Gold as an Investment Avenue: An Analytical Study on Investment Pattern

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Abstract

Nations may fall, paper money may lose its value but gold will always sustain as something of value. But there are also certain disadvantages in investing in gold. In the short run, gold is an excellent store-house of wealth but in long term, investment in gold is not an ideal investment. This is because its return is easily phased out by the returns from equity market. Moreover investment in gold has no payout in terms of dividends. Now a day's investors prefer to invest in gold because of its high return, Gold is subjected to speculation, many investors use gold as a hedge against nation. This study tries to focus about distinguish gold investment schemes accessible in the market and also the investor's attitude towards the investment. This study aims at collecting investor's response towards investment in gold. Pros and cons of investing gold have been elicited. We in our study have tried to throw light on the different avenues of gold investment obtainable in the market. This will safeguard that gold becomes tradable and generates revenue rather than lying idle as a dead investment.

Keywords: Gold, Investment Avenues, Investment Pattern, Equity shares, ETF.

Introduction

"Gold is a fundamental part of Indian society and a foundation of wealth and savings in India. As consumers have calibrated their price expectations upwards, a further rise in gold jewelry and investment demand is foreseen and this trend is projected to exist over the long-run as local investors are buying gold driven by wealth accumulation motives."(Jeni Branson, 2014)

Gold has emotional value; it has a strong cultural and financial significance, which reinforce demand across generations. Now, however, it is becoming clear that an increasing number of Indians are realizing that gold deserves a place not just in the cupboard at home or the bank locker, but also in their investment portfolio. Until recently, gold reserves established the basis of world monetary systems. Gold plays a vital role in dispensing the best possible protection against the fluctuations of both political and economic scenario, mainly in India.

Investment is a planned method of safely putting one's savings into different outlets to get a healthy return. The essential quality of an investment is that it necessitates waiting for a reward. Gold as an asset plays a key role in an investor's portfolio as it not only produces stability for returns but also gives an opportunity to maximize the wealth of the investor. Investors generally buy gold as a tool to diversify the risk. Price of gold is evaluated by the market force of demand and supply. Gold is a hedging tool against in nation.

Research Objectives

The research is based upon the following objectives:

1. To study about the diversified options available to investor while investing in gold.
2. To study the factors effecting the choice of investment in gold.
3. To discover the reasons for not to invest in gold.

Review of Literature

Soos, Andy (2011), expressed the world consumption of new gold produced is about 50% in jewelry, 40% in investments, and 10% in industry. Parimalakanthi, K. and Kumar, M. Ashok (2015), discovered that the major factors behind an investment are the safety of principal amount, liquidity, income stability, and appreciation.

Investors cannot overlook risks but they can minimize the risk by investing their money in safe investments so that they can get a modest profit. Most of the investors of Coimbatore city prefer bank deposits followed by investments in gold and silver.

Worstall, Tim (2016) contributed, gold is not exactly the most fertile of investments, offers no ongoing return, and it's a positive drag on the economy as a whole and yet real estate and gold do contribute up to two thirds of household savings in India. Primarily, Indian culture is an extremely long lasting one. Life out in the villages has not changed all that much, so standard behavior is construct on some very old historical roots. The market in physical gold is extremely liquid having mass appeal. It is entirely feasible to pawn or sell a small piece of gold if any need arises. Gold, or gold jewelry, is a handy form of saving.

Greenspan, Alan (2017) former Chairman of the Federal Reserve, unveiled his deep concerns about economic prospects in the developed world and evaluate the long-term value of gold and quoted, "Significant increases in inflation will ultimately hike the price of gold. Investment in gold now is insurance." Dallas, Celia (2017) Chief Investment Strategist at global investment firm, Cambridge Associates, discussed optimal investment strategies in a world beset by uncertainty and the role that gold can play in this environment. "In the current environment of swelled central bank balance sheets and competitive currency devaluations, we regard gold as a handy addition to portfolios."

Research Methodology

The research study is descriptive and analytical in nature and convenience sampling technique was employed to elect the sample. Primary data was collected directly by using a well-designed interview schedule and secondary data has been assembled from sources like Literature Books, Journals, Magazines, Articles and websites.

Data Analysis and Interpretation

To study the factors influencing the choice of investment in gold:

Investing money in gold is worth because it is a hedge against in action. Over a period of time, the return on gold investment is in line with the rate of in action. It is also worth investing in gold for a one more very valid reason. That is gold is negatively correlated to equity investments, the equity markets started performing poorly whereas the gold has performed well.

