# Investor Perception Towards Gold As An Investment Option In Different Market Conditions

**Akshay Menon[1]**
[1]MBA – Finance,Symbiosis Centre for Management and Human Resource Development,SCMHRD,Symbiosis International (Deemed University), SIU, Pune, India
Email:[1]akshay_menon@scmhrd.edu

## ABSTRACT

The Study aims at ascertaining how investors perceive gold as a competing asset class and identifying the variables that exercise the greatest influence on the choice of investment option by individuals in different market conditions. Primary research has been conducted using a well-structured questionnaire to be floated to a cross-section of individuals for analysing their perspective while choosing to invest in gold; Secondary research will involve the collection of data from websites and news reports to evaluate investment in gold vis-a-vis other investment alternatives - like stocks. The Study should be able to throw greater light on the key factors that have made an investment in gold an attractive proposition for Indians, irrespective of price movement/inflation. The Study will also be helpful for financial institutions to create relevant financial products and help financial advisers in providing appropriate recommendations in tune with investor requirements. Through primary research, the Study will also focus on investor behaviour - rather than only on the risk-return matrix.

**Keywords**
Gold, Investor Perception, Asset Class, Risk-Return

*Article Received: 10 August 2020, Revised: 25 October 2020, Accepted: 18 November 2020*

## Introduction

Investing hard-earned money has always been an important activity in every person's life. In financial terms, investment is employing surplus money to purchase a financial product or similar items with an objective to generate favourable future returns from it. Savings of an individual can be invested into different investment avenues depending on how much risk the investor is willing to take and what return is he expecting. Various investment avenues like stocks, gold, bonds, mutual funds, bank deposits, real estate etc. are available, that offer varying risk-reward trade-offs. Generally, a higher return is associated with higher risk and vice versa. An understanding of the basic concepts and a detailed study of these assets can help an investor to create a portfolio that will maximize returns and minimize the risk exposure.

Gold is a metal which is precious, virtually indestructible and once it is extracted in its pure form, will be always available. As in other markets, the gold market also has speculation and volatility. Since the 1970s, the gold production has tripled in volume each year, the quantity of gold bought has quadrupled annually as well as across the globe, and the gold markets have already flourished. In India, where the only perceived notion about gold was to reflect the status has now been changed. The emotional bonding with this precious metal was so connecting that there was no way to have the idea of parting with it. However, now the numbers are rising for those Indians who have started to realize that gold deserves a place in their investment portfolio rather than being in a cupboard or the bank locker. Moreover, gold plays a major role as the best possible hedge against the fluctuations of both political and economic scenarios.

With the growth of the capital market in India, the investor population has been increased substantially in the past few years. Each investor possesses a different investment objective which depends on factors like age, income and also on psychological need of that person. The investing behaviour and investing rationale will also depend on the market conditions present. The choice of financial products for investment varies depending on present market condition as well as future expectations. Thus, there lies a need to understand what investors perceive when they look onto their strategies, investments, and expectations etc. Most of the risk assets on their way up have reflected diversification but, on their way down they came out as highly correlated. Moving further, those hedges that provide diversification when the times are bad may also lead to performance erosion when times are good. But when it comes to gold, it is amongst those few hedges that not only act as an effective hedge when markets have high risk but are also consistent in providing good returns when markets are positive sentiment and this trend has been observed over the last 50 years.

There have been occurrences of many events throughout history which were deemed as highly improbable and which caught people by surprise and have the potential to have a large impact on our lives by wreaking havoc and causing disruption of activities. Such events are termed as black swan events, some examples being Great Recession and the 2008 Global Financial crisis. Attempts are made to catch such events before happening by reading signs leading to it, but progress has not been made in that front. In recent times, novel coronavirus (COVID-19) is one such event, which can be termed as a black swan event. Its impact is such that it has caused markets all over the world to crash, corroding investor wealth along with it.

Study of the existing literature reveals that there is not enough research done on the investors' perceptions in terms of their preference to invest in various asset classes during normal market conditions and black swan events - like COVID-19. Therefore, a need was felt to fill this gap.

The Study also examines the investor's preferred instrument amongst gold instruments and to identify challenges faced by them in terms of investment in gold. This will help financial institutions to create instruments depending on the market conditions. The Study will also analyse the returns generated by gold and stocks during black swan events so that it can provide insights to the financial consultants to provide relevant investment advice to their clients to maximise their portfolio returns.

The primary objectives of this Study are:

- To identify investor preference for different assets during normal market conditions and during/after black swan events.
- To identify the preference of investor amongst various gold instruments.
- To study the factors influencing the choice of investment in gold.
- To uncover the problems which the investors encounter while investing in gold assets.
- To analyse the returns from gold and other asset classes during/after black swan events.

