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A study on
"Exchange Traded Funds with Special Reference to Gold"

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ABSTRACT

An overview of the Exchange Traded Funds, including its significance, types of Exchange Traded Funds, applications, tax consequences, advantaged and comparison between physical gold and gold ETFs, is given in this abstract. It also emphasis how gold ETFs investment helps Investors to invest in Gold ETFs and the risk or volatility they encounter in doing so.

The basic aim of the study is to study the performance, variations of the Gold ETFs. The information for this study has been taken from the various journals and websites. The article will be beneficial for the investors who seek the best opportunities in the Gold ETFs.

INTRODUCTION TO EXCHANGE TRADED FUNDS

Exchange Traded Funds, or ETFs as they are more often known, started to acquire favour among investors. ETFs have become popular as an investment tool because they provide both the flexibility of a stock and the security of a mutual fund. ETFs have traits that are shared by mutual funds and stocks. Similar to how stocks of an organisation are exchanged on the various stock exchanges. Most exchange-traded funds are listed on well-known stock exchanges like NSE and BSE, where investors can buy and sell them when they need to according to the trading hours.

The cost of the underlying assets that are included in the resource pool determines the price of the ETF. As a result, if the value of one or more assets increases, so does the share price of the ETF. On the other side, if the asset's value declines, the price of the ETF also does.

The ETF shareholder's dividend is based on how well the ETF businesses in question perform and how well they manage their assets. Exchange-traded funds (ETFs) can also be divided into active and passive management categories.

Actively Managed ETFs: Exchange-traded funds with active management are those which are actively run and managed by a portfolio manager. The portfolio manager takes their time. evaluates stock market fluctuations and takes calculated risks by investing investor money in companies with strong development prospects..

Passively Managed ETFs: Exchange-traded funds with passive management are those that move in step with market indices. These funds only make investments in businesses that are listed on the stock exchange's growing charts.

DEFINITIONS OF ETFs

1) Exchange Traded Fund (ETF) is an investment fund that traded on stock exchanges much like stocks.
2) ETFs or exchange traded funds are similar to index mutual funds. However, they trade just like stocks. – economic times.

TYPES OF ETFs

Index Funds ETF

An index ETF primarily functions as a passive mutual fund that enables buyers to make a single purchase of a group of securities. Tracking the performance of an indicator of the stock market, such the Nifty 50, is the goal here. Amounts invested in index funds or exchange-traded funds (ETFs) represent shares in a portfolio that includes the assets that are part of the underlying index. In India, some of the well-known index ETFs are HDFC Index Fund-Nifty and IDFC Nifty Fund, among others.

Equity ETF

These are businesses that invest in the stock and other types of equity of different firms. The Bond ETF and Bond Mutual Funds are extremely similar. Bond exchange traded funds are a portfolio of bonds that can be passively managed and can trade on a stock exchange like stocks. There are several bond ETFs available in India, including the LIC Nomura MF G-Sec Long Term ETF and the SBI ETF 10 Year Gilt.

Gold ETF

The main physical gold holdings in this commodity exchange-traded fund are. By purchasing stock in this corporation, you can own gold on paper without having to worry about asset protection. Gold ETFs are financial vehicles that invest in gold bullion or are based on gold prices. Gold exchange-traded funds monitor the performance of gold bullion. The exchange-traded fund (ETF) gains value when the price of gold increases, and it loses value when the price of gold decreases. Along with other exchange-traded funds (ETFs), Reliance ETF Gold BeES is a listed ETF in India.

Debt ETF

Enterprises trading in fixed return securities such as debentures and government bonds are often called Debt ETFs.

Sector ETF

The sole investments made by the Sector exchange-traded fund are in stocks and other assets from a particular sector or industry. Pharma funds, technology funds, and other funds with an underlying in these particular sectors are a few examples of sector-specific ETFs. There are now a number of sector ETFs available in India, including the RShares Dividend Opportunities ETF, RShares Consumption ETF, Reliance Infra Bees, MOSt Shares M100, SBI ETF Nifty Junior, and Kotak PSU Bank ETF.

