



**ORIGINAL RESEARCH PAPER**

**Commerce**

**INVESTMENT AVENUES - WITH SPECIAL REFERENCE TO GOLD MONETISATION SCHEME,2015**

**KEY WORDS:** Investment avenues, Risk and return, Savings, GMS

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**ABSTRACT**

Money is the life blood of any business and important to run everybody's life. Everyone saves some part of their income as savings for future contingencies. Saving through various modes of investment helps to fulfill future requirements. Investment is the commitment of funds made with the expectation of some positive rate of return. The general view is that investment involves number of factors such as risk and return factors, safety, liquidity, appreciation, tangibility, tax benefits, and the like, with regard to the options available for investment in gold like deposit in jewels, coins, bullions, ETF, E-gold etc. Fearing, rather hesitating to bear the risk in the fluctuations in the price of gold, people feel content with deposits in banks or in post offices and earn a moderate return. At the same time, as the adage goes "No gain without pain," one cannot make huge returns out of such investments. This paper highlights the investment avenues and the main features of Gold Monetisation Scheme that helps to make right decision by the investors.

**INTRODUCTION:**

Investment is the commitment of funds made in the expectation of some positive rate of return. There are two main classes of Investments. They are (i) Fixed income investment such as bonds, deposits and (ii) Variable income investment such as business ownership (Equities) and property ownership. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in future to create wealth. There are three types of investors such as conservative investors, speculative investors and enterprising investors and the three golden rules for every investor are (i) Invest early (ii) Invest regularly (iii) Invest for long term and short term.

'Save for a rainy day' goes a wise old saying. 'Saving and investment are different terms. While saving is a part of income one puts away regularly, only to satisfy short term needs and does not necessarily provide return, investment on the other hand provides return on idle resources and helps to grow capital which in turn helps to fulfil financial goals.



Gold has a special value to Indians. It's not just as Investment Avenue as but much more than that. Gold is a safe and traditional way of saving and transferring wealth from one generation to other. It seems to be symbol of prosperity, social status, well being and is of great cultural importance. India is the land with enormous gold. It is said that south Indians are better known for their artistic sense of jewelry.

**AVENUES OF INVESTMENT:**

- (1) **Equities:** Equities are a type of security that represents the ownership in a company. Equities are purchased either through Initial Public Offering (IPO) or stock market. Along with the possibility of greater return comes greater risk.
- (2) **Mutual Funds:** Mutual funds allow a group of people to pool their money together and have it professionally managed by keeping with a predestined investment objective. It is popular due to its cost efficiency, risk diversification, professional

management and sound regulation.

- (3) **Bonds:** Bonds are fixed income instrument which are issued for the purpose of raising capital. Bonds issued by the government carry the lowest level of risk but could deliver fair return.
- (4) **Deposits:** Investing in banks or post office deposits is a very common way of receiving surplus funds. These instruments are at the low end of risk return spectrum.
- (5) **Real Estate:** With the ever increasing cost of land real estate has come upon a profitable investment proposition. Low volatility and gradual increase in market prices leads stability to the investment.
- (6) **Gold:** The 'Yellow metal' is a preferred investment option particularly when markets are volatile. Today beyond physical gold a number of products which deliver their value from the price of gold are available for investment. These include gold futures and gold exchange traded funds.

There is a question among many people that if anyone has some money to invest, where to invest it to get the highest ROI. All investments should be done with specific financial goals in mind.

**Introduction to Gold**

Gold is a good way to ensure wealth preservation and for passing wealth from one generation to next. Value of bullion coins and bars is determined almost solely by price of gold and thus bullion price. Gold, silver and platinum are available in the form of bullion coins.

**Introduction to Gold as Investment**

Gold is considered by many as the best investment to protect oneself during stock market declines and inflation. In fact history shows that the performance of gold goes up in times of high inflation. However price of gold also has its highs and lows and you could just as easily lose money investment in gold as with any other investment.

**Factors to be considered while investing in gold**

- Forms of buying gold
- Current income
- Capital appreciation
- Risk
- Liquidity
- Tax treatment
- Convenience

**Various forms of Investment in gold**

Investments may be made in Gold ornaments, Gold bullion bars, Gold coins, Gold certification or deposit scheme, ETF, Gold mutual funds, E-gold.

