

Is Sovereign Gold Bond is Better Than Other Gold Investment?

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ABSTRACT

Investment in gold can be in any various forms: Physical gold - Jewellery, Gold coin schemes, and gold savings schemes, alternately Paper gold- Gold Exchange traded funds, digital Gold and Sovereign Gold Bond. Among all the investment alternatives, Sovereign Gold Bond provides more benefit than other alternatives. Sovereign Gold Bonds are issued by Reserve Bond of India on behalf of government of India in multiple of gram/grams of gold. The study is theoretical in nature, for the purpose of study secondary data was sourced through journal articles and websites. The objective of the study is to find out how the Sovereign Gold Bonds schemes are superior to other alternative Gold investment. It is concluded that the Sovereign Gold Bonds are better than other forms of gold investment, but it may not be suitable for all types of investors. Individuals can invest a portion of portfolio for the purpose of diversification.

Keywords: Sovereign Bond Fund, Gold Investment, Gold ETF and Physical Gold.

INTRODUCTION:

Next time when you are planning to buy Gold ornaments or Physical Gold, think twice as the dynamism of gold investment is changing from personal satisfaction to investment satisfaction. Due to change in the life style, threat of loss or damage to physical gold and loss of value due to hefty wastages, tax & making charges are making physical gold /Jewellery less attractive. However, we have solution for your traditional thought process of gold fetch higher benefits without compromising on the safety during obstacles/contingencies period. Investment in gold can be in any various forms: Physical gold - Jewellery, Gold coin schemes, and gold savings schemes, alternately Paper gold- Gold Exchange traded funds, digital gold and Sovereign Gold Bond. Among all the investment alternatives, Sovereign Gold Bond provides more benefit than other alternatives.

What is Sovereign Gold Bond?

Sovereign Gold Bonds are issued by Reserve Bond of India on behalf of government of India in multiple of gram/grams of gold. SGBs are substitute to Physical gold investment and which can be purchased through authorised SEBI brokers. SGB's are issued on regular basis on pre determined dates decided by RBI through authorised brokers; like Bank, Financial Institution, Authorised trading members and other channels. Key features of SGBs; bearing interest rate of fixed rate of 2.5% per annum payable semi annually, investors earns returns linked to gold prices, guaranteed by Government of India on interest as well as redemption value and any individual can avail through DMAT/Paper form, as the investment minimum investment is 1gram.

LITERATURE REVIEW:

A. Senthil Raghavan (2011), analysed the value of gold across political and cultural boarder surpassed and made ideal form of investment. The study brought out how gold is preferred savings avenue of Indian households and it indicated gold is an integral of Indian societies for wealth creation. The study concluded that the gold jewellery and gold investment is continued to rise in long run, which is driven by wealth accumulation

motives. Clifford F Thies (2005), discussed the silver agitation and its impact on gold standard in United states. Protection against uncertainty and investors wealth creation was offered by Gold bond, which in turn Gold bonds were sold at premium. The research also discussed the yield on gold and currency bond and how US securities were highly well known during 19th Century. The study concluded that gold was effective in lowering cost of capital in United States. M Avabruth (2015), concluded that next preferred investment to Physical gold and Exchange traded funds is Sovereign Gold Bond Schemes. SGBs offers higher return and highest safety/security, since Government backed these bonds. Success of Sovereign Gold Bond is dependent on emotional attachment of investors and significant improvements over previous gold deposit scheme. Kajal Chaudhary (2017), dwelled on how gold is emotionally attached and symbol of status of Indians. Many Indians prefer Gold investment to Bank deposits. Gold deposit scheme and Gold metal loan abolished by introducing Gold monetization scheme, Sovereign Bond Scheme, and India Gold Coin scheme. It was concluded that the schemes introduced by Government will assist households to get interest as well as tax rebate. Rashmi Chaudhary (2016), discussed the government action to reduce physical gold and mobilising the idle gold for productive purpose. Objective of the study was to study the purpose, differences, progress and challenges in executing the schemes. The study concluded that the emotional attachment and sentiments rules success of Government Gold schemes and unable to judge the short-term success. M Nishad Nawas (2013), discussed the various forms of gold investment, factors need to be aware of, expertise of investing and pros/cons of gold investment. The study concludes that many investors prefer jewellery, gold coins than Exchange traded funds.

