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Exchange Traded Funds Vs Gold Traded Funds

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Abstract:

Exchange Traded Funds (ETFs) are mutual fund units which investors buy/sell from the stock exchange, as against a normal mutual fund unit, where the investor buys /sells through a distributor or directly from the AMC. Practically any asset class can be used to create ETFs. Globally there are ETFs on Silver, Gold, Indices. Gold ETFs are a special type of ETF which invests in Gold and Gold related securities. Investors can buy G-ETF units from secondary markets either from the quantity being sold by the APs or by other retail investors. Retail investors can also sell their units in the market. Exchange Traded Funds (ETFs) are open ended mutual funds that are passively managed and most of them seek to mirror the return of an index, a commodity or a basket of assets. ETFs are listed and traded on stock exchanges like stocks. They enable investors to gain broad exposure to indices or defined underlying asset (commodity) with relative case, on a real-time basis, and at a lower cost than many other forms of investing. Gold backed Exchange Traded Funds (ETFs) are securities designed accurately to track the gold price.

1.1 Introduction of the study

Exchange Traded Funds (ETFs) are mutual fund units which investors buy/sell from the stock exchange, as against a normal mutual fund unit, where the investor buys /sells through a distributor or directly from the AMC. Practically any asset class can be used to create ETFs.

Exchange Traded Funds (ETFs) are open ended mutual funds that are passively managed and most of them seek to mirror the return of an index, a commodity or a basket of assets. ETFs are listed and traded on stock exchanges like stocks. They enable investors to gain broad exposure to indices or defined underlying asset (commodity) with relative case, on a real-time basis, and at a lower cost than many other forms of investing. Gold ETFs provided 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. They first came into existence in the USA in 1993. It took several years for them to attract public interest. But once they did, the volumes took off with a vengeance. Over the last few years more than $120 billion (as on June 2002) is invested in about 230 ETFs.

1.2 Needs for the study

The basic purpose of the study is to calculate Beta. As beta fall or gains, there will be a double impact on Gold ETFs and Index Funds.

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1.3 Objectives of the study

- To study about Gold ETFs v/s Index Funds.
- To analyze gold ETFs and Index Funds.
- To study ETFs in India as well globally to on extent.

1.4 Scope of the study

The Present study is extended analyzing the Performances of calculated ETFs by using the Variance, Standard deviation and Beta analysis.

1.5 Research Methodology

Tools

- Tables
- Line graphs

Techniques

- Return= $\frac{\text{closingstock} \ -\text{opening stock}}{\text{opening stock}}$ *100
- Variance= $\frac{N\Sigma X^2-(X)^2}{N^2}$
- Standard deviation (σ) = $\sqrt{\text{varience}}$
- Regression method (β) = $\frac{n\Sigma XY - (\Sigma X)(\Sigma Y)}{n\Sigma X^2 - (\Sigma X)^2}$

1.6 Sources of Data

Primary data

Primary data is personally developed data and it gives latest information and offers mush greater accuracy and reliability.

Secondary data

The data is collected from the secondary sources like Websites and Books.

1.7 Limitations for the study

- The research was confined only to gold sector in ETFs only.
- There are limited companies which provide access to ETFs.
- Many ETFs other than index and gold are not available in Indian Financial Markets.
- The time was also one of the hindrances in the research.
- Some important information was not there due to confidentiality involved in it.

REVIEW OF LITERATURE

Gold is old at exchange-traded funds

Author Name: Deepa Krishnan.K

Abstract

Global investment in gold exchange-traded funds (ETFs) have plummeted in the last quarter of 2006, according to the latest data published by the London-based precious metals consulting firm, GFMS. Softening crude price has reduced concerns of inflation, leading investors to pull their money out of ETFs. With 526 tonnes of underlying asset, gold ETFs could easily be a key influence in future price movements of the yellow metal.

Exchange-Traded funds tie up with brokers to offer SIP

Author Name: Nishanth Vasudevan

Abstract

Stock brokers have a solution to investors' long-standing demand for a facility allowing them to buy exchange-traded funds through a systematic investment plan (SIP) at fixed intervals. Mutual funds provide SIP for most equity schemes, but have been unable to offer the option for ETFs so far because the latter is traded on the stock exchanges like shares, unlike their other schemes that are usually bought or sold through application forms. Now, clients of some brokers can buy ETFs through a facility similar to SIPs.

