Abstract

Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times. Though jewellery and industrial demand for gold has fluctuated over the past years due to the steady expansion in emerging markets of middle classes aspiring to Western lifestyles, gold, like all precious metals, could be used as a hedge against inflation, deflation or currency devaluation. The proposed study has its focus on the changing phase of gold from an asset of security to an asset of investment with special reference to Gold ETFs in Kerala.

1. Introduction

Indian markets have recently thrown open a new avenue for retail investors and traders to participate: commodity derivatives. For those who want to diversify their portfolios beyond shares, bonds and real estate, commodities are the best option. Retail investors should understand the risks and advantages of trading in commodities futures before taking a leap. Historically, pricing in commodities futures has been less volatile compared with equity and bonds, thus providing an efficient portfolio diversification option. Though the government has essentially made almost all commodities eligible for futures trading, the nationwide exchanges have earmarked only a select few for starters. While the NMCE(National Multi Commodity Exchange of India Ltd.) has most major agricultural commodities and metals under its fold, the NCDEX(the National Commodity and Derivative Exchange Ltd.), has a large number of agriculture, metal and energy commodities. MCX (Multi Commodity Exchange of India Ltd.) also offers many commodities for futures trading. The exchanges are regulated by the Forward Markets Commission.

Gold ETFs are a great way for an investment or retirement portfolio to gain exposure to different classes of financial assets. In addition to gaining exposure to gold as a commodity, buying an ETF that features gold mining companies can also give a portfolio exposure to the mining industry, which is not completely tied to the performance of gold. For people who are invested heavily in
certain industry sectors or who do not have any commodities or physical assets in their portfolios, buying a gold ETF can be a way to balance a portfolio and reallocate money.

2. Subject of Research: Nature and Scope
The robustness of an investment portfolio plays a significant role in the achievement of goals. Among asset classes, gold is considered the most robust as it counters the effects of inflation and exchange rate fluctuations. Traditionally, investment in physical gold was favored by the masses. However, after the introduction of ETF's, the gold ETF has emerged as a better medium if investing. It is an open-ended mutual fund whose units represent physical gold that is 99.5% pure, with each unit representing 1 gram of gold. These units are traded on the stock exchanges like a single stock of a Company. But neither that nor the fact that an ETF is physically backed, brings an individual any closer to gold ownership. Gold ETF is not a vehicle to acquire gold.

An analysis will be attempted in the present study with an objective of determining how gold came to be an asset of investment with special reference to Gold ETFs. One district from three different zones—North, Central, South—located in the State of Kerala would be selected as project area for investigation and interpretive analysis.

3. Hypothesis
I. Gold’s recent historic highs have been underpinned by a rush of mainstream investors, including hedge funds, commodity-based mutual funds and exchange-traded funds.
II. Gold has a weak correlation with equity, which makes it an ideal asset for diversification, thereby, making the presence of gold in a portfolio more stable and resilient to volatility or market fluctuation.
III. Gold’s performance has delivered a higher annualized return, when compared with equity shares, over the past five years. These hypothesis guide the present study, without the intention of proving or disproving, but they are of supportive of, the specific objective of the proposed research.

4. Objectives of the Study
The basic objective of the study is to analyze the changing phase of gold from an asset of security to an asset of investment. The specific objectives of the proposed study are the following:

Minor:
1. To determine how Gold became an asset of security.
2. To determine how Gold became an asset of investment.

Major:
1. To determine how growth of technology has brought about the shift in this focus on Gold from an asset of security to an asset of investment.
2. To determine the role of Gold Ex in making Gold as asset of investment.

5. Methodology

- Approach
The study basically relates to Management. Source materials are needed to be drawn from different branches of Management and Economics. Aspects of Shifts in Gold purchase are integral to basic concepts of Behavioural Psychology, and as such, the proposed study is
interdisciplinary in character and it is based on a fundamental premise that growth of technology has contributed much to this phenomenon.

