

For generations, gold has been more than just an investment it's a tradition. From jewellery to festive gifts, gold holds emotional and cultural significance in Indian households. But times have changed and so have the ways to invest in this precious metal.

Today, many investors are turning to Gold Exchange-Traded Funds (ETFs) as a modern alternative to physical gold. If you're wondering which is better buying gold the traditional way or opting for a digital route this guide is for you.

Let's break down both options in terms of performance, cost, convenience, and more so you can make an informed decision.

Feature	Gold ETFs	Physical Gold
Form	Digital units on stock exchanges	Coins, bars, or jewellery
How to Invest	Through Demat and trading account	Visit a jeweller
Storage	No need—held electronically	Needs a secure place (locker/home safe)
Liquidity	High – can be traded during market hours	Moderate – depends on jeweller or buyer
Purity	Standardised (usually 99.5%)	May vary, especially with jewellery
Minimum Investment	As low as one unit (1 gram of gold)	Based on denomination or weight

For a detailed understanding of ETFs, learn more at [What is Gold ETF](#)

1. Expense Ratio

Gold ETFs charge a relatively small annual expense ratio for managing the fund. This fee is deducted from the fund's returns.

Jewellery often comes with making charges, which are non-refundable when you sell. That's a major dent in your investment value.

- Gold ETFs: Exempt from GST
- Physical Gold: GST is applicable

- **ETFs** don't require any physical storage.
- Physical gold may involve locker rent or home security systems.

In terms of cost efficiency, Gold ETFs like [Kotak Gold ETE](#) provides a cost-efficient investment option by offering exposure to gold without the associated costs of physical storage or making charges.

Aspect	Gold ETFs	Physical Gold
Buy/Sell Process	Online via trading platform	Requires physical visit to a jeweller
Liquidity	High – traded during market hours	Selling physical gold can be less straightforward, often requiring purity assessments and possibly incurring deductions due to making or processing costs.

Gold ETFs make it easy to enter and exit your investment ideal for today's fast-paced financial world.

- ETFs are backed by standardised 99.5% pure gold.
- Physical gold especially jewellery can sometimes fall short on purity. Also, there's always the risk of theft or damage.

Additionally, ETFs are held securely in custodial vaults, covered by insurance. With physical gold, you bear the responsibility for security and any insurance costs.

Taxation Rules (FY 2025–26)

The tax treatment for different forms of gold investment generally follows similar principles. To understand how your gains may be taxed, refer to [Kotak's tax reckoner](#).

Risks and Considerations Before You Invest

Gold ETFs

- Require a Demat and trading account.
- May experience minor tracking errors a small deviation from actual gold price.
- Some ETFs may have lower liquidity if not actively traded.

Physical Gold

- Risk of theft, misplacement, and purity issues.
- High transaction costs (GST + making charges).

Key Takeaways

- Gold ETFs offer better transparency, relatively lower cost, higher liquidity, and minimal hassle suitable for modern investors.
- Physical gold still holds sentimental value and is ideal for gifting or personal use, but isn't the most cost-efficient investment.
- Both Gold ETFs and physical gold can complement each other in a diversified portfolio, depending on your financial goals and risk appetite. To learn how to strike the right balance, explore [gold allocation in portfolio](#).

Conclusion

Choosing between Gold ETFs and physical gold ultimately comes down to your financial goals and preferences. If you're seeking an efficient, relatively low-cost, and transparent way to invest in gold, Gold ETFs offer a compelling option suitable for modern investors who value liquidity and convenience. On the other hand, physical gold may still appeal to those who treasure its emotional value and prefer to hold it in tangible form.

If you're exploring other gold investment options, you might also be interested in understanding the differences between gold ETF vs gold mutual fund or evaluating sovereign gold bond vs gold ETF. Each product offers unique features, benefits, and tax implications so take the time to compare and align them with your overall portfolio strategy.

Whatever you choose, gold remains a powerful tool for diversification and wealth preservation over long term just be sure to invest wisely.

FAQs

1. What has delivered better 10-year returns: Gold ETFs or physical gold?

There's no universal answer to whether Gold ETFs are better than physical gold it really depends on individual goals, preferences, and circumstances

2. How liquid is a Gold ETF compared with selling gold coins at a jeweller?

Gold ETFs are more liquid. You can sell them instantly on the stock exchange during trading hours at market price. In contrast, selling physical gold coins may involve haggling, purity checks, and lower buyback rates at local jewellers making the process slower and less transparent.

3. Are Gold ETFs backed by 24-karat physical gold in vaults?

Yes, most gold ETFs in India are backed by 99.5% pure (24-karat) physical gold, securely held in vaults with a custodian. They are regulated and regularly audited to ensure that the gold actually exists and matches the ETF's holdings.

4. Can Gold ETF units be converted into physical gold?

Not usually for small investors. Some gold ETFs may offer physical redemption, but it typically requires a large quantity. Most retail investors prefer to redeem in cash due to convenience. Always check the conversion policy with the ETF provider.

5. How many gold ETFs is equal to 1 gram gold?

Most gold ETFs in India are structured such that 1 unit represents 1 gram of gold. However, this can vary slightly by fund based on tracking error and expenses. Always check the ETF's fact sheet for precise unit-to-gram details.

6. Can I convert gold ETF to physical gold?

As mentioned earlier, conversion is possible only in select ETFs and usually requires a high minimum quantity. For most retail investors, the ETF is redeemed in cash based on the current gold price.

7. What is the disadvantage of gold ETF?

- No physical delivery for small quantities
- Requires a Demat account
- Management fees (expense ratio)
- Dependent on stock market hours for trading



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