A Study on Investor’s Echelon of Contentment in Investing towards Gold ETFs

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Abstract- Gold products are considered an extremely valuable means of investment in the current scenario of financial markets. Though jewellery and industrial demand for gold has fluctuated over the past years due to the steady expansion in emerging markets of middle classes aspiring to Western lifestyles, gold, like all precious metals, could be used as a hedge against inflation, deflation or currency devaluation. There are many options to invest in gold like Gold Exchange Traded Funds (GETFs), Gold Fund of Funds (GFOFs), e-gold, stocks of gold mining companies, gold futures, gold bars, gold coins, gold jewellery, etc. 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 level of satisfaction of investors in investing in Gold ETFs.

Keywords: Gold, Investment, Gold ETFs, Risk-Return, Net Asset Value

I. INTRODUCTION

India is one of the countries which is Gold-centric from times immemorial. Gold has traditionally been awfully popular with Indians as they love to have this metal in abundance. Almost every household have Gold in one form or the other and it is a scheme of investment by women in India, in form of ornaments, which is passed down the generations and is proved to be good investment with enduring benefits for Indian households. For centuries Gold remained as an auspicious gift in for Indians. Gold is purchased and saved more by women population of India from their regular and petty savings for protecting their and children’s future which acts as a major investment in case of emergencies, an investment that protects them from market fluctuations and ensures portfolio stability.

Hence people usually save gold in India compared to their counterparts in other countries. Gold is used as a liquid asset and also as an investment commodity. Significantly gold is often brought as an investment in terms of liquidity and to counter losses that may occur from other types of investments. Diversification helps in the reduction of uncorrelated risk and promotes the optimization of returns for a given level of risk in a portfolio, hence a best feasible investment in a portfolio.

Portfolios containing gold are generally regarded as more vigorous and less volatile compared to other equity or debt based portfolios. Usually investors in India are risk-averse and thus concentrate on those investments where there is less volatility and less risk comparatively. As gold is less volatile than other commodities or equities they tend to invest majority, in gold. This type of investment actually proved to hold true as can be seen in post-crash period in India where all other types of investments in equities, funds, fund of funds failed to give good returns to the investors.

But there are some problems and drawbacks while making investment in gold. These may be the fear of loss by theft, loss by damages. The most important is that everyone is not able to invest in or purchased the gold. The investors who have small amount of savings or funds to invest will not be able to do this because of the prices and scarcity nature of gold. Gold investment requires a big amount to get adequate growth and return on investments. To make investment in gold possible for such investor, there is a most popular type of investment called “Gold exchange traded Funds (ETFs)”. Gold ETFs are another effective way to invest in yellow metal. To understand the Gold ETFs, it is required to have a basic idea about the exchange traded funds.

Gold ETF: Gold ETFs are exchange traded funds that are meant to track closely the price of physical gold. So gold ETF lets the investors to own gold in their Demat account. Each unit of the ETF lets the investor own 1gm of gold without physically owning it. Thus investing in a gold ETF provides the benefits of liquidity and marketability which are a limitation of owning physical gold. Gold ETF is liquid because you can trade in it at any time during market hours. Gold ETF is marketable because you can trade any amount in it just like a normal stock including short

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sitting and buying on margin. Owning gold ETF also is cheaper than owning physical gold because it has no cost of carry (the cost of storing physical gold).

II. PERFORMANCE OF GOLD ETF’S
Since all Gold ETF’s in India rack underlying asset as gold, the returns would be almost same. Things to keep in mind while investing in Gold ETF’s they are:

1. Performance of Gold ETF’s: ETF’s are to be monitored for at least 3-5 years to know their performance to be considered for investment.

2. Assets under management (AUM): Higher the amount invested by investors the better, as it reflects the confidence investors have in an ETF.

3. Expense Ratio of Gold ETF’s: Usually it is around 1% of their AUM, i.e., 1% of returns would be reduced from investors’ returns to meet expenses for management and so lesser expense ratio the better.

Objectives of the Study
1. Comparative study of Gold ETFs v/s Physical Gold
2. To study the mechanism of Gold ETFs
3. To measure the problems that would rise while investing in gold ETF and assess the investor’s level of satisfaction.

III. METHODOLOGY OF THE STUDY
The present study is mainly based on primary data and is behavioural in nature. However, the secondary data is also made used at some places for the study wherever it became necessary. The primary data is collected through a structured questionnaire and a pilot study was made. The relevant secondary data is gathered from the reports, books, journals, periodicals, dailies, magazines, and websites. The data collected with the help of schedule are processed and analyzed by using SPSS software.

