

A STUDY ON INVESTOR PREFERENCE TOWARDS EXCHANGE TRADED FUND (GOLD) OVER PHYSICAL GOLD.

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ABSTRACT

Gold has always been considered as a safe haven for investors in India. Culture of the country has also contributed a lot to this scenario. With the change in time the form of gold investment has taken various forms. The study attempts to study the preference of investors towards Exchange Traded Fund (gold) and the various aspects of diverting gold investment into this electronic form.

Keywords: Exchange Traded Fund (Gold), investment, preference

INTRODUCTION

“It is not how much money you make, but how much money you keep, how hard it works for you and how many generations you keep it for” – Robert Kiyosaki

The income that a person receives may be used for purchasing goods and services that he currently requires or it may be saved for future needs. In other words, income received can be spent for current consumption and future consumption.

Savings are generated when a person abstains from present consumption for a future benefit. The person saving a part of his income tries to find a temporary repository for his savings, until they are required to finance his future expenditure. This result in investment Savings kept as cash are barren and do not earn anything. Hence savings are invested in assets depending on their risk and return characteristics. The objective of the investor is to minimize the risk involved in investment and maximize the return from the investment.

Investments can either be Financial Investments, which are in the form of certificates and documents or Non-Financial Investments, which are in physical form.

In India gold has always held importance as a good investment alternative since the days of our ancestors. But the recent trends of robbery, murders and greed for the yellow metal with the difficulty of storage and safety of physical gold had made gold a risky investment. In addition fraudulent and non-uniform practices followed by jewellers and difficulty in establishing the purity of gold contributed to the popularity and desirability of ‘ETF (gold).

This project aims to understand the preference of Exchange Traded Gold Fund (ETGF) over physical gold.

ETF (gold)'s instruments which allow the investors to invest in gold of 99.5% purity without physically possessing this metal. The purity of gold traded in ETF (gold) is assured by London Bullion Market Association (LBMA). Investors are assigned units of ETF (gold) that each unit often represents one gram of gold and hence makes it ideal for small investors as well.

ETF (gold) simply follow the price of gold in the market so their returns match returns of gold. Gold ETF's are more ideal than physical gold due to the following reason:

- ETF (gold)'s investments in gold of 99.5% purity. It prevents investors from falling into the clutches of jeweler.
- Owning ETF (gold) abolishes the difficulty of storage and security experienced in possessing physical gold.
- Ideal for small investors as ETF (gold) can be purchased in small denominations.
- Uniform price for ETF (gold) everywhere avoids price discrimination
- Wealth tax is not charged on ETF (gold) transactions.

RESEARCH METHODOLOGY

Prior to the data collection from the respondents an overall study about the ETF industry was conducted by collecting data from various investors and share brokers in addition to journals and magazines.

Next step was framing the questionnaire, based on the information obtained during the secondary data collection. The questionnaires were administered to the sample chosen by means of convenient sampling method. Analysis of the filled up questionnaire were conducted using percentage analysis through pie charts, bar diagrams and so on. Information obtained from the analysis was used to draw findings and suggestions.

STATEMENT OF THE PROBLEM

The study is based on the investor preference towards ETF (gold) investments. The study aim to analyze the factors which have contributed to the shift from conventional form of investment especially with respect to physical gold to that of equity traded funds. The level of satisfaction and the comparative advantage of investment in gold need to be analyzed and hence the study.

OBJECTIVES OF THE STUDY

General Objectives

The study aims to understand the general profile of investors preferring ETF (gold) over physical gold by analysing the comparative advantage and extent of satisfaction.

Specific Objectives

The study is conducted to accomplish the following objectives:

- i. To understand the profile of investors who prefer ETF (gold)
- ii. To understand the factors for preferring ETF (gold) over physical gold
- iii. To study the comparative advantages of ETF (gold) over physical gold
- iv. To measure the satisfaction level of investors owning ETF (gold)
- v. To study the extent of liquidity available for ETF (gold)

RESEARCH DESIGN

The study is purely descriptive in nature which aims to understand the reasons for preference by investors for ETF (gold). The analysis is carried out by data collected through a structured questionnaire to satisfy the objectives.

