

INVESTING IN GOLD

A Diversified and Trusted Asset Class
for Long-Term Returns



Gold has been a trusted source of investment for centuries, and investors can choose between physical, digital, and ETF forms to diversify their portfolio and mitigate risk.

When the going gets tough, gold gets going. Sample this: In March domestic equities of Sensex and Nifty have tumbled by 3%. The world reels from the aftermath of a prolonged war in Ukraine and sanctions against Russia. The Silicon Valley Bank in America crumbled after it made some poor bets causing temporary turmoil in global markets. Gold, however, has glittered. Between March 9th and March 24th alone, prices rose by 8.2%. Gold soared to an all-time high of Rs. 59,461 per 10 grams on MCX. That's higher than the annual average bank savings rate of 3-4% and one-year fixed deposits that fetch around 7%.

THE GOLD RUSH

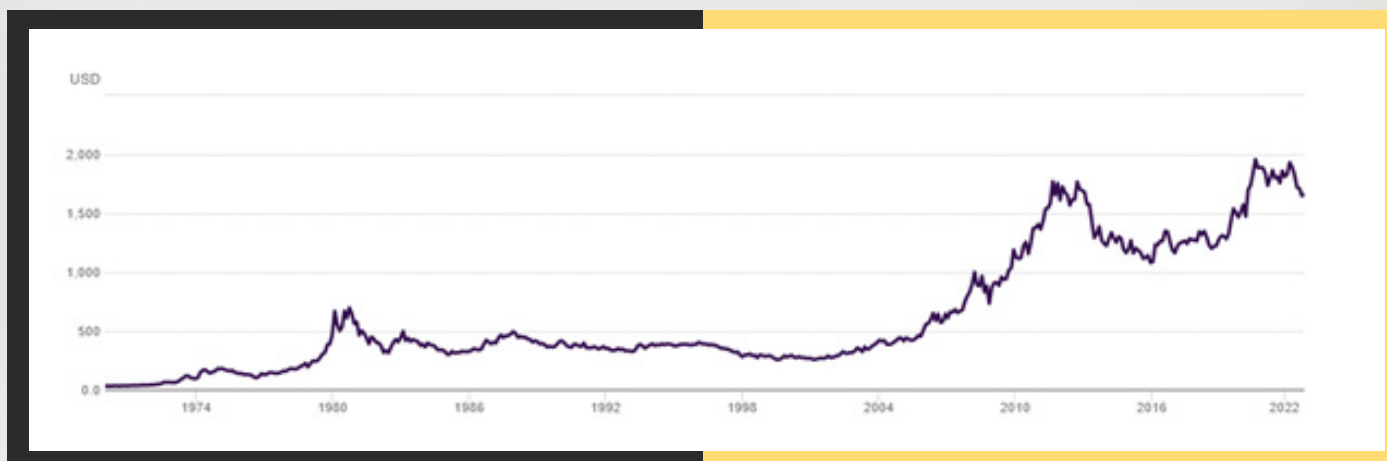
Over the last 17 years, gold has delivered an annual return of 12.3% in rupees and 7.5% in dollars.

Figure 1

Gold price per 10 grams (in ₹)



For centuries, gold has been considered a valuable asset and a trusted source of investment. Investors from all over the world have parked their savings in this asset class that offers steady, long-term results. Gold is a precious metal that sets a high bar and provides an excellent way to diversify one's portfolio. According to historical data, gold has proved to be a sound source of investment over the past fifty years.



Source: World Gold Council

Gold can be purchased in various forms, including physical gold, digital gold, and gold exchange-traded funds (ETFs). Each of these forms has its advantages, and investors can choose the one that best suits their investment objectives.

Physical Gold

Physical gold has been a preferred form of investment in countries like India for many years. Gold jewelry, coins, or bars can be purchased after assessing the metal's purity and getting the market prices for that given day. Gold, as an asset class, offers high liquidity and is a good hedge against inflation. One of the biggest advantages of investing in physical gold is that it can be passed down from generation to generation. Moreover, it is a tangible asset that can be easily bought and sold at any time.

Digital Gold

Digital gold has become increasingly popular in recent years. It enables investors to buy small amounts of gold through various online apps and websites for as little as one rupee. Digital gold is an electronic form of money backed by gold reserves held in vaults.



In India, various apps including Google Pay, Paytm, and Phone Pe offer digital gold services. One of the biggest advantages of buying digital gold is that investors do not have to go through the hassle of storing it in physical form, which saves locker charges. Furthermore, there is no risk of theft, and it is easy to redeem digital gold.

Gold Exchange-Traded Funds (ETFs)

Gold ETFs are passive investment instruments that are based on gold prices and invest in gold bullion. They are traded on various stock exchanges much like shares. All you need to start investing in gold ETFs is a Demat account.

