Research Paper

Management

Investors Awareness of Gold Exchange Traded Fund in India

DR.R.UMARANI	ASSOCIATE PROFESSOR RVS INSTITUTE OF MANAGEMENT SCIENCE AND RESEARCH RVS COLLEGE OF ARTS AND SCIENCE SULUR, COIMBATORE, TAMILNADU, INDIA
D.DEEPA	PHD RESEARCH SCHOLAR ASSISTANT PROFESSOR DEPARTMENT OF MANAGEMENT STUDIES CHERRAN COLLEGE FOR WOMEN JJ NAGAR, KANGEYAM ROAD, ARASAMAPALAYAM(PO) TIRUPUR, TAMIL NADU, INDIA

ABSTRACT

In recent days a lot of investors invest their money in different ways like Bank Deposits, Commodities like Gold, Silver etc., Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits and Stock Market options like Bonds and Debentures, Mutual Funds, Equity Shares etc., Gold Exchange Traded Fund (GOLD ETF) is the one of investment portfolio of stock market. In our country is the largest consumers are buying gold. Gold ETFs are another effective way to invest in the yellow metal. Gold ETFs are Mutual Funds listed on National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE). Objective of the study is create awareness to the investors. The Asset Management Companies and The Association of Mutual Funds in India (AMFI) are has to promote a lot of investor awareness programmes, seminars, advertisements and other promotion activities only then Gold ETF will be reach to the investors conveniently.

KEYWORDS :

INTRODUCTION

In finance, investment is putting money into an asset with the expectation of capital appreciation, dividends, and/or interest earnings. This may or may not be backed by research and analysis. Most or all forms of investment involve some form of risk, such as investment in equities, property, and even fixed interest securities which are subject, among other things, to inflation risk. It is indispensable for project investors to identify and manage the risks related to the investment.

According to the financial terminology investment means, Purchasing Securities in Money or Capital Markets or Buyingn Monetary or Paper Financial Assets in Money or Capital Markets Investing in Liquid Assets like Gold, Real Estate and Collectibles. Investors assume that these forms of investment would furnish them with some revenue by way of positive cash flow.

These assets can also affect the particular investor positively or negatively depending on the alterations in their respective values. Investments are often made through the intermediaries who use money taken from individuals to invest. Consequently the individuals are regarded as having claims on the particular intermediary. It is common practice for the particular intermediaries to have separate legal procedure of their own.

Following are some intermediaries:

- Banks
- Mutual Funds
- Pension Funds
- Insurance Companies
- Collective Investment Schemes
- Investment Clubs

Investment in the domain of personal finance signifies funds employed in the purchasing of shares, investing in collective investment plans or even purchasing an asset with an element of capital risk.

Hence, an investor's risk tolerance plays a key role in choosing the most suitable investment. Various investment options available are Bank Deposits, Commodities like Gold, Silver etc., Post Office Savings Schemes, Public Provident Fund, Company Fixed Deposits and Stock Market options like Bonds and Debentures, Mutual Funds, Equity Shares etc., Of the various types of investment options in the Stock Market, Gold Exchange Traded Funds (Gold ETFs) happens to be one of the best options to be included in the portfolio for diversification of risk.

The idea of a gold exchange-traded fund was first conceptualized by Benchmark Asset Management Company Private Ltd in India when they filed a proposal with the SEBI in May 2002. However it did not receive regulatory approval at first and was only launched later in March 2007. The first gold ETF actually launched was Gold Bullion Securities, which listed 28 March 2003 on the Australian Securities Exchange. Graham Tuck well, the founder and major shareholder of ETF Securities, was behind the launch of this fund and enlisted N.M. Rothschild & Sons (Australia) Ltd, Citibank and Deutsche Bank as market makers on the ASX.

MEANING OF GOLD ETF

Gold ETFs are exchange traded funds where the underlying asset is gold. Therefore, value of gold ETF depends upon the price of gold. One needs a demat account to invest in an ETF. The concept of gold ETFs in India was first introduced by Benchmark Asset Management Company, in India.Investment in gold can be done in two ways either in physical form (Gold coins and bars through bank and Jewellary) or in non physical form (Gold ETFs, Gold Fund of funds, etc through brokers or authorized entity).

Gold ETFs are Mutual Funds listed on National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE). The investment objective of Gold ETFs is to provide returns that, before expenses, closely correspond to the returns provided by domestic physical gold price. Typically, 1 ETF unit is equalent to 1 gram of Gold in spot price. ETFs are safe and secure.

CONCEPT OF GOLD ETF

India is one of the largest consumers of gold. Nearly 800 tonne of gold is imported every year. Indians account for 23% of the world's total annual demand for gold. While conventional investment options like jewellery, gold bars and coins still exist, Gold ETFs are another effective way to invest in the yellow metal.

