

The Tracking and Hedging Performances of Gold ETF Relative to Some Other Instruments in the UK

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Abstract : This paper examines the profitability and risk between investing in gold exchange traded funds (ETFs) and gold mutual funds compares to gold prices. The main focus in determining whether there are similarities or differences between those financial products is the tracking error. The importance of understanding the similarities or differences between the gold ETFs, gold mutual funds and gold prices is derived from the fact that gold ETFs and gold mutual funds are used as substitutions for investors who are looking to profit from gold prices although they are short in capital. 10 hypotheses were tested. There are 3 types of tracking error used. Tracking error 1 and 3 gives results that differentiate between types of ETFs and mutual funds, hence yielding the answers in answering the hypotheses that were developed. However, tracking error 2 failed to give the answer that could shed light on the questions raised in this study. All of the results in tracking error 2 technique only telling us that the difference between the ups and downs of the financial instruments are similar, statistically to the physical gold prices movement.

Keywords : gold etf, gold mutual funds, tracking error

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