DATA COLLECTION

A. Data sources: The objectives of the study and informational inputs necessitates the collection of two types of data for this study i.e., primary data and secondary data.

a. Primary data: A well structured questionnaire is prepared for collecting the primary data.

b. Secondary data: Data has been compiled from various websites, written by experts and research scholars. Reliable information is extracted from various published and unpublished journals containing reliable information.

B. Population of the study: The study was conducted among investors of cochin stock exchange. The respondents include businessmen, professionals etc

C. Sample size: The sample size of the survey is 50. The completed questionnaire is only 40 owing to incompleteness of the questions filled.

D. Sample selection technique: In this study sampling method selected is convenience sampling.

E. Analysis tools: This involves converting raw data into useful information using percentages and pie diagrams.

LITERATURE REVIEW

The prices of precious metals have risen fairly high and have yielded better returns than any other instruments over the last few years. Analysts say that the position for precious metals is still attractive in the medium term due to uncertainty in the global economies, and more expectations of monetary slackening across the world. Investors can include precious metals to their portfolios vigilantly by buying in small quantities from time to time. (World Gold Council)

The long-term benefit of Gold is its ability to stabilize a portfolio and protect it against market fluctuations. Historically, gold prices have shown better stability even during periods of crisis, as compared to other investment avenues. Most experts advise investing in gold as a 'must', since gold creates a robust portfolio that withstands market fluctuations.

India's domestic production of gold is very limited; the rising demand has to be sourced from outside the country. Moreover, Gold as a commodity on its own does not add much to the productive capacity of the economy as when one buys gold, it either is stored in lockers or gets converted into jewellery. In both the cases, money spent on purchasing gold gets blocked. (Assocham, 2011).

As per a consumer demand report (World Gold Council) the consumer demand figures in selected countries suggest: India accounts for nearly one-third of the total world demand for gold i.e. 1059 tonnes. Indian consumer demand for gold is 37.6 per cent more than that of China (769.7 tonnes). Another major economy of the world USA reported at 213.5 tonnes. Moreover if we look at the demand for gold alongside the size of these major economies we see that:

- India's GDP is nowhere closer to that of China and USA.
- In terms of percentage share India's GDP is 27.7 percent of China and a meager 11.0 Percent of USA. (UNCTAD, RBI)

The uncertainty in the stock exchange has led many investors to move to a safer investment that gives a reasonable return; this gave way for increasing investment in gold. Even though gold investment is a safer investment in terms of the return, the recent trends of day light robbery, murders and greed for gold has made investment in physical gold difficult. In addition, the fraudulent practices of jewelers contributed to the popularity and desirability of Exchange Traded Gold Fund ETF (gold).

ETF (gold) holds a better position than physical gold because of the reasons like purity assured (99.5%), ease in storage and security experienced as ETF (gold) is in the virtual form. As ETF (gold) can be purchased in many denominations (even 1gram or half a gram) it is favorable to small and big investors alike. ETF (gold) also posses the advantage in terms of low cost, ease in convertibility, right and uniform pricing. (‘A study on physical gold and gold ETF’ by Ramalingam K)

INCREASING DEMAND FOR GOLD ETF (based on report of world gold council “Indian gold ETF demand likely to explode”)

Demand for gold exchange traded funds(ETF) in India is likely to “explode” as investors get accustomed to “click-and-park” mode of investing, shying away from sagging stock markets as high inflation eats into bank savings.

“Clearly people are seeing convenience in the form of ETF, going through the same broker which he has for equities”, said Ajay Mitra managing director-India and the Middle East, World Gold Council(WGC). In the last four years, volumes in gold ETF’s have grown over 164 percent. Mitra said another reason for attractiveness of paper gold is that unlike in jewellery there is no intermediate cost.

