



UNDERPINNING OF INVESTMENT IN GOLD ETFS

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Abstract

Gold is a proudly possessed asset by Indian's mainly in the form of jewellery. To the advantage of gold lovers, the run in prices that gold has seen in the last couple of years, and particularly this year, surpasses the returns provided by any other asset class. This has created an attraction gold, mainly as an investment for asset allocation purposes, in addition to serving its usefulness for occasions and daily utility. In India, gold ETFs were launched mainly with an objective to amplify the liquidity for the enhanced market competence. In fact, they hardly go for ETFs which is just a piece of paper for them. But in India, during the last year, investment in gold ETFs has been raised. This paper reveals about the factors that influences for investment in Gold ETFs and repeated investment.

Keywords: Gold, Investment, Awareness, Liquidity, Tax Efficient.

Introduction

Gold is considered as one of the best investment as it can protect oneself during the declines and inflations in stock market. During high inflation times the values of gold increases and vice versa. There are various forms of investment in gold like buying physical gold, gold bullion, gold ETFs, gold futures and options and gold coins.

While jewellery serves its purpose for occasions such as weddings, it may not be the most preferred form, from an investment perspective, because of the concern on purity and also the fact that craftsmanship has to be paid for. At the time of sale, gold price is what you fetch based on the market rate, craftsmanship is not paid for, and so you end up losing the money paid for craftsmanship. If you're looking at gold purely from an investment perspective (asset allocation), it may well be worth to explore Gold Exchange Traded Funds (ETFs) – a product introduced in 2007.

The idea of Gold Exchange Traded Funds was originated in India in 2002 by Benchmark and filed a proposal with Securities and Exchange Board of India but due to some reason it has not been approved. Later in February 2007 it was launched by Benchmark which was considered to be the first Gold ETF in India. Now more than 13 companies had entered in NSE under this product but the World first Gold ETF was launched in Australia in March 2003 and in United States in 2004.

Gold ETFs are considered as paper gold which is traded in NSE like other shares in demat form. It is regarded as open-ended funds and it can be traded in the ETF during market hours which can be sold short or margined like shares. It is meant to track the prices of physical gold and it can be owned through Demat Account. One unit of Gold ETF consists of one gram of gold but not physically owning it but investing in gold.

It provides the investors the facilities of easy liquidity and marketability in the market; it can be traded in the stock market during the working hours. It also includes short selling and buying on margin like normal stocks. Owning gold ETF also is cheaper than owning physical gold because it has no cost of carry or the cost of storing physical gold.

Mainly for the purpose of taxation its schemes are treated as non-equity mutual funds. If the Gold ETFs are held for more than one year then it will get long term capital gain tax (LTCG) which comes around 20% and for short it will be short term capital gain tax (STCG). If the companies declare dividend for Gold ETFs then the investors are liable for Dividend Distribution Tax (DDT) and the rates comes around 14%.

Review of Literature

Carty (2002) presents several characteristics of ETFs like flexibility, convenience, risk diversification, tax efficiency and cost advantages. However, the current study concerns the Chinese Gold ETFs and the prospectus of Gold ETFs development in China.

According to Bang (2009) Gold ETF is basically an open-ended mutual fund that invests in standard gold bullion as its



underlying asset. It is also known as paper gold. These instruments are listed on the stock exchanges and hence can be brought and sold just like shares.

Nedeljkovic (2005) described that Gold ETFs, compared to some other structured products are very simple structures. He further, described that there is no credit risk and investment in Gold ETFs is accessible and simple. Gold ETFs are listed on a stock exchange, quoted in local currency with no minimum investment. The other considerable characteristics of Gold ETFs are their cost effectiveness, security and high liquidity.

Dipak Mondal suggested that investors should take exposure in gold by buying either physical gold, Gold ETFs or even units of mutual funds which invest in the stocks of gold mining companies.

Deepan (2012) investors who were interested in gold has several options. 1) Buying gold Jewellery coins or bars and hold them at home or in a safety box, 2) buy gold certificates from a bank a dealer 3) buy gold futures contract 4) buy gold exchanges traded funds. The main problem is liquidity of selling gold. Gold certificates' are trusted and safe. Futures contracts can provide a large amount of leverage and are very attractive. But gold ETF offers a wide variety of advantages which provides safety, liquidity and returns.

