SOUTH INDIAN Bank
Experience Next Generation Banking

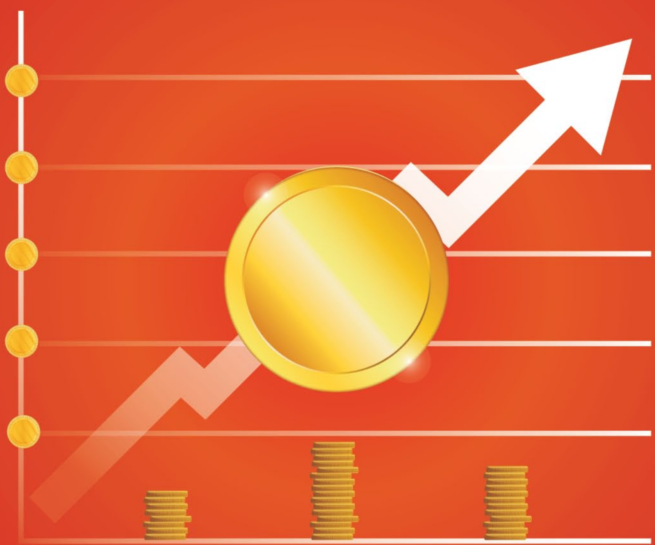
STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

To kindle interest in economic affairs…
To empower the student community…

www.southindianbank.com
Student's Corner

ho2099@sib.co.in



Investment Options in Gold

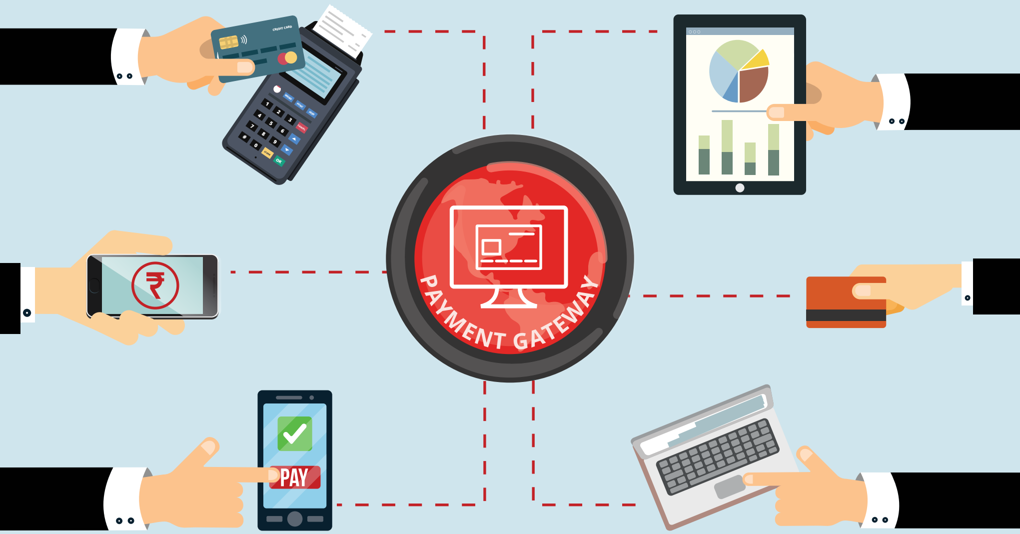
JUNE 2020
THEME 343

GOLD - THE YELLOW METAL

29th Year of Publication

SOUTH INDIAN Bank
Experience Next Generation Banking

SIB PAYMENT GATEWAY SERVICES



A one stop solution for accepting payments online in the most convenient, simple, fast and secure mode.

SIB PAYGATE

FEEBOOK

- **Net Banking** 45+ Banks
- **Wallets** 15+ Major wallets
- **Credit / Debit Cards** (Visa, MasterCard, American Express, Rupay)
- **BharatQR**
- **UPI**

Features

Website integration of your firm for Payment Gateway services | SMS Invoicing | E-mail Invoicing | Smart Analytics | Merchant Dashboard

For more details, contact your nearest South Indian Bank branch.

Toll Free (India): 1800-102-9408, 1800-425-1809 (BSNL), Email: customercare@sib.co.in, CIN: L65191KL1929PLC001017
www.southindianbank.com | /thesouthindianbank

Theme No: 343: **GOLD - THE YELLOW METAL**

"When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes." **- Dr. A.P.J. Abdul Kalam**

The "SIB Students' Economic forum" is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is "Gold - The Yellow Metal".

Introduction

The year 2019 and 2020 has revealed the importance of investment in the Gold portfolio. The yellow metal has generated nearly 42% return in the last one year. With the recent rally in gold, its 5-year return stands at nearly 12% and 7-year return at 7.8%. With this sharp turnaround in gold and the fall in equities, the yellow metal has comfortably beaten all other investment avenues both in the short and long terms.

