As investors from George Soros to John Paulson snapped up bullion amid a decade-long rally, the best gold investment of the past two years was found in India, where funds tracking the metal surged while avoiding the stock market swings that hurt mining companies.

The BLOOMBERG RISKLESS RETURN RANKING shows India’s Reliance Gold fund returned 4 percent in the two years ended yesterday when adjusting for price swings, leading a group of exchange-traded products from the country that top a list of 44 gold-related investments, data compiled by Bloomberg show. Globally, ETFs provided the best risk-adjusted returns and company shares the worst.

Gold funds in India, where the metal has been given as a gift for centuries during the wedding and festival season, topped coins and ETFs in other countries as the rupee declined against the dollar. While mining companies produced some of the highest total returns, none of them made it into the top 10 risk-adjusted ranking because, as a group, they were about twice as volatile as the ETFs. Options show investors are betting that the funds, which are backed by physical gold, will continue to be stable as bullion extends its rally.

“Our favorite is ETFs,” Walter ‘Bucky’ Hellwig, who helps manage $17 billion of assets at BB&T Wealth Management in Birmingham, Alabama, said in a telephone interview. “Physical gold can have storage issues,” and “there are company-specific risks with mining stocks.”

The risk-adjusted return is calculated by dividing total return by volatility, or the degree of daily price-swing variation, giving a measure of income per unit of risk. The returns are not annualized.

**Price Swings**

The gold investments in the ranking included gold funds along with futures of the metal traded in New York, coins and mining companies valued at more than $5 billion.

India’s UTI gold fund was the second-best performer with a risk-adjusted return of 3.98 percent, based on a total return of 63 percent and volatility of 15.9. The country’s Kotak Gold ETF was third, scoring a risk-adjusted return of 3.86 percent. Ranking fourth was the Indian SBI Gold ETF, with a return of 3.82 percent, when adjusted for volatility, followed by 1-ounce Gold Panda coins from China, with a
risk-adjusted return of 2.86 percent.

The iShares Gold ETF returned 2.65 percent, when adjusted for volatility, and the SPDR Gold Trust 2.64 percent.

Gold prices surged to a record $1,923.70 an ounce in September as record low U.S. borrowing costs and Europe’s debt crisis sent investors looking for a haven. Bullion sales in India climbed to a record in 2011, according to the World Gold Council.

**Safest Commodity**

In the past five years, gold provided the best returns of all commodities when adjusted for volatility, the Bloomberg ranking shows. Goldman Sachs Group Inc. reiterated a forecast for the metal to reach a record $1,940 this year in a Feb 22. report, citing low U.S. borrowing costs.

Gold ETFs are designed to move in tandem with the price of bullion as each share of the fund is backed with metal. Shareholders of producers, by contrast, may suffer the effects of mining accidents, cost overruns, asset writedowns or broader stock market swings.

Mining companies were more susceptible to price swings during the past two years with an average volatility of 37.7, compared with 18.8 for the funds. The 17-member NYSE Arca Gold BUGS Index (HUI) of gold-mining companies has gained 20 percent in the past two years, compared with a 64 percent jump for India’s Reliance.

The bullion-backed funds will probably stay less volatile. The Gold ETF Volatility Index (GVZ), based on prices for options on the SPDR Gold Trust, the largest ETP backed by the metal, is trading near the lowest level since July, signaling that traders don’t expect big price swings.

**Wedding Savings**

India’s funds topped all other ETPs as the rupee slumped against the dollar, spurring a 31 percent rally last year for gold priced in the Asian currency.

“We have seen a steady increase in investments, especially over the last year,” Jaideep Bhattacharya, the chief marketing officer at UTI (UTIGOL) Asset Management, said in a telephone interview.

“Parents are putting in money in these instruments in the form of a systematic investment plan to save for their daughter’s wedding or to fund their child’s education.”

Miners may start outperforming gold prices in the future because the stocks have become “cheap,” said Tom Winmill, who helps manage $250 million of assets in Walpole, New Hampshire, for Midas Funds. The Gold BUGS Index is trading near the lowest valuation since at least 2002, when the data begins.

