Gold & mutual funds: Which one is right for your portfolio now?

By Surbhi Khanna, Published on 29th April 2025

Amid the ongoing market volatility and for investors who are wondering whether to add gold based funds or mutual funds to their portfolios, mutual fund experts recommend that investors should invest in gold to manage their portfolio volatility, as gold has a low correlation with various other asset classes and in mutual funds, investors should invest in the equity market with a medium to long-term investment perspective for growth and compounding.

"The persistence of these uncertainties and slowdown could further support gold prices, but as markets get more clarity and major economies recover, investor sentiment should improve, and they can shift their investment to riskier assets," said Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

There are around 19 gold ETFs and mutual funds across various categories are also available for investment. With various options available for investment and each option offering different benefits to the portfolio, the market experts have shared factors that one can consider before choosing between gold or mutual funds.

According to Dhawan, global inflation, global growth, buying by central banks and interest rate environment in major economies are certain key influential factors for gold prices and the geopolitical tensions among key economies also affect gold prices, as escalating tensions could lead to a slowdown in growth and a rise in inflation for those key economies.

Whereas the mutual fund mutual fund asset performance can be influenced by both macro and micro-economic dynamics of a particular economy and based on these factors, investors can choose their allocation between these asset classes, he added.

In the last one year, gold-based funds have offered an average return of 30.96% whereas among the 20 mutual fund categories, 17 gave positive average returns and three gave negative returns. 17 categories have offered returns ranging between 0.12% to 16.71% whereas the other three lost between 0.44% to 2.41% in the last one year.

Another expert, Sagar Shinde, VP of Research at Fisdom recommends when deciding between gold and equity mutual funds, investors should assess factors like their investment horizon, risk appetite, financial goals, and current market conditions as gold tends to do well during periods of economic uncertainty, high inflation, or geopolitical tensions, while equity mutual funds perform better during economic expansions and bull markets.

"Importantly, it's not always a case of choosing one over the other. Gold deserves a place in a well-diversified portfolio, and even under normal market circumstances, maintaining up to 15% allocation to gold can act as an effective hedge to equity exposure," Shinde added.

A monthly SIP of Rs 1,000 in the equity mutual funds would have yielded upto 12.53% XIRR and the value of investment would have been Rs 12,774 now in one year. Some equity schemes eroded investors' wealth and gave a negative XIRR of upto 28.27% and the value of Rs 1,000 monthly SIP would have gone down upto 10,123 now in one year.

On the other hand, gold ETFs have offered XIRR between 47.74% to 52.50% on SIP investments in one year. The value of Rs 1,000 SIP in gold ETFs would have ranged between Rs 14,828 to Rs 15,091 in the same period.

For investors looking for wealth creation in the long-term, Shinde advice that for building meaningful long-term wealth, equity mutual funds should form the core of an investor's portfolio as equity mutual funds have historically outperformed gold over the long term in terms of wealth creation.

Equity mutual funds benefit from economic growth, corporate earnings, and the power of compounding while gold primarily preserves value and offers downside protection, it does not match the long-term capital appreciation potential of equities. That said, gold plays a vital diversification role and maintaining around 10–15% exposure can help manage overall portfolio risk, Shinde shares.

Dhawan also has a similar opinion that for consistent long-term wealth creation, equity mutual funds and other mutual funds can be good options, whilst tactical allocation and for lower volatility gold can be used to have a balanced portfolio.

Mutual funds offer the dividend reinvestment or payout options and the income there can be generated through dividends and the interest earned but the return on the gold is only derived from capital appreciation.

“The recent surge in gold, which is more than 40% in a year due to global trade and economic uncertainty, has made the long-term return of gold close to the long-term return on the equity market. But prior to this surge, the long-term return provided by gold was lower than equity. There are also long periods, where gold has not delivered any return to investors, which happened from 2012 to 2018,” Dhawan added.

In case of equity mutual funds, the units with a holding period of more than 12 months were taxed at 15% (STCG) and 10% (LTCG). However, in the last Budget announcement it was decided that these units will be taxed at 20% (STCG) and 12.5% (LTCG).

Gold funds and physical gold are taxed at 12.5% when held for more than 24 months, and if held for less than 24 months, it gets taxed as per the investor's Tax slab. In the case of listed gold ETFs, the gains will be considered STCG if sold before the completion of 12 months. STCG will be taxed at income tax slabs applicable to your income. If the listed gold ETF is sold after the completion of 12 months, then gains will be considered LTCG. LTCG will be taxed at 12.5% without indexation benefit.

Looking for a more tax-efficient investment option, Shinde recommends that in long-term investing, taxation is not a major differentiator between equity mutual funds and gold and since both investments are typically held for the long term, the effective tax impact is quite similar.

“Thus, tax efficiency shouldn't be the deciding factor; instead, investors should focus on asset allocation, return potential, and risk management when choosing between the two,” he added.

While sharing the tax structure for equity mutual funds and gold ETFs or gold funds, Dhawan mentions that mutual funds, especially those that are equity-oriented, provide better tax-efficient investment.

There are many first-time investors who are willing to allocate in the categories which offer high returns, have low or high risk, and offer tax benefits.

To the first time or to young investors, Dhawan recommends that equity-oriented mutual funds could be a good asset for investment as they can benefit from compounding and at the same time gold should make up a certain portion of their investment, with a view to reducing portfolio volatility with low correlation with other asset classes.

“The allocation of gold can increase or decrease to a certain extent based on the key factors that affect gold and mutual funds,” he recommended.

Sharing almost the same strategy for the young or first-time investors, Shinde also recommended some more investment strategies. He recommended that to begin their journey, new investors can even start with hybrid funds — which invest in both equities and debt — offering a more balanced, less volatile experience.

He explained that SIPs (Systematic Investment Plans) in such funds help in developing a disciplined investment habit and gold, while a good hedge, should form only about 10–15% of the portfolio for diversification purposes, rather than being the primary investment choice.

Gold ETFs are exchange-traded funds that track the price of physical gold. Each unit of a Gold ETF is backed by a specific quantity of gold, usually equivalent to one gram. They are listed on stock exchanges, and you need a demat and trading account to buy and sell them.