Different ways to buy and invest in gold

Possession of Gold in the form of jewellery also helps to tide over financial emergencies. So, buying gold has traditionally been a financial support system over the years.

There are two ways of owning gold - paper and physical. You can buy it physically in the form of jewellery, coins, and gold bars and you can also invest in paper gold like gold exchange traded funds (ETFs) and sovereign gold bonds (SGBs). Then there are gold mutual funds (fund of funds) which further invest in gold ETFs.

For buying physical gold, one may reach out to the neighbouring jewellers. A few jewellers allow placing an order on their websites too. Further, there are e-commerce websites such as Amazon India, Paytm and Snapdeal where one can buy gold coins online and get the coins delivered at home.

PHYSICAL GOLD

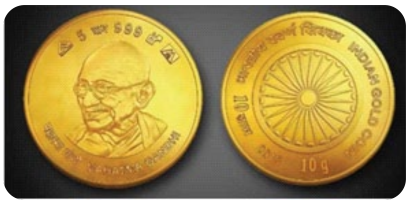
Jewellery

About 49% of the global gold production is used to make jewellery. With the World Gold Council (WGC) aggressively marketing social and religious occasions as gold buying events, the demand for the metal has shot up in the past years. Gold has socio-economic value for most Indians and in times of need, people are reluctant to sell their gold due to the emotional attachment with it. But the main motive behind buying gold is to use it in times of uncertainty. There are concerns related to ownership of Gold in the form of jewellery like safety, high costs, and designs getting outdated. Then there are the 'making charges', which could prove to be a costly affair. The making charges on gold jewellery, which typically range between 6 percent and 14 percent of the cost of gold (may go as high as 25 percent in case of special designs) are irrecoverable. Investment in gold jewellery does not provide any current income, such as dividend or rentals like in the case of stocks and real estate where investors can expect regular income from their investments without having to sell their asset.

Gold Coin Scheme

Gold coins can be bought from jewellers, banks, non-banking finance companies, and now even e-commerce websites. The government has launched ingeniously minted coins which will have the National Emblem of Ashok Chakra engraved on one side and Mahatma Gandhi on the other. The coins are available in denominations of 5 and 10 grams while the bars weigh 20 grams.

The Indian Gold Coin and Bar will be of 24 carat purity and 999 fineness carrying advanced anti-counterfeit features and tamper proof packaging. All coins and bars will be hallmarked as per the BIS standards. These coins are distributed through designated and recognised MMTC (Metals and Minerals Trading Corporation of India) outlets and through specified bank branches and post offices. MMTC also offers a transparent 'buy back' option for Indian Gold Coins through its own showrooms across India. MMTC will repurchase Indian Gold Coins, with intact tamper proof packaging and with original invoice, at the prevailing gold base rate.



Resale of gold coins fetches a higher value than jewellery items as they are considered to be more credible and purer in quality. Also, thanks to their size and shape, gold coins can easily be recast. Another great reason to purchase gold coins instead of jewellery is that you can buy gold coins online, unlike jewellery items which in addition to being more expensive, provides satisfaction only after trying them out on oneself.

Gold Savings Schemes

These schemes are offered by prominent jewellers. Moreover, the primary agenda of these schemes is to make purchasing gold simpler and more affordable.This scheme allows you to deposit a fixed amount every month for the chosen tenure. When the term ends, you can buy gold (from the same jeweller) at a value that is equivalent to the total money deposited, including a bonus amount. This conversion is done at the gold price prevailing on maturity. In most cases, the jeweller adds a month's instalment at the end of the tenure as a cash incentive or may even offer a gift item.

Digital Gold

Investors can buy and accumulate gold with as low an investment as ₹1. 'Gold Accumulation Plan' or 'Digital Gold', is an investment platform to buy gold online. Paytm, a leading mobile wallet company, Google Pay, Google's payment app and Stock Holding Corporation of India are some of the players offering the opportunity to buy gold. Paytm's platform is called 'Digital Gold', Google's platform is called 'Google Vault' and that of Stock Holding Corporation of India is called as 'Gold Rush. Similarly Motilal Oswal Investment Services sells digital gold via its product Me- Gold.

Most of these digital players sell gold in collaboration with MMTC-PAMP. A few of them have collaborated with SafeGold. The purity of gold is assured by the issuer. MMTC-PAMP offers 24-carat gold of 999.9 purity, which is the highest quality of gold, while SafeGold offers 24-carat gold of 995 purity. The physical gold you buy is held in the custody of the issuer till instructions for redemption is given by the buyer and you can redeem the gold by either selling it back to the vendor at applicable prices, or take the delivery of physical gold.

