19 gold ETFs, one glittering choice: Here's how to pick the best one

By Surbhi Khanna, Published on 28th April 2025

With around 19 gold ETFs available and to select the best one for investment, mutual fund experts list several factors that one should consider before choosing the correct gold ETF for investment.

"One should look for instruments with a low expense ratio and a low tracking error before investing in the instrument. Often a lower tracking error comes with larger AUM as well," Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai suggested.

Apart from expense ratio, Siddharth Srivastava, Head - ETF Product and Fund Manager at Mirae Asset Investment Managers (India) shares two different factors that one need to check to choose a gold ETF.

Srivastava while mentioning the first critical factor as the total expense ratio (TER) adds that since all gold ETFs track gold of a standardised purity as mandated by regulation, the one with the lowest TER is generally preferable, as typically lower TER will result in higher returns. The other two factors he lists are liquidity and assets under management.

"The second critical factor is liquidity on the exchange. Investors should ensure that the gold ETF they choose has adequate trading volumes and a reasonable order book. Always buy ETFs using limit price. Lastly, while assets under management (AUM) can be considered as a supplementary factor, the primary focus should remain on TER and exchange liquidity," said Srivastava.

A deep dive into the expense ratio, tracking error, and assets under management of these 19 gold ETFs showed that Nippon India ETF Gold BeES, the largest fund has the highest expense ratio and even the tracking error is on the higher side whereas the funds with the low tracking error and expense ratio are the funds with small AUM.

Zerodha Gold ETF which manages an asset base of Rs 232 crore has the lowest expense ratio of 0.32%. The tracking error stands on the higher side. Union Gold ETF which had an AUM of Rs 136 crore as on March 202 had the lowest tracking error of 2.61.

After looking at the above data, Dhawan explains that based on AUM, if you look at tracking error in isolation, larger funds have a low tracking error compared to smaller AUM funds which reflects the efficiency that size brings in managing the fund and for expense ratio, funds with larger AUM often have a higher expense ratio.

Commenting on the interpretation part, Dhawan adds that the fund size is helping AMCs with lowering tracking error, but it's often coming with a higher expense ratio. "On a combined level (Expense and Tracking error), higher AUM is not resulting in a lower overall expense ratio (Expense and Tracking error). We recommend investors look at both the expense and tracking error before investing in the instrument," he added.

When the ETFs are traded on the exchange, an investor can check the last traded price, volume available for trade and the total value which indicates the liquidity of that ETF. With enough liquidity on the exchange and adequate trading volumes, the important thing to know is whether one should compromise on liquidity for a lower-cost ETF with less tracking error?

Srivastava mentions that liquidity refers to the ease and surety with which an ETF or any other security can be bought or sold on exchange at fair price with low impact cost and this becomes especially important in case of large orders. "So while low cost (TER) and low tracking error is important, poor liquidity can spoil the investment experience and realized returns," he adds.

While Dhawan sticks to how the instrument has performed over at least a year along with assessing the expense ratio and tracking error at the end of the year before investing.

The prices of gold in India soared to record levels this week and breached the Rs 1 lakh mark and with now trading at nearly Rs 98,760, the Head - ETF Product and Fund Manager at Mirae Asset Investment Managers (India) mentions that there are several factors supporting gold prices like geopolitical issues, concerns due U.S. tariffs, increasing chances of a U.S. recession, higher inflation and weakness in the US Dollar and most importantly continued buying by global central banks.

He adds that gold prices have already shown a strong one-way rally with one year return around 30% with several of the aforementioned factors being priced in. “So, while underlying supporting factors for gold continue, some correction may happen due to profit booking and investors may look to book some profit at these levels especially if they have over allocated.”

Dhawan attributes the recent rally as the reason for gold to trade in an overvaluation zone and advice to stick to the asset allocation in any asset class.

An analysis by ETMutualFunds shows that Gold ETFs have significantly outperformed Nifty ETFs over the past year in terms of SIP returns. Out of SBI Mutual Fund’s Gold ETF and Nifty 50 ETF, if an investor had made a monthly SIP of Rs 10,000 in the SBI Gold ETF, the XIRR over a one-year period would have been 54.35%. In contrast, the same investment in the SBI Nifty 50 ETF would have yielded an XIRR of just 2.93%.

Further analysis reveals that, including the SBI Gold ETF, 16 gold-based ETFs have delivered XIRRs ranging between 48.32% and 54.85% over the past year.

On the other hand, apart from the SBI Nifty 50 ETF, there are 15 ETFs benchmarked to the Nifty 50, which have offered XIRRs ranging between 2.87% and 3.03%.

So, if you are planning to allocate to a gold ETF, Srivastava recommends an investor should invest from a long-term point of view for asset allocation purposes and investing at dips in a staggered manner may be preferred.

Experts generally recommend a small allocation in gold as a means of diversifying their portfolios and hedging against inflation.

Advising on the allocation one should have in their respective portfolios, Dhawan said that one can look to an allocation of 5% to 10% in commodities, and if it is not there yet, additional exposure should only be taken through a SIP strategy. “As an alternative, one can look at a combined instrument like Gold and Silver as well through a SIP,” he added.

Gold ETFs are exchange-traded funds that track the price of physical gold. Each unit of a Gold ETF is backed by a specific quantity of gold, usually equivalent to one gram. They are listed on stock exchanges, and you need a demat and trading account to buy and sell them.