JETIR.ORG ISSN: 2349-5162 | ESTD Year : 2014 | Monthly Issue
JOURNAL OF EMERGING TECHNOLOGIES AND INNOVATIVE RESEARCH (JETIR)
An International Scholarly Open Access, Peer-reviewed, Refereed Journal

Comparative analysis of investment in Gold, NIFTY 50 and NIFTY Midcap 50 during 2020 & 2021

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ABSTRACT

Investing one's savings/surplus is one of the vital questions faced by retail investors. In the case of long-term investments like real estate the chances of getting the invested money back at the investor's will is not very each. Therefore the focus is to invest in those assets which can be easily liquidated on demand to fulfil the required need. In this situation investing money is generally invested by conventional investors in physical or electronic gold and modern investors generally prefer their direct or indirect investments in the stock markets. Gold has been a strong metal with value and growth amongst Indian investors. In the case of stock market investment Nifty 50 & Nifty Midcap 50 represent the two choices of the investors. One in the mainstream equities while the other in the midsize companies having their presence in the Indian Stock markets.

Prices of gold can be tracked with the help of charts in the bullion market and commodity markets. The National Stock Exchange (NSE) has NIFTY 50 as its benchmark broad-based market index which represents the weighted average of 50 company stocks from 13 sectors. While NIFTY Midcap 50 is a stock market index designed and managed by the India Index Services Products Limited and is meant to monitor the behaviour of the mid-cap segment of the Indian Market.

This paper focuses to study, analyse and comparing the performance of investments made in physical gold, Nifty 50 and Nifty Midcap 50 each quarter wise during 2020 and 2021. It also tries to evaluate and suggest the selection of investment for retail investors to amplify their capital and higher returns on their investment.

Keywords: Gold, NIFTY 50, NIFTY Midcap 50, Return on Investment

Introduction:

Investors are always interested to understand the dynamism of better investment avenues according to their needs. One of the major variables these days for investing one's surplus or savings is the ability to withdraw the investment at any desired time, which allows the fulfilment of an upcoming need or contingency. The major reduction in the interest rates especially in the last two to three years has already made bank fixed deposits and recurring deposits unpopular. On the other hand, the growing glory of gold especially in the last decade and record-breaking NIFTY levels have popularized the advent of investment avenues in gold and equity markets. The emergence of COVID-19 in 2020 has also changed the priorities of the investors wherein everyone wants to live the present life without compromising their wants which were previously deferred for later in life. As the perception towards the duration of life has become more uncertain, people have started believing in the concept of spending money to fulfil their desires now instead of putting too much money into future savings. Most of the people decided to secure themselves with term life insurance policies and health insurance policies and have reduced investments in real estate and other long-term investments which are not easy to liquidate.

This paper focuses to study, analyse and comparing the performance of investments made in physical gold, Nifty 50 and Nifty Midcap 50 each quarter wise during 2020 and 2021. It also tries to evaluate and suggest the selection of investment for retail investors to amplify their capital and higher returns on their investment.

Gold: Mankind has known Gold as the oldest precious metal for thousands of years and it has been valued as a global currency, an investment, a commodity and simply an object of beauty. It has the Chemical Symbol-Au and is primarily a monetary asset and partly a commodity. Gold is the world's oldest international currency. It is an important element of monetary reserves globally. Gold is one of the most popular forms of investment for centuries across the world. Also, the jewellery element of gold and the strong traditional value in Indian society is a prime choice for investment in India.

Bullion is a terminology that is used to refer to an amount of gold or silver of purity levels of 99.5% or higher before it has been turned over for coinage. Gold coins, ingots and bars are the ones that are acceptable under the bullion category in India.

A market where traders trade in precious metals like gold and silver is known as a bullion market. It is a place where exchanges of gold and silver take place over the counter and in the futures market. Bullions are considered as a safe bet to hedge against inflation or as a haven for investment.

