

## GOLD ETF v1

Gold ETFs have become all the rage ever since gold started its upward trajectory nearly a decade ago. Knowing that individual investors were looking for an easy, hassle-free way to get exposure to gold, the idea of a gold exchange-traded funds (ETF) was conceived. In this article, we aim to answer all the questions one might have about gold ETFs in a FAQ format. By the end, hopefully you will have a good idea of what a gold ETF actually is, what you're getting involved in if you decide to invest in it, and the associated risks and benefits.

### What Is A Gold ETF?

Starting with the most basic question, an ETF is a simple lone financial instrument devised to closely mirror the price of something that would otherwise be much harder to 'own' in ones portfolio. The thing being tracked could be anything from following the performance of an index (like S&P 500) to closely tracking the performance of a specific industry to just emulating one or multiple commodities. Gold ETFs, as the name suggests, usually aim to directly follow the price of gold itself. So a gold ETF is like buying a stock in a company, except, you're essentially buying a stock that goes up and down in price exactly as the price of gold does in real time.

### What Is The History of Gold ETFs?

The first idea of owning gold indirectly came in 1961 through a closed-end fund called Central Fund of Canada. It allowed ownership of gold and silver bullion but it was a mutual fund in which new investors could not come in and be part of the action unless they bought shares from the current shareholders. The Benchmark Asset Management Company Private Ltd in India were the first to apply for creating a gold ETF in 2002, but at the time didn't receive the regulatory approval necessary. Instead the first gold ETF was launched in Australia by the name Gold Bullion Securities in 2003. Since then dozens of alternate gold ETFs have appeared globally performing essentially the same function but in different ways.

### Why Own A Gold ETF?

The reason for buying gold ETFs essentially boils down to convenience. Having to go to a obscure shop, pick an item that the general investor has no real idea about, not getting ripped off in some way, transporting the gold back home safely, and then storing it somewhere secure and always worrying about the safety of your gold in your own home can all be worrying matters. If you decide that you need money, or that you would like sell your gold because of the current price action, then you need to go through the whole troublesome process again. When you buy a gold ETF, you can do so in a matter of several clicks on your computer or a simple call to your broker. For someone who's not totally devoted to gold and just wanting to have some exposure to gold in the short term, it can be the easiest and cheapest ways to go about it.

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### Do Gold ETFs Accurately Track The Gold Price?

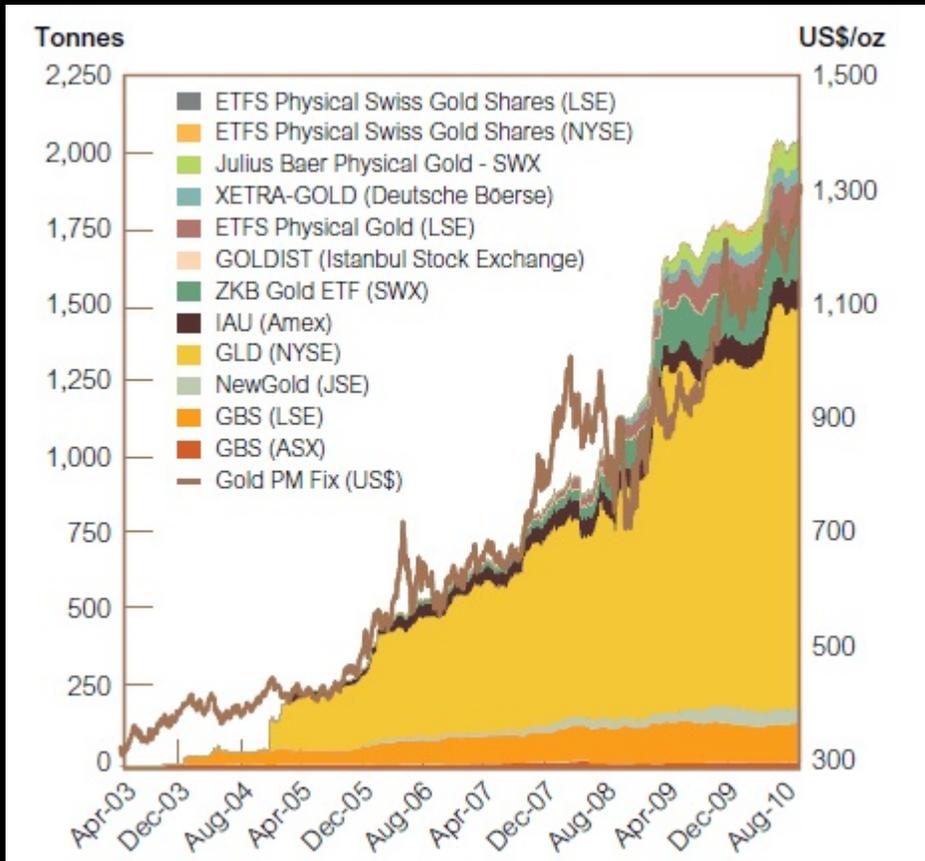
Gold ETFs have done a near flawless job of tracking gold price since their inception, so they are indeed working as intended. The only difference is in the yearly expense ratio that diminished the gold ETF price compared to physical gold, but that's a cost that an individual willingly agrees to. Looking at the chart below comparing the price of GLD (red) to physical gold (black), we can see they are literally on top of each other and mirror each other nearly perfectly.



