

## **A STUDY ON AWARENESS AND PREFERENCE FOR GOLD AND GOLD DERIVED SECURITIES WITH REFERENCE TO GOLD ETFs**

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### **Abstract**

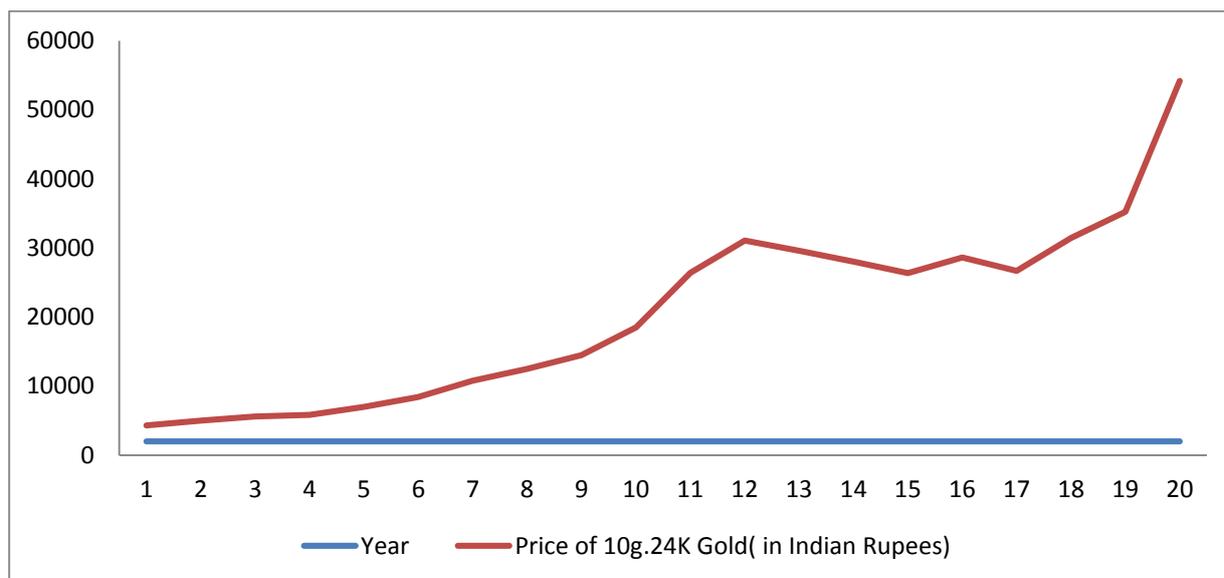
Gold is amongst the most precious metals traded worldwide. In India people's interest in Gold dates back to centuries. People love to hold for various reasons. Gold is held in various formats like Gold Bars, Gold Coins and Gold Jewellery. The reasons for buying Gold and holding it are many. Some prefer to use it in Jewellery form where as some others use it for investment purposes. It also acts to beat the inflation as we can see from the past that the price of Gold generally rises and does not fall as often. During the recent economic slowdown arising out of the COVID-19 Pandemic where most of the economic indicators have shown negative figures Gold has shown positive rate of return. This gives an indication that it is wise for the investor to invest a part of his funds in the Gold and other Gold based securities in order to diversify the portfolio and as a result minimize the risk and maximize the returns.

The popularity of Gold has led to the advent of a number of Gold based Securities. The objective of introducing these new varieties of Gold derived securities is to minimize the risk associated with the holding of physical gold. The objective of the paper is to study the awareness among the various sections of the society about the various types of gold based securities available in the market and their preference. The study further examines the investors' awareness about various schemes of Gold ETFs available in the Market.