A) Various Options available to Invest in Gold in India:

There are so many ways to invest in gold such as:

1. Futures and options

Derivatives, such as gold forwards, futures and options, allow spread bets on the price of gold, trade currently on various exchanges around the world and over-the-counter (OTC) directly in the private market. In other countries, gold futures are generally traded on the New York Commodities Exchange (COMEX). Whereas in India, gold futures are traded on the National Commodity and Derivatives Exchange (NCDEX) and Multi Commodity Exchange (MCX)

2. Exchange Traded Funds (ETF)

Buying Gold ETF is an option to purchase gold in an electronic form. You can buy them just like you buy shares of any company from your broker. Gold ETF also makes it very easy for you to invest in gold. Also, each of the Gold ETF unit that you buy from the market is roughly equal to the price of 1 gm of gold in market.

3. Coins and bars

You can invest in gold coins and bars, by buying them from your jeweler or from the bank. Gold coins are mass produced; they are available at very competitive prices compared with similar size bars. Also, Gold coins are universally recognized in the world which makes them easy to resell.

4. Gold Accumulation Plans (GAP)

Gold Accumulation Plans (GAPs) are just like same as the conventional savings plans in that they are based on the principle of putting aside a fixed sum of money every month. At any time during the contract term, investors can get their gold in the form of bullion bars, coins, jewelry or cash.

5. Gold Futures:

Gold futures contracts are binding commitments to make or take delivery of a specified quantity and purity of gold, on a prescribed date, at an agreed price. The initial margin or the cash deposit which is being paid to the broker is only a fraction of the price of the gold underlying the contract.

B) Factors affecting investment decisions in Gold

1. No ongoing returns

Gold isn't exactly the most productive of investments, offers no ongoing return, and it's a positive drag on the economy as a whole. The total value of gold may rise over the year but the returns are not fixed as in other options the market in physical gold is extremely liquid having mass appeal. It is entirely possible to pawn or sell a small piece of gold if any need arises. Gold is a very useful form of saving.

2. Safety of principal amount

Gold does not provide a guaranteed safety on the principal amount being invested. The price of gold keeps on fluctuating as per the market conditions. In case of worst scenario, the gold prices may fall sharply and also it may go below your principal value.

3. Fixed deposit being a safer option

Major reasons for investing in fixed deposits with banks are: Safety, Regular Income and Saved tax but investing in gold does not always provide safer returns and no fixed appreciation. Also, people consider fixed deposits are much safer option than to invest in gold.

4. Demographic factors

Investments are made with an avowed objective of maximizing wealth. Investors need to make rational decisions for maximizing their returns based on the information available by taking judgments free from emotions. Demographic factors influence the investors' investment decisions.

5. Risk

The investment avenues may be divided according to their risk level in many parts and the investment in gold is considered to be a high-risk avenue. The market fluctuations lead to fast movement in gold prices which may or may not lead to positive returns.

C) Reasons for Not to Invest in Gold:

Since the old ages, gold is being considered and also has been prized, coveted and being viewed throughout the world as an asset which has an actual inherent value. Here are five characteristics that show gold isn't a great place to put your money.

1. Poor long-term returns:

Let's start with the biggest one. Investors are familiar with the phrase "past performance is not necessarily indicative of future results," which is a sober reminder that mutual funds and managed accounts frequently mean-revert (or move back toward their average).

2. How do you value gold?

The current value of any asset you have is the present value of all future cash flows related to the asset. Also, the value of gold in market is determined by its supply and demand, which is very hard to predict. Demand typically goes up based on fear and not fundamentals.

3. Gold doesn't throw off cash:

There is a major disadvantage related to the investment in gold is that there are no regular cash flows being made to the investor. There are no regular cash dividends made to gold investors.

4. Little actual utility:

Gold isn't even the most useful precious metal. Most of the gold that is extracted from the mines gets turned into gold bars, gold jewelry and gold coins and then stored in a vault.

5. Risks on Investing in Gold:

It is not an essential commodity. People cannot eat gold. Investment in gold does not always provide any current income like dividend or rental as in shares or real estate where the investors can also reap the rewards of their investment without having to sell their asset. Besides when an investor purchases gold, attention needs to be given to how the gold will be safely stored. Storing gold coins in one's house is the equivalent of putting money under one's mattress: It is not a safe place to keep it. Some investors use safe deposit boxes (available at some banks) to store gold. Other investors purchase gold in a manner that does not require taking delivery on the gold. For instance, a gold exchange traded fund enables the purchase of gold without having to take possession of gold.

Conclusion

The research enhances the understanding of investor's attitude and awareness regarding gold investment decisions and displays where currently physical gold's position among the other gold investment instruments is. Investors go through the information search and market analysis before backing the gold investment decision. Research exhibit that gold is already known and marked by the people for its return and all the respondents mostly have investment in gold or plan to obtain more gold. Research also throws light on the lack of awareness about the new trends in gold investment alternatives i.e. Gold ETF, E-Gold and Gold Funds.

As India imports most of its gold requirement, high value of gold imports has now initiated hurting India's current account position. Thus, government should support means of alternate gold investment.

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