- **Data Collection**
  The study requires primary and secondary data. For a thorough investigation, structured schedules containing aspects of multifarious facets of the subject of enquiry will be prepared and administered in consultation with the Research Guide and other Experts in the subject area. A comprehensive review of relevant literature including books, articles, news reports and other published and unpublished documents will serve as sources of secondary data.

- **Analysis**
  A study on changing phase of Gold is multidimensional requiring a comprehensive approach. Analytical tools specific to those aspects will be improvised and employed in the present study, apart from the conventional statistical and analytical tools that are appropriately applicable to the nature of the data to be collected and conforming to the stated objectives of the study.

### 6. Relevance of the Study

Traditionally, investment in physical gold was favored by the masses. However, after the introduction of ETF’s, the Gold ETF has emerged a better medium of investing. Gold ETF’s provide an opportunity to investors to accumulate gold over a given period of time. Since it can be purchased in small quantities, one can plan the procurement as per future requirements, say, for the marriage of children, etc. Besides, unlike gold coins and bars, for which most jewelers offer only an exchange and not a buyback, gold ETF’s can be sold at transparent prices across India. Even in terms of taxation benefits, Gold ETF’s are way ahead of the physical gold. A detailed analysis of this shift would give the valid justification for how far the technology has influenced an individual’s purchasing and investment pattern. The proposed study is, therefore, timely, relevant and important.

- **Likely Contribution to the Body of Knowledge**
  A detailed analysis of the shift in Gold purchase and investment pattern would result in filling the gaps where surety is not established in determining how far the technology has influenced in changing the Gold purchase pattern in Kerala from an asset of security to an asset of investment. The study will be first of its kind in making a thorough analysis of this shift in the three districts of three different zones of Kerala selected as the project area.

### 7. Theoretical Framework

**Investing in commodities: Funds and Futures**

The term ‘commodities’ in an investment context is generally used to describe bulk goods traded on an exchange or in a cash market. One does not need to own a large warehouse in which to store commodities in order to invest in them. Typically, investors use a fund to gain access to a spread of commodities. As fund managers do not wish to take ownership of large consignments of oil or grain, they in turn will invest in financial instruments called “futures”. A future confers the theoretical right to buy the product for a given price at a given date in the future – though in practice futures trades are almost always settled for the cash equivalent value. The future date at which the commodity must be bought or sold is called the maturity date. If the market price of the
commodity goes up, the future normally gains in value. Conversely, if the market price of the commodity goes down, the future normally falls in value. Daily financial newspapers carry spot prices and relevant news and articles on most commodities. Besides, there are specialised magazines on agricultural commodities and metals available for subscription. Brokers also provide research and analysis support. But the information easiest to access is from websites.

- **Gold as a Commodity**
  Of all the precious metals, gold is the most popular as an investment.[1] Investors generally buy gold as a way of diversifying risk. The gold market is subject to speculation as are other markets, especially through the use of futures contracts and derivatives. Gold price has shown a long term correlation with the price of crude oil.[2] This suggests a reason why gold is sold off during economic weakness.

- **Investment vehicles**
  - **Bars, Coins, Certificates, Accounts, Exchange-traded products.**
  Gold exchange-traded products may include exchange-traded funds (ETFs), exchange-traded notes (ETNs), and closed-end funds (CEFs) which are traded like shares on the major stock exchanges. The first gold ETF, Gold Bullion Securities (ticker symbol "GOLD"), was launched in March 2003 on the Australian Stock Exchange, and originally represented exactly 0.1 troy ounces (3.1 g) of gold. As of November 2010, SPDR Gold Shares is the second-largest exchange-traded fund in the world by market capitalization.
  Gold Exchange-traded products (ETPs) represent an easy way to gain exposure to the gold price, without the inconvenience of storing physical bars. However exchange-traded gold instruments, even those which hold physical gold for the benefit of the investor, carry risks beyond those inherent in the precious metal itself. For example the most popular gold ETP (GLD) has been widely criticized, and even compared with mortgage-backed securities, due to features of its complex structure.
  Typically a small commission is charged for trading in gold ETPs and a small annual storage fee is charged. The annual expenses of the fund such as storage, insurance, and management fees are charged by selling a small amount of gold represented by each certificate, so the amount of gold in each certificate will gradually decline over time.

