CHAPTER-V

SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

5.1 FINDINGS

Findings related to performance evaluation of gold exchange traded funds, socio-economic profile of the respondents, factors influencing the investors’ to invest in gold exchange traded funds, investors’ perception towards gold exchange traded funds, investors’ behaviour towards gold exchange traded funds and problems faced by the GETFs investors are given in the following sub-headings.

5.1.1 Performance Evaluation of GETFs

Finding, with regard to performance evaluation of gold exchange traded funds, are divided into two groups.

A. Performance Evaluation of GETFs with Benchmark Comparison (Spot Gold Price)

1. The risk free returns for the study period works out to 0.701% on average per month. The average return of GETFs is found to be 0.830% per month which is less than the market return of 0.945%. Also the average fund risk (5.483%) is found to be higher than the market average risk of 4.411%. Among the 14 GETFs, IDBI and Motilal have given negative return i.e., a loss of 0.064% and 0.069% respectively. Among the 14 funds, half of the funds have given more than 1% returns. As far as the fund risk is concerned, the Reliance and Goldman Sachs were found to have least risk of 5.165% and 5.166% respectively. The risk and return of each fund were compared with the risk and return of Benchmark index i.e., spot gold price.

2. Beta (t) is calculated to test whether the effect of Beta on fund is significant or not. All the funds have significant betas.

3. It is observed that the average unique risk was found to be 0.404 and the extent of diversification was found at 0.772 i.e., 77.2%. The highest unique risk of CRMF and
Motilal are 1.062 and 1.001 respectively. At the same time their diversification is comparatively lesser than other funds. These values place the CRMF and Motilal fund into riskier place than other GETFs. Out of the 14 funds, only four funds namely, CRMF, BSL, IDBI and Motilal i.e., nearly one third of them, have more diversifiable risk than average.

4. It is found from the risk-return grid that none of the funds has fallen in low risk and low return category. Only one fund namely, CRMF has high risk and high return.

5. It is observed that the average Sharpe measure of the funds was 0.027 which has lesser than the Benchmark Sharpe of 0.049, in terms of additional returns, the GETFs fetched to its investors. Reliance has the highest Sharpe measure (0.100) indicating the highest additional returns for the increased risk, but the corresponding benchmark index is 0.126.

6. It is learnt from the Treynor measure of GETFs that all the funds have given positive returns indicating additional cover for increased systematic risk. The highest return is given by BSL and Religare (5.537 and 5.139) followed by AXIS (5.124). The excess returns earned by the funds were comparatively higher than their corresponding benchmark index in the respective periods.

7. It is observed from the Jenson measure that out of the 14 GETFs, 12 gold funds except CRMF and IDBI yielded negative returns. On average the funds had made a loss, i.e., 0.09 times less than what they should have earned in the given level of systematic risk of all the funds, CRMF has earned higher returns (0.139) than other funds. Since all these funds are GETFs and primarily depend on spot gold price market, the fund manager’s ability to earn returns is almost zero as evidenced from its alpha.
8. It is evinced from the Sharpe differential measure of GETFs that the average Sharpe measure was found to be -0.117 indicating a negative return or a loss on returns, which indicates that an average of these funds given no additional returns for any given level of fund-market risk ratio. It is indicated that the diversification of the portfolio was poor among many funds except CRMF (0.393) which is found to be highest among all the funds, followed by Motilal (0.159).

9. It is observed from the Fama’s components of investment performance that among the 14 funds, Religare has earned higher returns due to impact of Beta (0.627) rather than diversification and net selectivity. Similarly Quantum (0.595) and UTI (0.592) have earned higher returns due to impact of Beta rather than diversification and net selectivity. However, CRMF (-0.197) and Motilal (-0.161) funds have failed in their ability to select stocks with superior returns as their net selectivity is negative.

**B. Performance Evaluation of GETFs with Benchmark Comparison (CNX Nifty 100)**

1. Among the 14 GETFs, the Religare GETF ranked first and is giving best return to its investors with a value of 1.234 percent monthly returns. It is double the returns while comparing the benchmark index namely, CNX Nifty 100 (0.636%). The highest risk is associated with the fund BSL (6.139%) followed by CRMF (6.076%). Goldman Sachs, Kotak, UTI, Reliance and Quantum funds which are found to have higher risk than the risk of the benchmark index (CNX Nifty 100). Among the 14 funds, IDBI and Motilal have given negative return i.e., a loss of 0.064% and 0.069% respectively.

