

## **An Empirical Analysis of Investors' Perception towards Gold**

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### **Abstract**

Gold is immortal, exceptional and mystical metal that is sought as a traditional wealth preserver in every society. The purpose of the paper is to study the perception of investors towards gold by identifying and analysing various motivating factors that induce the investors to invest in gold. Survey method was used to conduct the study in the major cities of Punjab. Data were collected through a well-structured questionnaire from a sample of 400 respondents. Traditional and conventional values is identified as the most important factor followed by portfolio diversifier, financial security, wealth preserver, safe haven and liquidity and marketability that influence the investment decision of gold buyers. The study has a regional bias since the respondents belong to a single state of northern India i.e., Punjab. Family influences and impact of tradition is inevitable from the results. Taking findings of the study into consideration, strategies could be drawn by the regulatory authorities to formulate a comprehensive gold policy that may help gold to contribute more to the exchequer instead of adversely affecting the current account.

**Keywords:** Gold investment, investor's perception, gold market, liquidity, etc.

### **1. Introduction**

Gold is considered as most preferred investment avenue in the world. It seems to have own rationales and persona. As a result of its physical uniqueness, gold symbolizes wealth, excellence, and power and has assumed a central role not only in the international monetary system but also in the civilization's histories. A decade ago gold returns seemed to be declining leading to a blurring of what appeared to be a consistently enduring legend: that gold has a developing worth. Its prices took a declining slant, while in the previous year its prices nearly

multiplied. Gold has an integrant impact of the international monetary system as it constitutes the main part of reserves of leading countries' national banks. Gold has a long record of not only as a commodity or as a store of value, but also as a monetary media. Gold is easy to follow trace and enjoys better liquidity than many alternatives. It has the advantage as a store of and also a history as an investment avenue for investors who wish to hold their contributions to minimize their tax. In the current scenario, with the recession glooming the world, gold has made a worldwide comeback as a safe haven asset, strengthening the confidence of investors. The volatile markets, the geo-political stress, depreciating currencies, inflationary fears, fluctuating oil prices and unpredictable securities markets have sent investors inclining to conventional yellow metal (gold). Gold is considered as a precious metal, solidly interwoven in the traditions and customs of India. However, this inclination of Indians towards gold has been viewed as complication than opportunity, as it leads to burgeoning current account deficit which is the result of rising gold imports on account of growing rural and urban demand for gold. The gold imports in 2017 stood at 855 tonnes of which 562.7 tonnes were on account of demand for jewellery, indicates the renewed growth in demand for gold.

## **2. Literature review**

There is plethora of research focusing on gold as a safe haven, money, investment avenue and a store of value (Roy Jastram,1977). Van Tassel (1979) stated that gold enjoys better liquidity than many other financial assets. It is a safe means of beating inflation acting as store of value and helps in minimizing tax. The rehypothecation of commodities like gold or copper as collateral security against loans in form of the carry trade is another factor of rising demand for gold. In China, the use of gold to borrow dollars set up gold as a hedge against dollar risk (Kaminska, 2011). Gold is an asset traded widely around the globe and is one of the oldest ways to store wealth. According to O'Connor et al. (2015) socio-cultural factors are the main sources of demand for jewellery in Asia, particularly

India and China the biggest markets for jewellery. However, the soaring prices of gold and increased uncertainty of the alternative investments following the financial crisis of 2008 leads to increased demand of gold in the western countries also. One of the earlier studies in this field was conducted by Jastram(1977) and he found that gold is an effective inflation-deflation hedge. Van Tassel (1979) stated that gold is a long-term inflation hedge and being an exhaustible resource it would be in demand as a commodity. Furthermore, gold is considered as a safe haven. Van Tassel (1979) found that the higher returns and a negative correlation with the securities market gave gold a powerful role in the investment portfolio, which is another reason of increasing demand for gold worldwide. Carter,et al. (1982) presents the evidence of uncorrelated gold prices and stock market. These studies are focused on the various characteristics of gold and relationship of gold prices with various macro-economic determinants. In the present study, an attempt has been made to identify the factors that motivate the investors to invest in gold.