‘Make You Rich’
Producers may also benefit as production costs relative to the price of gold decline with the metal’s rally, said Rick Trotman, a senior research analyst at MLV & Co. in New York. That will allow companies to invest or return money to shareholders, he said.

Vancouver-based New Gold Inc. had the highest total return in the Bloomberg ranking, more than doubling its share price in the past two years. Because it also had the second-highest volatility, it was only 15th by risk-adjusted return.

“Gold ETFs and physical gold can make your wealth grow, but mining stocks can make you rich if you can pick the right stocks,” Trotman said. “There are several stocks out there, so it’s all about which stock to choose.”

Over the past five years, Jersey, Channel Islands-based Randgold Resources, which mines for the metal in Africa, topped the riskless ranking of all bullion investments. Although the company had more than double the volatility of the next-best performer, India’s Kotak Gold ETF, the shares gained more than six-fold, pushing it into first place.

**Paulson’s Bet**

In the past two years, Randgold's returns faded as its volatility remained high, ranking 26th with a risk-adjusted return of 1.27 percent, reflecting a total return of 43 percent and volatility of 34.73.

John Paulson, the hedge fund manager seeking to rebound from record losses in 2011, told investors his Gold Fund will outperform his other strategies over five years. That fund is invested in gold mining companies and derivatives, according to an investor who asked not to be named because the information is private.

Among Paulson’s holdings are American depositary receipts of AngloGold Ashanti Ltd. (ANG), the world’s third-biggest gold producer, and Gold Fields Ltd., the fourth-largest, according to regulatory filings. In the last two years, AngloGold had a risk-adjusted return of 0.3 percent and Gold Fields returned 0.9 percent.

**Company Risks**

Paulson & Co. is also the biggest investor in the SPDR Gold Trust, with a stake valued at about $2.9 billion, a Securities and Exchange Commission filing Feb. 14 showed. Paulson clients can choose to invest in the firm’s other hedge funds in dollar- or gold-denominated share classes, and the firm uses the ETF for the gold share class.

Paulson’s gold fund declined 11 percent last year, lagging behind the SPDR Gold Trust, which returned 9.6 percent. The gold fund beat in 2010, when it returned 35 percent, compared with 29 percent for the ETF.
“Gold mining stocks have underperformed, and the trend will likely continue because there are technical, geological and managerial risks underlying these stocks,” said Daniel Brebner, an analyst at Deutsche Bank AG, who was the second-most accurate precious-metals forecaster tracked by Bloomberg in the past two years. “Buying exchange-traded funds is gaining more popularity as they are backed by physical gold, and it’s easier to trade ETFs.”

Police Clashes

Diminishing gold reserves, rising production costs and political risks in mining nations have hurt producers in the past two years. Toronto-based Barrick Gold Corp. (ABX), the top gold mining company by sales, Kinross Gold Corp. (K) and Goldcorp Inc. all forecast mining costs will increase in 2012 as labor, raw-material and equipment expenses keep rising.

Last month, Kinross, also based in Toronto, said it would delay developing projects in Ecuador and Chile and concentrate on expanding its Tasiast mine in Mauritania after writing down $2.49 billion in goodwill on the mine in the fourth quarter.

On Feb. 28, Newmont Mining Corp. (NEM), the second-largest producer, said it’s too early to say whether its proposed $4.8 billion Conga mine in Peru will proceed while a state-commissioned review is in progress. Greenwood Village, Colorado-based Newmont in November halted construction at the project in the northern Andes mountains following clashes between police and opponents of the development.

Barrick gave investors a return of 0.5 percent in the past two years on a risk-adjusted basis, Newmont returned 0.4 percent, while Kinross dropped 1.1 percent.

Attracting Capital

The growing popularity of ETFs probably has taken away some of the capital that previously was invested in companies such as Barrick, Aaron Regent, the chief executive officer, said last month. Holdings in global bullion exchange-traded products climbed to a record 2,410.2 metric tons yesterday, a hoard valued at $129.7 billion.

“Why should you be looking at mining stocks when you have geopolitical risks, labor problems and rising-cost issues?” Donald Selkin, the New York-based chief market strategist at National Securities Corp., which manages about $3 billion, said in a telephone interview. “I would prefer owning gold and exchange-traded funds as I do not have to worry about anything else beside prices.”

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