Gold ETFs versus Gold Funds

Summary – *It is good to have gold as a part of your investment portfolio. You can invest in gold through Gold ETFs or Gold Funds. Gold Funds are good if you want to invest for a longer term without too much trade. Gold ETFs are good if you want to regularly buy and sell gold and plan to hold for a longer term.*

We Indians love to buy gold either as jewellery or for investment purposes. It is good to have some gold in the investment portfolio, as it is a hedge against inflation. Moreover, gold is generally negatively correlated to equity investments which means when the equity markets are down, gold performs well. So it helps to balance the portfolio.

Nowadays there are many ways to buy gold. You do not need to buy physical gold and worry about how to store it and how to keep it safe. You can buy Gold via Gold ETFs or Gold funds. We are comparing Gold ETFs and Gold funds here to help you decide your investment choice.

Feature	**Gold Fund**	**Gold ETF**
Definition	Gold funds invest in Gold ETFs which in turn invest in physical gold	Gold ETFs invest in physical gold and each ETF unit is generally equivalent to 1 gram of gold
Demat Account	You do not need a DEMAT account as it is like a mutual fund that will invest in Gold ETFs on your behalf	You need a demat account (the same one you use for your equity) with a depository to buy and sell Gold ETF units.
Investment Amount	Minimum lump sum amount is Rs. 5000	The minimum amount required normally is the price of 1 gram of gold
Expenses	You will have to incur expense charges. Expenses are around 1.5% of the investment amount. Exit Load is not present for long term investments but it is charged if you exit within a year. Exit Load is approximately 1%	You will have expense charges and brokerage costs. Expenses are around 1% of the investment amount. Brokerage is about 0.5% of the total amount. Demat account charges will be applicable which is around Rs. 300-Rs. 500.
Taxability	There is no VAT/Wealth Tax applicable. If sold after a year, long term capital gains tax is applicable of 10% without indexation or 20% with indexation on profits but there is no Securities Transaction Tax (STT) levied. Short term capital gains are taken in the income tax calculation	There is no VAT/Wealth Tax applicable. If sold after a year, long term capital gains tax is applicable of 10% without indexation or 20% with indexation on profits but there is no Securities Transaction Tax (STT) levied. Short term capital gains are taken in the income tax calculation.

Here we have given a snapshot of the performance of some Gold ETFs and Gold Funds as on 9 December 2013.

Scheme Name	Compound Annualised Performance (1 yr)	Compound Annualised Performance (3 yrs)	YTD Return	Total Expense Ratio (As on 30/09/13)
Reliance -R*Shares Gold ETF	-10.48%	9.58%	-9.33%	1.09%
Axis Gold ETF	-13.41%	8.09%	-12.31%	1.06%
HDFC Gold ETF	-13.52%	8.17%	-12.41%	1.06%
SBI Gold ETS	-13.31%	8.40%	-12.19%	1.03%
Axis Gold Fund (G)	-4.65%	n/a	-3.64%	2%
HDFC Gold Fund (G)	-4.48%	n/a	-3.57%	0.50%
Religare Invesco Gold Fund	-4.65%	n/a	-3.38%	0.50%
SBI Gold Fund (G)	-4.25%	n/a	-3.10%	0.54%

n/a – not applicable

Here is a comparison of expenses for Gold Funds and Gold ETFs -

Investment Amount = Rs. 10000		
Charges Per Annum	**Gold Fund**	**Gold ETF**
Expense Ratio^ (1.5% for Gold Fund and 1% for Gold ETF)	150	100
Demat Annual Fees^^	0	400
Brokerage (0.5%)*	0	50
Exit Load (1%)**	100	0
Total (Rs.)	**250**	**550**

Expense Ratio^ *- For Birla Sunlife Gold ETF, it is 1% and for Reliance Gold, it is 1.5%*

Demat Annual Fees^^ *- They can be appropriated across all assets held in the Demat account like Equity, Gold ETFs etc. so this will be negligible. Demat annual fees range from Rs. 300-Rs.750 depending on brokerage house and plan taken. An average of Rs. 400 is taken here for calculation*

Brokerage *– ICICIDirect charges 0.55% in its I-Secure Plan. HDFC charges 0.5%.*

Exit Load* *- It is charged only if you exit within 1 year of allotment. HDFC Gold Fund charges 1% for redemption after 6 months but before 1 year.*

To summarize, it depends on your investment need. If you want to have a fund for long term investment with regular SIPs, Gold funds are the way to go. If you want to trade in gold regularly and already have a demat account, Gold ETFs should be your choice and Gold ETFs also perform better in the longer term. You should keep an eye on the expenses.