2. It is learnt from the risk return analysis that the beta is negative for the all the GETFs. Beta (t) is calculated to test whether the effect of Beta on fund is significant or not. All the funds do not have significant betas.
3. It is observed from the unique risk and diversification analysis of GETFs that out of the 14 funds, half of the funds namely, Goldman Sachs, IDBI, Kotak, UTI, Reliance, SBI and Quantum have more diversifiable risk than average.

4. It is noted from the risk-return grid that Goldman Sachs, Kotak, UTI, Reliance and Quantum funds have low risk and low return. Three funds namely, Axis, BSL and Religare have high risk and high return.

5. It is observed from the Sharpe measure of GETFs that the average Sharpe measure of the funds is 0.027 which is lesser than the benchmark Sharpe of 0.055, in terms of additional returns, that the GETFs fetched to its investors. Reliance has the highest Sharpe measure (0.100) indicating highest additional returns for the increased risk, but corresponding benchmark index is 0.109.

6. It is noted from the Treynor measure that the average returns of GETFs per unit of systematic risk is -32.685 times in addition to risk free returns. This is much lesser than that of benchmark index. It is also noted that all the funds have given negative returns which means all the 14 funds do not have additional coverage for the increased systematic risk.

7. It is observed from the Jenson measure of GETFs that out of the 14 funds, BSL, CRMF, IDBI and Motilal have yielded negative returns. The average of Alpha value is 0.164. The Goldman Sachs, HDFC, ICICI, Kotak, UTI, Reliance, Religare, SBI and Quantum have earned higher returns than the average of 0.164. It is noted that out of the 14 funds, 10 funds have positive alpha value which means the fund manager has the ability to earn higher returns.

8. It is learnt from the Sharpe differential return analysis of GETFs that the average Sharpe measure is found to be 0.167 which indicates a positive return. It is found that an average of these funds indicates additional returns for given level of fund-market
risk ratio. It is also learnt that the diversification of the portfolio was poor among eight funds namely, Goldman Sachs, CRMF, IDBI, Kotak, UTI, Motilal, Reliance and Quantum.

9. It is found from the Fama’s components of GETFs performance that out of the 14 funds, only six funds have positive net selectivity values and the remaining eight funds have negative values in net selectivity. Of the 14 funds, Axis has earned higher returns due to impact of Beta (0.067) rather than imperfect diversification. It is also found that Goldman Sachs, CRMF, IDBI, Kotak, UTI, Motilal, Reliance and Quantum have earned higher returns than beta and net selectivity.

5.1.2 Socio-economic Profile of the Respondents

It is found from the analysis that 42.7% of the respondents belong to rural areas, 80.4% of the respondents are male, 40.9% of the respondents belong to the age group of 21-30 years, 62.9% of the respondents are married investors, 54.2% of the respondents have obtained post graduate qualification, 40% of the respondents belong to “employed category”, 42% of the respondents have annual income of Rs 3 lakh –less than Rs 6 lakh, 30% of the respondents have monthly savings of Rs 5000 – less than Rs 10000, around 52% of the respondents belong to nuclear family, 51.6% of the respondents have 3-4 dependents and 56% of the respondents have financial advisors towards investing in GETFs. It is also inferred that 34% of the respondents have collective savings objective, around 35% of the respondents have invested their money in GETFs with the expectation of capital appreciation, 39.6% of the respondents have preferred to invest their money in gold coins/bars, and 87.6% of the respondents have preferred to invest their money in existing GETF schemes.

It is also deduced from the analysis that 76.2% of the respondents have preferred to invest in systematic investment plan, around 19% of the respondents have selected GETF schemes on the basis of fund’s reputation, around 37% of the respondents have invested 10%
to less than 30% of their investment amount in GETFs, 39.8% of the respondents have made investment in GETFs within 1 to 3 years and 44.7% of the respondents have made investment in GETFs on monthly basis. It is also learnt that 20.7% of the respondents have preferred internet as prime source to get investment advice, 30.7% of the respondents have considered “safety of principal” as the important guiding factors for their investment, 30.4% of the respondents have made investment in GETFs for the reason of proper asset allocation, 75.1% of the respondents have increased their investment in GETFs compared to previous year, 57% of the respondents have gone through the reports regularly while making investment in GETFs, 48.4% of the respondents have made their investment in “Gold man Sachs (Gold Bees)”, 30.9% of the respondents have considered monthly updates as a main source of information to analyse the fund’s performance, 41.3% of the respondents have perceived market risk towards investment in GETFs, 36.2% of the respondents have preferred to assume high risk (Brown Investors) and 63.6% of the respondents have preferred to buy GETF schemes on various special occasions.

