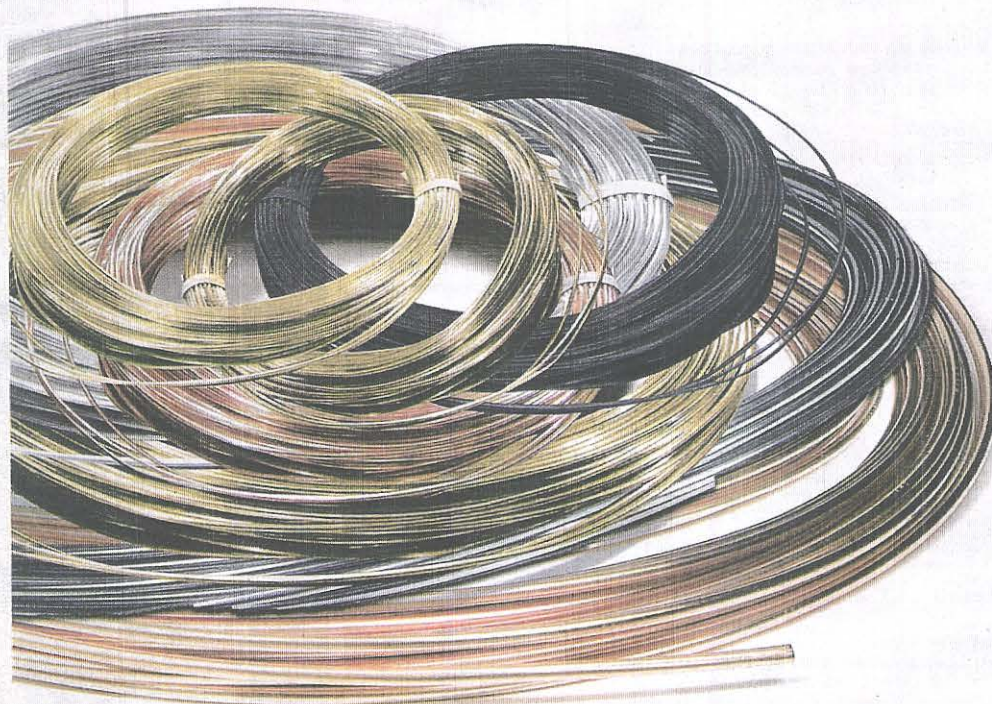


METALS

With metals, put the shine in your portfolio

Metal prices have risen sharply and analysts believe there is a lot of steam left in them. Here's what you need to know before adding this new asset class to your investment portfolio.



Religare Commodities.

Look beyond gold

While precious metals have rallied in the past two years because of the massive quantitative easing in the West, base metal prices have increased due to supply shortages and a recovery in global industrial demand. Analysts believe the demand for these metals will continue to be buoyant and are advising investors to look beyond gold. "The yellow metal has already seen a 10-year bull run and the world is expecting monetary tightening in the future, which may take away the shine of gold," says Vandana Bharti, associate vice-president, commodity fundamentals, SMC Global. "With global industrial production recovering and risks of sovereign crisis reducing, gold might underperform some other metals," says Devendra Nevgi, principal partner, Delta Global.

Silver/platinum

The case is stronger for metals such as silver and platinum which have industrial uses as well. "Silver and platinum are more reliable from the long-term perspective as there is an industrial as well as investment demand," says Bharti. In fact, it was the industrial demand for platinum that led to a spike in its price in 2010. The metal's versatility in industrial applications and increased preference for platinum jewellery indicate that the metal could rally in the coming months.

Ditto for silver, which outperformed gold and other metals in 2010, generating returns of over 72% due to the rise in the investment demand by a whopping 184%, along with the

SHOBHANA CHADHA

There is an increased investor interest in commodities currently because this asset class has outperformed other traditional assets. We are not talking only about gold, which has generated good returns over the past few years. While silver prices have more than doubled in the past year, copper has outperformed the Sensex during the same period.

However, these spectacular returns should not be the only reason for investing in metals. The basic objective should be to diversify the investment portfolio by adding a new asset class. Since commodities are real assets (compared with others like stocks), they react differently to the changing economic situation and help you reduce the overall portfolio risk.

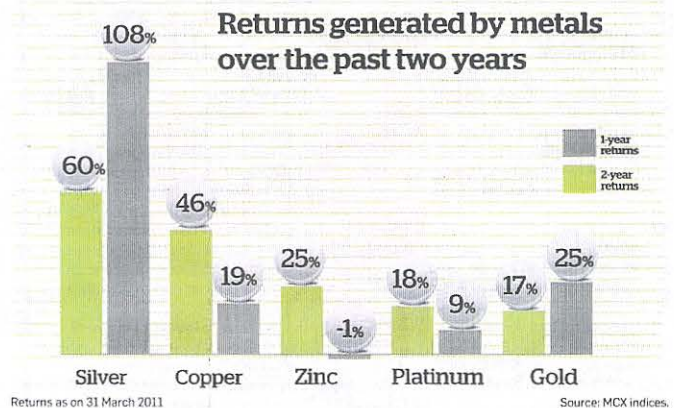
Commodities also offer a hedge against

inflation. High inflation results from the increasing commodity prices and the best way to shield your finances from the price rise is to have a direct stake in commodities. In this manner, the loss from the rise in overall prices will be nullified by the gains from the increase in commodity prices.

Is it worth investing now?

