*i*Journals: International Journal of Social Relevance & Concern (IJSRC)
ISSN-2347-9698
Volume 9 Issue 12 December 2021

Investment Prospects in Gold and Gold ETFs – A Comparative Study

1. Mrs. Sumathi, Assistant Professor, SDM Post Graduate Centre for Management Studies and Research, Mangalore 03
2. Mr. Prashanth Kumar A, Assistant Professor, SDM Post Graduate Centre for Management Studies and Research, Mangalore 03
3. Mr. Sudheesha Poojary, Professor, Shri Devi College, Mangalore 03

Abstract

Gold Exchange Traded Funds (ETFs) are the open-ended mutual fund schemes based on the ever-fluctuating cost of gold. The physical gold, on the other hand, does not generate an income. Also, the making charges on physical gold is high. Gold ETFs give investors exposure to the gold market. They are an excellent choice of investment for investors looking to beat inflation in the long-run. The current paper attempts to study the performance of major gold ETFs in relation to the physical gold. The data required for the analysis is taken from the website of Bombay Stock Exchange.

Key Words: Gold, ETFs, performance, physical.

Introduction:

It is said that glitters are gold. Hence there is no wonder that gold is the go-to investment when investor confidence is shaken by market volatility. As observed in the market, even during some of the biggest market crashes, the price of gold has typically risen, making it a safe haven of sorts. This is majorly due to the fact that precious metal is inversely related to the stock market.

Another reason for the gold being so popular is the physical supply of the metal in comparison to the demand, which outweighs the world's reserves. According to the World Gold Council, it takes a long time for gold explorers to bring new mines into production and to find new gold deposits.

But if one does not want to invest in the physical commodity itself, there is a variety of alternatives in terms of convenience and expense which include gold exchange-traded funds (ETFs) and gold futures.

Gold ETFs

Gold ETFs are the commodity funds that are traded just like stocks and have emerged as a very popular form of investment. In spite of the fact that these are made up of assets that are backed by gold, investors don't actually own the physical commodity. They own small quantities of gold-related assets that provide more diversity in their portfolio. Generally, these instruments allow investors to gain exposure to gold through smaller investment positions than what is achievable through futures contracts and the physical investments. However, it is found that many investors fail to realize the truth that the price to trade ETFs that track gold may outweigh their convenience.

The first exchange-traded fund (ETF) which was developed specifically to track the price of gold was introduced in the United States. The SPDR Gold Trust ETF was introduced as an inexpensive alternative to owning physical gold or buying gold futures. Since their introduction, ETFs have become a widely accepted investment alternative.

One can purchase ETF shares through a brokerage firm or a fund manager. Investing in gold ETFs allows the investors to put their money into the gold market without having to invest in the physical commodity. For those investors who don't have a lot of money for investment, gold ETFs provide a flexible means to gain exposure to the asset class and efficiently enhance the degree of diversification in their portfolios. That is, the Gold ETFs can expose investors to liquidity-related risks. For example, the SPDR Gold Trust prospectus states that the trust can liquidate when the balance in the trust falls below a certain level, when the net asset value (NAV) drops below a certain level, or by agreement of shareholders owning at least 66.6 percent of all outstanding shares. These actions can be taken regardless of whether gold prices are strong or weak.

Ownership in the ETF represents ownership in a collectible under IRS regulations, since the investors cannot make a claim on any of the gold share. That is mainly due to the fact that gold ETF managers do not make investments in gold for their numismatic value, nor do they seek out collectible coins.

Another factor that is considered here is the fees associated with ETFs. Since the gold itself produces no income, and there are still expenses that must be covered, the ETF's management is allowed to sell gold to cover these expenses. Each sale of gold by the trust is a taxable event to shareholders, which means that a fund's management fee, along with any sponsor or marketing fees, must be paid by liquidating assets. This reduces the overall underlying assets per share, which, in turn, can leave investors with a representative share value of less than one-tenth of an ounce of gold over time. This can lead to discrepancies in the actual value of the underlying gold asset and the listed value of the ETF.

Scope of the Study:

The top performing Gold DETFs at BSE are considered for study. The returns of these funds are extracted from the BSE website for a period of two years, that is, from December 2019 to November 2021. The top five funds considered for the purpose of study include SBI Gold Exchange Traded Fund, HDFC Gold ETF, UTI Gold ETF, NIPPON Gold ETF and AXIS Gold ETF. The returns of each fund are compared with the returns of physical gold investments during the same period.

