



# The Financial Kaleid scope

Defining the different shapes of investment

October 2017



*May the lamps of Joy illuminate your world and bring you Health, Wealth & Prosperity*

*Wishing You & Your Family Happy Diwali!*

## From The Editor's Desk

**Dear Reader,**

Best wishes for a Happy and Prosperous Diwali.

Gold is and has always been precious, for more reasons than one. We, as Indians, have a sentimental attachment to gold and its rich tradition. And, why not? Our ancestors looked at gold as a safe haven. It is considered auspicious, has religious connotations and has always been seen as a legacy to pass on through generations. As the festive season comes around the corner, we are all geared up for a reacquaintance with this shiny metal; albeit with a new dimension.

Every one of us, at some point in time has asked ourself this question, was my grandmother right when she asked me to invest in gold? The answer may have varied from person to person and time to time, but this question has always created a divide between investors. On one hand, we have people arguing the merits of gold which makes it a must-have asset in their portfolios. Another school of thought states that gold is nothing but a metal used to make jewelry with no investment potential. Until recent, the available options for investing in gold were traditional – jewelry and gold coin. Now, investors have an entire spectrum to choose from – Gold Exchange Traded Funds (ETFs), Sovereign Gold Bonds (SGB), Digital gold, and of course, buying gold in form of coins, bar and jewelry. Gold Monetisation Scheme is a new way to put your idle gold into productive use. The modern methods of investing in gold are worth the efforts.

As we all know, there are advantages to every investment, we do. Even though gold does not feature as a component of everyday transactions, it still remains a vital part of the global economy. This issue of Financial Kaleidoscope ponders the age-old question – ‘Does it still pay to invest in gold?’ In this issue, we focus on the purpose of gold as an investment in the modern age, its place in an investor's portfolio and the different ways a person can invest in the gold.

**Best Regards,  
NSDL**

# Click & Find: Types of Gold Investments

Here, in the festival of lights where it is considered auspicious to purchase gold in some or the other form, we have outlined a few investment avenues in gold for investors looking to pad their investment portfolios with diversified assets.

## Gold coin(s) / bar(s)

Any person who is looking to buy pure gold, can look at investing in gold coins and bars. It is one of the most recognized ways to invest in gold. Coins are generally available in following denominations - .5 gram, 1 gram, 2 grams, 4 grams, 5 grams, 8 grams, 10 grams, 20 grams and 50 grams. It is important that you satisfy yourself about the purity of the coin / bar before you purchase. You may purchase coins from your bank where you could be sure about the purity of the coin (albeit for a price little more than the open market) or from a local shop also. However, please note that banks do not purchase the coins back from you.

Nowadays, Indian gold coins / bar minted by India Government Mint are also available for purchase (in 5 grams, 10 grams and 20 grams denominations) at selected banks and MMTC counters. These are of 24 Carat purity and 999 fineness, hallmarked as per BIS Standards. The tamper proof packaging and advanced anti - counterfeit features on the coin makes it very safe and easily recyclable. Each coin pack carries an individual serial number for easy identification. MMTC offers a transparent buy back on the coins also through its show rooms.

Discerning investors have one more option in form of commemorative coin sets of different themes minted by India Government Mint. Owning gold coins bring the threat of a theft in tow alongwith cost of storage. Further, you may have to suffer a discount on prevailing market price while selling the coin / bar, resulting in a lesser overall return.

## Jewelry

Gold, particularly in the form of jewelry is always a satisfying investment for us. There are some benefits to investing in gold jewelry. You can use and enjoy it while owning it. Gold jewelry has a sentimental value and is easier to transport. However, one has to ensure that the jewelry indeed contains the gold of claimed purity and quantity before purchasing. This coupled with the fact that while selling one has to suffer from discount on prevailing market price, reduces the overall rate of return on investment in gold. Checking BIS mark on the jewelry is a good way to ensure that you get actually what you are paying for.

## Gold Exchange Traded Funds (Gold ETF)

Gold ETF is a fund that pools money from investors and invests it primarily in gold-producing companies or gold bullion. The price of units of a gold fund correlates very closely to the spot price of gold itself, if the fund holds the majority of its assets in bullion or in the stocks and bonds of gold miners and manufacturers. The units of such fund are traded on the recognized stock exchanges.

