

## **GOLD EXCHANGE TRADED FUNDS: A STUDY OF SELECT LITERATURES**

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### **ABSTRACT**

Presence of Gold in a Portfolio diversifies the risk associated with the investment gold being a metal of vast importance is seen as the sign of prosperity and wealth in India. Investors are much more keen to invest in gold due to its diversifying nature and better return as compared to that of other. The objective of this study is to understand the importance of gold exchange traded funds, to understand its advantages by studying the select literature available and draw the conclusion thereof. This study is descriptive one based on the select literatures. Literature is collected from various secondary sources and is analysed to make a conclusion thereof. After a rigorous study of the literature it was found that gold ETFs have been successfully tracking their underlying and is one of the preferable investment over other gold investment ways. Moreover, due to its various advantages it is preferred over all.

**KEYWORDS** – *ETFs, Gold ETFs, Gold fund of funds, Pledging.*

### **INTRODUCTION**

The obsession on Indians towards gold is very well known. In India from time immemorial it has been of great importance and is viewed by most of the cultures as sign of prosperity and wealth amongst the public. Gold has been a fundamental part of many rituals in Indian culture. General public in India invests in gold in the form of ornaments, jewellery etc. which is passed on from generations to generations and has been proven as best investment way for Indian households. Moreover, it is used by the people to capitalize their business or secure their basic needs after severe reversals of business by pledging the gold in the market. From investors point of view gold has a major role to play in their investment strategy. According to expert investors the presence of gold in the portfolio makes it well diversified. Hence gold is popular among investors for building a strong portfolio as it acts as a hedge against inflation and currency fluctuations. Every investor has different perception about the risk and return associated with the investment. The general rule of risk and return stands as “higher the risk higher the return”. In India now investors have become sensible now and instead of making aggressive investment they tend to make sensible investment decisions. They have become risk averse in nature i.e. they tend to invest in those avenues with known risk and less returns rather than unknown risk and higher return. But still due to the presence of risk investors are now forced to look for alternative modes of minimising the risk associated with their portfolio. The presence of uncertainty has increased the importance of risk management and portfolio investment. A report from World Gold Council (2011) reveals that even if the investor holds a wide variety of alternative assets, they are no perfect substitute for protection that the presence of gold in a portfolio can offer. Investors can invest in gold in various ways such as gold bullion, jewellery, gold fund of funds, gold ETFs and e-gold. The choice of investment depends upon the investment objective and time duration for which investor tends to hold the gold. Thus the importance of investment in gold has increased in past few years. Earlier investment in gold required a huge amount which made it impossible for the small investors to invest in gold. With the emergence of gold ETFs most of the drawbacks with other modes of investment in gold has been overridden. Gold ETFs are the funds which closely track the price of physical gold. They are the units representing the units of physical gold and can be in paper or dematerialised form. The main objective is to provide similar return as that of physical gold. Roughly one unit of gold ETF is equal to 1 gm of physical gold and these units are traded on exchanges just like the stock of a company. It's an instrument which invests in gold of 99.55 % purity. Gold ETF is just like owning virtual gold which does away the problem of safety and storage as in physical gold. Low cost, liquidity, handy dealing with gold ETFs contributes to their preference over physical gold. In India, Benchmark Asset Management Company Private Limited propounded the idea of ETF when they filed proposal to SEBI in May 2002, however it was not approved, after approval, Benchmark Mutual Fund launched India's first Gold ETF on 15<sup>th</sup> Feb followed by UTI Mutual Funds Gold Scheme on 1<sup>st</sup> March 2007.

## **OBJECTIVES OF THE STUDY**

1. To know and understand the importance of Gold Exchange Traded Funds.
2. To study the select literatures available on Gold Exchange Traded Funds.
3. To enumerate advantages of Gold Exchange traded funds.

## **RESEARCH METHODOLOGY**

This study aims to know and understand the importance of gold Exchange Traded Funds on the basis of some select literatures available and throw alight on the importance of gold ETFs on the basis of same. The study is descriptive in nature and literature were collected from various secondary sources. The paper tries to delineate the contribution of literature collected towards fulfilment of the objectives.

## **REVIEW OF LITERATURE**

In India, Benchmark Mutual Fund launched India's first Gold ETF on 15<sup>th</sup> Feb followed by UTI Mutual Funds Gold Scheme on 1<sup>st</sup> march 2007. Since then gold ETFs have been a perfect face of investment in gold. To understand the importance and concept of gold ETFs few literatures were reviewed thoroughly. However, each one of them had the different way but they all concluded towards same results. Among the literatures reviewed which some of them are as below:-