Exchange-Traded Fund (ETF) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange at approximately the same price as the net asset value of its underlying assets/commodity over the course of the trading day. Gold ETF is an open ended exchange traded fund, listed on the stock exchange, available for trading with an intention to offer investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold.

A Gold ETF is designed to provide returns that, before expenses, closely correspond to the returns provided by domestic price of Gold. An Individual who is a resident of India, Non Resident Indian, Foreign Institutional Investor registered with SEBI, Banks and Financial Institutions, Companies, Trusts and Cooperative Societies, Partnership Firms, a HUF, Mutual Fund registered with SEBI, etc., can invest in Gold ETFs. A Demat account and registration with the broker (member of NSE) is mandatory for the investors willing to invest in Gold ETFs. An investor can either invest in these ETFs during New Fund Offer (NFO) periods, when the scheme is launched or buy Gold ETF units from Stock Exchange. Investing during the NFO period would attract entry load, which differs from one Mutual Fund to the other, and have a minimum investment amount.

The advantage of Gold ETF, **firstly**, is that, it can be easily sold in the secondary market on a real-time basis (i.e. at the prevailing market price) whereas, while selling physical gold, the jeweller will deduct some charges.

The **second** advantage is storing. Investors do not have to worry about the storage and security aspects that are typically associated with investing in physical gold.

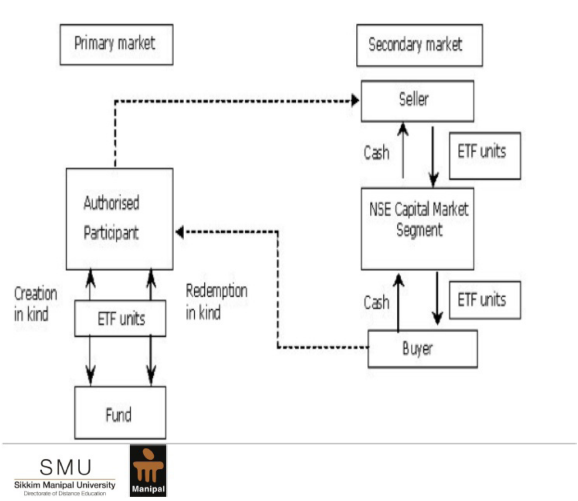
Thirdly, it is ideal for retail investor as minimum lot size to trade is one unit on secondary market.

Fourthly, ETFs have a transparent pricing mechanism**.**

Finally, Gold ETFs assure purity of gold. As per SEBI regulations, the purity of underlying gold in Gold ETFs should be 0.995 fineness and above.

As a coin has two sides, Gold ETFs also suffer from a few limitations like, the returns on Gold ETFs may be hampered, due to factors such as entry loads and annual fund management charges levied by the fund house on the fund's NAV and Gold ETFs are made up of gold contracts and derivatives and can only be redeemed for cash, never for gold itself.

STRUCTURE OF GOLD ETF



How Gold ETFs work? Creation Units and Gold ETF Unit

The following are the major participants in gold ETFs. ETF sponsor Authorized Participant Custodian Exchange Retain Investors Institutional/large investors. Let's we understand the working of gold ETFs.

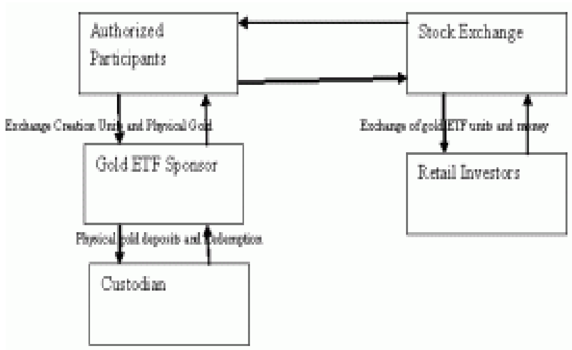
A mutual fund sponsor (like HDFC, Quantum), when senses a market for gold ETFs, approaches authorized participants to arrange for required physical gold. If these two comes to an understanding, the fund sponsor (ETF sponsor) files a prospectus with the SEC (in the U.S.) or SEBI (in India).

Initial Offer

Once the regulator gives approval, the ETF sponsor collects money from retail investors and gets physical gold through authorized participants and keeps it in the custody of custodians. The ETF sponsor provides ETF units back to the retail investors.

Post NFO

Once the New Fund Offer Period is over, the ETF sponsor doesn't deal with the retail investors directly. The gold ETF is listed on the exchange and the units retraded just like any other stock.