Objectives of the Study:

- To study the risk return pattern of leading Gold ETF Funds.
- To analyse the relative performance of physical gold investment and investment in Gold ETFs

Research Methodology:

The present study is based on the historical secondary data. The data on the gold ETF prices are extracted for the period of two years has been extracted from BSE website. The statistical tools like Average, Standard Deviation and Correlation coefficients are used for the purpose of study.

Literature Review

Solt and Swanson (1981) in their study find that there is positive dependence in returns on gold and silver, but investors cannot easily capitalize on the dependence. They also opine that the information incorporated in the past prices of gold and silver does not allow for prices predictions in the short run.

According to Cheung and Lai (1993), the long-term behaviour of gold returns is unstable.

Worthington and Higgs (2006) in their study conclude that if asset prices do not follow a random walk, the investor psychometrics leads the return generating process in order to make historical sequence predict future returns.

As concluded by Naylor et al., (2011) in their study, the fundamental behaviour applicable to physical gold and silver returns also applies to gold ETF prices and returns. Specifically, their price movements do not conform to a random walk. The inefficiency, which was not exploitable with investments in physical gold and silver in the past, now provides an opportunity for abnormal returns through a simple filter-trading rule.

Rabi N. Mishra and G. Jagan Mohan (2012) have come to the conclusion in their study that the domestic gold prices and international gold prices are closely interlinked with each other.

Tim Pullen et al (2011) tried to explore the hedging, diversifying and safe haven properties of gold bullion, gold stocks, gold mutual funds and gold ETFs. They found that gold bullion has a strong hedging role over a mere diversifying capability.

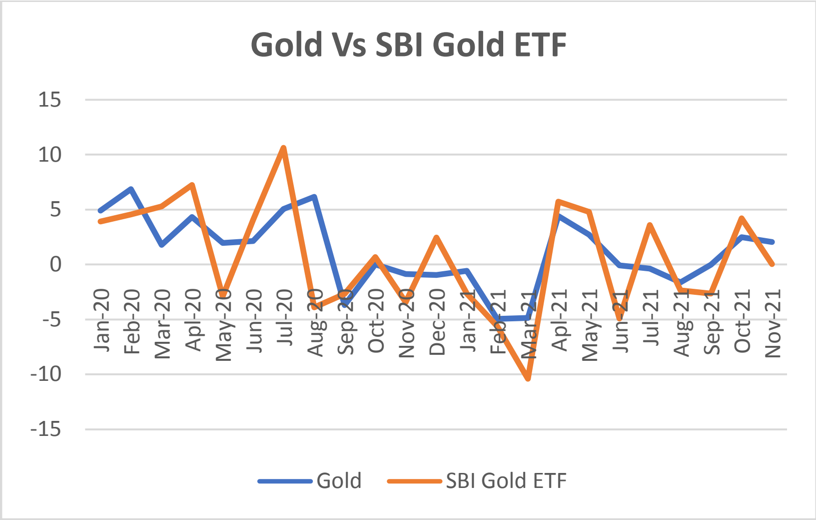
Data Analysis and Interpretation:

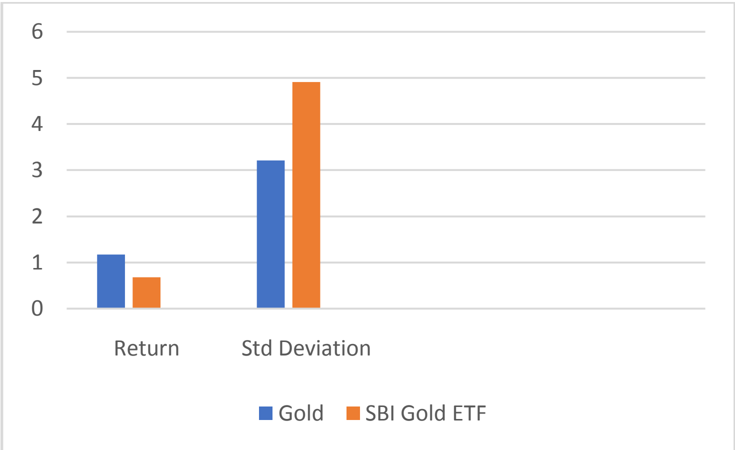
Table No. 1.1: Comparison of Gold with SBI Gold ETF

