Golden avenue

Though it might seem like gold is losing its glitter, one should not stop investing in this asset

By Prithviraj Kothari

To own gold is to control part of one's wealth. Throughout history, the demand for gold has always been strong. It has always been considered a safe asset and a store of wealth. Today, it is one of the most valuable assets because of its long documented role as a global currency.

For the past two decades, gold has continued to return at a stable rate, lending precious metals its reputation for being a trustworthy investment. All this despite 2013 being one of the worst years for the world economy.

Gold has been in a significant bear market since reaching a record high at $1,910 (approximately ₹97,601) an ounce (31.1gm) in 2011. In its collapse, gold bullion lost 37 per cent of its value to the recent low at $1,195 (approximately ₹75,121). In fact, gold is headed for an annual drop of 25 per cent in its prices. It is for the first time in 13 years that gold has given negative returns. But that does not mean one should stop buying gold or other precious metals. If we take a look at gold's performance over the past decades we see that gold has given highest returns compared to any other asset in its class.

I would advise investors to follow one mantra: buy on dips.

The average base price for gold in 2014 is expected to be $1,375 (approximately ₹86,436) an ounce. In the domestic market gold is expected to move in a range of ₹25,000 to ₹33,000 per 10gm and the average base price for the same is expected to be around ₹28,000. Whereas silver is expected to be around $25. The average base price for silver would be somewhere around ₹45,000 per kg and the trade range for silver is expected to be between ₹37,000 and ₹55,000 per kg.

Currently, customers are being charged a high premium for gold due to scarcity and this has helped gold touch ₹32,000. But I think this demand-supply gap will soon be filled and gold would reach ₹27,000 in the near future. That would be an ideal level to enter the market to buy gold.

Gold can be purchased and stored in different forms. The most common form in India is buying in the form of jewellery. But then, factors like wastage, high making charges (varying from a minimum of 10 per cent to as high as 35 per cent) and outdated designs play an influential role. Other form is bars which are also a safe mode if buying. Gold is now available in denominations as small as milligram and as high as 1kg.

But in the current market, one of the safest forms of investments is gold ETF better known as paper gold, it is easy to store and does not diminish or depreciate. The charges are very less and the gold can be accessed electronically. The disadvantage is that it can be sold during trading hours only.

My advice would be that if the person is buying physical form of gold, buying from a known brand with a guarantee of purity is always beneficial.

Once gold is purchased the next question is how to make the best use of it. Earlier, one had an option of taking loan against gold. However, due to RBI restrictions this policy has been discontinued.

If one wants to sell gold and exit, then the levels of ₹32,500 to ₹33,000 would be suitable and if one wants to buy, then buy at dips—around ₹26,000 per 10gm.

Wait till next year as it will be a turning point for gold thanks to the US debt ceiling, tapering of the QE (subject to the development of the US economy), Chinese imports, Eurozone crisis and the Indian demand for gold.

The author is the managing director of RiddiSiddhi Bullions Limited.