many doubts were raised when the RBI bought 200 tones of gold in 2009, Critics then pointed out that prices were very high and the RBI should have waited for them to moderate.

They were, however proved wrong. The RBI has seen a 50%appreciation on its investment of $6.7 billion to buy god from the IMF just 23 months ago. The RBI had then spent Rs 31,490 crore to buy 200 tones of gold at an average price of $ 1,045 an ounce. With international prices of gold now around $ 1600 an ounce the worth of the RBI purchase stands at $10 billion. It is for no reason that countries like China and India have begun shifting their reserves from dollar and other fore in currencies to gold. With global economies failing and the faith in their currencies eroding, the yellow metal looks very reliable.

History has repeatedly shown that investment in gold has never been a wrong bet. Gold came to the rescue of the country in 1991 when India faced its worst ever balance of payment crisis. Not only countries even the IMF is resorting to selling gold to shore up its resources. Investments made by IMF in gold are helping it tide over the financial crisis while other currencies have failed to bail it out. In September 2009, the IMF decided to sell 400 tones of gold every year for the next five years to shore up its resources.

KEY FACTORS INFLUENCING FOR LIKING THE GOLD
1. Symbol of Security.
2. Signs of Prosperity.
3. Hedge against inflation and rupee depreciation.
4. Storage value in rural areas due to lack of banking facilities.
5. Market/Economic uncertainty.
6. Low real interest rates.

GRAPH 1: GOLD CONTINUES TO TOUCH NEW HIGH SINCE 2001,TILL DATE



GRAPH – 2: THE CAGR PERFORMANCE OF GOLD (USD/OZ) AS ON DEC 2010

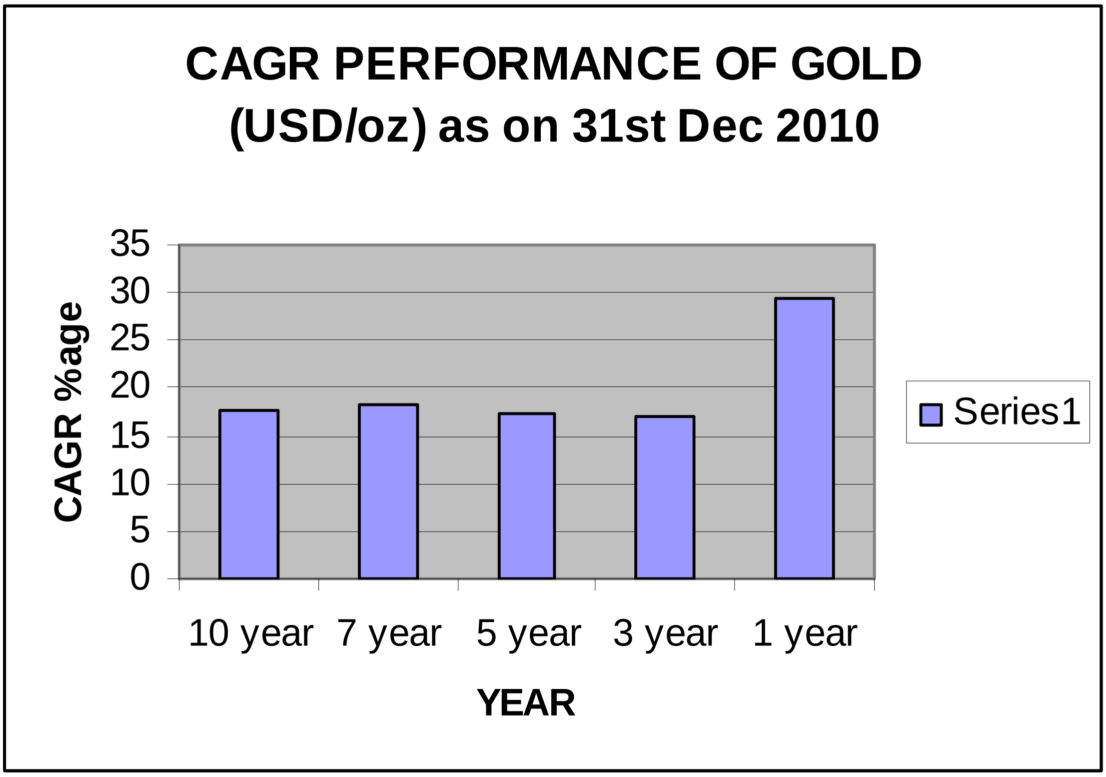


TABLE – 1: YEARLY RETURN OF GOLD VIS-À-VIS OTHER ASSET CLASSES

Year	Equity	Bond	Gold
2010	18.0	6.3	24.5
2009	75.8	-6.0	18.9
2008	-51.8	27.1	30.6
2007	54.8	6.9	16.6
2006	39.8	6.0	21.0
2005	36.3	6.3	22.2
2004	10.7	-1.4	0.5
2003	71.9	12.4	13.5
2002	3.3	23.0	24.1
2001	-16.2	25.3	5.9

THE KEY ADVANTAGES IN INVESTING IN GOLD

1. **Diversification Benefit.** Overall portfolio risk can be potentially reduced by adding "Gold" to investor portfolio because "Gold" has a very low or negative correlation with other asset classes. Hence it offers a maximum diversification benefit.

2. **Inflation Hedge**. It has been noticed that gold has consistently beaten the inflation rate and helps to preserve purchasing power over the past .Gold has over many centuries , maintained its value against inflation.
3. **Low volatility asset.** Gold is comparatively less volatile to other securities over a long period of time. It has been noticed that investment in gold has contributed to stability in the overall portfolio.
4. **Protection against currency weakness.** Gold helps to protect value of money against currency weakness especially against US dollar. Since gold is denominated internationally in US dollars, US interest rates have a great impact on prices.
5. **Hedge against event risk.** Gold has always been tended to be the best against event risk.

