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Investor Perspective on Forms of Investment in Gold: Some reflections

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Abstract: Market in contemporary society is characterised by high volatility and rapid dynamism. Amidst multiple avenues available for gold investment, a general confusion is observed among investors of gold. Research evidence from past studies points out that Indian households possess approximately sixteen thousand ton gold predominantly in the form of jewellery. Traditional and modern investment alternatives available for investment in gold are: jewellery, coins, bullions, ETF, mutual funds, E-gold, etc. This study was conducted with the basic concern to understand investment alternatives available, factors associated with it, positive and negative aspect of different forms of investment and thereby help to create general awareness among investors. Analysis of findings is based on empirical data culled from conveniently selected 300 respondents through interviews using a self-developed questionnaire. Findings revealed that investment in jewellery was the most preferred form of investment. However, gold coins, bullion bars, ETF etc., are also gaining ground slowly. Respondents tend to look for options which assure them greater returns and are free from unnecessary hustle and bustle.

Keywords: Gold, Investment, ETF, bullion bars and tax.

1. Introduction

Rani Amutha and Vijayalakshmi (2014) pointed out that in the Indian society, life's earnings are spent in big fat weddings and 35-50 per cent of the expenditure spent for a wedding goes into the purchase of gold and other jewellery. As a custom, the gold jewellery gifted to the bride is also displayed in the wedding which symbolises the status of the family. Like genes and the genetic traits, gold is passed down from generations to generations. It is considered as an investment and savings which may come to rescue during a huge financial crisis of the family [1]. Gold is socially and culturally recognised as one of the basis for jewellery which people wear and also as precious possession in terms of one's social and economic status. No matter, one is rich or poor, gold is adored as social and cultural item and is practiced and exchanged on social occasions, most particularly on marriage.

In ancient times the value of gold had already been discovered. People took gold to make jewellery and currency. It is a symbol of wealth, beauty and heritage carrying memories and cultures. However, besides these, gold also makes significant contributions to a wide range of technologies. Due to its physical features as corrosion resistance and highly malleable and ductile, gold is being applied in space exploration, nano-technology, and medicine. Moreover it is also used as the bonding wire at the core of an i-Phone. Scientifically, all do not know, what is gold? Gold is a comparatively dense, shiny, yellow metal. As an element, which is quite resistant to corrosion by oxygen and many other chemicals. As per Wikipedia, the free encyclopedia, "Gold is a chemical element with the symbol **Au** (from Latin: *aurum*) and the atomic number 79. In its purest form, it is a bright, slightly reddish yellow, dense, soft, malleable and ductile metal." Great human achievements are frequently rewarded with gold, in the form of gold medals, golden trophies and other decorations [2].

In a given society Gold is perceived by many, as the best investment one can depend and protect oneself. As stock market is not always stable and so the price of gold, there are number of factors associated with the investment in Gold and an investor needs to be aware of these. For instance, some of these are:

1. The jewellery is the most traditional and the dominant form of buying gold in Indian society.
2. Gold in any form does not give any current income. The only exception is the dividend option in the gold Exchange-Traded Fund (ETF). It owns the underlying assets (shares of stock, bonds, oil futures, gold bars, foreign currency, etc.) and divides ownership of those assets into shares. ETF shareholders are entitled to a proportion of the profits, such as earned interest or dividends paid, and they may get a residual value in

case the fund is liquidated. The ownership of the fund can easily be bought, sold or transferred in much the same way as shares of stock, since ETF shares are traded on public stock exchanges. If gold is held in the physical form, there is only outflow of cash for the maintenance of lockers.

3. Gold is a very strong bet compared to shares that are highly volatile. The idea for gold investment will be to use it at times when the markets are falling and when the inflation is very high.
4. Gold does not carry much risk at least in India, as we hardly see deflation in the real sense.
5. Gold scores the highest in terms of liquidity, compared to all other investments. At any time of the day and any day gold can literally be converted to cash. Some banks would give jewellery loan
6. Gold suffers capital gains tax as per the IT Act. So it is better to ask your jeweller for the bill. Gold does not have any other tax benefits.

