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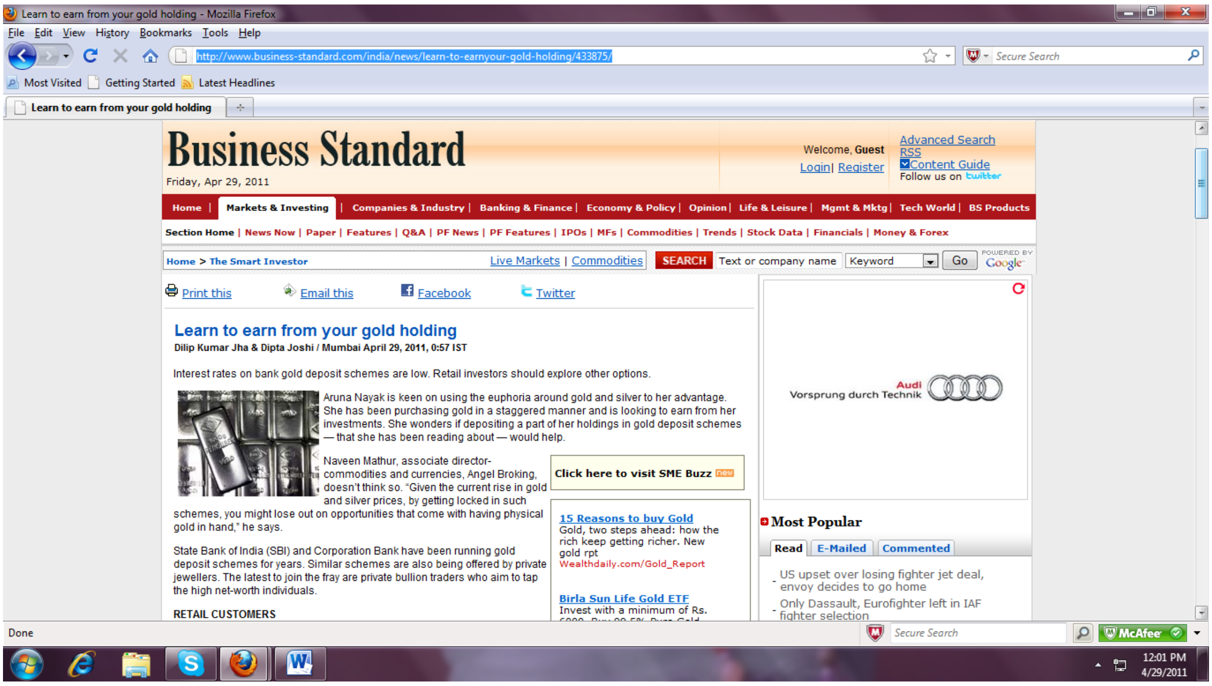
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Learn to earn from your gold holding

Dilip Kumar Jha & Dipta Joshi / Mumbai April 29, 2011, 0:57 IST

Interest rates on bank gold deposit schemes are low. Retail investors should explore other options.

Aruna Nayak is keen on using the euphoria around gold and silver to her advantage. She has been purchasing gold in a staggered manner and is looking to earn from her investments. She wonders if depositing a part of her holdings in gold deposit schemes — that she has been reading about — would help.

Naveen Mathur, associate director-commodities and currencies, Angel Broking, doesn't think so. "Given the current rise in gold and silver prices, by getting locked in such schemes, you might lose out on opportunities that come with having physical gold in hand," he says.

State Bank of India (SBI) and Corporation Bank have been running gold deposit schemes for years. Similar schemes are also being offered by private jewellers. The latest to join the fray are private bullion traders who aim to tap the high net-worth individuals.

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Banks target customers willing to deposit their idle gold. These will be melted to check the purity and then used by the Indian Mint. Customers are given certificates by the bank that need to be produced on maturity. The certificate can be used as collateral for loans. There is no income tax on the interest earned, no wealth tax on the gold deposited and no capital gains tax applicable on transfer or maturity.

However, if earning income while keeping your gold safe is the aim, deposit schemes offered by banks don't really help. The interest offered on these schemes is low — SBI only offers one per cent for a five-year deposit, while Corporation bank offers four per cent per annum for a seven-year term.

So, retail investors should take a cue from Mathur's advice and sell at least a part of their holding while prices are still high. The money earned could be invested in options such as exchange-traded funds (ETFs), feeder funds and the e-series (popularly called e-gold) launched by the National Spot Exchange. Opting for ETFs would incur a cost, since individuals need a demat account on which heshe needs to pay an annual maintenance fee of Rs 400-500. There is an additional broker fee of up to 0.5 per cent for gold ETFs. Investing in feeder funds would cost less, as fund houses would levy an expense ratio of only one per cent.

HIGH NET-WORTH INDIVIDUALS

The Bullion ++ scheme, introduced by private bullion dealer, RiddhiSiddhi (RSBL) allows investors to book a minimum one kg of gold or 30 kg of silver at its benchmark price in cash. The holding will remain with the company, even as the ownership remains with the investor for one year. Further, as an investor, one has the option to permit the company to keep the gold or silver as collateral with other bullion traders, who will use these for their own bullion requirements. This should help one earn three-seven per cent interest.

Investors can also extend the scheme for another year or even longer. In case investors want premature exit within the three-month lock-in period, they will have to pay 0.5 per cent penalty.

"In terms of earnings, if the investor is risk-averse and does not permit the company to use it as a collateral, hisher earnings would be limited to the extent of escalation in hisher invested commodity," says Vibhu Ratandhara, assistant vice-president, Commodity Research.

However, investors will need to pay RSBL a marginal management fee of one-two per cent, depending upon amount of investment for the risk of holding the bullion and its insurance.

Physical possession of gold and silver, especially such high amounts, makes it risky. On the other hand, investment in futures through commodity exchanges is meant for hedgers and speculators, where the roll over cost is also factored in after expiry of the contract.