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**Gold Funds, the `virtual` yellow metal**

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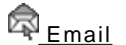
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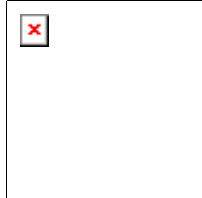
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Source: IRIS (18 August 2008)

## Gold Funds, the `virtual` yellow metal



**Author: Anil Rego**



Gold ETFs were the much anticipated change brought into I address some key issues such as purity, costs of insurance & s and liquidity associated with investing in physical gold.

### ETFs – A New Genre...

Gold ETFs are open-ended mutual fund schemes that invest in s gold bullion (0.995 purity). The investor`s holding will be denoted in units, which listed on a stock exchange. This requires a Demat.

Gold ETFs are designed such that the returns provided are closely related physical gold in the spot market and is closest to buying physical gold.

Gold ETFs are launched as NFOs with an Entry load, hence, it is suggestive t can invest in these funds when they are listed thereby avoid bearing the entry lo

The past returns have been impressive as stated below –

Fund Name	1-Yr
Gold Benchmark ETF	29.61
Kotak Gold ETF	29.63
UTI Gold ETF	29.73

The returns are impressive, considering that equity markets have been subd fact, bullion market moves inversely in tandem with the capital market, thereby

an effective counter to equities (especially during such turbulent times).

Gold ETFs offer investors a convenient means to invest in gold without the hassles of storage; also it spares investors of the concerns regarding the quality of gold and lowers transaction cost.

**Gold Funds Investing in Global Mining Companies**

Gold mutual funds launched recently in India are mainly feeder funds – they are funds which invest in another fund which is the master fund, normally which invests successfully around the globe. They can be bought and sold without holding a demat account like any other mutual fund.

Since they invest in gold mining companies, the returns can be higher than the returns on gold due to increased efficiencies, growth in consolidation and the P/E multiples on the company profits. In the past, for every 1% rise in gold, there is a 5% rise in stocks in gold mining companies. The downside is that the risk level is also high.

DSPML World Gold Fund is one fund which has been generating phenomenal returns, providing about 48.22% against its benchmark (FTSE Gold Mines Index) providing a return of little over 19.12% for a period between Sep 07 (date of inception of DSPML World Gold Fund) to May 08. (Source: DSPML MF)

**Summary...**

Liquidity, safety, quality, convenience and transaction costs make gold and Gold Mining Funds alternatives to buying physical gold. Gold offers stability to the portfolio, is a hedge against Inflation and equity markets.

A brief comparison of Gold ETFs and Gold Mining Funds –

	Gold Mining MFs	Gold ETFs
<b>Cost of Entry</b>	2.25%	1.5% - 2.5% entry load. (lower entry load on buy in secondary market)
<b>Cost of Maintenance</b>	None	Demat A/C charges
<b>Tax</b>	LTCG of 20% after 1 Yr. No Wealth Tax	LTCG of 20% after 1 Yr. No Wealth Tax

If you wanted to invest in gold without security hassles you now know how to go about it!

**Anil Rego is the founder and CEO of Right Horizons, an Investment Advisory and Wealth Management Company. Right Horizons has successfully practiced a high risk model with a Contrarian approach.**

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