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STUDY ON GOLD EXCHANGE TRADED FUND (GETF's)

Manjushri A. Kadam
Assistant Professor, Bharati Vidyapeeth Institute of Management Kolhapur

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ABSTRACT

The gold exchange traded fund is a burgeoning product to invest in gold. It has very positive significance as foreign exchange, financial safety and avoiding inflation to a country. At the same time, it is convenient to invest in gold exchange traded funds for small and medium-sized investors and extremely welcomed by market. However most of the investor is not aware about Gold Exchange traded funds. So the objective of this paper is to clarify the concept with the help of literature and analyze the development of gold exchange traded fund.

1. INTRODUCTION

Every society and country like India is required to have a high rate of growth of economy and infrastructure. Apart from this it should be independent in respect of all financial matters, so that every constructive and progressive move must be taken. For being independent in terms of financial matters, there is a need of hours to make fund mobilized to contribute in constructive purposes. This mobilized fund should be invested properly. Now the question was arises where to invest and how to invest? There may be different perception and theories regarding the investment. These theories and perceptions differ person to person. Every investor has a different module regarding the return and risk. There is a general rule of return and risk and that is "higher the risk, higher the return and lower the risk, lower the return". The return and risk combination depends upon the investors choices and his or her actions. There are so many destinations for investment such as equity shares, bond, debentures, bank deposits, gold, silver and many more, and their "risk & return" relation always differ from each other. But investment should be of such type that may produce high return with minimum risk and that is convenient to do. At these criteria gold is much attractive and most productive in terms of return in current scenario.

Due to these attributes the demand of the gold is increasing day by day in India. India is one of the largest consumers of gold. Nearly 8,00 tons of gold is imported every year. Indian accounts for 23 percent of the world's total annual demand for gold. There are so many other reasons behind the surge in the demand of gold such as the traditional importance in our society, industrial consumption, uses in jewelry and most famous now a days is investment in it. It can be said that the investment in gold is the main factor behind the surge in the demand of gold. Now everyone wants to invest in gold just because of good amount of return at lesser risk and its high liquidity feature. For these reasons it is more and most attractive destination of investments. But there are some problems and drawbacks while making investment in gold. These may be the fear of loss by theft, loss by damages. The most important is that everyone is not able to invest in or purchased the gold. The investors who have small amount of savings or funds to invest will not be able to do this because of the prices and scarcity nature of gold. Gold investment requires a big amount to get adequate growth and return on investments. To make investment in gold possible for such investor, there is a most popular type of investment called "Gold exchange traded Funds (ETFs)".Gold ETFs are another effective way to invest in yellow metal. To understand the Gold ETFs, it is required to have a basic idea about the exchange traded funds. By considering this, author has considered ETF, Gold ETF, features of gold ETF, how to invest in gold ETFs and working mechanism of gold ETF.

2. ETFs & Gold ETF

Exchange Traded Funds are essentially Index Funds that are listed and traded on exchanges like stocks. Until the development of ETFs, this was not possible before. Globally, ETFs have opened a whole new panorama of investment opportunities to Retail as well as Institutional Money Managers. They enable investors to gain broad

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exposure to entire stock markets in different Countries and specific sectors with relative ease, on a real-time basis and at a lower cost than many other forms of investing.

An ETF is a basket of stocks that reflects the composition of an Index, like S&P CNX Nifty or BSE Sensex. The ETFs trading value is based on the net asset value of the underlying stocks that it represents. Think of it as a Mutual Fund that you can buy and sell in real-time at a price that change throughout the day.

The gold ETF being an exchange-traded fund can be bought and sold only on stock exchanges thus saving you the trouble of keeping physical gold. What's more, unlike with jewellery, coins and bars which come with high initial buying and selling charges, the gold ETF costs much lower. The transparency in pricing is another advantage. The price at which it is bought is probably the closest to the actual price of gold.

A gold ETF, or exchange-traded fund, is a commodity ETF that consists of only one principal asset: gold. Exchange-traded funds act like individual stocks, and they trade on an exchange in the same manner. However, the fund itself holds gold derivative contracts that are *backed* by gold. So, if you invest in a gold ETF, you won't actually *own* any gold. Even when you redeem a gold ETF, you do not receive the precious metal in any form. Instead, you as an investor will receive the cash equivalent.

