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How to invest in sovereign gold bonds to reap maximum benefits

2 min read . Updated: 15 Apr 2020, 02:10 PM IST [Renu Yadav](#)

- Sovereign gold bond investors can not only gain from the appreciation in prices of the precious metal but also earn an interest at the rate of 2.5% on the initial investment amount during the entire tenure

The Reserve Bank of India (RBI) has announced dates for the upcoming issues of the sovereign gold bonds. The first issue for the financial year will open for subscription on 20 April and the sixth issue will open on 31 August. Sovereign gold bond issues are expected to see good response as there is a lot of demand for the yellow metal, considered a safe-haven asset. Gold is the best performing asset class this year as equities, considered risky, have seen huge correction due to the coronavirus pandemic.

“With the coronavirus outbreak intensifying, global economic deceleration is inevitable. Investors continue to shun risky asset classes such as equities with preference for defensive asset classes like US treasuries and gold,” said Ankur Maheshwari, CEO, Equirus Wealth Management.

For those who are looking for investment in gold, sovereign gold bonds are considered one of the best options as investors can not only gain from the appreciation in prices of the precious metal but also earn an interest at the rate of 2.5% on the initial investment amount during the entire tenure. Gold bonds have a tenure of eight years. The interest is paid semiannually to the investor and is fully taxable in the hands of the investors.

The price of the sovereign gold bonds is calculated by doing the simple average of the closing price of gold of 999 purity, published by the India Bullion and Jewelers Association Limited. The average closing price of the last three business days of the week preceding the subscription period is taken to calculate the subscription price of the gold bonds.

One unit of gold bond is equal to one gram of gold. One has to buy a minimum 1 unit of gold bond and one can buy maximum units equivalent to 4 kg of gold or 4,000 units in a financial year. As there will be six tranches of sovereign gold bonds that will come up for subscription, experts believe that one can spread the investments over the various tranches depending on the investment amount.

“Those who are looking for investing a substantial amount in gold bonds can do it in a staggered manner as this will provide them the benefit of rupee cost averaging,” said Suresh Sadagopan, founder, Ladder7 Financial Advisories. It will help you average out the cost of buying the bonds.

“Issue of sovereign gold bonds in monthly tranches will also be helpful for those who are looking to invest in these bonds through salary income as for them it may not be possible for them to invest in one go,” he added.

Experts believe one should invest in sovereign gold bonds for long-term to reap the maximum benefit.

“Gold is an asset class where you should invest for the long-term rather than taking a tactical position,” said Sadagopan. Also, in case of sovereign gold bonds, holding them for maturity is tax efficient as the capital gains on maturity are tax free.

<https://www.livemint.com/news/india/how-to-invest-in-sovereign-gold-bonds-to-reap-maximum-benefits-11586939070543.html>