DIFFERENT WAYS OF INVESTING IN GOLD

The various options /ways to invest in gold are as under. Table: 2 indicated the comparative analysis of different options of investing in gold.

1. **Direct ownership.** It is buying physical gold like coins, jewelry or gold bars from the bullion market or the jewelry shops at the market prices. There are many security, safety and impurity concerns of holding gold physically.
2. **Gold Exchange Traded Fund.** Gold ETF's are the passively managed mutual fund schemes that track the benchmark index and reflect the performance of that index. The return of these funds corresponds to the return of physical gold.
3. **Gold Mutual Fund.** These are the funds managed by the professional fund managers that invest in the stocks of companies that mine precious metals like gold. But here the risk is same as of equity, since ultimately it amounts to having equity exposure in a listed company.
4. **Gold Fund of Funds.** These are the mutual Funds that typically invest in gold ETF's. There are two main advantages of this being investor can opt for systematic approach for investment and secondly investor need not to open or hold a demat or a trading account for this.
5. **Stocks of Gold Mining Companies**. Directly buying the stocks of the companies that mine for gold. For this investor should have adequate knowledge of such companies.
6. **Gold options and Futures.** These are investment products which use gold as an underlying asset. This is mainly for more sophisticated, experienced and high risk appetite investors.

TABLE 2: COMPARISON OF DIFFERENT OPTIONS OF INVESTING IN GOLD

Benefit	Physical Gold	Commodity exchange	Gold ETF	Gold Mutual fund.	Banks
Impurity Risk.	Yes	No	No	No	No
Theft Risk.	Yes	No	No	No	Yes
Available on small Denominations.	Yes	Yes	Yes	Yes	No
Wealth tax	Yes	No	No	No	Yes
Long Term Investment.	Yes	Speculation or Trading	Yes	Yes	Yes
Long Term capital gain tax	After 3 years	No	After 1 year	After 1 year	After 3 yrs.
Denomination	Physical	Demat	Demat	Electronic Form	Physical

PROS AND CONS OF INVESTING IN GOLD

PROS OF INVESTING IN GOLD

1. The basic pros of investing in gold are that it provides easy liquidity compared to other investment options. Gold can be bought and sold through banks and jewelry outlets any time.
2. Although gold prices have fallen in the past, the rarity of the metal and limited supply ensures that it will never suffer from total devaluation, though it may go through ups and downs. In times of recession, gold is invested in heavily, which invariably leads to a rise in valuation. This makes it one of the best investment options to hedge against inflation, though better options like 'TIPS (Treasury Inflation-Protected Securities)' exist now.
3. You can benefit from the price rise in gold that is expected to continue in the near future.

CONS OF INVESTING IN GOLD

1. One of the cons of gold investing is the fact that it's a speculative investment and predicting its future value is difficult. The price is entirely dependent on market demand and supply, as well as investor expectations all over the world.
2. As an investment, gold cannot provide you with any returns in the form of dividends, which securities like stocks may provide. Storing gold involves additional costs, which the investor must bear. However, options like gold certificates and exchange traded funds exist that do not require you to physically store the gold.
3. The most basic disadvantage of investing in gold lies in the fact that it freezes your investment and cannot provide periodic returns, besides being subject to a high degree of speculation.

EIGHT COMMON MYTHS ABOUT NOT TO INVEST IN GOLD

- Gold is an emotional instrument.
- Gold prices can be manipulated easily.
- Gold has no cash flow.
- Gold can never become currency again.
- Gold bugs just rely on historical performance of gold.
- Commissions on gold are very high.
- Physical gold has a wide risk of impurity.
- Physical gold investment has safety and security measures.

CONCLUSION

Higher demand for gold has been expected from emerging market economies like India, China etc. as well as inflation related concerns due to high oil prices, support gold prices in the short to medium term. One needs to have at least 5 to 10% allocation to gold as part of their long term asset allocation. Finally, gold is certainly a good investment to have as a small part of your as its value has been continuously rising for many months now. Strategy underlying investing in gold should be very systematic in approach - one can invest a small percentage of savings in it, hold till the price appreciates substantially and then sell it for a considerable profit, before it starts falling in value, However, this course of action is only recommended if you are ready to take the inherent risk of price fall. If you are a defensive investor, a period of rising prices is certainly not the best time to buy. Overall it depends upon the end investor analysis and degree of willingness to take risk in any investment avenue.

Gold is considered the most preferred metal for hedging against inflation, deflation or currency devaluation. If the returns on bonds, equities & real estate are not adequately compensating for risk and inflation then the demand for gold and other alternative investments (such as commodities)increase. The phenomenal rise in the value of gold has been a by-product of global recession as investors are looking for safe products to place their funds in. International prices are hitting historic highs. At Rs 28,000 per 10 grams the gold value for India has risen40%this year, in contrast to the fall in equities and real estate, prices, countries and investors who placed their faith in gold have reason to celebrate.

The expectations that gold prices may moderate from these record levels may hence prove to be unfounded. The yellow metal which has seldom lost its glitter & rescued households and countries in the time of crisis is expected to only appreciate. Several commodity experts are expecting gold to climb to Rs 40,000 by the end of 2012.With these returns it is felt that investing in gold might give sufficient shelter to protect against inflation. While it is true that when prices climb steeply, the demand for the commodity falls and results in price correction, it is the demand-supply mismatch that affects gold prices.

An analysis by Standard Chartered Bank suggests that gold prices will triple due to shortages in production. The bank's research team looked at the production levels of 345 gold mines & concluded that they would rise by a mere 3.6% over the next 5 years.

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With sincere regards

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Co-ordinator

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals