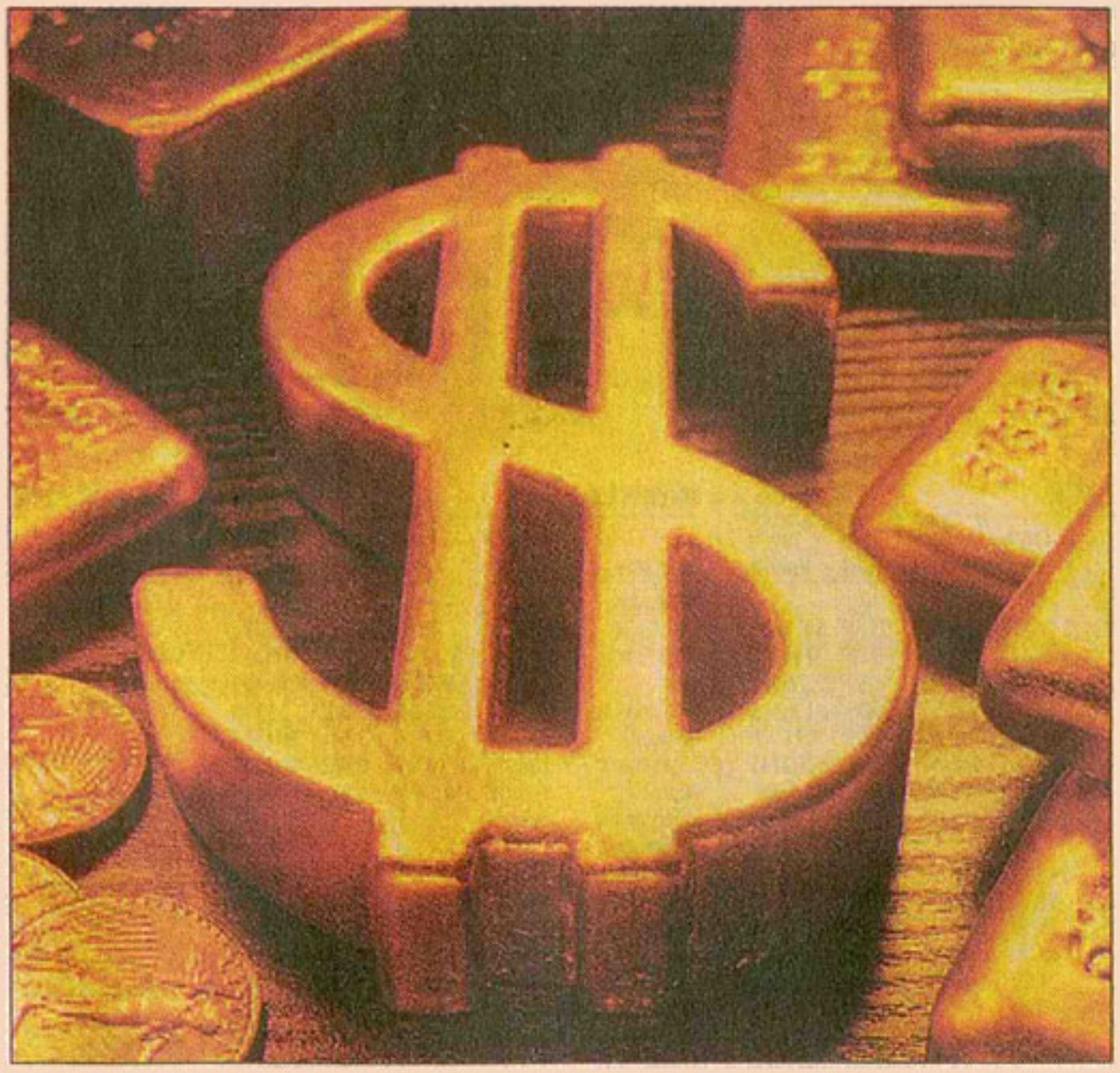
Economic Times, 07 April 2011

Retail Buyers Go for Gold Biscuits to Derisk Portfolio

100 gm gold biscuit deliveries on MCX in Q1 alone stand at nearly 30% of last year's 8,000 kg



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Retail investors have found a new means of buying cover against rising raw material prices which threaten to eat into companies' profits and pull down the value of shares in their portfolios.

Over the past few months, many of them have been buying gold biscuits (from counterparties) on the local commodity futures bourse as a means of hedging themselves against rising inflation and diversifying their portfolios.

Such has been the interest in the 100 gm gold biscuits that deliveries on the Multi Commodity Exchange (MCX) in the first quarter stand at nearly 30% of the over 8,000 kg of biscuits delivered during the whole of 2010. The value of gold biscuits delivered in the year-to-March stands at ₹490 crore.

Exchanges like Mumbai-based MCX bring together buyers and sellers who not only carry out paper trades in commodities like gold and silver but also take delivery on the bourse.

Deliveries of gold and silver are normally given and taken by bullion dealers, jewellers and jewellery manufacturers, among others. But over the past one year, retail clients have also been attracted to the exchange platform, especially to buy and sell smaller denomination contracts.

"Retail clients are diversifying their portfolios by buying mini gold contracts through brokers like us," said Naveen Mathur, associate director (commodities & currencies) Angel Broking. "This trend of buying gold on the futures market from a counterparty has become more pronounced over the past few months."

Agrees Viral Shah, senior vice president, Geojit Comtrade. "The mini contract is a better option for the retail investor since it is cheaper than buying a kg of gold that's currently over ₹20 lakh.

Instead of buying a kg bar at one go, the investor can stagger purchases of a mini contract over a period of time to get the best possible price. It's something like a systematic investment plan (SIP) of a mutual fund," he explained.

That retail clients have begun taking exposure to this product over the past one year is evident from the sharp rise in the amount delivered in 2010 compared with that of a year ago.

MCX data show that deliveries of gold biscuits last year jumped 260% to 8,112.2 kg worth ₹1,352 crore from 2,260 kg worth ₹362 crore in 2009.

Over the same period, the delivery of 1 kg bars, popular as a wholesale product, fell 44%.

"Retail clients have been advised by stock market brokers to buy gold as a hedge against their stock portfolios," said Prakash Kacholia, managing director of Emkay Global Financial Services. "The gold mini contract is one more way for retail clients to not only diversify their portfolio but also take periodic delivery of gold for children's' marriage."

Gold bars, biscuits and coins delivered on MCX are certified for purity and quality by London Bullion Market Association (LBMA), which represents the wholesale gold and silver bullion market in London.