

### ***It's Better to Invest in E-Gold In Comparison To Gold Saving Funds***

Now a day there has been several gold based investment instruments made available in the market to entice the investors. One such new entrant is Gold savings fund. Gold Savings Fund are open-ended fund of funds scheme, which is passively managed and invest primarily in Gold Exchange Traded Fund. It means it invests 95-100% of its assets in Gold ETF fund which is the fund that invest in physical gold. The new funds basically target, those investors, who wants to remain away from the hassles of operating a broking account and opening a demat account, could consider buying gold through this SIP who wish to build up their gold portfolio and hold gold as an asset class in their portfolio.

But there are some major drawbacks of these gold saving funds as being a fund of Exchange trade fund, the expense ratio here is bound to be higher. For example, the expense ratio for the most Gold Exchange traded Fund is 1%-1.5% per annum. Over and above this charge are AMC charges by Gold savings fund. Then there is entry load as well as exit load.

Hence in the case of gold saving fund approximate fund management cost with entry load comes to around 3.0 % without considering the exit charges. [**1.5% (Entry load) + 0.75% (AMC For Gold Savings Fund) + 0.75% (AMC For Gold ETF)**]

These funds are often loaded with exit charges. In case of one fund it is 2.0 per cent in the first year. If investor plans to exit in the first year of buying the units, there will be an exit load of 2.0 % which makes up total cost of 5.0 %. So this is a too costly fund for the asset class like gold. Investors before putting their funds into any instrument or scheme looks at pros and cons and compare the cost and return with similar instruments and schemes.

E Gold which is proved to be best among all similar investment instruments is worth differentiating with Gold Savings funds. Following are some differentiators which must be considered by the investors:

- a) Low holding cost: In case of Gold saving funds, there is an AMC/FMC charges, entry/Exit load cost per annum, while the annual holding cost of E Gold is 0.4% only. Hence, in terms of holding cost, E Gold is more cost efficient.
- b) Market Timing: Gold saving funds is available for trading from 9.00AM to 3.30 PM, while E-gold is available for trading from 10.00AM to 11.30 PM. Hence, during major fluctuation in the market which happens during evening session, E Gold is available for trading, while gold saving fund is not available.
- c) Fungibility with physical Gold at various Delivery centers: Gold saving funds cannot be converted into Gold coins and small denomination Gold bars. Hence, investors willing to convert units into physical gold do not prefer gold saving funds. In case of E-Gold, investors can get physical delivery of Gold coin and bar in various denominations at various locations across the country without any premium.
- d) Pricing: Gold saving is a fund of exchange traded fund and hence, it is based on NAV driven price. Such NAV may be quite different from current Gold price, as it is based on timing of Gold purchase and sale by the AMC. E-gold is linked to real time Indian gold prices, which tracks the international gold prices. The different Gold saving



Apr 04, 2011

funds in our country have different price even at the same point of time, while E Gold has only one price in the entire country.

The risks involved in gold-focused saving fund are not seen in E-gold in comparison to the Gold saving funds. E Gold is fairly straightforward as investors are able to buy or sell gold at their discretion. There are no management fees, taxes are split between short-term and long-term capital gains, there are no third parties making decisions on investors' behalf, and at any time investors can own the underlying gold.