Date : 03-Jan-2010 Edition : Chennai Page No.: 10a Page Name: n.a. Size: 288.05 sq. cm

Sector: Banking and Finance Circulation: 55639 AVE: INR 277036.11 Frequency: Weekly

THE ECONOMIC TIMES ON SUNDAY

It may not have shone very bright for investors in the West, but Indians definitely have gained from their love affair with the yellow metal over the last three decades. Aman Dhall explains how

GOLD is changing colour. The metal has turned red hot from the dazzling yellow in the new millennium. Thanks to new products and dizzying highs scaled during the decade gone by, the commodity — once considered a safe-haven asset — has people today flocking to make money. Yet very few realise that the essence of this asset class has not changed over time. It still remains the most effective portfolio insurance during uncertain times and a currency hedge, especially in India.

Consider this: Indian investors who purchased gold in the early 80s have made money in this asset, compared to those in the West who are yet to realise the actual value of their investment. The inflation adjusted return in India has been over 4% annually over the last three decades. On the contrary, in the US, UK and even China, the actual value of gold in real terms in their respective currencies is still below the prices of 1981, World Gold Council data shows.

"It continues to stay an excellent contingency reserve to generations of investors. Over the last few years, it has moreover been a great stabilising factor in a portfolio," says Sudip Bandyopadhyay, group president — finance, Spice Group. The year of 2008 is a classic example — when stocks in India fell by 52%, gold was up by almost 29%.

The sheer variety of instruments available on offer in gold today — exchange traded funds, futures, mutual funds, coins — have enhanced its investment prospects and given the gold market significant depth. At the same time, these products have made gold's price movement more volatile. "Earlier buying gold was predominantly for possession and not a trading call," adds Bandyopadhyay. Indian parents even today buy gold to accumulate it for their daughters wedding.

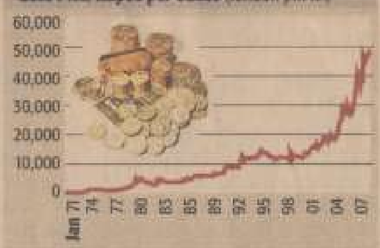
The younger generation, however, unlike their predecessors, has different thoughts. They are buying gold to make money and preferring the demat mode over the physical form. "The superlative performance in the last few years has only grown its reputation as an independent asset class," says Devendra Nevgi, principal partner of Delta Global Partners.

History has also played a role in gold's rise in stature. The metal till today is considered the best bet against the 'tail risks' that other asset classes hold. High liquidity further makes it stand in a good stead. "Risk in gold is lower than many other assets. Unlike fixed deposit for which one has to pay a pre-maturity withdrawal penalty, liquidating gold is not constrained by banking timings or availability of an ATM," says Nevgi.

For starters, like any other commodity, gold prices are a function of demand and supply. In India, the gold prices function today differently compared to 30 years ago when there was no instant synchronisation of Indian market with global markets. "The dissemination of real time market data today ensures any price movement in international markets is reflected instantly here," says Dharmesh Bhatia, senior technical analyst at Kotak Commodity Services.

YELLOW FEVER

Gold Pice, Rupee per ounce (london pm fix)



Source: Global Insight

The moot question, however, today is whether gold prices will sustain the trajectory further. The gold prices now are hovering around Rs 16,000 per 10 grams levels, down 10% from the all-time high. Jayant Manglik, president at Religare Commodities says taking exposure in gold as of now is similar to playing with fire. "The rush towards buying gold mirrors the surge that real estate, stocks and crude oil witnessed. If the rupee appreciates, the metal can even touch Rs 8,000 in 18 months," he believes. Manglik is extremely wary of the speed at which gold price has climbed up, and feels the retracement could be just as quick.

But not all agree that gold will move into the so-called bubble territory. They believe that the past asset bubbles such as housing in the US and technology stocks occurred owing to increasing supplies, which is not the case in gold as its supply remains restricted. "The world holds around 160,000 tonnes of gold, which at current price will be valued at $6 trillion. This is very low compared to the global GDP of $60 trillion," says Nevgi. "Valuing gold by any yardstick such as global money supply, doesn't make it substantially overvalued."

Bandyopadhyay too thinks that the demand for gold will not come down drastically. "There can be a correction but internationally central banks will gradually start accumulating gold. This coupled with limited supply of the yellow metal will ensure that gold prices are steady and stable," he says.

"The financial crisis, dollar depreciation, producers dehedging and central bank reserve diversification may have helped gold prices shoot up but the biggest risk for it today comes from short-term dollar appreciation. And it appears as of now one has to be a little more patient on gold as an asset class.

aman.dhall@timesgroup.com