	Gold	**SBI Gold ETF**
Average Monthly Return (%)	1.17	0.68
Standard Deviation (%)	3.21	4.91
Correlation	0.68	

From the above table, it is clear that SBI Gold ETF has earned an average return of 0.68 percent in 2 years in comparison to the Gold return of 1.17 percent. The Standard Deviation of returns of SBI Gold ETF has been 4.91 percent as compared to the standard Deviation of 3.21 percent for Gold. It is also found that there is a positive correlation of 0.68 between the Gold returns and SBI Gold ETF returns.

Chart No. 1.1 and 1.2::Comparison of Gold with SBI Gold ETF





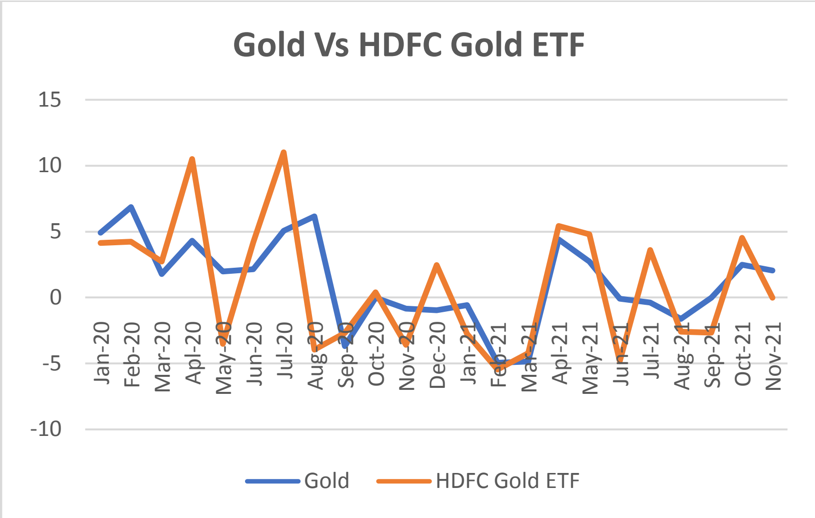
The above charts indicate the average returns and risk of SBI Gold ETF and the Gold. It is inferred that the return of SBI Gold ETF has been low as compared to the Gold returns, whereas the risk of the same has been quite high.

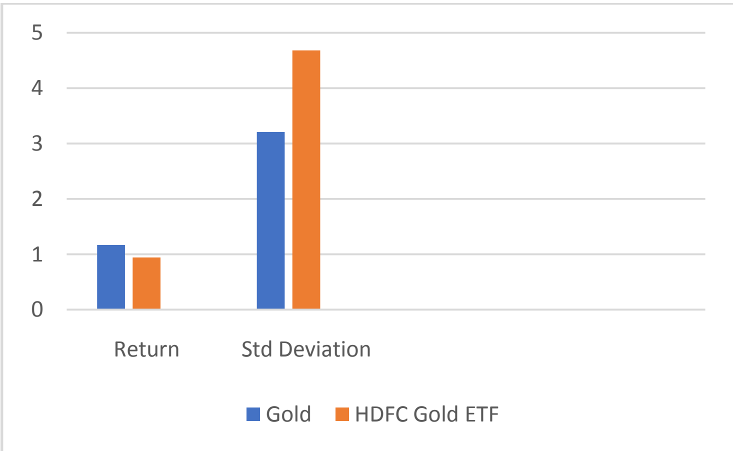
Table 1.2: Comparison of Gold with HDFC Gold ETF

	Gold	HDFC Gold ETF
Average Monthly Return (%)	1.17	0.94
Standard Deviation (%)	3.21	4.68
Correlation	0.63	

From the above table, it is clear that HDFC Gold ETF has earned an average return of 0.94 percent in 2 years in comparison to the Gold return of 1.17 percent. The Standard Deviation of returns of HDFC Gold ETF has been 4.68 percent as compared to the standard Deviation of 3.21 percent for Gold. It is also found that there is a positive correlation of 0.63 between the Gold returns and HDFC Gold ETF returns.

