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To Study about Gold as an Investment Options

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Abstract:. *Throughout the history, gold has often been used as a tool for bartering or trading. It was first used a form ofcoins as a currency. The financial crisis of 2009 has seriously affected the world economy. On August 6, 2011 standard and poor downgraded the U.S.'s AAA credit ratings for the first time since its granting in 1917 This paper is done in the interest of hoe gold should be invested, both in general and in the underlying circumstances. The starting point to introduce the role of gold in a financial world, and its features as aninvestment. After that an econometric model is applied to figure out what the relevant factors are that affect the gold's price primarily. My study tries to focus about different gold investment schemes available in themarket and also the investor's attitude towards the investment.*

Keywords: Gold Investment

I. INTRODUCTION

In the current market scenario of high volatile, rapidly changing market place, various avenues for investmentin gold are creating the confusion among investors. As per various studies 16,000 tons of gold is there in Indian household predominantly in the form of jewelry, Coins, bullions, ETF, mutual fund, E-gold etc. The present study "A study on various form of gold investment "tries to study forms of gold investment availableto investors, factors needs to be aware of and know-how of investing in gold, pros and cons of various formsof investment and to assist investors in creating awareness about various gold investment options. For the purpose of the study the primary data and secondary data has been collected. Primary data consist of questionnaire and secondary data through websites, research paper and magazines. Based on the research it isfound that many investors still prefer gold coins and bars form of investment and prefer to invest in Gold mutual fund and ETF which gives more profit and easy form of investment.

Objectives

- To study the various options available for investors in gold investment.
- To study the Pros and Cons of various form of gold investment.

Discussion

Financial system consists of financial institution, market, services and instrument that are closely related with each other. The role financial institution, services, market have increase in nowadays compared to the past decade; the only reason for this was customer are aware about this.

Gold as an asset plays very important role in an investor's portfolio as if not only provides stability for returnsbut also gives an opportunity to maximize the wealth of the investors. Investors generally buy gold as a way of diversifying risk. Price of gold is determined by the market force of demand and supply. Central bank keepssome portion of their securities in the form of gold. Some studies pointed out that US central bank is the largestholder of the gold 11 they own 8133 tons of gold it represents 63.8% of American foreign reserve. Gold is hedging tool against inflation. Gold is traditionally considered by investors as a safe investment, especially during a time of recession with high risk of inflation, exchange rate depreciating and bank collapse. The main reason is that unlike any currency, gold has an intrinsic value. It is a precious metal. Being widely used in modern technologies. Historically, gold was use as a currency in old times. Even no its is still considered as the backup of currency for governments and central banks. The current gold price indicated in terms of currencyand the current price of currency is affected by the ongoing financial crisis.

Why invest in gold? In the economy world, historically, gold was being used as a currency. it always plays animportant role in the world's major currency system. Gold first become the single metallize standard for US dollar in 1990 and being the back for US dollar until 1973. After 1973 both gold and US dollar are floating onthe market. Even though gold

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is no longer a monetary standard, government and central banks are still holding gold as a portfolio in their reserve to back the paper currencies.

Factors need to be considering while investing in gold

Forms of buying gold: Any investors have to be aware of the different forms of buying gold. Jewelry, the most traditional and the dominant form of buying gold in India and coins and bars, gold exchange trade etc. are other form of investment

Current income: Gold in any form does not give any current income. The only exception is the dividend option in the gold ETF. If held in the physical form, there is only outflow of cash for the maintenance of lockers.

Capital appreciation: Gold is a very strong bet compared to share that are highly volatile. The idea for gold investment will be to use it at times when the market is failing and when the inflation is very high.

Risk: Gold does not carry much risk at least in India, as we hardly see deflation in the real sense.

Liquidity: Gold score the highest in term of liquidity, compared to all other investment. At any time of the day and any day gold can literally be converted to cash. Banks would give you a jewelry loan and so would your friendly neighborhood pawn shop.

Tax treatment: Gold suffers capital gains tax as per IT Act. so, it is better to ask your jeweler for the bill. Gold does not have any other tax benefits

Convenience: Gold scores very high here. But with the per gram price rising. the smallest single investmentis becoming higher.

Where gold is traded? In India, gold is traded in Rupee on MCX (Multi Commodity Market). If you want totrade it in dollar , you could try interactive brokers and trade on NYMEX (The New York Mercantile Exchange). The Multi Commodity Exchange of India Limited (MCX)- India's first listed exchange, is a state- of-art, commodity derivative exchange that facilitates online trading of commodity derivatives transaction, thereby providing a platform for price discovery and risk management. The Exchange which started operation in November 2003, operates under regulatory framework of Securities and Exchange Board of India (SEBI).