**Key words:** Gold, E-Gold, Gold ETF, Investors' Awareness

### **Introduction**

Over the centuries and over the countries people's preference for gold has created and sustained the demand for gold. As per the reports of the world gold council after China India is the next Country where the purchase of gold is highest in value. India with 22% of the World's Gold consumption is only the second nation after China having 26% of the World's Consumption. And it is way ahead of the third largest consumer of Gold, U.S.A whose share of the World's Gold Consumption is 7%. Not only the demand for gold has risen over the years but also the price of gold has risen steadily over the years. The main reason for holding gold as an investment alternative is that it beats the inflation and during economic uncertainty and pandemic it's preference increases.



**Fig.1.Price of Gold in last Twenty Years**

The above figure shows the changes in the price of Gold over the period of last twenty years. The average price of 24K gold in Indian Rupees was Rs.4300 per 10 grams in the year 2001. And the average price of 24K gold in Indian Rupees is Rs.54, 170. The percentage change is quite high. Between March, 2020 and October 2020 the price of Gold in the London Market changed from 1477.30 USD/oz to 1901.00 USD/oz. The percentage change in the gold price from March to October is 28.68% .Thus for investors Gold is the very important source of investment during the time of economic uncertainty. The appeal for gold is timeless. Everyone wants to have Gold in their investment portfolio. The advent of the electronic devices, mobiles, laptops and high speed internet has also brought in some new methods and instruments for investing in Gold. These instruments and methods of investment include gold coins, gold futures, gold options, gold exchange traded funds and other instruments .Investment strategies and options depend on the investor’s specific requirements and outlook of the investor.

## **Ii. Various Methods And Instruments For Investing In Gold**

The following are the list of some of the investment options available to investors. The list is not exhaustive and in the modern day of Portfolio Management portfolio managers can devise ways to have various other ways to invest in gold derivative instruments.

### **A. Gold Bars**

It is meant for High Net worth Customers and for those who want to accumulate gold for long-term investment purposes. Though it is easy to buy bigger bars of higher denomination but it is not easy to sell these bars as it is difficult to find buyers for such type of gold bars.

### **B. Gold Coins**

Gold Coins are easy to purchase and easy to sell in the Market. They are available in smaller as well as medium denominations. The Size of these coins range from one gram onwards. The advantage of gold coins is that they are of smaller size and smaller denomination. It is easy to carry from one place to another place too. Due to their flexibility they are popular among the investors.

### ***C. Gold Futures***

Gold futures are derivative contracts which derive its value from the gold which is the underlying asset of the gold futures. The prices of the gold futures fluctuate as per the fluctuation in the price of the gold. These are the binding contracts to buy or sell a specified quantity and purity of gold at an agreed price where the exchange acts as the guarantor to both the buyer and the seller. Both the buyer and seller must deposit the margin money with the exchange.

All the major exchanges around the World offer gold futures. In India Gold Futures are traded through MCX, i.e.the Multi Commodity Exchange .The underlying asset in case of Gold Futures is Gold.

Gold Futures are Exchange Traded Contracts between the buyer and the seller where exchange acts as an intermediary. In MCX the symbol of Gold Futures is Gold. The trading unit is 1 kg and the maximum order size is 10 kg.Minimum margin money is 6%.To trade in Gold Futures in MCX the investor is required to open a commodity trading account and need to activate the segments MCX.

### ***D. Gold Options***

Like Gold Futures Gold Options are also derivative contracts which derive its value from the Gold which is the underlying asset of the Gold Option Contracts. Like Gold Futures Gold Options are also traded through MCX in India where the exchange acts as an intermediary. Here the underlying contract is 1 kg. of Gold Futures.

In case of Gold Options unlike the Gold Futures the buyer of the Option is not bound to oblige the Contract and take the delivery. The Option buyer may move out of the Contract by paying the premium. Whereas in case of Futures Contract the losses and gains of a Contract are settled on the same day through the Mark-to-Market mechanism, no such settlement is applicable to Option Contracts.