PAPER GOLD

Gold Exchange Traded Funds (ETF)

An alternate way of owning paper gold in a more cost-effective manner is through Gold Exchange Traded Funds (Gold ETF). A gold ETF is a commodity ETF that consists of only one principal asset: gold. Exchange-traded funds act like individual stocks, and they trade on an exchange in the same manner. What's more, the high initial buying and even selling charges that go into owning jewellery, bars or coins gives an extra edge to the low-cost gold ETF. The transparency in pricing is another advantage. The price at which it is bought is probably the closest to the actual price of gold and therefore the benchmark is the physical gold price. What you need is a trading account with a stock broker and a demat account. One may either buy in lump sum or even at regular intervals through Systematic Investment Plans (SIP). You may even buy 1 gram of gold.

Gold ETFs offer some of the same defensive-asset-class traits as bonds, and many investors use them to hedge against economic and political disruptions, as well as currency debasement. Price of Gold tends to rise when the dollar is weak, so if your investment portfolio holds assets that have risk exposure to the dollar's downside, purchasing a gold ETF may help hedge that exposure. Conversely, selling a gold ETF can act as a hedge if your portfolio has exposure to the upside.

Even though there are no entry or exit charges there are three costs that come with gold ETFs. One is the expense ratio (for managing the fund) which is generally low compared to other mutual funds and is around 1 percent. Second, is the broker cost that needs to be accounted for every time you buy or sell gold ETF units. Third, which technically is not a charge but impacts returns is the tracking error. It arises because of the fund's expenses and cash holdings thus not mirroring actual gold price.

Sovereign Gold Bonds (SGB)

Sovereign gold bonds are RBI mandated certificates issued against grams of gold. Sovereign gold bonds act as a secure investment tool among individuals. Owing to the popularity and widespread demand for gold, prices of such assets tend to rise significantly over time, a highly prospective investment avenue.

They are issued by the government but availability is not 'on-tap basis'. Instead, the government will intermittently open a window for the fresh sale of SGBs to investors. This could typically happen every 2-3 months and the window will remain open for about a week. For investors looking to purchase SGBs anytime in between, the only way out is to buy earlier issues (at market value) which are listed in the secondary market. A holding certificate is issued in the name of an investor upon successful purchase of a sovereign gold bond. SGBs are sold through offices or branches of Nationalised Banks, Scheduled Private Banks, Scheduled Foreign Banks, designated Post Offices, Stock Holding Corporation of India Ltd. (SHCIL) and the authorised Stock Exchanges either directly or through their agents. A customer can apply online through the website of the listed Scheduled Commercial Bank. The issue price of the Gold Bonds will be less than the nominal value by Rs. 50 per gram to those investors applying online and the payment against the application is made through digital mode.

The Bonds are issued in denominations of one gram of gold and in multiples thereof. Minimum investment in the Bond shall be one gram with a maximum limit of subscription of 4 kg for individuals and for Hindu Undivided Family (HUF) and 20 kg for trusts and similar entities notified by the government from time to time per fiscal year (April – March). In case of joint holding, the limit applies to the first applicant. The annual ceiling will include bonds subscribed under different tranches during initial issuance by Government and those purchased from the secondary market. The maturity period of the bond is eight years. However, you can choose to exit the bond from the fifth year (only on interest pay-out dates).

People who have an affinity towards gold investments and those who do not want to go through the hassle of keeping physical gold safe can consider Sovereign Gold Bonds. As a low-risk investment, it is perfect for investors with low-risk appetite. It is easy to store this in Demat form, and nobody can steal it as they are in paper form. The current interest rate for SGB is 2.50% annually, they are paid twice a year on the nominal value. Returns are usually linked to the current market price of gold. Compared to physical gold, the cost to purchase or sell SGBs is quite low. The expense of buying or selling the SGB is also nominal in comparison to the physical gold. So, if you are seeking a long-term investment avenue to make good returns, a gold bond can meet your needs. In the case of SGB redemption, the capital gains tax applicable to an individual is exempted. Also, long-term capital gains generated are provided with indexation benefits to an individual or when transferring the bond from one person to another.

Gold Mutual Funds

You have an option to invest in gold through the mutual fund route as well. The underlying asset in a gold mutual fund is gold ETF. Investors can invest in the precious metal without having a Demat Account. Units of gold funds can be bought and sold at any time during business hours and from any part of the country. You have to pay the expense ratio which is the fee you pay to the asset management company to manage your mutual fund. The expense ratio is higher in gold mutual fund, compared with gold ETFs. Basically, the gold funds add the gold ETF expense ratio to the overall cost. There are no other costs attached to gold mutual funds. These funds can also be used as a hedge to protect an investor against economic shock. Many individuals diversify their investment portfolio with 10% to 20% investment into gold funds as a means to secure themselves from the fluctuating market.