While the past performance has been spectacular, the moot question is, will metals continue to shine in 2011? Which metal is likely to give the best returns now? We reached out to industry experts and commodity analysts for answers. Most of them believe that there is still a lot of steam left in the metal pack. "The fundamentals remain strong for precious metals as well as base metals, and they can definitely form a part of a retail investor's portfolio," says Jayant Manglik, president,

Returns generated by metals over the past two years





What experts have to say about the future of metals

	Silver	Platinum	Copper	Zinc
Jayant Manglik President, Religare Commodities	Potential for higher returns than any other precious metal.	Prices will remain firm but unlikely to move up sharply.	Structurally bullish due to a weak US dollar and increasing spending on infrastructure.	A 15% jump in the year. Price increase is expected over long term as it is undervalued.
Naveen Mathur Associate Director, Commodities, Angel Broking	Prices are expected to continue their northward journey.	Positive outlook for 2011, but rise in demand could be offset by high recycling.	Bullish view on the basis of persisting supply shortages and rising demand.	Bearish view considering the ongoing surplus in its market.
Vandana Bharti Associate Vice- President, Commodity Fundamentals, SMC Global	Correction around ₹45,000 per kg should be used as a buying opportunity for long-term target of ₹65,000-70,000 per kg.	It will test the high of over ₹3,200 per gram. Investors can invest at around ₹2,200-2,300 per gram.	Investors can start accumulating around ₹400 for a target of ₹500-550 in the medium to long term.	Increase in stock to act as a drag on prices in 2011. Supply disruption in mines will support price rise in medium to long term.
Maneesh Kumar Managing Director, Burgeon Wealth Advisors	To perform better than other precious metals.	Will make for an excellent long-term investment.	Prices may continue to remain on the softer side in the near term, but in the long term, demand should outstrip supply, driving up the prices.	From a near-term to intermediate and long-term perspective, copper prices should stay stable, even harden.

How to invest in E-Series



rise in its industrial applications. "The demand for silver will continue to rise due to its ability to be a safe haven and growth in the industrial sectors in the advanced economies," says Naveen Mathur, associate director, commodities, Angel Broking.

Copper

Analysts suggest adding another lucrative metal to your shopping cart—copper. It prices are up because consumption is running ahead of supply, mine production is slow (growing at an average of 3.5% over the past five years), and China's insatiable demand. China's refined copper imports rose by 24% in 2010. "The copper story is expected to remain intact as the supply shortages are likely to continue," says Mathur.

Zinc

Commodity experts also expect that the recent tsunami in Japan and floods in Australia will put a further pressure on the supply of industrial metals. "The reconstruction should drive up the zinc prices. Right now there is a tight supply," says Maneesh Kumar, MD, Burgeon Wealth Advisors.

Tread with caution

While there is a near consensus that metals such as silver, platinum, zinc and copper are good investments, you should not ignore the risks. There can be a 10-15% correction in prices. "However, this will only be an opportunity," says Kunal Shah, head of commodities research, Nirmal Bang Securities.

Bigger risks can come by way of monetary tightening by the developed world. Rising energy prices and inflationary concerns suggest that the easy monetary policy in the developed markets may not last long. For example, the short-term interest rates in Europe have already moved up on the expectations that the European Central Bank (ECB) may start raising rates after its April 2011 meeting. There is also a near consensus emerging that the US Federal Reserve may end the quantitative easing programme in June. So, expect a deeper cut in commodity prices once the US Fed starts monetary tightening.

How to invest in metals?

Physical route: It is impossible to take long-term positions in industrial commodities in the physical form as it involves huge storage

space. While it is possible to buy precious metals, such as gold, silver, platinum, etc., in the physical form (as they consume much less space), investors opting for this route have to face several other problems like the purity of metals, making charges and huge margins imposed by jewellers.

Margin trading in commodity exchanges:

Though investors can take positions in commodity exchanges by paying a small margin, it is not suited to long-term investors. This is because they have to roll over their position on a regular basis. Another problem is the tax treatment. Since there is no delivery of assets or securities, the gains will not be treated as capital gains but as speculative income.

ETFs: Exchange-traded funds (ETFs) are another way of getting rid of the problems mentioned above. Since these are classified as securities, investors can also avail of a higher tax benefit. For example, the cut-off period for long-term capital gains is one year compared to three years for physical holding. **E-commodities:** This is the latest entrant on the block and takes care of most of the problems mentioned earlier. It is an investment product that allows you to hold commodities in the demat form on an

Benefits of investing through E-Series

Tracks spot prices of commodities and, hence, easier to understand.

No margin payment needs and rollover costs, making long-term investment a viable option.

Allows for trading in small units. Hence, it's more feasible for retail investors.

Available for several commodities, such as gold, silver, lead, copper and zinc.

Concerns about E-Series

You can't use the same equity demat account for trading in e-commodities. So you have to open another demat account for the same. Further, several big DPs, especially banks, are not yet ready for this format.

Since e-commodities are taxed as commodities, not as securities, the tax benefit available for ETFs won't be available for these.

electronic trading platform, set up by the National Spot Exchange. The product allows you to buy, accumulate, hold and sell commodities and also provide the option of physical delivery against the surrender of the product. Commodity experts believe that E-Series is the finest and the most feasible investment option for those wanting to diversify their portfolios in commodities. **Metal mining companies:** Though several investors use this route, the volatility in commodity stocks will be much higher than the underlying commodities. This also negates the purpose of investing in commodities—to diversify your portfolio.

An easy way to add value to your house
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