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Gold Exchange Traded Funds May Have a Hidden Risk

Author Name: Dr. Richard S.

Abstract

Gold Exchange Traded Funds (ETFs) are among the American Public's most popular methods to hold, trade or speculate in gold. They were first offered in the 1990's. The largest, SPDR Gold Shares, began in 2004. The early ETFs encountered significant resistance because gold believers demanded physical possession of their gold. In this fashion they avoided worrying about the entity holding their gold assets. They were sufficiently concerned with the viability of the dollar or the advent of a financial crisis, without adding another layer of fear that they couldn't get their gold if they wanted it. However, as time passed, and more unsophisticated Americans realized they needed the protection of gold, the early reticence to the gold ETFs was overcome.

The Safe Investment Haven of Gold

Author Name : Kal Kotecha

Abstract

Since its discovery many centuries ago, gold has managed to maintain its relevance and stature to this day. Used to make royal crowns and other valuable items, the value of gold has been high as from its discovery days. The Greek scientist Archimedes (287-212BC), the inventor of the Archimedes Principle was the first person to find a way to measure the density of gold and other metals without deforming them.

Gold ETF

An investor who likes to invest in gold need not buy and hold the precious metal. Such a strategy will involve storage costs. Investors may also find that they are not able to sell the gold coins and bars that they have acquired, at fair prices. If acquired in the form of jewellery, buying and selling gold involves making charges and other costs.

Instead, an investor can buy gold ETFs. Each ETF represents one gram of gold and is available at the current market price of gold. Whenever the investor needs to buy actual gold for consumption, the ETFs can be sold at the then prevailing prices, and used to buy physical gold in the markets. Gold ETFs are an excellent way for parents to accumulate gold for the wedding of their children.

Why should an investor invest in Gold ETF?

- No worry on adulteration
- Gold provides diversification to the portfolio
- Gold is considered as a Global Asset Class
- Gold is used as a Hedge against Inflation
- Gold is considered to be less volatile compared to equities
- Held in Electronic Form
- Store of value
- Extremely Liquid

Advantages of Investing in Gold ETFs

- Potentially cheaper to have price exposure to gold price as compared to other available avenues
- Quick and convenient dealing through debit account
- No storage and security issue for investors
- Transparent pricing
- Taxation of Mutual Fund
- Can be traded on stock exchange like buying / 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 1 gram of gold

ETF v/s Index Funds

Unlike units of an index fund where transactions happen based on the NAV at the end of the day, units of the ETF are bought and sold at real-time basis, at prices which are determined by the demand and supply of the units with the NAV of the fund as the

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underlying value. This allows investors to act on information immediately without having to wait for the price at the end of the day. ETFs also feature lower costs on the investor in terms of expenses and loads. Passive strategies like indexing enable a fund to reduce the costs of fund management. These are passed on to the investor in the form of lower costs. ETFs and index funds offer simple low-cost options to investors who like to participate passively in a market.

Growth of ETF – A Brief on Global ETF Industry

They first came into existence in the USA in 1993. It took several years for them to attract public interest. But once they did, the volumes took off with a vengeance. As of September 2010, there were 916 ETFs in the U.S., with $882 billion in assets. About 60% of trading volumes on the American Stock Exchange are from ETFs. The most popular ETFs are QQQs (Cubes) based on the Nasdaq-100 Index, SPDRs (Spiders) based on the S&P 500 Index, iSHARES based on MSCI Indices and TRAHK (Tracks) based on the Hang Seng Index. The average daily trading volume in QQQ is around 89 million shares.As of October 2011, in United States, ETFs' assets under management have grown significantly since August 2007 — from $400 billion to $1 trillion with total number of listed ETF are around 1300. Exchange Traded Funds or ETFs have revolutionized the Investment Industry in recent times due to their simplicity, low costs and ease of use. The US Market has seen a massive growth in the usage of this Financial Instrument with a mind boggling variety of ETFs catering to almost every asset class ranging from equities, bonds, currencies commodities and even derivatives. The low cost of the ETFs compared to the mutual funds and their passive form has attracted investors in huge droves. A similar surge is expected in the Indian Market as well.