5.1.3 Factors Influencing the Investors to Invest in GETFs

It is inferred from the model fit summary – CMIN that the default model has been associated at 1.350 percent with saturated model and other side, the independence model has been associated at 28.267 percent with saturated model. It is indicated that the model is good fit by the influence of Root Mean Square Residual (RMR) and the value is 0.087. Goodness of Fit Index (GFI) is 97.8 percent, it has been fitted in default model for the proportion of variance – covariance matrix. On the other hand, 41.6% fit is in independence model.

It is noted that the evidence of NFI (0.967) and CFI (0.991) is greater than 0.8. It means the latent variables correlate with independent variables. It is also noted that the Root Mean Square Error of Approximation (RMSEA) value is 0.28 and the model resulted as good fit. From the path diagram, it is observed that measured variables with latent variable of
factors influencing the investors towards investment in GETFs has positive relationship and also significant at 1 percent level. The analysis of the model, from the view point of the factors influencing investment, suggests that all the measured variables have significant impact on factors influencing the investors towards investment in GETFs. It is also observed that factors influencing investment (construct-1) has significant impact on investors’ perception (construct-2) and in turn investors’ perception has significant impact on investors’ behaviour (construct-3) towards investment in GETFs.

5.1.4 Investors’ Perception

1. It is observed from the factor analysis that the all the eight statements are loaded on the three factors. Among the three factors the first factor which accounts for 24.927% of variance is the prima criteria considered to study the investors’ perception towards GETFs. The second and third factors account for 22.237 and 18.967 respectively. The cumulative variance of all the three factors is 66.131 percent. Names of these three factors are long term investment, hedging tool and good investment avenue.

2. It is found that out of the eight statements, the statement namely, “Gold ETFs provide a better switch over of investment than any other mode of investment” has secured highest score and placed in first rank. It is considered as to be the most important issue among the statements.

3. It is learnt from the cluster analysis that out of the 450 respondents, 210 (46.7%) respondents have high perception, 65 (14.4%) respondents have low perception and 175 (38.9%) respondents have medium perception towards gold exchange traded funds. It is observed that less than 50% of the respondents have high perception towards GETFs.
5.1.5 Investors’ Behaviour towards GETFs

1. It is learnt from the factor analysis that all the 12 statements are loaded on to only three factors. Among the three factors, the first factor which accounts for 26.135 percent of variance is the prima criteria considered to study the investors’ behaviour towards GETFs. The second and third factors account for 18.120 and 13.965 respectively. The cumulative variance of all the three factors is 58.220 percent. Names of these three factors are investment objectives, investment decision and investment safety.

2. It is observed that out of the 12 statements, the statement namely, “I am actively involved in trading activity frequently” has secured highest score and placed in first rank. It means the statement has influenced the investors for good behaviour.

3. It is known from the cluster analysis that out of the 450 respondents, 233 (51.8%) respondents have good behaviour, 155 (34.4%) respondents have medium bahaviour and 62 (13.8%) respondents have low bahaviour towards GETFs. It is observed that majority of the respondents (51.8%) have behaved well towards GETFs.

4. It is obvious from the Discriminant analysis that two discriminant functions are formed when there are three clusters. The Eigen value of the function 1 is 2.691 and the function 2 is 0.593. The canonical correlation measures the association between two functions and three factors. The co-efficient of canonical correlation is very high for the both functions i.e., the co-efficient of function 1 is 0.854 and the co-efficient of function 2 is 0.610. Hence, there exists high correlation between two functions and three factors.

5. It is understood from the, Structure matrix of Discriminant analysis that the factors namely, investment objectives and investment decision have strongest correlation with function 1 and the factor namely investment safety has strongest correlation with function 2. Hence, two functions are $Z=0.726^* \text{(Investment Objectives)} + 0.425^*$
(Investment Decision) and \( Z_2 = 0.792 \) (Investment Safety). These two functions explain the investors’ behaviour towards gold exchange traded funds.

6. It is learnt from the Chi-square analysis that out of the 30 socio-economic variables, 22 variables were significant at 1% level variables such as gender, age, educational qualification, annual income, monthly savings, type of family, financial advisors, savings objective, investment objective, gold investment asset class, preferred investment plan, portion of investment amount in GETFs, time of investment, main source of investment advice, guiding factors for investment decision, reasons for investment in GETFs, increased amount of investment in GETFs compared to previous years, report analysis, investment made in GETFs, sources of information for performance analysis, preferred level of risk by the investors and preference to buy schemes on special occasions. These variables have significant association with investors’ behaviour. The remaining eight variables namely, place of residence, marital status, occupation, number of dependents, preferred mode of investment in GETFs, bases for selection of GETFs, investment frequency and risk perception by the investors do not have significant association with investors’ behaviour.