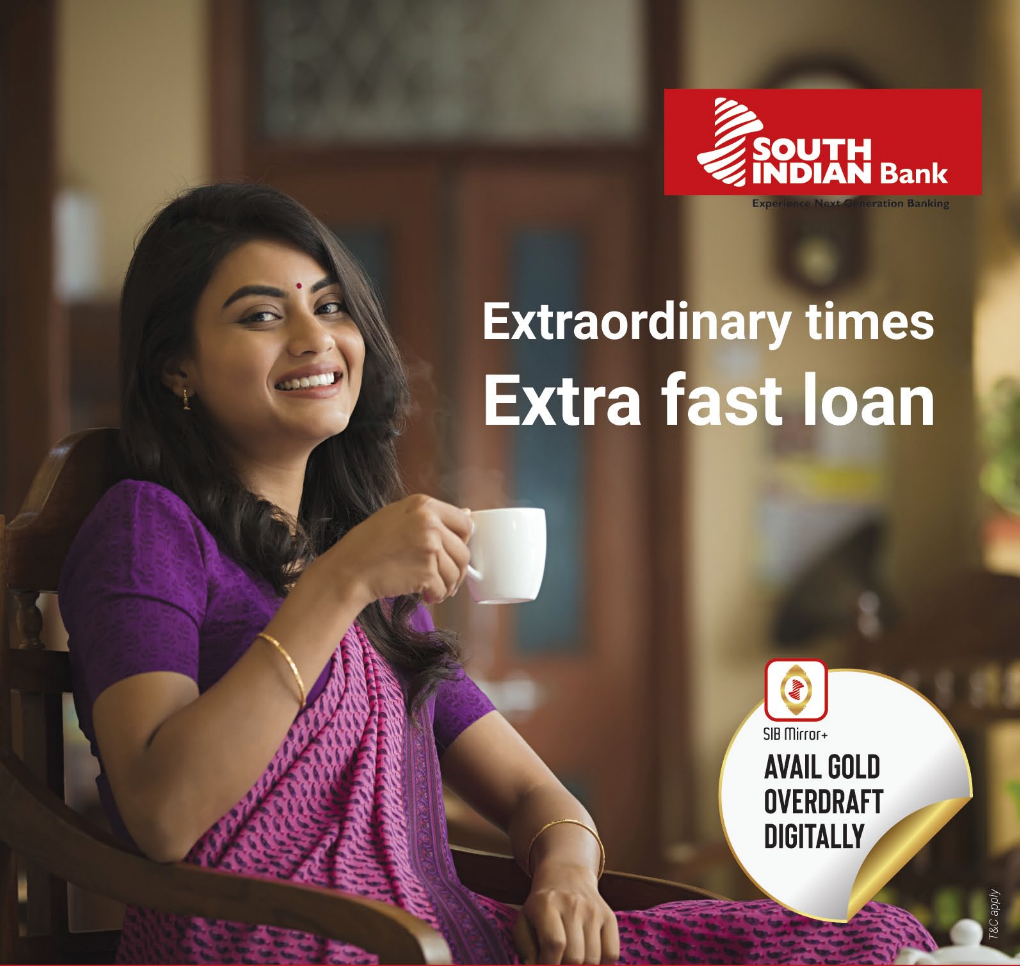
Conclusion

There are a plethora of precious metals, but gold is placed in high regard as an investment. Due to some influencing factors such as high liquidity and inflation-beating capacity, gold is one of the most preferred investments in India. For a conventional investor, the most important criterion is safety, liquidity and profitable returns. We can expect all these criteria to be met while investing in gold. However, some investors consider gold returns as extremely volatile but gold proves to be a safe haven in times of uncertainty for many investors.

SOUTH INDIAN Bank
Experience Next Generation Banking

Toll Free (India): 1800-102-9408, 1800-425-1809 (BSNL),
Email: customercare@sib.co.in, CIN : L65191KL1929PLC001017

www.southindianbank.com | /thesouthindianbank



SIB SUPERFAST GOLD LOAN

You don't have to sell your favourite gold jewellery, when you can pledge it. With South Indian Bank's Superfast Gold Loan, you get the money to meet your different needs, really fast. It is a gold loan tailor-made for the uncertain times we are living in. Go ahead, encash your dreams with SIB Superfast Gold Loan.

- Easy processing
- Tenure up to 12 months
- No processing, documentation charges
- Attractive interest rate

Wear masks in public spaces. Follow social distancing.

Toll Free (India): 1800-102-9408, 1800-425-1809 (BSNL), Email: customercare@sib.co.in, CIN : L65191KL1929PLC001017

www.southindianbank.com | /thesouthindianbank