GOLD WHERE IS IT HEADING

Will gold price still rise? This is the question which is running across everybody's mind not only in India but all over the world. To get the answer we have to understand the reason for the rise in price of gold over the years and its future. The gold prices has been rising from 2001 constantly. From 2005 onwards it has given an annualized return of 20% or more per annum. However, it has caught the fancy of investors across the world in a more bigger way in the last few years due to its outperformance in comparison to other assets.

Gold is considered as one of the most safe and secure form of storing wealth. Gold has been an effective hedge against inflation. Historically higher inflation have led to higher gold prices. Gold is considered as a safe heaven for the future in time of global financial turmoil and is one of the preffered investment avenues. Since last 5 years the demand of gold has risen and supply has shrunk. In 2010, the central banks across the world have started buying gold and adding to their reserves as store of wealth during period of crisis. There is a major risk of paper currency collapsing and that is the reason for money going to the safety of gold. Currently 1.75% of China's Forex Reserves is in gold and for the last many years they are gradually increasing their gold reserves. The rise in incomes in countries like India and China has also increased demand in gold. Indians have been traditional buyers of gold for centuries as gold has been considered a symbol of security and prosperity. Gold is purchased extensively during weddings and festivals like Diwali and Akshaya Tritiya. These has led to India being the world's largest consumer of gold. The majority of gold used in India is imported with a thriving jewellery industry. In comparison there has been supply constraints as world gold mining supply has been shrinking over the years. So incremental demand for gold among the central bankers who want to create a diversification away from dollar reserves will only put pressure on prices of gold and move it higher. The decline in sale of gold from jewellery due to high gold prices has been set off by high investment demand for gold in the form of bar, coins and ETF's. So, investment demand in gold has replaced jewellery demand.

So as we believe the global uncertainty to persist for sometime gold prices should increase due to safe heaven buying. The Federal Reserve will like to keep interest rate low which would also support gold prices. Generally, during periods of past recessions, gold has performed better than other asset classes like equities. So hanging fear of collapse in financial system has forced people over the world to chase gold. There is also lack of undermining confidence in the dollar raising fears of future inflation. Wheather, as a result of all the printing of money by central banks and treasuries or due to a conscious decisions by Governments to inflate their way out of their debt -trap many people are looking into a medium to longer term period of higher inflation. Apart from these any geopitiolcal crisis and escalating tension in middle east could trigger in increase in gold prices. So all the situations of economic instability ,inflationary fears, rising demand and dipping supply, weakening dollars and fluctuating stock market provides a base for increase in gold prices in future.

As investment, gold as an asset has low correlation with other asset classes like bonds and equities and should be used to diversify the portfolio to act as a good hedge inflation. Exposure in gold can be taken through ETF’s (Exchange Traded Fund), physical gold (like jewellery, bar, coins) and mutual funds (investing in ETF through fund of fund). In case of gold ETF they will be taxed like debt funds. However in case of physical gold long term capital gains tax is after three years only. However, it should be remembered that gold should be treated as a diversification option and should not be more than 10% of the overall portfolio. The best way is to phase the investment over a period of time through the popular route of SIP. The price movement of gold in the short term is difficult to predict. Like any asset class an irrational exuberance in price of gold last month has caused in correction of more than 15% in the price of gold in dollar value. (After touching 1920 $ it is currently priced around 1620$) However in India the price correction in gold is less due to weakening of Indian rupee in comparison to dollar. So, any correction in price of gold which will happen from time to time should be a buying opportunity. As we will enter the last phase of the bull market of gold which started way back in 2001 and can continue till 2014 or more, we can see prices going to levels which is unimaginable in today’s value also.

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