

INVESTING

# Maintain 5-10% allocation to gold

Despite gold's tepid returns over the past 6 years, an allocation to it is essential to counter risks like currency depreciation and inflation

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Investors often ask us for our outlook on gold and whether it's a good time to invest in it. Our answer to their query invariably is that it is always a good time to invest in gold. The importance of having a 5-10 per cent allocation to this strategic asset in the portfolio can't be emphasised enough.

**Beware currency risk:** Many of us understand the importance of saving for a rainy day. We do so diligently through stocks, bonds or bank deposits, which is a good thing to do. But all these investment avenues are subject to underlying currency risk. This is the possibility that a currency will devalue to the exchanger's detriment, either relative to another currency or in terms of purchasing power, thereby eroding the value of his savings or investments. One way you can counterbalance this currency risk is by having some allocation within your portfolio to gold.

If you haven't noticed yet, extreme economic conditions are the new normal. World economies have been oscillating between high inflation-led growth and painful slowdowns. This is thanks to constant manipulation by central banks of currencies and unregulated use of leverage. With no gold backing currencies since 1971, there is no longer any restraint on the creation of new money and debt. Central banks worldwide, led by the U.S. Federal Reserve, mint new money to artificially prop up slowing economies and endlessly bail out insolvent governments, banks and corporations.

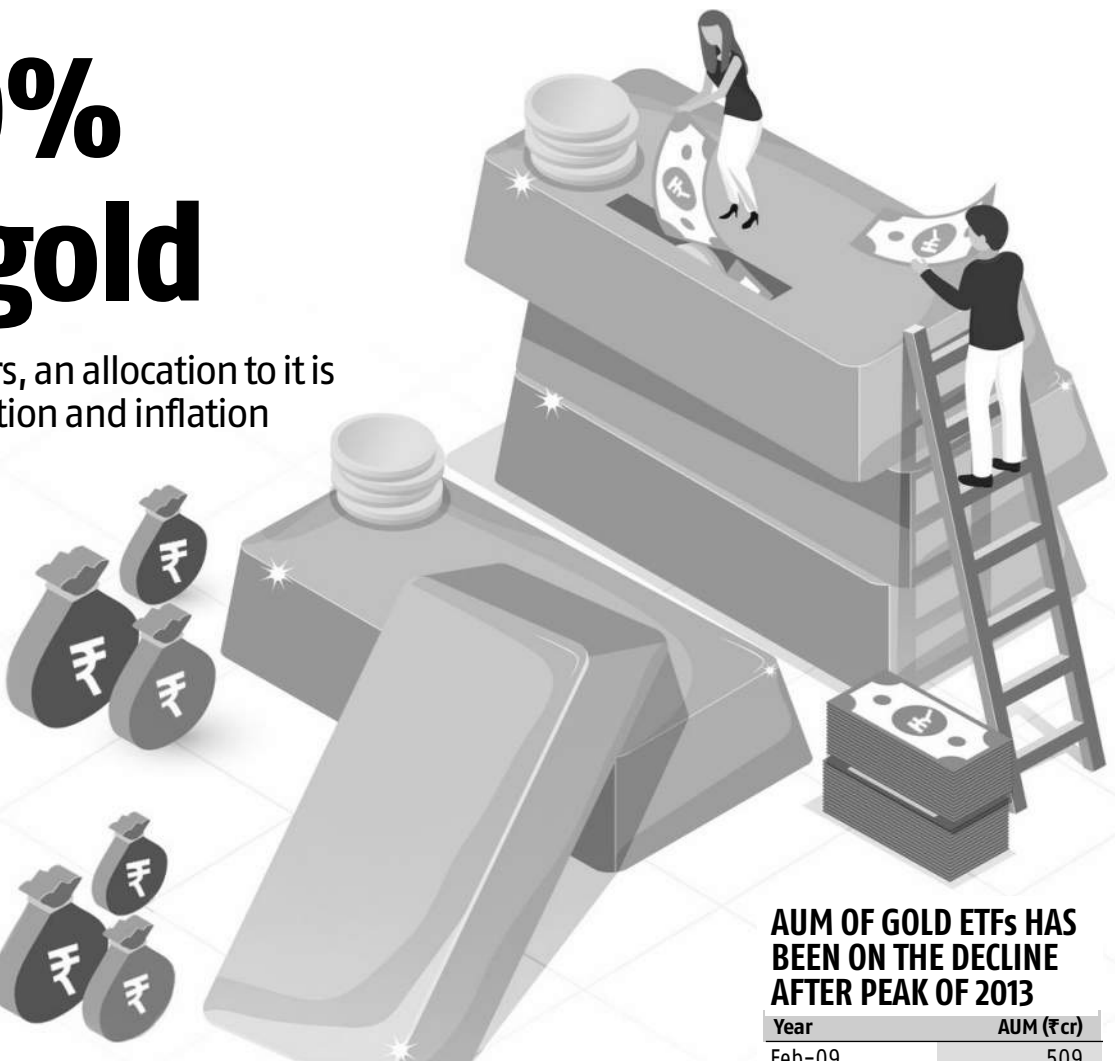
Our financial systems are walking on fiscal crutches. This became evident recently when the world witnessed barely a year of unwinding the excesses of the last ten years by the Federal Reserve, before it decided to take a U-turn to "brace

