



IS GOLD EXCHANGE TRADED FUND AN IDEAL INVESTMENT AVENUE FOR SMALL INVESTORS: EVIDENCE FROM INDIAN FINANCIAL MARKETS.

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Abstract

The main objective of this article was to trace the history and development of Gold Exchange Traded Funds (ETF's) from Indian context and also to explain the operational procedure of the fund. The article majorly focus on Gold ETF's which is considered as investment avenue for the investors and also tries to make comparison between physical gold and ETF's , also to shed light upon Gold ETF's. The present article is descriptive and conceptual oriented. The present study upholds all the previous research findings, experiences gained from various sources and it is a review based article. The major purpose of the study was to provide key inputs to the readers about operations of Gold ETF's and the findings of the study revealed that Gold ETF's are found to be an ideal investment Avenue for smaller investors, safer investments on gold in organized electronic format.

Key Words: *Gold ETF's, Investment Avenue, Operational Procedures, Electronic Format, Conceptual Study.*

Introduction

Gold is considered as one of the precious metal which carries a very deep significance and importance in both tradition and religious beliefs; it symbolizes the power and wealth of an individual. In Indian context gold plays a vital role they carry some sentiment, ethnic and spiritual meanings especially during weddings and festive seasons. We can find more lavish spending on gold. The Indian gold market plays a prominent role in the global economy of gold market. Gold is a friend which always bails out us when an individual facing financial crisis. Gold is considered as highly liquid investment and portability is the additional feature of gold. Gold is considered as one of the investment avenue to investors and it can be treated as secure and safe investment during uncertain times. Gold ETF's is an Exchange traded fund that aims to track physical gold price gold ETF's are passive investment avenues that are based on gold prices and to invest in gold bullion markets. Gold ETF's are the units of gold representing physical gold in dematerialized or in electronic form and the measurement for 1 Gold ETF unit is equal to one gram of gold which is backed up by physical gold of high purity. Gold ETF's combines the features of flexible stock investments and simple form of gold investments.

Gold ETF's were listed and traded on stock exchanges like National Stock Exchange (NSE) , Bombay Stock Exchange (BSE) and at global markets, like a stock of listed companies in the exchange and can be traded similar to stocks i.e buying and selling of gold units Simultaneously. Investors have a flexible options of purchasing gold in electronic formats gold ETF's are similar to the trade in stocks but the investor do not get physical gold but investor receives cash equivalents and trading can be done through demat account with help of stock brokers and stock broking firms it is a convenient form of investing on gold electronically because of direct gold pricing in the markets leads to transparency in holdings of Gold ETF's and the uniqueness of ETF is due to its structural and operational mechanism ETF's have much lower expenses while compared with physical gold investments since ETF's are traded on electronic plat forms. Gold ETF's are subject to market risks which impact the price of gold and gold ETF's are monitored by SEBI and subjected to SEBI Mutual fund regulations, Fund houses undergoes regular and statutory audits by competent governing bodies and hence transparency is more.ETF is a considered to be innovative financial product that links mutual fund investments with stocks, ETF Fund provides benefits to investors, like reduction in risk by making investments in diversified portfolios. ETF trading value is based upon the Net Asset Value (NAV) of the underlying stock that represents.

History of Gold ETF's:

ETF's trading on stock and gold are relatively new innovation in financial markets. These investment options are available for individual investors also for institutional investors. The presence of ETF's in the world of financial



markets still in growing stage. Most of the ETF's investments were introduced few years back. The inception of ETF's are briefly stated as under

- a) ETF's were introduced in Toronto Stock Exchange, Canada as Toronto Stock Exchange Index Participant Units in 1990s.
- b) S&P 500 Depository receipt (SPDR) was launched on the American Stock Exchange in 1993. Till date in the stock market S&P (SPDR) ETF is one of the active managed funds The major share of assets under management in USA from all ETF's were accumulated by SPDR ETFS.

In India Nifty bees, was the primary ETF, was introduced on January 8, 2002 by BENCHMARK, an Asset Management Company. It was traded on capital market segment of National Stock Exchange and each NIFTY bee unit is represented as 1/10 of NIFTY Index.

1.3 Objectives of the Study:

- To Understand the Emergence of Gold ETF's.
- To Understand the Operational Procedure of Gold ETF's.
- To Compare the Physical gold investment with Gold ETF's.

Research Methodology:

Research methodology used in present work was based upon descriptive research approach where researcher have referred various articles pertaining to Gold Exchange Traded Funds and by considering the published G-ETF's returns available in money control, NSE and BSE index websites were also considered and the main aim of presenting the paper was to give key inputs to the readers/ investors and scholars about G-ETF's and its functioning and also provide basic knowledge relating to G-ETF's from Indian context.

Evolution of G-ETF'S from Indian Context:

In early 2000's at Benchmark Asset Management, was a pioneer equity ETF's in India first regulatory approval got for G-ETF's to market in 2007. ETF funds were listed in NSE with a symbol of GOLDBEES. Then UTI has launched G-ETF with NSE symbol Gold share on March 1, 2007. Later various public and private companies came into Stock Market.