How to trade gold? There are direct and indirect ways of investing in gold. One can buy physical gold, like gold coins and bars, or one can buy gold mining stocks and funds and also other financial derivatives. in orderwords, one can buy gold as real, hold it and sell for real to gain or lose the price differences. Or one can also gain or lose from not holding physical gold, but from the movement of gold's price. The distinction from eitherway is not always clear. The best way of making choice when consider an investment in gold is to define one's need and choose the best option. Another way to trade gold is through a fund which trades on a stock exchange, like SPDR gold trust. If you have a stock trading account, you can trade the price movements in gold. The trust holds gold in reserve, and therefore, its value is reflective of the price of gold.

Types of gold investment:

1) Physical gold: Generally, physical gold is a part of most people's investment portfolio. Physical gold could be invested in the form of gold jewelry, gold coins or gold bullions. The advantages of physical gold are investors has the direct ownership, and keeps value. The disadvantages is privately stored gold is with low liquidity, the cost are high which including delivery and processing fees. Relative to gold coins and gold jewelry, gold bullion is more preferable to invest because of its lower costs and high liquidity. Vaulted gold represents gold bullion, it is stored in professional bank vaults. The investors also acquire the vaulted gold ownership, but doesn't hold the gold in his own hands. Commonly, the vaulted gold plays lower cost and provides a high liquidity.

Gold Backed Securities: Gold Backed Securities are one of gold investment ways which indirectly invest gold. It combines the benefits of physical gold bullion with the liquidity of the traditional securities market. Usually, the gold of securities can be redeemed, but the redemption fee is relatively high to prevent gold trading frequency. Gold exchange traded funds (ETF) are investment fund traded on stock exchange, much like stocks.Different from the stock ETF gold ETF is a financial derivatives product tracking the spot gold price

Advantages of gold backed securities is ; first the dealing spread are comparatively lower than physical gold (such as gold jewelry ,coins and small bars) commonly they are 0.5% ; second , removed from the gold custodial fees, storage fees, storage fees and insurance costs, only need pay a management fees about 0.4%; at last with high liquidity , it is convenient to trade. Disadvantages of gold backed securities is investor does not have gold ownership; some stock exchange impose extra charges on each trading

Gold mining stocks: Gold mining stocks do not directly invest in gold but in gold mining companies. Compare with other gold investment, it is more speculative. Gold mining stocks carry risk, thus , as the investors would like to 15 invest gold mining stock should think again. This investment way need the investors have a broader risk tolerance, and can accept the possibility of gold based losses in exchange for the potential for triple digit gains.

Gold mutual fund: Gold mutual fund are another way to invest in gold. Its suitable for those investors who would like to invest in physical gold, but still desire some exposure to the precious metal. However, be careful of high annual charges that may plus hidden charges, and analyze the offering prospectus prudentially.

Gold option and future: Gold option and future are the gold investment derivatives which are short term speculation on the future gold price. The markets are more complex and trading in speculation but not in physical gold. Thus those ways of investment are suitable for more experienced and sophisticated investors. To buy option is risky, more investors lose than win. The prominent advantages is that the investors can control a large investment with a small, and limited, amount of money. The disadvantages is that option expire within a fixed period of time. Gold option and futures may bring a large fortune; it also may be lost all in an instant.

Bullions: The value of gold bullion is determined almost entirely by the market price of gold at the time of purchase. Gold bullions comes in one of the following two forms:

Bars: These are larger pieces of gold that are generally not kept in the physical possession of the investor, and are usually purchased by larger companies and organizations as opposed to individuals. There are several variation of smaller sized bars that are kept I by individuals in their possession.

Coins: Gold coins are minted in several different one-ounce forms ranging from 1/10oz. to 1 kilo; though one ounce coins are by far the most popular amongst small company and individual investors. Coins are kept either in possession of the investors or in depositories.

Gold ETF: Gold exchange traded funds are products (also called Closed End Funds Exchange Traded Notes) that aim to track the price of gold and are traded on major stock exchanges. Each Gold, ETF, CEF (Closed End Fund) and ETN (Exchange Traded Note) is setup and structured differently. Also, not all of them are backed by physical gold like gold ETN which use derivatives to track the price of gold.

Major Players

Gold market has several players on it. These players can have a significant influence on the price, and therefore it is crucial to know who they are and what role they play. In brief , they can be categorized as government and central banks, institutional investors and funds, and private gold mining corporate ,Governments and central banks hold capital reserve to back up their liabilities. The capital reserve in general is combination of foreign currency, gold and other kind of assets. The percentage of holding each one change over time. But the purpose of holding gold is quite similar to the private investors, which is to diversify the portfolio and control of risk. In theory central bank should hold gold as a large position in its assets, so that they can be at a safer position towards the reserve.

