CHAPTER I
CHAPTER – I

DESIGN AND IMPLEMENTATION OF THE STUDY

1.1 INTRODUCTION

Investment culture among the people of a country is an essential prerequisite for the formation of capital and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, willingness of the individuals and institutions in placing their savings in various financial assets which are more popularly known as securities. A study on the investor’s perceptions and preferences towards gold Exchange Traded Funds (ETFs) thus, assumes a greater significance in the formulation of policies development and regulation of securities markets in general protection and promotion of small house-hold investors in particular.

The Indian securities market has made substantial progress during the post-colonial period. The structure as well as the functioning of Indian securities market has been transformed beyond recognition since 1990. The profile of the public investing in investment vehicles are available for the investment environment and the nature of problems encountered by the small and household investors are substantially different today from what they were a decade ago.

The Indian capital market has grown so sharply in the 1990’s and that the decade itself has been christened as a decade of the capital market. Hence, the capital amount raised in the form of equity, preference shares and debentures by the corporate sector which has not been large over a number of years. Though there has been a rising trend since 1975 but the increase is not at all so large. This is because of lack of awareness among the small and household investors due to poor investment climate, loss of confidence among the existing investors in stock market operations and deficiencies in the institutional infrastructure.
It is extremely important for the policy makers and regulatory authorities to understand
the investors’ perceptions, preference and their concerns about the financial markets and
especially on the stock market. This has become necessary on account of dramatic withdrawal of
small investors from the capital market and it resulted in a virtual collapse of the capital market
as a source of corporate financing after the mid-1990.

In today’s financial market Exchange Traded Funds (ETFs) are considered as a highly
valuable means of investment. It has emerged as most successful innovation in the field of
investments and this industry has shown a rapid growth in last decade with the 5 years average
annual growth rate of 33 percent. ETFs are an extremely successful form of basket securities
which enables the investors to trade a portfolio easily and quickly in a single transaction. Further,
it permits the investors to obtain the benefits of portfolio diversification and track the
performances of underlying indexes without incurring high transaction costs.

ETFs are open ended index funds that are listed and traded on exchanges like stock
equity based on the price of metal. The first bonafide ETF was launched in US in 1993, a
tradable depository receipt for a portfolio of index stocks held in a unit investment trust. It was
called S&P Depository Receipt and it also tracked the S&P 500 Stock Index.

However in China the first ETF was launched in 2004. Since then ETFs have become a
key innovation in the Chinese Exchange Based Markets. Presently, there are five ETF listings
and Assets under Management (AUM) for the five ETFs is USD 5.2 billion. They are mainly in
Gold, Silver, Platinum and Palladium. However, the focus of this study was Gold ETFs and it
has gained a greater significance as successful means of investment in the last decade.
The recent global financial crisis increased the demand for gold hedge and the value of gold holdings with the trading exchanges which has continued to be increasing since last decade. The major data of the world’s seven largest gold ETFs signify that their total holdings were 1383.8 tons. At the same time in order to hedge the stock market turmoil, the housing market problems are constantly emerging and other credit crunch in the area which increased the demand for gold gradually.

The gold ETF provides a convenient way to the investors to intervene in the gold market. In December 2001, India began its foray into the sphere of ETFs. ETF Nifty BeEs, Nifty Benchmark Exchange Traded Scheme was the first Indian ETF launched in the country. The Indian ETFs are traded openly on exchanges.

They are designed to track specific indices. Trades like other stocks, these funds are bought or sold through brokers on a daily basis. Unlike traditional equity funds, the Indian ETFs are traded at real-time prices.

An ETF, as the name itself suggest that it is a financial instrument, tradable on Stock Exchange that invests in the stocks of an index in approximately the same proportion a shield in the index. An ETF is a hybrid financial product of stock and mutual fund. Like a stock, it can be traded on a Stock Exchange. Like a mutual fund it behaves like diversified portfolio. In many ways it is an index fund with a few subtleties which put it in a separate league.