Growth of ETF – A Brief on Indian ETF Industry

India's journey started with Benchmark launching the first ETF called Nifty BeEs in 2002. Since then fund has come a long way with AUM rising to 587 Crs from less than Rs. 10 Crs mobilized through NFO. Today there are 32 ETFs in MF industry of which 11 are in Gold category and balance 21 in other category. The total AUM managed under Indian ETF umbrella is close to 10,838 Crs as of Oct 2011 of which 83% belongs to Gold ETFs. With the arrival of Gold ETFs the segment has acquired enhanced interest from investing community and today it has more than 5.54 lac investor (4.28 lac in Gold ETFs and 1.25 lac in other ETFs) in overall ETFs segment. The investor spread is across Corporate, HNIs, Retail and Banks / FIs.

We have ETFs tracking various Indices, e.g ; Bank Nifty, Sharia Index, Infra Index, Liquid BeES and the spot gold. Due to surge in the Gold Prices globally, and the yields on the gold ETFs, it has generated lot of interest amongst the investing community. As explained above, as a result, the AUM of the Gold ETF grew by leaps and bounds and is largest in the segment. Goldman Sachs (Took over Benchmark AMC in July 2011) is most dominant player in the industry having a total of 6 schemes. Due to the surge in the number of GOLD ETF, I have categorized the ETF into two - 1. ETF-Others and 2. ETF-Gold. As such, there are three graphs plotted – 1. ETF (TOTAL), 2. ETF-OTH and 3. ETF-GOLD.

Exchange Traded Funds - Its Growth & Challenges in India.

Exchange Traded Funds are essentially Index Funds that are listed and traded on exchanges like stocks. Until the development of ETFs, this was not possible before. Globally, ETFs have opened a whole new panorama of investment opportunities to Retail as well as Institutional Money Managers. They enable investors to gain broad exposure to entire stock markets in different Countries and specific sectors with relative ease, on a real-time basis and at a lower cost than many other forms of investing. An ETF is a basket of stocks that reflects the composition of an Index, like S&P CNX Nifty or BSE Sensex. The ETFs trading value is based on the net asset value of the

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underlying stocks that it represents. Think of it as a Mutual Fund that you can buy and sell in real-time at a price those changes throughout the day. As it tracks a Benchmark Index, the return expectation is the same as that of the Index. For example, if for a particular period, say from 1st Jan to 31st of March the ROI on Nifty is 10%, then the NAV of the ETF that tracks Nifty should also be around 10%. The minor difference in return between the NAV and the Benchmark Indices could be because of the fact that there would be some cost involved in managing the ETF. This is commonly referred as Tracking error (as this term is referred later)

The objective and the characteristics of ETF are similar to Index Funds managed by Asset Management Companies. The difference between these two Asset Classes stems from the fact that ETF are traded on the Stock Exchanges and hence investor can derive benefits of trade in ETF just like any ordinary stocks. So, by owning an ETF, an investor get the diversification of an index fund as well as the ability to sell short, buy on margin and purchase as little as one share. Another advantage is that the expense ratios for most ETFs are lower than those of the average mutual fund and are equally tax efficient. Because of its distinct advantages, ETF has emerged as one of the most popular Asset Classes amongst the Investor community across globe, including India.

Gold ETFs Monthly Returns of ICICI & BSE for the year 2015

YEAR	MARKET RETURNS(X)	STOCK RETURNS(Y)	XY	X^2	Y^2
15-Jan	6.17	1.6	9.872	38.0689	2.56
15-Feb	0.74	-4.27	-3.1598	0.5476	18.2329
15-Mar	-5.33	-10.17	54.2061	28.4089	103.429
15-Apr	-3.37	5.15	-17.356	11.3569	26.5225
15May	2.29	-4.42	-10.122	5.2441	19.5364
15-Jun	0.03	-3.08	-0.0924	0.0009	9.4864
15-Jul	1.04	-1.81	-1.8824	1.0816	3.2761
15-Aug	-6.42	-8.95	57.459	41.2164	80.1025
15-Sep	0.1	-1.72	-0.172	0.01	2.9584
15-Oct	1.18	1.46	1.7228	1.3924	2.1316
15-Nov	-1.86	-1.04	1.9344	3.4596	1.0816
15-Dec	-0.31	-4.92	1.5252	0.0961	24.2064
SUMΣ	-5.74	-32.17	93.9356	130.883	293.524