Maulzi (2013) in his work has stated that the demand for gold exchange traded funds in India is likely to explode as investors get accustomed to "click and par" mode of investing. He further adds that, gold prices in India have gained 29 percent in the year 2011, and they have added 15 percent gains in the stock market.

Objectives of the Study

1. To trace the origin and growth of Gold ETFs.
2. To find out the factors that influences the investors for investing in Gold (ETF) and the reasons for repeated investments.
3. To offer suggestions based on the finding.

Hypothesis

There has been no significant difference between the means of the personal factors and the reason for investing in gold ETFs.

Methodology

Research Methodology is a way to systematically solve the research problems. It includes the overall research design, sampling procedure, data collection method and analysis. The research study involves more systematic structure of investigation, which usually results in some formal record of procedures and the report of the results.

Research Design

Descriptive research has been adopted in this study, which includes surveys and fact findings of different kinds of investors. This helps the researchers to describe the present situation that makes the analysis of investments in gold ETFs and the investors' feedback over it.

Sample size and Sampling Method

This study relates to the investors views and their attitudes towards the Gold ETFs which they invest. Primary and Secondary data has been mainly used.

The sample size consists of 100 respondents. Convenience random sampling method has been adopted for the collection of data through structured questionnaire method. There is mixture of both primary and secondary data in this study. The primary data has been collected with the help of structured interview. The basic ideas and relevant concepts of the study were collected from books and websites. This study was conducted with investors in gold ETFs in investment industries at Karur.

Tools used for analysis and interpretation

The collected data has been presented in the form of tables. For understanding and interpretation the data are further simplified into percentages. The statistical tools like chi-square and hypotheses have been used.



Limitations of the Study

The primary data is subject to personal bias and cannot be relied upon. The sample is taken according to researcher's convenience and hence the sample does not represent the universe. The study is limited to a small area in Karur town and does not cover the whole area. Due to want of Time, entire universe of the study was not covered.

Features of Gold ETF

- Cheapest form of pure physical gold with no premium or making charges
- No issues of wastage or impurities like in the case of physical gold
- Tax efficient way to hold gold, No Securities Transaction Tax or Wealth Tax
- Can be easily purchased or sold anytime at transparent real time price
- Can track your investment value in real time.
- Easy to buy in small lots, 1 unit at a time (1 unit = 1 gm of gold price in spot)
- No worries of theft and also save on locker charges
- Benefit on long-term capital gains

Advantages of Investing in Gold ETF

- It is advantageous to invest in gold ETFs as the investors do not undergo any making charges. Whenever investor purchase gold coins, Jewellery or bars they tend to pay some premiums as making charges whereas there is no such charge when it comes to gold ETFs.
- Investors can breathe easy after investing in gold ETF as the returns are quite similar as compared to investing in physical gold and they need not worry about their gold being stolen.
- There are times when banks and jewelers refuse to buy back the gold coins and gold bars whereas the investor can easily sell off their gold ETF through broker at any point of time.
- If they go by the trend, whenever dollar is weak gold tends to go up thus purchasing gold ETF when dollar is sliding can give a good support to the investor portfolio and vice versa.
- While the investor invest in gold, they need to look for a locker or safe in a bank where they can keep the physical form of investment and end up paying locker fees annually for the purpose whereas there is nothing as such in buying a gold ETF.
- While the investor plan to resale their physical gold, some amount is deducted by the jeweller or the bank during the resale but in case of gold ETF this does not happen.
- Gold ETFs provide a lot of liquidity. The investor can purchase or sell them very easily. They prove to be good investment option for short term and medium term investors.
- There are chances that a jeweler can fool the investors but in the case of gold ETF, there is no scope of being cheated. These are pure and they are unlikely to be stolen.
- In physical gold there is a lot of scope for price disparity. The price will vary from jeweller to jeweller, bank to bank. So if the investor feels that it is not very good when it comes to bargaining then investing in gold ETF is the right choice for the investor.
- In comparison to physical gold, gold ETFs are more tax efficient.
- Gold ETFs are available in small denominations and that's another benefit. When the investor thinks of investing in physical gold they cannot think of buying a gram or so. The one gold ETF stands for one gram of gold.
- Wealth tax comes into play when the investor holds more than a certain amount of physical gold. While in case of gold ETF there is no such tax applicable.