Sampling Design
As the universe of the study is the investors of Gold ETF trading companies who are operating in Coimbatore city. Companies like 1. SBI Gold 2. Religare Gold 3. Reliance Gold ETF 4. UTI Gold Fund 5. Quantum Gold Fund 6. HDFC Gold ETF 7. ICICI Pru Gold ETF 8. Kotak Gold ETF 9. Birla Sunlife Gold ETF and 10. IDBI Gold ETF are the leading few who trade gold at a maximum level and they had been listed in the website of SEBI. The researcher has approached all these companies (who are having their branches at Coimbatore city alone has been taken into consideration for the study) and got the list of the investors. Based on convenience random sampling 50 customers from each company were selected on random basis and a cumulative of 500 customers was taken into account. The final list of 500 customers was distributed with the structured schedule and the data were collected.

Tools of Analysis
Descriptive statistics, Confirmatory Factor Analysis and Henry Garrett ranking

IV. SCOPE AND LIMITATION OF THE STUDY
The present study aims at analyzing the investment behavior of individual investors with special reference to Coimbatore city. Hence, the scope of the present study is confined to the study of level of satisfaction of small and household investors of Coimbatore city. Any study of this sort, which is essentially based on primary data would have its own limitations and the present study is not an exception. The investors are normally reluctant to part with information relating to their personal life. Instilling confidence at the time of data collection is quite a hard task but after winning their confidence, eliciting information is made easy and possible to some extent. However, the overall objective of this study is not affected by the above said limitations. There were constraints of time and money which have resulted in limiting the scope of the study. The researcher personally and individually contacted the investors. It was a hard task to make them willing to answer the questions in the schedule. The investors expressed unwillingness to answer some questions. Hence, the following are the limitation of the present study.

1. Many respondents were unwilling to share information about maintenance of accounts, sources of finances due to different perceptions about the research and researcher.

2. Most of the data collected by the researcher was based to pursue the respondents to provide information, sometimes through informal discussion assuring them that the informations shared will be used for academic purpose and individual opinions will not be identified.

Physical gold Vs Gold ETF

1. Liquidity: Investor can buy and sell paper gold very fast. All it takes is the click of a mouse or a phone call to the broker. Gold ETF units are freely traded on stock exchanges and they can execute the transaction at any time during market hours.
2. **Transparency in pricing:** The price of paper gold is completely transparent. The price of an ETF unit is linked to the price of 1 gram of gold. There are no making charges or premiums involved. The investor has to pay only a small brokerage of 0.5%.

3. **Tax efficiency:** Profits from gold ETFs and gold funds are treated as long-term capital gains and taxed at a lower rate (flat 10% or 20% with indexation) if the holding period exceeds one year. In case of physical gold, the holding period has to be three years before the profits are treated as long-term gains. Paper gold does not attract wealth tax (except e-gold).

4. **Affordability:** Paper gold is suitable for investment purposes because it can be bought in small denominations of 1 gram. Some companies even offer 500 mg units. It is not possible to buy gold Jewellery in very small denominations. The smallest ornament would weigh about 4-5 grams.

5. **Assurance of purity:** There's no need to worry about the purity of gold while buying ETFs. Gold ETFs are required to hold equivalent quantity of gold bullion of 99.5% purity. But physical gold, the buyer has to ensure that he gets the purity for what he had paid for.

6. **Convenience and safety:** Physical gold can be stolen and therefore it needs to be stored in a locker. Gold ETF and e-gold units are held electronically in the demat form. The gold fund of funds can be either in the demat form or held with the custodian.

7. **Conversion possible:** Paper gold can be converted into physical gold by re-materialization. Till now, e-gold was the only form of paper gold that allowed conversion to physical gold. Now, gold ETF units can also be exchanged for bullion.

**Trading of Gold ETFs**

Trading in Gold ETFs, one has to do similar work as to do in equity trading. The investor are required to register with a broker having membership of NSE:

- Fill up KYC form
- Open a de-mat account
- Post margins and
- Commence trading

The following is diagrammatic presentation for trading of Gold ETFs:
It has led to a stronger path and growth. Since 1993, there was a tremendous growth in gold ETF’s. As of May 2012, there were 3,256 ETFs with an asset value of 1.4 ton globally. Over 80% of the ETFs today were launched in the last five years. ETF AUM has advanced with mutual fund assets and through the proportion is still quite small at 6%. The main reason for the development of ETF’s was due to the tough economic scenario, which has pressured to perform when the markets were volatile and the inability in attaining alpha consistently. The increased regulation of post 2008, tightened competition caused the recent popularity in passive investing through ETF’s.

### Table No: 1
**Problems faced by the investor on investing in Gold ETF’s Communalities**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Asset Management Fee is charged by the Fund house.</td>
<td>1.000</td>
<td>0.762</td>
</tr>
<tr>
<td>There is No Depreciation when Selling the Units.</td>
<td>1.000</td>
<td>0.530</td>
</tr>
<tr>
<td>There is no Premium or making charges.</td>
<td>1.000</td>
<td>0.492</td>
</tr>
<tr>
<td>There is no possibility of immediate Buying &amp; Selling.</td>
<td>1.000</td>
<td>0.794</td>
</tr>
<tr>
<td>ETF’s can be Redeem only in Term of Cash not as Gold.</td>
<td>1.000</td>
<td>0.537</td>
</tr>
<tr>
<td>ETF’s includes Cost on Demat A/c &amp; Maintenance Cost.</td>
<td>1.000</td>
<td>0.554</td>
</tr>
<tr>
<td>There is A Risk of Tracking the Performance.</td>
<td>1.000</td>
<td>0.801</td>
</tr>
<tr>
<td>Market Risks are more.</td>
<td>1.000</td>
<td>0.735</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.


