Going for gold-- the smart way

How does one invest in gold? QUAH CHIN CHIN lists the various options available, but also sounds a cautionary note about entering the market now.

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N ANCIENT Chinese saying claims that “with gold, anything is possible.” Indeed, men have always been fascinated with gold -- the most glittered and sought-after precious metal -- for its beauty and, of course, its value.

With the price of gold hitting record highs in recent weeks -- it soared above US$900 an ounce in January and forecasts see the US$1,000 threshold being breached this year -- gold trading has, unsurprisingly, made headlines all over the world.

As an instrument, gold is typically seen as a financial asset that maintains its value during times of economic, political or social upheaval. Hence, it provides investors with a hedge against sharp downturns in complementary assets (such as stocks and bonds), and against inflation and currency volatility.

Methods of investing

One of the ways to invest in gold is by buying or selling physical gold, such as gold bullion coins or gold bars, in various weights -- usually in denominations of one ounce, 1/2 ounce, 1/4 ounce, 1/10 ounce and 1/20 ounce. Banks that sell physical gold include the Canadian Bank of Nova Scotia and United Overseas Bank. UOB offers a range of gold bullion coins, namely the Canadian gold maple leaf, the Australian gold nugget, and the Singapore Lion gold coin, said a spokeswoman.

A drawback of buying physical gold though, is that such purchases are subject to a 7 per cent GST. “The 7 per cent GST makes no sense since the gold market is not affected by the weakening US dollar -- it is difficult to predict future gold trends,” said the UOB spokeswoman.

Mr How, an Internet entrepreneur, also has a UOB Gold Savings account in which he invests in silver and property.

Potential investors can also set up a margin trading account to trade gold or gold futures -- a paper gold product involving agreements to buy or sell gold at an agreed-upon price in the future -- on a margin basis. The account also allows them to sell short on gold.

Another way to invest in gold is through the StreetTRACKS Gold Shares exchange traded fund listed on the Singapore Exchange. Like shares, this can be bought and sold at any time. One ounce of gold is represented by about 10 shares. An advantage of this method is that the transaction costs involved are lower than the costs of buying, keeping and insuring physical gold.

Things to look out for

While it is a good hedge against turmoil, gold, like many other investment vehicles, carries with it a certain level of risk. The high investment cost involved is one. For instance, Mr Tang’s gold certificate cost $35,000 -- a figure many would probably balk at. And there is no guarantee that an investor will not incur losses, especially if gold prices plunge.

Physical gold investment, on the other hand, has the 7 per cent GST which must be paid upfront, regardless of whether or not the investment turns out to be profitable later on, the UOB spokeswoman said.

She also believes that despite the soaring gold prices -- which many analysts attribute to the weakening US dollar -- it is difficult to predict future gold trends. “While many analysts are bullish on gold prices, the gold market is also extremely large and volatile, as evidenced by the extremely large open position in the futures market when gold prices were trading above US$900 an ounce recently,” she said. “The gold market is now in the correction phase. Investors should be very cautious when entering the gold market now.”

Which follows that they should also keep abreast of global events, as gold prices are affected by factors such as gold supply, demand, and the performance of the US dollar. “Singaporeans should not invest in gold simply because they think that the US$ will weaken, because if it does, the Singapore dollar will most likely appreciate. Hence, the gold value measured against the Singapore dollar may not increase,” she added.

However, if investors expect gold prices to go up later because of other factors, it makes sense for them to hold in gold for the sake of diversification,” she advised.

Mr How added, “One must know why he/she wants to invest in gold, which type of gold investment to make, and when to sell. Do not just listen to people who are bullish about gold investments; try to listen to those who are bearish as well.”