### **3. Objectives of the study**

The objectives of the study are follows:

1. To understand the buying behaviour of individual investors towards gold as an investment.
2. To extract the underlying factors of importance and their relative importance for investors.

### **4. Research methodology**

The study is based on primary data generated by means of a well-structured, non-disguised and pretested questionnaire. The preliminary draft of questionnaire was pre-tested with 50 investors through personal interviews, which helped in improving the questionnaire. Judgment cum convenience sampling was used to collect data from the investors in the major cities of Punjab viz., Amritsar,

Jalandhar, Ludhiana and Chandigarh. The field survey was carried during the months of May, 2019 to August 2019. In total, 400 questionnaires were distributed, out of which 375 usable questionnaires were considered for the purpose of analysis, thereby generating a response rate of 93.75 percent. Since the present study pertains to motivating factors behind investing in gold, the analysis confines to a sample of investors only. Exploratory factor analysis used to analyse the data. The data were analysed using the SPSS version 25.

## 5. Results and discussions

Factor analysis technique for data reduction was used to summarize the data in such a way that a minimum number of significant factors can be explored. Before applying factor analysis, data has been subject to testing of reliability and validity of the scale. After checking the reliability and validity of the scale, we tested whether the data so collected is appropriate for factor analysis for which KMO test has been applied. Kaiser-Meyer-Olkin measure of sampling adequacy is the method to show the appropriateness of data for factor analysis.

**Table 1**

***KMO and Bartlett's Test***

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	0.899
Bartlett's Test of Sphericity:	
Approx. Chi-Square	8328.727
DF	378
Sig.	0.000

The KMO statistic varies between 0 and 1. Kaiser-Meyer-Olkin Measure of Sampling Adequacy was found to be 0.899 there by indicating that the sample taken to process the factor analysis is statistically significant. Barlett's test of sphericity used to test that variables are unrelated with each other. The approximate statistic is 8328.727 with 378 degrees of freedom which is highly

significant ( $p < 0.001$ ). After examining the reliability of scale and testing the appropriateness of data as above, the exploratory factor analysis was carried out to identify the motivating factors behind purchase of gold as an investment. For this, principal component method followed by Varimax rotation is employed.

**Table 2**

***Motivating Factors that Induce the Investors to Invest in Gold***

Factor	Statements	Loadings	Eigen Value	Percentage of Variance
Traditional & conventional values	S26 Parents & spouse influence my gold investment decisions.	0.878	4.563	16.296
		0.857		
	S25 My relatives & friends invest in gold which motivates me to make gold investments.	0.843		
	S28 Gold purchasing is done majorly on occasions like weddings, festivals, birthdays etc.	0.839		
	S27 It satisfies demonstrative needs (adornment/ status symbol)	0.807		
Portfolio diversifier	S24 Our culture and traditional values motivate me to invest in gold.	0.762	4.311	15.397
	S4 It passes through generations as heritage.			
	S18 It provides ideal means of diversification.	0.922		
	S15 Gold investment helps distribute portfolio risk.	0.897		
	S16 The gold price is <b>not</b> affected by fluctuations in stock market.	0.895		
Financial security	S19 It gives higher returns than other investments (like shares, bonds, mutual funds, etc.).	0.831	3.469	12.389
	S22 Other market investments are more volatile & avenues are risky.			
	S14 It is evergreen investment as even banks maintain gold reserves.	0.797		
	S13 Gold can be used as collateral security against loans (like gold loans).	0.787		
	S23 It provides a sense of security (against future emergencies).	0.778		
		0.750		