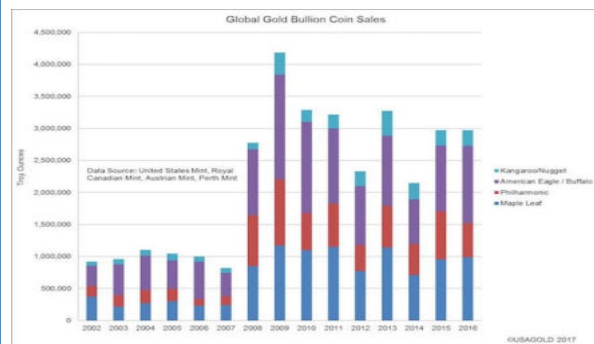
**Pros and cons of various forms of gold**

Forms of gold	Pros	Cons
Gold Ornaments	Convenience/ Fashionable	Making charges/Safety issues
Gold Bullion bars	Easy form/Purity	Safety/Storage charges
Gold coins	Easy form/ Moderate loss value	Safety/Storage charges
Deposit scheme	Safety/purity	Less return
ETF	Purity/Easy	Knowledge/unaware ness/Delivery
Gold Mutual Fund	Easy/Professional management	Risk/No control
E Gold	Easy /Purity	Knowledge/Delivery

**Gold: Performance in 2016**

<b>GOLD</b>	
Physical	<b>9.2%</b>
Gold ETFs	<b>11.0%</b>
Gold funds	<b>9%</b>
Global prices	<b>7.5%</b>

**Outlook for 2017 :** Gold not likely to do well in 2017. Better option is gold bonds that offer interest as well. Fall in gold prices may be cushioned by rise in dollar.



**Gold Monetisation Scheme:**

GMS was launched on November 5, 2015 by PM Narendra Modi. The scheme is designed to earn interest on the unused gold lying idle in home and bank lockers. The GMS is basically a new deposit tool to ensure mobilization of gold possessed by various families and institution in India. This gold scheme is a modification of the existing Gold Deposit Scheme (GDS) and gold metal loan scheme (GML) 1999.

The objectives of the Gold Monetization scheme are:

- i. To mobilize the gold held by households and institutions in the country.
- ii. To provide a fillip to the gems and jewellery sector in the country by making gold available as raw material on loan from the banks.
- iii. To be able to reduce reliance on import of gold over time to meet the domestic demand.

**Stages in investing under GMS:**

**I. Purity Verification and Deposit of Gold**

Hallmarking Centres certified by Bureau of Indian Standards (BIS) which engaged in certifying the purity of gold act as 'Purity Testing Centres' for the GMS. In a Purity Testing Centre, a preliminary XRF machine-test will be conducted to tell the customer the approximate amount of pure gold. If the customer agrees, he will have to fill-up a Bank/KYC form and give his consent for melting the gold. If the customer does not agree to the XRF machine test, he can take his jewellery back at this stage.

After receiving the customer's consent for melting the gold for conducting a further test of purity, at the same collection centre, the gold ornament will then be cleaned of its dirt, studs, etc. The studs will be handed-over to the customer there itself. Net weight of the jewellery will be taken after such removals and told to the customer. Then, right in front of the customer the jewellery will be melted and through a fire assay, its purity will be ascertained. These centres have viewing galleries from where the customer can see the entire process.

When the results of the fire assay are told to the customer, he has a choice of either refusing to accept, in which case he can take back the melted gold in the form of gold bars, after paying a nominal fee to that centre; or he may agree to deposit his gold (in which case the fee will be paid by the bank). If the customer agrees to deposit the gold, then he will be given a certificate by the collection centre certifying the amount and purity of the deposited gold. The minimum quantity of gold that a customer can bring is 30 grams, so that even small depositors are encouraged. Gold can be in any form (bullion or jewellery).

