

Retail Investors and Gold Buying Behaviour

– A Perpetual Study of Indian Retail Investors

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Abstract

Gold is one of the oldest precious metals known to man and for years it has been valued as a global currency, an investment, a commodity and an object of beauty and India is not an exception to this. India's love affair with gold is timeless spanning over centuries and millennia. With globalisation various investment avenues were made available to investors. However there is difference in the perceptions of the investors. So this paper makes an attempt to understand the factors that influence the buying behavior of Indian retail investors with respect to gold buying. The objectives of the paper are to identify the favorable and unfavorable perception of the consumers towards their belief in Gold buying behavior, towards their Motives behind the Physical gold buying behavior, towards the Risk behind gold buying (both physical gold as well as Paper form -Mutual fund / ETF) behavior and towards gold buying behavior due to various attributes of gold. The results of the study indicate that the ease at the time of purchase and high liquidity has resulted into Gold being highly preferred Investment Avenue as against the others.

Keywords: Gold buying, Retail Indian investors, Perception

1. Introduction

Gold is one of the oldest precious metals known to man and for years it has been valued as a global currency, an investment, a commodity and an object of beauty and India is not an exception to this. India's love affair with gold is timeless spanning over centuries and millennia. In India, Gold is not just another precious metal but it is a part of our culture, an inseparable part of our belief system and a matter of pride.

Gold has always been considered a sacred item in life and is a must in every religious function- reason being that Gold is pure having passed through fire in its process of evolution. Gold has become an inseparable part of almost every household in Indian Society and infused into the blood of an Indian. It's being seen as symbol of good fortune and prosperity. Over a few thousands of years, many kings, emperors and dynasties featuring countless wars, conquests and political upheavals have ruled the Indian subcontinent. Gold acted as a common medium of exchange or store of value across the monetary systems of different kingdoms across the subcontinent and thus resulted into safeguarding wealth in spite of the various wars and changes in the rulers. The stable purchasing power ability of gold and the intrinsic value feature of gold makes it a safe investment especially during the time of recession with high risk such as inflation, exchange rate fluctuations etc.

2. Literature Review

Before the abolition of the Gold Control Act in 1992, only Minerals and Metal Trading Corporation of India (MMTC) and the State Bank India (SBI) were allowed to import gold. The abolition resulted into free import of gold by large export houses. The exporters in the export housing zones were allowed to sell 10% of their produce in the domestic market. 1993 saw another change in the form of entry of private and foreign investors in the gold and diamond mining to the extent of 50% by way of equity. 1997 emerged as another important year as the overseas banks and bullion suppliers were allowed to import gold in India.

The Indian Gold demand has recovered and gone up since start of 2010, in 2011 the nation saw jewellery and investment demand of 933.4 MT. In 2011, India was by far largest single investment market and accounted for 25% of the total bar and coin demand. India imported a record of 969 MT of gold in 2011(MCX). In the last fiscal year India

ended up importing \$56.5 Billion and in the first nine months of the current fiscal year it has already imported \$38 Billion.

In India, consumer demand for gold in the second quarter from April to June 2013 was 310 tonnes. This shows an increase of 71 per cent as compared to the second quarter of 2012. Gold in the form of investment is exclusively in a physical form, typically a gold bar or a gold coin and sometimes the list includes gold medals as well (Neil 2010). During the second quarter of 2013, gold bars and gold coins investment rose to 116 per cent, while demand for jewellery rose by 51 per cent as compared to second quarter of 2012. An increased demand for gold as an investment can be seen throughout these years as seen above (World Gold Council Quarterly report-2011, 2012 and 2013)

Thus it is important to study and to know what really triggers (what factors really affects) this demand for gold in a situation of High Price, or demand for gold when it's a product with an inelastic demand. Also it's a cause of concern, since India's love for gold is partly to blame for the country's wide trade deficit and large current-account gap, which has in turn resulted in dragging the Indian Rupee down by 3% against the US \$. (As on 21st January 2013, The Wall Street Journal- online.wsj.com)

Anli Suresh (2011) observed that the mindset of the Indian's towards gold (being more than status symbol) has changed but still the demand for gold has not decreased in spite of ever increasing price and also did a comparative study between people's quest for real income, savings and price of gold to decide which factor actually impacts the demand for Gold. His conclusions were the demand for gold is a product of savings and people's quest for real income and the long lasting cultural and socio economic trends will remain to be the underlying reasons for the demand.

R. Kannan and Sarat Dhal (2008), attempted to identify the key drivers for the demand for gold in India during the period 1980-2005 and concluded that demand for gold is significantly influenced by real income and that the other factors such as rate of exchange, rate of interest, personal tax and the relative price of gold also equally affects the demand.

Chua et al. (1990) and Jaffe (1989) analyzed benefits of investment diversification in gold. Jaffe (1989) also concluded that gold gives an advantage in investment diversification.

Gulati and Mody (1982) studied the gold's price from 1972 to 1982 which was a period featuring large fluctuation in gold price, and concluded that the main factors of impact are: Inflationary expectation, exchange rate fluctuations and changes in interest rates.

