



Growth and Development of Gold Exchange Traded Funds: An Evidence from Indian Financial Markets.

Dr. SATHVIK S.

Assistant Professor, Department of Management Studies,

AKIMS, Ballari, Karnataka.

Email - ssathvik9262@gmail.com

Abstract: *The main objective of this study is to understand the concept of Exchange traded funds with reference to Gold Exchange Traded Funds (ETF's) from Indian context and 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, To look over the empirical works carried out on exchange trading funds. The present article is descriptive, conceptual, Empirical review oriented. The present study upholds all the previous research findings, experiences gained from various published sources, online resources and journals of repute. The major purpose of this study is to understand the operations of Gold ETF's trading structure and the findings of the study revealed the Gold ETF's are found to be an ideal investment Avenue for investors, it is found to be a safer investment on gold in organized electronic format.*

Key Words: *Gold ETF's, Investment Avenue, operational procedures, Electronic format, Conceptual study.*

1. 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. In Indian context gold plays a vital role they carry some sentiment, ethnic and spiritual meanings especially during weddings and festive 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 such as National Stock Exchange (NSE) , Bombay Stock Exchange (BSE) and at global markets, just like stock of listed companies in the exchange and can be traded similarly 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.



1.1. 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,

- ETF's were introduced in Toronto Stock Exchange, Canada as Toronto Stock Exchange Index Participant Units in 1990s.
- S&P 500 Depository receipt (SPDR) has been launched by 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.

2. REVIEW OF LITERATURE:

P. Baba Gnanakumar (2020) have done a research work on descriptive analytics during disruptive periods of investments- A case study on Gold and Gold ETF's the aim of study was to decide the investment patterns between physical gold and Gold ETF's and also to examine the reasons for substantial outflow of funds from gold etf 's compared to physical gold. The necessary data related to present work has been collected from 1st April 2017 to March 2018 from world gold council. Researchers applied K-means on clustering in order to identify bullish and bearish trends in return and ROC analysis to test the goodness of predictability. The results of the study found to be very interesting. During bullish trends both G-ETF's and physical gold yields same returns while in bearish trends the gold ETF's may be hedged with gold during bearish trend mutual fund organizations and stock broking firms were unable to sell or market the ETF's products. **Anurag Mishra (2018)** has made an analysis between Gold Investment and Real estate investment. He opines that investments made on gold provide the flexibility and liquidity for investment when compared with real estate. Investments made upon gold can yield returns which are fluctuate because those are subject to market risks and are volatile. whereas real estate investments provides stable returns and researcher opines that investors who wants to employ the funds in long run real estate is considered as best investment option. **Dr. Prashanta Atma and K. Suchitra (2017)** had conducted a study on gold exchange traded from global scenario and researchers opines that gold exchange traded funds are considered as best innovative financial product emerged as new investment avenue global ETF industry had 3,690 exchange traded funds. At present in India more than 41 ETF's. The aim of the research work was to assess growth and progress of G-ETF's globally and also they focused on Indian G-ETF's from inception. The period of the study was from 2003 to march 2014 the researchers used tools such as 3-day moving averages, CAGR and correlation were used and also they run F-test is used to examine hypothesis. The results of the study had revealed that in India correlation between Gold ETF's and Asset under management is 0.945 which has shown positive correlation. Gold ETF's enable investors to diversify their risks. **Raghu. G Anand (2017)** has examined that gold ETF's as an investment tool and its advantages, the results of the study revealed that gold is one of the best investment option available for investors and also ETF's provide good returns compared to physical gold and the consistent in returns made the investors to shift from holding physical gold to ETF investments. **Radhika (2016)** In her research work she had presented the features of G-ETFs, pros and cons of investments in G-ETF's, she opined that G-ETFs act as positive catalyst for investments made by small individual investors. She concludes that G-ETF's emerged as strong investment option available for investors and also ETF's are more advantageous over physical gold. **Esampally and Aarthi (2015)** have analyzed the risk and return of G-ETFs to that of risk and return of funds. The results have shown G-ETF's records less variability as compared to gold FOF's and they concluded that ETF's are better than FOF's. **Goyal (2014)** have studied the performance of alternative investment options during the period October 2007 to October 2014 and they concluded that G-ETFs provides higher returns at short-run. They highlighted that systematic risk for G-ETF's was found to be negative, Gold stocks in portfolio's make investments less risky. **Aggarwal.et.al (2014)** have made a comparison between performance of G-ETF's and Physical gold in order to achieve their objective researcher's have made comparison with risk and return of G-ETF's to risk and return of physical gold. Monthly closing prices of four years were considered. The empirical evidences have showed G-ETF's have less variability compared with physical gold and they concluded that better returns are generated by G-ETF's over physical gold. **Velmurugan PS et.al (2013)** have examined the performance of gold related instruments like Gold ETF's, Gold mutual funds and physical gold for this purpose researcher had collected secondary data during the period April 2007 to September 2012 and carried ANOVA