### ***E. Gold Exchange Traded Funds (ETFs)***

As Compared to investment in Gold through Futures and Options in Gold it is easier to invest in Gold Exchange Traded Funds. There are a number of benefits in investing in Gold Exchange Traded Funds. First of all you can invest with small amount of money. Secondly it is easier to buy and sell gold exchange traded funds or Gold ETFs through exchanges. Further there is no fear of Theft as it is held in the form of Paper Certificates. Further whenever you want to convert it into Gold it can be converted into Gold. And if you wish to convert it into cash you can sell it through the exchanges.

This is the reason Gold Exchange Traded Funds are gaining importance.

### **Literature Review**

Bang (2009) defines Gold Exchange Traded Funds as an open-ended mutual fund that invests in standard gold bullion as its underlying asset. It is also known as paper gold. These Instruments are listed on the stock exchanges and, hence, can be bought and sold just like buying and selling of shares.

Johnson, W.L. (2008) have made a study of the ETFs of 20 foreign country and the underlying index returns from the year 1997 to 2006 to find out the presence and sources of daily and monthly tracking errors. According to his study except in one case, market subdivision or incorporation of the foreign country was a substantial source of tracking error.

A study by Alok Goyal And Amit Joshi (2011) on Performance appraisal of gold ETFS in India made an analysis on the risk in the emerging security in the stock market i.e. Gold ETFs.

Shefali Sinha And Mahua Dutta(2013) have made an analysis of the performance of the Exchange Traded Fund for the period from 2007-20012 in their study on Performance Analysis of Returns of Goldman Sachs Gold Exchange Traded fund. In their study they have made an comparison of the returns of Gold prices and the Gold ETF.

Mishra Susanta Kumar, Das Arka Kumar Mohapatra (2020) in his article titled “Investment Analysis of Gold Exchange Traded Funds in India” has concluded that Gold ETFs are indeed the best investment options available to investors. They provide high returns and always reflect the market trend of gold. They also provide high return when the stock market is bearish. Further according to them the risks associated with investment in Gold ETF are low in comparison to Stock Market. Investors can invest on Gold ETF without the worry of risk .This is an innovative investment option introduced in Indian investment market that helps investors to maximize their wealth and also helps the asset management companies to widen their product and customer base.

### Objectives Of The Study

The objectives of the present study are as follows:

- To study the awareness of the investors about Gold and other Gold derived securities
- To study the preference for investment in Gold and Gold derived Securities in comparison to other available investment options.
- To study the investors’ awareness about Gold Exchange Traded Funds.

### Data Collection

In order to reach the objectives data was collected with the help of the questionnaires. The survey was conducted from 100 respondents. The questions were closed ended ones having multiple choice of answers to chose from.

### Analysis Of Data And Results

#### A. Analysis of Demographic Details of the Respondents

The questionnaire was put forth to 100 respondents. The summary of the respondents is presented in Table No.1. Data sources comprised of respondents presented in **Table 1** across different age groups, gender, educational attainment, occupations, income levels and level of annual savings. The study was conducted with a sample size of 100 respondents who have invested either in Gold or Gold derived instruments.

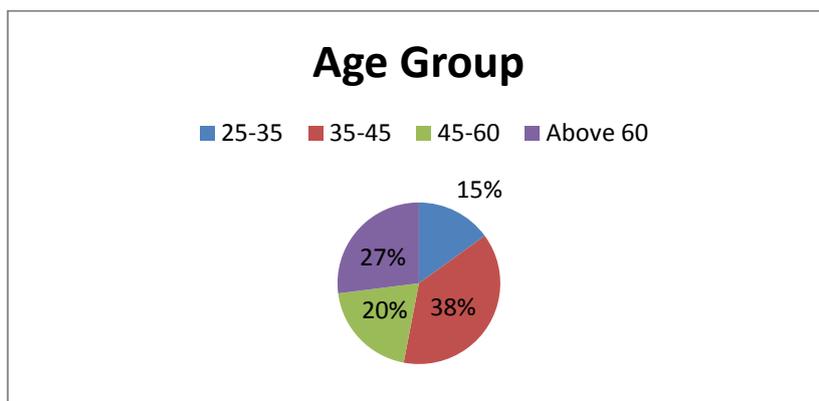
**Table 1. Demographic Details of the Respondents**