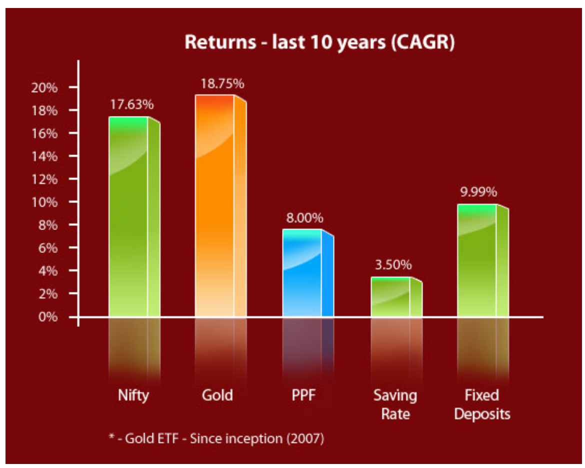


Authorized participants, who are market makers, act as intermediaries between retail investors and the gold ETF sponsor through the exchange.

Authorized participants get creation units from the gold ETF sponsor in exchange of physical gold. Creation unit usually comprises of 1000 grams of physical gold and in return the authorized participants get gold ETF units worth the physical gold.

Authorized participants then take care of creating the market by supplying gold ETF units as per the demand. A gold ETF unit usually represents either 1 gram of gold or half gram of gold so that small investors can buy.

The gold ETF sponsor arranges for safe custody of the physical gold. Usually, specialists called custodians do this job for sponsors for a fee. The gold ETF sponsor is responsible for quality of gold, safety of gold. The gold ETF sponsor takes adequate insurance for physical gold. The gold ETF sponsor can also invest in money market instruments upto the percentage mentioned in the offer document.



We love gold, almost every Indian home has a little of it. For centuries, gold has remained an auspicious gift, whether it's for a new born baby or for a newly married couple.

We all know how gold gets passed down generations and has proved to be a good investment over decades. No wonder, India is world's largest consumer of gold. Gold's most enduring benefit is its ability to stabilize a portfolio and protect it against market fluctuations.

Historically, gold prices have shown better stability even during periods of crisis, as compared to other investment types. Most experts advise investing in gold as a "must", since gold creates a robust portfolio that withstands market fluctuations. Gold has reflected providing stable returns in the long run.

SUGGESTION

It was seen from the study that the awareness level about Gold ETF as a securitized gold instrument is modurate in India. Although the main purpose of the investors for investment in gold is price appreciation, the mode of investment is primarily jewellery. The investors in gold should be made aware of the advantages of investing in Gold ETF in comparison to other forms of gold.

The Asset Management Companies must promote Gold ETFs among the investing class in India through seminars, advertisements and other activities. The investor awareness programmes should be conducted by organizations concerned to build awareness among investors. If the financial sector has to grow, people should be educated about investment opportunities. The Association of Mutual Funds in India (AMFI) has initiated a programme under which each fund house needs to organize at least five investor awareness programmes every month. So, many such programmes have to be conducted by concerned organizations .

CONCLUSION

Gold ETFs offer investors a convenient way and means of investing in gold as a security without the hassles of storage and safety concerns arising due to it. It also spares the investors from worrying about the purity and quality of gold. It also provides various other benefits such as electronic trading and Demat storage and providing a means to diversifyone's investment portfolio. But at the same time, the research indicated that many of the goldETFs currently available in the Indian market exhibit a large deviation from actual gold returns. This problem is more pronounced in India than in developed markets. This means that as gold prices rise or fall, the gold ETF value should also rise or fall to that extent.

However, very often, the net asset value of the gold ETF gives a skewed picture. It does not accurately reflect the movement in underlying gold prices. Hence, Gold ETFs turn out to be a good investment option for investors to hedge their assets against the uncertain global market scenario.

REFERENCES

1. Dr. M.Jayanthi, Ms. S.Malathy, Ms.T. Radhulya "A study on performance of Gold ETF companies in India" (2013) International Research Journal of Business and Management Vol-VI Pg no 97- 102. | 2. Ms. Mallika Mathew, Dr. M.M. Sulphey "Gold Exchange Traded Funds – A Behavioural Analysis of Retail Investors in Kerala" (2011) online available at http://www.moneyquest.com | 3. DR.Prasantha Athma, Suchitra k, "Gold ETF: An emerging investment option" (2011) Asia Pacific Journal Business and management vol-2 issue 1 Pg no 66-78 | 4. Prashant Kumar, "Gold- Investment Rationale",(2005) online available at http://www.acadamia.edu | 5. Nithish sebastian, "performance evalution of GoldETF" online available at http://www.kotaksecurities com. | 6. "Know all about Gold etf" online available at http://www.nsegold.com | 7. Barbara wanyana, "Investor awareness, Perceived risk attitudes, and stock Market" online available at http://www.mubs.ac.ug | Website | www.nsegold.com | www.financemapsworld.com | www.moneycontrol.com | www.economictimes.indiatimes.com | www.goldetf.net | www.etfdb.com | www.wikipedia.org |