**II. Opening of Gold Savings Account with the banks.**

When the customer produces the certificate of gold deposited at the Purity Testing Centre, the bank will in turn open a 'Gold Savings Account' for the customer and credit the 'quantity' of gold into the customer's account. Simultaneously, the Purity Verification Centre will also inform the bank about the deposit made.

The bank will commit to paying an interest to the customer which will be payable after 30/60 days of opening of the Gold Savings Account. Both principal and interest to be paid to the depositors of gold, will be 'valued' in gold. For example if a customer deposits 100 gms of gold and gets 1 per cent interest, then, on maturity he has a credit of 101 gms.

The customer will have the option of redemption either in cash or in gold, which will have to be decided at the time of making the deposit.

The tenure of the deposit will be minimum 1 year and with a roll out in multiples of one year. Like a fixed deposit, breaking of lock-in period will be allowed.

Tax exemptions from Capital Gains Tax, Wealth tax and Income Tax will be made available to the customers in the GMS.

**III. Transfer of Gold to the Refiners**

Purity Testing Centres will send the gold to the refiners. The refiners will keep the gold in their ware-houses, unless the banks prefer to hold it themselves.

**IV. Utilization of Deposited Gold**

Banks may be permitted to deposit the mobilized gold as part of their CRR/SLR requirements with RBI. Banks may sell the gold to generate foreign currency. The foreign currency thus generated can then be used for onward lending to exporters / importers. Banks may convert mobilized gold into coins for onward sale to their customers. Banks may buy and sell on domestic commodity exchanges, where mobilized gold can be delivered. It may also be used for lending to jewellers.

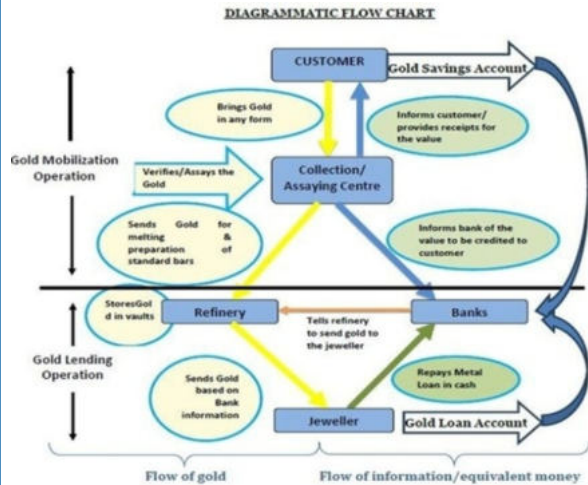
**V. Lending the Gold to the Jewellers**

The jewellers, on the basis of the terms and conditions of the banks, will get a Gold Loan Account opened at the bank. When a gold loan is sanctioned, the jewellers will receive physical delivery of gold from the refiners. The banks will in turn make the requisite entry in the jewellers' Gold Loan Account.

**VI. MoU between Banks, Refiners and Purity Testing Centres**

- The banks will enter into a tripartite MoU with refiners and purity testing centres, that are selected by them to be their partners in the scheme.
- The MoU will clearly lay down the details regarding payment of

fee, services to be provided, standards of service and the details of the arrangements between the banks, refiners and purity testing centres.



**Benefits from GMS:**

India can reduce its import bill lest it imports nearly 1000 tonnes of gold every year, gold being the second highest component of import bill after crude oil import. Government will have more gold after launch of GMS in bank, it will improve Indian economy as people will get more money by interest and people will get more money for gold refining. The GMS earns interest for the gold jewellery lying in the locker. Broken jewellery or jewellery that we do not want to wear can earn interest. Gold will be securely maintained. Coins and bars can earn interest apart from the appreciation of value. Earnings are exempt from capital gain tax and income tax. There will be no capital gains tax on the appreciation in the value of gold deposited or on the interest made from it.

**Conclusion:**

- Most of the Public's view about investing in gold is that their goal is simply to hedge financial uncertainty/capitalize on price movement.
- Gold can also be a great tool for women empowerment as in a family almost everything is owned by male partner or elder men like house, car and the like. But gold is always owned by women only and women will be the beneficiaries of this scheme. Banks need to provide lucrative offers to attract the women.

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