

## Chapter-VI

# Investment Preference in Physical and Non-Physical Form of Gold

### Introduction

Investment preference depended on the objective of the investors and their willingness to invest. Investment preference differs from individual to individual. According to Kumar, A.A.(2012), gold was considered as an investment with high value making it a reliable form of wealth. Fisher and Jordan (1994) stated that the investment in gold was considered to be most preferred means of investment due to its high returns and low risks as compared to other types of assets. Gold has the ability to retain its value like cash. According to Nawaz, N.M., and VR, Sudindra (2013), in the current market scenario of high volatility, rapidly changing market place, various avenues for investment in gold were creating the confusion among Investors. They further stated that 16,000 tons of gold was there in Indian households predominantly in the form of jewellery. There were various alternatives available for investment in gold through options like jewellery, coins, bullions, exchange traded fund, mutual funds, E-gold etc. In normal circumstances, investors are more inclined towards physical form of gold rather than non-physical form. The basic reason may be its physical presence. Due to its touchability, visibility and liquidity, the investors keep more confidence in physical form of gold as compared to non-physical form.

Detailed analysis of the data collected on Marwari Businessmen of Guwahati city has been done to compare between the preference level of investors towards gold investment, i.e., in -Physical form and - Non-physical form and also to draw a suitable conclusion.

**Physical form of Gold:** Physical form of Gold refers Bar, Coins, Jewelleries. This form of gold has got its physical presence. The investor can easily avail this form of gold into their possession. Physical form of gold is available in many shapes and sizes.

**Non-physical form of gold:** Non-Physical form of gold refers to Certificate form of Gold, i.e., ETF (Exchange traded fund), Gold account, Shares of gold mining companies etc. This form of investment does not require the physical possession of the same. It is very much liquid.

## Methodology and Analysis

The investment preferences in the different forms of gold have been presented in table no 6.1.

<b>Types of Gold Investment</b>	<b>Investment</b>	<b>Investment in (%)</b>
<b>Physical Gold</b>	236	70
<b>Certificate form of Gold</b>	34	10
<b>Mixed</b>	47	14
<b>Shares of Gold mining companies</b>	08	2
<b>Gold Account</b>	13	4

*Source: Compiled from Questionnaire*

Note: Total of the investment column was not 100, because there were multiple responses.

	<b>Physical Gold</b>	<b>Certificate Form of Gold</b>	<b>Mixed</b>	<b>Gold mining share</b>	<b>Gold Accounts</b>
<b>Chi-Square</b>	11.446 <sup>a</sup>	279.446 <sup>a</sup>	237.871 <sup>a</sup>	372.634 <sup>a</sup>	353.673 <sup>a</sup>
<b>Df</b>	1	1	1	1	1
<b>Asymp. Sig.</b>	.001	.000	.000	.000	.000
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 202.0.					

*Source: Compiled from Questionnaire*

Since the significance value for investment preference in physical gold, certificate form of gold, mixed investment in gold, investment in gold mining shares and investment in gold through gold account was less than 0.05 (5% level of significance), it was inferred that the difference in the investment preference as

revealed by the sample in table- 6.1 was actually present in the population and the differences were statistically significant.

It was evident that investment in physical gold was the most preferred form of gold investment by the businessmen in Guwahati City.70% of the Marwari businessmen preferred physical form of Gold as compared to any other form of Gold Investment.14% of the Businessmen preferred mixed form of gold. It also appeared that investment in certificate form of gold like gold exchange traded fund was also gaining familiarity among the Marwari businessmen.10% of the Marwari businessmen preferred certificate form of gold. However investment in the shares of gold mining companies was not very popular till date.