Chart No. 1.3 and 1.4: Comparison of Gold with HDFC Gold ETF





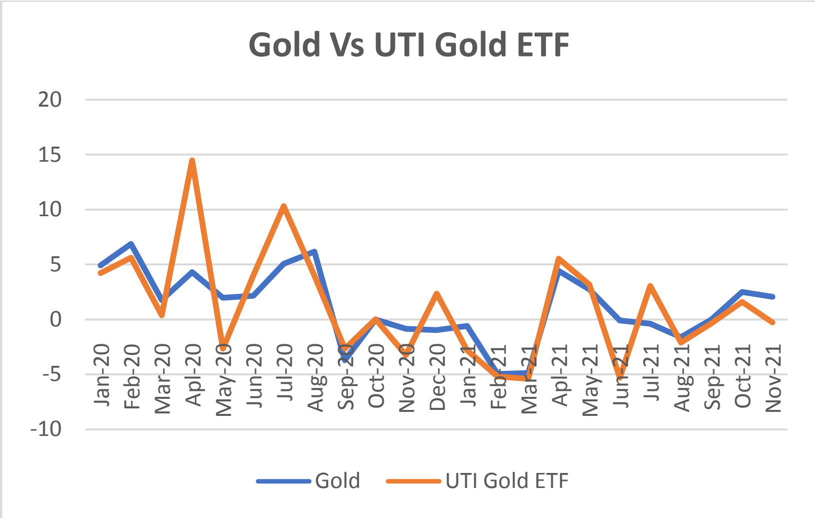
The above charts indicate the average returns and risk of HDFC Gold ETF and the Gold. It is inferred that the return of HDFC Gold ETF has been low as compared to the Gold returns, whereas the risk of the same has been quite high.

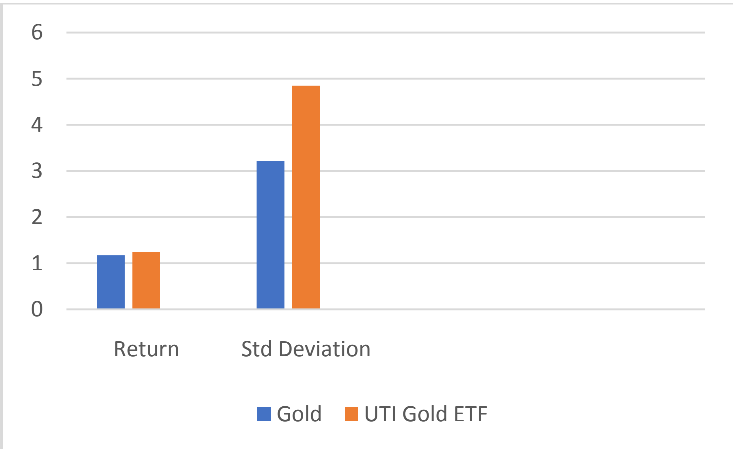
Table 1.3: Comparison of Gold with UTI Gold ETF

	Gold	**UTI Gold ETF**
Average Monthly Return (%)	1.17	1.25
Standard Deviation (%)	3.21	4.85
Correlation	0.76	

From the above table, it is clear that UTI Gold ETF has earned an average return of 1.25 percent in 2 years in comparison to the Gold return of 1.17 percent. The Standard Deviation of returns of UTI Gold ETF has been 4.85 percent as compared to the standard Deviation of 3.21 percent for Gold. It is also found that there is a positive correlation of 0.76 between the Gold returns and UTI Gold ETF returns.

Chart No. **1.5 and 1.6: Comparison of Gold with UTI Gold ETF**





The above charts indicate the average returns and risk of UTI Gold ETF and the Gold. It is inferred that the return of UTI Gold ETF has been greater than the Gold returns. At the same time, the risk of the same also has been quite high.