## GOLD GAVE STRONG RETURNS UNTIL 2012

Year	Returns (%)	
	Gold India	Gold International
2009	22.77	25.89
2010	23.28	29.76
2011	32.12	10.18
2012	12.49	6.96
2013	-6.89	-28.24
2014	-6.64	-1.50
2015	-6.26	-10.46
2016	11.23	8.48
2017	5.34	13.59
2018	7.56	-2.02
2019 (YTD)	1.58	2.16

the slowing U.S. economy". Moreover, the system is marred by historic debt levels, asset bubbles, currencies losing their worth and unprecedented market volatility. In our view, the world economy is slowly inching towards a systemic breakdown.

**Inflation eats away purchasing power:** All of this makes it impossible for unsuspecting currency savers like us to sustainably preserve our purchasing power. We don't know what our savings in currency will be worth in a few years' time or whether our savings will even exist. Take the case of an average Venezuelan, whose Bolivar savings at the start of 2014 are now worthless, thanks to the mindboggling hyperinflation in the country since then. Or the doubling of prices every day in Zimbabwe in 2008. With daily inflation of 98 per cent, having an income or savings worth even one billion Zimbabwean dollars wasn't enough because a loaf of bread cost two. These are both recent cases of central bank manipulation of currencies



## RETURN HAS BEEN FLAT OVER THE PAST FIVE YEARS

Benchmark	Trailing returns (%)			
	1-year	3-year	5-year	10-year
Gold-India	5.08	3.31	1.06	7.69
Gold-International	-1.28	1.66	-1.06	3.58

gone terribly wrong. Yes, these are rare and extreme instances. But most people never think it will happen to them, until it does. Thus, it is prudent to reduce dependence on these fiat currencies that are subject to the whims and bad decisions of the ones in charge.

**What should you do?** Invest a part of your portfolio in a global currency that can't be printed, or meddled with — gold. Gold is mostly immune to financial and political mistakes. It is timeless and universally accepted. Unlike currencies, gold retains its value in the long term, mostly because it is rare, tangible and coveted. It also preserves its value because it doesn't generally correlate with most asset classes

es. It has several pro-cyclical and counter-cyclical drivers. While investment-driven purchases increase during times of contraction and savings, consumption-related purchases increase during times of expansion.

All in all, gold is likely to provide your savings the much-needed stability and value preservation in these unpredictable times, by reducing the impact of global economic and currency shocks. As Richard Russell, author and publisher of *Dow Theory Letters* famously said, "Gold will be around, gold will be money when the dollar and the euro and the yuan and the ringgit are mere memories."

Lastly, don't make the mistake of seeing gold returns in isolation.