### **Critical Analysis of Findings**

While investing in gold there were various factors that affected the preference level of investors. Those factors might be financial factors, psychological factors, cultural factors, societal factors, personal factors. These factors played an important role before the investors at the time of investment. Jain and Mandot (2012) stated that in the current economic scenario, money was considered as the root cause of all happiness. People started investing for a secure life and a bright future. Investment was the sacrifice of current money or other resources for future benefits. The choice of investment avenues differs from investors to investor based on the level of financial literacy and expectations. Lewellen et.al. (1977) found that age, gender, income and education affected investors' preferences and attitudes towards investment decision based on their investment objectives. It was seen that there was considerable preference for gold among Marwari businessmen due to their socio-economic background. Investment in physical form of gold gave more security than any other form to the businessmen. Certificate form of Gold ,i.e, ETF (Exchange traded fund), Gold account, Shares of gold mining companies or any other was not at all popular among the Marwari Businessmen. Baur,.et.al. (2010) has given a contradictory view with respect to investment in physical gold. He found that gold ETF being

more liquid was more preferred by the investors over physical gold and he further credited the increase in the recent demand for gold to the introduction of ETF. They also claimed that the volatility of gold had been increased because of the ease of the trading facilitated by gold ETFs.

Pullen, T., et al. (2011) observed by examining employing daily data over the mentioned period that the diversifying, hedging and safe heaven properties of gold bullion, gold stocks, gold mutual funds and gold exchange traded funds(ETFs), first, with regard to gold bullion documented a clear and strong hedging over a mere diversifying capability. Second, results highlighted that gold stocks, gold mutual funds and gold ETFs tend to be diversified. Third, both gold bullion and gold ETFs showed support for the safe heaven property .However, gold stocks and gold mutual funds displayed very little evidence of the safe heaven characteristics, consequently, investors who were keen on securing safe heaven feature of gold investment could not generally rely on gold stocks or mutual funds. Instead, they needed to take positions directly in bullion or gold ETFs.

This finding was in conformity with the findings of Tourani-Rad and Kirkby (2005) that investors preferred to invest in local and known companies. It meant that investors preferred to invest in those avenues, the physical existence of which was known. Thus, investment in physical form of gold was such which could be verified and its physical existence was known to the investors and that's why investors preferred to invest in physical form of gold. The reason for greater demand for gold in India was investigated by Starr and Tran (2008). They stated that there was a much higher 'physical demand' for gold – that was, acquisitions of gold in physical forms such as jewellery, bars, coins and medallions- in Eastern countries, such as, India, Pakistan, Turkey, than in Western countries. Starr and Tran (2008) further asserted that culture seems involved since the countries that demanded more gold than would be expected from their characteristics were those known for having traditions in which gold played a part, as in India, Turkey, China where gifts of gold jewellery were customarily

given to newly married couples, new-born babies. Thus, in Eastern countries, the role of gold as precautionary savings was at least as important as, if not more important than, its personal adornment aspect. Dipak Mondal (2010) suggested that investors should take exposure in gold by buying either physical gold, gold exchange traded funds or even units of mutual fund which invested in the stocks of gold mining companies.

## **Conclusion**

To conclude from the evident that 70% of the Marwari businessmen of Guwahati City preferred physical form of gold. Thus, there was clear cut preference for the physical form of gold investment over non-physical form of gold. It meant that there was significant difference in the investment preference between physical and non-physical form of gold among the Marwari businessmen in Guwahati city.

This was supported by the previous researchers like Lewellen et.al. (1977), Tourani-Rad and Kirkby (2005), Starr and Tran (2008). But, at the same time, Baur (2013) had advocated for gold ETF. Mondal, D.(2010) and Pullen,T., et al. (2011) found that investors invest in both the mode of investment, i.e., physical and non-physical form of gold. As this part of study followed the broad literature therefore, the conclusion derived may further a hypothesis. However, gold stocks and gold mutual funds displayed very little evidence of the safe heaven characteristics, consequently, investors who were keen on securing safe heaven feature of gold investment could not generally rely on gold stocks or mutual funds. Instead, they needed to take positions directly in bullion or gold ETFs.