Gold ETFs are relatively new option for investing in gold. They provide very easy access to gold investment without having the burden of physically owning it. You can buy and sell Gold ETF through your stock broker and keep it in your demat account along with other investments. Being in electronic form, it is free from concerns like those of purity, quantity, storage risk etc. The pricing is transparent and investment has immediate liquidity.

## Sovereign Gold Bond (SGB)

This is the latest method for investing in gold, and is gaining popularity in a rapid way due to many benefits it offers. SGBs are government securities denominated in grams of gold. These Bonds are issued by Reserve Bank of India on behalf of the Government of India. These are available through banks, post offices, Stock Holding Corporation of India Limited (SHCIL), NSE and BSE (through your stock brokers).

At present, SGBs are not available for direct subscription, round the year. RBI announces the issuance cycle and one has to time his investment accordingly. However, as these bonds are traded on the stock exchanges, one can buy or sell SGBs as per wish, at prevailing market prices.

Subscription or Issue price is decided by RBI for each issuance in advance and one can make investment by paying for quantity as low as one gram (maximum investment limit for individual investors and HUFs is 4 KG). Though demat account is not a must for investment in SGB, it is preferable to do so in demat form for many reasons like risk free clear ownership, ease in transfer, benefit of nomination facility etc. Moreover, purchasing online and paying through digital mode can fetch you discount on the price.

SGBs are issued for a period of 8 years but you can encash your investment after 5 years, if needed. You can purchase SGB in joint ownership also and loan can be obtained against your SGB investment.

An important benefit of investment in SGB is that it provides you a fixed interest of 2.50% pa, payable twice a year. At the time of maturity, you get redemption amount directly in your bank account. Redemption price is again decided by RBI on the basis of prevailing market price.

The SGB offers a superior alternative to holding gold in physical form – the risks and costs of storage are eliminated. Investors are assured of the market value of gold at the time of redemption upon maturity (or even prior to that) and periodical interest. SGB is free from issues like making charges, purity and storage risk associated with gold in jewelry form. There may be a risk of capital loss in SGBs if the market

## Click & Find: Types of Gold Investments (contd.)

price of gold declines. However, the investor does not lose in terms of the quantity and purity of gold which he has paid for. The interest on Gold Bonds is taxable as per the provision of Income Tax Act, 1961. The capital gains tax arising on redemption of SGB to an individual has been exempted. The indexation benefits will be provided to long term capital gains arising to any person on transfer of bond.

**RBI, on October 6, 2017, has declared Sovereign Gold Bond 2017-18 Series-III Scheme which is open for subscription from October 9, 2017 till December 27, 2017.**

### Gold Accumulation Plan (GAP)

GAP is a new way of investment in gold. It is being offered by Stock Holding Corporation of India Limited in association with MMTC - PAMP India Private Limited under name 'Gold Rush'. An investor can buy and accumulate gold in an easy and transparent manner under this plan. It provides flexibility to the investor to buy gold, as low as ₹1,000 in value (upto ₹49,999 per transaction). The investor is not required to make any fixed or periodic payments, means it can be a one-time investment. Each investor is required to open a metal account under this plan and has complete freedom to demand physical delivery of the purchased gold anytime during 5 years of investment (delivery charges are applicable for physical delivery). Investor can buy, sell and store gold as per his / her convenience, round the clock. Unlimited withdrawals are possible for low as one gram of gold. Investment and withdrawals are undertaken at prevailing bullion market prices.

## Get Started: Why you should consider Gold Monetisation Scheme (GMS)

Gold Monetisation Scheme (GMS) is actually not a way to invest in gold. It is rather a way to encash your existing investment in physical gold. Under the Gold Monetisation Scheme, a depositor deposits gold in the form of jewelry or bullion with the bank for a pre decided period and bank pays interest to the depositor. The minimum deposit quantity is 30 grams but there is no upper limit for this deposit. This gold is in turn lent by the bank to its borrowers, which include jewelry makers. The operation is similar to a normal saving bank account operation but this transaction is carried out in terms of gold instead of currency.

