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MONEY
Realty's Tier-II Deals Exorbitant real estate prices in metros are driving investors to smaller cities, but the art of good investment may be in knowing where and how to buy. By Krishna Gopalan

Chandigarh: The coming up of a software park is drawing the realtors

Jaipur: Tourism is huge. Hero Honda's proposed plant is an attraction

Manish Sahu is 33 years old. After finishing his schooling and graduation in Hyderabad, he moved back to Orissa, where he now takes care of the family's liquor business. Successful though his business is, Sahu is clear that he does not want to spend the rest of his life in a little town called Titlagarh. Part of the reason is that he is married, with two boys aged six and three. And the thought of his boys studying in some remote town in Orissa isn't too comforting.

Therefore, as part of his long-term plans, Sahu recently booked an apartment in Visakhapatnam's upmarket "Waltair Upland". But why Visakhapatnam? "It is about eight hours by road from Titlagarh and it looked like a good investment," says Sahu. That it certainly has been, given that the real estate price here has shot up from Rs 1,600 per sq. ft in March this year to close to Rs 2,400 per sq. ft now.

Sahu's apartment is a little over 1,000 sq. ft in size and he intends to use it as his guest house till the time he is ready to send his kids to study in Visakhapatnam. "There are facilities like a gym, library and a community hall. Besides, the kids have recreational facilities," he says. The apartment is expected to be ready for possession early next year. The point: Sahu is among those who have realised that there is merit in investing in residential property in India's tier II and even tier III cities.

Priced Out of Metros

The debate on investing beyond the Big Four-Delhi, Mumbai, Kolkata and Chennai-and even the next rung metros such as Hyderabad and Bangalore has gained momentum over the recent years. Real estate prices in these cities have soared, making an apartment or a house unaffordable for a large chunk of India's population. That's precisely why the first-time buyer or the savvy investor is looking beyond the metros. And, indeed, there are many tier II and III cities to pick from, with Chandigarh, Indore, Jaipur, Cochin, Coimbatore, Haldia, Pune and, of course,Visakhapatnam being just some of them.

No doubt, there are issues when it comes to investing in a city where one does not live. "It is very important to understand how you will manage your property if you don't live there," points out Anshuman Magazine, Managing Director, CB Richard Ellis, South Asia. After all, you don't want your land or apartment worth several lakhs to be usurped by some squatter. But if it's still worth the investor's while to take the plunge, there are good reasons. Typically, those who invest in the tier II and III cities are those who have come to live there for a few years or those who hail from that city but do not live there anymore. More importantly, though, the rationale for investing stems from the rapid development taking place in these places. "Large developers themselves are going to these smaller cities," notes Magazine. For example, Parsvnath Developers is setting up residential projects in cities such as Agra, Lucknow and Moradabad. This is apart from townships at Ujjain and Jodhpur.

Real estate consultancy Knight Frank India's Chairman, Pranay Vakil, cites the development on the BPO front as a key factor behind the economic

CITISCAPE
Here is a ready reckoner on four cities and the factors which are driving growth here.

CHANDIGARH
AREA IN SQ. KM: 114
POPULATION: 0.9 million
LITERACY RATE (PER CENT): 81.76
MAJOR INDUSTRIES: Automobile & auto parts, bicycles, machinery, handloom and handicrafts. IT and ITEs is the next big story
LANGUAGES: English, Hindi, Punjabi
RESIDENTIAL HOUSING RATES (PER SQ. FT):
Rs 2,000-3,000

JAIPUR
AREA IN SQ. KM: 64.75
POPULATION: 2.3 million
LITERACY RATE (PER CENT): 67
MAJOR INDUSTRIES: Tourism, exports of gems, diamonds and jewellery, marble and granite and carpets
LANGUAGES: English, Hindi, Rajasthani
RESIDENTIAL HOUSING RATES (PER SQ. FT):
Rs 2,000-3,500

KOCHI
AREA IN SQ. KM: 94.88
POPULATION: 0.65 million
LITERACY RATE (PER CENT): 94.3
MAJOR INDUSTRIES: Is the next big IT and ITES story. Other industries include gold, textile retailing, seafood and spices exports, tourism and shipbuilding
LANGUAGES: English, Malayalam
RESIDENTIAL HOUSING RATES (PER SQ. FT):
Rs 1,500-2,500

development at the smaller cities. "It is because of BPOs that places like Jodhpur, Mohali, Nagpur, Patiala and Madurai are looking very attractive," he explains. The implication is that these cities are likely to gain from the entry of BPOs just like Bangalore, Hyderabad and Pune did. As organised white-collar jobs got created, the willingness to work in these cities increased, resulting in higher property prices. "Look at a city like Jaipur, where prices have increased by 300 per cent over the last two years. Even in a place like Mysore, prices have now started going up. It never happened in the last 10 years," says Vakil. "Places like Jaipur, Chandigarh, Mohali and Coimbatore look like good bets at the moment," agrees Magazine.