- Wang, Hussain & Ahmed (2010), Studied the developments of the gold exchange traded funds and future scenario, specifically in China. Their study concluded that the gold exchange traded fund is an affluent product to invest in the gold and holds a very constructive implication for the foreign exchange, financial safety and avoiding the inflation in the country.
- Goyal & Joshi (2011), studied the financial performance, variations and also analysed the risk behaviour of the selected Gold ETFs. They concluded that the Gold ETFs are good for investors as they are having less variations as compare to the other investments. Confidence of investors is increasing and hence the future of gold is bright in India.
- Saleem & khan (2013), tried to trace the emergence & history of Gold ETFs in India and also to explain proper working mechanism of this fund along with portfolio risk diversification and tax implementation of Gold ETFs fund in India. They made a comparative study of gold and gold ETFs and concluded that gold ETFs are very attractive investment destination due to its low price, smaller denomination feature and other advantages over physical gold.
- Garg and Singh (2013), in their paper examined the performance of two competitive financial instruments i.e. ETF and Index Funds over the period June 2006 to December 2009. The study finds ETFs performs better in term of their replication strategy, tracking ability as well long term performance.
- Velmurugan P. S., Saravanan A & Ragavendra RH (2013) conducted a comparative study on investing in gold related assets with an objective to examine the performance of gold related instruments, namely, Gold ETF, Gold mutual fund and physical gold and also to ascertain the better investment among the return of gold ETFs and Gold Mutual Fund. The researcher considered the secondary data for the period from April 2007 and September 2012 and carried out ANOVA and LSD tests. The results concluded that there is a significant difference among the Gold ETFs, Gold Mutual Funds and physical gold. The study proved empirically that making Investment in Gold related assets namely; Gold ETFs are more profitable compared to investing in Gold Mutual Fund investment.
- Aggarwal et.al. (2014), made an attempt to compare the performance of gold ETFs and physical gold. To fulfil their objective, they compared risk and return of physical gold with the risk and return of gold ETFs. Monthly closing prices from March 31, 2011 to March 31, 2014 have been taken. The empirical evidence concluded that the gold ETFs have lesser variability as compared to the physical gold and hence the performance of gold ETFs is better than the performance of physical gold.
- Goyal (2014), studied the performance of various alternatives investment avenues from the period of October 2007 to October 2014 and concluded that in comparison to market Gold ETFs were providing higher returns at a lower. Their findings also highlighted that systematic risk for Gold ETFs were negative implying that inclusion of gold stocks in the portfolio will make it more diversified and risky less.
- Esampally & Aarthi (2015), studied the returns and risk of gold ETFs to that of the returns and risk of fund of funds. The result concluded that gold ETFs record lesser variability as

compared to that of gold FOFs and therefore, the performance of gold ETFs was better than FOFs.

- Radhika (2015) ,her paper presented the features, pros and cons and various types of Gold ETFs which acts as a positive catalyst for the investing by small investor's.she concluded that due to their various advantages over physical gold and other ways to invest in gold, gold ETFs have emerged as a strong mode of investing in gold. 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.
- Raghu G. Anand (2017). Studied the analysis of gold and gold ETFs as an investment tool and its advantage.. The results concluded that gold indeed is one of the best investment options available for investors. The innovative collective scheme (gold ETFs) provides higher returns than physical gold and helps the investors to gain. Gold ETFS have been consistent in their returns, which makes them remarkable to shift investors mind from physical gold to gold ETFs.

## CONCLUSION

The study of various literatures above concluded towards almost same results. In above where ever the performance of gold ETfs were analysed it showed that they were almost consistent in their returns and they closely tracked their underlying. Moreover, the study showed us that gold ETfs have few advantages such as

1. **Hedge against inflation:** Gold is considered a safe investment because it can be used as a protection against currency fluctuation and inflation.
2. **Simple trading:** A unit of Gold ETFs is as same as 1 gm of gold which makes it easy for small investors to invest in and their trading process is similar to that of stocks of the company.
3. **Open trading:**transparency is maintained as Gold prices on the stock exchange are publicly available.
4. **Easy transactions:** one can buy and sell gold ETFs at any time of the day – when the stock exchanges are open – from any part of the country.
5. **Inexpensive:** Gold ETFs listed on the stock exchange have no entry or exit load for purchase or sale of units.Brokerage charges are the only cost one have to bear that too is as low as 0.5 to 1 percent.
6. **Tax benefits:** Gold ETFs older than a year attract long-term capital gains tax. However, there is no VAT, Wealth Tax or Securities Transaction Tax on gold ETFs.
7. **Secure investment:** Gold ETFs are an easier investment than physical gold as there are no concerns over theft, secure storage or payments such as locker charges or making charges.
8. **Safe asset:** Gold prices do not usually fluctuate very heavily. Even if your returns on equities decrease, gold ETFs could prevent you from sustaining big losses.
9. **Portfolio diversification:** Gold ETFs are a good way to add diversity to your portfolio. Amid unstable market conditions, a diversified portfolio can give your better returns and reduces your risks.
10. **Loan collateral:** gold ETFs can function as collateral security if you want to borrow from financial institutions.

The detailed elaboration of the above literature showed that the investment in physical gold is confronted with many problems which are omitted by the Gold ETFs. However, risk are always associated with every investments and so are in the case of gold ETFs also. But despite of it gold ETFs stands as an one of the best alternative of investing in gold.Thus it can be said that gold indeed is one of the best investment options available to Indian retail investors. Gold ETFs provide the higher returns and if not at least close returns to that of their underlying. This innovative, easy and liquid investing tool helps the prospective investor's gain and asset management companies to widen their products and customer base.

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