Unlike an open-ended index fund where an investor purchases units from the fund and redeem the units back to the funds itself, thereby expanding or shrinking its corpus on each entry or exit from the fund.
ETF is listed on an exchange ensuring that the entry or exit of investors has no effect on the fund corpus. An ETF is transacted through a broker and held in dematerialized form. An ETF is different from an Index fund in another way. Availability of real-time quotes is another feature presents in an ETF but absences of Index Fund where the previous days Net Asset Value (NAV) are applied for buying or redeeming. This feature makes the trading of the ETFs possible. Much like the units of a mutual fund the ETF too, is divided into units called a ‘Creation Unit’. The name emanates probably from the process through which one comes to acquire these units. When ‘Creating’ the ETF unit, one should purchase units from the fund house by surrendering the underlying stocks of the index. In short, they are similar to index mutual funds, but are traded more like a stock. As their name implies, ETF’s represent a basket of unitities that are traded on an exchange.

An ETF is a combination of an open-end and a close-end fund. Like any open-end fund, the investors’ can buy units with the fund. But there is a difference in an open-end fund in which the investor will pay cash to buy units. In this method the investors’ are required to provide the underlying shares to buy the units. If the demand of the ETFs in the markets soars then the ETF would start trading at a premium from its intrinsic value which should be equal in proportion to the index that it is charting. This premium would make the buyers go to the fund house where they would have to redeem their shares in the proportion held under each unit of the ETF.

In case of redemption in the market, the seller would get paid in cash and in case, the fund units are taken to the issuer, the seller would get paid in kind that is the underlying shares that make up the index. ETF trading also opens up the flood gates for some more complex trading arrangements like arbitrage between the cash and futures market or simply put - short selling. But there is a hitch as far as the Indian capital markets is concerned: "shorting" is not
ETFs are just what their name implies: baskets of units that are traded like individual stocks on an exchange.

Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day like any stock. Most ETFs charge lower annual expenses than index mutual funds. However, as with stocks one must pay a brokerage to buy and sell ETF units which can be a significant drawback for those who trade frequently or invest regular sums of money.

ETF’s are open ended mutual funds that are passively managed and most of them seek to mirror the return of an index, a commodity or a basket of assets. These are listed and traded on stock exchanges like stocks. They enable investors to gain broad exposure to indices or defined underlying asset (commodity) with relative ease on a real-time basis and at a lower cost than many other forms of investing.

Gold ETFs provide investors a means of participating in the gold bullion market without the necessity of taking physical delivery of gold as to buy and sell that participation through the trading of units on stock exchange. Gold ETF would be a passive investment so when gold prices move up the ETF appreciates and when gold prices move down the ETF loses value. Gold ETF tracks the performance of Gold Bullion and it provides the returns that before expenses which are closely correspond to the returns provided by physical gold. Each unit is approximately equal to the price of 1 gram of gold. But there are Gold ETFs which also provide a unit which is approximately equal to the price of ½ gram of Gold. They first came into existence in the USA in 1993 and it took several years for them to attract public interest. But once they did the volumes took off with a vengeance.
Over the last few years more than $120 billion (as on June 2002) were invested on 230 ETFs. About 60% of trading volumes on the American Stock Exchange are from ETFs. An ETF is basically created through an Initial Public Offering (IPO) by the Asset management companies in which only Authorized Participants (APs) institutions large investors are allowed to participate. These investors exchange their portfolio of stocks and a cash component for ETFs which are also known as Creation Units. These creation units are made of two components namely portfolio deposit and cash component. Portfolio deposit consists of basket of shares that make up an index and the cash component is the difference between the applicable NAV and the market value of the portfolio deposit which arises mainly due to transaction costs, rounding of shares and incidental expenses involved. These units can be either held as investments or sold in the market to the retail investors. ETFs can also be sold back to the mutual fund company but mutual funds buy it at a heavy discount to encourage their selling on the exchanges.

The NAV of an ETF is the value of the underlying components of the benchmark index held by the ETF plus the accrued dividends less the accrued management fee. In the light of these facts, an attempt has been made in the succeeding paragraphs to revisit the studies made by researchers in the past on various aspects of securities markets in general, the investor perceptions and other related aspects in specific.

This is being done with a view to identify the gaps in the past research on investor perceptions and their behavior at market place which is necessarily to provide a direction to lead the present research work undertaken by the researcher.
1.2 REVIEW OF LITERATURE

Gary L. Gastineau (2002) has argued the performance of passively managed ETF’s that provide exposure to global emerging markets equities. Researcher found that the tracking errors of these funds are substantially higher than previously reported levels for developed markets ETF’s. ETF’s that use statistical index replication techniques turn out to be especially prone to high tracking errors and particularly during the periods of high cross-sectional dispersion in stock returns. At the same time, researcher found that no convincing evidence that these funds earn higher returns than ETF’s that rely on full-replication techniques.