The reason for private mining company playing an important role on gold market is to hedge the price of gold. They will detect the trend of price movement and accordingly hedge for the future price by adjusting supply

Where India stands on Gold Reserve? As per the World Gold Council's data India has 618.2 tons of gold as holding, which is 6.9 percent of the share held in gold in total foreign reserve. While panic recently gripped the already slowed down Indian economy following media reports on India selling its gold reserve, the country has the 10th largest gold reserve in the world, revealed data released on Friday on the world official gold holding. The Reserve Bank of India purchases 52.3 tones gold in FY19 to augment its foreign exchange reserves, according to the latest data released by to the World Gold Council. With this, it has entered league of world's top gold holding central banks. RBI currently holds 618.2 tons of the metal as part of its foreign exchange reserves. Till about a month ago, the central bank was ranked 11th, but in march it added 3.7 tons of gold to its forex reserves and dislodged the Netherlands from the 10th spot. 18 The World Gold Council derives data on gold reserves from International Financial Statistics under International Monetary

Fund. All signatorycentral banks have to provide monthly updates to the IMF on their gold purchases forming part of their ForeignExchange Reserve.

The Historical Moments of Gold's price

No commodity has the same importance as gold even though in the short run it could grow more than gold. The key difference is that gold was a currency and still is backing currency. This role cannot be replaced by any commodity on the market.

Gold has risk. The price fluctuates from time to time. As a figure 1.7(1) Present above price of gold volatizedin the past 20 years. If one buys from the peak of the market, the price may not come up again at the same level, loss can occur. However, this is not exclusively happened to gold market. Every investor will deal withthe same in any market.

Gold has shown positive result even during the economic downturn and market volatility. It is of as the best hedge against inflation. Gold has seen strong asset appreciation in long term and emerged as must have in once investment portfolio. Gold is an easy and convenient way to diversify your investment portfolio. You can start investment in gold with a small amount to save regularly for the long term. You can redeem your gold fund asand when you need. Some of the gold funds such as SBI gold funds is treated as a non-equity product from the tax perspective. You can claim long term capital gain, tax benefit on this fund after a period of one year of investment. • Another factor that drives gold investment is liquidity. When making an investment the ease withwhich you can buy and sell an asset should be primary concern, and with overUSD $100bn in daily trade, gold investment is one of, if not the, easiest assets for everyday investors to buy and sell.

Indians buy gold more than any other country in the world and gold has been a favorite commodity for men women. Gold is used in jewelry since ages. Gold is not subject to any political chaos and signifies how wealthya country is.

Factors affecting gold price:

Gold is a precious metal and one of the most favoured forms of investment in India. The price of gold doesn'trespond to demand and supply alone. In fact, there are a host of other factors that make it difficult to predict the price of gold at any given time. Globally some of the factors that influence the cost of gold are inflation and the supply of gold and the central bank decision to buy or sell gold. The bullion business done by exchangetraded funds, economics conditions and so on.

1. Inflation: It is generally noting that gold price reacts to inflation. As the Indian economy experience inflation and the local currency weakness, people prefer to invest on gold, which in turn leads to a rise in its demand. However, it would be wrong to claim that both of these are exclusively related. Gold price were rising even before the recession of the early 2000's and peaked after the situation improved. However, the gold price did respond to the inflation resulting from the recession

The Central Bank's decision: The decision of the Central Bank (Reserve Bank of India in India's case) to buyor sell gold can affect its price due to the sheer volume of the transaction. Central Bank hold a significant amount of gold reserve, which they must sell off when the economy is booming. The gold is sold in the market though other institutional buyers are not that keen to buy it. This leads to a slide in the gold price almost everytime the central bank begins to reduce its gold reserve. Such high-volume gold sells and purchases are also done exchange traded fund and are influential drivers too, transaction done this way eventually impact gold'sdemand and supply.

Interest Rate: Gold and interest rate have a simple inverse relationship. Once the interest rate increases, people sell off their gold and try to use the money to earn high interest. When interest rate fall, they see more sense in buying gold, thus increasing its demand. However, this is more of a short-term observation as over long-term period, it is seen that gold price in interest rate both have rising, thus indicating a long term positive co relation. For example, during the 1970's, gold boom, rose in spite of a steady rise in interest rate.

The jewelry market: Indians traditionally buy a lot of gold for ornamental purpose. Buying gold jewelry is popular custom across India during festival and weddings. As a result, the demand for gold rises during festival and wedding season (generally October to December), irrespective of prevailing price. Thanks to the demand India often ends up importing gold, particularly these seasons.