| Age                 | Frequency  | Percent    |
|---------------------|------------|------------|
| Between 25-35 Years | 15         | 15         |
| 35-45 Years         | 38         | 38         |
| 45-60 Years         | 20         | 20         |
| Above 60 Years      | 27         | 27         |
| <b>Total</b>        | <b>100</b> | <b>100</b> |
| <b>Gender</b>       |            |            |
| Male                | 65         | 65         |
| Female              | 35         | 35         |
| <b>Total</b>        | <b>100</b> | <b>100</b> |
| <b>Education</b>    |            |            |
| Graduate            | 25         | 25         |

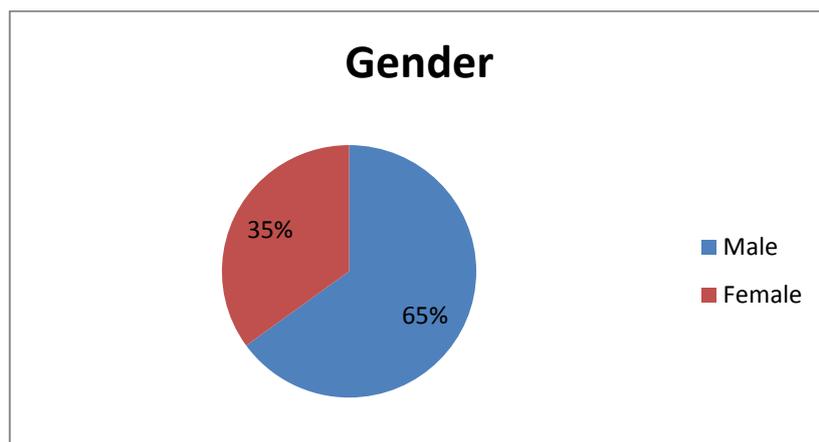
|                     |            |            |
|---------------------|------------|------------|
| Post-Graduate       | 42         | 42         |
| Professional Degree | 33         | 33         |
| <b>Total</b>        | <b>100</b> | <b>100</b> |

| <b>Occupation</b>     |            |            |
|-----------------------|------------|------------|
| Salaried              | 40         | 40         |
| Business              | 26         | 26         |
| Professional          | 20         | 20         |
| Retired               | 14         | 14         |
| <b>Total</b>          | <b>100</b> | <b>100</b> |
| <b>Annual Income</b>  |            |            |
| Less than Rs 5 Lakh   | 48         | 48         |
| Rs 5 - 10 Lakh        | 31         | 31         |
| More than Rs 10 Lakh  | 21         | 21         |
| <b>Total</b>          | <b>100</b> | <b>100</b> |
| <b>Annual Savings</b> |            |            |
| Less than Rs 1,00,000 | 50         | 50         |
| Rs 1,00,000–5,00,000  | 29         | 29         |
| Rs 5,00,000 and above | 21         | 21         |
| <b>Total</b>          | <b>100</b> | <b>100</b> |