Features of Gold ETFs

- **Transparency:** Similar to stocks and shares, gold prices on the stock exchange are available publicly. You can know the value of your portfolio by checking the prices of gold for the day or hour.
- **Easy to trade:** The minimum bundle or lot that you need to purchase to start trading in ETFs is 1 unit. i.e. 1 gram of gold. You can buy and sell the units through your stock broker or ETF fund manager on a daily or even hourly basis, just like equities.
- **Cost-effective:** If you invest in a gold ETF listed on the stock exchange, there is no entry or exit load – a type of charge that is to be paid to buy or sell units. The brokerage charges are very low – 0.5 percent to 1 percent.
- **Lower risk:** Fluctuations in gold prices are generally not as high as in equities. This means that even if your returns on equities go down, gold ETFs could act as your safety net. It will prevent you from incurring large losses.
- **Tax benefits:** While gold ETFs attract long-term capital gains tax after one year, you do not have to pay Wealth Tax or Securities Transaction Tax on them.

How to Invest in Gold ETFs: To invest in gold ETFs, you need two main things:

1. **Choose a gold ETF product/fund manager:** Gold ETF products are offered by several banks and private financial institutions. Once you choose a product, your ETF fund manager will act as your stock broker on the NSE and buy and sell the gold instead of you. This process is just like trading in stocks and shares.
2. **Open a demat account:** Since gold ETF is a security that is bought and sold in electronic, dematerialized form and not in physical form, you need to have a demat account to trade in them. You can open a demat account through your stock broker or the ETF fund manager you have selected.

The Investing Principle: Investors use gold ETFs to track and reflect the price of gold. While the assets in the fund are backed by the commodity, the intent is not for an investor to own gold. A gold ETF gives an investor an opportunity to gain exposure to the performance, or price movements, of gold.

Gold ETFs are a great way to take exposure to gold. Gold ETFs are exchange traded funds that allow investors to invest in gold on the exchange. So an investor eager to get into a Gold ETF can buy and sell the same on the exchange. They eliminate a lot of issues which come when buying physical gold, the following issue exist with physical gold:

- Purity
- Minimum purchase amount
- Premium of making charges
- risk of theft/burglary

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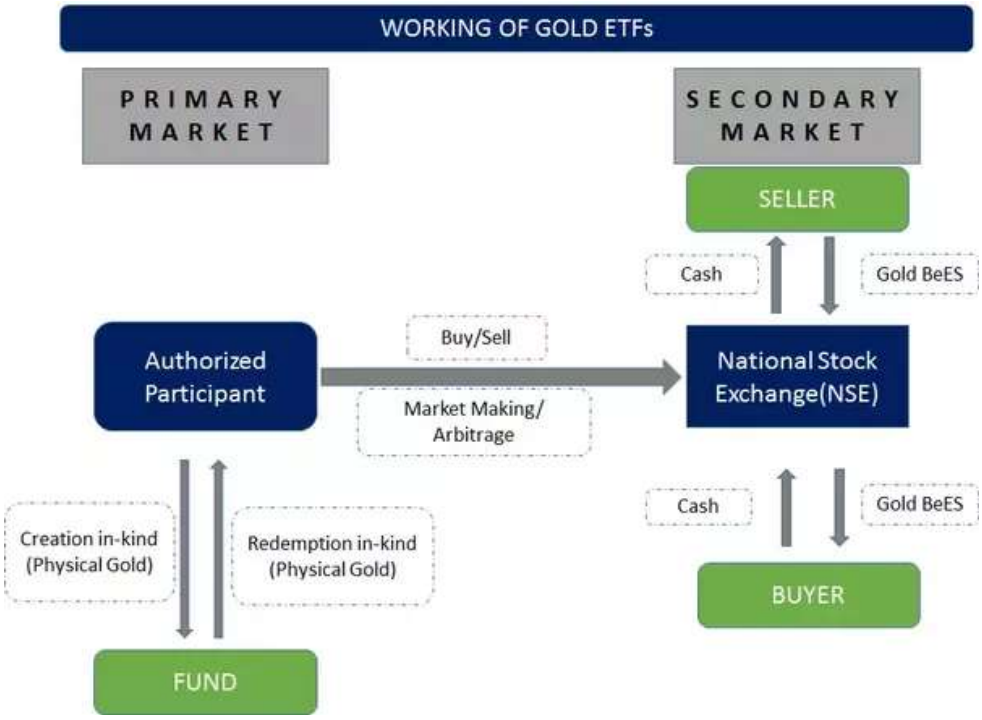
- Re-sale, where there could be a problem with liquidity
- Re-sale buying price or mark-down, when one goes to sell, there may be a mark-down by the retailer/shop.