GMS provides a tax free, fixed interest income for the depositors from the gold which was lying idle with them. The deposit account is held in gold but can be liquidated either in gold or in rupee, as desired by the investor. The deposit period ranges from 1 year to 15 years. The investor is allowed to break the deposit during the lock-in period by paying a penalty for premature withdrawal.

Gold can be submitted in any form (bars, coins or jewelry) but the amount deposited with the bank is calculated on the basis of the pure gold content of that deposit (after removing the weights of precious stones in jewelry etc.), which is verified by an accredited valuer.

## Keeping your treasure safe

### Here is how to safely buy and store gold

When you purchase gold in any form, every piece of gold should have a Bureau of Indian Standards (BIS) hallmark. The value of your gold is determined by the certification it carries. An investor should be aware of the levels of purity associated with gold. Gold is divided into 24 parts to determine its level of purity. 24 Carat (K) means gold of 24/24 purity i.e. 100% gold. The second category is 22 K gold that contains 22 parts gold and 2 parts of additional metals i.e. gold of 22/24 purity or 91.667 % pure gold. On the other hand, 18 K gold is used to craft jewelry set with stones or diamonds. Its gold content is 18/24 or 75 % only.

Physically owning gold can give you a sense of possession and control. Many investors prefer this over electronic or paper gold. However, owning gold is easy but storing it can be quite challenging. Once you lose your 10 gram coin, its gone. Forever! When it comes to storing gold, the most common methods for storage are:

- ✓ At home (in a safe, or at least, well hidden) and
- ✓ In a bank's safe deposit vault (bank locker)

Storing gold at home is not the wisest decision due to constant risk of theft. The best option to store your gold at home are built-in safes. This, however, does not lessen the constant threat of theft. You are required to keep any information or passwords to yourself. Hence, many people prefer storing their gold with banks in their safe deposit vaults.

Banks' safe deposit vaults are more theft proof and insured. However, you can access them only in the specified working hours of the bank and they come with a storage fee. As bank is not aware of contents of the locker, in the unfortunate events like fire, flood etc. in bank premise, you may not get full compensation for loss of contents in your locker.

Long ago, our ancestors were faced with an important decision of coming up with a medium of exchange, that was easier to follow than a barter system. Metals were considered practical, and of all the metals, gold was the logical choice. It was non-reactive to other elements, was low maintenance and was 'rare' enough to create only a reasonable number of coins for smooth commerce. And that was how our historic obsession with gold as a means of wealth began.

Gold is a sign of power and status. Even the ancient Egyptians chose to bury their Pharaohs with gold for their final journey. For us, it is a symbol worthy of gods. We even have an auspicious day – **Akshay Tithiya** – dedicated to make new beginnings and many of us choose to celebrate it by buying gold. Gold bars, coins and gold jewelry bought and worn on Akshaya Tithiya signifies an increasing good fortune. Gold is the most emotionally driven asset Indians own. We invest in jewelry for multiple reasons; we wear it for occasions and have a far-fetched view of gold as an equivalent of liquid cash, although we hardly see anyone liquidating it unless in dire emergencies. Moreover, accumulating jewelry is a sort of tradition and hence many families still find it appropriate to invest in gold.



### The correct approach

For centuries we have created caches of gold as a form of wealth, but one which was never to be used. However, changing times necessitated a change in traditional methods of investment. Tell me, how wise is it to buy gold in physical form, hoard it in safe deposit lockers and incubate it for time unknown? If we look at gold as a legacy to pass on, it is time to pass on this legacy with lasting impressions. We can invest in gold without buying it in physical form and the options are worth venturing into. It is time to look at gold as a diversifier in our portfolios; as an asset which will consistently increase in value over the long term.

Gold, in its physical form, is a glittering temptation for many investors looking to fatten their investment returns with a relatively safe commodity. However, it is far from being full proof. It will prove judicious to look upon the other methods of investing in gold from an investor's perspective.

## Financial Lingo

### Bureau of Indian Standard (BIS) Hallmark

The BIS Hallmark is a government approved marking system for gold as well as silver jewelry sold in India. It certifies the purity and fineness of the metal.