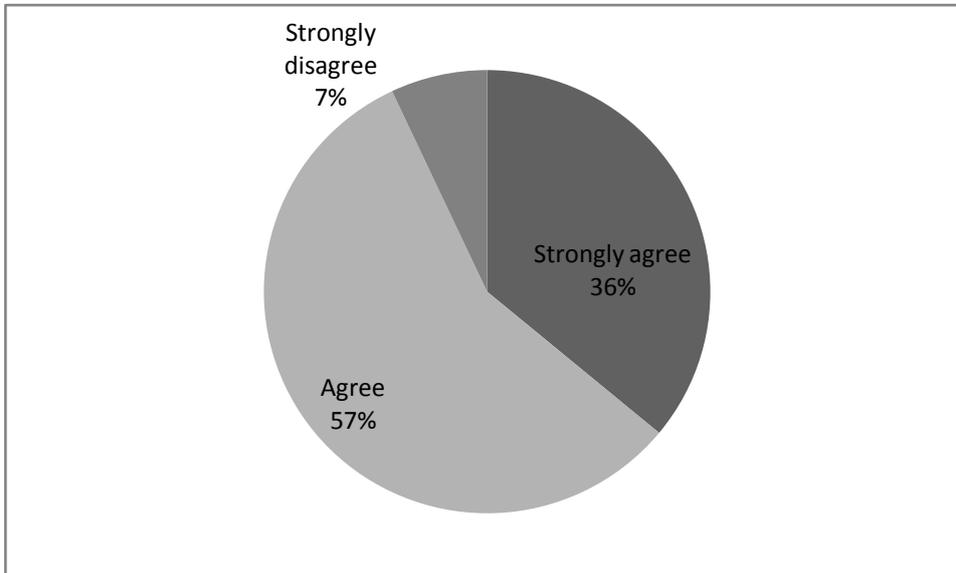
Currently, volume in gold ETF’s in India, the world’s largest consumer of bullion, is more than 15 tones- -minuscule compared with the country’s annual physical gold demand of 900 tones. Gold prices in India have gained 29 percent since the start of the year, compared with just 15 percent gains in the stock market.

DATA ANALYSIS AND INTERPRETATION

Showing the level of agreement of the respondents to the statement whether ETF (gold) is considered better to physical gold

PARTICULARS	FREQUENCY	PERCENTAGE
Strongly agree	5	36
Agree	8	57
Neither agree nor disagree	0	0
Disagree	0	0
Strongly disagree	1	7
Total	14	100

Figure showing the level of agreement of the respondents to the statement whether ETF (gold) is considered better to physical gold

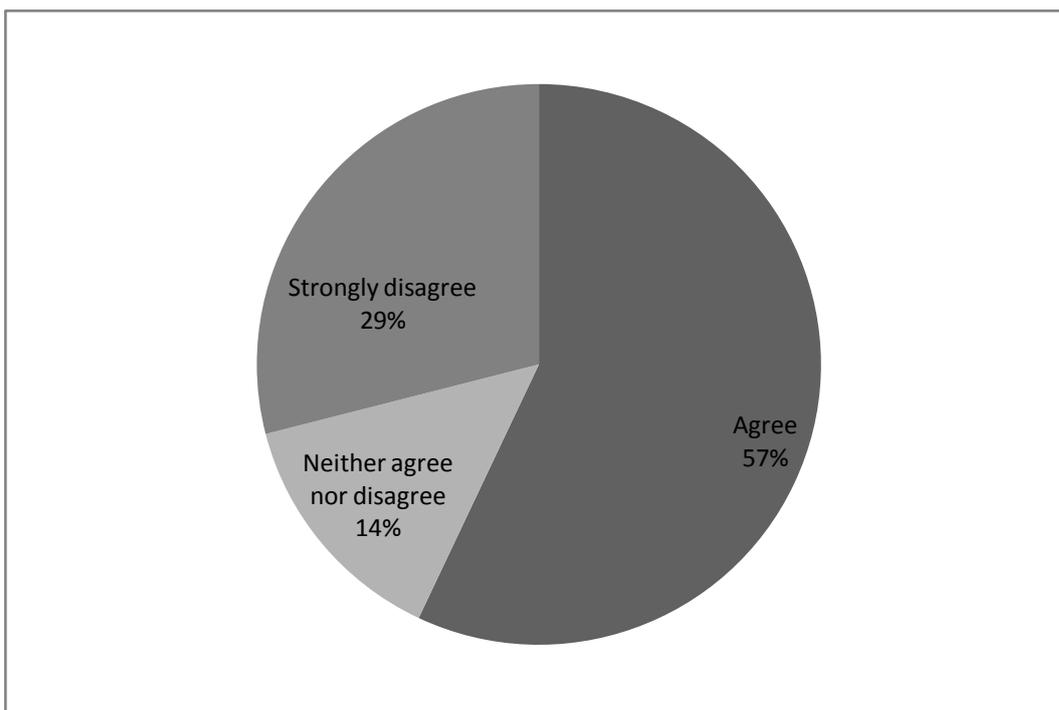


Inference: The table and figure above show that majority of the respondents agree that ETF (gold) is better than physical gold. 36 percent strongly agree to it and 57 percent agree to it. Only 7 percent strongly disagree to it.

