



Top Canadian Gold ETFs of 2023

Description

Beyond the usual asset classes of stocks, bonds, and cash, Canadian investors can also consider precious metals like gold, silver, or copper. Adding these precious metals in small amounts can improve a portfolio's level of diversification and provide protection against inflation.

In particular, gold can be a useful addition to a portfolio. While investors can buy individual gold miner stocks, a more direct approach that offers higher pure-play gold exposure is via an [exchange-traded fund \(ETF\)](#) that directly invests in gold bullion.

But is a gold ETF right for you? Let's learn more.

What is a gold ETF?

A gold exchange-traded fund is a fund that holds a basket of underlying gold bullion. When you purchase shares of a gold ETF, your investment directly corresponds to beneficial ownership in a fraction of gold held in trust in a vault. Using a gold ETF alleviates the need to buy physical gold and store it yourself.

Unlike physical gold, gold ETFs can be bought and sold daily, intra-day, on most stock exchanges with high liquidity. They can also be held in all types of brokerage accounts, including [tax-free savings accounts \(TFSA\)](#) and [registered retirement savings plan \(RRSP\)](#).

In exchange, the ETF manager charges you a management expense ratio (MER). This is the percentage fee deducted annually from your investment for their services. For example, a gold ETF with a MER of 0.5% would incur around \$50 in annual fees for a \$10,000 investment.

Top gold ETFs in Canada

The following Canadian gold ETFs offer a combination of lower-than-average fees, a high asset value under management, and good daily trading volume.

Gold ETF	Inception Date	Management Expense Ratio
Sprott Physical Gold Trust (TSX:PHYS)	2010-02-25	0.41%
iShares Gold Bullion ETF (TSX:CGL)	2009-05-28	0.55%
Purpose Gold Bullion Fund (TSX:KILO)	2018-10-29	0.23%

All data updated as of December 2, 2022.

Sprott Physical Gold Trust

PHYS is one of the largest physical gold trusts trading in both Canadian and U.S. markets. The fund holds a fully audited and allocated vault of gold bullion with the Royal Canadian mint. Shares of the fund are redeemable for gold in large amounts. As of December 2022, PHYS charges a MER of 0.41%.

iShares Gold Bullion ETF

CGL provides exposure to gold prices hedged to the Canadian dollar. The fund achieves this via an allocation of gold bullion in secure, audited vaults. As of December 2022, CGL costs a MER of 0.55%. CGL also comes in a currency unhedged “.C” version.

Purpose Gold Bullion Fund

KILO provides exposure to a vault of gold bullion stored on a segregated basis with specific identifiers in the Royal Canadian Mint. Investors can redeem shares of KILO for gold bullion in denominations of one kilogram or more. As of December 2022, KILO costs a MER of 0.23% and also comes in a currency unhedged “.B” version.

What to know before investing in gold ETFs

There are a few nuances to know before you invest in gold ETFs.

Hedged vs. unhedged

Some gold ETFs come in currency-hedged and unhedged versions. If the ETF is unhedged, fluctuations in the USD-CAD exchange rate will add additional volatility to the ETF's returns.

For example, an unhedged gold ETF could gain value if the USD appreciated and lose value if the CAD appreciated. A hedged ETF uses currency derivatives to cancel this risk out for an additional cost.

Backed or synthetically based

Gold ETFs can also be physically backed or synthetically based. Physically backed, the most common,

involves holding deposits of physical gold bullion in trust. Synthetically based ETFs use derivatives called futures contracts to mimic the price of gold. Generally, physically backed gold ETFs are cheaper and have lower tracking errors, which is how much the price of the ETF diverges from the price of spot gold.

Dividend payments

Generally, gold ETFs do not pay dividends. This is because the underlying gold held does not produce any cashflows. Occasionally, a gold ETF may payout distributions, but this is from the capital gains incurred when the fund manager buys and sells the underlying gold. It is not a true dividend, and in a taxable account, it is accounted for as capital gains.

Pros of investing in gold ETFs

Gold can be an excellent addition to an investment portfolio due to the following reasons:

- **Diversification:** Gold has a low correlation with both stocks and bonds. When stocks or bonds fall, gold can maintain its value.
- **Hedging:** Historically, gold has outperformed during times of increasing inflation and geopolitical unrest thanks to its perception as a flight-to-safety asset.
- **Liquidity:** Gold ETFs are much easier to buy and sell compared to physical gold bullion.
- **Lower market risk:** Gold ETFs are affected less by the movement of stocks compared to gold miner stocks.
- **Convenience:** Gold ETFs are much easier to invest in compared to the complexity of buying, insuring, and storing physical gold.

Cons of investing in gold ETFs

However, gold ETFs might not be a suitable holding for all investors. Reasons for this include:

- **Volatility:** The price of gold can swing dramatically over the short and long term. Investors who buy a gold ETF must be able to cope with potentially high unrealized losses and fluctuations.
- **Fees:** Gold ETFs often charge a significantly higher MER than regular index ETFs do. Index ETFs can go as low as 0.04% in Canada, whereas the lowest-cost gold ETF charges 0.25%.
- **Flat performance:** Gold does not have long-term positive expected returns. An ounce of gold will still be an ounce a century from today. Its price is based on speculation from supply and demand. Compare this to stocks and bonds, which provide cashflows from dividends and interest payments.

Are gold ETFs right for you?

Whether gold ETFs are right for you depends on your time horizon, investment objectives, and risk tolerance. In general, an allocation to gold ETFs is best suited for long-term, intermediate-level investors looking to further diversify a portfolio of stocks, bonds, and cash.

If your goal is to hedge against inflation and the possibility of stocks and bonds falling together when interest rates rise, an allocation to gold might be useful. Keep in mind that this can create additional volatility and increase your expenses.

If your goal is to speculate on the price of gold as a short-term trade, gold ETFs can be a good substitute for physical bullion. Using a gold ETF can eliminate costly security risks, bid-ask spreads, insurance, and storage costs. You can also hold the gold ETF in a TFSA or RRSP for tax-free or deferred gains.

If you want to learn more about investing in gold, check out our [Guide to Investing in Gold Stocks](#).

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1. TSX:CGL (iShares Gold Bullion ETF)
2. TSX:KILO (Purpose Gold Bullion Fund)
3. TSX:PHYS (Sprott Physical Gold Trust)

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