7. It is observed from the correlation analysis that socio-economic variables such as place of residence, marital status, financial advisors, preferred mode of gold ETF, bases for selection of GETF, guiding factors, reason for investment in GETF and increased amount of investment in GETF have shown negative correlation value. It is also observed that none of the socio-economic variable is correlated with investors’ behaviour.

5.1.6 Problems Faced by the Investors of GETFs

1. It is found from the factor analysis that the 11 statements are loaded on to the three factors namely, investment expenses, tracking errors and cumbersome formalities.
Among the three factors, the first factor which accounts for 22.640% of variance is the prima criteria considered to study the problems faced by the investors. The second and third factors account for 16.333 and 15.798 respectively. The cumulative variance of all the three factors is 54.764%.

2. It is learnt from the cluster analysis that out of the 450 respondents, 169 (37.6%) respondents have high problems, 203 (45.1%) respondents have medium problems and 78 (17.3%) respondents have low problems towards Gold exchange traded funds. It is also observed that majority of the respondents (45.1%) face medium problems in respect of investing in GETFs.

3. It is understood from the multiple regression analysis that out of the 30 socio-economic variables, eight variables have significant effect on problems faced by the investors. Therefore, problems faced by the investors = 3.186 (constant) -0.114 (Educational Qualification) 0.138 (Annual Income) -0.107 (Number of Dependents) -0.029 (Savings Objective) 0.074 (Investment Frequency) 0.034 (Reasons for Investment in GETFs) -0.041 (Sources of Information for Performance Analysis) -0.104 (Preferred Risk by the Investors).
5.2 SUGGESTIONS

The researcher has offered suggestions for the investors to make prudent investment decisions, for the gold exchange traded funds to design and launch suitable schemes and for Securities and Exchange Board of India (SEBI) to formulate appropriate policy measures for regulating and controlling the operations of gold exchange traded funds.

I. For the Investors of GETFs

1. The investors of gold exchange traded funds should consider the investment influencing factors such as government policies towards GETFs, opportunity for wealth creation, funds’ reputation, grievances handling procedures, different choice of schemes, Net Asset Values (NAV) and fund load while investing in GETFs. These factors can help the investors to make prudent investment decisions towards GETFs.

2. It is suggested that the investors should select suitable investment schemes with regard to their annual income, monthly savings, savings objective, time of investment, investment objective, reasons for investment in GETFs and level of risks. It is also suggested that they should seek right guidance from the financial advisors, consider guiding factors for investment decision and analyse performance reports before making investment in gold exchange traded funds.

3. The level of perception among the investors towards GETFs is not adequate to make right investment decisions. In order to make right investment decisions, investors should obtain necessary and authentic information from various sources.

4. The investors of gold exchange traded funds should consider factors related to investment objective, investment decision and investment safety to behave in a good manner according to the changing scenario.
5. In order to overcome the problems pertaining to investment expenses, tracking errors and cumbersome formalities, the investors should change the investment frequency, preferred level of risk and sources of information for performance analysis.

II. For the Gold Exchange Traded Funds

The researcher has provided suggestions for increasing the performance of gold exchange traded funds while comparing to Spot Gold Price (Benchmark) and CNX Nifty 100 (Benchmark). He has offered suggestions for increasing the overall performance of gold exchange traded funds on the basis of investors’ socio-economic conditions.

A. For Increasing the Performance of GETFs (In Comparison With Spot Gold Price)

1. In connection with the risk and return, GETFs should find new investment schemes. The new investment schemes should be able to generate more return and reduce risk while comparing to spot gold price. Especially two funds namely, IDBI and Motilal amongst the 14 funds should be seriously viewed to identify the alternate reinvestment schemes to generate more return from the current negative return.

2. As far as unique risk is concerned, four GETFs namely, CRMF, BSL, IDBI and Motilal ought to change their reinvestment schemes to diversify the unique risk as their unique risk is more than the average unique risk.

3. All the 14 funds should identify suitable reinvestment schemes to earn additional returns for the increased risk. Hence, there should be a risk-return trade-off.

4. It is suggested that all the 12 funds excluding CRMF and IDBI should develop fund managers’ ability to identify the right reinvestment schemes for earning more returns in accordance with the level of systematic risk.