Gary L. Gastineau (2002) has stated that equity index funds get more credit for low costs and high efficiency than they deserve. The original idea of a low-cost, low-turnover, diversified portfolio has been replaced by funds that deliver only on their pledges of low turnover and diversification. The concentration of trading around index changes cause investors to incur transaction costs far higher than the pioneers of indexing anticipated. The author concludes that index funds based on popular benchmark indexes have become a much more costly way to invest than they used to be and then they need to be.

Beathrice Boehmer (2003) on July 31, 2001, for the first time in its history, the New York Stock Exchange (NYSE) began trading three unlisted securities. The DIA, SPY, and QQQ are the most actively traded ETF’s and are listed on the American stock exchange and from April 15, 2002 onwards another 27 ETF’s followed. These two events provide a unique experiment for studying the impact of a new entrant on market quality. In contrast to recently revived concerns about the adverse impact of market fragmentation, the researcher document that an entry leads to a dramatic improvement in liquidity that the attribute to the elimination of market-maker rents.
Kimberly. C. Gleason (2004) has made a body of literature and stated that the investors herd or tend to make investment decisions on the basis of information provided by the trades of other market participants. In this paper, the researcher use intraday data to examine whether traders herd during periods of extreme market movements using sector ETF’s. Two procedures in which, one is based on identifying extreme up and down market periods and the other is based on incorporating a nonlinear term in a regression specification, are used to identify the possibility of the existence of herding behavior in nine sectors where ETF’s are traded on the American stock exchange. The results supported the conclusion that investors do not herd during periods of extreme market movements using ETF’s. Furthermore, it was showed that the market reaction to news is not symmetric for up and down markets.

Robert F. Engle (2006) in his article has made a study on the ETF and indexing where he had stated that closed-end mutual funds present a long-standing puzzle for financial economists because they are so commonly trade at substantial discounts to their NAV or occasionally, premiums thus violating the “Law of One Price.” Open-end funds do not have this problem because their investors are always able to sell or redeem shares at NAV. The growing population of ETF’s falls somewhere in between and most investors acquire or liquidate ETFs holdings by trading them in the market which allows the deviations between prices and NAVs. But ETF’s may also be redeemed or created by deposit or withdrawal of actual shares that tends to eliminate long-run differences between market prices and NAVs. Apparent differences occasionally substantial one does exist. These may be partly spurious, for example, if some of the transactions prices used in calculating NAV, are stale or subject to bid-ask bounce. The researcher addressed that the issue in the context of an errors-in-variables model where in different potential sources of pricing errors as modeled explicitly. For some ETF’s, the existence of a futures market on the
same underlying index provides an additional source of information about true NAV. By contrast, NAVs for international ETF’s is based on prices for stocks in foreign markets that are closed when the ETFs is trading in the US. Engle and Sarkar show that much of the apparent premium or discount between ETFs market prices and NAVs which can be explained by measurement errors and these are smaller and more quickly reversed for domestic ETF’s especially those are associated futures trading than for international ETF’s.

Joel .T (2006) has made a study to compare the risk and return performance of ETF’s availability for foreign markets and closed-end country’s funds. The researcher has utilized 29 Closed-End Country’s Funds (CEFs of 14 countries) over the sample period of April 1996 to December 2001. The performance proxies are mean and risk-adjusted returns and the results indicate that ETF’s exhibit higher mean returns and higher sharp ratios than foreign, CEFs while it exhibit negative alphas which indicated that a passive investment strategy utilizing ETF’s may be superior to an active investment strategy. The findings reported here offer some insight on the relative advantages of each type of investment. Specifically, there may be some potential for additional types of ETF’s that offer higher risk-adjusted returns than closed-end funds. Such ETF’s may be able to offer higher risk-adjusted returns as part of an internationally diversified portfolio.

C. Alexander (2008) has made an empirical comparison on this paper out of sample hedging performance from naive and minimum variance hedge ratio for the four largest US index ETF’s. Efficient hedging is important to offset a long and short positions on market maker’s accounts, particularly imbalances in net creation or redemption demands around the time of dividend payments. On evaluation of the sample hedging performance includes aversion to negative Skewness and excess Kurtosis. The results should be of interest to hedge funds
employing tax arbitrage or leveraged long-short equity strategies as well as to ETFs market makers.

