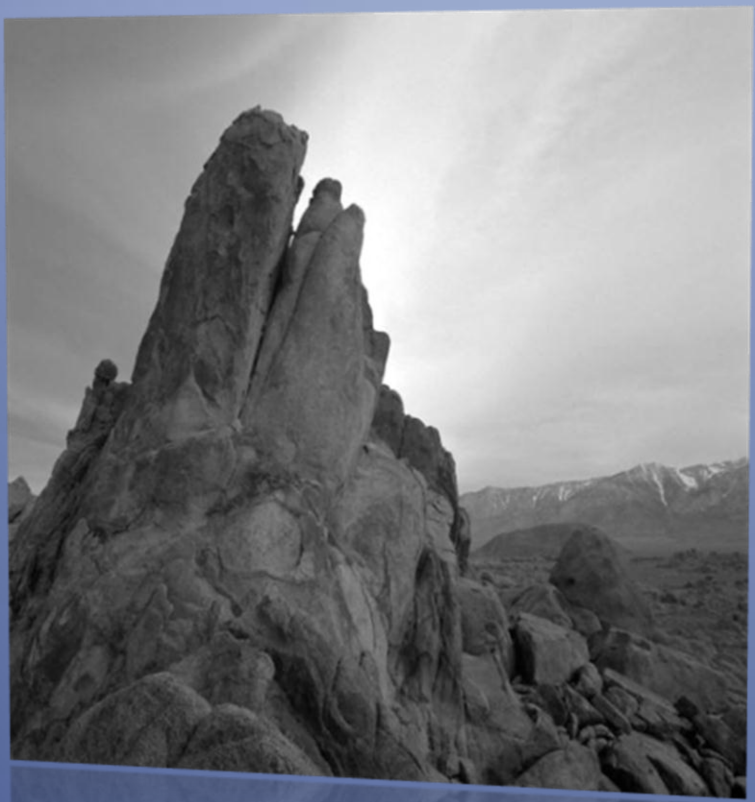


# A Comparison – Buying Gold in India

*Pebble Silk Monthly Advisory Communique* *Oct '12*

Unlike a few years ago, buying physical gold is passé for Indian **Investors** now.

Amongst other reasons, the capital market modes of investing are scoring over the physical mode because of the following reasons:

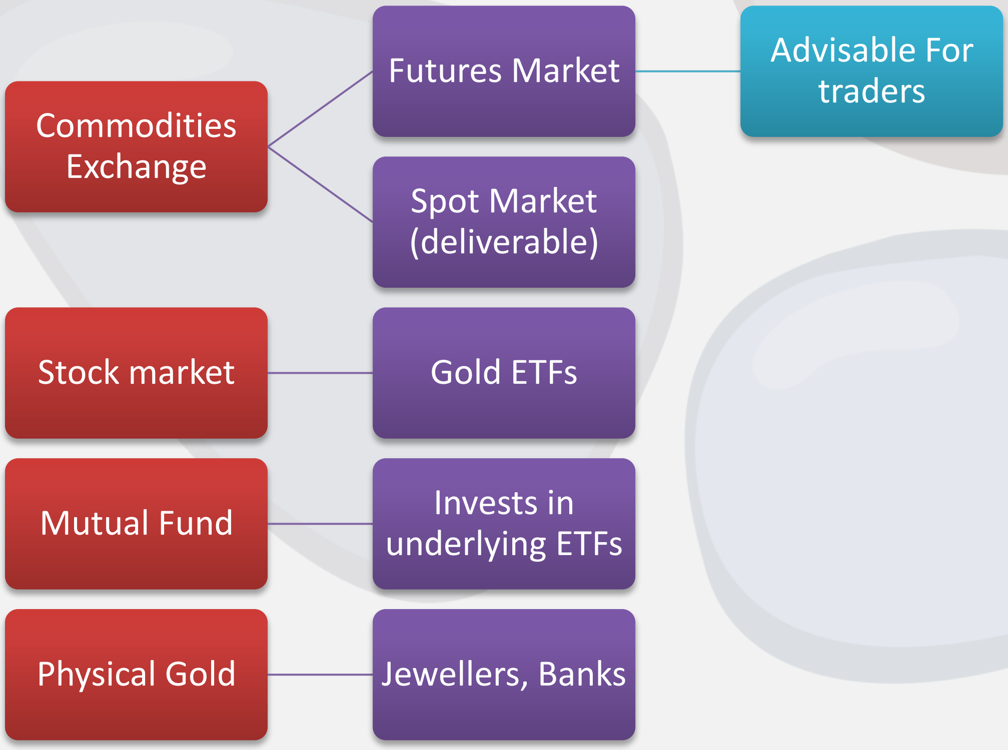
1. Transparency – the prices are updated in real-time and are viewable by anyone having internet access

2. Ease of buying and selling – you can sell and buy by a single call or a click of a button

3. Risk free storage – Since gold is credited into your account in an electronic form, there is no fear of theft or loss

4. Tax benefits – Apart from wealth tax exemption, there are capital gain advantages that non-physical form of gold holdings enjoy

Depicted below are the more popular ways to buy gold in India.



The tables below try covering the financial implications:

Following are the various expenses and charges:

| | Brokerage | Annual Management fees | Custody / Locker / warehousing charges | Insurance charges |
|---|---|---|---|---|
| Physical | No | No | Usually yes | Usually yes |
| Mutual Funds | No | Yes - upto 1.5% | Minimal if at all | NA |
| ETFs | Yes | Yes - upto 1% | Minimal if at all | NA |

Following are the various tax charges:

| | Wealth-Tax | State VAT (at the time of purchase) | Long-term Capital Gains (tenure) | Long-term Capital Gains (Rate) | Securities Transaction Tax (STT) |
|---|---|---|---|---|---|
| Physical | Yes - 1% | Yes - Varies in each state | 3 years | 20.6% with indexation | No |
| Mutual Funds | No | No | 1 year | 10.3% or 20.6% with indexation | No |
| ETFs | No | No | 1 year | 10.3% or 20.6% with indexation | No |

**MINE VIEW**

Post-expenses and post-wealth tax return on both physical and non-physical mode is almost the same. In fact, based on our research there is no clear pattern – sometimes the MFs outperform physical gold or sometimes the ETF underperform physical gold or vice-versa.

However, when we consider the Income-tax implication on physical gold (LTCG @20.6%) versus that on MFs / ETFs (LTCG @10.3%), the case is rested conclusively in favour of non-physical mode of gold purchase.

And we haven't even talked about qualitative factors like no risk of theft/loss etc!

***Thus, in mine view if you have a demat account buy an ETF or else buy a Gold Mutual fund***

If you have any queries on any technicalities like market NAV, minimum quantity, purity, option of delivery etc feel free to email me.