and LSD tests . The results of the study revealed that there was a significant differences among G-ETF's, Gold mutual funds and physical gold and they considered that G-ETF's are more profitable over Gold mutual funds and physical gold. **Garg and Singh (2013)** in their research work researchers have examined performance of two competitive financial instruments i.e ETF and Index funds over the period june 2006 to December 2009 the results have shown ETF's performance is better than index funds in long run. **Saleem and Khan (2013)** has traced the emergence and history of G-ETF's in India and concluded that G-ETF's are attractive investment option than physical gold since ETF's are more profitable. **Goyal and Joshi (2011)** have studied financial performance, variability and risk associated with select G-ETF's they concluded that G-ETF's are good investment options for investors since ETF's have less variability in returns over other investment avenues. They opined that confidence on G-ETF's has increases in investors mind and in India there is bright future for G-ETF's. **Wang , Hussain et.al (2010)** have studied the development and Future scenario of G-ETF's from china context . In their work they concluded that G-ETF is an affluent product for investing in gold and holds implications on foreign exchange, financial safety and helps in avoiding inflation.

3. OBJECTIVES OF THE STUDY:

- To understand the concept of Exchange traded funds with reference to Gold Exchange ETF's.
- To look over the empirical studies pertaining to Gold Exchange Traded Funds (GETF'S).
- To compare the Physical gold investment with Gold ETF's.
- To Understand the Structure of GETF's Trading.

4. RESEARCH METHODOLOGY:

Research methodology used in the present work is based on conceptual and descriptive methods. Author has referred various research articles published in repute journals, besides considering the published G-ETF's returns obtained from money control, NSE and BSE index data, the main aim of presenting the article is to know about G-ETF's and its functioning , to understand the developments of G-ETF's in India.

5. 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
Canara Robeco 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.



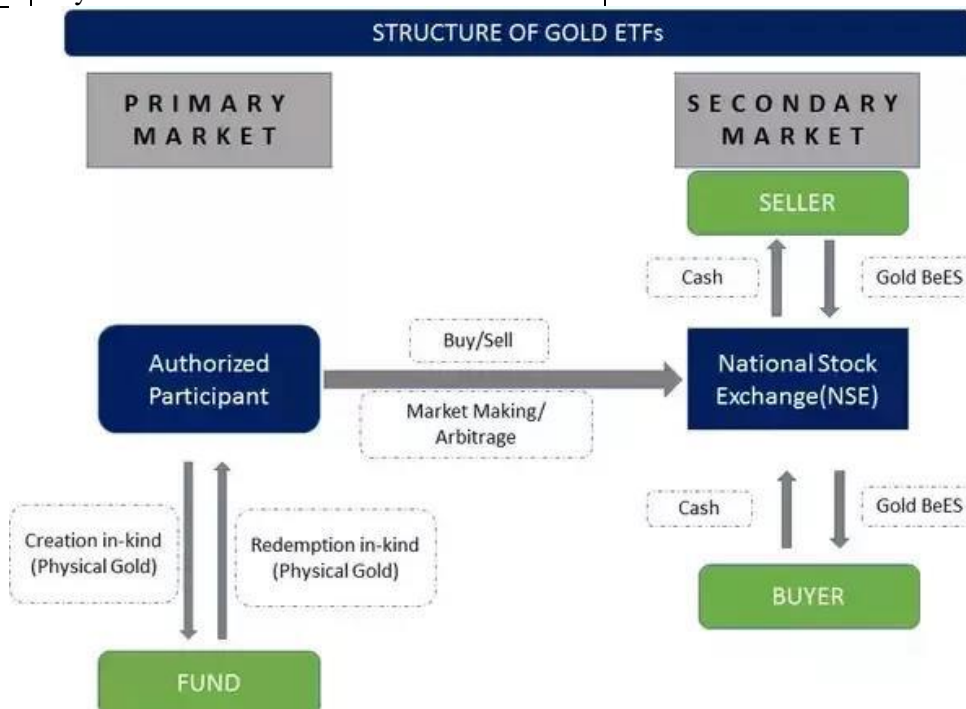
5.1. Steps involved in G-ETF’s Trading:

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

6. COMPARISON OF G-ETF’S V/S PHYSICAL GOLD:

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 has 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	Individual buyers don’t need Demat account.	For trading transactions investors need demat account.
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



Source: <https://www.fincash.com/l/investing-gold-etfs>



Principle findings of the study:

The findings of the study were based on previous research works so far published by various research scholars, academicians, 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.
- One of the major advantages of G-ETF's over physical gold is their flexibility and transparency.
- 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.

7. SUGGESTIONS:

- G-ETF's are still in growing phase stock broking firms, financial institutes should take measures to create awareness among investors 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 hence investors should employ funds in such investment avenues thereby reduce costs.

8. 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 ready 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:

1. In future research work can take up on risk and return analysis by using Sharpe, treynor and Jensen's ratio by considering financial data. In present study author has shed light upon Gold ETF's and its operation process, features etc
2. A comparative study can be done on Gold ETF's and Equity Investments using financial data. Still there is a wider scope for research in this domain.

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