



A STUDY ON PERFORMANCE OF GOLD ETF COMPANIES IN INDIA

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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, AUM and NAV have been undertaken to identify the growth of gold ETFs in India.

Key Words: Gold ETF, AUM and NAV

Introduction

Gold ETFs are open ended mutual funds that help the investor, invest their money in gold which is 99.5% pure. Gold Exchange Traded Funds are also known as paper gold. These are listed on the stock exchanges and investors are assigned units of the mutual fund where each unit often represents one gram of gold. There are ETFs where each unit can represent less than one gram of gold as well. Being passively managed funds, they simply follow the price of gold in the market and so their returns match the returns of gold investor would buy off-line. An investor can buy and sell them on the stock exchange. A gold exchange traded fund is commodity ETF that consists of only one principle asset, Gold. However, the fund itself consists of gold derivative contracts that are backed by gold. Investor does not actually own any gold. Even when the investor redeems gold ETF, they do not receive the precious metal in any form. Instead, an investor receives the cash equivalent.

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 units 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.



Review of Literature

Mukesh Kumar Mukul , Vikrant Kumar and Sougata Ray (2012) made a study on “Gold ETF Performance: A Comparative Analysis of Monthly Returns” revealed that Gold investment has been a very important aspect for ages across the globe. This paper attempts to analyze the performance of gold Exchange-Traded Fund (ETF) with respect to risk and return against the diversified equity fund and market portfolio. The study also examines the role of gold in hedging equity investment risk. The study is based on data for the period from January 2010 to August 2011. The analysis shows that gold ETF has given good return in comparison to a diversified equity fund during the study period.

Prasanta athma(2011) has stated that Gold ETF is an emerging option of the various investment alternatives available to the investor. The low volatility of gold prices as compared to equity market, weakening of Indian Rupee against US Dollar and growing uncertainty about global economy resulted in the emergence of Gold ETF as a strong asset class. Allocation of a small portion of investment in Gold ETF would diversify the portfolio risk. The stabilization of Expense Ratio made the task of selection of the best Gold ETF option easy. Inclusion of any Gold ETF in the portfolio of assets would diversify the risk. Gold ETFs also offer the benefit of lower incidence of tax. In spite 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.

Fisher (2008) in his article mentioned that Gold Exchange-Traded Funds(ETFs) have made investing in the yellow metal very convenient and inexpensive. The study expressed that they offer a way of participating in the gold bullion market without the necessity of physical delivery of gold. The study listed out six reasons why gold ETFs are considered as the best way to invest in the gold. The reasons mentioned are Wealth tax exemption, Income tax benefit, Investment in small denominations, Hedging Convenience and better holding of ETFs as compared to physical gold holdings.

Statement of Problem

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, AUM and NAV have been undertaken to identify the growth of gold ETFs in India.

Research Objectives

- To analyse and compare the historical data of various gold ETFs in India .
- To track the performance of gold ETF in relation to returns on daily, weekly , monthly, quarterly and yearly basis.
- To analyse the performance of AUM and NAV of gold ETF companies.
- To analyse the future expected returns of gold ETF on quarterly basis.
- To offer suggestions based on the findings of the study.



Methodology

Collection of Data

The research is based on the secondary data collected from NSE for selected gold ETF companies listed from April 2010 to June 2013. The AUM and NAV values are collected from AMFI from April 2010 to March 2013.

Tools Used for Analysis

- Mean
- Standard deviation
- Variance
- Trend analysis
- Regression analysis

Limitations

- The data is collected for the gold ETF companies during April 2010 to June 2013.
- The study is limited to gold ETFs available only in India.
- The study is completely based on secondary data.