5. All the fund managers must construct diversifiable portfolio to provide additional returns for the level of funds’ market risk ratio. Presently, portfolio diversification is poor amongst all the funds excluding CRMF and Motilal GETFs.
6. CRMF and Motilal ought to improve their ability to select right reinvestment schemes to generate superior returns. Currently, these two funds have failed in their ability to select stocks with superior returns as their net selectivity is negative.

B. For Increasing the Performance of GETFs (In Comparison With CNX NIFTY 100)

1. It is suggested that while comparing the risk and return, the gold exchange traded funds have to select right reinvestment schemes to minimize their risk and maximise their return as BSL, CRMF, Goldman Sachs, Kotak, UTI, Reliance and Quantum funds have faced higher risk than risk of the benchmark index (CNX Nifty 100) and IDBI and Motilal have given negative return.

2. Goldman Sachs, IDBI, Kotak, UTI, Reliance, SBI and Quantum funds should be prudent during the time of risk diversification analysis to reduce the unique risk. Currently, these funds have suffered more diversifiable risk rather than average.

3. In order to increase the additional returns for the increased risk, GETFs should make a thorough reinvestment analysis and find suitable schemes which will enable them to attract new investors.

4. Gold exchange traded funds should change their reinvestment schemes which will be able to provide additional coverage for the increased systematic risk.

5. BSL, CRMF, IDBI and Motilal funds must develop fund managers’ ability to identify the right investment schemes for earning more returns in accordance with the level of systematic risk.

6. Goldman Sachs, CRMF, IDBI, Kotak, UTI, Motilal, Reliance and Quantum fund managers should construct diversifiable portfolio to provide additional returns for the level of funds’ market risk ratio.
7. It is suggested that Goldman Sachs, CRMF, IDBI, Kotal, Motilal, UTI, Reliance and Quantum funds should improve their ability to select right reinvestment schemes to generate superior returns.

8. Gold exchange traded funds should formulate new schemes to attract investors who belong to semi-urban areas, female investors, retired investors, unmarried investors and investors with the qualification of higher secondary course or below HSC.

9. Gold exchange traded funds have to consider the 22 socio-economic variables pertaining to investors such as gender, age, educational qualification, annual income, monthly savings, type of family, financial advisors, savings objective, investment objective, gold investment asset classes, preferred investment plan, portion of investment amount in GETFs, time of investment, main source of investment advice, guiding factors for investment decision, reasons for investment in GETFs, increased amount of investment in GETFs, performance report analysis, investment made in GETFs, sources of information for performance analysis, preferred level of risk and preference to buy schemes on special occasions while designing schemes for investors.

III. For Regulatory Authority

1. Securities and Exchange Board of India (SEBI) should provide necessary guidelines to the gold exchange traded funds for disclosing transparent and reliable information to the investors from time to time with regard to risk and return of GETF schemes. In turn, these measures will enable the investors to make right investment decisions.

2. Securities and Exchange Board of India (SEBI) ought to take necessary measures to reduce cumbersome formalities. In turn, these measures will lead the investors to overcome the problems pertaining to GETFs.
5.3 CONCLUSION

The analysis and the findings convince the researcher to state that the investors of gold exchange traded funds to consider the investment influencing factors such as government policies towards GETFs, opportunity for wealth creation, funds reputation, grievances handling procedures, different choice of schemes, net asset values and fund load while investing in GETFs. They should select suitable investment schemes with regard to their annual income, monthly savings, savings objective, time of investment, investment objective, and reasons for investment in GETFs and level of risk. The GETFs investors have to change the investment frequency, preferred level of risk and sources of information for performance analysis to overcome the problems with regard to making investment in GETFs. The gold exchange traded funds have to develop fund managers’ ability to identify the right reinvestment schemes for earning more return in accordance with the level of systematic and unsystematic risk. The fund managers ought to take necessary steps to construct diversifiable portfolio to provide additional returns for the level of fund’s market risk. The GETFs should formulate new schemes to attract female investors, retired investors, unmarried investors and investors with the qualification of higher secondary course and below HSC.

The researcher would like to conclude that the Securities and Exchange Board of India (SEBI) should provide necessary guidelines to the gold exchange traded funds for disclosing transparent and reliable information to the investors from time to time with regard to risk and return of GETF schemes. The regulating authority ought to take necessary measures to reduce cumbersome formalities. In turn, these measures will help the GETFs to enhance the fund manager’s ability for devising suitable reinvestment schemes and earning superior return. Eventually, the measures taken by the SEBI and gold exchange traded funds will enable the investors to make prudent investment decisions and these measures will help to overcome the problems with regard to making investment in GETFs.