

Dear Reader,

This week, we want to share something quite interesting that played out in the Indian ETF market - a few rare arbitrage opportunities that shouldn't really exist in an efficient system. It's a good reminder of how ETFs actually work, why these price gaps usually close quickly, and how retail investors like us can protect ourselves, or even occasionally benefit, when the mechanisms don't work.

ETFs, or Exchange Traded Funds, are designed to track the price of an underlying asset - it could be gold, silver, a stock index like the Nifty 50 or Nasdaq 100, or even an actively managed portfolio. Each ETF has two values: the price you see on the exchange, and the "indicative NAV" or iNAV, which reflects the real-time value of what the fund actually holds.

Normally, these two stay very close. If an ETF trades above its iNAV, certain institutional players called Authorized Participants (APs) step in. They create new ETF units at the lower iNAV and sell them at the higher market price, capturing a small, risk-free spread. If it trades below iNAV, they buy in the market and redeem units. This back-and-forth keeps ETF prices efficient - a kind of quiet, automatic balancing act that most investors never notice.

But this week, that mechanism broke down in a big way. On Tuesday, 7th October, the Motilal Oswal Nasdaq 100 ETF (MON100) was trading at around ₹250, while its iNAV was closer to ₹216 - a premium of almost 16%. A couple of days later, several silver ETFs were trading at 3–8% above their iNAVs.

Under normal circumstances, these gaps would vanish within hours. But this time, the usual arbitrageurs couldn't act. For MON100, the roadblock was regulatory: Indian mutual funds and AMCs have almost hit the RBI's \$7 billion overseas investment cap, meaning they couldn't buy more U.S. stocks to create fresh ETF units. For silver ETFs, it was a more tangible problem - physical silver was in short supply in the bullion market.

With the APs sidelined, prices floated freely - driven more by sentiment than fundamentals. On social media, chatter around "foreign investing" and "silver as the next big trade" helped fan the flames. Unfortunately, some retail investors probably bought in at these inflated levels, unaware that they were paying far above the true value of what they were getting.

It does raise a question for SEBI: should trading in ETFs be temporarily suspended when the market price drifts too far, say 5%, from the iNAV? That might prevent retail investors from getting caught in moments when the usual price controls stop working.

On a more practical note, the author was able to take advantage of this rare dislocation. Since the author already held MON100 units in India and had idle cash in a U.S. brokerage account, he was able to sell MON100 at ~₹250 and simultaneously buy the equivalent Nasdaq 100 ETF (Invesco) in the U.S. at its fair

value. It's not often that such clean, risk-free trades appear - but it's a good example of how global constraints can occasionally create local inefficiencies. A one legged sell transaction can also work if you have the ETF/FoF - sell it now and hope to buy it back in the future when the price mismatch gets evened out, subject to tax efficiency and the caveat that insanity may prevail for a long time.



(source: Value Research)

Even if you can't act on such opportunities, there are valuable lessons here.

1. Before buying any ETF, check its iNAV - most fund houses publish it live on their websites.
2. Avoid placing market orders or automated Stock SIPs that execute without regard for price.
3. And run these ideas past your financial advisor - small checks can save you large regrets.

ETFs are generally excellent vehicles: transparent, low-cost, and efficient. But like every machine, they rely on all their parts working properly - and sometimes, when a gear jams, the system behaves in ways that surprise even seasoned investors. When that happens, awareness is your best defense.

Click below to read our Market Update - a compilation of metrics to keep you aware!

Warm Regards,
Wealth Beacon Team

If you have feedback or haven't already gotten your portfolio analyzed and streamlined, you may contact us at: contact@wealthbeacon.ai.

India Economic Indicators

Indicator	Aug-25	Jul-25'	Trend
CPI Inflation	2.07%	1.55%	Increaseing
WPI Inflation	0.52%	-0.58%	Increaseing
Trade Deficit	\$9.88B	\$11.72B	Narrowing
Fiscal Deficit (% BE)	17.90%	17.90%	

Source: MoSPI, CGA, DPIIT and Ministry of Commerce

India - G-Sec Yields

Tenor	Current	Last	Change
1-Year	5.67%	5.77%	-1.65%
5-Year	6.13%	6.18%	-0.86%
10-Year	6.52%	6.51%	0.20%

Source: CCIL RBI Weekly Statistical Supplement

Broader Indices Snapshot

Broad indices	2w	1m	YTD
NIFTY 50	2.55%	0.66%	7.45%
NIFTY 500	2.74%	0.62%	9.28%
NIFTY Midcap 150	3.68%	0.81%	13.75%
NIFTY Small cap 250	2.59%	-0.20%	13.35%
S&P 500	1.40%	2.29%	14.51%
Nasdaq 100	2.46%	4.13%	19.23%

Source: NSE, Yahoo Finance

Key Valuation Ratios

Index	P/E	P/B	Div Yield
NIFTY 50	22.27	3.44	1.32
NIFTY 500	24.33	3.62	1.16
NIFTY Midcap 150	33.8	4.32	0.83
NIFTY Small cap 250	30.52	3.62	0.68
S&P 500	30.17	5.61	1.17
Nasdaq 100	38.57	4.29	0.66

Source: multpl, gurufocus

US Treasury Yields

Tenor	Current	1m	6m
US 10-Year Treasury	4.10%	4.03%	4.39%

Source: U.S. Department of the Treasury (home.treasury.gov)

Precious Metals

Broad indices	2w	1m	YTD
Gold (INR)	6.66%	10.01%	35.67%
Silver (INR)	17.95%	27.32%	57.84%

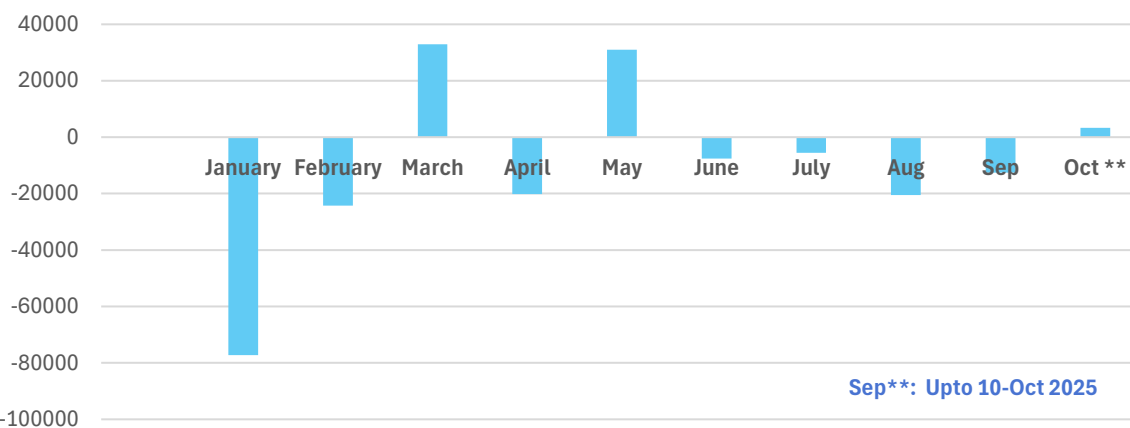
Source: IBJA

Currency Update

Currency	Current	1m	6m
U.S Dollar	88.69	88.15	85.64

Source: CEIC Data

Monthly FPI Net Investments (Calendar Year - 2025)



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