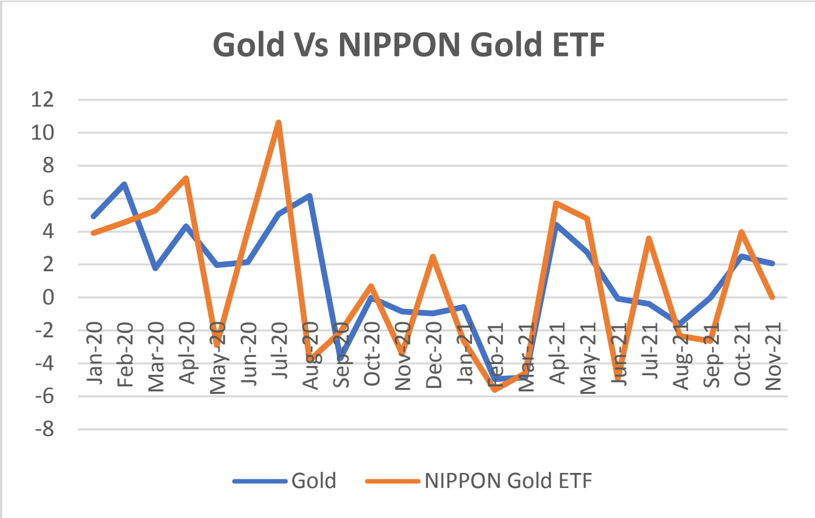
Table 1.4: Comparison of Gold with NIPPON Gold ETF

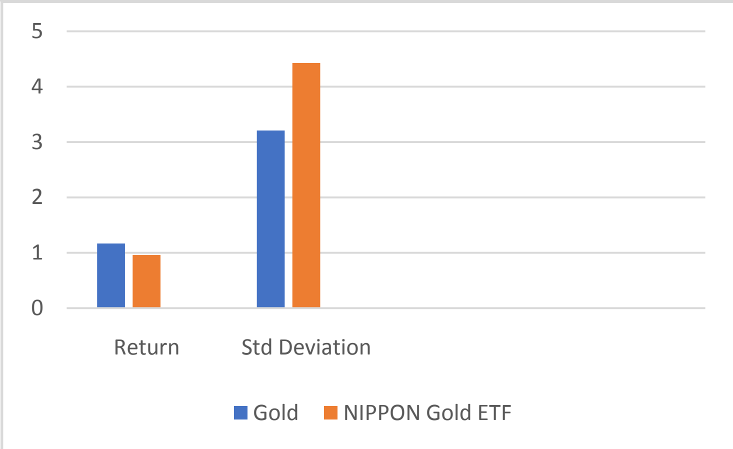
	Gold	**NIPPON Gold ETF**
Average MonthlyReturn (%)	1.17	0.96
Standard Deviation (%)	3.21	4.43
Correlation	0.64	

From the above table, it is clear that NIPPON Gold ETF has earned an average return of 0.96 percent in 2 years in comparison to the Gold return of 1.17 percent. The Standard Deviation of returns of NIPPON Gold ETF has been 4.43 percent as compared to the standard Deviation of 3.21 percent for Gold. It is also found that there is a positive correlation of 0.64 between the Gold returns and NIPPON Gold ETF returns.

iJournals: International Journal of Social Relevance & Concern (IJSRC)
ISSN-2347-9698
Volume 9 Issue 12 December 2021

Chart No. 1.7 and 1.8: Comparison of Gold with NIPPON Gold ETF





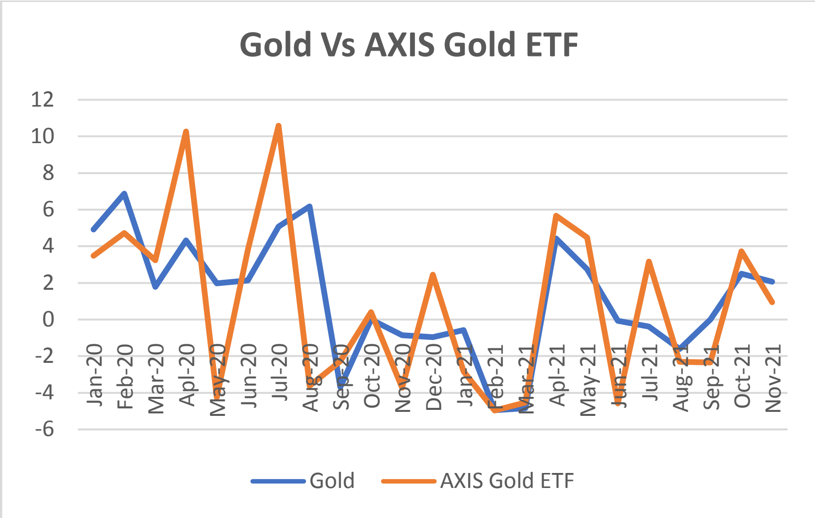
The above charts indicate the average returns and risk of NIPPON Gold ETF and the Gold. It is inferred that the return of NIPPON Gold ETF has been low as compared to the gold returns, whereas the risk of the same has been quite high.