Human Behaviour and gold buying

Every individual is different in nature, has different motives, objectives. They differ demographically. Research indicates that investor's behavior will be affected by personality traits, interpretation of information, return and risk, tax aversion, responses to news, sentiments etc (Maital et al 1986)

Each individual defers from other as each one has a different personality, traits and features. As a result individuals think in different manner and that they have different opinions and biases of their own, which impact the decision making process, the way information is collected, interpreted, evaluated and used.

Mittal 2008 observed in his research on personality types and investment choices that Indian investors are mainly of four types -Casual, Technical, Informal and Cautious.

Similar to Mittal, V. Sujata and Dr. S. Kumaresan (2013) in their study of influence of lifestyle perception on gold purchase decision observed that gender has a significant influence on gold buying behavior. Lifestyle were classified into three types of perception namely – Attitude, Opinion and Activities and concluded that there is a positive correlation between attitude, opinion and gold buying behavior of consumers. They also observed that attitude being an unpredictable factor, constant reading of attitude is required to predict buyer's decision making.

Kasillingam R and Jayabal G (2009), in their study on perception of investors towards small saving schemes observed that perception plays vital role on the saving behavior of people and that a positive perception (mind set) with respect to a particular scheme will make the investor continue to invest in the scheme.

Mukhi (1989), in his study revealed that tax saving, mortgagable instrument and good returns (12%) benefits of NSC were the strong reasons for majority of the investors to purchase NSC.

Kulkanya Napompech (2010) in his study on factors influencing gold consumption for savings and investment purposes, by people in the Bangkok Metropolitan Area observed that, gender, age, education and Income level all are associated with or influence the gold consumption. Also factors such as interest rate of Bank deposits, political stability,

fluctuation in the oil prices, inflation rate, risk of investment, government financial policies play vital role in gold consumption decision.

Dr. V. Ramanujam and K. Chitradevi (2012), in their study of Impact of Socio-Economic profile on Investment pattern of salaried and business people observed that occupation, annual income, annual savings and frequency of making investment were not correlated. It was also observed that there is no significant difference in the investment pattern of the Government / Public / Private Class of salaried investors as well as business, retail and service class investors. However income level influences investment decisions.

Dr. B.S.Hundal, Dr. Saurabh Grover and Jasleen Kaur Bhatia (2013), in their study on Herd behavior and gold investment by retail investors observed that investors are of varied personality types and have behavioural biases which impact the investment decision process. Factors such as income tax, time value of money, future prospects and profitability influence the retail investor's decision making process and gold is the most sought after asset due to its high liquidity, conventional value and cultural value features.

Dr. D. Harikanth and B. Pragathi (Nov 2012), in their paper on behavioural finance concluded that Income level and occupation plays very important role in the selection of investment avenues. They also observed that factors like security, periodic returns, tax benefit, secured future play a vital role in the decision making process and that male investors are ready to take more risk as compared to female investors.

3. Need for the study

India and gold has a long history which evolved since the time when gold used to be looked at as a status symbol and emotional investment. Selling of gold was a big no or was unthinkable (Economic times, 2011). However over period of time the Indian consumers are realizing that Gold has much more valuable attributes such as portfolio diversification, hedge, safe haven, than being in the bank locker.

As per the world gold council report of 2011, India is posed for a very strong period of economic growth which has a significant positive implications for all types of gold buying. Also almost 50% of the Indian population being below the age of 25 and approximately 150 million weddings anticipated over the next decade, it becomes essential to understand the purchase behavior of this population (Anli, 2011)

Not much of study has been carried out to understand the perception of retail investors towards purchase of gold as well as on factors effecting gold purchase (Dr. B.S.Hundal, Dr. Saurabh Grover, Jasleen Kaur Bhatia Nov-Dec 2013). A study of the perception will help in the formation of strategies for the investment advisers, portfolio advisers, foreign investors, marketers etc.

4. Objectives of the study

- a) Identifying the favorable and unfavorable perception of the consumers towards their belief in Gold buying behavior
- b) Identifying the favorable and unfavorable perception of the consumers towards their Motives behind the Physical gold buying behavior
- c) Identifying the favorable and unfavorable perception of the retail consumers towards the Risk behind gold buying (both physical gold as well as Paper form -Mutual fund / ETF) behavior.
- d) Identifying the favorable and unfavorable perception of the retail consumers towards gold buying behavior due to various attributes of gold (such as safe haven, diversification tool, an instrument with high rate of returns.)

5. Research Methodology

Descriptive and inferential research was conducted with the help of structured questionnaire. Working employees from different industry was considered as the sample. Questions were framed using Likert scale (five points). The data was collected from Mumbai. The data was collected from the 125 employees.

6. Empirical Results and Findings

Objectives: 1

Identifying the favorable and unfavorable perception of the consumers towards their belief in Gold buying behavior

Hypothesis:

H0: $\mu = 3$ (The average perception of the consumers is not different from 3, i.e. Neutral)

H1: $\mu \neq 3$ (The average perception of the consumers is different from 3, i.e. Neutral)

Table 1. One Sample Test

	Test Value = 3				95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Beliefs in Gold buying Behavior	-8.882	122	.000	-.47746	-.5839	-.3710

At 95% level of significance p significant value is less than 0.025 so we reject the H0 and we accept H1. So the average perception of the consumers is different from 3, i.e. Neutral. So further to test whether the perception is favorable or unfavorable one sample statistics was applied.