E-Gold comes as a unique gold investment product that was launched by the National Spot Exchange Limited (NSEL). It enables investors to buy Gold in an electronic form on the NSE's trading platform and the gold bought reflects in the Demat account of the buyer. It is a type of investment that allows investors to buy gold in a smaller denomination, like 1gm, 2gm, 3gm, etc. The gold units that you would buy here will be credited to your Demat account in T+2 days. Similarly, for instance, if you have sold today, the same will be debited from your Demat account in 2 days (from the date of sale). E-gold is less expensive compared to gold ETFs as it is not exposed to various charges like asset management fees, security service fees, etc.

Gold ETFs has become one of the most popular methods of gold investments. They are also the underlying of open-ended Gold Mutual Funds that help to invest money in gold with an underlying gold purity is 99.5%. Gold ETFs are also known as paper gold. These are listed and traded on major stock exchanges and investors are assigned units where each unit usually represents one gram of gold. In gold ETFs, investors can trade using their existing Demat account. Gold ETFs offers investors a secure way to access the gold market. They also provide the benefit of liquidity as they can be traded at any time during the trading period. To know the current value of the investment in gold ETFs, the NAV of that fund provides the update but in the case of e-gold, the value is that of the prevailing gold price.

Gold like any other tradable commodity has a buy-sell spread (difference between prices). The spread changes based on various factors including price volatility, supply, external market conditions, etc. All investments made into digital gold are secure as all gold is assigned under the direct ownership of the investor as physical gold and kept in MMTC-PAMP's highly secure and insured refinery. Additional security is provided by IDBI Trusteeship which acts as a custodian keeping all your gold as safe as can be.

NIFTY 50

The National Stock Exchange (NSE) is the biggest Stock Market of India in terms of volume of trade. It has overtaken the Bombay Stock Exchange (BSE) in performance. NIFTY 50 is the flagship index of the NSE. It is a benchmark index of the broad-based stock market index of the Indian Capital market. The full form of NIFTY 50 is Nation Index Fifty. It represents and tracks the behaviour of a portfolio of 50 blue-chip companies from 13 different sectors, which are the largest and the most liquid Indian securities. It includes as many as 50 of the approximately 1600 companies traded (listed & traded and not listed but permitted to trade) on NSE. It constitutes approximately 65% of its float-adjusted market capitalization. This makes it a trusted index of a true reflection of the Indian stock market. The NIFTY 50 covers all the major sectors of the Indian economy and offers investment managers exposure to the Indian market in one efficient portfolio. The Index has been trading since April 1996 and is well suited and helpful for benchmarking, index funds and index-based derivatives. It is one of the many stock indices of NIFTY. The NIFTY 50 is created for those interested in investing and trading in Indian equities and it is derived from proper economic research. The NIFTY 50 is managed and owned by NSE Indices Limited (formerly known as India Index Services & Products Limited-IISL), It is India’s first specialized company focused on an index as a core product. It is a free float. The index was initially calculated on full market capitalisation methodology. This method was changed to a free-float methodology from 26 June 2009. The base period of NIFTY is 3rd November 1995, which is also the completion date of one year of operations of the National Stock Exchange Equity Market Segment. The base value of the index was set at 1000 and a base capital amount of Rs 2.06 trillion. The National Stock Exchange of India Limited (NSE) commenced its trading in derivatives with index futures on June 12, 2000. The derivative futures contracts on the NSE are based on the NIFTY 50. The NSE introduced trading on index options based on the NIFTY 50 on June 4, 2001. Also, exchange-traded derivatives contracts linked to NIFTY 50 are traded at Taiwan Futures Exchange (TAIFEX) and Singapore Exchange Ltd. (SGX).

For a Stock to be a part of NITY 50, it should have the following eligibility covered:

1. The company must be domiciled in India and traded (listed & traded and not listed but permitted to trade) at the National Stock Exchange (NSE).
2. It should be a Constituent of NIFTY 100 index that is available for trading in NSE's Futures & Options segment.
3. The security should have traded during the last six months at an average impact cost of 0.50 % or less for 90% of the observations for a portfolio of Rs. 10 crores.
4. The company's average free-float market capitalisation is at least 1.5 times the average free-float market capitalization of the smallest constituent in the index.
5. A company that issues an IPO is eligible for inclusion in the index if it fulfils the normal eligibility criteria for the index - impact cost, float-adjusted market capitalization for a period of three-month instead of a period of six-month.
6. The trading frequency of the company in the last six months should be 100%.
7. Equity securities with Differential Voting Rights (DVR) are eligible for inclusion in the index subject to fulfilment of several conditions.