## Literature Review

Investment behaviour is a kind of behaviour that defines how an investor determines, predicts, analyse and assess the entire procedures which led to the decision making, investment psychology, research & analysis and defining & understanding,

The demographic variables, like education, age, marital status and income affect the decisions taken on investment by an individual. The choice of investment is greatly affected by the investor's demographics. Thus, the study shows evidence that the choice of investment relies on and is affected greatly by various demographic variables like age, gender, occupation and education.[1]

The volatility of price of gold and returns of stock market in India have resulted in several attempts made to analyse the causal relation that may exist between the prices of domestic gold and the stock return in India. [2]

The mentality of Indians has changed in the context of gold which was only being perceived as a status symbol but now it is being perceived more than that. Despite the increasing price, the demand for this precious metal never faded. A comparative study has been done not only between people's real income and their savings but also with the price of gold to conclude about an element or a point that matters when it comes to the actual demand or need for gold. The demand or need for gold is an outcome of people's savings and also their real income along with the social, economic and cultural trends that will be long-lasting in the context of need or demand.[3]

There has been research done to identify the advantages of diversification of investment.[4] The importance of diversification especially in terms of gold is also studied.[5]

The favourable and unfavourable perception of Indian retail investors towards their gold buying behaviour have also been identified. The results showed that ease of purchase and high liquidity are the two main favourable factors.[6]

The analysis carried by the individuals of the Metropolitan Area of Bangkok examined that age, gender, income levels and education are also amongst those pointers that impact the consumption of gold. There are certain other points as well like financial norms and policies of the government, rise and fall in the prices of oil, political stability, bank deposits' interest rate, investment risk, rate of inflation etc. that have a key role in the making the decision regarding the consumption of gold. [7]

There are various types of personality of investors along with various behavioural and observable biases that influence how information is processed for making a decision related to an investment. Investors have a nature of acting normal but not rational when they make certain choices related to the investments they need to make. There are different personalities of an investment that are dominating, those are cautious, casual, informed and technical.[8] The factor gender is also considered amongst the significant ones that impact the behaviour of an individual purchasing gold and that has been examined and analysed.[9]

Gold is not only a precious metal but also it possesses safe haven characteristics and hedge in the field of financial market and advanced version of economics. These results were proved to be beneficial during the timeline as well, even after 2008. When there were times of loss in the equity markets, this precious metal acted as a savior in categories of both the investors, foreign and domestic in many countries. [10]

The low values of correlations between the metals that are precious and the returns of stock index. These precious metals cater to the broad variety of diversification along with wide portfolios of investment. The three valuable and precious metals include silver, platinum and gold. They possess the capability of hedging especially when the abnormal period hits the volatility of the stock market. The portfolios that have valuable metals are proved to be better performers than the standard portfolios of equity in a significant way.[11]

In investment, there are certain major pointers like appreciation, the stability of income, liquidity and principal amount. It is true that risks cannot be avoided by the investors but it is also true that risks can be minimized by putting the money in the investments that are found to be safe.[12]

Study of investment made in gold and herd behaviour shown by certain retail investors examined several different types of personality of investors and certain behavioural notions that influence the process of decisions of certain investments. There are several other factors such as profitability, future perspectives, money’s time value and income tax that greatly impact the decision made by investors. The study inferred that gold is the most apt possession or asset because of the value it holds culturally and conventionally and also for its high liquid nature.[13]

For selecting the avenues of investment, the level of income and the profession, namely occupation has a very vital role to play. There are certain other pointers that influence the decision such as benefits associated with tax, returns to be obtained periodically and security. Also, the count of males is more than the count of females who are more eager to take risks of being an investor.[14]

Review of the existing literature on the subject indicates that investor perception in terms of their preference to invest in various asset classes during normal market conditions and black swan events - like COVID-19, has not been specifically covered. COVID-19 being a recent event, not many studies have so far been conducted on its impact from the perspective of investor on investment in gold and related instruments / products. The need to bridge this gap was the basis of this Study.

## Research Methodology

The methodology used for research is analytical which is based on primary as well as secondary data. The primary data was collected from 105 respondents residing in India. A structured questionnaire was prepared and circulated by way of Google Form to get responses about the investor's choice of investment during normal market conditions and during or after black swan events. The preferences of investors within gold investment instruments and major influencing factors behind choosing gold as an investment option were identified from the responses received.

The survey population included a good mixture of females and males belonging to different age groups as well as income groups. Diversity in these factors was aimed to ensure that findings of the Study would not be biased towards the views of any specific investor group.

The collected dataset was tabulated and processed to examine and conclude for the pointers/factors that impact the perceptions and notions of retail investors. Using Google Form as the means, the Survey has been done in June 2020. Secondary research is carried out based on secondary sources of data collected from reliable sources such as the World Gold Council Reports and from the websites of Bloomberg, Economic Times and Live Mint. To conclude, for all the significant factors that impact the decision of a respondent, the ranking technique of Garrett has been utilized in this Study.

### Garrett's Ranking Technique

Garrett's ranking technique has been used to analyse the responses collected from the questionnaire. This method is useful when there is a need to identify significant factor(s) amongst the various factors which are ranked. Since the questionnaire contains rank-based questions, in order to identify significant factor(s), ranking technique propounded by Henry Garrett has been applied to identify the factor which has the highest significance amongst all.