According to Goldresource (2013) the important thing to know about gold investment is that there are a multitude of **ways** to do it and choosing the right method is key to fulfilling your personal investment conditions and expectations [3]. Some popular forms are: a. Jewellery, b. Gold bullion bars, c. Gold coins, d. Gold certifications or deposit scheme, e. Exchange-Traded Fund (ETF), f. Gold mutual funds, g. E-Gold, and, h. Futures & options.

II. Statement of problem

Most people in Indian society invest in gold in the form of jewellery. It is associated with number of constraints such as high making charges, loss of value, safety issue, storage/locker charges, adulteration etc. Investors may differ in their behaviour depending on the pros and cons of different forms of investment. Nawaz and Sunindra (2013) in their study in the city of Bangalore, state of Karnataka, found that though gold bullion bars, gold coins, gold certificates and ETFs are preferred for investing in gold, yet by the jewellery continues to be predominant among all forms of investment in gold [4]. Thakkar Jalpa (2013) in her study of investor's attitude in pune concluded that there is lack of awareness about new trends in gold investment alternatives i.e. Gold ETF, E-Gold and Gold Funds [5]. Arulmurugan and Balanagagurathan (2013) studied investment behaviour of professors in tamil Nadu and concluded that especially professors give more inclination to safety, security, high returns, status, investment tool and managing uncertainty as last preference in Garrett Ranking technique. This study also disclosed that professors' first choice goes for Ornaments, Gold Coins, bars and last priority to ETF (Exchange Traded Funds) as far as investment in gold is concerned [6]. Recently, the government of India has come out with number of alternatives for investment in gold in order to strengthen its economic base. Among various stake holders, such as, state, sellers, buyers, investors etc., the investor occupies important place in whole scenario. Taking evidence from these empirical findings and theoretical observations, the present study attempts to explore investment options and their positive and negative aspects from the investor's perspective.

This study was conducted with the following objectives;

- To understand available investment options in gold to the investors.
- To highlight pros and cons of various forms of gold investment.
- To study pros and cons from perspective of the investors for gold investment.

III. Methodology

The present study is about various forms of gold investment, their factors and benefits. It is an exploratory study. This study was conducted in Dharamshala (Kangra), Hamirpur, Mandi, Nahan, Shimla and Solan in the state of Himachal Pradesh. A convenient sample of 300 respondents between 35 to 50 years of age by taking 50 respondents from each district was considered for this study. The secondary information was extracted from published resources. Empirical information was collected from the respondents through face-face-interview with the help of a predesigned questionnaire. Findings of this study are based on frequency and percentage of responses of the respondents of this study.

IV. Results

In the sample of three hindered, a little more than half (57.33%) were males. The percentage of females was less than the males i.e. 42.67 percent. All the respondents were adults and in the age group of 30-50 years. There are four types of metals, namely: gold, silver, platinum and diamond which are generally the objects of investment. Respondents in this study presented differential preference for investing in these metals as is evident from Table1. The Gold was the most preferred form of investment as half (50.00%) of the respondents aligned to it followed by Silver (23.33%) and Platinum (20.00%). The Diamond happened to be least preferred (6.67%).

On willingness to invest in gold, a little more than three-fourth (81.33%) of them were willing to invest in the gold, whereas a little less than one-fourth (18.67%) did not show much interest in this Table 2). In this study, seven forms of investment in gold, such as, jewellery, gold coins, gold bullion bars, gold certificates, Extended Trade Funds(ETF), gold mutual funds, e-gold, and gold options & futures were considered to know pros and cons which respondent consider suitable for investing in gold products. It can be seen from data in Table 3 that

the most preferred form of investment was 'jewellery' (37.33%), followed by the 'gold coins' (22.00%) and 'gold bullion bars' (14.00%). The least preferred form of investment was 'futures and options'. Only 2.00 percent of respondents showed liking for this form of investment. Remaining forms, such as, Gold Certificates, ETF, Gold Mutual Fund, and E-gold received marginal preference from the respondents (4-10%).