The retail boom in the country, too, has had a role in hiking property prices. A recent report put out by Knight Frank states that smaller places like Raipur have three malls with a total built-up area of over a million sq. ft, Jalandhar has as many as five malls, while Indore has eight, where the total built-up area is a shade less than two million sq. ft. Evidently, the development is in full swing and it is only this sort of development that is driving the prices of real estate upwards. In the process, the prices of residential apartments stand to gain too. The development on the mall front also seems to suggest that the potential in places like Agra, Rajkot and Amritsar has been underestimated. "There is a lot of latent potential in the second and third tier. It is merely a question of infrastructure looking up," believes Dharmesh Jain, MD, Nirmal Group, a Mumbai-based developer. Jain, interestingly, points out that a lot of residential development in places like Indore and Surat is on account of people hailing from there deciding to invest back home.

Although the case of someone like Sahu is slightly different-moving to the city from a small town-the fact remains that there is genuine interest among investors to make bets beyond the tier-I cities. Take the case of Visakhapatnam itself. One of the more significant developments here was when HSBC arrived in 2004 with a large part of its back-end operations. Though there was never any doubt on the kind of money people in Visakhapatnam had, it was a question of when the city would become a part of the real estate story. "The fact that it is a coastal city has always been an added attraction and also the reason why property here has traditionally been expensive," says P. Phani Sekhar, an analyst at Mumbai's Angel Broking. "Now, there is a plan to build a biotech park in Visakhapatnam, besides which Wipro and Satyam are looking at it as an it destination."

Indore: Has a big automobile base and will soon be a big SEZ story

Haldia: The West Bengal government intends making it a trading port

Caveat Emptor

The need to be doubly cautious when it comes to investing in smaller cities can never be overstated. Anyone planning to buy property in such cities should first thoroughly investigate the property titles and local regulations. In a place like Hyderabad, for instance, there have been innumerable stories of the same property getting sold to multiple buyers, with each discovering the fact too late in the day. From a buyer's perspective, therefore, there are a couple of practical issues that need to be addressed. "The buyer will need to look at personal factors. For example, how often will he be able to go there if he does not live in that city," states Magazine. Even if the buyer intends to lease out the apartment, he must ensure that the tenant is financially sound.

Like any other investment, land too requires a broad outlook and the buyer cannot look at it as the final answer to all his investment planning. "I would say that investing in second and third tier cities would be for those who have money to spare. It is for those who are prepared to wait for at least five years and who are willing to settle for very ordinary returns during that period," cautions Knight Frank's Vakil. Like any other boom-including the stock markets-it is rather easy to get carried away, although a wee bit of caution while investing in smaller cities can go a long way in ensuring safety of your investment.

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The first rule of caution, then, is not to abandon logic for hype. If you can't enter a boom (city or locality) early on, look for the next boom city or locality. Especially to be avoided are cities where prices are going up for no apparent reason. For those who live in the city, the decision to buy is a lot easier, since they look at the issue differently. For the other buyers, however, the decision will have to be well considered and that certainly cannot be on the lines of real estate always being a sound investment. "There is a perception that prices generally never fall and that is not right," notes Magazine.

Mysore: The city is seen as an emerging mini-IT capital of the country

Coimbatore: Textiles and auto components are big industries here

As mentioned earlier, the decision to invest in smaller cities has been propelled to a great extent by the boom in retail (read: malls). The good news: That phase now seems unstoppable, with a host of big names like Kishore Biyani's Pantaloon Retail looking at malls in every conceivable format. "Still, it needs to be understood that there is too much of optimism on that front and the investor will do well to be a little cautious," warns Angel Broking's Sekhar. He cites the case of Nagpur, where a large number of malls have come up. "One is not sure if the city can accommodate so many of them," he says.