In the survey questionnaire, respondents were asked to assign rank between 1 to 7 for factors which influence their decision for investing in gold and the preference of their investment instrument within gold. The count against each rank for each factor was first computed as percentage and thereafter converted into a mean score using Garrett's ranking technique.

The formula to calculate the percent position value for each rank is given below.

$$\text{Percent position value} = \frac{100 * (R_i - 0.5)}{R_j}$$

Where $R_i$ = Rank provided as per respondent for the $i^{th}$ variable

$R_j$ = Number of variables ranked as per each respondent

By checking the value of these percent position values against the corresponding entry in Garrett's Table, percent position value calculated is then converted precisely into a score. For every factor obtained, the score is multiplied with the respondent count against each rank. Then we sum up the total value for each factor for every rank. This value is divided by the total sample size to reach a mean score. The mean score is then sorted from highest to lowest and the factor having the highest mean score has the highest significance while factor having the lowest mean score has the least significance.

## Data Analysis And Findings

The questionnaire was floated to 105 investors from different gender and age groups.

**Table 1** Respondents Based On Gender

| Gender | Number of respondents | Percentage |
|---|---|---|
| Male | 68 | 64.7 |
| Female | 37 | 35.3 |

There was a need to understand whether there is any change in the perception of investors towards investment instruments, especially gold, during normal market conditions and black swan events like COVID-19. The questionnaire helped to capture this perception change. The results of preference of investment in normal market conditions and during or after black swan events are as follows:

**Table 2** Preference During Normal Market Conditions

| Investment Option | Number of respondents | Percentage |
|---|---|---|
| Stocks | 29 | 27.62 |
| Mutual fund | 50 | 47.62 |
| Gold (Physical/Gold Bond/Gold ETF/E-Gold) | 4 | 3.81 |
| Bank Deposits | 20 | 19.05 |
| Small Saving Schemes / Bonds | 2 | 1.90 |

**Table 3** Preference During Black Swan Events

| Investment Option | Number of respondents | Percentage |
|---|---|---|
| Stocks | 21 | 20.00 |
| Mutual fund | 16 | 15.24 |
| Gold (Physical/Gold Bond/Gold ETF/E-Gold) | 23 | 21.90 |
| Bank Deposits | 34 | 32.38 |
| Small Saving Schemes / Bonds | 11 | 10.48 |

The findings show that during normal market conditions, a majority of investors prefer to invest in high risk - high return instruments like stocks and mutual funds, while during black swan events - like COVID-19, majority of investors prefer to invest in low-risk instruments like bank deposits and gold.

Respondents were asked to rank their preference of instruments to invest in gold amongst Jewellery, Gold Coins / Bars, Government of India Gold Bonds, Gold Mutual Funds, Gold ETFs, E-Gold and Gold Deposit Schemes of Banks / NBFCs / Jewellers. Following is the distribution of the responses received.

| Investment Instrument | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 |
|---|---|---|---|---|---|---|---|
| Jewellery | 30 | 30 | 20 | 10 | 6 | 4 | 5 |
| Gold Coins / Bars | 16 | 36 | 15 | 16 | 11 | 4 | 7 |
| Government of India Gold Bonds | 14 | 7 | 29 | 22 | 12 | 7 | 14 |
| Gold Mutual Fund | 8 | 5 | 16 | 29 | 14 | 17 | 16 |
| Gold ETF (including MF-ETF) | 9 | 8 | 9 | 13 | 32 | 19 | 15 |
| E-Gold | 6 | 17 | 8 | 12 | 18 | 30 | 14 |
| Gold Deposit Schemes of Banks / NBFCs / Jewellers | 22 | 2 | 8 | 3 | 12 | 24 | 34 |

**Figure 1** Respondent count for each instrument

Since the responses needed to be ranked, we used Garrett's method or technique of ranking to convert rankings into a score and identify the most preferred investment instrument. As there are 7 ranks involved in this question, we calculated percent position value for each rank as per the formula below.

Percent position value = $\frac{100 * (Ri - 0.5)}{Rj}$

Where Ri = Rank provided as per the respondent for the $i^{th}$ variable

Rj = Number of variables as per each respondent

In this case, Ri would range from 1 to 7 while Rj=7. Subsequently, we convert percent position value to a score called Garrett Value by using the reference of Garrett's Table. The result of the exercise is as below:

**Table 4** Garrett value

| Rank | Percent Position Value | Garrett Value |
|---|---|---|
| 1 | 7.14 | 79 |
| 2 | 21.43 | 66 |
| 3 | 35.71 | 57 |
| 4 | 50.00 | 50 |
| 5 | 64.29 | 43 |
| 6 | 78.57 | 34 |
| 7 | 92.86 | 22 |

The Garrett Value obtained is then multiplied with the count of respondents for each rank and sum of the ranking of each instrument is taken. The sum obtained is divided with the number of respondents to arrive at the average score, as tabulated hereunder.