Table 1: Preferred investment options

Options	Number	% of Total
Gold	150	50.00
Silver	070	23.33
Platinum	060	20.00
Diamond	020	06.67
Total	300	100.00

Table 2: Willingness to invest in gold

Response	Number	% of Total
Yes	244	81.33
No	056	18.67

Table 3: Preferred form of investment

Form	Number	% of Total
Jewellery	112	37.33
Gold bullion bars	042	14.00
Gold coins	066	22.00
Gold certificate/deposit scheme	010	03.33
ETF	032	10.67
Gold mutual fund	020	06.67
E-gold	012	04.00
Futures and options	006	02.00

Each form of investment in gold has some positives and negatives which tend to determine preference of an investor in gold. Table 4 below presents forms of gold and their pros and cons. There are eight forms of gold, namely; Jewellery, Gold bullion bars, Gold coins, Gold certifications or deposit scheme, Exchange-Traded Fund (ETF), Gold mutual funds, E-Gold and Gold Futures & options. The analysis of data shows that respondents had differential response in terms of pros and cons associated with each form of gold investment.

From the empirical data described above a few important findings emerge. These are:

- ✚ The jewellery was the most preferred form of investment among the respondents of this study as highest percentage (50.00) of them aligned with it. This was followed by Silver (23.33%) and Platinum (20.00%). The least preferred was the 'diamond'. A very small proportion (6.67%) expressed their interest to invest in diamond.
- ✚ The most preferred form of investment was 'jewellery' (37.33%) followed by the 'gold coins' (22.00%) and 'gold bullion bars' (14.00%). The least preferred form of investment was 'futures and options'. Only 2.00 percent of respondents went for this form of investment. Remaining form of investments, such as, Gold certificates, ETF, Gold mutual fund, and E-gold received marginal preference as proportion of respondents ranged between 4-10 percent.
- ✚ A little more than half (53.33%) of respondents preferred investing in jewellery due to convenience. Significant majority (81.33%) considered high making charges a major constraint for investing in jewellery.
- ✚ Majority (73.34) of respondents believed in purity of gold to invest in gold billion bars and almost similar proportion of them (70.00%) perceived the denomination of 10 gms and above as one of the constraint that restricts one to invest in this form of gold investment. This they thought may not be suitable for investors.
- ✚ More than sixty percent (63.34) of respondents indicated to invest in gold coin due to its easy availability. As against this, 47.34 percent did not like to invest in this due to the issue of safety and to some extent storage and making charges.

- ✚ A significant majority (89.33%) did like to invest in gold certificate for its easiness and no need to physically present gold for this purpose. However, half of the respondents pointed out the minimum amount of investment required as the constraint in investing in gold certificates or scheme.
- ✚ Investing in the ETF, felt overwhelming majority (92.67%) of respondents due to its easiness and availability with financial institutions. They also believed that such investments are advantages as these give more profit. Awareness or lack of/ limited knowledge was understood as constraint by more than three-fourths (80.67%) of them.
- ✚ Gold mutual funds as mode of investment was conformed by half of the respondents (50.00%) and they had faith that these are professionally managed and assure better returns. But very high majority (83.33%) of them accepted market risk as biggest constraint in investing in gold mutual funds.
- ✚ E-gold investment found favour with just more than half (53.33%) of the respondents. The constraint put forward by a little less than three-fourth (73.33%) of the respondents was uncertainty of its delivery.
- ✚ For the sake high exposure a little more than half (57.33%) of the respondents favoured investment in futures and options. But significant majority of them (83.33%) aired about the risk involved. They had apprehension and fear that 'futures and options' are highly risky propositions of investment because of uncertainty of business market and one's capital may vanish within seconds.

Table 4: Pros and cons of investment in gold (N=300)

