

Gold ETF

ETFs are mutual funds whose units can be traded on the stock exchanges, just like the shares of companies. Through a gold ETF, an investor can own gold in the demat form, thereby eliminating the cost and risk associated with physical gold investments.

The daily net asset value (NAV) of gold ETF is decided by the price of gold. Remember that at the time of redemption, units of the gold ETF would be exchanged for cash and not physical gold.

People willing to invest in gold ETFs can purchase units from stock exchange (NSE in India).they are traded on stock exchanges just like how equity shares are traded. They can be bought by calling the broker or buying it online (internet trading).

Each unit would be equivalent to the price of 1 gram of gold, .5 grams in case of quantum half gold etf. The brokerage charges would range between 0.4% and 0.6%.

Options for investing in gold

Not too long ago, buying physical gold was the only option for investing in gold. However, the launch of Gold ETFs threw open another option for investors. Gold ETFs are open-ended funds which track prices of gold. They are listed and traded on a stock exchange; hence, they can be bought and sold like stocks on a real-time basis. These funds are passively managed and they mirror domestic gold prices. By enabling investors to invest in gold without holding it in physical form, Gold ETFs offer a rather unique investment opportunity to investors.

Advantages of Gold ETFs

Although the mode chosen for investing in gold would entirely depend on investors, Gold ETFs do offer some distinct advantages vis-à-vis investing in physical gold.

- 1. Convenience:** Gold ETFs are a convenient means of investing in gold. Since there is no delivery involved, investors do not have to worry about the storage and security aspects that are typically associated with investing in physical gold.
- 2. Quality:** As per SEBI regulations, the purity of underlying gold in Gold ETFs should be 0.995 fineness and above. This spares investors the trouble of finding a reliable source to buy gold.

3. No premium: Jewellers and banks generally sell gold at a premium. The premium can be in the range of 5%-10% (inclusive of making charges) in case of jewellers and upto 15% in case of banks. Since Gold ETFs are traded on the stock exchange, they can be bought at the prevailing market rate without paying any premium.

4. Low cost: To store physical gold, one would typically need a locker. This expense is over and above the premium paid at the time of buying physical gold. As for Gold ETFs, a pre-requisite is to have demat and trading accounts with a broker. To maintain these accounts, investors are required to pay annual charges, which vary from broker to broker. Investors also have to pay the brokerage on each trade. Finally, there are annual recurring charges which are charged to the fund.

Considering the premium and other charges borne while buying physical gold, investing via Gold ETFs can turn out to be a more cost-effective option.

5. Transparent pricing: The pricing of physical gold varies depending on the vendor. Conversely, Gold ETFs have a transparent pricing mechanism. International gold prices are converted to Indian landed price using the applicable exchange rate. Various duties and taxes are also added to arrive at the landed price of gold.

6. Tax efficiency: In Gold ETFs, long-term capital gains tax is applicable after twelve months from the date of purchase vis-à-vis three years in the case of physical gold. Also, unlike physical gold, investments in Gold ETFs are not subject to Wealth Tax.

7. Resale value: Gold ETFs 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 making charges (the charge that is added while buying gold). As regards banks, they refuse to buy back gold.

Tax

implications

Tax implications on Gold ETFs are same as those on debt mutual funds. A unit of a Gold ETF that is held for less than twelve months is treated as a short-term capital asset. Gains on the same are taxed at the investor's marginal rate of tax. Units held for more than twelve months are treated as long-term capital assets. Long-term capital gains are taxed at 20% (after allowing for indexation benefit) or 10% (without indexation benefit), whichever is less.

Criteria for selecting a Gold ETF

Following are some of the factors that investors must consider before investing in a Gold ETF.

a. Percentage of holdings in physical gold

Ideally, investors must select a Gold ETF that holds a significant portion of its portfolio in gold over ones that take cash calls i.e. invests in current assets.

b. Expense Ratio

Investors must choose a fund which has a lower expense ratio. Higher expenses translate into lower returns for investors.

c. Lower tracking error

Tracking error is a measure of the difference between returns generated by a Gold ETF and physical gold. Thus a lower tracking error would mean that the fund has delivered in line what an investment in physical gold would have.

Performance of Gold ETFs

	NAV (Rs)	1-Mth (%)	3-Mth (%)	6-Mth (%)	1-Yr (%)
Gold BeES	1400.96	4.35	22.32	18.82	19.41
Kotak Gold	1404.38	4.35	22.30	18.80	19.34
UTI Gold	1401.87	4.19	22.13	18.65	19.23
Reliance Gold	1365.31	4.04	21.89	17.09	17.46
Quantum Gold	698.09	4.18	22.02	18.76	-

(NAV as on February 10, 2009)

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