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

Evaluation of Gold and Stock as an Investment Alternate

Sonam

Assistant Professor in Department of Commerce, IP College for Women, Jhajjar, Haryana(India)

ABSTRACT

The brainchild of **Benjamin Graham** plays a significant role because he was focused on that type of investment which are based on fundamental analysis of financial ratios and rejected short-term speculation. The teachings of Benjamin Graham were heavily influenced by famous investors like **Warren Buffett**.There are a lot of investment avenues in which an investor can make an investment by considering two aspects that are time and risk.In August 2020, amid the covid pandemic, Gold reached an all-time high price before cooling off. Again, it rose above 2,000 USD in March 2022 in response to the Ukraine war but still it did not surpass the 2020 peak. Return on Gold varies depending on the time period under consideration. While over the same period, Stock provided a return of 11.3%few of the positive and negative aspects of gold as an investment avenue.The Objective of the study is to understand the pros and cons of Gold as an investment avenue and to make comparative analysis of gold and stock returns.In a summarized form, it can be concluded that Gold may be included in the portfolio to diversify it and hedging against inflation. It is a safer investment option, especially during a bearish stock market.

Keywords : Investment, Investment Avenues, Portfolio Management, Gold and Stock.

INTRODUCTION

> **"An investment operation is one which, upon thorough analysis, promises safety of principal and a satisfactory return. Operations not meeting these requirements are speculative."**
>
> **Benjamin Graham (1934)**

The brainchild of **Benjamin Graham** plays a significant role because he was focused on that type of investment which are based on fundamental analysis of financial ratios and rejected short-term speculation. The teachings of Benjamin Graham were heavily influenced by famous investors like **Warren Buffett**. Buffett has written that Graham's books and teachings "became the bedrock upon which all of my investment and business decisions have been built." His famous book, "**The Intelligent Investor**, " has gained recognition as the foundational work in value investing. For me, investment is not just the amount of savings that is invested in various corporations, it is the sacrifice of current money or other sources for future benefits with the help of risk and return analysis. There are a lot of investment avenues in which an investor can make an investment by considering two aspects that are time and risk.

Concept of Investment:

According to Warren Buffet, "Opportunities come in frequently. When it rains gold, put out the bucket, not the thimble"

He said that if you do find a great investment opportunity, grab it with both hands, and enjoy the windfall, do not be overly cautious.

Investment Alternatives/ Avenues:

There is a bewildering range of investment alternatives. The more important ones, from the point of view of individual investors,

These avenues are-

- Deposits
- Equity Shares
- Precious Objects
- Bonds or Debentures
- Money Market Instruments
- Mutual Fund Schemes
- Real estates
- Government Saving Schemes
- Insurance Products
- Retirement Projects
- Derivatives etc.

Portfolio Management Process:

The process maybe broken down into following steps:

- Specification of Investment Objectives and Constraints
- Quantification of Capital Market Expectations
- Choice of the Asset Mix
- Formulation of Portfolio strategy
- Selection of Securities
- Portfolio execution
- Portfolio Revision
- Performance EvaluationEvaluation

REVIEW OF LITERATURE

Hawaldar, I.T. & Rahiman, H.U. (2019) conducted a study on "Investors' Perception towards Stock Market: An Exploratory Research" attempting to learn the behavior of the investors towards stock market. The main objective of the study is to ascertain the various personal factors which affect the investors' investment decision and the different factors influencing various categories of investment. The researcher also conducted that study to know the source of investors' awareness regarding the stock market. For this purpose, Questionnaire and personal interview of the investors was conducted for knowing level of awareness among investors and Chi square test was used for determining the association between two variables. At last, this study concluded that risk return, tax benefits, maturity period, capital appreciation and safety of principal etc. are the factors which influence the investor's decision. But the majority of the investors believed that return is the most important factor which influenced their decision. The study also revealed that a large number of investors preferred to invest in stocks as compared to mutual funds and derivatives because they made their own decision to invest, whereas some of the investors were influenced by Workshops, Seminars, Advertisements and newspapers.

Pandey, N.S., & Kathavarayan, P. (2015) the paper examined "The Investment Preference towards Mutual Funds and other Investment Alternatives". This study is conducted to find out the preference of investors about different investment alternatives. To carry out the present study, Primary data was collected through interview schedule and for analyzing the data Multiple Regression Analysis, Chi-square test and Percentage Analysis techniques have been used. The result revealed that Chi-square analysis is not significant but Regression analysis showed that gender, education and income are significant towards Mutual Funds. They also suggested that comparison can be made between various investment alternatives based on trend analysis.

Velmurugan, G., Selvam, V., & Nazar, N.A. (2015) carried out a study on "An empirical analysis on perception of investors towards various investment avenues." observed that perception of order of investment towards investment avenues are same across gender except gold and post office. The study also revealed that when a common man thinks about investment they will never go for any risk plan because the share and gold market is highly uncertain and unpredictable. The researchers of the study suggest that in order to make a profitable investment, there is a need to explore the various risk factors which are involved in investment decisions.

Tripathi, G. (2014) conducted a study on "An Empirical Investigation of Investors Perception towards Derivative Trading". This study is undertaken to analyze the difference in perception of male and females towards derivatives investment. This study was based on Primary data.After conducting study, the result showed that Indian investors invest their money in real estate and insurance because these options offered high returns with minimum returns, and the study also revealed that the derivatives market is dominated by male investors with 72% whereas female investors are only 28%. The researcher suggests that there is still a need to explore and analyze other variables that can influence investors' decisions, so as to gain better insights.