Vikas Agarwal (2008) has characterized the systematic risk exposures of hedge funds using buy-and-hold and option-based strategies. The results show that a large number of equity-oriented hedge fund strategies exhibit payoffs resembling a short position in a put option on the market index and therefore bear significant left-tail risk but risk is ignored by the commonly used mean-variance framework. Using a mean-conditional value-at-risk framework made a demonstration the extent to which the mean-variance framework underestimates the tail risk. Finally, working with the systematic risk exposures of hedge funds that represents their recent performance appears significantly better than their long-run performance.

William F. Johnson (2009) has made a comprehensive study of 20 foreign countries ETF’s and the underlying index returns from 1997 to 2006. The purpose of the study is to explain the existence of tracking errors between foreign ETF’s and the underlying home index on a daily and monthly return basis and what contributes to these differences across time and across countries. The study concludes all, but one market segmentation or integration index rankings proved to be insignificant. Variables such as foreign index positive returns are relative to the US index and the foreign exchange trades simultaneously with the US markets were significant explanatory variables in the correlation coefficients between ETF’s and their underlying home index.

Noel Amenc (2009) describes the role of ETF’s in the implementation of exposure to various asset classes as shown by a recent survey of European professional investors and asset managers. It provides insights into the current use of liquid index trackers and into the prospects as revealed by survey responses for growth in the use of these instruments. The survey is based
on a questionnaire that was addressed to industry participants in Europe in early 2008. The study generated responses from 111 Europe Based Asset managers and institutional investors. It is noteworthy that the survey garnered responses from the major industry players. 2.3% of institutions manage to excess of €100 billion. Selected finding surveys are highlighted in this article. The findings show that liquidity is perceived as a key advantage of ETF’s over indexing vehicles like traditional index funds and total returns swaps. Likewise, the tracking quality of ETF’s is judged to be highly satisfactory compared to other indexing vehicles. The findings also shed some light on the methods investors use to evaluate liquidity and tracking error.

Scott. H. Irwin Dwight R. Sanders (2009) in his study framed the ‘Masters Hypothesis’ is the claim that long index investment was a major driver of the 2007–2008 spike in commodity futures prices and energy futures prices in particular. Index position data compiled by the Commodity Futures Trading Commission (CFTC) are carefully compared. In the energy markets, index position estimates are based on agricultural markets are shown to contain considerable error relative to the CFTCs Index Investment Data (IID). FAMA–Macbeth tests using the CFTCs quarterly IID find very little evidence that the index positions influence returns or volatility in 19 commodity futures markets. Granger causality and long-horizon regression tests also show no causal links between daily returns or volatility in the crude oil and natural gas with futures markets and the positions for two large energy ETFs. Overall the empirical results of this study offer no support for the master’s hypothesis.

Sangheon Shin (2010) has made a study on tracking errors from 26 ETF’s utilizing three different methods and tests their relative performance using Jensen's model. The researchers’ found that the tracking errors are significantly different from zero and display persistence. Based on Jensen's alpha, risk adjusted returns are significantly inferior to benchmark returns for all
ETF’s with two exceptions at conventional significance levels revealing that passive investment strategy does not outperform market returns. Then the researcher has examined the degree to which frequently used factors such as expense ratio, dividends, exchange rate and spreads of trading prices may be underlying sources of tracking errors causing this underperformance. In the analysis it was found that the change in the exchange rate is a significant source of tracking errors. The serial correlation test, runs test and panel regression analysis revealed that Asian markets display relatively greater persistence and therefore are less efficient in disseminating information and noisier in filtering the information contained in returns.

J.H Chen (2010) in his study used the Generalized Autoregressive Conditional Heteroscedasticity-Autoregressive Moving Average (GARCH-ARMA) and the Exponentially Generalized Autoregressive Conditional Heteroscedasticity-Autoregressive Moving Average (EGARCH-ARMA) models to study the impact of the spillover and the leverage effects on returns and volatilities of stock index and ETFs for developed and emerging markets. Previous unexpected returns for developed and emerging markets which have an opposite influence pattern on ETF’s’ returns were identified. The spillover effects from returns are excellent for Hong Kong followed by Singapore. Meanwhile, Taiwan’s stock index return was recorded to have a strong negative impact on ETFs return. Notably, this study shows that the spillover effects on stock index and ETFs volatilities existed with bilateral influences. Despite a strong positive asymmetric volatility effect in Korea’s ETFs market and the leverage effect appears to play important roles in the explanation of both stock index and ETFs returns.

