National Spot Exchange
Electronic Spot Market

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E Gold: the best alternative for gold investment and physical delivery

There is a buzz around investing in the Gold with continuous appreciation in the price in last 10 years. Importance of gold for other social, cultural and economic remains intact. Several mutual funds have come out with the Gold ETF luring to benefits from the price rise. However the investor should examine the performance of Gold ETF vis a vis other similar available instruments/options of investing.

Let's take a scenario where one investor purchases the gold only for return and he does not have any interest in its delivery. Another investor apart from investing also looks at the option of physical delivery. For him available options are Gold, Gold ETF, e-gold or Gold futures contract. Physical gold could be purchased from any of the bank or even from jewellery shop. However investor would prefer to avoid both options as selling it back is difficult with purchase from banks and in regards to jewellery quality risk he will carry. So investors are left with the choice of Gold ETF, e gold and gold futures contract. Gold futures contract requires daily involvement along with the skill and resources to roll over the position and manage mark to market on daily basis. For an investor this instrument is not suitable at all. Then investors can choose either Gold ETF or E gold. Both these instruments are traded on the exchange.

Gold ETF is an instrument traded on the stock exchange. The instrument is managed by fund manager who allocates the fund in lopsided proportion in physical gold and other investment instrument. Typically 90% of total fund is towards investment in physical gold and rest in the instrument as decided by fund manager which is fixed in nature. Fund house claims that Gold ETF also allows delivery of the physical gold against the surrender of Gold ETF units. One unit of Gold ETF is approximately equivalent to 1 gm. Here point to be noted that the NAV is not a true reflection of Gold price. If one would like to take the delivery in physical form he has to make separate cash payment. However there is no clarity in regards to the quantum of cash component required at the time of physical delivery. Also there is no clarity on the delivery procedure and manner of surrendering the NAVs for converting into physical. Investing in Gold ETF is costly as it levies AMC on account of storage, fund management and other functions. Variation in NAV of different fund house is quite large. Similarly is the disparity with any benchmark physical gold price.

E gold is traded on national spot exchange and available in exactly multiples of 1 gm without any charges towards storage or any other accounts. The delivery is available at multiple locations across India in denomination of 8 gm, 10 gm, 100 gm and 1 kg. On the other hand if one invests in Gold ETFs, the delivery of physical gold can be taken only when the accumulated amount of gold reaches one kilogram of gold. So, while you can redeem your units as cash, you cannot redeem it in form of gold, if it is less than 1 kilogram which is a major draw back of Gold Etfs because it is hard for a investor to accumulate 1 kg (1000 units) of Gold ETF.

Hence the investor wants to examine the return as well as cost of taking delivery. Return

	GOLD ETF	E GOLD	Difference
17-Mar-10	1648.4	1700.8	52.4
24-May-11	2170.75	2274.2	103.45
Net Change	522.35	573.40	51.05
Return	31%	33.71%	

The return obtained from Gold ETF is around less than 2.71% than that of E gold. Now suppose the investor wants to take delivery in physical form he has to pay cash component which is typically difference between the NAV and prevailing spot market price of the gold. Since E gold price is in fact spot gold price thus if investor wants to take physical delivery he will have to pay approximately Rs.103.45/gm extra which is difference in current NAV and spot market price. If investor opts to invest in e gold he will be able to save Rs.51.05/gm.

The information provided will hopefully help answer the question "Which gold investment is appropriate, e-Gold or the gold ETF?" While there is a place for ETFs in any investment portfolio, there are several drawbacks that do not make them the first choice for individuals wishing to invest in gold. When the goal is to simply benefit from a rise or fall of the price of gold and more is getting physical delivery even in smaller denominations e-Gold is the logical choice. E-Gold offer the investor a fast and accurate pricing mechanism, the ability to leverage for getting physical delivery and the security of doing business on an exchange that has guaranteed the performance of each of its transactions.