Findings and Suggestions

Findings

The following are the findings from the analysis of returns of Gold ETF companies

- On daily basis: The analysis from the daily returns indicates that the highest return and highest risk is associated with BIRLA SUNLIFE GOLD ETF.
- On weekly basis: The analysis from the weekly returns indicates that the highest return is associated with SBI GOLD ETF and highest risk is associated with BIRLA SUNLIFE GOLD ETF.
- On monthly basis: The analysis from the monthly returns indicates that the highest return is associated with SBI GOLD ETF and highest risk is associated with BIRLA SUNLIFE GOLD ETF.
- On quarterly basis: The analysis from the quarterly returns indicates that the highest return is associated with SBI GOLD ETF and highest risk is associated with BIRLA SUNLIFE GOLD ETF.
- On yearly basis: The analysis from the yearly returns indicates that the highest return and highest risk is associated with SBI GOLD ETF.

The lack of trading volumes on the exchange makes some of these gold ETFs a risky proposition. Not only returns will be less than those on physical gold, investors will also be hurt by the high impact cost while trading a low-volume gold ETF on the exchange. They would also incur brokerage charges (0.25-0.5%) while buying and selling gold ETFs.



The following are the findings from trend analysis

- The trend analysis of variance between total allocated recurring expenses and actual expenses ratio indicates that MOTILAL OSWAL GOLD ETF has incurred highest expenses ratio than the total recurring expenses.
- The trend analysis of the AUM of gold ETF for the year 2011-2012 indicates that RELIANCE GOLD ETF has the highest AUM for the year 2011 -2012.
- The trend analysis of the AUM of gold ETF for the year 2012-2013 indicates that GOLDMAN SACHS GOLD ETF has the highest AUM for the year 2012 -2013.
- The trend analysis of the NAV of gold ETF for the year 2011-2012 indicates that RELIGARE GOLD ETF has the highest AUM for the year 2011 -2012.
- The trend analysis of the NAV of gold ETF for the year 2012-2013 indicates that RELIGARE GOLD ETF has the highest AUM for the year 2012 -2013.
- The trend analysis of the quarterly returns of selected gold ETF companies indicates that the return is highest for the quarter ended (30-sep-2011—30-dec-2011) is SBI gold ETF.

The AUM and NAV of gold ETFs have increased due to investment made during festive seasons. The investors face the trouble of holding it in the form of physical gold and they find it effective in E-form. It offers diversification benefits for the long-term investors, making it the most valuable and attractive metal in the world.

The following are the findings from regression analysis

- The analysis from the expected returns of AXIS GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of UTI GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of HDFC GOLD ETF for each quarter indicates that decline in return is expected for first four quarters.
- The analysis from the expected returns of QUANTUM GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of ICICI PRUDENTIAL GOLD ETF for each quarter indicates that decline in return is expected for first four quarters.
- The analysis from the expected returns of KOTAK GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of GOLDMAN SACHS GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of RELIANCE GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of RELIGARE GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.
- The analysis from the expected returns of SBI GOLD ETF for each quarter indicates that a decline in return is expected for first four quarters.



As the outlook for the world economy is increasing and so investors are pulling out of safe haven investments and looking for investments that yields better returns.

Suggestions

Awareness

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 .

Security

The RBI should consider the unit of Gold ETF as a pledge, so the investors can avail loans from the banks. Gold ETFs turn out to be a safe investment option for investors to hedge their assets against the uncertain global market scenario.

Expenses

An investor will lose a percentage of his investment's value each year to the fund's expense ratio. An expense ratio is the recurring annual fee charged by funds to cover its management expenses and administrative costs. The companies with 0 to 1 percentage of expenses ratio may provide higher returns. Hence the investors have to analyse the expenses ratio all the time to invest.

Safe Return

Managing risk by building a diversified portfolio that holds several different type investments. This approach provides the reasonable expectation that at least some of the investments will increase in value over a period of time. So even if the return on other investments is disappointing, the overall results may be positive. so, the investors may prefer to invest on half yearly or quarterly basis .

Risk Measures

Risk is unavoidable by an investor. Risk is unpredictable. But still some measures can be undertaken. Risk will be predicted by using risk metrics like standard deviation which is often practiced by investors. So, the investors must watch carefully the ongoing trade and volume to minimize risk.

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 diversify



one's investment portfolio .But at the same time, the research indicated that many of the gold ETFs 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.

Reference

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