J.H Chen (2010) et.al., while ETF’s are being created at a rapid rate so there is very limited research on how they affect the component stocks that they contain. The researcher found that in response to the inception of ETF’s, there are positive and significant valuation effects on
the dominant component stocks (defined as the 10 largest stocks in each ETF). The variation in
the valuation effects is associated with stock specific characteristics such as relatively low
liquidity and the size of the ETFs in which the component stock is contained. The characteristics
of the component stocks that experience more favorable valuation effects at the inception of
ETF’s also lead to a more pronounced increase in their trading volume following their ETF’s
inception. The increase in trading volume is especially pronounced for those component stocks
that are relatively low levels of liquidity and are contained within relatively large ETF’s.

J.H Chen (2010) et.al., has made a analysis on the spillover effects of ETFs and he has
stated that owing to the growing importance of the Taiwan Top 50 Tracker fund (TTT) and the
study investigated that the change in the volatility of the component stocks of the Taiwan 50
index after the introduction of TTT. Using the volatility measure proposed by Andersen et al.
(2001) and the unconditional variance of a GARCH model to measure the volatilities of the
constituents of the Taiwan 50 index, the empirical results of this study demonstrate that the
volatility of the component stocks increased following the establishment of TTT. The patterns of
volatility change do not differ statistically among different size categories. However, the
volatilities of the electronic and financial sector TTT constituent companies increased
significantly after the introduction of TTT while the volatility of companies in the mixed sector
reduced.

Patricia Chelley – Steeley (2010) has examined whether ETF’s diversify away the private
information of informed traders. They apply the spread decomposition models of Glosten and
Harris (1998) and Madhavan, Richardson and Roomans (1997) to a sample of ETF’s and their
control securities. The results indicated that ETF’s have significantly lower adverse selection
costs than their control securities which suggests that the private informations are diversified away for these securities.

Patricia Knain Little (2010) has stated that the first-generation ETF’s were designed as convenient, straightforward investment vehicles for earning the returns of broad market indexes. The rapid growth and competitiveness of the ETF industry has led to the development of products that bear more complicated relationships with market indexes. The first wave of these leveraged and inverse ETF’s were engineered to meet objectives quite different from those of the traditional ETF’s. This article shows how investors used them like traditional ETF’s experienced unintended consequences during the volatile markets of 2008–2009. The author explains how the daily rebalancing of leverage affects the valuation and determines the appropriate usage of such ETF’s.

James A Bennett, Francis J Kerins (2010) has analyzed the relative liquidity and level of informed trading of ETFs and individual equities for a comprehensive sample of ETFs. Theoretical work suggests that ETFs should offer a number of benefits to investors relative to trading in the underlying securities. Controlling for trading characteristics (e.g., trading volume) and the authors document that ETFs offer significantly greater depths than individual equities. However, they also find that bid-ask spreads on ETFs are higher than expected. Using a composite measure of liquidity, the authors find strong support for the overall hypothesis that ETFs offer higher liquidity levels than individual equities. This is attributed to the lower levels of informed trading in ETFs, as implied by the lower adverse selection components of ETF bid-ask spreads.

Anna Agapova (2011) has examined the implications of substitutability of two similar investment vehicles they are conventional index mutual funds and ETF’s. They have explained
the coexistence of these vehicle types which offer a claim on the same underlying index return process but have distinctly different organizational structures. The study compares aggregate fund flows into conventional open-ended index funds to those into ETF’s for various underlying indexes. The study also showed that conventional funds and ETF’s are substitutes but not perfect substitutes for one another. Evidence suggests that the coexistence of both instruments can be explained by a clientele effect that segregates the two vehicles into different market niches.

Narat Charupat, (2011) has stated in his article that leveraged ETF’s are a recent and very successful financial innovation. They provide daily returns that are in a multiple or a negative multiple of the daily returns on a market benchmark. In the paper has examined the characteristics, trading statistics, pricing efficiency and tracking errors of a sample of leveraged ETF’s. The researcher has found that these ETF’s are traded mainly by retail traders with very short holding periods. Price deviations from NAV are small on average but large premiums and discounts are prone to occur. More interestingly, the behavior of premiums is different between bull (i.e., those with a positive multiple) and bear ETF’s (i.e., those with a negative multiple). The findings showed the consistent with the argument that the end-of-day rebalancing of the funds’ exposures increases market volatility at the close of a trading day. As for tracking errors they are small for holding periods up to a week but become increasingly larger for longer horizons.