| Investment Instrument | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 | Total | Average |
|---|---|---|---|---|---|---|---|---|---|
| Jewellery | 2370 | 1980 | 1140 | 500 | 258 | 136 | 110 | 6494 | 61.85 |
| Gold Coins / Bars | 1264 | 2376 | 855 | 800 | 473 | 136 | 154 | 6058 | 57.70 |
| Government of India Gold Bonds | 1106 | 462 | 1653 | 1100 | 516 | 238 | 308 | 5383 | 51.27 |
| Gold Mutual Fund | 632 | 330 | 912 | 1450 | 602 | 578 | 352 | 4856 | 46.25 |
| Gold ETF (including MF-ETF) | 711 | 528 | 513 | 650 | 1376 | 646 | 330 | 4754 | 45.28 |
| E-Gold | 474 | 1122 | 456 | 600 | 774 | 1020 | 308 | 4754 | 45.28 |
| Gold Deposit Schemes of Banks / NBFCs / Jewellers | 1738 | 132 | 456 | 150 | 516 | 816 | 748 | 4556 | 43.39 |

**Figure 2** Final score for each gold instrument

Based on the mean score, we sort the instruments, and the instrument having the highest mean score is the most preferred instrument by investors and the one having the least score is the least preferred. Jewellery is the most preferred instrument to invest in gold, while the least preferred instrument is gold deposit schemes of banks / NBFCs / jewellers. Also, investors prefer investing in physical form of gold like jewellery, gold coins / bars, as compared to the more modern instruments. The least preferred instrument is gold deposit schemes of banks / NBFCs / jewellers.

The respondents were also asked to rank factors which influence their decision to invest in gold instruments. The factors were - purity, returns, inflation hedge, tax benefits, liquidity, price volatility and the recent price movements, and following is the distribution of the responses observed.

| Factor | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 |
|---|---|---|---|---|---|---|---|
| Purity | 44 | 35 | 3 | 5 | 3 | 6 | 9 |
| Returns | 19 | 35 | 11 | 10 | 11 | 10 | 9 |
| Inflation Hedge | 7 | 12 | 23 | 19 | 24 | 9 | 11 |
| Tax Benefits | 8 | 8 | 18 | 21 | 17 | 25 | 8 |
| Liquidity | 3 | 6 | 12 | 16 | 25 | 24 | 19 |
| Price Volatility | 8 | 5 | 13 | 20 | 16 | 29 | 14 |
| Recent Price Movements | 16 | 4 | 25 | 14 | 9 | 2 | 35 |

**Figure 3** Respondent count for each factor

The Garrett Value obtained in Table IV is then multiplied with the count of respondents for each rank and sum of the ranking of each factor is considered. The sum thus obtained is divided with the number of respondents to arrive at the average score.

| Factor | Rank 1 | Rank 2 | Rank 3 | Rank 4 | Rank 5 | Rank 6 | Rank 7 | Total | Average |
|---|---|---|---|---|---|---|---|---|---|
| Purity | 3476 | 2310 | 171 | 250 | 129 | 204 | 198 | 6738 | 64.17 |
| Returns | 1501 | 2310 | 627 | 500 | 473 | 340 | 198 | 5949 | 56.66 |
| Inflation Hedge | 553 | 792 | 1311 | 950 | 1032 | 306 | 242 | 5186 | 49.39 |
| Tax Benefits | 632 | 528 | 1026 | 1050 | 731 | 850 | 176 | 4993 | 47.55 |
| Liquidity | 237 | 396 | 684 | 800 | 1075 | 816 | 418 | 4426 | 42.15 |
| Price Volatility | 632 | 330 | 741 | 1000 | 688 | 986 | 308 | 4685 | 44.62 |
| Recent Price Movements | 1264 | 264 | 1425 | 700 | 387 | 68 | 770 | 4878 | 46.46 |

**Figure 4** Final score for each factor

Based on the mean score, we sort the factors and the factor having highest mean score has the most influence on the investment decision of the investors and the one having the least score has the least influence. Purity of gold, returns and its role as an inflation hedge are the top three factors which influence the decision making for investment in gold. The factor which has the least significance for the investment decision is the recent price movement of gold.
The questionnaire also attempted to identify the challenges which the investors face while investing in gold which may deter them from doing so. The respondents were allowed to select multiple options for this question.

**Table 5** Respondents On Challenges Faced

| Challenges | Number of respondents | Percentage |
|---|---|---|
| Lack of awareness about the products | 64 | 60.4 |
| Limited availability of reliable information | 74 | 69.8 |
| Inconvenient investment / redemption process | 51 | 48.1 |
| Security Concerns – Purity / Authenticity | 43 | 39.6 |

We find that the biggest challenge which investors face while deciding to invest in gold is the limited availability of reliable information about the price, investment instruments, risk, return, etc. This is followed by a lack of awareness amongst investors about the various options available for gold investment in the market. This supports the findings from Fig. 2. that investors prefer investing in physical form of gold rather than through the modern alternatives. Investors are also concerned about the inconvenient investment and redemption process of gold instruments and there are also serious safety concerns - majorly about purity and authenticity of the gold purchased.