NIFTY MIDCAP 50

It includes the top 50 companies based on full market capitalisation from NIFTY Midcap 150 index. A preference shall be given to companies that are available for trading in NSE's Futures & Options segment at the time of final selection The primary objective of the NIFTY Midcap 50 Index is to capture the movement of the midcap segment of the market. NIFTY Midcap 50 includes top 50 companies based on full market capitalisation from NIFTY Midcap 150 index with preference given to those stocks on which derivative contracts are available on National Stock Exchange (NSE).

- The NIFTY Midcap 50 Index represents about 6% of the free-float market capitalization of the stocks listed on NSE as of March 29, 2019.
- The total traded value for the last six months ending March 2019, of all index constituents, is approximately 13.3% of the traded value of all stocks on NSE.

Observations & Analysis:

Table 1: Quarterly price movements Gold, NIFTY & NIFTY MIDCAP 50 during 2020 & 2021

Investment	03/01/20	27/03/20	03/07/20	01/10/20	31/12/20	31/03/21	30/06/21	28/09/21	17/12/21
Gold 99.99 (10 Grams)	41295.00	44760.00	48072.00	52510.00	51730.00	45495.00	48225.00	47415.00	50240.00
NIFTY 50	12226.65	8660.25	10607.35	11416.95	13981.75	14690.70	15721.50	17748.60	16985.20
NIFTY MIDCAP 50	4755.75	3206.50	4208.75	4722.15	5872.60	6772.10	7474.80	8165.70	8267.55

Table 1: Source: Table is compiled using historical data available at www.moneycontrol.com and goldprice.org

Table 2: Quarterly Index performance of Gold, NIFTY & NIFTY MIDCAP 50 during 2020 & 2021

Investment	03/01/20	27/03/20	03/07/20	01/10/20	31/12/20	31/03/21	30/06/21	28/09/21	17/12/21
Gold 99.99 (10 Grams)	100.00	108.39	116.41	127.16	125.27	110.17	116.78	114.82	121.66
NIFTY 50	100.00	70.83	86.76	93.38	114.35	120.15	128.58	145.16	138.92
NIFTY MIDCAP 50	100.00	67.42	88.50	99.29	123.48	142.40	157.17	171.70	173.84

The above table indicates the closing prices of the Gold 99.99 purity, NIFTY 50 Index and MIFTY MIDCAP 50 Index on the selected quarterly dates. Considering the price on 3rd January 2020 as the base 100 the percentage-wise performance is expressed in terms of index numbers for all three investments. These are analyzed and presented in a bar diagram chart (Chart 1).