- **Gold Exchange market**
  Exchange-traded funds, or ETFs, are investment companies that are legally classified as open-end companies or unit investment trusts (UITs), but that differ from traditional open-end companies and UITs. The main differences are that ETFs do not sell directly to investors and they issue their shares in what are called "Creation Units" (large blocks such as blocks of 50,000 shares). Also, the Creation Units may not be purchased with cash but a basket of securities that mirrors the ETF's portfolio. Usually, the Creation Units are split up and re-sold on a secondary market.
  ETF shares can be sold in basically two ways. The investors can sell the individual shares to other investors, or they can sell the Creation Units back to the ETF. In addition, ETFs generally redeem Creation Units by giving investors the securities that comprise the portfolio instead of cash. Because of the limited redeem ability of ETF shares, ETFs are not considered to be and may not call themselves mutual funds.

- **Why Own Shares of Gold ETF?**
  Owning gold ETF can be great for anyone who is looking to diversify their investment or retirement portfolio. Many investment fund managers often recommend that individuals have at least 10 percent of their investments tied to physical assets, and some investment fund managers...
even suggest that a portfolio contain 20 percent or more worth of physical assets. Because gold ETFs are designed to follow the price of gold closely, owning gold ETF is very similar to owning physical gold bullion. Because gold tends to rise as the dollar falls, owning shares of gold ETF can give investors protection against economic downturns and financial crises that occur both domestically and internationally. Investors can even buy inverse gold ETFs that assume the price of gold is going to fall. In this case, investors will profit when the price of gold goes down, and they will lose money if the price of gold rises. Investors might want to buy inverse gold ETFs if they research market trends and determine that the economy will do well over a certain period of time.

**How to Buy Gold ETFs?**

This is perhaps the easiest part, as one only need to determine which ETF is available in their geographical market, pick the one with the most favorable ownership rights or perhaps lowest yearly expense ratio, and then either log-in to their trading account or make a call to their broker. You can sell the gold ETF just as easily. There is no need to verify the gold, or purity, or wonder about the premium you’re paying, or the transportation, or where you will store it. This level of ease in buying the gold exchanged traded fund is what makes it such a popular choice despite the associated risks and costs.

**Advantages of Owning Gold ETFs**

There are several advantages to owning gold ETFs rather than physical gold bullion or gold stocks, including storage issues, liquidity, and ties to the physical asset.

As the price of gold rises and falls, so too does the value of the ETF. An investor can use gold ETF to help diversify his or her portfolio without having to worry about storage worries or cashing out an investment in a market with low liquidity.

**Disadvantages of Owning Gold ETFs**

Despite all of the advantages that owning gold ETFs carry, there are a few disadvantages to be aware of as well. In addition to being a substitute for a hard asset, profits from gold ETF can also be taxed at a surprisingly high rate.

- Gold ETFs Aren't Real Bullion
• Tax Rates

**E Gold, a new incarnation of gold**

E Gold innovated by National Spot Exchange (NSEL), which enables investors to invest their funds into gold in smaller denomination and hold it in demat form. It provides a unique opportunity to buy, accumulate, hold and liquidate E-Gold as well as to convert the same into physical gold coin/bar in a seamless manner.

Every unit of E Gold is backed by 1 Gram Gold with .995 (24 ct) purity. E Gold can be bought and sold at a transparent market price through NSEL, between 10 am to 11.30 pm, Monday to Friday. E-Gold is very similar to what an ETF is. The question is when to choose E-Gold? When to choose gold ETF?