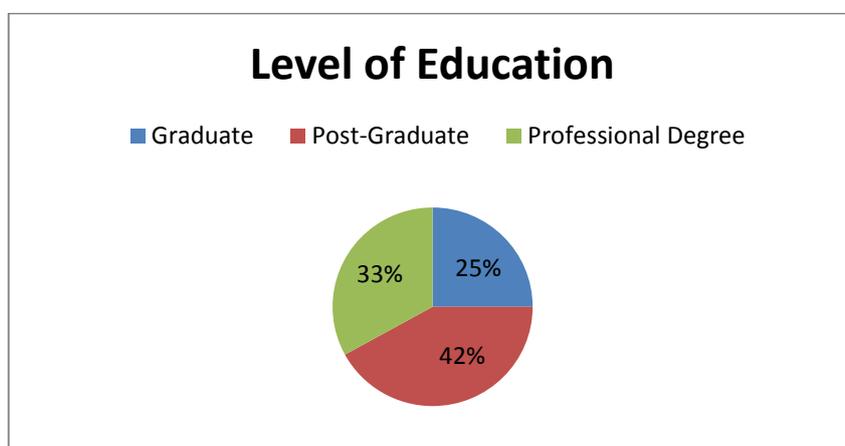
The Sample Analysis of the Primary Data was done on 100 respondents from the City of Bhubaneswar. The age groups were segregated into four broad age groups. These are the population belonging to the age group of 25 to 35 years. These are the people in the early stage of their career. 15 % of the sample size belong to the first category. The second group of people belongs to the age group between 35 to 45 years which constitute 38% of the sample size. The third category belong to the age group between 45 to 60 years. 20% of the sample size belong to this third category. The fourth category of the population are above the age group of 60 years which constitute 27% of the sample size.



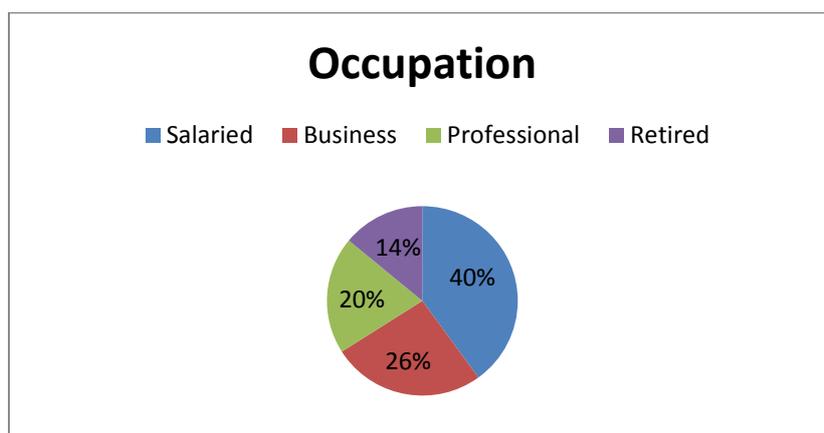
On the basis of the Gender it was found that 65% of the sample size consists of male persons while 35% of the sample consists of the female population.



As about the level of education 25 % of the respondents were graduates, 42% of the sample size were post- graduates where as 33 % of the Sample size were having professional degrees.



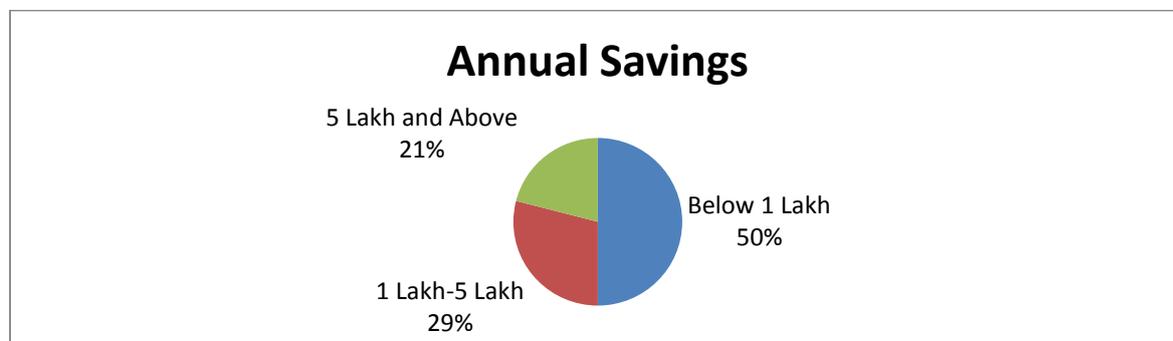
Similarly out of the total sample size 40% were the people belonging to the category of salaried class people, 26% were having their own business, 20 % were professionals practicing their profession whereas 14% were retired people.