### What Is The Best Gold ETF?

While naming the top gold ETF might be a rather subjective take, the most popular gold ETF by far is the SPDR Gold Trust ETF which trades predominantly in the US under the ticker (NYSE: GLD), but is also present in Japan (TYO: 1326), Hong Kong (SEHK: 2840) and Singapore (SGX:GLD 10US\$). Not only is this the most liquid gold ETF, but it also has the most gold holdings out of any other ETF in the world, in fact in terms of asset worth its only behind the SPDR S&P 500 in the list of the largest ETFs in the world. Below is a list of other major gold ETFs in the world and their holdings throughout the years.

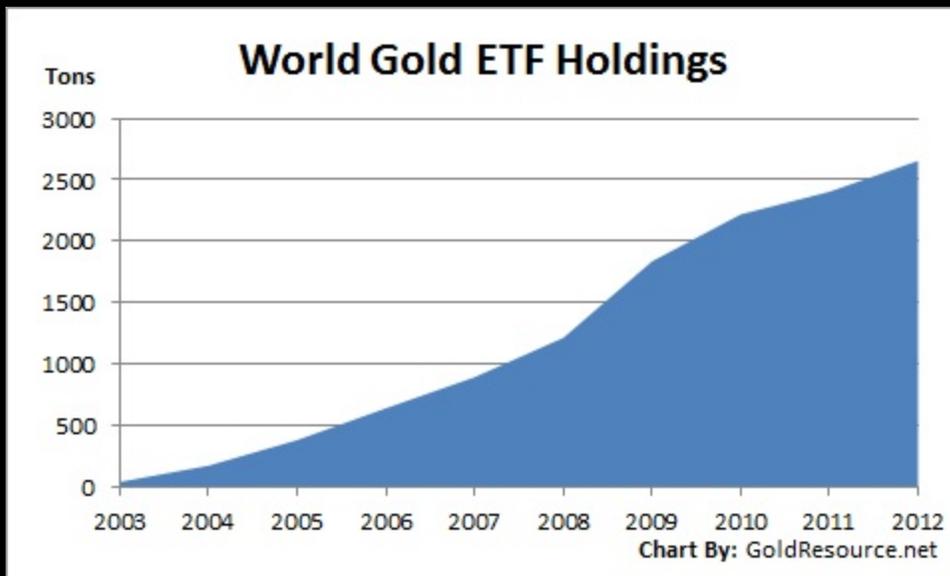
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**How Much Gold Is In Gold ETFs?**

As of 2012, there is over 2500 tons of gold held between the different gold ETFs around the world. This is more than all but two countries (US and Germany) in the world as far as official reported holdings go.

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### What Are The Risks of Gold ETFs?

The main disadvantage of gold ETFs surrounds the fact that the gold is not in your possession. Looking at the fine-print in most of the gold ETFs, we can see that the fund does not need to keep a certain amount of gold in its possession, and that its obligation to its stakeholders are not in the form of physical gold but as a financial debtor. So if something goes wrong with the company behind the fund, and they need to declare bankruptcy or be liquidated then you're not assured to get anything. This can prove to be a big problem, especially because gold is most valuable under a cloud of financial chaos in other parts of the economy, financial world, and business in general. So unless one invests their money in an ETF that assures their customers that the gold is in allocated accounts that will be kept untouched even in times of potential default, then one must be aware of the risks involved with gold ETFs.

**Can You Take Physical Delivery of Gold ETF?** Some will tell you that you can take physical delivery of the gold and cash out of gold ETFs that way, but that's only true in the theoretical sense and won't apply to average investors. Taking the example of GLD, several steep requirements exist like being 'approved' (which often means being a market maker or at least a broker) and also since GLD only deals in baskets of 100,000 shares that means you would have to own at least 100,000 and redeem them all at the same time. The fund even has the option to pay in cash instead of the gold itself, which would be especially problematic in case of a run on the gold.

