Shift gold holdings to SGBs

No charges, 2.5% interest and tax-free gains are the pluses.

For Indians, buying gold is a tradition. The asset is never sold except in extreme emergencies and is handed down from generation to generation. However, this is not a good financial planning strategy, especially after the recent rally in gold. The factors that contributed to the rally —US-China trade war, massive stimulus by global central bankers, etc—may not be repeated anytime soon.

Rupee depriciation, another reason why Indians continue to buy gold, also may not happen in 2021. Since it has already rallied in 2020, experts believe that further upside is limited for gold. "Investors should appreciate that gold as an asset class does not provide regular returns but lumpy returns every 3-5 years," says Dhiraj Relli, MD & CEO, HDFC Securities. The 2020 rally might have taken gold allocation well above the pre-determined levels and therefore, the smart move would be to rebalance. "While booking profit, don't exit gold fully. Since gold is a good diversification tool, keep it to around 10% of the portfolio," says Ankur Maheshwari, CEO, Equirus Wealth Management.

Shifting your gold holding to sovereign gold bonds (SGBs) is the second smart move. The 2.5% interest is its main attraction. "Earlier, 2.5% interest on gold bonds used to be half of liquid fund returns. With debt rates coming down, it is almost equal to that now," says Feroze Azeez, Deputy CEO, Anand Rathi Wealth Services. Investors can also shift from gold ETFs to gold bonds because gold ETFs charge 50-80 bps as AMC fee per annum unlike gold bonds. Tax free capital gain on maturity is the third advantage of gold bonds.

Gold bonds are the way to go

Staggering maturity can reduce the price risk in one year.

NSE SYMBOL	PRICE (₹)*
SGBJUL28IV	4,894.94
SGBAUG27	4,850.00
SGBDEC26	4,890.00
SGBMAY25	4,869.74
SGBAUG24	4,891.55
SGBNOV23	4,965.56

*As on 21 Dec **Source:** NSE