So, what should be the buyer's strategy? Well, one thing for sure-have a long-term outlook and that means at least five years. Remember, the kind of money that you are putting in is likely to be much less (compared to an investment in a big city) and it is only fair to give yourself a longer time frame. The metro story is expensive and is likely to be out of bounds for most people at least. "The buying potential is largely tapped in the metros and the story will come from the smaller cities," explains Nirmal Group's Jain. Also, the buyer would do well to identify key events that will act as the trigger for prices rising. This could be a proposal for an international airport or a special economic zone, which means the surrounding areas will gain significantly.

Bangalore and Hyderabad are recent cases where an airport project has had prices hitting the roof. As Magazine puts it, "Investing in tier II and III cities needs to be looked at differently. Things like quality of infrastructure are not that great here."

In short, the investor will have to pick and choose very carefully. The opportunities are unlimited, but that has to be balanced against factors like reasons for investing and the outlook in terms of a time frame.

Meet The Virtual Brokers

Just about everyone, at one point or another, has been a victim of the shenanigans of property brokers. But now, thanks to real estate portals, deliverance may be at hand.

By Shivani Lath

Remember the last time you were moving house? Most probably, you went through the process of collecting weekend newspapers that listed all the property classifieds areawise, and spent Sundays making phone calls and travelling around the city with your unfriendly neighbourhood broker. And that, if you were shifting house within the same town. If you were moving from one city to another, chances are your employer put you up in a company guest house or hotel for a month, in which time you ran about the city-in between meetings-looking for a flat that you would finally settle into. No wonder, the last thing any one of us wants to do is to move house.

Thanks to a half-a-dozen or so real estate websites, renting or buying a property is getting easier and less painful. With just a few clicks, you can now buy or rent property in Sambalpur in Orissa or Bharatpur in Rajasthan. Persquareyard.com, magicbricks.com, indiaproperties.com, indiaproperty.com, 99acres.com, indiarealtors.com, realacres.com and propmart.com are all realty websites that have online listings of real estate classifieds for buyers, sellers, agents, builders and property experts with information on all the available property, including real estate news, upcoming projects, a directory of agents and builders and property rates in cities across the country.

What this means is that if you are looking for a flat in south Mumbai, you could go to one of these websites, enter basic search details, like the category of property you are looking for (which would include, residential, commercial, agricultural or industrial land), the type of property you want (everything from an apartment, independent house, township, hostel or guest house, paying guest in the residential category to office, retail, warehouse or marriage halls in the commercial category to farm land, agricultural land or industrial property in the third category) and the city. The search will immediately throw up a host of the latest listings (updated to the current date) with details on property type, built-up area, number of bedrooms, availability of car park and contact numbers for the price details (if it's not already there).

Why You Should Go Online The reasons are many. Take your pick.
» Eliminates futile calls to over-budget brokers » Offers properties across regions » Allows you to categorise and sort information easily » There are no hidden costs or brokerage fee » Allows you to look at photos/videos of properties » Lets you pick the time and place for property hunting

These sites also have an advanced search option which allows users to sift through the listings by specifying locality of preference, keywords, budget, number of bedrooms and bathrooms, parking required for one, two or more cars and also additional amenities such as gym, swimming pool, security, vaastu compliance and even pet-friendliness. In fact, indiaproperty.com, which was launched in December last year, allows sellers to post property videos on their site and buyers to apply for property loans online. It also hosts PropertyBytes, which tracks the real estate industry in a blog. "The blog format opens up avenues for discussion of every related topic and article on vaastu, feng shui, real estate investment and property management," says Yash Asher, Product Manager, indiaproperty.com, which has drawn over 0.2 million registered users in 10 months of its existence. Says Kiran Mayee, a software engineer with a company in Chennai, who recently rented a flat in Rangarajapuram, thanks to the listings on persquareyard.com: "I got lots of contacts from the website. The best part was I didn't have to wait for the weekend free ads newspaper to find relevant sources."

Highlighting the advantages of these websites, Rajan Sastri, Head, Research and Advisory, indiaproperties.com, which has over 55,000 registered users, says, "We give the customer the power of choice by placing at the buyer's disposal an entire database to shortlist his property from. To that extent, it greatly reduces the customer's running around, saves time and money." The website, he explains, does not dispense with intermediaries such as brokers; on the contrary, these listings (which are also put up by brokers and builders/promoters) are their way of disseminating information about availability of property to the widest audience all across the country. "It is also the quickest way to publicise and the fastest mode to receive a response," he says, adding that by 2007, it is estimated that 65-70 per cent of property inventories in the metros and mini-metros will be listed on the internet, and brokers and builders will receive over half of their responses from such listings.