Table showing the level of agreement among the respondents on the need for improvement in the present system of trading in ETF (gold)

PARTICULARS	FREQUENCY	PERCENTAGE
Strongly agree	0	0
Agree	8	57
Neither agree nor disagree	2	14
Disagree	0	0
Strongly disagree	4	29
Total	14	100

Figure showing the level of agreement among the respondents on the need for improvement in the present system of trading in ETF (gold)



Inference: The analysis above show that 57 percent agree that there is a need for improvement in the present system of trading in ETF (gold). While 29 percent strongly disagree to it. 14 percent neither agree nor disagreement.

FINDINGS

The study was mainly aimed to understand the profile of investors who prefer ETF (gold), factors for favouring this form of investment and also the satisfaction level of investors.

The study throws light into the following findings:

- Out of the total respondents only 35 percent are ETF (gold) investors.
- About 79 percent of ETF (gold) investors are male.
- Lack of awareness is the major reason for investors to keep away from ETF (gold), about 46 percent of the total respondents are unaware of ETF (gold).
- Surprisingly 100 percent of ETF (gold) investors prefer long term gain compared to short term benefits.
- Majority of the ETF (gold) investors are of the view that trading in ETF (gold) is an excellent experience.
- Though investors are satisfied with the trading system, majority of them are of the view that improvements are necessary to attract more investors to ETF (gold).
- Majority of the investors are satisfied with the earnings from ETF (gold).

- There is a positive response for the advantage of ETF (gold) over physical gold. 36 percent strongly agreed and 57 percent agreed.
- Actual return of ETF (gold) investors is more than their expected returns. Majority of the investors expected a return of 15 to 20 percent whereas they earn a return of 20 to 25 per cent
- ETF (gold) investors are mainly the salaried category, who belongs to the age group of 40years to 50years.
- Large majority of the respondents disagree to the statement they earn more from ETF(gold) in comparison to other forms of investments.
- 57 percent of the investors agreed that the fund managers should be more transparent.
- About the liquidity of ETF (gold) compared to physical gold there is a mixed attitude, about 36 percent agrees ETF (gold) is more liquid, 29 percent disagrees and 21 percent takes a neutral stand.
- Majority of the investors disagrees that ETF (gold) has better stability over physical gold.
- 86 percent of the investors agree that compared to physical gold, ETF (gold) is safer.
- Tax element of ETF (gold) is advantageous over physical gold is agreed by 79 percent of the investors.
- Majority of the respondents (93 percent) agree to the statement that ETF (gold) possess the advantage of less transaction cost compared to physical gold.
- The female investors were of the opinion that, though ETF (gold) provide good returns, the mental satisfaction is higher when gold is held in physical form.

SUGGESTIONS

- The investors should be made aware of where their funds are and how they are generating income, in a systematic manner
- Fund managers should dictate the terms related to the investment in an understandable manner, they should be more transparent.
- ETF (gold) seem to be more familiar among share investors as they are in touch with share market, steps should be taken to include prospective investors as well.
- Public should be made aware of ETF (gold) as an investment alternative and the various benefits that it provides to its holders.
- The study could be extended to the whole of Kerala, rather than conducting in Cochin alone.

- An extended period study can bring improved results.
- Different class of investors could be included in the study by selecting samples on systematic basis.
- The sample size can be increased from 50 to a increased sample size.

CONCLUSION

There is no doubt that ETF(gold)s are gaining popularity over the year and have an edge over the physical gold in terms of safety and liquidity element but nothing can match the satisfaction and happiness that you get when you hold that yellow piece of metal.

If investors feel that gold is just a matter of investment then they may try their hands with ETF (gold) but if they are the one who adheres to the theme prevalent in India of gifting gold and also carrying it forth from generations to generations then nothing can beat its physical form.

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