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An Investor's Investment in Gold: Physical Vs Paper

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Abstract:

In India, there are many forms of investment like deposits in banks, bonds, stock, mutual funds, real estate's etc but gold is an important form of investment. For Indian's Gold is a more than an asset it is a prestigious one. Few years back people can invest only in physical gold i.e. jewelry then later Gold coins get its position. But now there are different ways of investment in Gold i.e. Gold ETFs, E-Gold, and Gold on accounts. Physical gold has many problems and it is not convenient but still people prefer the Physical Gold because of the traditional value. Hence the researcher has taken the study to know the investment preference towards gold investment.

Key words: Investment, Physical Gold, Paper Gold

1. Introduction

In India, gold is considered much more than a precious metal. For centuries, civilizations have used gold as an object of luxury. Gold is taken as a sign of supremacy and beauty. It is a sign of power and status. Gold holds great sacred meaning in Indian culture, as it is the symbol of the Hindu goddess Lakshmi, considered highly auspicious. Many people think that Indians are fanatics for gold. Although this cannot be entirely denied, but the truth is that Gold always had a particular connotation in all ages. India is a vast country, a combination of several cultures, traditions, customs, religions and regions but the love for gold is universal. It is equally sought by a rich businessman or a poor farmer. Indians see gold as a symbol of purity, prosperity and good fortune. Gold purchase in India is related to cultural and religious beliefs. The Indian tradition demands buying gold for occasions such as weddings, birthdays, anniversaries and other important festivals. Gold to Indians is a symbol of good luck and a lifetime investment.

Historically, investment was exclusively in a physical form, typically as a bar or coins. Some might extend the list to include medals, unofficial coins, or even some forms of jewellery; it is quite common in developing countries, most obviously India, that investment can be the prime motive behind the purchase of gold in jewellery form. Recently, the emphasis has swung to a range of products sometimes referred to as "paper gold". The National Spot Exchange Limited (NSEL) introduced the e-series products for commodities, including e-Gold. This scheme enables the investor to buy gold and hold it in a Demat account, which can later be converted into physical gold. This means that investor can invest in small chunks to accumulate a sizable investment. Those changes make a complete and new form for the investor to invest.

2. Review of Literature

- **The World Gold Council (2013)** reported that physical gold demand remains strong, questioning the price weakness seen in paper markets. Additionally, gold supplies could be constrained in September (2013) if labor strikes are initiated in South Africa. There's typically some positive seasonality to the gold price in August/September helped by India, which is still the largest single (28%) gold market. Often this strength correlates with the Denver gold conference. The conference attracts many of the larger gold investors and given the other positives for the metal (and that the depressing effect of the Q2 results is past) would not be surprised to see a stronger gold price in the run up to the show.
- **K. Balanaga Gurunathan & S. Muniraj,(2012)** study evaluates the impacts of Customer awareness and buyer Behavior on Buying Jewellery Products—Special Reference to Tamil Nadu State and concluded that jewellery investment is a unstabilizing activity, the result shows gold jewellery with mean of 4.60 in the first priority, the silver jewellery with mean of 2.30 in the second priority, diamond jewellery item with mean of 1.12 in the third priority, new methods of investment like Platinum jewellery with mean of 0.62 in forth priority of customer buying behavior and awareness of jewellery in Tamilnadu state.

- **McKay, Peter A, Gullapalli, Diya(2008)** in this article discusses the popularity of gold and its place in the U.S. financial market. Financial analysts stated that the introduction of paper gold linked to gold as a strong new source of interest. The author states that strong investment is driving the gold price higher. The Paper Gold Shares is the most-active, turning over about eight million shares a day. The decrease in value of the U.S. dollar is also increasing the popularity of gold.

3. Statement of Problem

There are many forms of investment like deposits in banks, bonds, stock, mutual funds, real estate's etc but gold is an important form of investment. For Indian's Gold is a more than an asset it is a prestigious one. Few years back people can invest only in physical gold i.e. jewelry then later Gold coins get its position. But now there are different ways of investment in Gold i.e. Gold ETFs, E-Gold, and Gold on accounts. Physical gold has many problems and it is not convenient but still people prefer the Physical Gold because of the traditional value. Hence the researcher has taken the study to know the investment preference towards gold investment.

4. Objectives

- To study the awareness of the investor about the Physical Gold and Paper Gold
- To know about Investor investing pattern in Physical Gold and Paper Gold
- To analyze the reason for investing in Physical Gold and Paper Gold
- To know about the investor's opinion towards Risk, Return & Liquidity.