Currency ETF

Currency ETF funds primarily profit from exchange rate fluctuations. Based on mathematical projections for how that currency will perform in the future, they buy the currency of various nations. Currency ETFs reflect the economic and political conditions of the various countries in addition to stock market changes..

Leveraged ETF

Debt or derivatives are used by leveraged ETFs to increase the possible returns on an underlying index. These exchange traded funds are not currently offered in India, despite the fact that they are seen to be appropriate for a short-term investment.

APPLICATIONS OF ETFS

Efficient Trading

Investors can easily obtain market exposure with ETFs, which offer an index that moves like a stock. Investments in ETF index products offer a diversified exposure to the market in comparison to stock purchases. Investors may get exposure to certain markets, nations, or industries depending on the index.

Equitising Cash

Investors with excess capital in their portfolios may choose to make a temporary purchase of a service linked to a market the standard, such as an index, before selecting which companies to buy or waiting for the best price.

Managing Cash Flows

Due to ETFs' liquidity and market representation, investment managers who regularly experience inflows and outflows can decide whether to use them.

Diversifying Exposure

Investments in shares linked to an index or basket of stocks offer broad exposure and lessen the risk associated with picking a specific stock to buy if an investor is unsure about which specific stock to buy but likes the sector as a whole.

Filling Gaps

Use sector- or industry-specific ETFs to expose oneself to emerging and significant sectors. Such tactics may also be employed to decrease an overweight sector or raise an underweight sector.

Shorting or Hedging

Investors who have a pessimistic outlook on a certain market segment or industry may wish to open a short position to profit from that outlook. ETFs can be sold short with the goal to offset long investments in stocks and protect against a market or sector loss.

ABOUT GOLD ETFs

Investors that are pessimistic about a certain market or industry may choose to initiate a short position to benefit from that outlook. With the intention of offsetting long stock investments and hedging against market or sector losses, ETFs can be sold short.

Gold ETFs, in a nutshell, are securities that reflect physical gold, which may be in the form made from paper or in a dematerialized form. One gramme of actual gold of the highest quality serves as the backing for each unit of the Gold. Gold ETFs combine the ease of investing in gold with the versatility of stock investment... Like any other stock of a company, gold ETFs are listed and traded on the National Stock Exchange of India (NSE) and Bombay Stock Exchange Ltd. (BSE). Gold ETFs may be continuously purchased and sold at market rates on the cash section of the BSE and NSE, just like any other business stock. When you purchase Gold ETFs, you are doing so in electronic form. ETFs that track gold may be bought and sold in the same way that stocks can. When you actually redeem a Gold ETF, you receive the cash equivalent rather than actual gold. A dematerialized account (Demat) and a broker are used to trade gold ETFs, which makes it a very practical way to invest in gold electronically. There is total transparency regarding a Gold ETF's holdings due to its direct gold price. The ETFs also have much lower costs compared to investments in physical gold because of their distinct structure and formation method. Since ancient times, people have considered gold as a valuable metal. Gold is used by people in jewellery, currencies, and other industrial processes. The concept of global financial systems has previously been formed by gold reserves. In addition, gold is crucial for offering the best possible defence against the ups and downs of any political and economic condition, particularly in Asia, the Middle East, and India. An investment in Asset Nance is a financial asset that is purchased with the expectation that it will generate future income or be sold for a greater price. Through investing, one may live the life of their desires and put their worries about the future behind them. It regulates a person's spending behaviour. From the perspective of investors, gold has a significant part to play in their investment plan. A well-diversified portfolio, in the opinion of experienced investors, includes gold. As a result of its popularity as a hedge against inflation and currency volatility, gold is used by investors to create solid portfolios. Every investor views the risk and return associated with an investment differently. The principle of "higher the risk, higher the return" is applicable in this situation. Investors in India are becoming more cautious now, and instead of making risky bets, they want to make prudent ones. They are now more inclined to invest in avenues with known risks and lower yields as opposed to those with unknown risks and greater returns since they have developed a fear of taking risks. However, because risk still exists, investors are now compelled to search for alternate ways to reduce the risk attached to their portfolio. The level of uncertainty has made risk management and portfolio investing more crucial. Even if the investor has a wide range of other assets, according to a research from the World Gold Council (2011), they are not a perfect replacement for the safety that having gold in a portfolio may provide. There are several avenues for investors to invest in gold, including gold bullion, jewellery, gold fund of funds, gold exchange-traded funds, and e-gold. The investment strategy chosen relies on the goal of the investment as well as the average holding period of gold by investors. As a result, gold investing has become more significant during the past several years. Prior until now, investing in gold would have needed a sizable sum, making it prohibitively expensive for small investors. The majority of the disadvantages associated with alternative methods of investing in gold have been eliminated since the introduction of gold ETFs.