Working of Mechanism Gold ETFs

Gold ETFs are backed by physical gold at the back-end. So when an investor purchases a Gold ETF on the exchange, the entity involved at the back-end buys physical gold. The Gold ETF units are listed on an exchange, for e.g. Gold BeES are listed on the National Stock Exchange (NSE) and they closely track the actual prices of gold (called spot prices). There is continuous buying and selling by "Authorized Participants" to ensure that the price of Gold ETF and gold price are the same. An Authorized Participant is an entity deputed by the stock exchange (in this case NSE) to manage the buying and selling of the underlying asset (in this case physical gold) to create the Exchange Traded Fund. These are usually very large organizations.

While the diagram below may look complex:



- Buyer and sellers (investors) of Gold ETF use the exchange platform (NSE), so trading is easy. They can place buy & sell orders, and the broker would execute the same.
- Any additional buying or selling net of this (after the buyer and seller transactions) is settled with Authorized Participants who buy and sell physical gold. So if there are no buyers and someone wants to sell, the Authorized Participant would create liquidity, buy buying the units of Gold ETF from the seller.

Advantages of Gold ETF

Physical gold does not generate income and the cost of making jewelry is also high. So gold ETF is the best option for a retail investor.

- Gold ETF is a type of exchange-traded funds whose underlying asset is the gold price in India. Each unit of Gold ETF worth 1 gram of the gold. The fund houses hold the 99.5% pure physical gold or gold receipts. Gold ETF trades like a stock on a stock exchange, thus its price keeps changing throughout the day. Therefore, it has higher liquidity than physical gold.

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- Impurity Risk - In physical gold, the impurity risk is present. For a retail investor, it is very hard to determine the purity of the gold. Besides, when an investor goes to sell the gold which he bought 10 years ago, he may not get the same weight and purity when he bought.
- Liquidity - Liquidity is one of the most important factors of an investment. Physical gold is less liquid than Gold ETF. An investor can buy and sell Gold ETF anytime during the trading session. While for selling a physical gold, an investor has to go to a goldsmith.
- Transaction cost - The transaction cost of the physical gold is also higher than Gold ETF. The expense ratio of Gold ETFs is around 1% while the making charges of physical gold is around 10% to 20% in case of ornaments.
- An investor can also buy a unit of ETF i.e. 1 gm of gold. Otherwise, he may not able to buy physical gold in such a small quantity. In addition, in case he requires urgent money he can sell the gold ETF units but if he holds physical gold he has to sell the whole of the coin, biscuit or jewelry.

Disadvantages of Gold ETFs

- Mutual Funds and Securities investments are subject to market risks and there can be no assurance or guarantee that the objective of the scheme will be achieved.
- As with any investment in securities, the NAV (Net Asset Value) of the units issued under the ETF can go up or down depending on the factors and forces affecting the Bullion Market, Capital Market and Money Market.
- The Past Performance of the fund house issuing the ETF should not be construed for the future performance of the fund. It might not provide a basis of comparison with other investments.
- The name of the Gold ETF doesn’t indicate the quality of the scheme or its future prospects and the returns. Investors should study the terms of offer carefully and consult their investment advisor before investing the scheme.
- ETFs are a new concept in India compared to other parts of the world.
- Investors are not offered any guaranteed or assured returns.
- The scheme NAV will react to the Bullion Market movements. The investor could lose money over short periods due to fluctuation in the schemes