Realty check: It takes just a few clicks

Another of the many online real estate sites, persquareyard.com was started by Sulekha, the largest online community for Indians worldwide. Originally a part of the sulekha.com site, persquareyard.com was carved out as a separate service in May due to the hectic activity and user requirements and feedback on the section. The company's CEO Satya Prabhakar says persquareyard.com is not just about helping people buy or sell property, instead it is about helping a person convert a house into a home. "People didn't want just classified listings in the real estate section; they wanted information beyond the regular buying and selling. Thus, we augmented the section into a separate site and created an ecosystem of buyers, sellers, agents, developers, experts and linked it to Sulekha's classifieds so that people could tap into that community to get information-be it property rates in an area, lessee/buyer rights on taking possession of a house or facilities in the surrounding area," says Prabhakar, whose site has about 0.25 million registered users.

Wide Web

Web brokers also make immense sense for city-slickers looking to buy property in tier-II towns (see Realty's Two-tier Deals elsewhere in this section). The real estate websites list places from Calicut to Ludhiana, perhaps for exactly these reasons-all the preliminary spadework can be done on the internet, without having to physically travel to these places .

The advantages of such websites are particularly more valuable in a country like India. While in the US, the real estate agents follow a system of putting all the available property in a common database, which is accessible to all agents, in India, brokers are secretive about their clients and the properties they have for sale or rent. These websites help overcome this problem by enabling all the agents to post their listings on a common platform, thus making all property information available to all property hunters and sellers. Besides, they also take care of the age-old problem of storing weekend newspapers and calling up agents who might not have the right profile of property you are looking for.

If this is good news, here is something even better. All these services are provided free of cost to buyers and renters. It is only the agents, brokers, developers and builders who pay for their listings or the display ads on the website, which also makes them more accountable, professional and trustworthy. So, let your next real estate broker be virtual.

The Fund Conundrum

What should mutual fund investors look for before investing: A winning scheme or a good fund house? Mahesh Nayak answers.

Don't say the words 'mutual funds' to Radha Banerjee. She might be prompted to throttle you. A team leader at a Mumbai-based BPO, Banerjee (not her real name) is extremely upset with her mutual fund (mf) investment. Although the bellwether 30-share index, Sensex, has gone roaring past the 12,000-mark, her fund (Franklin Templeton's Prima Fund) is down almost 9 per cent in six months. The Sensex, in contrast, is up 7 per cent. On the advice of her distributor (read: mutual fund advisor), Banerjee, 29, had invested Rs 50,000 in the hope of making a quick buck in a rising stock market. So, what went wrong?

"We sell products of MFs with which we have an empanelled agreement. We are trying to tie up with a few more mutual funds"
Vidur Verma
Country Director (Investments)/Citigroup

Clearly, she was taken in by her distributor and the fact that she was being advised a fund from a reputed house. She did not bother to analyse the fund's performance against its benchmark and peers. Says B. Sukumaran, MD, Canbank Mutual Fund: "The distributors run the show in the mutual fund industry. Rather than performance, they sell schemes of mutual funds that give them huge incentives."

In fact, organisations like Citibank Investment Services only sell mf schemes of seven fund houses-HDFC, DSP Merrill Lynch, Franklin Templeton, Fidelity, Prudential ICICI, Principal PNB and Birla Mutual Fund. Vidur Verma, Country Director (Investments), Citigroup, says, "We sell products of MFs with which we have an empanelled agreement. Going ahead, we are trying to tie up with a few more mutual funds." Interestingly enough, Citibank's CitiChoice Analysis Snapshot recommends Franklin India Prima (that is, Banerjee's fund) as one of its best picks. The surprising part is that in the one year ended October 5, the fund has been one of the biggest laggards in its category, with a return of 15.2 per cent. (The fund returned 15 per cent in the last three months.) On the contrary, Sundaram Select Mid-cap has been the best performing fund in this category, with a return of 60 per cent.