5. Methodology

5.1. Source of data

The study is based on primary data collected directly from 100 respondents through questionnaire during the period of June 2013 to September 2013

5.2. Tools used for Analysis

The primary data has been analyzed using the

- Percentage analysis
- Rank analysis
- Average score analysis

6. Limitations of the Study

- The study is restricted to Coimbatore city only.
- The Sample size is limited to 100 respondents only.

7. Findings and Suggestions

7.1. Findings

7.1.1. Percentage Analysis

- Majority of the respondents are aware of the additional cost in physical gold.
- Majority of the respondents are aware of Purity of gold in paper gold.
- Majority of the respondents are investing in Physical Gold every month (32%).
- Majority of the respondents are investing in Paper Gold once in a year (39%).
- Majority of them are buying Physical Gold from Retailers (64%).
- Majority of them are buying Paper Gold through Brokers (65%).
- Majority of them prefer Physical Gold for Functional and Traditional Purpose (100%)
- Majority of them are Preferring Paper Gold for Safety (69%)
- Majority of them pledge Physical Gold to attain liquidity (79%).
- Majority of them sell Paper Gold to attain liquidity (51%)
- Majority of them are having the Risk of theft for Physical Gold (64%).
- Majority of them are having the Risk of Government Policy for Physical Gold (58%).

7.1.2. Weighted Average Rank Analysis

- The various factors influencing investor to make an investment in Gold: Majority of the respondents have given a top priority to follow the market followed by professional advice, then by family and friends and then by media.
- The various forms of investment available in gold: Majority of the respondents have given a top priority to Gold jewelry followed by gold coin then by Gold ETFs then by Gold on accounts then by E-Gold and then by gold certificates.

- The various aspect the investor considered to make investment in Physical Gold: Majority of the respondents have given top priority to Physical Ownership followed by Control of Your own wealth, followed by keep for generation, then by Timeless asset, then by Insurance of wealth and then by Long term investment.
- The various aspect the investor considered to make investment in Paper Gold: Majority of the respondents have given top priority to Safe investment followed by Enjoying market Advantage, followed by Price Transparency ,then by short and medium term ,then by Assurance for purity of Gold and then by Affordability .

7.1.3. Weighted Average Score Analysis

- Most of the respondents in the age group of above 50 years opined that risk is high in physical gold.
- Most of the respondents in the age group of 20-30 opined that the risk is high in paper gold.
- Most of the house wife opined that the return is very high in physical gold.
- Most of the business people opined that the return is high in paper gold.
- Most of the respondents in the income group of Rs.25000-50,000 had very high liquidity in physical gold.
- Most of the respondents in the income group of Rs.10, 000-25,000 had very high liquidity in paper gold.
- Most of the respondents in the age group of above 50 years are highly satisfied in using physical gold.

7.2. Suggestion

7.2.1. Awareness

Most of the people are still not aware about paper gold. Hence the paper gold issuing mutual fund companies should create awareness among the investors by way of making promotional activities, advertisement in newspaper, media etc.,

7.2.2. Intermediaries

Online purchase can be made by the investor in order to have more profitable transaction rather through Intermediaries.

7.2.3. Convenience

Paper gold affords the convenience of exposure to gold prices without the obligation of having to hold and store the physical metal.

7.2.4. Speculation

Traditionally there is no price fluctuation but now there are more fluctuations in price of gold. Hence speculators can earn more profit by investing in paper gold.

7.2.5. Easy Savings

To make yearly investment in paper gold it is better to make monthly or quarterly investment in order to get market advantage.

7.2.6. Economic Stability

Like a country like India where the consumption of physical gold is more, to bring economic stability physical gold buying should minimized and paper gold purchases should be increased as paper gold can be converted into gold any time the investor wish.

8. Conclusion

Paper gold offers several advantages to the investors over the physical gold such as Liquidity, Transparency in pricing, Affordability, Convenience and safety. It also relieves the investor's from the worry about purity of gold, Tax benefits are also possible to the investors who invests in paper gold. The study revealed that, for traditional and prestigious value the people prefer physical gold rather than paper gold. The demand for physical gold is soaring to potentially record highs, boosted by the high dollar prices that are particularly attractive in several other currencies, these effects the current market but still love for gold never change for India and Indians.

9. References

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