Table -1: GOLD ETFs Vs PHYSICAL GOLD

CRITERIA	GOLD ETF	PHYSICAL GOLD JEWELERS	 BANKS
Sale & Purchase	Demat Form	Bar/coin/ jewellery	Bar/coins
Selling Back	Sell back on Exchange	Conditional or unconditional	Markup,10-15% ideally restricted
Security of Asset	Responsibility of fund	Investors concern	Investors concern
Transparency	Very high	Very low	High
Impurity Risk	NIL	High	NIL
Pricing	Transparent	Neither std or transparent	Not Std
Denomination	1 gm and in multiples of 1gms	Std Denomination	Std Denomination
Wealth Tax	No	Yes	Yes
LTCG Tax	Applicable after 1yr	Applicable after 3yr	Applicable after 3yr

Choosing the right ETF scheme

The profitability of Gold Exchange Traded Funds schemes can be determined by looking at the investment profiles of the scheme. The main factors to consider are:

- **Assets under Management (AUM):** AUM is defined as the market value of all the financial assets that a company manages for its investors. If a company has a high AUM value, it reflects on the high number of clients and portfolios that it handles.

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Impact Factor: 5.164
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- **Net Asset Value (NAV):** NAV is the value of the company's assets except the value of its liabilities. It is also the ETF's per-share value. NAV is arrived at by dividing the total value of all the securities in a firm's portfolio, except the liabilities, by the number of outstanding fund shares.
- **Returns:** The profits or income made by an ETF scheme or portfolio is known as returns.

Gold ETFs as a strong and attractive investment option

Rising gold prices and continuing investment flow in gold has pushed the size of assets hold through Gold ETFs to an all-time high of Rs 14,158 crore. This is a clear indication that the demand for and attraction in Gold ETFs is increasing day by day. There are as many as 25 different Gold ETFs schemes across 14 different fund houses at present.

According to data compiled by mutual fund industry body AMFI, there are some interesting facts which shows the changing situation in Gold ETFs market

- The market is large and liquid, making it easy to transact in either large or small volumes. By the end of 2017, global gold-backed ETFs held 2,368 tonnes of gold, worth US$99bn.
- As per Amfi data, a net sum of Rs 571 crore was pulled out of 14 gold-linked ETFs last year as compared to Rs 730 crore in 2017.
- It had witnessed an outflow of Rs 942 crore, Rs 891 crore, Rs 1,651 crore and Rs 1,815 crore in 2016, 2015, 2014 and 2013, respectively. In 2012, gold ETFs saw an inflow of Rs 1,826 crore.
- The assets under management of Gold ETFs crossed the Rs 18,000 crore marks in October 2015 from Rs 14,601 crore in September.
- In June 2012, investor wealth in Gold ETFs surpassed the psychological mark of Rs 10,000 crore; it was just above Rs 5000 crore level till a few months ago in May 2011.
- Gold prices have also drastic increase as it has become tripled from Rs 10,000 level to Rs 31,000 in last few years.
- In last few months, inflows worth Rs 500 crore have come into Gold ETFs.
- In 2011-2012, over Rs 3,600 crore was infused while inflows of Rs 2,250crore came in 2010-11. These factors show the passion of the investors for Gold ETFs and represent contribution to the

Table 2 - : Top Gold ETFs (As on December, 2018)

Gold ETF Name	YTD (%)	TER(%)	NAV(Rs)
Axis GOLD ETF	9.45	1.11	2782
IDBI GOLD ETF	9.03	0.58	2943.71
UTI GOLD ETF	8.06	1.09	2815.93
Canara Robeco GOLD ETF	7.89	0.8	2895
Kodak GOLD ETF	7.73	1	277.19
HDFC GOLD ETF	7.64	1.09	2885.84
Aditya Birla Sun life GOLD ETF	7.54	1.03	2925
Reliance ETF GOLD ETF	7.13	1.18	2813.37
Qutuanm GOLD ETF	6.63	1.03	1394.99

3. CONCLUSION

Among the best available investment options, Gold ETFs are one of them which are most attractive and very emerging. The price variations in gold is very low and because of this it is most secure against the price variation or price risk. In other words, it can be said that the low volatility of gold prices as compared to other investment options (such as equity market), is the prime factor responsible to its growth and better future prospects. There are so many reasons behind the growth and emergence of Gold ETFs such as fluctuation equity market, weakening of Indian Rupee against US Dollar and growing uncertainty about global economy. All these factors make Gold ETFs as a strong asset. On the other hand, Gold ETFs provide the opportunities to institutional investors as well as to small investors, to make investment in gold through ETF scheme.

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