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### What Are The Costs Of Gold ETF Ownership

Depending on your country and method of purchasing gold ETFs, you might initially be charged a commission fee for executing the order. This can be anywhere from several Dollars in the United States to as much as 0.4% in other parts of the world. An annual expense ratio is charged for gold ETFs, which includes the costs of overheads, handling, storing and ranges from 0.25% to over 1% in some cases. This amount is usually charged by a small drop in the gold ownership of the fund through sales. Below you can see a list of expense ratios for commonly traded gold exchange traded funds.

Symbol	Name	ETFdb Category	Inception	ER
<a href="#">GLD</a>	<a href="#">SPDR Gold Trust</a>	<a href="#">Precious Metals</a>	2004-11-18	0.40%
<a href="#">IAU</a>	<a href="#">COMEX Gold Trust</a>	<a href="#">Precious Metals</a>	2005-01-21	0.25%
<a href="#">SGOL</a>	<a href="#">Physical Swiss Gold Shares</a>	<a href="#">Precious Metals</a>	2009-09-09	0.39%
<a href="#">DGL</a>	<a href="#">DB Gold Fund</a>	<a href="#">Precious Metals</a>	2007-01-05	0.79%
<a href="#">DGP</a>	<a href="#">DB Gold Double Long ETN</a>	<a href="#">Leveraged Commodities</a>	2008-02-27	0.75%
<a href="#">UGL</a>	<a href="#">Ultra Gold</a>	<a href="#">Leveraged Commodities</a>	2008-12-01	0.95%
<a href="#">GLL</a>	<a href="#">UltraShort Gold</a>	<a href="#">Leveraged Commodities</a>	2008-12-01	0.95%
<a href="#">AGOL</a>	<a href="#">Physical Asian Gold Shares</a>	<a href="#">Precious Metals</a>	2011-01-14	0.39%
<a href="#">DZZ</a>	<a href="#">DB Gold Double Short ETN</a>	<a href="#">Leveraged Commodities</a>	2008-02-27	0.75%
<a href="#">UGLD</a>	<a href="#">3x Long Gold ETN</a>	<a href="#">Leveraged Commodities</a>	2011-10-17	1.35%
<a href="#">TBAR</a>	<a href="#">Gold Trendpilot ETN</a>	<a href="#">Precious Metals</a>	2011-02-22	1.00%
<a href="#">DGZ</a>	<a href="#">DB Gold Short ETN</a>	<a href="#">Inverse Commodities</a>	2008-02-27	0.75%
<a href="#">UBG</a>	<a href="#">E-TRACS UBS Bloomberg CMCI Gold ETN</a>	<a href="#">Precious Metals</a>	2008-04-01	0.30%
<a href="#">DGLD</a>	<a href="#">3x Inverse Gold ETN</a>	<a href="#">Leveraged Commodities</a>	2011-10-17	1.35%
<a href="#">FSG</a>	<a href="#">2x Gold Bull/S&amp;P 500 Bear</a>	<a href="#">Leveraged Commodities</a>	2011-02-24	0.75%
<a href="#">GLDI</a>	<a href="#">Gold Shares Covered Call ETN</a>	<a href="#">Precious Metals</a>	2013-01-29	0.65%

Source: ETFdb.com

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### **How are gold ETFs taxed?**

Tax of gold ETFs can vary based on the fund in question and also the country where it is bought. In the United States, the gold ETF is treated not as a stock but instead as the underlying commodity itself, which in this case gold, is categorized as a collectible. This means that a gold ETF is taxed at 28% when its sold as part of the long term capital gains tax (in the short term you would pay tax on your gains based on your normal gains tax rate).

### **What Are Some Other Types of Gold ETFs?**

Some gold ETFs or gold ETNs (exchange traded notes) exist for those who would like to bet against gold and interested in shorting gold like GLL (UltraShort Gold). There are also ETFs which are leveraged and aim to multiply the price movements of gold like UGLD (3x Long Gold ETN), which is suitable for eager investors who are confident in the direction that gold will take. Some of the ETFs have gold backing, some don't, some use derivatives so it's always important to read in detail the gold ETF prospectus and see what kind of guarantee the fund provides because you would be surprised at some of the fineprint that's drafted up by these organizations lawyers to ensure maximum security for themselves and little to no protection for your investments.

### **How To Buy Gold ETFs?**

This is perhaps the easiest part, as one only needs to determine which ETF is available in their geographical market, pick the one with the most favorable ownership rights or perhaps lowest yearly expense ratio, and then either log-in to their trading account or make a call to their broker. You can sell the gold ETF just as easily. There is no need to verify the gold, or purity, or wonder about the premium your paying, or the transportation, or where you will store it. This level of ease in buying the gold exchanged traded fund is what makes it such a popular choice despite the associated risks and costs.