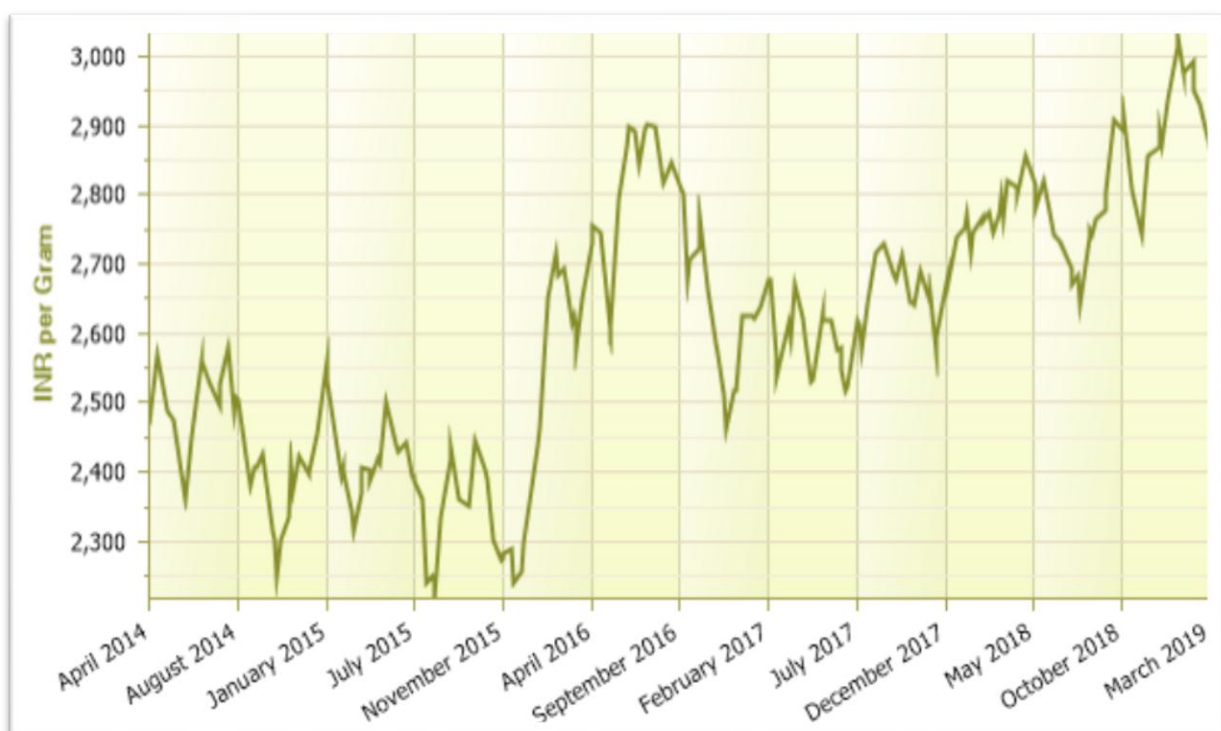
METHODOLOGY:

The study is Theoretical in nature. The main objective of the study is to find out how Sovereign Gold Bond is superior to other forms of Gold Investment. For the purpose of study, secondary data was sources through Journals, Articles and Web site sources. The various studies have been conducted to analyse the Sovereign Gold Bonds, but no studies analysed the superiority of sovereign Gold Bond over other alternative Gold Investment. The study is based on various assumptions and the operational information provided by the regulatory authorities like Reserve Bank of India and National Stock Exchange.

FINDINGS AND DISCUSSION:

Trends in Gold Price:

Chart 1.1: Chart showing last 5 years Gold Price (24 Karat Gold)



Sources: <https://www.bullion-rates.com/gold/INR/Year-5-chart.htm>

Interpretation: Chart 1.1, depict the return on Gold for the period of 5 years shows bullish trend and the expected to be bullish for next few years in India. As per the study by ANZ (2015) Gold prices will touch new record and will double by 2030, as the demand will increase by double in Asian countries and greater demand from investors and central bank.

How Sovereign Gold Bond is better alternative?

Assume if you would like to invest 1 gram of gold in 4 different forms of investment for the period of 8 years ; jewellery, gold coin , Gold exchange traded funds and Sovereign Gold bond.

Table 1.1: Table showing the various alternative gold investment and its features

Parameters	Jewellery	Gold coin	Gold ETF	Sovereign Gold Bond
Purchase value (Prices as on 1 st April 2019 as per Bankbazaar.com and AXIS Gold ETF fund details)	INR 3284 (INR 2985 per gram 22k + value addition at 10% - wastage/ tax/ making charges)	INR 3290 (24 k INR 3134 + value addition at 5% - tax / other entry charges)	INR 3256 (value per unit INR 3163 + value addition 3% - tax)	INR 3117 (last 3 days average closing price as per SGB manual)
Holding period Return (if gold price after 8 years assumed to be INR 4000)	21.80% ((4000-3284)/ 3284*100)	21.58% ((4000-3290) /3290*100)	22.85% ((4000-3256)/ 3256*100)	28.32% ((4000-3117)/ 3117*100)
Regular Returns	No	No	No	2.5% per annum interest
Safety	Risk of Handling and loss of value due to usage	Risk of handling gold	Higher safety as it is in DMAT or electronic form	Higher as it is backed by Government of India.
Purity of gold	It is a question	Depends on who issues	High as it is in Electronic form	High as it is in Electronic form
Capital Gain	Long term capital gain after 3 years	Long term capital gain after 3 years	Long term capital gain after 3 years	Long term capital gain after 3 years (Not applicable if hold till maturity of 8 years)
Collateral to avail loan	Yes – not full value will be given	Yes	No	Yes
Exit option	Conditional	Sell only in Market	Can be trade on exchange	Can be trade on exchange or redemption with GOI after 5 th year
Storage cost	High with risk	High with risk	Low	Very low

Sources: Authors calculation and <https://www.nseindia.com/products/content/equities/slbs/slbs.htm>

Interpretation: Table 1.1, depicts the SGB will provides superior benefits in all the parameters. Purchase value in case of all other investment will be higher due to value additional expenses, whereas SGB will have lesser or no value addition expenses. Holding period return will be higher in comparison to other investments along with the regular return of 2.5% per annum. SGBs have highest safety, as Government of India backs it, easy option of exit through tradable in exchange, can be used as collateral/security to avail loan and having very low storage cost.

CONCLUSION:

Sovereign Gold Bonds are superior to other forms of Gold Investment. SGB are better in terms of purchase price (as per the guidelines prices will be reduced by INR 50 if you opt online payment mode). Higher holding period return, regular return purity, safety- guaranteed by government of India, easy exit option –tradable through exchange, capital gain indexation and benefit of no TDS and can be used as security/Collateral for availing loan. Although SGBs are superior, it is advisable to invest in small portion of your portfolio for

the purpose of diversification. This investment may not be suitable for all type of investor and it depends on risk taking ability. People with stable and regular income can allocate maximum of 2 % to 5% and for those who do not have regular income can put maximum of 10%.

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