David Blitz (2012) has made a study on the performance of European Index Funds and ETF’s where it was proved that European index funds and ETFs under perform their benchmarks by 50 to 150 basis points per annum. The explanatory power of dividend withholding taxes as a determinant of this underperformance is at least on par with fund expenses. Dividend taxes also explain performance differences between funds that track different benchmarks and time
variation in fund performance. The results implied that not only fund expenses but also dividend taxes can result in a substantial drag on mutual fund performance.

Richard J. Curico (2012) studied the leverage on ETF’s including the innovative leveraged (long and inverse) types and the ever more creative traditional versions are accelerating in popularity as preferred investment and trading vehicles. Real estate, a major investment sector has been made more accessible through these tools. This study investigates if the introduction of real estate ETF’s is impacting the volatility of their underlying real estate stocks. Tests conclude that the introduction of leveraged (long and inverse), traditional real estate and real estate related ETF’s linked to the Dow Jones US real estate, financial indices the highest volatility, approximately tripling the volatility in the underlying real estate securities. Traditional ETF’s were second causing slightly more than a 70% increase in volatility while the leveraged ETF’s linked to the Russell 1000 financial services index, having induced a 50% increase in volatility were third. The increased volatility could not be attributed to any other external event.

**Indian Reference**

Shilfa Phardins (2010) spoke that all that glitters was gold on Akshaya Thritiya. Investors with low rise appetite can also join the gold rush through electronic way. The fund manager and financial planners were asking the investors to go for paper gold during festival reason. The Association of Mutual Funds in India (AMFI) has touched Rs.804 crore in the year 2009-10 as against Rs.600 crore pumped into equity funds.

Mallika Mathew (2011) has prompted that gold which occupies a special place in the financial market. The author stressed that in the year 2009 that India accounted for 15% of the gold global market. Over the past 10 years the value of gold demand in India has increased at an average of 13% per year outpacing the country’s real GDP, inflation and population by 6%, 8%
and 12% respectively and the jewellery demand accounted for 75% of the total Indian gold demand. In the year 2010, Indian net retail investment in gold increased by 264% to 93 tones, which has further expanded gates for Gold ETF’s.

Rawson (2011) has signified the difference between the physical gold and the gold ETF’s. The investors prefer physical gold because it provides security. The investors did not prefer the gold ETF as it is not providing security and operates through electronic mode. Even the author stressed that while purchasing the gold and gold ETF ensure that the purchased gold is real and safe.

Carthe (2011) has stated in his working paper, that gold ETF have seen record outflows in AUM with the funds themselves experiencing heavy reductions in physical bullion holdings. In the year 2011, the gold ETF have sold 140 tons of gold and gold held in ETF sponsor vaults could supply India’s jewellery market, the largest in the world for over four years.

Brany (2011) in his analysis has affirmed that the fluctuations in the price of gold enable skillful traders to profit due to fluctuations the gold is a sterile asset that does not generate cash flow as it does not have a management team or a balance sheet so he says that gold is not an investment.

Dr. Prashanthan Athma (2011) has explained that an investor has numerous investment options by considering the risk profile and expectation of returns. The author has further stated that the investment in gold ETF is low due to the low awareness among the investors and the sentimental attachment of the investors towards holding gold in physical.

Aarti Krishnan (2012) has argued that the rally in the equity market has led to modest returns in the year 2012. The World Gold Council has shown that the gold demand has
expanded by 1,000 tons in the world market which has created enormous demand for buying gold ETF in the market.

Paul Baiocchi (2012) in his article stressed that gold ETF’s appear to be same until the expense ratio were valued. The retail gold ETF has increased demand in the previous years and the trend has excelled in the coming years also.

Deepan (2012), investors who were interested in gold has several options. 1) Buying gold jewellery coins or bars and hold them at home or in a safety box, 2) buy gold certificates from a bank a dealer 3) buy gold futures contract and 4) buy gold ETFs. The main problem is liquidity of selling gold. Gold certificates are trusted and safe. Futures contracts can provide a large amount of leverage and are very attractive. But gold ETF offers a wide variety of advantages which provides safety, liquidity and returns.