• Benefits
  i. Safety and Security
  ii. Ad Wars
  iii. Gold for Investments
  iv. Liquidity

**E-Gold Vs ETF**

E-gold is held electronically in the demat form and can be freely converted into physical gold. In India, e-gold is offered by the National Spot Exchange Limited (NSEL), which gives investors the option to invest in commodities such as gold, silver and platinum online. Any investor can buy gold in small quantities on the NSEL and sell it after making a profit. He also has the option of taking physical delivery of the metal. Another way of taking exposure to gold is gold ETFs, financial instruments that track the price of gold. "Gold ETFs are the same as mutual fund units where each unit is equivalent to one gram gold, though some funds give the option to invest in lower denominations of 0.5 gram as well. Gold ETFs can be bought and sold like mutual fund units through the demat account via a depository. While a few ETFs give the option of taking physical delivery and some don't, investors in e-gold can take delivery anytime they want.

Conversion of gold ETFs into physical gold is possible only after it exceeds a certain size. This can vary from 500 gm to 1 kg depending upon the fund house. In gold ETFs, investors track NAVs, which keep changing with gold prices. In e-gold, investors directly track the price of gold.

**Trading basics**

• 16 percent is the average return given by e-gold in 2012 as compared to the 11 per cent average return from gold ETFs.

Brokerage: Trading in both gold ETFs and e-gold involves payment of a brokerage fee. For e-gold, it is 0.25 per cent of the purchase rate. The transaction fee for gold ETFs is Rs 1 per lakh compared to Rs 3.5 per lakh for equities.

Taxation: Gold ETFs have an edge over e-gold here. For gold ETFs, one year is considered as the long term; it is three years for e-gold. Also, e-gold attracts wealth tax. Gains from gold ETFs, if sold within one year, are taxed according to the person's tax slab and at 20 per cent (after indexation) if sold after a year. Gains from e-gold, if it is sold within three years, are taxed according to the tax slab and at 20 per cent (after indexation) if sold after three years. Indexation is adjusting the purchase price with inflation. It leads to a higher purchase price and lowers the tax liability. For instance, if inflation is 6 per cent and the investment is Rs 1,000, the
inflation-adjusted price for taxation will be Rs 1,060. This will lower the capital gains. Market Timings: You can trade e-gold till 11.30 pm, while gold ETFs are available in the market only till 3.30 pm.

**Net Analysis**
If one is looking at very long-term then E-Gold is a good option to use. If one is looking at shorter term then gold ETF would probably be a better option,"

**Findings**
1. The investor should utilize technical fundamental analysis of stock market to make decisions on gold fund investment.
2. Gold fund investment decisions should be made after deeply studying the economic changes in the concerned country.
3. Investor should analyze and assess the financial security of the institution in which he is going to make gold fund investment.
4. Gold is a commodity whose value fluctuates in the market than other securities. Hence the volatility of gold funds should be studied.
5. By doing frequent risk return analysis of gold fund an investor can reduce risk in the same.
6. Portfolio of investor can be made defensive by including gold funds during portfolio construction.

**Conclusion**
Gold commodity exchange traded funds are simple way to expose your investment strategy to the performance of gold, without actually owning any gold products. There are many types of gold ETFs, some of which consists of futures and derivative contracts in order to track the price of gold and gold related indexes, while others consists of gold assets held in a trust. There are even Gold ETFs that track Companies in the gold industry. When you consider Gold ETF for the portfolio, the nicest attraction is the advantages they create for investors, Capital gain taxes are deferred until the sale of the ETF, giving the funds a huge tax advantage over other investment products like mutual funds. There is also the benefit of a simpler transaction and lower fees among the many other advantages of ETFs. Not to say that there aren’t some limitations when trading ETFs, but if you understand how they function, ETFs could be a boon to the investment strategy.

**References**
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