Pasha, S.A.M. (2013) to know what kind of perceptions held by retail investors in India based on Andhra Pradesh State reference with a sample size of 500 respondents. Primary data was collected for the study. At last, the result of the study showed that financial derivatives should be considered part of any investor's risk–management strategy to ensure that value – enhancing investment opportunities are pursued.

Vipparthi, M., & Margam, A. (2012) concluded in their study that the investors' perception is dependent on the demographic factors and assesses that the investor's age, marital status and occupation has a direct impact on the investor's choice of investment. The study further demonstrated that the female segment is not fully tapped and even there is a low target on higher income people.

Kukreja, G. (2012) examined "The Investors Perception towards Indian Capital Market with reference to National Capital Region Investors of India." The researcher found in the study that age has a significant impact on investment while educational qualification has a significant impact on tax advantage. Overall, the result suggests that investment schemes are tailored to the senior citizens. The researcher further states that there is a requirement to conduct the study to explore the senior citizens' investment behavior towards the capital market.

It is quite clear from the above reviews that various studies in literature are available that are being conducted on different alternatives of investment with respect to different demographic variables. Different investment alternatives carry different risks and benefits and it is really very important to understand the pros and cons of them. Thus, In this study, researchers focus on Gold and Stock as investment avenues.

OBJECTIVES OF THE STUDY

This research paper aims at understanding Gold as an investment avenue. The Objective of the study is to understand the pros and cons of Gold as an investment avenue and to make comparative analysis of gold and stock returns.

Introduction

In August 2020, amid the covid pandemic, Gold reached an all-time high price before cooling off. Again, it rose above 2,000 USD in March 2022 in response to the Ukraine war but still it did not surpass the 2020 peak. Return on Gold varies depending on the time period under consideration. From January 1971 (when the dollar became unlinked to gold) to December 2019, gold had average annual returns of 10.6%. While over the same period, Stock provided a return of 11.3%. In 2020, the annual average return of gold was 24.6% , which was the second-highest return among a range of assets that year. Next section of the paper discusses a few of the positive and negative aspects of gold as an investment avenue.

Pros and Cons of Gold as an Investment Avenue

Although gold is considered as a safer investment option, especially, when the market is on its downside since the price of gold doesn't typically move with market prices. However, it may also become a risky investment as history has shown that the price of gold does not always move up, particularly when markets are rising. Generally, Investors turn toward gold when they fear that prices of stocks will go down and there is uncertainty in the market.

Furthermore, gold is also not an income-generating asset. Return on gold is typically based on its price appreciation only. Gold as an investment avenue also has some carrying costs such as storage and insurance costs as it is a physical asset. Thus, after considering all these points, it can be concluded that gold should be added to your portfolio as a hedge against the falling market. Thus the pros and cons of investing in Gold may be summarized as follows:

Pros	Cons
• Hedge against Inflation	• Storage or carrying cost
• Security of Value	• Not an income generating asset
• Portfolio Diversification	• Premiums and Taxes
• Simplicity	• It has terrible historic return
• Hedge against a Disaster	

Gold vs. Stocks

While evaluating the performance of gold and stock as investment avenues, it really depends on the time period being analyzed. Over the long run, stocks generally outperform the gold on an average while over a short span, gold may also come ahead. For example, over certain 30-year periods, stocks have outperformed gold, but over some 15-year periods, gold has outperformed stocks. Gold tends to rise during the period of high inflation and geopolitical uncertainty as we saw during covid pandemic and Russia-Ukraine war. If we consider only 2021and 2022, Gold has outperformed because of inflation and geopolitical conditions. In general, in a bull market, gold performs relatively poor. One reason behind this is that gold is not an income-generating asset, nor does it represent growth in a particular company or sector. Rather, gold is valued for its scarcity and its socio-historical precedent as something of value. Thus, when the economy is growing and companies are doing well; stocks seem to be more attractive to investors.

Conclusion

In a summarized form, it can be concluded that Gold may be included in the portfolio to diversify it and hedging against inflation. It is a safer investment option, especially during bearish stock market. However, keeping in mind the cons of investing in gold, a balanced portfolio should be constructed after considering the cost-benefit analysis.

REFERENCES

- Prabhu,G. & Vechalkar.N.M. (2014). Perception of Indian investor towards investment in mutual funds with special reference to MIP funds. IOSR Journal of Economics and Finance. pp. 66-74.
- Tripathi, G.(2014).An Empirical Investigation of Investors Perception towards Derivative Trading. Global Journal of Finance and Management. Vol. 6 (2), pp. 99-104.
- Kukreja, G.(2012). Investor's perception for stock market: Evidences from National Capital Region of India. Interdisciplinary Journal of Contemporary Research in Business. Vol. 4(8).
- Geetha,S.N. & Vimala,K.(2014) Perception of Household Individual Investors towards selected financial investment avenues (with reference to investors in Chennai city) Shaping the Future of Business and Society – Symbiosis. Institute of Management Studies.
- Murty,T.N. & Sastry,P.V.S.H.(2013). Investment Perception of small investors- A scientific analysis.
- www.abhinavjournal.com
- Vipparthi,M. & Margam,A. (2012). Perceptions of Investors on Mutual Funds – A comparative study on Public and Private sector mutual funds. Journal of Management Studies, Vol. 7(1).
- Khaparde,R. & Bhute,A.(2014). Investor's perception towards impact of Macroeconomic performance on Stock Market Behaviour. The International Journal of Management. Vol.3(1).

https://www.investopedia.com/ask/answers/020915/has-gold-been-good-investment-over-long-term.asp assessed on 20 July, 2022.