Cary (2013) has stated that the holdings of gold ETF’s have dropped by nearly four million ounces (125 tons) in the year 2011. It is because that physical market for gold is witnessing robot support. Since 2004 the gold backed ETF’s are becoming popular which has accelerated the investment in equity markets.

Maulzi (2013) in his work has stated that the demand for gold ETF in India is likely to explode as investors get accustomed to “Click and Par” mode of investing. He further adds that gold prices in India have gained 29 percent in the year 2011 and they have added 15 percent gains in the stock market.

Vipul (2013) in his research paper affirmed that a gold ETFs are investing directly in gold where as a gold fund invests in a gold ETF. On the other hand, gold funds are bought like regular open ended mutual funds. The NAV of both kinds have higher fund charges as per the
fluctuations in the price of gold. The gold fund will be 0.5 percent to 1 percent costlier than gold ETF’s.

Rutam Vora (2013) in his article stated that AUM’s of gold ETFS have touched Rs. 10, 300 crore during May 2012. The investment for gold ETF have almost dried and record high gold prices which has crossed Rs.30, 000 per 10 grams.

Casy (2013) Gold ETFs have been weakening with gold futures by 1,600 ounce. Gold prices along with gold miner stocks have been weakening lately as investors favor stocks that will benefit from improving economy. In the year 2013 the gold ETF has touched with 3,000 ounce.

From the above it has been understood that some studies had been carried out by analyzing the trend and progress of gold ETFs in India as well as in abroad but no study has been focused on the investors’, awareness, perceptions of investment avenues and their evaluation towards gold ETFs. Hence the researcher takes the opportunity to fill the gap by perusing the study

1.4 NEED FOR THE STUDY

It is very clear from the review of literature made in the preceding paragraphs that not many studies have been undertaken exclusively to study the perceptions, preferences and behavior of the small and household investors, a very crucial area in the formulation of policies and procedures for the orderly growth and development of securities markets in any nation.

Most of the studies reviewed above have mainly covered the aspects at macro level like the ownership patterns in the capital market, occupation-wise break up of paid up value of share holdings of individuals, ownership pattern of shares or debentures, geographical distribution of
share ownership in India and abroad. There are only a few studies covering the issue of investor perceptions and behavior at micro or regional level.

Especially in the context of decline in the participation of small and household investors in the primary market operations, withdrawal of investors from the capital market, diversion of household savings into safer investment avenues like bank deposits, real estate and unproductive assets like gold and silver. It becomes important to study and analyze the investor awareness, perceptions and preferences of Gold ETFs investment avenues available to them in the securities markets. This may help the policy makers in evolving the suitable strategies to get small and household investors once again in large numbers into the capital market operations. Hence, the present investigation is an attempt in that direction.

The issues investigated in the present study which includes awareness of investment avenues, investment pattern, the most preferred objectives of investors and investment evaluation with reference to Gold ETFs.

1.5 STATEMENT OF THE PROBLEM

As stated in the preceding paragraphs the small and household investors constitute a vital segment of the Indian securities market. Greater understanding of the perceptions, preferences and behavior of these investors is very vital in the policy formulation on development and regulation of the securities market to ensure the promotion and protection of interest of small and household investors.

The present research work thus attempts to study the socio-economic profile of the investors in the study and it also aims to study the needs, concerns and problems of the small investors in the given socio economic backdrop. The present research work also provides a
foundation of facts relating investors’ behavior towards various types of Gold ETFs and assessment of investment risks.

Most of the investors generally have limited information about the developments in the securities markets. Information on financial performance of the companies and the availability of data share market to investor are also limited. Sometimes the information which are gathered from newspapers, television, internet and media may not be sufficient for investment decision making.

All these problems made them rely on share brokers, fund managers and experts to invest in securities. Investors desiring to invest in stocks require a lot of preparation and homework. It is very important for them to know their risk appetite and investment objectives for better decision making.

Hence, the present study is an attempt to know the investment pattern of investors towards Gold ETFs. The study has made to examine investors’ awareness of investment avenues, investment objectives and the evaluation of investment with reference to Gold ETFs at Coimbatore city.