**Components Matrix (A)**

<table>
<thead>
<tr>
<th>Factors</th>
<th>Components</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Asset Management Fee is charged by the Fund house.</td>
<td>0.054</td>
</tr>
<tr>
<td>There is no Depreciation when Selling the Units.</td>
<td>0.379</td>
</tr>
<tr>
<td>There is no Premium or making charges.</td>
<td>-0.319</td>
</tr>
<tr>
<td>There is no possibility of immediate Buying &amp; Selling.</td>
<td>-0.069</td>
</tr>
<tr>
<td>ETF’s can be Redeem only in term of Cash not as Gold.</td>
<td>-0.376</td>
</tr>
<tr>
<td>ETF’s includes cost on Demat A/c and Maintenance cost.</td>
<td>-0.426</td>
</tr>
<tr>
<td>There is a Risk of Tracking the performance.</td>
<td>0.767</td>
</tr>
<tr>
<td>Market Risks are more</td>
<td>0.768</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

A 4 Components Extracted.

The Gold ETF investors have various problems on trading and other activities pertaining to selling and trading. To ascertain whether the investors are willing to accept the greater degree of risks to earn higher returns, statement reading were scaled with fine points, (5- Highly Agree 4- Agree, 3- Neutral ,2- Disagree and 1- Highly Disagree) The recorded responses of samples investors is tabulated and provided in table .

For the purpose of analysis 8 factors were selected and they were employed though factor analysis. The factor X1- The asset management fee an extraction value of 0.762, X2- There is no depreciation when selling the units had an extraction value of 0.530, X3- There is no premium or making charges had an extraction value of 0.492, X4 – There is no possibility of immediate buying and selling had an extraction value of 0.794, the factor X5- ETF’s can be redeem only in term of cash not as gold had an extraction value of 0.537, the factor X6- ETF includes cost on demat a/c and maintenance cost had an extraction value of 0.554, X7- There is a risk of tracking the performance had an extraction value of 0.801, X8- market risks are more and had an extraction value of 0.735.

In order to have further explanation, these factors were employed through total variance and it was understood that the factor X1- The Asset Management fee is charged by the fund house alone has accounted for 21.921%, The other factors like no depreciation when selling the units, no premium or making charges, no possibility of buying and selling factors together accounted for 43.133%.
s are in inflation, surge the n for disclosure is on daily/real time, Gold is used as for investment in Gold ETFs are investment with huge amount of money. The hands of such people/investor who cannot make investment provide a better and strong platform for organized market price fluctuation (Equity). Gold ETF may investment in terms of storage (Physical gold) and diversification.

Investment in gold. The volatility in gold prices is destination and provides an average mean of 2.802. These are the suggestion based on this study general people as investors do not have the adequate information about the Gold ETFs. There is a need of hour that investors should be well aware and informed about the scheme of Gold ETFs. The government bodies such as SEBI and AMFI should take initiative to make awareness among the general people or investors. Mutual Fund regulatory body and Member of Stock Exchanges should encourage the people to take participate in Gold ETFs to mobilize the savings of the people. Initiative should be taken to make Gold ETFs are more attractive and less risky.

VI. SUGGESTIONS

These are the suggestion based on this study general people as investors do not have the adequate information about the Gold ETFs. There is a need of hour that investors should be well aware and informed about the scheme of Gold ETFs. The government bodies such as SEBI and AMFI should take initiative to make awareness among the general people or investors. Mutual Fund regulatory body and Member of Stock Exchanges should encourage the people to take participate in Gold ETFs to mobilize the savings of the people. Initiative should be taken to make Gold ETFs are more attractive and less risky.

V. FINDINGS

The findings of the study are:

Gold ETFs are very attractive investment destination and provides easy access to make Investment in gold. The volatility in gold prices is very less as compare to equity. Thus it is safer and protect against the risk associated with price fluctuation. As it is available in smaller denomination so it allows easy asset allocation and diversification.

Gold ETFs carry less risk in comparison of other investment in terms of storage (Physical gold) and market price fluctuation (Equity). Gold ETF may provide a better and strong platform for organized investment mobilizing the fund lying ideal in the hands of such people/investor who cannot make investment with huge amount of money. The reasons for investment in Gold ETFs are 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.

VII. CONCLUSION

In the recent years the Gold ETFs was on surge and experiencing vast deals in venturing capital appreciation for the investors. Gold commodity ETFs are simple way to expose the investor's investment strategy to the performance of gold, without actually owning any gold products. Thus by accelerating the financial market through ETFs can success many minds of the investors.

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