Gold ETFs are units that represent gold in physical form, much like digital gold. Investing in a gold ETF is as good as investing in the physical metal itself. One of the advantages of gold ETFs is that they offer a cost-effective way to invest in gold without the hassle of storing the metal physically.



Gold mutual funds

They are another investment option worth considering. However, physical gold, digital gold, and gold ETFs are among the top three options.

And such is the demand and recognition for gold that gold loans, especially among the high net-worth individuals have risen. Overall, the demand has risen by 12-14% annually.

Gold has proved to be a sound source of investment over the years, offering long-term returns and serving as a hedge against inflation. If you haven't already considered gold as part of your investment portfolio, it's never too late. Incorporating gold into your portfolio can help diversify your investment portfolio and mitigate risk.

Gold shines bright as inflation looms in the world economy

Amid global inflation and bond market concerns, Indian investors are finding solace in gold as a reliable source of diversification and returns.

We live in tough times. India's consumer price inflation has surged to 6.52% in January 2023, surpassing the Reserve Bank of India's medium-term target band of 4-6%. According to the Reserve Bank of India, inflation is forecast to average 6.7% in 2022-23 and 5.2% in the first half of 2023-24. The World Gold Council estimates an upturn in gold's demand to over 800 tonnes. Gold has historically rallied during periods of high inflation in India.



Rising bond yields are also contributing to investor interest in gold. The Indian 10-year government bond yield has been climbing since December 2021, largely due to global concerns such as rising inflation in the West, which has forced the Federal Reserve to make another interest rate hike. Europe is also grappling with high inflation rates, and crude prices continue to remain elevated due to Russia's war against Ukraine.



According to the World Gold Council, bonds are expected to generate poor returns going forward, and the positive correlation between equities and bonds means they could lose much of their diversification and risk-hedging attributes. This trend is turning in favor of bonds and stocks being correlated globally, indicating that gold remains an attractive investment option for effective diversification.

Various studies have shown that gold scores highly during times of high inflation in India, with a 1% rise in inflation leading to a 2.6% rise in short-term demand for gold. According to the World Gold Council, over the past 41 years, gold has delivered an average annual return of 10% in rupees, outperforming CPI inflation, which grew by an average of 7.3% over the same period. Given this background, gold continues to offer investors an excellent source for effective diversification, particularly in times of high inflation or economic downturns.

Gold: An Asset Class that Stands the Test of Time

Gold's dual nature as both an investment asset and a consumer good make it a valuable addition to any well-diversified portfolio, providing consistent returns across eras and economic cycles.

The phrase “**gold standard**” is a testament to the metal's high yardstick over centuries. Gold has been considered a special source of investment and value since the time of the Egyptians in ancient civilization, to today's central bankers who view it as a trusted source of investment that offers steady long-term returns and serves as a hedge against inflation.

What makes gold a unique asset class is that it is not only an investment vehicle but also an adornment. It has practical applications, especially in the manufacture of electronics, where its efficient conductivity of electricity keeps vital equipment and entire industries going. Additionally, gold has uses in science, space, and ayurveda, making it a highly valuable asset with utility. This recurring demand, consistent in nature, makes gold an invaluable asset with utility.



Moreover, gold's dual nature makes it an all-weather asset class. It is an important investment vehicle for central banks, institutional and retail investors, as well as being a consumer demand product. According to estimates, the use of gold in technology and jewelry accounts for 42% of annual gold demand. Additionally, gold is used as an industrial metal in various applications, with the electronics sector accounting for four-fifths of all gold used in technology. This makes gold a proxy for consumer spending, making its popularity directly proportional to the phase in the economic cycle.

When it comes to investments, people turn to gold during economic uncertainties as it has historically been used as a hedge against inflation. Hence, in that sense, from the investment standpoint, it is "countercyclical." This dual nature of gold makes it a hot asset class during times of economic downturns, recovery, and boom.

Investors have traditionally considered gold as a potential source for diversifying their investment portfolio irrespective of the economic climate. According to research conducted by the World Gold Council, adding a 2-10% allocation to gold within a well-diversified portfolio can significantly enhance long-term returns. The strategic rationale for gold in a portfolio, particularly as a portfolio hedge, remains compelling.



As inflation rises across the world, many central banks have estimated it will remain high for longer periods than initially predicted. Gold has performed well into central bank hiking cycles and has been an effective inflation hedge. Coupled with healthy jewelry and central bank demand, and the potential for market volatility in a vastly changing world, the strategic rationale for gold in a portfolio remains compelling.



Additionally, gold is negatively correlated with other asset classes like equity. In any well-diversified portfolio, it is imperative that asset classes show low correlation to each other. In other words, a fall in the equity market would buoy the overall prices of gold. Gold has exhibited this low correlation, while its distant cousin, silver, has exhibited a positive correlation to stock markets over the last ten years, thereby casting yet another vote in gold's favor.