1.6 OBJECTIVES OF THE STUDY

The basic aim of the present research work is to analyze the investment culture among the small and household investors and to evolve suitable program for their investing awareness and education. The specific objectives of the study are as follows:

- To study the origin, growth and trends of capital market in India.
To measure the awareness, perception of small and household investors with respect to Gold ETFs investment avenues.

To ascertain the factors that influences the investors for investing in Gold ETF and the reasons for repeated investments.

To measure the problems that would rise while investing in gold ETF and assess the investors’ level of satisfaction.

1.7 HYPOTHESES

1. There has been no influence of the personal factors and the factors influencing investing in Gold ETFs.

2. There has been no significant difference between the means of the personal factors and the reason for investing in Gold ETFs.

3. There is a direct effect of perception of the investor and the change of attitude in investing in Gold ETF.

4. The problems encountered in investment on Gold ETF had an influence over the level of satisfaction.

5. The level of satisfaction derived on the investment on Gold ETF will have an influence over the perception on investing in Gold ETF.

1.8 METHODOLOGY OF THE STUDY

The present study is mainly based on primary data and is behavioral in nature. However, the secondary data is also made used at some places for the study wherever it became necessary. The primary data is collected through a structured schedule. The schedule is designed keeping in view the objectives of presents research work and it is pre-tested by means of a pilot study. The
relevant secondary data is gathered from the reports, books, journals, periodicals, dailies, magazines, and websites. The data collected with the help of schedule are processed and analyzed by using SPSS software.

1.9 SAMPLING DESIGN

As the universe of the study is on the investors of Gold ETF trading companies who are operating in Coimbatore city. Companies like SBI Gold, Religare Gold, Reliance Gold ETF, UTI Gold Fund, Quantum Gold Fund, HDFC Gold ETF, ICICI Pru Gold ETF, Kotak Gold ETF, Birla Sun life Gold ETF and IDBI Gold ETF are the leading group who trade gold at a maximum level and they have been listed in the website of SEBI. The researcher has approached all these companies (who are having their branches at Coimbatore city alone has been taken into consideration for the study) and got the list of the investors. Based on convenience random sampling 50 customers from each company were selected on random basis and a cumulative of 500 customers was taken into account. The final list of 500 customers was distributed with the structured schedule and data were collected.

1.10 TOOLS OF ANALYSIS

- Descriptive Statistics
- Multiple Regression
- Confirmatory Factor Analysis
- Henry Garrett Ranking
- VPLSs Modeling
- Chi-square and ANOVA
1.11 SCOPE AND LIMITATION OF THE STUDY

The present study aims at analyzing the investment behavior of individual investors with special reference to Coimbatore city. Hence, the scope of the present study is confined to the perceptions, preferences and behavior of small and household investors of Coimbatore city. Any study of this sort which is essentially based on primary data would have its own limitations and the present study is not an exception.

The investors are normally reluctant to part with information relating to their personal life. Instilling confidence at the time of data collection is quite a hard task but after winning their confidence, eliciting information is made easy and possible to some extent. However, the overall objective of this study is not affected by the above said limitations. There were constraints of time and money which have resulted in limiting the scope of the study. The researcher personally and individually contacted the investors. It was a hard task to make them willing to answer the questions in the schedule. The investors expressed unwillingness to answer some questions. Hence, the following are the limitation of the present study.

I. Many respondents were unwilling to share information about maintenance of accounts, sources of finances due to different perceptions about the research and researcher.

II. Most of the data were collected by the researcher are based to pursue the respondents to provide information, sometimes through informal discussion assuring them that the information shared will be used for academic purpose and individual opinions will not be identified.
1.12 CHAPTER LAYOUT

In order to have a clear dissemination of the information, the report is divided into five chapters. A brief outline of the different chapters is presented below:

The first chapter is introductory in nature and it deals with the role of investment culture in development of capital markets, review of literature, need for the study, statement of the problem, objectives of the study, hypotheses, methodology of the study, sample design, tools of analysis, scope and limitations of the study and chapter layout.

The second chapter entitled, “Indian Capital Market-An Overview” covers the aspects of origin, growth and trends of capital market in India.

The third Chapter ascertains the factors which influencing the investors for investing in gold ETF and the reasons for their repeated investment.

The fourth chapter measures the problems in investing gold ETFs and assesses the investors’ level of satisfaction.

The fifth chapter presents the findings based on the analysis of the previous chapters and offers suitable suggestions for betterment of investors’ funds on ETFs.