Historically Gold has a very high co-relation with inflation & oil prices and has a very low co-relation with equities & US dollar. Also Gold provides “insurance” against unforeseen events or financial catastrophe. In times of national crisis, people fear that their assets may be seized and the currency may become worthless and therefore they prefer gold as an alternate form of investment. The shiny yellow metal has been regarded as an effective hedge against inflation, and is known to preserve the purchasing power over a long period of time. Rising inflation rates typically appreciate gold prices and vice versa. It has an inverse relationship with interest rates. Gold does have an important role to play in an investor’s portfolio. Gold ETF’s (exchange traded funds) offer a fairly cost-efficient way to invest in gold. Gold ETF’s have delivered a 34 % return in the last three years. This study is undertaken to analyze the performance of ETF gold schemes traded in the Indian capital market. The study will provide valuable insights to investors to relook on their investment strategies.

INTRODUCTION

Investment is the commitment of funds in an asset or financial instruments with the aim of generating future returns in the form of interest, dividend or appreciation in the value of the instrument. Investment is involved in many areas of the economy, such as, business management and finance no matter from households, firms, or Governments. An investor has numerous investment options to choose from, depending on his risk profile and expectation of returns. Different investment options represent a different risk-reward tradeoff. Low risk investments are those that offer assured, but lower returns, while high risk investments provide the potential to earn greater returns. 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, 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 ETF’s) happens to be one of the best options to be included in the portfolio for diversification of risk. The idea of Gold ETF was first conceptualized by Benchmark Asset Management Company Private Ltd. in India, when they filed a proposal with the SEBI in May 2002. However, there was no regulatory approval then and later it was launched in March 2007. The first Gold Exchange-Traded Fund was actually launched in March 2003 on the Australian Stock Exchange under Gold Bullion Securities (ticker symbol “GOLD”), Graham Tuckwell, the founder and major shareholder of ETF Securities, was behind the launch of this fund. In this context, the study is undertaken to assess the importance of Gold ETFs and its performance in India.

NEED FOR INVESTMENT IN GOLD:

Gold is a foundation asset within any long term savings or investment portfolio. For centuries, particularly during times of financial stress and the resulting ‘flight to quality’, investors have sought to protect their capital in assets that offer safer stores of value. A potent wealth preserver, gold’s stability remains as compelling as ever for today’s investor. As one of the few financial assets that do not rely on an issuer’s promise to pay, gold offers refuge from widespread default risk. It offers investors insurance against extreme movements in the value of other asset classes.

A number of compelling reasons underpin the widespread renewal of interest in gold as an asset class:

Portfolio diversification : Most investment portfolios primarily hold traditional financial assets such as stocks and bonds. Diversifying your portfolio can offer added protection against fluctuations in the value of any single asset or group of assets. Risk factors that may affect the gold price are quite different in nature from those that affect other assets. Statistically, portfolios containing gold are generally more robust and less volatile than those that do not.

Inflation hedge : Market cycles come and go, but over the long term, gold retains its purchasing power. Gold’s value, in terms of the real goods and services that it can buy, has remained remarkably stable for centuries. In contrast, the purchasing power of many currencies has generally declined, due for the most part to the rising price of goods and services. Hence investors often rely on gold to counter the effects of inflation and currency fluctuations.

Currency hedge : Gold is employed as a hedge against fluctuations in currencies, particularly the US dollar. If the world’s main trading currency appreciates, the dollar gold price generally falls. On the other hand, a fall in the dollar relative to the other main currencies produces a rise in the gold price. For this reason, gold has consistently proved to be one of the most effective assets in protecting against dollar weakness.

Risk management : Gold is significantly less volatile than most commodities and many equity indices. It tends to behave more like a currency. Assets with low volatility will help to reduce overall risk in your portfolio, adding a beneficial effect on expected returns. Gold also helps to manage risk more effectively by protecting against infrequent or unlikely but consequential negative events, often referred to as “tail risks”.

Demand and supply : The price of gold tracks the shifting bal-
CONCEPT OF GOLD ETF:

Gold ETFs are open-ended mutual fund schemes which work on the principal of mutual fund but will invest the money collected from investors in standard gold bullion (0.995 purity) instead of various securities as in standard Mutual fund. The investor’s holding will be denoted in units, which will be listed on a stock exchange. Each unit carries a NAV which is specified as the value of 1 gram of gold or as the asset Management Company fixes. The fund doesn’t involve active management as in case of other variety of mutual funds. The NAV goes with the prices of physical gold and so the return also varies in some way directly to that of physical gold. So we can say that return of the ETF goes hand in hand with Gold returns. The most flexibility involves in Gold ETF is that an investor can buy and redeem the units either directly from the fund, subject to certain stipulations, or from the stock exchange. The below chart depicts how GOLD ETF works.

DIFFERENCES WITH PHYSICAL GOLD

Investment in Gold ETF have all advantages as that of gold. But it also eliminates some drawbacks which gold have like Cost of Storage, Liquidity & purity. Wealth tax after a certain limit. Since the working of Gold ETF is same as that of Mutual fund, so transparency is maintained due to strict regulation of regulatory body. Also standard of gold is Fixed, so no question of getting less pure Gold. The NAV figures are also displayed daily wise, so the buyer /seller can determine his position. We need to invest in huge amount for physical gold offer investors an innovative way to track gold prices, irrespective of whether on line, if you want to splurge on jewellery, one can simply cash out all ETF gold units and not worry about missed opportunities. Overall the global annual production of gold has increased by nearly by 8% since 2001. Hence 2011, will prove beneficial for investors interested in using gold as part of a short- or long-term investment strategy. Exchange traded products backed by physical gold offer investors an innovative way to access the price of physical gold. As gold prices can be quite volatile investment in gold can be carried out through ETF’s in installments. If you cannot do this, buy a few units every month through systematic investment plan. Gold ETF’s allows you to faithfully track gold prices, irrespective of whether they move up or down. As an investor after few years down the line, if you want to splurge on jewellery, one can simply cash out all ETF gold units and not worry about missed opportunities. Overall the global annual production of gold has decreased by nearly by 8% since 2001. Hence 2011, will prove that gold and gold ETF’s are the best investment options. The gold ETF schemes returns need to analyzed periodically to achieve the investment objective.

REFERENCES