## Discussions and Recommendations

Before COVID-19 was detected in India, the stock exchange in India had a market capitalization of around $2.16 trillion in January 2020. The rally in the stock market was, however, mainly in the large caps and that too limited to 8-10 stocks. For the year 2019, the returns generated by Sensex were around 14% (excluding dividends) but mainly attributed to large-cap companies such as TCS, HDFC, Reliance, HDFC Bank, ICICI Bank, Infosys, Kotak Mahindra Bank and Hindustan Unilever. At the beginning of 2020, overall recovery was spotted and this resulted in the benchmark indices of both NSE and BSE scaling all-time high levels. NSE 50 hit a peak of 12362 and BSE Sensex too recorded an all-time high of 42273 in mid-January 2020. Around 30 companies were waiting to go public through IPO route, as a result of the market conditions being perceived as favourable by both the issuers and the investors.[15] The primary research conducted also reflected this sentiment as the results show that 27.4% of investors would have preferred to invest in the stock market and 47.2% would have preferred to invest in mutual funds.
As COVID-19 cases started rising in India, markets faced fear, as uncertainty prevailed. The sentiments unleashed by this pandemic upon investors were reflected in foreign and domestic markets alike. All over the world, the mood in the share market was one of gloom and doom. As a result, the markets all over the world witnessed a crash of the magnitude last witnessed during the 2008 Global Financial Crisis. During the month of March-April, the Indian capital markets regularly witnessed high volatility in the price movements. This was partly the result of fallout in the global markets and the fall was in line with the benchmark indices globally. Ever since globalization has taken firm roots across the world, and the Indian economy being no longer decoupled from the global economy cues, the domestic market has been tracking the movement of major global indices. The period of uncertainty and high volatility resulted in the overseas investors (FPIs) exiting the emerging markets and taking safety in dollar-backed and low-risk assets. This contributed further to the downfall of the Indian stock market. The result was that BSE Sensex and Nifty 50, the two major indices in India saw a sharp fall of 38%. From the market capitalization at the beginning of the year, there was an erosion of 27.31%. The S&P BSE Sensex which was at 42273 points on 20 January 2020 had dropped to 29894 points on 08 April 2020. The price to Earnings Ratio of Sensex came down to less than 18 (P/E was 17.81 on 31 March 2020) - far less than the historical range of 20-24. The market correction was not limited to a single area and saw stocks across large-cap, mid-cap, and small-cap correct from their peaks. [16]

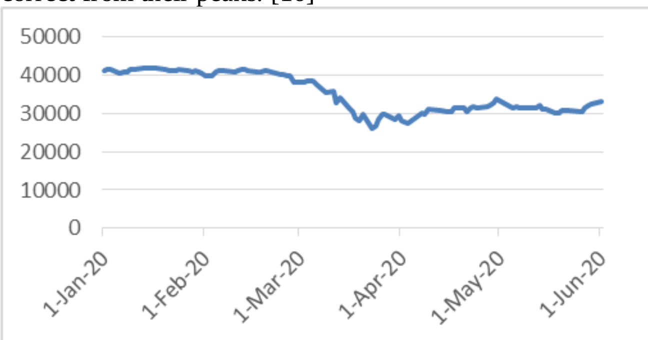


**Figure 5** BSE SENSEX movements from January 2020 till May 2020 [17]

Gold as an investment asset generally has an inverse correlation with the other major investment assets like equity and commodities which means gold tends to perform better when market conditions are risky. Gold also has a dual appeal of being an investment asset and a consumer item which means that it can generate positive returns in all times. It can protect the investors' wealth in high-risk market conditions and other such events that can adversely impact investor wealth. This is what makes gold unique amongst all other hedges in the market. [18] The correlation between gold and other major global indices across various assets classes is shown in Fig. 6. to highlight how it behaves vis-à-vis other assets in different market conditions.

| Asset Class / Asset Class | Gold (INR / oz) | INR / USD FX Rate | Brent Crude Oil | INR 3-Month Deposit | MSCI India | BSE 200 Spot | S&P BSE Sensex |
|---|---|---|---|---|---|---|---|
| Gold (INR / oz) | 1.00 | | | | | | |
| INR/USD FX Rate | 0.47 | 1.00 | | | | | |
| Brent Crude Oil | 0.46 | 0.24 | 1.00 | | | | |
| INR 3-Month Deposit | 0.03 | 0.07 | 0.81 | 1.00 | | | |
| MSCI India | -0.17 | -0.83 | 0.14 | 0.07 | 1.00 | | |
| BSE 200 Spot | -0.17 | -0.82 | 0.13 | 0.07 | 1.00 | 1.00 | |
| S&P BSE Sensex | -0.13 | -0.81 | 0.17 | 0.09 | 0.99 | 0.99 | 1.00 |