But since Citibank does not sell the funds of Sundaram Mutual Fund, investors who depended on Citi for advice never got to profit from the fund's stellar performance. "You can't always blame the distributor for MIS-selling," defends Sony Joseph, a retail distributor. "A few of my customers only invest in schemes of big fund houses like Franklin Templeton or HDFC MF and a few others only will invest in funds managed by Sunil Singhania of Reliance mf and Prashant Jain of HDFC Mutual Fund."

A personal investment strategy
Here are some questions you should ask yourself before signing the cheque:

» Does the fund have the potential to provide the returns you need to meet your goals?
» Does it provide the right balance of exposure to the different sectors as well as diversified allocation to large caps and mid-caps?
» Does the investment fit in with your expected investment time horizon?
» Are you comfortable with the level of risk associated with the fund?

Due to their consistent performance, investors tend to prefer a star fund manager. However, once the fund manager leaves (huge money and new opportunities have seen a sustained churn among fund managers, who are resurfacing elsewhere as hedge fund or private equity investors), the scheme suffers and, in turn, the investors. For example, Sandip Sabharwal's exit from SBI Mutual Fund saw its performance suffer for a while. "Rather than schemes, it is important to opt for fund houses with a process-driven investment philosophy," says, R. Swaminathan, Associate Vice President & National Head (Mutual Fund), IDBI Capital Market.

Indeed, there are instances where the performance of schemes from process-driven fund houses did not suffer following the fund manager's exit. Take HDFC Equity Fund, for instance. Even after Chandresh

Nigam quit HDFC Mutual Fund, Prashant Jain has maintained the performance track record of the fund, becoming the advisors' most preferred scheme. Similarly Kotak 30, an equity diversified scheme of Kotak mf, despite having seen four fund managers in the last five years-S.N. Rajan, Vetri Subramaniam, Rushabh Seth and now Anand Shah-has not suffered.

But the perfect strategy, says Hemant Rustagi, CEO, Wiseinvest Advisors, would be to look at both: That is, the scheme and the fund house. "There is no point trusting the schemes of mutual funds with good and proven track-record, management style, high quality systems and processes, if they don't make money for the investor. On the contrary, established credentials over a period of time certainly give some comfort level to investors," he says.

Even before you start worrying about the fund house or the scheme, there are some basic steps the investor needs to go through. For instance, you must establish your investment goals, assess your risk tolerance, and develop a personal investment strategy (see A Personal Investment Strategy).

Once the investment strategy is set, there are a few sets of information an investor should always look for before investing in a fund. A fund's past performance is no guarantee of its future success. But over the long term, the success or failure of any investment in a fund also will depend on factors such as:

a) The fee and commission of the fund: It is important to check and compare fee and commissions associated with mutual funds. This can have a huge impact on the overall absolute return of a fund.

b) Size and age of the fund: New and small funds have excellent short-term performance records. Because these funds may only invest in a small number of stocks, a few successful stocks can have a large impact on their performance. But as these funds grow larger and increase the number of stocks they own, individual stocks have less impact on performance.

This may make it more difficult to sustain initial results. You can get a better picture of a fund's performance by looking at how the fund has performed over longer periods and how it has weathered the ups and downs of the market.

c) Volatility in the fund: It is always better to choose a fund according to one's risk-taking ability. Volatility indicators like beta (which indicates the variance in a fund's performance against the stock market) can tell you how volatile a fund has been. Generally, the higher the beta, the more volatile a fund.

d) Flexibility (how flexible the fund manager is in changing the fund allocation according to the market scenario) and the fund's ability to perform in different markets.

e) Tax implications and the different services provided by the fund such as shifting from one fund to another in the same fund house, are a few other things one should look for before investing.

If you think that's too much trouble, fine. But one thing you must do at least is to look at a scheme's long-term performance before investing in it. More often than not, behind the good performance of a scheme will be the good investment philosophy of a good fund house.

NEWS ROUND-UP

Have Your Cake and Eat it Too
Here comes an investment vehicle that combines the safety of debt and the upside of equity.

By Shalini S. Dagar

Over the last three years, as the equity markets yo-yoed their way up from 3,000 levels of Sensex to 12,000 and thereabouts, many investors sat out on the sidelines. At 6,000 they feared erosion of their original capital investment. But sitting out has its costs. In this case, for instance, the money should have doubled. Instead, it stayed locked possibly in a bank account. Recently, the Securities and Exchange Board of India (SEBI) came out with guidelines for capital protection oriented schemes (cps) by mutual funds, which offer interesting possibilities to investors facing this classic dilemma. A clutch of fund houses such as Pru ICICI, Franklin Templeton, DSP Merrill Lynch, Reliance and Kotak is about to hit the market with such products. Portfolio managers like ask Raymond James and Benchmark already have cps.

