

Gold Exchange Traded Funds

Features of Investment in Gold ETF

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Gold Exchange Traded Fund

Exchange Traded Funds (ETFs) are open ended mutual funds that are passively managed and most of them seek to mirror the return of an index, a commodity or a basket of assets. ETFs are listed and traded on stock exchanges like stocks. They enable investors to gain broad exposure to indices or defined underlying asset (commodity) with relative ease, on a real-time basis, and at a lower cost than many other forms of investing.

Gold ETFs provided investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold, and to buy and sell that participation through the trading of a security on stock exchange. Gold ETF would be a passive investment; so, when gold prices move up, the ETF appreciates and when gold prices move down, the ETF loses value.

Gold ETF tracks the performance of Gold Bullion. Gold ETFs provide returns that, before expenses, closely correspond to the returns provided by physical Gold. Each unit is approximately equal to the price of 1 gram of Gold. But, there are Gold ETFs which also provide a unit which is approximately equal to the price of 1/2 gram of Gold.

Why should an investor invest in Gold ETF?

- No worry on adulteration
- Gold provides diversification to the portfolio
- Gold is considered as a Global Asset Class
- Gold is used as a Hedge against Inflation
- Gold is considered to be less volatile compared to equities
- Held in Electronic Form
- Store of value
- Extremely Liquid

Advantages of Investing in Gold ETFs:

- Potentially cheaper to have price exposure to gold price as compared to other available avenues
- Quick and convenient dealing through demat account
- No storage and security issue for investors
- Transparent pricing
- Taxation of Mutual Fund
- Can be traded on stock exchange like buying / selling a stock
- Ideal for retail investor as minimum lot size to trade is one unit on secondary market
- NAV of a unit will track price of approximately 1/2 or 1 gram of gold

Comparison of Gold ETF with Physical Gold

S No	Parameter	Jeweller	Bank	Gold ETF
1	How Gold is held	Physical (Bars / Coins)	Physical (Bars / Coins)	Dematerialized (Electronic Form)
2	Pricing	Differs from one to another. Neither transparent nor standard.	Differs from bank to bank. Not Standard.	Linked to International Gold Prices and very transparent.
3	Buying Premium above gold price	Likely to be more	Likely to be more	Likely to be less
4	Making Charges	Charges are incurred	Charges are incurred	No Charges are incurred
5	Impurity Risk	High	Nil	Nil
6	Storage Requirement	Locker / Safe	Locker / Safe	Demat Account
7	Security of Asset	Investor is responsible	Investor is responsible	Fund House takes the responsibility
8	Resale	Conditional and uneconomical	Banks do not buy back	At Secondary Market Prices
9	Convenience in Buying / Selling	Less convenient, as Gold needs to be moved physically	Less convenient, as Gold needs to be moved physically	More Convenient, as held in electronic form under the demat account
10	Quantity to Buy / Sell	Available in standard denomination	Available in standard denomination	Minimum is ½ or 1 gram according to the fund
11	Bid Ask Spread	Very High	Can't Sell Back	Very Low
12	Risk of Theft	Yes, possible	Yes, possible	No, Not possible
13	Wealth Tax	Yes	Yes	No
14	Long Term Capital Gains Tax	Only after 3 years	Only after 3 years	After 1 year

Investor Requirements for trading in Gold ETF

- Trading account with a stock exchange broker
- Demat account as Gold ETF can be traded only in demat form

Settlement: The transactions are settled with T+2 rolling settlement

Load Structure

Entry Load: Nil

Exit Load: Nil

Tax treatment of Gold ETF

The Gold ETF is classified under mutual fund and will be taxed as per non equity mutual fund taxation rules. Investor investing in Gold ETF need not pay wealth tax. Investor has to pay taxes after redemption as per the tax laws applicable for non equity mutual fund. But, when the Gold ETF is redeemed for physical gold the taxation rules will be similar to that of physical gold.

Risks Involved

- 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.
- The sponsor of the mutual fund is not responsible or liable for any loss or shortfall resulting from the operation of the fund beyond the initial contribution made by it of an amount of Rs 1 Lac towards setting up of the Mutual Fund.
- 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 NAV in response to factors such as economic and political developments, changes in interest rates and perceived trends in Bullion market movements and over longer periods during market downturns.

Gold ETFs available in India

- Benchmark Mutual Fund - Gold Benchmark Exchange Traded Scheme (NSE Symbol: **GOLDBEES**)
- Kotak Mutual Fund - Gold Exchange Traded Fund (NSE Symbol: **KOTAKGOLD**)
- UTI Mutual Fund - UTI Gold Exchange Traded Fund (NSE Symbol: **GOLDSHARE**)
- Reliance Mutual Fund - Gold Exchange Traded Fund (NSE Symbol: **RELGOLD**)
- Quantum Gold Fund - Exchange Traded Fund (ETF) (NSE Symbol: **QGOLDHALF**)