Table 2. One Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Beliefs in Gold buying Behavior	123	2.5225	.59620	.05376

From the above table we observe that there is favorable perception of consumer's towards:

Celebrity endorsement positively effects the gold buying.

Buying gold in physical form is better than Paper form.

That Financial market analysis affects the gold buying decisions.

That increase in the Import duty on Gold by Government of India will reduce the demand for gold.

That Gold is costly but essential commodity in today's world.

That Gold has an ornamental value because of which there is demand for Gold.

Buying gold in physical form is much better than the paper form (Mutual fund / ETF) because

1. Purity of the gold is more assured when purchased in physical form than in paper form.
2. Since One can see the gold.
3. It does not create any regular income thus there is no income tax.
4. Physical gold can be sold in parts in case of necessity so good investment avenue.

Objectives: 2 -

Identifying the favorable and unfavorable perception of the consumers towards their Motives behind the Physical gold buying behavior

Hypothesis:

H0: $\mu = 3$ (The average perception of the consumers is not different from 3, i.e. Neutral)

H1: $\mu \neq 3$ (The average perception of the consumers is different from 3, i.e. Neutral)

Table 3. One Sample Test

	Test Value = 3				95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
Motives in Gold buying Behavior	-4.869	122	.000	-.242	-.34	-.14

At 95% level of significance p significant value is less than 0.025 so we reject the H0 and we accept H1. So the average perception of the consumers is different from 3, i.e. Neutral. So further to test whether the perception is favorable or unfavorable one sample statistics was applied.

Table 4. One Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Motives in Gold buying Behavior	123	2.76	.551	.050

From the above table we observe that there is favorable perception of consumer's towards the various motives behind buying gold. That low rate of interest on fixed deposits, Inflation, children's marriage, gifts on occasions, retirement etc plays vital role in the gold buying decisions or behavior of the retail consumers. It was also observed that ease in liquidity, no personal documentation, and ease in availability due to number of shops, status symbol, cash payment facility and love for gold equally play an important role in pushing the gold buying or impacting the gold buying behavior.

Objectives: 3

Identifying the favorable and unfavorable perception of the retail consumers towards the Risk behind gold buying (both physical gold as well as Paper form -Mutual fund / ETF) behavior.

Hypothesis:

H0: $\mu = 3$ (The average perception of the consumers is not different from 3, i.e. Neutral)

H1: $\mu \neq 3$ (The average perception of the consumers is different from 3, i.e. Neutral)

Table 5. One Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Risk in the form of Gold buying	-3.022	122	.003	-.17236	-.2853	-.0595

At 95% level of significance p significant value is more than 0.025 so we accept the H0. So the average perception of the consumers is 3 i.e. Neutral. So for the selected sample the perception of the working employees was found to be neither favorable nor unfavorable with respect to risk in gold buying.

Objectives: 4

Identifying the favorable and unfavorable perception of the retail consumers towards gold buying behavior due to various attributes of gold (such as safe haven, diversification tool, an instrument with high rate of returns.)

Hypothesis:

H0: $\mu = 3$ (The average perception of the consumers is not different from 3, i.e. Neutral)

H1: $\mu \neq 3$ (The average perception of the consumers is different from 3, i.e. Neutral)

Table 6. One Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
Belief that Gold is a Safe Haven, Diversification tool, tool with high returns	-9.018	122	.000	-.59698	-.7280	-.4659

At 95% level of significance p significant value is less than 0.025 so we reject the H0 and we accept H1. So the average perception of the consumers is different from 3, i.e. Neutral. So further to test whether the perception is favorable or unfavorable one sample statistics was applied.

Table 7. One Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
Belief that Gold is a Safe Haven, Diversification tool, tool with high returns	123	2.4030	.73416	.06620

From the above table we observe that there is favorable perception of consumer's towards the various attributes of gold.

It was also observed that retail consumers do believe that gold is indeed a safe haven as an investment avenue. That gold is indeed a good diversification tool and expect it to give high returns (15-20%). In other words the consumer's perception is favorable with respect to these attributes of gold and thus these attributes contribute in pushing the gold buying or impacting the gold buying behavior.

7. Conclusions

The perception of the retail investors towards gold buying was carried out with the help of questionnaire in this study. The results of the study hinted that indeed the ease at the time of purchase (Cash payment, no documentation, many shops etc) and high liquidity (ease at the time of sale, ease in loan against gold etc) has resulted into Gold being highly preferred investment avenue as against the others. An instrument against inflation, high returns and tax benefits has also been instrumental in gold being sought after asset.

8. Scope and Limitations

- The sample size is 125 which is small.
- The study was restricted to city of Mumbai only.
- In the light of the above two limitation, further research can be carried out by exploring the different metropolitan cities of India.

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