**Figure 6** Correlation between gold and other asset classes [19]

According to the World Gold Council Report issued on 24th March 2020 (India Edition), since 1973, the average return generated in rupee terms by gold is 14.10% annually. It has also become one of the best asset classes for investors in terms of performance with a 5-year return of 72.2% (Fig. 8). According to World Gold Council data as on 09 April 2020, from the beginning of 2020 till April, gold has generated a return of 11% in rupee terms. Further, it is also been observed that Indian Rupee has been depreciating in comparison to US Dollar continuously and hit an all-time weak of Rs.77 on 21 April 2020.[20] The depreciation of rupee is also a positive for gold price. Economists expect that the Indian Rupee will depreciate even more in the days to come as there will be an adverse impact of the Covid-19 pandemic on the government's fiscal deficit target. Gold price in US dollar terms reached an eight-year high based on sharp investment inflows. As a result, the global demand in terms of value in Q-1 of 2020 touched the highest level since the second quarter of 2013 at $55 billion. This is also validated from the data collected in our primary research with gold being preferred by 3.8% investors in normal conditions but in black swan events like COVID-19, the preference increased to 21.7%.

As the situation became grim under lockdown and the scale of the pandemic increased, the magnitude of potential economic impact started to become visible. Naturally, investors sought the safety of low-risk assets such as Gold Exchange Traded Funds (ETF). In the March quarter, gold ETFs attracted huge inflows to the tune of 298 tonnes [21], pushing global holdings in these products to a new record high of 3,185 tonnes, according to the World Gold Council. Gold ETFs in India invest in physical gold with each unit of the ETF typically representing 1 gram of gold. In India, the assets of gold ETFs surged 34% from ₹5,767 crores in December 2019 to ₹7,949 crores in March 2020, according to data from the Association of Mutual Funds in India (AMFI). Q1 inflows into gold-backed ETFs saw a seven-fold year-on-year increase amid global uncertainty and financial market volatility. [22] For the quarter ending May, the inflows into Gold ETF increased by 2.6% over the previous quarter.

| Country | AUM (US $ bn) | Holdings (tonnes) | Change tonnes | Flows (US $ mn) | Flows (% AUM) |
|---|---|---|---|---|---|
| US | 96.9 | 1744 | 240 | 13098 | 13.4% |
| UK | 40.4 | 727.3 | 54.7 | 3042.9 | 7.5% |
| Germany | 21.9 | 394 | 16.4 | 858.4 | 3.9% |
| Switzerland | 19.2 | 344.8 | -11.2 | -633.9 | -3.3% |
| Canada | 4 | 71.3 | 6.4 | 319.4 | 8.1% |
| China | 3.2 | 57.9 | 5.9 | 347.6 | 10.8% |
| France | 2.8 | 49.6 | 4.1 | 229.2 | 8.3% |
| Australia | 1.7 | 29.9 | 2.4 | 115.5 | 6.9% |
| South Africa | 1.4 | 25.7 | 3.2 | 186.5 | 13.1% |
| **India** | **1.2** | **22.1** | **1.1** | **31.6** | **2.6%** |
| Japan | 1 | 17.8 | 1.2 | 81.5 | 8.2% |
| Italy | 0.9 | 15.9 | -0.2 | -8.4 | -0.9% |
| Ireland | 0.3 | 4.9 | 1.1 | 56.4 | 20.8% |
| Hong Kong | 0.2 | 3.2 | 0.1 | 6.4 | 3.6% |
| Turkey | 0.1 | 1 | 0.1 | 5.6 | 10.3% |

**Figure 7** Gold ETF inflows for the quarter ended May 2020

Sovereign Gold Bonds (SGB) are securities backed by the government and have a high level of safety. Denominated in grams of gold, they can be considered as an alternative to holding physical gold. The issue price has to be paid by the investor in cash and on the maturity of these instruments, it is redeemable in cash. On behalf of the government, RBI issues these bonds. The recent instruments came with an assurance of 2.5% fixed interest return, apart from any returns generated from the gold price increase. They also carry some tax rebate. [23] This explains why these bonds are the third preferred investment instrument of the investors as per Fig. 2. The returns generated by gold and other asset classes as of May 2020 over different period are given in Fig. 8.

| Period \ Asset Class | Gold (INR/oz) | INR/USD FX Rate | Short Term Deposit | MSCI India | S&P BSE Sensex |
|---|---|---|---|---|---|
| 1 month | 2.0% | 0.7% | n/a | -2.3% | 1.3% |
| 3 month | 12.0% | 4.8% | -5.3% | -11.8% | -2.9% |
| YTD | 21.0% | 5.9% | -5.3% | -17.5% | -10.8% |
| 1 year | 44.9% | 8.5% | -10.5% | -15.8% | 4.2% |
| 3 year | 60.0% | 17.2% | -13.7% | 3.8% | 17.9% |
| 5 year | 72.2% | 18.4% | -30.1% | 16.7% | 26.3% |
| 3-year CAGR | 17.0% | 5.4% | -4.8% | 1.3% | 5.7% |
| 5-year CAGR | 11.5% | 3.4% | -6.9% | 3.1% | 4.8% |

**Figure 8** Returns generated by asset classes across periods [24]

From the data given in Fig. 8, it can be seen that quarter ending May 2020, which coincides with the rise of COVID-19 in India, gold as an asset class generated 12% returns while bank deposit generated a negative return of 5.3% and equity markets generated a negative return of 2.9%. However, the findings from the primary research were that investors still preferred to invest in bank deposits rather than in gold instruments. During black swan events, 32.1% of investors preferred to invest in bank deposits while 21.7% preferred to invest in gold, despite gold generating better returns. This could be attributed to the ease of investing which investors perceive while investing in bank deposits and challenges faced by them while investing in gold instruments. The findings from primary research reveal that the biggest challenge which investors face toward investing in gold is that there is limited availability of reliable information unlike what is currently there for stock markets. Lack of awareness regarding the various investment instrument options in gold is another concern followed by inconvenient investment/redemption process and security concerns. This explains investors preferring to invest in bank deposits over gold even when the returns from gold far exceed the other asset classes.