Table-5 Gold ETFs Monthly Returns of ICICI & BSE for the year 2015

Graphical Representation

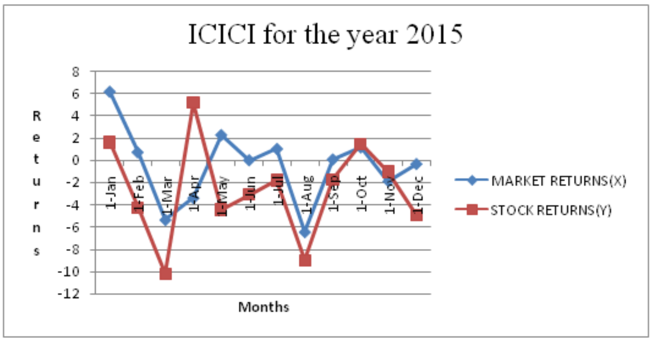

Figure-5 Graphical representation of Gold ETFs returns of ICICI & BSE for the year 2015

Beta value: 0.61

Interpretation

As shown in the above figure, it can be interpreted that in the month of January, Market returns are high with respect to other months in the given year 2015. In the month of May, stock returns are low when compared to other months. Similarly, we can infer that both stock and market returns are relatively equal in the month of November.

Gold ETFs Monthly Returns of SBI & BSE for the year 2011

YEAR	MARKET RETURNS(X)	STOCK RETURNS(Y)	XY	X^2	Y^2
11-Jan	-11.12	-6.67	74.1704	123.654	44.4889
11-Feb	-3.26	-0.75	2.445	10.6276	0.5625
11-Mar	8.13	4.4	35.772	66.0969	19.36
11-Apr	-1.68	1.21	-2.0328	2.8224	1.4641
11May	-3.74	-18.27	68.3298	13.9876	333.793
11-Jun	1.72	4.24	7.2928	2.9584	17.9776
11-Jul	-4.09	-3.21	13.1289	16.7281	10.3041
11-Aug	-9.12	-16.57	151.118	83.1744	274.565
11-Sep	-3	-3.96	11.88	9	15.6816
11-Oct	8.91	1.15	10.2465	79.3881	1.3225
11-Nov	-8.07	-6.92	55.8444	65.1249	47.8864
11-Dec	-6.65	-10.62	70.623	44.2225	112.784
SUMΣ	-31.97	-55.97	498.818	517.785	880.19

Table-6 Gold ETFs Monthly Returns of SBI & BSE for the year 2011

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Graphical Representation

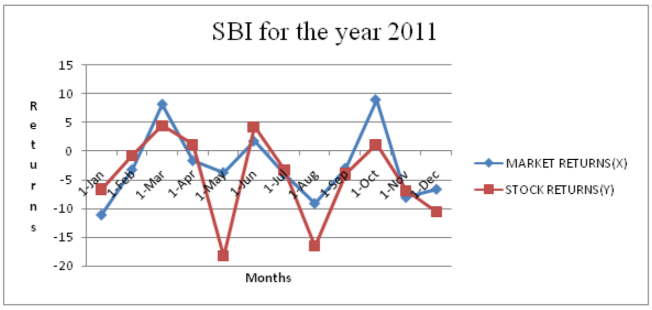

Figure-6 Graphical representation of Gold ETFs returns of SBI & BSE for the year 2011

Beta value: 0.808

Interpretation

As shown in the above figure, it can be interpreted that in the month of October, Market returns are high with respect to other months in the given year 2011. In the month of March, stock returns are low when compared to other months. Similarly, we can infer that both stock and market returns are relatively equal in the month of November.