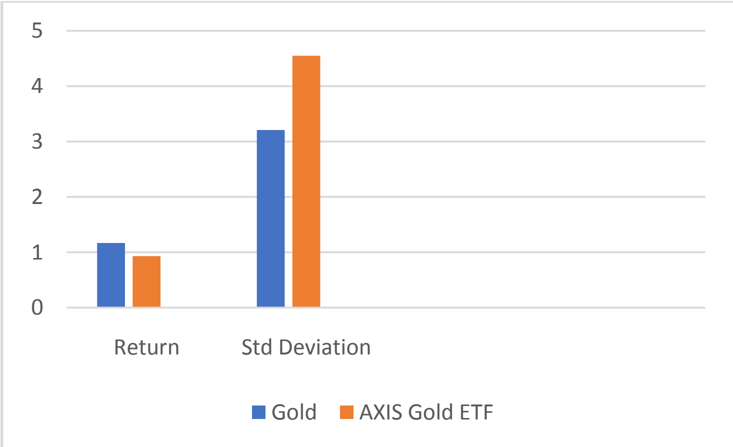
Table 1.5: Comparison of Gold with AXISGold ETF

	Gold	AXIS Gold ETF
Average Monthly Return (%)	1.17	0.93
Standard Deviation (%)	3.21	4.55
Correlation	0.64	

From the above table, it is clear that AXIS Gold ETF has earned an average return of 0.93 percent in 2 years in comparison to the Gold return of 1.17 percent. The Standard Deviation of returns of AXIS Gold ETF has been 4.55 percent as compared to the standard Deviation of 3.21 percent for Gold. It is also found that there is a positive correlation of 0.64 between the Gold returns and AXIS Gold ETF returns.

Chart No. 1.9 and 1.10: Comparison of Gold with AXIS Gold ETF





The above charts indicate the average returns and risk of AXIS Gold ETF and the Gold. It is inferred that the return of AXIS Gold ETF has been low as compared to the gold returns, whereas the risk of the same has been quite high.

Findings and Recommendations:

- Gold is consideredas a safe haven. Even during some macroeconomic shocks, including the initial onset of the coronavirus pandemic, gold increased in value, just at the moment when stocks were falling most sharply.
- Gold, like other precious metals, is also an intuitive hedge against inflation.
- The analysis of Gold ETFs also shows that these funds are heavily influenced by gold prices and therefore give extremely similar returns. With the Gold ETF market being relatively new in India, investing in any of the upcoming funds would not make much of a difference in the short term but in the long run Gold ETF provides the highest returns.
- As observed in the analysis, in relation to Gold DETF investments. Investment in gold is preferred as it gives comparatively better returns in the long run.

Conclusion:

Gold has been among the most valuable items on earth for decades. For thatreason, many investors feel that it is worth considering to allocate a small part of their overall portfolio to the commodity.Investment in gold has been the most preferred investment methods by Indians as it has a demonstrative ability to act as a hedge against inflation. It also offers stability during political, financial, or economic crisis. From the time of barter trade to the time of its use for making jewellery, and now as paper gold, the universal appeal of gold seems to be intact. It can also act as investor's investment portfoliodiversifier. Even when the other asset classes fail to deliver satisfactory returns, the returns offered by gold can balance the portfolio.Among the best ways to invest in gold in a dematerialised form, gold mutual funds and gold ETFs fare the best.

References:

- Lixia Wang et al, (2010), Gold Exchange Traded Funds: Current Developments and Future Prospects in China, Asian Social Science, Vol 6, No.7, Published by Canadian Centre of Science and Education, pp. 119- 125.
- Vipin Kumar Aggarwal et al. (2013). Gold vs. Gold ETFs: Evidences from India,
- International Journal of Scientific Research and Management, IJSRM volume 2 issue 4 April 2013, pp 758-762.
- Naveen Kumara R, 2016, "Gold ETFs vs. Equity ETFs : Comparative Analysis of their Performance". Int. J. Soc. Sc. Manage. Vol. 3, Issue-3: 222-227
- https://www.goldpriceindia.com/gold-price-history.php
- https://www.bseindia.com/markets/etf/ETF_MktWatch.aspx