## AUM OF GOLD ETFs HAS BEEN ON THE DECLINE AFTER PEAK OF 2013

Year	AUM (₹ cr)
Feb-09	509
Feb-10	1,152
Feb-11	2,233
Feb-12	3,605
Feb-13	8,662
Feb-14	6,998
Feb-15	5,320
Feb-16	5,230
Feb-17	5,771
Feb-18	4,979
Feb-19	4,883

Source: Ace Mutual Fund

Owning gold is not about the upside potential, it is about minimising risk to the downside. Use it for long-term stability reasons, rather than for short-term investment-related considerations.

Remember, gold is universally accepted, it is timeless, and it is the best diversification against the world's flawed currency systems and bad decisions.

The writer is senior fund manager alternative investments, Quantum Mutual Fund

## BS TUTORIAL

Jayant Pai

### Financial literacy

- Henry Hub is the colloquial term for the price benchmark for \_\_\_\_\_.  
A. Crude oil  
B. Refined oil  
C. Liquefied natural gas  
D. Liquefied petroleum gas
- Which country is ranked the highest in The Economist's Glass Ceiling Index?  
A. Sweden  
B. Norway  
C. Finland  
D. Canada
- The Hartz Reforms pertain to \_\_\_\_\_.  
A. Initial public offerings  
B. Banks  
C. Labour unions  
D. International trade
- Which is India's only defined benefit plus defined contribution scheme?  
A. Public Provident Fund  
B. National Pension Scheme  
C. Equity-linked savings scheme  
D. Employee Provident Fund
- Who said: "Half the money I spend on advertising is wasted; the trouble is, I don't know which half?"  
A. David Ogilvy  
B. John Wanamaker  
C. Piyush Pandey  
D. Martin Sorrell

**Solutions**

1. C. The Henry Hub is a distribution hub on the natural gas pipeline system in Louisiana, US, due to its importance, it lends its name to the pricing point for natural gas futures contracts traded on the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE).

2. A. The Index shows the state of women employment worldwide. Sweden retained its top rank this year again.

3. C. The (Peter) Hartz reforms or Hartz plan is a set of recommendations submitted by a committee on reforms to the German labour market in 2002. The Hartz committee devised three "innovation modules", which were then gradually put into practice from 2010 onwards.

4. D. Here an employee contributes a fixed percentage of salary (currently 12 per cent) and receives a quasi-fixed return (reset every year) on this contribution. The EPFO committee determines the interest rate.

5. B. He was a US merchant, religious leader, civic and political figure, considered by many to be the father of advertising and a pioneer in marketing.

The quiz master is head-marketing, PPFAS Mutual Fund. Send your queries and feedback at yourmoney@bsmail.in

# ECONOMY

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## Door open for India to bring trade deal: US

While India argues that it is difficult to take any policy decision at this point of time because of the elections and the model code of conduct, American points out that it has decided to take its decision on revoking GSP privileges only after it exhausted all its options with India.

During talks with India, America is believed to have said that "there are creative ways of solving" all the trade related issues that addressed concerns of both the countries.

For instance, there are creative ways of certifying that the dairy products meet Indian standards, and have believed to have talked about creative solutions to certifying vegetarian cows. Similarly access to high end cell phones can be addressed in a way that does not open up the market to China, Americans are believed to have pointed out.

The US, it is learnt, had been "extraordinarily clear" since April last year on addressing certain market access issues in the absence of which it reportedly told India that it risked losing GSP privileges.

The US still hopes that the issue can still be resolved before the election and certainly after the elections.

## Proposed e-com norms cloud future of Netflix, Hotstar



While e-marketplaces such as Flipkart and Amazon have managed to dodge the restrictions posed by the press note 2, arguing they operate only as a platform, OTT players find themselves in a more complicated position. Also, by the definition of services, even companies such as OYO, Ola and Microsoft

will be affected by the policy, sources said.

"Digital content in the form of TV shows, films and documentaries can be classified as the inventory of these OTTs and we have been informed that these businesses often own what they stream," the DPIIT official quoted above said. This means that OTTs may not be permitted to stream their original productions in India.

Netflix has been very vocal about wanting to produce most of its projects in-house, instead of licensing content from other studios. Similarly, Amazon Prime makes content through its Amazon Studios arm, as do YouTube and Apple. India's most downloaded OTT Hotstar was also reported to have earmarked a budget of ₹120 crore for producing original content last year. These platforms license a host of content from different production houses, but original content gives them better control over their intellectual property.