Table 1.1

Issuer	Name	Symbol	Underlying asset	Launch date
Axis Mutual Fund	Axis G-ETF	AXISGOLD	Gold	Nov2010
Birla Sun Life Mutual Fund	Birla Sun life G-ETF	BSLGOLDETF	Gold	May2011
CanaraRobeco MF	Canara Robeco G-ETF	CANGOLD	Gold	March2012
HDFC Mutual Fund	HDFC G-ETF	HDFCMFGETF	Gold	August 2010
ICICI Prudential Mutual Fund	ICICI Prudential G-ETF	IPGETF	Gold	August 2010
IDBI AMC	IDBI Gold ETF	IDBIGOLD	Gold	Nov2011
Kotak Mutual Fund	Kotak Gold Exchange Traded fund	KOTAKGOLD	Gold	July 2007
Quantum Mutual Fund	Quantum Gold Fund	QGOLDHALF	Gold	Feb2008
Reliance Mutual Fund	Reliance Gold Exchange Traded Fund	RELGOLD	Gold	Nov2007
Religare Mutual Fund	Religare Gold ETF	RELIGAREGO	Gold	March 2010
SBI Mutual Fund	SBI Gold Exchange Traded Scheme	SBIGETS	Gold	April2009



UTI Mutual Fund	UTI Gold Exchange Traded Fund	GOLDSHARE	Gold	March2007
Reliance Nippon LifeAsset Management Ltd	Reliance ETF's Gold Bees	GOLDBEES	Gold	March 2007

Source: NSE website.

1. Steps involved in G-ETF's Trading:

It is simple as trading in other equity, it similar kind of work to be performed in equity trading Investors are required to

- Registered with stock broker having membership of NSE
- Filling KYC form
- Opening of Demat Account
- Post Margin maintenance
- Commencement of trading

Gold ETF's: Risk Diversifier of Investments

Risk and Return are considered as two faces of an investment coin. Investor considers both risk and return factor while employing their financial resources there is an important aspect of identifying and locating securities in such a way that they may reduce risk and diversify risk. Investment upon gold is considered as risk hedger or mitigation of risk. The aim of investment on G-ETF's is not only for getting higher returns but also to minimize risk and G-ETF's are also subjected to market risks and fluctuations and Gold serve the purpose of diversifying portfolios.

An investor can enjoy the tax exemption benefits based upon the schemes.

2.1 Operational Procedure of G-ETF's



Redemption of G-ETF's





2.2 Comparison of Physical Gold V/S G-ETF's

Bases	Physical Gold	G-ETF's
Meaning	An individual can buy and hold for his requirements and purity of gold may be 99.5 % purity	Gold ETF's are exchange traded funds an investor holds ETF units whose value of units were based on NAV market value.
Pricing	Pricing of physical gold may varies from ornament to ornaments like coins, bars, jewelries.	G-ETF's are priced as per International standards and prices are transparent.
Investment	An individual can invest in bars, coins, ornaments with denominations like grams etc.	G-ETF's are available in small quantities like 1 gram and is more affordable.
Charges	Investor have to bear making charges upon buying value of ornaments.	Buying of G-ETF's includes expense ratio 1% every year and brokerage charges may be applicable upon transactions.
Liquidity	Physical gold can be purchased from jewelers and banks and can be exchanged with jewelers as and when buyer requires money.	It will settled through stock exchanges like NSE and BSE stock indices through investor registered stock broking firms.
Returns	Actual return= current price of gold–buying and making prices of ornaments.	Actual return= current price of gold trading on stock exchange – buying price and brokerage charges.
Demat Account	Demat account is not required for individual buyer.	An investor should have a demat account for trade transactions.
Wealth Tax	1% wealth tax is applicable if an individual buys more than Rs. 30 Lakhs.	Wealth tax is no applicable on G-ETF's

Findings

The findings of the study were based on previous works so far published by various research scholars, Financial analysts, Reports of regulatory body and experiences gained from interaction with investors, stock brokers and findings were as follows:

- Gold ETF's are considered as good investment Avenue and easy to invest on Gold.
- Volatility and risk associated with G-ETF's are less compared with equity stocks.
- Less tax implication when compared with physical form of buying gold and buying of physical gold subjected to wealth tax.
- Affordable for small investor's i.e they can buy units according to investor's purchasing power.
- Flexibility and transparency is one of the major advantage of G-ETF's over physical gold.
- Liquidity is high in case of physical gold and G-ETF's.
- It is an ideal form of an investment on gold through organized electronic platform and also safer heaven investments.

Suggestions

- In general people/ individual investors are not much aware of G-ETF's Since it is on growing phase and financial institutes should take measures to create awareness among people and create confidence in investors.
- Regulatory bodies like AMFI and SEBI will take initiatives in order to promote G-ETF investments.
- G-ETF's are considered as electronic platform for mobilization of small savings.

Conclusion

The perception of investors may differs from one investment avenues with other alternative options available, few investors may expect high return and also they are willing to take up the risk. There are so many options



available to investors with different risk and return factors depending upon the investor willingness to invest and investor risk bearing profile, Gold ETF's are considered as preferable investment avenue they can park funds. Since G-ETF's are in growing phase many investors are not so much aware of ETF trading. The physical gold value determines the allotment of Gold units and people have sentiment of holding gold in physical form and signify the power and wealth of an individual. Among all the investments options available for investor Gold ETF's is considered as attractive investment due to its unique features like flexibility in trading, liquidity, Safety, price variance may be less when compared to other investment avenues it assure the future growth. There are many underlying factors behind the development of G-ETF's such as fluctuations in stock markets, weaken of Indian currency against US dollars and uncertainties in economy may also be reason. Gold ETF's provides an equal opportunity for individual investors and also for institutional investors and encourage investors to invest in Gold Schemes. Gold ETF's provides investors with tax exemption facility and this will be considerable factor to invest in G-ETF's also attract investments so that market size of G-ETF's can be expanded.

Directions for Further Study

- In future research work can take up on risk and return by using Sharpe, treynor and Jensen's ratio using secondary data by considering financial data. In present study researcher has shed light upon Gold ETF's and its operation process, features etc
- A comparative study can undertake upon Gold ETF's and Equity Investments using financial data.

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