YELLOW METAL - A worth Investment

We Indians are crazy on yellow metal! Ever imagined for investing in Gold? Let's understand the Gold World.

The rate of 10 grams of pure 24 Karat gold was sold at Rs.1,670 in the year 1981 and it is being sold now (2020) at Rs 46,790. We were able to see a 33% price hike between 2019 and 2020. In the history of last 40 years, it happens to be in 2006 and 2012 was the years in which the price hike was above 30%. On an average of 10% price ever year hike happened in the last 40 years (Detailed table given at the bottom).

Presently, the Fixed Deposits rates in India becoming low in such a way that it is not lucrative for investors. It has fallen to 5% p.a. It takes almost 14.4 years to double the investment. Further, the interest income is subject to income-tax, which would be a trouble for the investor in their way to wealth creation. Further, considering the present situation of mounting NPAs pose threat to the investment in FDRs even though Government has guaranteed up to Rs.5 lakhs. People still feel unsafe to have fixed Deposits in Financial Institutions including Bank.

As per the ancient principle it is always safe to have investment in physical gold for which the marketable value also increases every day. But it is subject to certain threats like theft and depreciation on the gold due to usage. Today, you go and buy a gram of gold at shop and you will have to check as to whether it is a pure gold or not. Most of us do not have the capability to check the same. Even, the gold sellers are relying on the machines (Karat Machine) to check the same.

Real Rate of Gold

If you buy a gram of 22 karat gold today, you have to pay Rs.4,427 and you have to pay additionally on an average of 12% to 18% on the value for making and wastage charges which works out to be Rs.796, adding to the value it works out to Rs.5,223. Further, you have to pay for the Government in the form of GST at the rate 3% which works out to Rs.157, adding this to the value which leads to Rs.5,380. Even though the market value is Rs.4,427 you need to pay Rs.5,380 to get a gram of gold. You are paying additionally Rs.953 per gram.

Alternate Gold Investments India

Government of India has come out with a sovereign gold bond schemes from the year 2015. These schemes are developed and issued through scheduled commercial banks and other channels in a phased manner. Usually, it has a lock-in period of 8 years. The issuer government shall issue per gram of gold of 24 karat at present value and it will be redeemed at the present value of 24 karat at the time of 8^{th} year's market. In between on yearly basis interest on the nominal value at the rate between 2.5% to 2.75% is being given to the investor. This not available when you buy a gold in physical form.

As per the records available in the history of gold rates and based on the projection it can be said that the gold rate of 24 Karat (10 Grams) would be Rs.1,33,497 in 2030. Government of India is presently issuing the Sovereign Gold Bond 2020-21 in 6 tranches as 2020-21 Series I, Series II, Series III, Series IV, Series V and Series VI

The issue price decided is around Rs.4,677 per gram and a person can buy up to 4 kgs and there are other restrictions and permissions as directed by RBI.

Physical gold bars (24 Karat) are still available for trade.

Extra Costs to Investors

It would be prudent for the investor not to lose money in any form, very particularly, when you buy physical gold as said above you have to lose money per gram Rs. 953 in the name of making charges, wastages and GST. But if you buy the gold bonds issued by the government or Physical Gold bar you pay only for the gold and not for the making charges. On top of it, every year you will be paid around 2.5% till end of the redemption of the Bond. Assuming that the bond will be for eight years, the total interest received would be 20% (8 years * 2.5% – All years together). Further, on the date of redemption of the bond, you will be paid market value of the gold held by you without any reduction or wastage. However interest is not applicable in physical gold bars

<u>Return Calculation</u>

Today everybody takes cost benefit analysis, let's calculate to know better. Let us assume, you have Rs.10 lakhs to buy gold and it is an investment plan and we analyse in the following three methods. One is to buy Gold Ornament, second is to buy Gold Bar and third one is buying Gold Bond issued by Government.