## Limitations

The Study was done on a sample size of 105 respondents. Majority of the respondents were from Maharashtra which may somewhat limit the generalizability of the findings and may not give similar results when extended to other states of India. Further research can be done by covering a larger sample size of the investor population and collecting data from investors in each state in India. This will help to remove the effect of any regional or cultural bias present towards any particular investment asset and provide a clearer picture. One relevant area for further research is finding the relationship among various dimensions, i.e. attitudes, biases and their impact on investment decision of individual investors. Another relevant area for future research could be to examine how financial consultants understand their clients' preferences and attitudes, and how they take the investors' perceptions into account while interacting with investors and providing investment advice.

## Conclusion

Review of the existing literature on the subject suggested that investor preference for various asset classes during normal market conditions and black swan events - like COVID-19, has not been specifically examined. The Study attempts to bridge this gap by studying the impact of situations - like COVID-19 from the perspective of investor on investment in gold and related instruments / products.

The findings show that during normal market conditions, a majority of investors prefer to invest in high risk - high return instruments like stocks and mutual funds, while during black swan events - like COVID-19, majority of investors prefer to invest in low-risk instruments like bank deposits and gold. This leads to the conclusion that majority of investors have a risk-averse attitude during difficult market conditions.

Investors prefer investing in physical form of gold like jewellery, gold coins / bars, as compared to the more modern instruments. This can be attributed to lack of awareness of modern investment products within gold as an asset class.

Purity of gold, returns and its role as an inflation hedge are the top three factors which influence the decision making for investment in gold. The factor which has the least significance for the investment decision is the recent price movement of gold. This implies that investors invest in gold from a long-term investment perspective and not for short term gain - like in stock trading.

Limited availability of information and lack of awareness of the various products for investment in gold are the major challenges which investors face. In order to bring about a behavioural change in the investment preference towards adding gold to their portfolio, these challenges need to be addressed.

Analysis and findings about investor preference of investment instruments and asset classes, especially gold, during black swan event - like COVID-19 are the distinctive features of this study.

The findings show that individual investors have shown a high preference for low-risk investment over stocks (high-risk investment) during black swan events which leads to the conclusion that majority of individual investors have a risk-averse attitude at that time. Also, the purity of gold, the returns generated by it and its role as an inflation hedge are the top three factors which influence the decision making for investment in gold.

On the practical front, the Study can help in providing financial advisory services to investors to enhance their portfolio return when the general market conditions are not conducive.

Another practical aspect of the findings of this Study is to encourage financial institutions and Government to design innovative products in the form of gold instruments which are preferred by investors as analysed in Fig. 2, taking into account the factors which have the highest influence on investor sentiments as identified in Fig. 4. The new instruments should also address the challenges faced by investors as tabulated in Table V.

The role of financial consultants is to guide the investors to maximise their portfolio returns while reducing the risk. The

financial advisors need to understand and track the factors that influence individual investors' perception and decision to invest and suggest investment options as per their needs. Failure to grasp the difference in the behaviour of individual investors would make it difficult to provide appropriate advice and to satisfy the clients over the long term. Financial consultants can play a major role in imparting financial awareness about gold investment instruments - especially during black swan events like COVID-19. This will help investors to park their surplus funds in an asset which will generate a positive return rather than corroding their wealth by investing in other assets. Awareness regarding various gold instruments and their benefits can be provided by the Financial Advisers – the way awareness of mutual funds was created within the investor community. The 'Mutual Fund Sahi Hai' campaign by AMFI helped in increasing awareness about mutual funds in India and inflows into mutual fund increased exponentially as a result of this initiative. The campaign along similar lines by the World Gold Council and Indian Bullion and Jewellers Association could help provide investors with the proper knowledge to decide on which instrument will generate a better return in different market conditions.
This Study tried to identify the perception of investors towards various investment instruments in normal market conditions as well as during black swan events like COVID-19. Gold has historically proven its worth as an effective hedge instrument and a useful investment tool especially during high-risk market conditions. Hence gold has a key role in every investor portfolio as a long-term portfolio diversifier. The results from the Study showed that during normal market conditions, a majority of investors prefer to invest in high risk - high return instruments like stocks and mutual funds, while during black swan events majority of investors prefer to invest in low-risk instruments like bank deposits and gold. The Study identifies challenges faced by investors while investing in gold and provides suggestions for financial institutions and government to design gold investment products as per investor preference which was also identified in the Study. The Study also provides suggestions to increase financial literacy and awareness of gold instruments which could be done via campaigns with the help of mass media or through financial consultants

## References


[1] M. Mittal and R. K. Vyas, "Demographics and investment choice among Indian investors," ICFAI Journal of Behavioural Finance, pp. 12-20, 2007.

