

Which is a better option: buying physical gold or gold ETFs in India?

To compare the two, you must first understand the two well. Physical gold needs no introduction. Gold Exchange Traded Funds (Gold ETFs) are open-ended Mutual Fund schemes that predominantly invest in physical gold of 995* purity. Much like regular shares, they are traded on the stock exchange.

Now, choosing between the two depends on several factors. Here is a comparison list that will help you make a pick.

Parameters	Physical Gold	Gold ETF
Price	The prices of physical gold vary from shop to shop or seller to seller	The price of Gold ETFs is transparent and based on the demand & supply of units on stock exchanges viz NSE & BSE. Generally, it is similar across domestic geographies.
Purity	Determining their purity may be a challenge	As per the regulation Gold ETFs predominantly invest in physical gold of 995 purity.
Cost	One should consider costs like making charges, storing charges, insurance, etc. while buying physical gold These are generally in the range of 10% to 30% of the total value of Gold	One should consider Total expense ratio and transaction charges while investing in Gold ETFS These are generally in the range of 0.10% to 1.25%
Minimum Investment	Pure Gold coins or bars are generally available in denominations of 1 to 10 grams.	They can be bought in units where one unit is almost equivalent to 10 milligrams of gold, one can start investment with as little as one unit, making it accessible to all kinds of investors.
Liquidity	You can easily sell/exchange gold through jewelers anywhere in the world.	They are listed and traded on the stock exchange and can be bought and sold easily. And can be bought & Sold easily on NSE/BSE.

Safety	Investors have to take extra precaution for safeguarding the physical gold.	Since they are owned in demat form, Gold ETFs are safer and secure.
Wealth Tax	If you possess physical gold worth more than Rs. 30 lakh as on valuation date for the financial year, you are liable to pay a 1% wealth tax. The due date of wealth tax returns would be the same as the income tax returns.	No wealth tax is levied on Gold ETFs. However, from taxation point of view Gold ETFs are considered as Fixed Income schemes.

Given the above comparison, Gold ETFs may be considered as a better option than physical gold and will also help you diversify your portfolio effectively.

You may be aware that physical gold has its pros, such as using it to make jewelry, involves no counterparty risk, and is universally accepted. However, it also comes with its own sets of cons, such as safety, storage and issues related to transparent pricing.

On the other hand, gold ETFs are safer and offer transparent pricing. Further it can be easily sold and converted to physical gold as and when required. Gold ETFs are a very good option for portfolio diversification across asset classes. So, when it comes down to choosing gold as a form of investment, look into your investment objectives to ensure that you pick the form of gold that best suits your requirements.

Investment can be done via stock exchanges or by contacting Mutual Fund Distributors, stock broking companies and other intermediaries.

*995 indicates the fineness of gold in the gold alloy in parts per thousand. 995 indicates 995 parts of pure gold and 5 parts of another metal.

Disclaimer

- Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.
- SIP is a feature offered for a disciplined investment of a certain amount on a pre-decided date in a specific mutual fund scheme, regularly over a period of time.
- This answer should not be considered as 'investment advice'. Reader is requested to make informed investment decisions and consult their Mutual fund distributor or financial advisors to determine the financial implications with respect to investing in Mutual Funds.
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invested in equity linked saving scheme (ELSS) upto Rs. 1,50,000/- (along with other prescribed investments) under Section 80C of the Income Tax Act, 1961. Subject to prevailing tax laws.

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