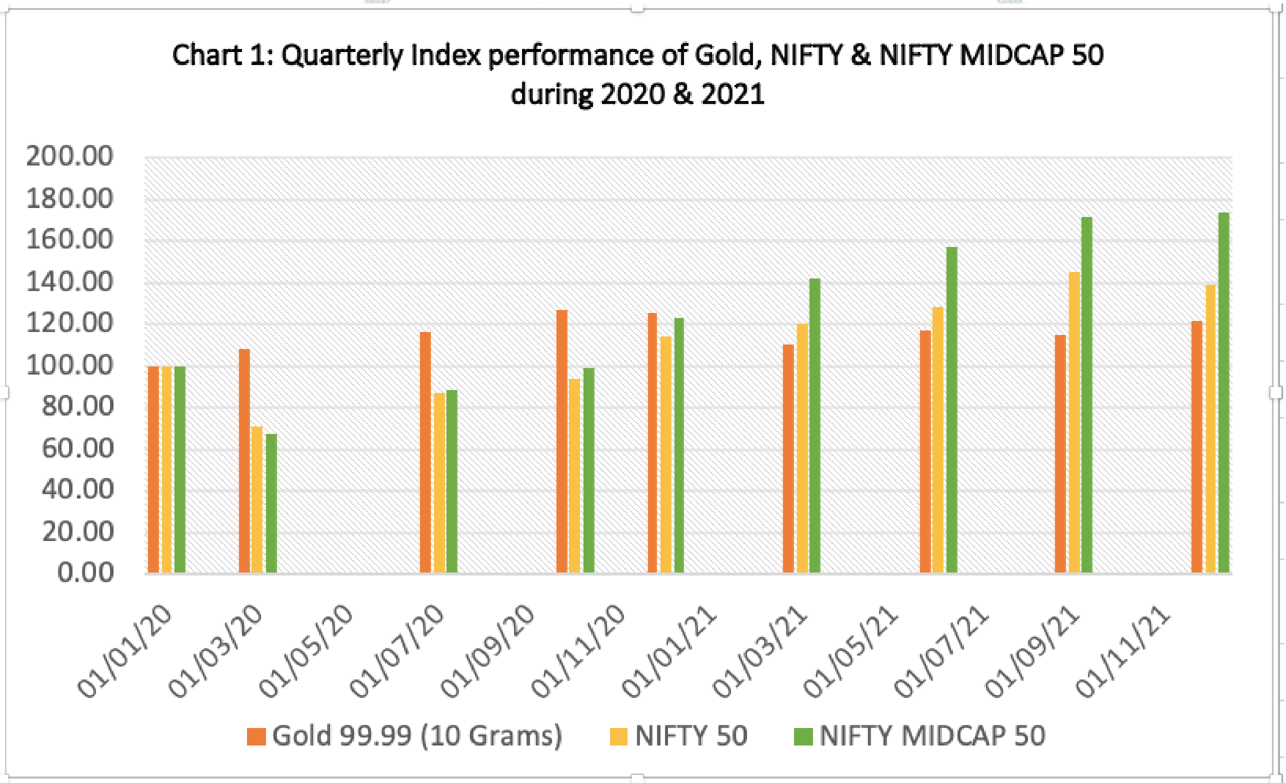

Chart 1 compares the performance of Gold 99.99, NIFTY and NIFTY MIDCAP 50 Indices from 3rd January 2020 to 17th December 2021. There has been major volatility specifically amongst the Stock market indices as compared to Gold. Gold has shown stable and slow growth during these two years of comparison. During the year 2020 Gold has outperformed both the stock market indices by a significant margin. It is worth noting that Gold had the maximum positive gap during March and June ending quarters of 2020. This is where COVID-19 and Lockdowns were the prime factors affecting the economy and investments. However when the NIFTY was performing negatively. Therefore in the Line Chart above the NIFTY Pharma line is always above the NIFTY line.

However, mostly on all quarterly comparison dates in 2021, both the NIFTYs have outperformed the Gold by a reasonable margin. The maximum advantage is during September 2021 and further. This is the period wherein COVID-19 was brought into control and major vaccination drives were in full swing across the country.

NIFTY & NIFTY MIDCAP Analysis:

It is interesting to study the performance of NIFTY and NIFTY MIDCAP 50. Wherein both the indices have outperformed the metal gold in the year 2021. It was NIFTY MIDCAP 50 which showed better gains as compared to its counterpart especially in the second half of 2021.

Findings & Conclusion:

It is seen that during 2020 gold has dominated the NIFTY and NIFTY MIDCAP 50 indices with its performance. This proves the conventional theory that when the stock markets crash, gold outperforms. This mostly happened due to the advent of COVID-19 and lockdowns. However, by the emergence of 2021, the stock markets recovered well and significantly outperformed the metal with consistently growing gains. This again proves the conventional theory of being long term investing in the share markets is beneficial. The stock markets though showed a high amount of volatility during these years, leading to major downfalls in the indices. But one who stayed invested in the Stock market has gained almost 50% on his investment as compared to approximately 20% on the metal. Also, the MIDCAP showed a better performance and recovery rate as compared to the mainstream stocks in the Indian markets.

Therefore, though gold is a very long-term good investment with stable and steady growth. The share markets provide great opportunities for medium to long term investments to get better returns.

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