HOW DO GOLD ETFs WORK

By monitoring the price of the commodity, gold ETFs enable investors to benefit without buying real gold. These serve as a buffer against inflationary pressures and historically significant market instability. Additionally, investors want to diversify their portfolios by buying gold exchange-traded funds (ETFs) and mutual funds.

The price of gold may fluctuate every day or even every hour, which investors may have to deal with. Even though gold's price varies on international as well as domestic markets, investors still consider it to be a safer investment than the bulk of bonds and equities.

TAX CONSEQUENCES ON GOLD ETFs

1. The whole gain is added to the investor's income and is taxed at the appropriate slab rate if units are redeemed within three years of the initial investment.

2. A 20% post-indexation benefit tax is applied to gains on units redeemed more than three years after the original investment. In order to index a price, the purchase price must be recalculated and adjusted for inflation. Indexation has the benefit of reducing capital gains, which reduces taxable income and lowers taxes on it.

3. For Dividend Distribution Tax purposes, the investor's dividend income from this fund will be added to income and taxed in line with the investor's personal tax rates.

WHO CAN INVEST IN GOLD ETFS?

Gold ETFs are a good option for individuals who have a strong desire to invest in gold but are hesitant to do so due to storage challenges or concerns about the purity of the metal. Gold ETFs are also available to investors seeking tax advantages. In the case of a large investment, the absence of paying fees allows investors to save money. Many investors like gold ETFs over other investment options due to the possibility of making a one-unit (1 gramme) investment.

ADVANTAGES OF GOLD ETFs

1) They are exchanged and listed on stock markets.
2) ETFs may be bought online and added to demat accounts, providing flexibility.

3. The quality of the gold is ensured. Each ETF unit is backed by high quality real gold.
4) Pricing is clear since ETFs are valued using current gold prices.
5) Wealth tax, sales tax, security transaction tax, and VAT charges are not levied against ETFs. There is no need to worry about theft because gold ETFs may be kept in a demat account safely and securely.
6) It is quite liquid and may be exchanged on the stock exchange during trading hours at the going rate.
7) Investors can buy or sell gold ETFs in any denomination that suits them.
8) Buying gold in this way saves taxes since ETF income is seen as long-term capital gain.
9) Collateral for loans is accepted in the form of ETFs.
10) Unlike keeping real gold, it is simple to hold gold ETFs for a long period. Unlike jewellery, gold ETFs don't have to be charged, making them more affordable.

PHYSICAL GOLD VS GOLD ETFs

	Gold (physical gold)	**Gold ETFs**
Meaning	An individual buys gold in the physical form. The purity of the gold may or may not be of minimum 99.5% purity.	Gold ETFs are open-ended exchange traded funds that will invest the money in standard gold bullion (gold with 99.5% purity). An investor holds units of an ETF whose value depends on the price of the physical gold in the market.
Pricing	Pricing of the physical gold is not uniform. It varies from jeweller to jeweller.	Gold ETFs are priced as per international standards and are always transparent.
Investment	Physical gold biscuits are available in the standard denomination of 10 grams that requires a huge investment.	Gold ETFs are available in small quantities i.e. even in 1 gram. Hence, are more affordable.
Charges	When an investor buys gold jewellery, he has to pay 20%-30% of the total buying value of the gold as making charges.	Buying gold ETF includes expense ratio of only 1% every year and brokerage charges of ~0.5% or less of the purchase price with every transaction.
Wealth tax	1% wealth tax is applicable if the value of the gold possessed by an individual is more than Rs 30 lakhs.	There is no wealth tax applicable on Gold ETFs.
Short-term capital gain tax	If physical gold is held for less than 3 years then the investor has to pay a short-term capital gain tax as per his income tax slab.	The short-term capital gain tax applicable for gold ETFs is same as physical gold.