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The monsoon: While urban India has other interesting investing option other than gold (real estate, stock market, etc.) rural India has traditionally gravitated towards the yellow metal. This is substantiated by the factthat 60% of the demand for gold in India comes from the rural market. A good monsoon result in a good harvestand the income earned is uses to invest in gold, which is then save for the proverbial rainy day. in case of a bad monsoon, the income falls drastically and gold comes to the rescue.
Rupees Strength: It must be notes that a major portion of India's gold demand is met through imports. The reduced purchasing power of a weak rupee leads to a fall in imports and subsequently the demand for gold. Ofcourse, this is characteristics of India alone as the global gold market is not affected by domestic currency.
Portfolio diversification: Gold is often seen as a welcome change from this stress and risk associated with conventional assets. It is also observed that gold generally doesn't have any significant relationship with otherpopular assets. Even when a particular asset is under market stress, gold doesn't seem to be particularlyaffected. So once penchant for investing in gold could depends volatility or stability or another asset. Government gold reserve: Central Bank of most major country's hold both currency as well as gold reserves.US Federal Reserve of the US and Reserve bank of India are two prime examples of this. When central banksof the large country's start holding gold reserve and procuring more gold, the price of gold goes up. This isbecause the flow of cash in the market is increased while the supply of gold goes down.

THE PROS OF INVESTING IN GOLD

Inflation insurance – One reason people buy gold is to protect themselves from inflation. The thinking is that if the Australian dollar gets significantly devalued, gold will retain – and even increase – its value.
Disaster insurance – Similarly, some people regard gold as an asset that will always be in demand, no matterhow bad times get. The idea is that you will always have a valuable asset, even if financial depression or a major war causes the economy to collapse or your home to be destroyed.
Diversification – A lot of investors like to spread their money around, rather than putting all their eggs in one basket. So, you might buy stocks, bonds, property and gold, figuring that if the markets crash and your first three investments plummet in value, your gold will retain or increase its value.
Simplicity – Buying gold coins or gold bullion is easier than picking the right stocks or property to invest in.
Tangibility – Some people feel uncomfortable buying assets they can't touch – like shares or cryptocurrencies – because they're sceptical about whether an 'electronic file' can retain value over the long term. So, they prefer something tangible like gold, which they believe is more likely to retain its value, no matter what happens in the years ahead

THE CONS OF INVESTING IN GOLD

No yield – You can earn interest if you put your money in a term deposit, receive dividends if you invest in shares or collect rent if you buy an investment property – but you won't get any yield from owning gold.
Low capital gains – Property and shares tend to gain more value in the long term than gold. For example, while the price of gold increased by 132.9 per cent between 1980 and 2017, the All Ordinaries jumped by 1,133.5 per cent.
Annoying to transact – Dealers often pocket a significant margin when buying and selling gold. Also, authenticity is an issue. When you buy, you'll need to be sure that you're acquiring real gold. When you sell, you might have to prove that you're the genuine owner of the gold.
Hard to store – Once you've got gold, what do you do with it? Put it in a bank? Hide it under the bed?
Volatility – Gold prices can make big changes in a short amount of time.

II. CONCLUSION

Gold's qualities make it one of the most coveted metals in the world and a popular gift in the form of jewelry.The decline of paper investment leads to an increase in the price of gold and hence gold is the perfect investment to make if you wish to diversify your portfolio. In the short term, gold prices can be volatile, butit has maintained their value over the long term. If you are planning on investing in gold, make sure it is for the long term. Investing in gold is worth considering. Happy Investing! Gold is an ideal option for bringingdiversification to a portfolio. An allotment of 10-15%

in gold is ideal for building up your portfolio and protecting it from market fluctuation. It is possible to build up a large corpus of gold by investing a little every month. Make the right use of all the investment options and create your own mix. So, we have learnedthat gold is a precious metal and is a very important asset class that helps us to diversify our portfolio. If you liked reading this module, we have also designed many other interesting modules at ELM School. Do read them all to gather knowledge, skill and expertise in the financial markets. Various investment optionsavailable for investors looking to add gold to their portfolio. Those drawn to gold by its physical allure maywant to purchase gold bullion, coins, or jewelry. However, there can be significant storage and insurance costs associated with physically owning the metal. Other popular investment vehicles include gold exchangetraded funds (ETFs) and shares of gold mining companies. Beyond its natural shine and mysteriousallure, there are a number of financial reasons to own gold. For one thing, gold serves as a store of value, meaning that its value remains stable, rather than declining over time. Along these same lines, gold is useful as a hedge against inflation. Although inflation pushes down the value of currencies, gold isn't subject to this downward pressure. The stability of gold as a financial asset also makes the precious metal attractive toown during periods of economic turmoil.

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