Netflix, Amazon Prime, and Hotstar did not respond to a request for comment.

"If these platforms are working on a licensing model for what they are broadcasting, the content will not be treated as inventory. However, if they also own the content, the proposed e-commerce rules will also apply to them," said Atul Pandey, partner at Khaitan & Co. In addition, OTTs will have to adhere to data-localisation norms as specified by the e-commerce policy within a "three-year window from the date of policy coming into effect," Pandey added.

Another issue with OTTs, said a person who works closely with one of these platforms, is that there is no clear oversight authority. The regulation of content on these platforms has swung between the Information and Broadcasting Ministry, the Ministry of Electronics and Information Technology, and the Telecom Regulatory Authority of India.

"The (draft) policy uses e-commerce, electronic communications and digital economy interchangeably. This really creates definitional confusion as e-commerce is only a subset of the digital economy," said the person.

Each agency has at different times tried to regulate these plat-

forms for content, broadcasting, and economic regulations. The possible addition of OTTs under the e-commerce policy further complicates the scenario.

"The initial idea was that there would a comprehensive classification of goods and services available online before the draft e-commerce policy is made. While it hasn't been done yet, a list may be made after elections and entertainment services may be governed under specific provisions," another government official said.

## Boeing 737 crash raises tough questions on aircraft automation

### Analog machine

Automation plays a limited role in the 737 Max. That's because the aircraft still has essential analog design and layout features dating back to the 1960s, when it was conceived. It's a far older concept than the A320, which came to market at the end of the 1980s and boasted innovations like fly-by-wire controls, which manipulate surfaces such as flaps and horizontal tail stabilizers with electrical impulses and transducers rather than heavier hydraulic links.

Upgrading the 737 to create the Max came with its own set of issues. For example, the 737 sits considerably lower to the ground, so fitting the bigger new engines under the wings was a structural challenge (even with the squished underbelly of the engine casing). In response, Boeing raised the front landing gear by a few inches, but this and the size of the engines can change the plane's center of gravity and its lift in certain maneuvers.

Boeing's technical wizardry for the 138- to 230-seat Max was a piece of software known as the Maneuvering Characteristics Augmentation System, or MCAS. It intervenes automatically when a single sensor indicates the aircraft may be approaching a stall. Some pilots complained, though, that training on the new system wasn't sufficient and properly documented.

"The benefits of automation are great, but it requires a different lev-



el of discipline and training," said Thomas Anthony, director of the Aviation Safety and Security Program at the University of Southern California. Pilots must make a conscious effort to monitor the plane's behavior. And reliance on automation means they will take back control only in the worst situations, he said.

### Errant sensor

With the Lion Air crash, data from the recovered flight recorders points to a battle in the cockpit between the software and the pilots who struggled in vain to keep control. The data showed that an errant sensor signaled the plane was in danger of stalling and prompted the MCAS to compensate by repeatedly initiating a dive. The pilots counteracted by flipping a switch several times to raise the nose manually, which temporarily disabled MCAS. The cycle repeated itself more than two dozen times before the plane entered its final deadly dive, according to the flight data.

With the flight and cockpit voice recorders of the Ethiopian plane now in France for analysis, the interaction between the MCAS system and the pilots will again be under close scrutiny, probably rekindling the broader debate about who or what is in control of the cockpit.

That man-versus-machine conundrum has been central to civil aviation for years. Automation has without doubt made commercial flying much safer, as planemakers added systems to help pilots set engine thrust, navigate with greater

precision and even override human error in the cockpit.

For example, automation on modern aircraft keeps pilots within a so-called flight envelope to avoid erratic maneuvers that might destabilize the aircraft. Analyses of flight data show that planes have more stable landings in stormy, low-visibility conditions when automation is in charge than on clear days when they land by sight.