"CPS offer Indian investors the security of principal protection while allowing them to participate in the upside of equity"
Sandesh Kirkire
CEO, Kotak AMC

But what is cps and why should you care about it (see The CPS FAQ)? These schemes, as the name suggests, are relatively low-risk investment options and ideal for investors who worry more about their principal investment than the return on investment. So, if you are someone who already invests in RBI bonds, public provident funds (PPFs), National Savings Certificates and bank fixed deposits, then maybe you will find cps worth your while. "Indian investors traditionally invest in fixed income products," says Sandesh Kirkire, CEO, Kotak AMC, "and capital protection oriented products offer them the security of prinicipal protection while allowing them to participate in the upside of equity."

The CPS FAQ

What is a capital protection oriented scheme?
It is a mutual fund or a portfolio management scheme structured to protect the principal investment.

How does it work?
A large part of the fund's corpus is invested in top-rated bonds, and the remainder in risky assets such as stocks for higher returns.

Are returns guaranteed?
No. Only the principal investment, or most of it, is protected.

Who should buy a CPS?
Investors with high net worth, low income streams and low risk appetite such as retirees.

Rajan Mehta, Executive Director of Benchmark AMC, believes that CPS are best suited for people with high net worth and low or negligible current income like retired people or those who have sold their inheritance or some other big property. "Young people, however, could benefit from direct participation in equities, as they are still creating wealth and have longer investment horizons, which reduces risk considerably," he says.

The investor, however, must understand that these products do not assure or guarantee returns. All that they do is try to protect either whole or part of the original capital invested, while trying to improve returns. Given their structure, they are close-ended.

But how do they ensure safety of capital? In its simplest and most generic form, such a product invests a major chunk of its corpus into high quality debt, typically government securities and other AAA-rated paper. The yield on such fixed income instruments is expected to help protect the original capital investment. The remainder of the corpus is pumped into riskier assets such as equities. The idea: increase the corpus' overall return so as to beat inflation.

Liquidity, or the lack of it, is an issue, since generic cps, particularly the mutual fund products, lock the investible funds for a fixed tenure. But there are some schemes that provide easy liquidity. The bottom line is this: There is no lazy way of making money or even keeping it.

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Go For Gold, Still?

Gold prices are down. So, should you be buying it now?

By Anand Adhikari

Gold shoppers: Indian consumers have always had a thing for the yellow stuff

By no stretch of imagination could you call Bibek Mhatre a savvy investor. He doesn't spend a whole lot of time reading the stock pages of financial dailies or devouring a book a day on, say, stock picking. In fact, he doesn't even work anymore. He's 74. But when it comes to playing in gold, Mhatre, who used to guard the country's borders as a Major in the army, could beat Dalal Street pros hands down. He has such a good feel for the market movements that, for some years now, he has been buying gold at its bottom and selling it as soon as it nears its peak. Take a recent example. In May this year, when experts around the world were predicting that the prices of the yellow metal would stabilise at around Rs 10,000 per 10 gm, the bachelor from suburban Andheri (West) quietly exited from the gold market. So, while other investors watched the value of their investments in gold shrink over the next few months, Mhatre was sitting pretty.

Mhatre seems to be naturally good at sensing gold's movements. But not all investors have that gift. Some investors, in fact, are still holding on to gold bought at $700 per ounce (Rs 9,990 per 10 gm), while others are wondering whether investing in gold still makes sense. The dilemma is compounded by the fact that gold prices have dropped quite a bit. On May 12, 2006, prices had touched an all-time high of $725 per ounce (Rs 10,368 per 10 gm), but now rule at $580 per ounce (Rs 8,475 per 10 gm)-that's a correction of around 20 per cent.

So, purely from an investment point of view, is it a good time to buy gold? Sunil Ramrakhiani, Head (Commodities), IL&FS Investmart Commodities, thinks so. "We are quite bullish on gold, as the speculative positions no longer exist in the market. We expect gold prices to go up to $650 per ounce (Rs 9,404 per 10 gm) in the next six months," he says. Ditto, say other gold analysts. For years now, the yellow metal has generously rewarded investors and that's reason enough to buy it now. In the last six years alone, gold has returned over 150 per cent, next only to equity. If you are planning to increase your stock of the precious metal this festive season, then you may want to pick the place where you buy it, more carefully. That's because the price, quality and even the ease of buying could vary, depending on the nature of the retail point.