The percentage allocation to gold ultimately comes down to the investor's choice, savings goals, and time horizon. What separates gold from other asset classes is that generally, it is considered to be part of any well-balanced portfolio that would meet a rather wide array of investment objectives across all economic conditions. If you haven't already, take a hard look at your portfolio and consider adding gold to it.

Why central banks love gold

Central banks and emerging markets' increased demand for gold may continue in 2023 amid ongoing economic uncertainties

Central banks around the world have been busy accumulating gold in 2022, with global demand for the precious metal reaching a 55-year high of 1,136 tonnes, up from 450 tonnes the previous year. Alongside this, robust retail investment has also contributed to the surge in demand. India's Reserve Bank was one of the buyers, adding 33 tonnes to its holdings. The World Gold Council has suggested that intervention in the forex market to support the rupee may have impacted the bank's gold buying, causing a decline in FX reserves of \$70 billion.

According to experts, with inflation remaining uncomfortably high across much of the global economy, gold is making a comeback as a safe haven asset, while concerns over a slowdown show no signs of abating and are expected to keep demand for gold firm this year.



The reasons for central banks' bullishness on gold are twofold, according to one survey: its performance during times of crisis and its role as a long-term store of value. More importantly, emerging markets such as China and Turkey accounted for the bulk of last year's reported demand for gold.

Central banks' plans to acquire gold in 2022 were mainly motivated by concerns about a possible global financial crisis, anticipated changes in the international monetary system, and concerns about rising economic risks in reserve currency economies, as reported in the 2022 Central Bank Gold Reserves (CBGR) survey.

In 2022, 74% of central banks reported higher total reserve levels than five years ago, a rise from 68% in 2021 and 53% in 2020. Indeed the World Gold Council has warned that central bank buying is unlikely to match 2022 levels, as lower total reserves may constrain the ability to add to existing allocations. Despite this, the organization has suggested that 2023 is likely to be a good year for gold, with more upside potential than downside risk, given the growing risk of recession in the US and Europe.

The surge in demand for gold is a reflection of growing uncertainty in the global economy and the need for investors to diversify their portfolios with safe-haven assets. Central banks have also recognized the importance of holding gold as part of their reserves, given its ability to act as a hedge against market volatility and provide long-term value. As geopolitical tensions and recession worries continue to loom, gold is expected to remain a valuable asset for investors in the years to come.



Gold's Versatility: From Adornment to Outer Space

Did you know gold's myriad applications?

Gold is a precious metal that has captivated human imagination since time immemorial. Its allure is not just restricted to adornments, but extends to a wide range of applications in various fields. Gold's unique features such as its electrical conductivity, malleability, and resistance to tarnish make it a preferred choice for many industries.

One of the most significant uses of gold is in the field of electronics. Gold is an excellent conductor of electricity and is free from corrosion. Electronic devices use low voltages and currents, which can be easily interrupted by corrosion or tarnish at the contact points. Gold's efficiency as a good conductor enables it to carry tiny currents without any hassles and remain free from corrosion. Hence, it is widely used in the manufacturing process of electronics. It is used in connectors, switch and relay contacts, soldered joints, connecting wires and connection strips, cell phones, calculators, PDA, GPS and TV.

In the medical field, gold has proven to be an invaluable metal. Surgeons can insert gold-plated medical devices inside the human body for diagnosis of various ailments without the fear of corrosion. Since the metal does not oxidise when exposed to open air, it does not rust. Gold is also used as a drug to treat a small number of medical conditions including rheumatoid arthritis. Among some patients, gold helps relieve joint pain and stiffness, including bone damage. Moreover, radioactive gold isotope is inserted into tissues as a source of radiation in the treatment of certain kinds of cancers.



Another unique use of gold is in the field of dentistry. Gold alloys have been used as fillings in crowns, bridges, and orthodontic appliances for decades. Gold wire was also used by Etruscan "dentists" as a scaffolding to fashion replacement teeth into mouths of their patients as early as 700 B.C. Since gold is chemically inert and non-allergic, it has a long-lasting appeal and does not face any health hazard.

Gold's application extends beyond earth into outer space. Many parts of space vehicles are fitted with gold-coated polyester film, which helps reflect infrared radiation and helps stabilise the temperature within the spacecraft. This is crucial for the survival of the astronauts who undertake space missions.

It is clear that gold's versatility is unmatched. It is one of the few metals that command a premium and have such versatile applications. From electronics to medicine to space, gold has served mankind in various fields. Its practical usage has burnished its reputation over centuries, making it one of the most valuable metals in the world.

In conclusion, the allure of gold is not limited to its aesthetic appeal. Its unique features and properties make it an invaluable metal in various fields. The next time you admire a piece of gold jewelry, remember that it is not just a beautiful ornament, but a metal that has served humanity in countless ways.