### Sully's miracle landing

The most daring descent in recent memory, Chesley "Sully" Sullenberger's landing of US Airways Flight 1549 in the Hudson River in early 2009, is Exhibit A of how an interconnected cockpit worked hand-in-hand with an experienced pilot. Automatic pitch trim and rudder coordination assisted manual inputs and kept the Airbus A320 steady on its smooth glide into the icy water. The drama showed that automation can play a crucial support function, provided a pilot is fully trained and the aircraft properly maintained.

"Some people are saying modern aircraft such as the 737 Max are too complex," said Dave Wallsworth, a British Airways captain on the Airbus A380 double-decker. "I disagree. The A380 is a far more complex aircraft and we fly it very safely every day. Pilots are capable of understanding aircraft systems so long as the manuals contain the information we need."

Airbus traditionally has pushed the envelope on automation and a more modern cockpit layout, with

larger screens and steering by joystick rather than a central yoke, turning pilots into something akin to systems operators. Boeing's philosophy, on the other hand, has been to leave more authority in the hands of pilots, though newer designs also include some computerized limits. Like Airbus planes, the latest aircraft from Seattle — where Boeing makes most of its jetliners — are equipped with sophisticated autopilots, fly-by-wire controls or systems to set speed during landings.

"The big automation steps came in the 1980s with the entry into service of the A320 and the whole fly-by-wire ethos," said John Strickland, an independent aviation analyst. "I don't think automation per se is a problem, we see it in wide-scale use in the industry, and as long as it is designed to work hand-in-hand with pilots and pilots understand how to use it, it shouldn't be an issue."

### Erratic movements

But the counter-argument is that increasingly complex systems have led computers to take over, and that many pilots may have forgotten how to manually command a jet — particularly in a moment of crisis. That criticism was leveled at Airbus, for example, after the mid-Atlantic crash of Air France Flight 447 in 2009 that killed all 228 people on board. Analysis of the flight recorders showed the crew was confused by stall warnings and unreliable speed readings, leading to erratic maneuvers that ended in catastrophe.

"I grew up on steam gauges and analog, and the modern generation on digital and automation," said Jon Weaks, president of the Southwest Airlines Pilots Association and a Boeing 737 captain for the Dallas-based airline. "No matter what you grew up on, you have to fly the plane. If the automation is doing something you don't want it to do or that you don't understand, you have to disconnect it and fly the plane."

A 2013 report by the FAA found more than 60 percent of 26 accidents over a decade involved pilots making errors after automated systems abruptly shut down or behaved in unexpected ways. And the 2016 inspector general's report

at the FAA noted that as the use of automation increases, "pilots have fewer opportunities to use manual flying skills."

"As a result, the opportunities air carrier pilots have during live operations to maintain proficiency in manual flight are limited and are likely to diminish," the report found.

## I-T slaps ₹5,872-cr tax notice on Grasim

The DCIT said the value of shares allotted by ABCL to the shareholders of the company, in consideration of the transfer and vesting of the demerged undertaking into ABCL, amounted to dividend, within the meaning of the Act.

The company, on March 15, received an order dated March 14, issued by the DCIT, raising a demand of ₹5,872.13 crore on account of the dividend distribution tax (including interest), the company said.

According to the demerger scheme announced on August 11, 2016, the shareholders of Aditya Birla Nuvo received three new shares of Grasim for 10 shares in ABNL. After the merger, every share in the "new Grasim" was entitled to seven shares in Aditya Birla Financial Services post its demerger. For example, a shareholder with 100 shares in ABNL received 30 shares of Grasim and 210 shares of ABFSL, whereas a shareholder with 100 shares in Grasim continued to hold those and in addition received 700 shares of ABFSL.

Post-scheme, the "new Grasim" held a 57 per cent stake in the separately listed financial services business, while the rest of the stake was held on a proportionate basis by those acquire shares after the merger. At the time of demerger, the new Grasim was to hold a 60 per cent stake in UltraTech, 28 per cent in Idea Cellular and 51 per cent in the solar division.

The scheme was then considered "complex" by analysts. The group chairman, Kumar Mangalam Birla, called the scheme a win-win deal for all the shareholders with new Grasim getting new-age businesses of Nuvo, while Aditya Birla Capital getting listed on the stock exchanges — thus unlocking value for the shareholders.