Disadvantages of Investing in Gold ETFs

- When it comes to gold ETFs the investors can redeem them only in terms of cash and not gold as they are gold contracts and derivatives.
- There are cases where capital gain tax breaks that are applicable to traditional exchange traded fund and not applicable when it comes to gold ETF.
- While trading in gold ETF the investors cannot ignore the demat account cost and annual maintenance cost.
- Before investing in gold ETF it is important for the investors to check the performance of the ETF.
- While invest in gold ETF the investors cannot ignore the market risks attached to them.



There is no doubt that gold ETFs have gained a lot of popularity and have an edge over the physical gold but nothing can match the satisfaction and happiness that the investors get when they hold that yellow piece of metal.

Types of Gold ETFs

There are various types of gold ETFs, so investors can select any gold ETFs according to his investment strategies.

- **Gold ETFs that contains gold products:** In this type the investors can invest in gold without actually buying gold and storing them in safely. Gold ETFs like IAU and GLD follow the performance of gold including gold products.
- **Gold ETFs that contains gold futures:** Some types of gold ETFs are constructed in a special way to track the performance of gold. Gold ETF alike to DGL which is consists of derivatives like futures, forwards and options in order to imitate a gold index. The construction strategy which is used not only for gold ETFs but also used for many commodity ETFs as well.
- **Gold industry ETFs:** In this type of gold ETF consists of companies in the gold industry. Like a sector ETF, this kind of gold ETF also tracks the performance of companies which are greatly depended on gold as their key business. For example, GDV tracks the performance of the Amex Gold Miners Index which consists of companies in the gold mining industry.
- **More than gold ETFs:** When an investor would like to invest in more than one precious metal then there is gold ETF which include multiple metal products. A precious metal ETF like DBP, the power shares DB precious metals for gold investors ETF can fit for their portfolio.
- **Short Gold ETFs:** Acting like a reverse ETF, a short gold ETF is distinctively constructed to inversely follow the performance of a gold ETF index.

On the basis of the selection of gold ETFs an investor will be getting the benefits and detriments of gold ETFs.

Table no.1 Reason for Investing in Gold ETFs

S.No	Reasons for investing in Gold ETF	Respondents	Percent
1	To meet the higher education of children	141	28.2
2	Marriage of Children	84	16.8
3	Prestige	94	18.8
4	Tax Benefit	92	18.4
5	Capital Appreciation	89	17.8
	Total	500	100.0

It may be seen from the above table that majority of the sample respondents are investing in the Gold ETFs, as to meet the higher education for their children and it constitutes (28.2%) of the total sample respondents. Nearly (37.2%) of the sample respondents were investing in the gold ETFs for prestige and to avail tax benefit with a percentage share of 18.8 and 18.4 respectively. (17.8%) of the sample respondents invest in gold ETFs for capital appreciation.

The amount invested in any scheme is completely depended on the spending and saving habits of individual households. The larger the savings the amount of investment will be higher. In order to know the savings amount, the details are classified into four categories viz., less than Rs.3,000, Rs.3,001- Rs.6,000, Rs.6,001- Rs.12,000, above Rs.12,000 savings classification of sample investors is shown in table 2

Table no.2 Amount invested in Gold ETF

S.No	Amount invested	Respondents	Percent
1	Less than 3,000	192	38.4
2	3,001-6,000	144	28.8
3	6,001-12,000	62	12.4
4	Above 12,000	102	20.4
	Total	500	100.0



It is clear from the above table 4.40 that nearly (38.4%) of the sample respondents have invested up to less than Rs.3,000, (28.8%) of them have invested up to Rs.3,001- Rs.6,000, (20.4%) of them have invested above Rs.12,000, and a remaining (12.4%) of them have invested up to Rs.6,001- Rs.12,000.

With a view to analyse the effect of savings pattern on investments of the investors, the savings pattern of the sample investors is studied. The information showing the investment pattern of the sample investor is furnished in table 3.

Table No.3 Frequency of Investment in Gold ETF

S.No	Frequency of investment	Respondents	Percent
1	Monthly	83	16.6
2	Quarterly	179	35.8
3	Half yearly	102	20.4
4	Annually	136	27.2
	Total	500	100.0

It may be noted from the information given in 41 that most of the respondents were investing on a Quarterly basis (35.8%) of the total sample, (27.2%) of the total sample respondents have the habit of investing in gold ETF on annual pattern, (20.4%) of them invest on a half yearly basis, and a least of (16.6%) of them invest in gold ETF on a monthly basis.

It is always important to know the persons, who actually participate in the decision making process while investments are made by the small and individual investors. It certainly helps us in spreading the investment culture among the small investors by evolving strategies of attracting the attention of those persons. In this context, the sample investors are asked to identify the persons, who normally assisted or participated in the process of investment decision making.