### Bullion

Generic name for gold and silver, when in bar or ingot form. Bullion is the most traded form of gold and silver, usually in 'good delivery bars'.

### Carat

Carat is a unit used to measure of the purity of a precious metal. For example, pure gold is 24 Carat (i.e. 100 %).

### Intrinsic value

Intrinsic value is the actual value of a coin's metal content.

### Certified gold

A 'certified' gold coin is encapsulated in a tamper-proof, sonically-sealed, high security hard plastic holder. It has a unique certification number and bar-code permanently sealed inside for the protection of the investor.

### Chain of integrity

If a gold or silver bar is not up to the agreed standard of purity, the current owner can challenge the seller, who in turn, challenges his / her seller, back to the dealer who first put it on the market. This is the chain of integrity and it ensures the quality of the large bullion bars traded by wholesale dealers.

### Gold Futures

A gold future is a contract to trade a specific amount of gold, at a set price decided now, but with a future settlement date. You do not have to pay at the time of the contract (at least not in full) and the seller does not need to deliver you any gold either. Futures contracts are traded on formally recognized commodity exchanges.

### Paper Gold

Paper gold refers to investment products which are related to gold prices, but the investor does not gain physical ownership of metal.



## 1. Why invest in precious metals, such as gold and silver?

Investors have always turned to tangible investments such as gold bullion to protect their wealth and secure their purchasing power over a long period of time. Gold has managed to be an excellent hedge against inflation, even historically. Its price generally tends to rise with events which cause paper investments like stocks, bonds or currencies to fall. This metal has also managed to give stable returns and also increase in value over long-term periods. With uncertainty all around us, assets like gold and silver bullion outside of the banking system attract greater levels of investment interest.

## 2. Are precious metals better than financial assets?

Precious metals, such as gold and silver bullion, can sometimes be preferable to financial assets due to the lack of counterparties. For many, investment in securities, derivatives and ETF products can be complex and not easy enough to pursue. By investing in tangible investments, you hold legal title of your assets without counterparty risk.

## 3. What are the advantages of investing in Gold ETFs?

Gold ETFs do not attract any wealth tax or STT (Securities Transaction Tax), other costs involved are the ones similar when trading equities. Buying Gold ETFs eliminates the risk of storage and fear of theft which is generally associated when purchasing physical gold. Later, for social obligations requiring physical gold you can simply sell the Gold ETF and use the money to purchase gold jewelry or gold coins or gold bullion. Gold is generally considered as a safe investment and is good to balance the risk element of your investment profile. Returns from Gold ETFs qualify as long-term capital gains, if held for a minimum of 1 year.

## 4. How do I check the purity of gold used in my gold jewelry?

For gold jewelry which you already own and is not BIS certified for some reason, you can get it checked for purity by getting a 'touch report' from the local jeweler in your city who is authorized to value it.

On a cautionary note, always purchase gold jewelry which has a BIS Hallmark certification. BIS Hallmarked certified jewelry carries following 4 components –

- ✓ Purity in Carat and fineness e.g. 22K916 indicating 22 Carat or 91.6 % purity of gold
- ✓ Assaying and Hallmarking Centre's Mark/number
- ✓ Jewellers Identification Mark/number and
- ✓ BIS logo

While purchasing jewelry, make sure that you get a proper bill / invoice and payment receipts from the jeweler.

## 5. Why does the price of gold change daily?

Gold price changes daily as it depends on various world political and economic factors like major country economies and their stock market indices, major currencies exchange rates, gold mining, gold consumption, wars and more such things.

Local factors like demand and supply of gold in the domestic market, festive season buying, bumper or bad crop, good or bad monsoon or monsoon news, state taxes and other such things eventually impact the gold price.

## 6. Are investments in gold subject to tax implications under Wealth Tax?

Yes, gold falls under the purview of the Wealth Tax Act. The tax is levied on jewelry, bullion, furniture, utensils or any other article made wholly or partly of gold, silver or platinum.