	<b>S20</b> Gold is a safe mode of investment.	<b>0.710</b>		
	<b>S21</b> There is lack of awareness of other investments.			
	<b>S8</b> It non-destructible form of preserving wealth.	<b>0.812</b>	<b>3.354</b>	<b>11.980</b>
	<b>S2</b> Gold preserves the real value of investment.	<b>0.783</b>		
Wealth preserver	<b>S3</b> It is a long term strategic asset (convenient for holding as long term investment).	<b>0.776</b>		
	<b>S3</b> It is a long term strategic asset (convenient for holding as long term investment).	<b>0.734</b>		
	<b>S6</b> Default risk is low in gold investment.	<b>0.731</b>		
	<b>S29</b> The drop in the price of gold is only temporary.			
	<b>S12</b> It protects portfolio and wealth against economic crisis.	<b>0.874</b>	<b>3.006</b>	<b>10.735</b>
Safe haven during uncertainty and hedging properties	<b>S11</b> It provides protection against severe financial crisis.	<b>0.868</b>		
	<b>S10</b> It acts as hedge against inflation and currency devaluation.	<b>0.781</b>		
	<b>S17</b> Gold price acts as hedge against falling dollar rate.	<b>0.747</b>		
	<b>S5</b> It enjoys better marketability than other assets.	<b>0.902</b>	<b>2.597</b>	<b>9.275</b>
Liquidity &marketability	<b>S1</b> It is highly liquid (easy to buy and sell gold.).	<b>0.901</b>		
	<b>S9</b> It is accepted internationally.	<b>0.894</b>		

The principal component method, using varimax rotation reduced the 30 statements to six major factors identifying the motivators behind investing in gold. The factor loading greater than 0.40 is considered more important and 0.50 or greater are considered very significant. So, the variables with factor loadings of more than 0.5 were selected leading to deletion of two variables resulting in 28 statements. Two statements namely, S7 and S30 were deleted because of low factor loading. All the six factors taken together are found to explain 76.07 percent of total variance. The Cronbach's alpha values for all factors ranged from 0.80 to 0.93, exceeding the minimum alpha of 0.6. The data were found reliable. The composite alpha for the entire scale was also estimated to be as high as 0.925. All

the factors have been named on the basis of the variables that have loaded on to each factor.

**Traditional & conventional values:** The first factor labelled as traditional and conventional values which is explaining as high as 16.3 percent of total variance by far has emerged the most important factor. This factor was found to be associated with six variables, namely the parents and spouse influence; friends and relatives influence; influence of cultural and traditional values and the demonstrative needs. These six items explain the people buy more gold because of the social and traditional values attached to it.

**Portfolio diversifier:** The second factor comes out to be portfolio diversifier with the variable namely ideal means of diversification has the highest factor loading as 0.922. Gold is presumed to have no or low correlation with other assets which are more risky and volatile. Thus, gold helps in portfolio diversification.

**Financial security:** Financial security comes out to be the third motivating force behind gold investment. It is a safe investment with no credit risk attached as it is retained by central banks as reserves.

**Wealth preserver:** This factor emphasized gold's role as a riches preserver explaining 11.98 percent of the total variance. In contrast to other financial assets, the real value of gold remains intact and thus, with time, gold protects its real worth against adverse impact of rising prices. Gold is a one of a kind, homogeneous asset that has gained a specific amount of trust in its role as protector of wealth over the centuries.

**Safe haven during uncertainty & hedging properties:** Gold is a better safe haven asset which in the times of crisis protects wealth from extreme market movements. Also, gold is indestructible and fungible, which set gold apart from other commodities.

Liquidity & marketability: The last factor contributing to 9.275 percent of the total variance is liquidity and marketability. Gold is almost as liquid as currency and in contrast to other financial assets, it is easy to dispose of. It is an asset which is of universal acceptance and provides a liquid form of saving as compared with various other physical and financial assets.

## 6. Conclusion

The unique properties of gold and the beauty of its intense colour are undoubtedly inescapable. Despite centuries' worth of fascination with gold, current investment in gold depends on investor habitat. The present study highlighted the motivating factors that influence the investment decision of the investors towards gold. The results of the factor analysis reveal that the traditional and conventional values attached to gold are the most important motivator that induces investors to invest in gold. Further, it is considered as a portfolio diversifier and it provides financial security to meet future emergencies, which makes sense to have commodity like gold in one's portfolio. It proves its role as a wealth preserver and is perceived by investors as a safe haven during uncertain market, economic and political distress. Its international acceptance makes it highly liquid and marketable. A unique blend of these characteristics of gold makes it as an alternative investment avenue among other sophisticated financial products in investor's portfolio.

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