The Neighbourhood Jeweller

Buying gold from jewellery shops is the easiest and the most common method but involves a higher cost-normally 10-15 per cent higher than the market price. There are also issues of fair weight, quality and price. The only advantage of buying gold from your neighbourhood jeweller is that you can sell it back to them with ease. But, here again, the consumer tends to lose, since most local jewellers buy back gold at much lower prices than the market benchmark price. The jeweller route is recommended only for consumers in far flung areas where there are no bank branches or those who intend to liquidate the investment in the near future.

The Commodity Exchange

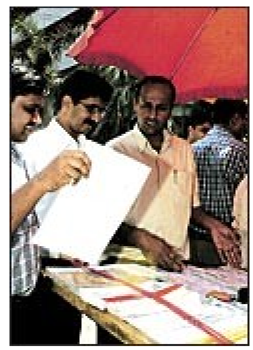
Traditionally, gold has proved to be a good hedge against inflation and that's what encourages people to buy gold. As an extension to this principle, gold today is freely traded just like any other commodity or equity on the country's two leading commodity exchanges. In fact, you get the best price of gold at an exchange, compared to a bank or a jewellery shop. The only hassle here is that you cannot buy gold directly; you have to buy it through a broker. Then, it takes a week for the gold to be delivered, in case you decide not to keep it in a dematerialised (that is, electronic) form. "You are assured of the best quality and also have the option of keeping the gold in demat just the way you do with equity," says P.K. Patnaik, Associate Vice President, Kotak Commodity Services. The icing here is the facility to pledge gold with the exchange and earn some extra bucks. The exchange route is best for people who want to buy gold in large quantities for marriage or for festivals. Commodity exchanges also provide you the facility to sell the gold back to them.

The Commercial Bank

Of late, the yellow metal has become popular as a gift item. Not surprisingly, then, there are more than a dozen commercial banks such as HDFC Bank and ICICI Bank that hawk gold just like they do credit cards and home loans. The gold "gift packs" come in various shapes and sizes, ranging from 5 to 8 to 50 gm and from small coins to bars. HDFC Bank, for example, offers its 24 karat, 99.99 per cent pure gold bar named 'mudra gold', in tamper-proof packs.

The gold itself is imported from Switzerland and comes with an Assay certification. "We have seen a four-fold increase in the demand for gold from retail customers," says Chitra Pandeya, Head (Liabilities), HDFC Bank. The bank route is strongly recommended for people who want complete peace of mind in terms of quality and have no time or the inclination to buy from the commodities exchange via a broker. The only downside to buying gold from banks is that you can't sell it back to them, since regulations don't allow them to buy gold from retail consumers.

Close-ended Schemes
How to separate the wheat from the chaff.



Dilemma: Which close-ended fund to buy?

There's a close-ended fund hitting the market every second day, so how do you tell the winner from the loser? By keeping your eyes peeled and doing some due diligence on the schemes. The first thumb rule is to avoid small fund houses with portfolios skewed towards risky equity. Always go for established fund houses with a track record of performance in both equity and debt funds. Some fund houses such as HDFC, ICICI, Templeton, and Reliance Mutual Funds fit the description readily.

Also, carefully look at the scheme's investment objective and align it with your own investment goal. A portfolio of mid-cap stocks has the potential to offer extraordinary returns, while the one comprising large-cap stocks may offer you realistic returns with guaranteed capital protection. In fact, a close-ended fund offers ample scope for fund managers to take a long position in growth-oriented stocks and even try out mid-caps and small caps. "Longer the tenor, the better it is for the fund," says S. Swaminathan, Head (Mutual Fund), IDBI Capital Market Services.

Unlike an open-ended fund, a close-ended fund locks money for a pre-defined period of six to 15 years. "Look at the debt component (ideal is between 10 and 30 per cent), as in the longer run debt has the potential to offer returns, besides safety of capital," explains an equity analyst. With Dalal Street back at 12k levels, investors are once again getting tempted to bite open-ended schemes, but a close-ended scheme makes more sense for those who can separate the wheat from the chaff.