Particulars	**22 Karat**	**24 Karat**	
	Gold Ornaments	**Pure Gold**	**Gold Bond**
Rate/Gram	4,427	4,627	4,627
Wastage & Charges @ 18%	797	–	-
Sub-Total	5,224	4,627	4,627
GST @ 3%	157	138.81	-
Total Rate / Gram	5,381	¤ 4,765.81	4,627
Total Value of Investments	10,00,000	10,00,000	10,00,000
Total Grams Purchased	185.85	209.83	216.12
Expected Rate at 8th Year / Gram	11,033	11,033	11,033
Resale value @ 97% / Gram	10,702	–	-
Total Resale Value	19,88,972	23,15,054	23,84,482
Next 8 years Interest (2.5%/year)	–	-	2,00,000
Total Realisable Value (8^{th} Year)	**19,88,972**	**23,15,054**	**25,84,482**
Your investment becomes in times	1.99	2.31	2.58
Income-tax Payable (30% slab)	2,96,691	3,94,516	60,000
Total available for Investors	**16,92,281**	**19,20,538**	**25,24,482**

Upon redemption, you will be able buy new model jewels if required or you can reinvest in gold bond again.

Trade your Gold Bonds in Stock Exchanges

Gold bonds are easily tradable in stock market, upon dematerialization of the bond, if required you can sell the bond in regulated market like NSE and BSE.

Taxation issues in Gold:

When we sell our physical gold, the gain from the sale becomes capital gain and income-tax to be paid on it according to the rates applicable to the person. But in case of Gold bond, the capital gain on the redemption is not taxable but the interest given under the scheme is always taxable. Even in the taxation point of view it is always better to invest in Gold bond than buying physical gold.

Gold Rates (Standard 24 carats)

(up to the year 2020 actuals and rest of them are projected based on history)

Year	Rates in Rs./10 gram	Per Gram	% tage	Year	Rates in Rs./10 gram	Per Gram	% tage
31.03.2005	6,180	618	102%	31.03.2030	1,21,361	12,136	110%
31.03.2004	6,065	607	114%	31.03.2029	1,10,328	11,033	110%
31.03.2003	5,310	531	106%	31.03.2028	1,00,299	10,030	110%
31.03.2002	5,010	501	120%	31.03.2027	91,180	9,118	110%
31.03.2001	4,190	419	96%	31.03.2026	82,891	8,289	110%
31.03.2000	4,380	438	103%	31.03.2025	75,356	7,536	110%
31.03.1999	4,235	424	105%	31.03.2024	68,505	6,851	110%
31.03.1998	4,045	405	86%	31.03.2023	62,277	6,228	110%
31.03.1997	4,725	473	92%	31.03.2022	56,616	5,662	110%
31.03.1996	5,160	516	110%	31.03.2021	51,469	5,147	110%
31.03.1995	4,680	468	102%	31.03.2020	46,790	4,679	133%
31.03.1994	4,598	460	111%	31.03.2019	35,220	3,522	112%
31.03.1993	4,140	414	96%	31.03.2018	31,438	3,144	106%
31.03.1992	4,334	433	125%	31.03.2017	29,668	2,967	105%
31.03.1991	3,466	347	108%	31.03.2016	28,340	2,834	108%
31.03.1990	3,200	320	102%	31.03.2015	26,245	2,625	92%
31.03.1989	3,140	314	100%	31.03.2014	28,470	2,847	96%
31.03.1988	3,130	313	122%	31.03.2013	29,610	2,961	106%
31.03.1987	2,570	257	120%	31.03.2012	28,040	2,804	135%
31.03.1986	2,140	214	100%	31.03.2011	20,775	2,078	127%
31.03.1985	2,130	213	108%	31.03.2010	16,320	1,632	108%
31.03.1984	1,975	198	110%	31.03.2009	15,105	1,511	125%
31.03.1983	1,800	180	106%	31.03.2008	12,125	1,213	129%
31.03.1982	1,700	170	102%	31.03.2007	9,395	940	111%
31.03.1981	1,670	167	100%	31.03.2006	8,490	849	137%

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