Form of gold	Pros	Number(%)	Cons	Number (%)
Zewellery	Convenience	160 (53.33)	Making charges	244 (81.33)
	Fashionable	080 (26.67)	Loss of value	040 (13.33)
	Usage purpose	060 (20.00)	Safety issues	016 (05.33)
Bullion bars	Easy form	040 (13.33)	Safety	040 (13.33)
	Purity	220 (73.34)	Storage charges	050 (16.67)
	Accessibility	040 (13.33)	Denomination	210 (70.00)
Gold coins	Easy form	190 (63.34)	Safety	142 (47.34)
	Moderate loss value	055 (18.33)	Storage charges	070 (23.33)
	Denomination	055 (18.33)	Making charges	088 (29.33)
Certificate/ deposit scheme	Safety	268 (89.33)	Amount of investment	150 (50.00)
	Purity	032 (10.67)	-----	-----
ETF	Easy	278 (92.67)	Knowledge	242 (80.67)
	Purity	022 (07.33)	Delivery	058 (19.33)
	Less transaction cost	000 (00.00)	-----	-----
	Safety	000 (00.00)	-----	-----
Gold mutual funds	Easy	080 (26.67)	Risk	250 (83.33)
	Professional management	150 (50.00)	No control	050 (16.67)
	Less transaction cost	070 (23.33)	-----	-----
E-gold	Easy	160 (53.33)	Knowledge	080 (26.67)
	Purity	050 (16.67)	Delivery	220 (73.33)
	Less transaction cost	040 (13.33)	----	----
	Safety	050 (16.67)	-----	-----
Gold futures and options	Easy	070 (23.33)	High risk	250 (83.33)
	High exposure	172 (57.33)	Over trading	028 (09.33)
	Less transaction cost	058 (19.34)	Wrong calls	022 (07.33)

V. Discussion

Jewellery continues to be predominant form of investment in gold as per findings of this study. Other forms of investment in, such as, gold bullion bars, gold coins, gold certificates, and ETF are also making their way forward. These findings fall in line with empirical observations made by Nawaz and Sunindra (2013). In their study in Bangalore city, state of Karnataka, they concluded that traditional form of investment in jewellery continue to be predominant among all other forms of investment in gold. He also found that gold bullion bars, gold coins, gold certificates and ETFs are preferred by the investors. But these are held below jewellery. They also observed that there is lack of awareness about different aspects of investments and forms among respondents. Thakkar Jalpa (2013) in her study of investor's attitude in pune concluded that there is lack of awareness about the new trends in gold investment alternatives i.e. Gold ETF, E-Gold and Gold Funds. Arulmurugan and Balanagaguruthan (2013) studied investment behaviour of professors in tamil Nadu and disclosed that professors' first choice goes for Ornaments, Gold Coins, bars and last priority to ETF (Exchange Traded Funds) as far as investment in gold is concerned.

Continuity of jewellery as predominant form of gold investment may be looked into Indian cultural milieu. In Indian culture, jewellery besides being given to the bride at the time of marriage by parents is associated with social status and prestige of parents and the bride. Parents of the groom, also handover ancestral jewellery to the

bride in the form of gifts. It is also considered as an economic asset and security which can be used by the couple during hard financial crisis. There is no denial that a few also invest in diamonds, platinum and silver. But so far nothing has replaced importance of gold jewellery. Investment in mutual funds and futures and options forms of investment in gold is associated with high degree of risk and fear of losses. This may be another reason of jewellery still occupying top position among all forms of investment in gold.

VI. Conclusions

A general confusion prevails among investors of gold. This may be largely attributed to modern market characterised by high volatility, rapid ups and downs and multiple and overlapping avenues of investment in gold thrown open by financial institutions to allure public. It is difficult, rather, impossible to draw conclusion on various investment forms of gold from a small study of this kind. However, results clearly indicate that among respondents of this study, jewellery continues to be predominant form of investment in gold. Though, other forms of investment in gold are making way slowly, for instance: gold bullion bars, gold coins, gold certificates, and ETF are preferred forms of investment in gold by 60 to 90 percent of respondents, yet the actual investment is not forthcoming. For Indian economy the gold is vital and, therefore, to allay apprehensions and fears from the minds of investors, in particulars, and public in general, there is urgent need to gear up efforts already initiated by the Government of India. There is also urgent need to take intelligent measures to assure public of the safety, benefits and reasonable returns by creating economic comfort zones.

VI. Suggestions

The prospective investors in gold are suggested to keep in mind following points before taking any decision:

- Always purchase gold jewellery from standard retail outlets as making charges are comparatively lower. Purchase gold bullion or gold coins for longer period as it involves service tax.
- ETFs are easily available and carry less or limited possibility of losses and trading is very simple.
- Mutual funds are associated with high degree of market risk and before investing one should carefully read all related documents and understand pros and cons.
- Despite high exposure, futures and options form of investment in gold carries high degree of risk.

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