## Activation of New Participant(s)

Following Participant has been admitted as Participant of NSDL and made operational during September 2017:

Sr. No.	Depository Participant (DP) Name	DP ID	Location
1	Aum Capital Market Private Limited	IN304211	Kolkata, West Bengal

This takes the total number of operational Participants to 267 and the total number of operational DPM set-ups to 353.

## Subscription to SPEED-e

During September 2017, two more Participants have subscribed to the SPEED-e facility namely

- Citi Bank N.A. (DP ID IN300685) and
- DP TradeKING Private Limited (DP ID IN304182)

Clients of the above mentioned Participants can now avail the facility of submitting various instructions through SPEED-e facility.

This takes the total number of Participants which have subscribed to SPEED-e to 196.

## Investor Education initiatives undertaken by NSDL

### Investor Awareness Programmes

In order to reach out to investors that are spread across the country to apprise them about the facilities available in NSDL depository system and educate them about financial markets, NSDL conducts various Programmes with Participants, Housing Societies, Institutions like SEBI, NSE, corporates, Industry bodies like FICCI, CII etc. and also participates in various events. During September 2017, NSDL conducted / participated in 27 such programmes / events which were attended by more than 2,200 investors. Details as mentioned below:

Sr. No.	Particulars	No. of Programmes
1	<b>Joint Awareness Programmes with Participants</b>	
	Acumen Capital Market (India) Limited	3
	ICICI Bank Limited	3
	Kotak Securities Limited	3
	Ventura Securities Limited	3
	YES Bank Limited	3
	BgSE Financials Limited	2
	Arihant Capital Markets Limited	1
	Jhaveri Securities Limited	1
	Master Capital Services Limited	1
	<b>Total Programmes</b>	<b>20</b>
2	<b>Joint Awareness Programmes with other Institutions</b>	
	Securities and Exchange Board of India	2
<b>Total Programmes</b>	<b>2</b>	
3	<b>Participation in Events</b>	
	'CAPAM 2017' organised by The Federation of Indian Chambers of Commerce and Industry (FICCI) at Mumbai	1
	'Digital India - Disruptions, Security, New Technology Challenges and Our State of Readiness' organised by Forum For Inclusive Financial System (FFIFS) at Mumbai	1
<b>Total Programmes</b>	<b>2</b>	
4	<b>Workshop for Colleges</b>	
	Bharatiya Vidya Bhavan's Hazarimal Somani College, Girgaum, Mumbai	1
<b>Total Programmes</b>	<b>1</b>	
5	<b>Training Programmes for Institutes</b>	
	For officers of Indian Corporate Law Service	1
<b>Total Programmes</b>	<b>1</b>	
6	<b>Awareness Programmes for Housing Society</b>	
	New Dindoshi Ekdhant Co-operative Housing Society Limited, Mumbai	1
<b>Total Programmes</b>	<b>1</b>	



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An Investor Education initiative by



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Investor Helpline No: 1800 222 990

# Read and Win!

What are the advantages of investing in Gold ETF?

Send your replies providing your name, address and contact no. with the subject 'Knowledge Wins Contest - October 2017' to [info@nsdl.co.in](mailto:info@nsdl.co.in)

## Terms and Conditions

- NSDL shall be solely responsible for the execution and administration of this Contest.
- This Contest is only open to Indian Citizens. (NSDL employees are not allowed to participate in this contest.)
- All personal details submitted must be accurate and complete and are subject to proof upon request by NSDL.
- NSDL reserves the right, at any time, to verify the validity of entries and entrants and to disqualify any entry not submitted in accordance with these Terms or which tampers with the entry process.
- NSDL reserves the right to discontinue the contest at any given point of time without prior intimation.
- All prize drawings will made on a strictly random basis and the decision made by NSDL will be final.

# KNOWLEDGE WINS Contest

Lucky 25  
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Your suggestions for newsletter are valuable to us. Send in your suggestions mentioning your name, address and contact number with the subject "Suggestions for the newsletter" to [info@nsdl.co.in](mailto:info@nsdl.co.in)

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- To know more about NSDL Certification Program, you can email us at [trainingdept@nsdl.co.in](mailto:trainingdept@nsdl.co.in)
- For any other information, email us at [info@nsdl.co.in](mailto:info@nsdl.co.in)

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