Reasons for repeated investment in Gold ETF's

S.No	Factor for repeated Investment	Total Score	Mean Rank	Rank
1	There is no worry on Adulteration.	2500	8.74	IX
2	Gold provides Diversification to the Portfolio.	2581	9.03	VII
3	Gold is considered as Global Asset Class.	2596	9.08	V
4	Gold is used as Hedge against Inflation.	2716	9.50	II
5	It is considered to be less Volatile compared to Equities.	2645	9.25	III
6	It helps to Keep in Electronic Form	2549	8.92	VIII
7	It is the Safety Method of Storing the Gold	2593	9.07	VI
8	Extremely Liquid	2613	9.14	IV
9	The Portfolio Disclosure is on Daily/Real Time.	2831	9.90	I
10	The Intra Day Trading is done at possible Low Cost.	2498	8.74	X
11	The Sale Price is very close to actual NAV of Scheme.	2468	8.74	XI

It is now proposed to assess the reason for repeated investment in Gold ETFs. Based on the opinions of the sample investors and classify there in to five broad categories: Highly agree. Agree, Neutral, Disagree and Highly Disagree. For their attitude regarding their repeated asked to express their attitude regarding their repeated investment Highly agree (5 points); Agree (4points) Natural (3 points), Disagree (2 points), Highly Disagree (1 points). Depending on the eating given by the sample respondents weighted score for each investment is calculated and classified.

It may be observed from the table 4.50 that based on the weighted scores, the investment in gold ETF's, the reasons such as The Portfolio disclosure is on daily/real time, Gold is used as Hedge against inflation, it is considered to be less volatile compared to equities. The above said factors had total score of 2831, 2716, 2645 with an average mean of 9.90, 9.50 and 9.25 respectively. Hence these factors were ranked as I, II, III.

The factors viz., the gold ETF's is extremely liquid, Gold is considered as global asset class, It is the safety method of storing the gold had a total score of 2613, 2596, 2593 with a average mean of 9.14, 9.08, 9.07 respectively. Hence these factors were ranked as IV, V and VI.



The factors viz., Gold provides diversification to the portfolio which helps to keep in electronic form. There is no worry on adulteration have secured the total scores of 2581, 2549, 2500 respectively, with a average mean of 9.03, 8.92 and 8.74 and it could be ranked as VII, VIII and IX. The factors the intraday trading is done at possible low cost, the sale price is very close to actual NAV of scheme had a total score of 2498, 2468 with an average mean of 8.74, 8.73, 8.72 respectively.

Findings

It was clear and evident from the analysis that the various companies issuing gold ETF has been selling the gold ETF at a transparency price and they were having high liquidity while selling and the SEBI has ensured heavy securities and norms hence it has a low risk profile. Hence forth the gold ETF are becoming a very safe pattern in the minds of investors.

It could be found that the factor “ **affordability** ”, as the gold ETF’S were able to be purchased in small quantities at varied levels have given the avenues for investing in gold. As the Gold has **varied schemes** and **sold at transparent price** was the next factor which has given prime satisfaction for the investor who have purchased Gold ETF’S. Every investor who have a willing to purchase Gold, will try to purchase a gold which are of purity, has secured a total score of 871 and has been ranked as III, IV and V ranks were secured by the factors of **liquidity for low risk** and which has given the **best strategy for return potential** had a total score of 869 and an average mean of 2.802.

Conclusion

A Gold saving fund offers the option of Systematic investment plans which are suitable for those who want to invest in disciplined manner on a long term basis. Gold ETF is an emerging option of the various investment alternatives available to the investor.

While gold prices in India, the world's biggest buyer of the metal, have fallen 10 percent from their peak in late November, a term deposit in a bank for more than five years could still fetch more than 9 percent. India has 14 gold exchange-traded funds. Assets under management with 14 Indian gold exchange traded funds grew 18 percent to 116.48 billion rupees in the year to March 2013, data from industry body Association of Mutual Funds in India (AMFI) showed.

In terms of awareness, the investors in India seem to be largely uninformed about the Gold ETF as an investment product with just about 4 lakhs retail investors invested in this product out of a total investor base of over two crores

In spite of the merits of holding Gold ETFs, the investment in the same is low due to the low awareness among the investors and the sentimental attachment of the investors towards holding gold in the physical form.

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