

Gold ETF

September 12, 2020

A Gold ETF is an exchange-traded fund (ETF) that aims to **track the domestic physical gold price**. They are passive investment instruments that are based on gold prices and invest in gold bullion.

Exchange Traded Funds

- An exchange traded fund (ETF) is a type of security that involves a collection of securities such as stocks, that often **tracks an underlying index**, although they can invest in any number of industry sectors or use various strategies.
- ETFs are in many ways **similar to mutual funds; however, they are listed on exchanges** and ETF shares trade throughout the day just like ordinary stock.
- Because there are multiple assets within an ETF, they can be a **popular choice for diversification**.

Gold ETF

- Gold ETFs are units representing physical gold which may be in paper or dematerialised form. **One Gold ETF unit is equal to 1 gram of gold and is backed by physical gold of very high purity.**
- Gold ETFs combine the **flexibility of stock investment and the simplicity of gold investments**.
- Gold ETFs are listed and traded on the National Stock Exchange of India (NSE) and Bombay Stock Exchange Ltd. (BSE) like a stock of any company.
- When one actually redeems Gold ETF, they don't get physical gold, but receive the cash equivalent.
- Trading of gold ETFs takes place through a **dematerialised account (Demat)** and a broker, which makes it an extremely convenient way of electronically investing in gold.

- Because of its direct gold pricing, there is a **complete transparency** on the holdings of a Gold ETF.
- Gold ETFs are ideal for investors who wish to invest in gold but do not want to invest in physical gold due to the **storage hassles/ doubt about purity of gold** and are also looking to get **tax benefits**.
- There is **no premium or making charge**, so investors stand to save money if their investment is substantial.
- They also provide for **easy liquidity and can act as a hedge against inflation**.

Recent Developments

- Gold ETFs witnessed an inflow in August, for the fifth month in a row, amid major economies staring at a recession due to the spread of COVID-19 pandemic.
- Gold, with its safe-haven appeal, has emerged as one of the best-performing asset classes and a preferred investment destination among investors.