Long-term capital gain tax	If gold is sold on profit after three years then the investor has to pay a capital gain tax of 20% with indexation.	The long-term capital gain tax is the same as physical gold.
Liquidity	Physical gold can be purchased from banks and jewellers but can be only exchanged through jewellers.	Buying/selling of gold ETF is much easier than physical gold as it is traded on the stock exchanges - NSE and BSE.
Returns	Actual return = Current price of a gold/coin minus buying price and making charges of an ornament.	Actual return = Current price of a gold unit trading on stock exchange minus buying price and brokerage charges.
Demat account	Demat account is not required.	An investor compulsorily needs a Demat account.

REVIEW OF LITERATURE

In India, Benchmark Mutual Fund launched India's first Gold ETF on 15th Feb followed by UTI Mutual Funds Gold Scheme on 1st march 2007. Since then gold ETFs have been a perfect face of investment in gold. To understand the importance and concept of gold ETfs few literatures were reviewed thoroughly.

1) Goyal and Joshi (2011) investigated the financial results, fluctuations, and risk behaviour of the chosen Gold ETFs. They came to the conclusion that because gold ETFs are less volatile than other assets, they are favourable for investors. The future of gold in India is bright as investor confidence is rising.

2) Saleem and Khan (2013) attempted to trace the development and history of gold exchange-traded funds (ETFs) in India and to explain the correct operation of this fund, portfolio risk diversification, and taxation of Gold ETFs funds in India.

3) ETF and Index Fund performance were compared between June 2006 and December 2009 according to Garg & Singh's (2013) research. According to the study, ETFs outperform other investment vehicles in terms of replication method, tracking capability, and long-term performance.

4) As part of a comparative study on investing in gold-related assets, Velmurugan P. S., Saravanan A, and Raghavendra RH (2013) looked at the performance of gold-related instruments like gold ETFs, gold mutual funds, and physical gold in order to determine which was a better investment. ANOVA and LSD tests were

run on the secondary data for the time period between April 2007 and September 2012. According to the findings, there is a considerable difference between gold mutual funds, gold exchange-traded funds, and real gold. The study provided empirical evidence that investing in gold-related assets, namely gold exchange-traded funds (ETFs), is more rewarding than investing in gold mutual funds.

5) Aggarwal (2014) attempted to contrast the performance of actual gold with gold exchange-traded funds (ETFs). In order to achieve their goal, they evaluated the risk and reward of actual gold with those of gold exchange-traded funds (ETFs). From March 31, 2011, through March 31, 2014, monthly closing prices were collected. According to the empirical data, gold exchange-traded funds (ETFs) are less volatile than actual gold, and as a result, they perform better than physical gold.

6) Goyal (2014) examined the performance of many alternative investment routes between October 2007 and October 2014 and came to the conclusion that, compared to the market, Gold ETFs were offering greater returns at a cheaper cost. Their research showed that systematic risk for gold ETFs was negative, suggesting that adding gold equities to a portfolio would diversify it and make it less dangerous.

CONCLUSION

Gold commodity exchange traded funds are a simple way to expose your investment strategy to the performance of gold, without actually owning any gold products. Even gold exchange-traded funds (ETFs) follow gold-related businesses. In comparison to other investment products like mutual funds, capital gains taxes are postponed until the ETF is sold, providing the funds a significant tax advantage. Among the many additional benefits of ETFs, there are also the advantages of a less complicated transaction and reduced expenses. To be clear, trading ETFs has its drawbacks, but if you understand how they work, ETFs might be a godsend to your investing plan.

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