BY KAVYA BALAJI

BEST TO BUY GOLD ON DIPS

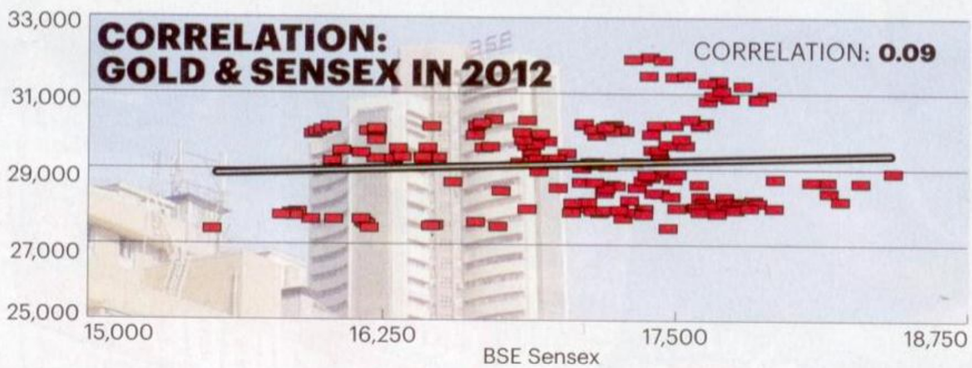
The rise of the yellow metal is not over. Investors must continue to pick gold, but not when it is at its peak

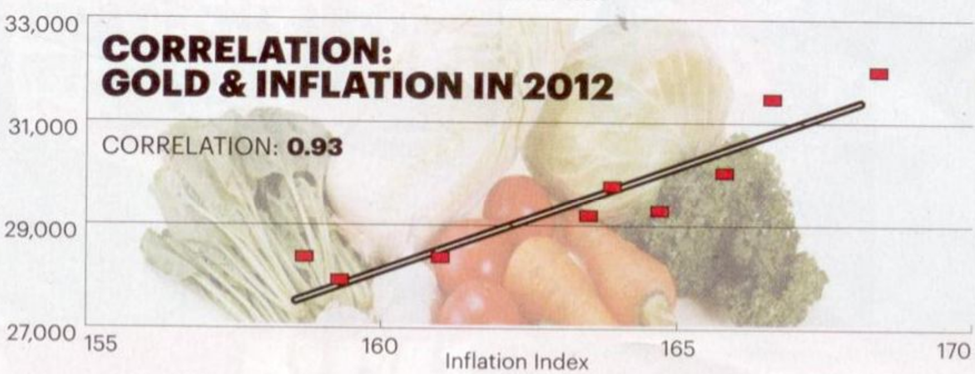
When to buy or not to buy, that is the question. With the festive season upon us, you might have considered buying a piece of the yellow metal that promises to bring some glittering smiles, but might have also shied away because it is trading at an all-time high. As investors, apart from the great returns from gold (the absolute return in the last five years is about 200 per cent), you might also look at it to add strength to your portfolio. But, is it wise to join the gold rush with the price hovering above ₹32,000 per 10g?

Says Sandip Sabharwal, CEO, portfolio management services, Prabhudas Lilladher: "Traditionally, gold is considered to be a preserver of value and, over a period of time, it has proven itself to be so." It is also believed that gold has a low correlation to other asset classes—when other assets fall, gold prices rise, and vice-versa. An OLM research based on the correlation of Sensex and gold prices data for 2012 revealed it was a mere 0.09. Says Mukesh Kothari, director, Riddhi Siddhi Bullion: "Risk factors that may affect gold prices are quite different in nature from those that affect other asset classes." The other advantage is that gold is not as volatile as equities and, thus, helps even out the highs and lows that your stocks might experience. Says Kothari: "Statistically, portfolios containing gold are more robust and less volatile." What makes gold more attractive is the high positive correlation with inflation, making it a perfect tool to hedge against inflation. After analysing the wholesale price index (WPI) data for 2012, we found that the correlation was at a high of 0.93. This means that as inflation rises, gold prices also surge. This helps you overcome the losses from other assets when inflation is high.

But does this mean you can buy gold any time? No. Just like other asset classes, gold is affected by several factors, including inflation, the global economic environment and interest rates. And it is best to buy gold when inflation is on the rise. Mathur says: "Rising inflation is considered to be a good buying opportunity as the precious metal is an effective hedge against inflation." Since gold is a dollar-denominated commodity, the dollar versus rupee movement also has an impact on gold and the recent depreciation in the rupee that pushed gold to an all-time high only reflects the trend. Says Ashok Mittal, CEO, Emkay Commotrade: "In the domestic market gold crossed its lifetime high of ₹32,000 per 10g as the rupee weakened." The price rise also had to do with the weak global economic growth and low interest rates the world over. In fact, it is expected to touch a new high by the year end as the global economic environment continues to be alarming. Says Kothari: "Gold will be ₹34,000-35,000 for 10g by 2012 end." However, don't invest lumpsums and always ensure it forms only 10-15 per cent of your portfolio. Says Kothari: "Retail investors should buy gold on dips, when it drops to ₹30,000-30,500." Adds Mittal: "Buying smaller units of gold on dips will help in reducing cost of the portfolio." For those who have more than 15-20 per cent of gold holdings in your portfolio due to the recent rise in prices, Sabharwal advises them to reallocate some money to stocks and real estate. ❐

kavya.balaji@outlookindia.com





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