Gold ETFs Monthly Returns of SBI & BSE for the year 2012

YEAR	MARKET RETURNS(X)	STOCK RETURNS(Y)	XY	X^2	Y^2
12-Jan	10.67	26.81	286.063	113.849	718.776
12-Feb	3.33	9.22	30.7026	11.0889	85.0084
12-Mar	-1.75	-6.13	10.7275	3.0625	37.5769
12-Apr	-0.63	1.97	-1.2411	0.3969	3.8809
12May	-6.63	-4.21	27.9123	43.9569	17.7241
12-Jun	7.47	4.71	35.1837	55.8009	22.1841
12-Jul	-1.16	-7.38	8.5608	1.3456	54.4644
12-Aug	1.07	-8.38	-8.9666	1.1449	70.2244
12-Sep	7.42	20.93	155.301	55.0564	438.065
12-Oct	-1.48	-5.82	8.6136	2.1904	33.8724
12-Nov	4.6	2.84	13.064	21.16	8.0656
12-Dec	0.43	9.34	4.0162	0.1849	87.2356
SUMΣ	23.34	43.9	569.936	309.237	1577.08

Table-7Gold ETFs Monthly Returns of SBI & BSE for the year 2012

Graphical Representation

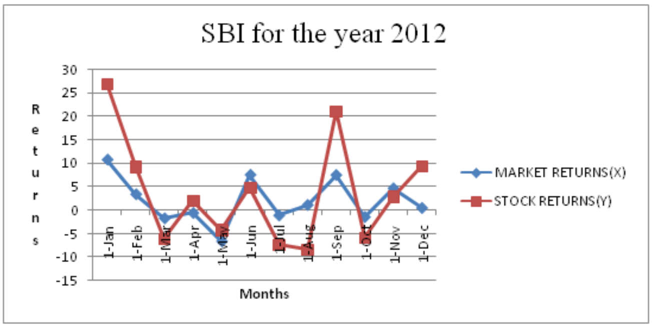

Figure-7 Graphical representation of Gold ETFs returns of SBI & BSE for the year 2012

Beta value: 1.836

Interpretation

As shown in the above figure, it can be interpreted that in the month of January, stock returns are low to high with respect to other months in the given year 2012. In the month of March, Market returns are low when compared to other month of December. Similarly, we can infer that both stock and market returns are relatively equal in the month of November.

FINDINGS:

- ETFs have given better opportunity for the small investors in terms of diversified portfolio with a small amount of money.
- ETFs investment has given better performance over Index Funds and other traditional Mutual Funds.
- The value of Beta for the period of 2011-2014 is gradually increasing for the bank ICICI, Hence the company performing well. In 2015 the Beta value is less than 1. So the investors can invest in the ICICI which is profitable.
- The value of Beta for the period 2011-2015 is uneven for the bank SBI. At the beginning the value of Beta is less than 1, then it is increasing again it is decreasing to less than 1. There are some fluctuations in Beta values so it is not safe to investors.

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- In HDFC also the Beta values are fluctuating to year to year some one year it is increasing another year it is decreasing so it is not safe to investors.
- In 2012 the ICICI get more returns, in 2014 get less returns.
- In 2012 the SBI get more Returns, in 2014 get less returns.
- In 2015 the HDFC get more returns, in 2011 get less returns

SUGGESTIONS:

- To followers of CAPM, beta is a useful measure. A stock's price variability is important to consider when assessing risk. Indeed, if you think about risk as the possibility of a stock losing its value, beta has appeal as a proxy for risk.
- Small investors should go for ETFs as an alternative for traditional investments as they have given better performance over Index Funds and other traditional Mutual Funds.
- Expenses related to trading in ETFs are less compared to traditional a mutual fund which is an added advantage.
- Gold ETFs have low Risk and Volatility which is another advantage for small investors.
- Intraday Trading is the biggest opportunity for short term investors because more than 70 per cent of trading in NSE will end with intraday. At present Rs 400-450 of one Unit of Gold ETF gives the diversification of Nifty 50 companies. Thus, these are affordable to the small investors.
- Similar to other investments, investors should do a thorough research before investing in ETFs and Gold Funds.

CONCLUSION:

Running a successful Gold ETFs requires complete understanding of the peculiarities of the Indian Stock Market and also the psyche of the small investors. This study has made an attempt to analyze the financial behavior of Gold ETFs Mutual Fund investment of three different companies. The analysis shows that risk is prevalent in the market and returns are independent to the risk. The higher the risk the higher the returns. Form this study it can be known that many of the investors .They need the knowledge of Mutual Fund and its related terms.

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