[2] P. K. Mishra , J. R. Das and S. Mishra, "Gold Price Volatility and Stock Market Returns in India," American Journal of Scientific Research, pp. 47-55, 2010.

[3] A. Suresh, "A Review on Gold Quest in the Investment Portfolio by Indian Investors," IRACST-International Journal of Research in Management & Technology (IJRMT), pp. 128-134, 2011.

[4] J. H. Chua , G. Sick and R. S. Woodward, "Diversifying with Gold Stocks," Financial Analysts Journal, pp. 76-79, 1990.

[5] J. F. Jaffe, "Gold and gold stocks as investments for institutional portfolios," Financial Analysts Journal, pp. 53-59, 1989.

[6] S. Godbole and D. K. Arekar, "Retail Investors and Gold Buying Behaviour--A Perpetual Study of Indian Retail Investors," Accounting & finance research, 2014.

[7] K. Napompech, A. Tanpipat and N. Ueatrakunkamol, "Factors influencing gold consumption for savings and investments by people in the Bangkok metropolitan area," International Journal of Arts and Sciences, pp. 508-520, 2010.

[8] M. Mittal and R. K. Vyas, "Personality type and investment choice: an empirical study," The ICFAI University Journal of Behavioral Finance, pp. 7-22, 2008.

[9] V. Sujatha and S. Kumaresan, "Influence of Lifestyle Perception on Gold Purchase Decisions," Global Research Analysis, 2013.

[10] G. Gürgün and I. Ünalmis, "Is gold a safe haven against equity market investment in emerging and developing countries?," Finance Research Letters, pp. 341-348, 2014.

[11] D. Hillier, P. Draper and R. Faff, "Do precious metals shine? An investment perspective," Financial Analysts Journal, pp. 98-106, 2006.

[12] K. Parimalakanthi and M. A. Kumar, "A Study on Investment Preference and behaviour of Individual Investors in Coimbatore City," Bonfring International Journal of Industrial Engineering and Management Science, p. 170, 2015.

[13] B. S. Hundal, D. S. Grover and J. K. Bhatia, "Herd Behaviour and Gold Investment: A perpetual study of retail investors," IOSR Journal of business and

management (IOSR-JBM), pp. 63-69, 2013.

[14] D. Harikanth and B. Pragathi, "Role of behavioural finance in investment decision making-A study on select districts of Andhra Pradesh, India," International Journal in Multidisciplinary and Academic Research, pp. 1-15, 2012.

[15] S. Ravi, "Impact Of COVID 19 On The Indian Stock Markets," 11 05.2020.[Online].Available:http://www.businessworld.in/article/Impact-Of-COVID-19-On-The-Indian-Stock-Markets/11-05-2020-191755/.

[16] A. R. “Ram”, "COVID-19 Impact On Stock Market," 21 04 2020. [Online].Available:https://www.outlookindia.com/outlookmoney/equity/covid-19-impact-on-stock-market-4666.

[17] "Historical Indices," [Online]. Available: https://www.bseindia.com/Indices/IndexArchiveData.html.

[18] "The relevance of gold as a strategic asset 2020 - India edition," 24 03.2020.[Online].Available:https://www.gold.org/goldhub/research/relevance-gold-strategic-asset-india-edition-2020.

[19] "Asset Class Correlation," 30 06 2020. [Online]. Available: https://www.gold.org/goldhub/data/gold-and-major-index-correlations.

[20] D. N. Rani and A. Sharma, "Is it safe to make investments in gold at this point?,"21.05.2020.[Online].Available: https://economictimes.indiatimes.com/mf/analysis/is-it-safe-to-make-investments-in-gold-at-this-point/articleshow/75839421.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst.

[21] R. Yadav, "Gold outshines all other assets. Should you buy?," 19 04 2020.[Online].Available:https://www.livemint.com/money/personal-finance/gold-outshines-all-other-assets-should-you-buy-11587305596182.html.

[22] N. Sultana, "Covid-19: India gold demand slumps 36% in Q1, global ETF inflows jump 7-fold," 30 04 2020. [Online]. Available: https://www.livemint.com/news/india/covid-19-india-gold-demand-slumps-36-in-q1-global-etf-inflows-jump-7-fold-11588230543305.html.

[23] "Gold returns in other currencies," 30 06 2020. [Online]. Available: https://www.gold.org/goldhub/data/gold-returns.

[24] "Series-II of sovereign gold bond opens for subscription at Rs 4,639/gm," 11 05 2020. [Online]. Available: https://economictimes.indiatimes.com/markets/commodities/news/series-ii-of-sovereign-gold-bond-opens-for-subscription-at-rs-4639/gm/articleshow/75669974.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst.