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A Study on The Performance of Gold ETF in India

KEYWORDS: Gold ETF, sharpe ratio, jenson, nav

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ABSTRACT *In India, gold ETFs were launched mainly with objective to increase the liquidity for the better market efficiency. The drawback with gold ETFs is liquidity; some ETFs are illiquid, which impacts their buying and selling flexibility. Hence, investors should consider this as a factor while investing in gold ETFs and should stick to funds that are liquid. Traditionally, Indians love to buy gold and they want to possess it. In fact, they hardly go for ETFs which is just a piece of paper for them. But in India, during the last one year, investment in gold ETFs has risen by Rs. 303 crore. Hence, the study on returns, using sharpe ratio and jenson ratio have been undertaken to identify the growth of gold ETFs in India*

INTRODUCTION

Every investor has a different perception regarding the return and risk. There is a general rule of return and risk and that is "higher the risk, higher the return and lower the risk, lower the return". The return and risk combination depends upon the investors choices and his or her actions.

There are so many destinations for investment such as equity shares, bond, debentures, bank deposits, gold, silver and many more, and their "risk & return" relation always differ from each other. But investment should be of such type that may produce high return with minimum risk and that is convenient to do. At these criteria gold is much attractive and most productive in terms of return in current scenario. India is one of the largest consumers of gold. 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 EXCHANGE TRADED FUNDS

Gold ETFs provides 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 ½ gram of Gold.

ADVANTAGES OF 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 or 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 ½ or 1 gram of gold

DISADVANTAGES OF GOLD ETFs:

- 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

Table – 1: GOLD ETFs Vs PHYSICAL GOLD

CRITERIA	GOLD ETFs	PHYSICAL GOLD	
		JEWELERS	BANKS
Sale & Purchase	Demate Form	Bar/coin/jewellery	Bar/coins

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Selling Back	Sell back on Exchange	Conditional or unconditional	Markup,10-15% ideally restricted
Security of Asset	Responsibility of fund	Investors concern	Investors concern
Transparency	Very High	Very low	High
Impurity Risk	Nil	High	Nil
Pricing	Transparent	Neither std or transparent	Not std
Denomination	1 gm and in multiples of 1gms	Std Denomination	Std Denomination
Wealth Tax	No	Yes	Yes
LTCG Tax	Applicable after 1yr	Applicable after 3 yr	Applicable after 3 yr

Buying physical gold is very different from buying and owning gold ETFs, though one must admit that ultimately the value of both would remain the same, barring marginal differences

REVIEW OF LITERATURE

ALOK GOYAL AND AMIT JOSHI(2011) in their study on Performance appraisal of gold ETFS in India has analyzed the risk in the emerging security in the stock market i.e Gold ETFs. The study also aimed at the financial performance, variations and analyzes the risk behaviour of the selected Gold ETFs in comparison of NSE index. **SHEFALI SINHA AND MAHUA DUTTA(2013)** in their study on Performance Analysis of Returns of Goldman Sachs Gold Exchange Traded fund has analysed the performance of the fund for the period 2007-20012. The study also identified the performance of returns of domestic price of Gold in comparison to gold ETF. **MOHDSALEEM ,MATLOOBULLAH KHAN(2013)** in their paper "The Overview of Gold ETFs and its various positive features" has traced the emergence & history of Gold ETFs in India and also explained the working mechanism of this fund along with portfolio risk diversification and tax implementation of Gold ETFs fund in India. This paper also mada a comparative study of Gold ETFs v/s Physical Gold and it also emphasized that the Gold ETFs as a strong and attractive investment option for investor.

P.KRISHNA PRASANNA(2012) has studied the Performance of Exchange –Traded Funds in India..This research paper examines the characteristics and growth pattern of all the 82 exchange traded schemes floated and traded on Indian Stock markets, and evaluates their performance using Date Envelopment Analysis (DEA).On an average, ETFs grew at 37% annually during the period 2006-2011 in India. These funds consistently outperformed the market index and generated higher returns. ETFs generated excess returns of 3%p.a as against CNX NIFTY, which is the Indian equity market and attracted large investments in the post financial crisis years.

STATEMENT OF THE PROBLEM

Traditionally, Indians likes to buy gold and they want to possess it. In fact, they hardly go for ETFs . But in India, during the last one year, investment in gold ETFs has risen . India is one of the largest consumers of 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. The study aims is mainly give awareness about GOLD ETF's. Hence the study is undertaken fill the research gap with the following objectives.

1. To analyse the returns of gold ETF on daily basis
2. To assist the investor in selection of the best GOLD ETF .

The research is based on the secondary data collected from NSE for all Gold ETF companies listed from 1st Jan 2009 to 1st Jan 2014.

FINDINGS AND RECOMMANDATIONS:

Table – 2: ANNUALIZED DAILY AVERAGE RETURNS OF GOLD ETFS

Close Ended Gold ETFs	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Axis Gold	NA	0.05	0.11	0.05	-0.02
Gold Bees	0.09	0.08	0.11	0.04	-0.02
Gold Share	0.09	0.08	0.11	0.05	-0.06
HDFC	NA	0.11	0.11	0.05	-0.02
ICICI	NA	0.09	0.11	0.05	-0.02
Kotak Gold ETF	0.09	0.08	0.12	0.05	-0.02
Quantum Gold Fund	0.09	0.08	0.11	0.05	-0.02
Reliance Gold ETF	0.09	0.08	0.12	0.05	-0.02
Religare Gold ETF	NA	0.11	0.11	0.05	-0.02
SBI Gold ETF	0.10	0.08	0.12	0.05	-0.02
Birla Sunlife Gold ETF	NA	NA	0.13	0.05	-0.02
IDBI Gold ETF	NA	NA	0.2	0.04	-0.01
MG Gold ETF	NA	NA	NA	0.04	-0.02
CRMFGETF	NA	NA	NA	0.09	-0.02

Annualized yearly returns of GOLD ETF listed in NSE are presented in table 2. From the table 2, it is evident that SBI GOLD ETF performed well during the financial year 2009-2010 compared to other 4 years. It has been seen through the table that in the year 2010-2011 HDFC has performed well . In the year 2011-2012 IDBI and In the year 2012-2013 CRMFGETF and in 2013-2014 IDBI has performed well.

Table - 3 ANNUALIZED SHARPE RATIO OF GOLD ETFS

Close Ended Gold ETFs	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Axis Gold	NA	0.00	0.05	-0.01	-0.07
Gold Bees	0.03	0.03	0.05	-0.02	-0.07
Gold Share	0.04	0.03	0.05	-0.02	-0.10
HDFC	NA	0.08	0.05	-0.01	-0.07
ICICI	NA	0.05	0.04	-0.01	-0.06
Kotak Gold ETF	0.03	0.03	0.05	-0.01	-0.07

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Quantum Gold Fund	0.03	0.03	0.05	-0.01	-0.06
Reliance Gold ETF	0.03	0.03	0.05	-0.01	-0.07
Religare Gold ETF	NA	0.06	0.05	-0.01	-0.06
SBI Gold ETF	0.05	0.03	0.05	-0.01	-0.07
Birla Sunlife Gold ETF	NA	NA	0.04	0.00	-0.05
IDBI Gold ETF	NA	NA	0.1135	-0.02	-0.05
MG Gold ETF	NA	NA	NA	-0.02	-0.06
CRMFGETF	NA	NA	NA	0.02	-0.05

The sharpe index assigns the highest values to assets that have best risk adjusted average rate of return. The risk free rate has been taken from the risk free rate of SBI on whole since it cannot be calculated on own. Sharpe ratio measures the total risk of the funds on the basis of return per unit of total risk. From the table 3, it is evident that SBI GOLD ETF performed well during the financial year 2009-2010 compared to other 4 years. It is evident from the table 3 that in the year 2010-2011 HDFC , In the year 2011-2012 IDBI and In the year 2012-2014 CRMFGETF has done well with regard risk adjusted average rate of return.

Table - 4 ANNUALIZED TREYNOR RATIO OF GOLD ETFS

Close Ended Gold ETFs	Return	Return	Return	Return	Return
	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Axis Gold	NA	-0.01	-2.02	-0.22	-2.44
Gold Bees	-8.77	0.84	-2.17	-0.21	-0.59
Gold Share	-3.24	0.36	-1.44	-0.19	-1.20
HDFC	NA	0.72	-1.65	-0.05	-0.05
ICICI	NA	0.31	-2.33	307.13	-1.13
Kotak Gold ETF	-3.91	0.81	-1.16	-0.15	-0.69
Quantum Gold Fund	-83.51	0.71	-2.86	-0.29	-1.19
Reliance Gold ETF	-12.33	0.55	-1.34	-0.18	-0.61
Religare Gold ETF	NA	0.67	-0.59	-1.24	-0.78
SBI Gold ETF	-1.08	0.43	-2.37	-0.14	-1.11
Birla Sunlife Gold ETF	NA	NA	-0.52	1.07	-0.65
IDBI Gold ETF	NA	NA	-4.63	0.48	-0.47
MG Gold ETF	NA	NA	NA	-0.54	-2.74
CRMFGETF	NA	NA	NA	0.54	-0.85

Treynor is a measurement of the returns earned in excess of that which could have been earned on an investment that has no diversifiable risk per each unit of market risk assumed. Above Table shows the Treynor measures of Gold ETF listed in NSE. The higher the Treynor ratio, the better the performance under analysis. In the year 2009-10 SBI performed well. It has been inferred from the table 4 that in the year 2010-2011 GOLD BEES and in the year 2011-2012 BIRLA Gold ETF has performed well. In the year 2012-2013 ICICI Gold ETF and 2013-2014 HDFC has performed well

Table - 5 ANNUALIZED BETA VALUE OF GOLD ETFS

Close Ended Gold ETFs	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Axis Gold	NA	0.09	-0.03	0.03	0.03
Gold Bees	0.00	0.08	-0.03	0.05	0.13
Gold Share	-0.01	0.07	-0.04	0.05	0.09
HDFC	NA	0.12	-0.03	0.08	0.07
ICICI	NA	0.12	-0.02	0.00	0.07
Kotak Gold ETF	-0.01	0.07	-0.05	0.06	0.11
Quantum Gold Fund	0.00	0.04	-0.02	0.03	0.06
Reliance Gold ETF	0.00	0.05	-0.05	0.05	0.13
Religare Gold ETF	NA	0.09	-0.10	0.01	0.10
SBI Gold ETF	-0.04	0.06	-0.03	0.07	0.07
Birla Sunlife Gold ETF	NA	NA	-0.14	0.00	0.11
IDBI Gold ETF	NA	NA	-0.27	-0.03	0.14
MG Gold ETF	NA	NA	NA	0.03	0.03
CRMFGETF	NA	NA	NA	0.07	0.09

A positive beta means that the asset's returns generally follow the market returns. A negative beta means that the asset's returns generally move opposite to the market returns. It has been observed from above table 5 that in the year 2009 -2010 QUANTUM Gold Share and in the year 2010-2011HDFC Gold ETF has less deviation. In the year 2011-2012 QUANTUM Gold ETF, in the year 2012-2013 HDFC and 2013-2014 IDBI are less variable when compared to other gold ETFs.

Table - 6 ANNUALIZED JENSON RATIO OF GOLD ETFS

Close Ended Gold ETFs	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014
Axis Gold	NA	0.00	0.06	-0.01	-0.08
Gold Bees	0.04	0.03	0.06	-0.01	-0.08
Gold Share	0.04	0.03	0.06	-0.01	-0.11
HDFC	NA	0.06	0.06	0.00	-0.08
ICICI	NA	0.04	0.06	-0.01	-0.08
Kotak Gold ETF	0.04	0.03	0.07	-0.01	-0.08
Quantum Gold Fund	0.04	0.03	0.06	-0.01	-0.07
Reliance Gold ETF	0.04	0.03	0.07	-0.01	-0.08
Religare Gold ETF	NA	0.06	0.07	-0.01	-0.08
SBI Gold ETF	0.03	0.03	0.06	-0.01	-0.08
Birla Sunlife Gold ETF	NA	NA	0.09	0.00	-0.08

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IDBI Gold ETF	NA	NA	0.19	-0.02	-0.07
MG Gold ETF	NA	NA	NA	-0.01	-0.08
CRMFGETF	NA	NA	NA	0.04	-0.08

From the above table 6 it is inferred that in the year 2009 -2010 QUANTUM Gold Share has performed well . In the year 2010-2011 HDFC Gold ETF has performed well. It has been observed from the table 6 that in the year 2011-2012 IDBI Gold ETF, in the year 2012-2013 CRMF-GETF and 2013-2014 IDBI has performed well

CONCLUSION

A Gold saving fund offers the option of Systematic investment plans which are suitable for those who wants to invest in disciplined manner on a long term basis. Gold ETF is an emerging option of the various investment alternatives available to the investor. Inspite of the merits of holding Gold ETFs, the investment in the same is low due to the low awareness among the investors and the sentimental attachment of the investors towards holding gold in the physical form. Every investor has a different perception about the risk and return. Some wants to make higher profit and for it they are ready to take risk of any degree and there are such people also who does not want to make aggressive investment but they prefer to make sensible decisions regarding investments.

There are so many reasons behind the growth and emergence of Gold ETFs such as fluctuation equity market, weakening of Indian Rupee against US Dollar and growing uncertainty about global economy. All these factors make Gold ETFs as a strong asset. 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.

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