On the basis of the annual income the respondents were categorised into three categories. Those belonging to the category having an annual income of less than 5 lakhs.31% of the sample size belonged to this category The second category of the respondents were those having annual income varying between rupees 5

lakhs to rupees 10 lakhs. The majority of the sample size belonged to this category consisting of 48%. The rest of the sample size consisting of 21% of the population was having annual income in excess of Rupees 10 lakhs.

The study further revealed that the annual savings of the sample investors varies from a minimum of less than Rs. 1,00,000 to an amount which is in excess of Rs.5, 00,000.



### B. Awareness about various types of investment in Gold based Securities

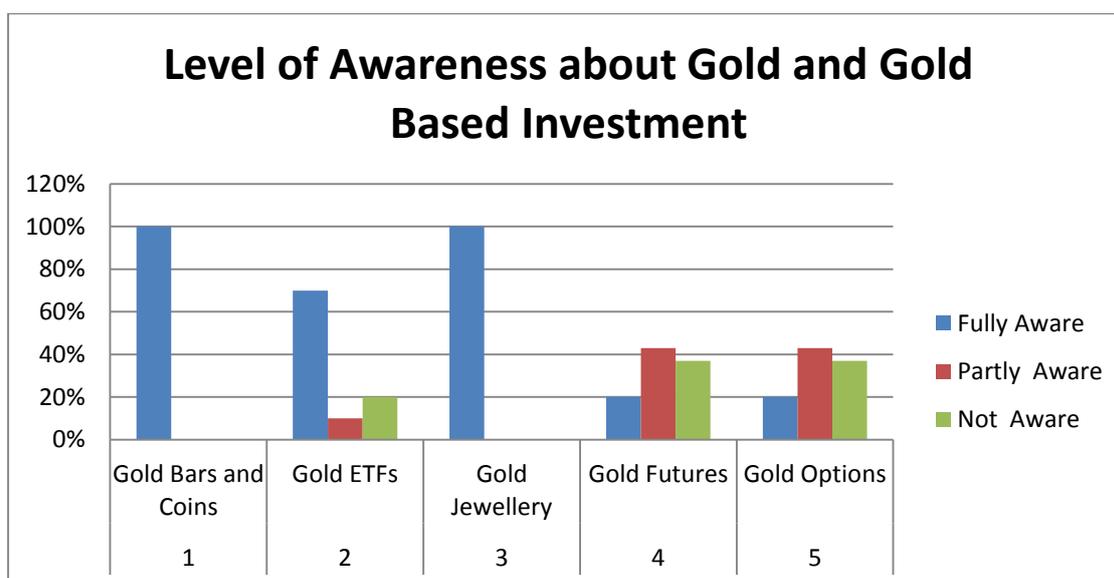
The study attempts to find out whether the investors are aware about the various other instruments of investing in Gold besides the physical form of Gold. As holding the Gold in physical form is not free from risks hence it is essential that investors must have an awareness regarding the other forms of investments. The findings are shown in **Table 2**.

**Table 2. Level of Awareness about Gold Based Investments**

| Sl.No. | Investment options  | Fully Aware | Partly Aware | Not Aware |
|--------|---------------------|-------------|--------------|-----------|
| 1      | Gold Bars and Coins | 100%        | 0%           | 0%        |
| 2      | Gold ETFs           | 70%         | 10%          | 20%       |
| 3      | Gold Jewellery      | 100%        | 0%           | 0%        |
| 4      | Gold Futures        | 20%         | 43%          | 37%       |
| 5      | Gold Options        | 20%         | 43%          | 37%       |

The responses of the participants are diagrammatically presented as under in **Fig.1**

**Fig.1. Level of Awareness about Gold and Gold Based Securities**



A quick look at the data presented in the table 2 would show that all the investors were aware about the investment options in Gold and Gold Jewellery. However same is not the case in case of Gold ETFs and Gold Futures and Options. Some of them were not aware about the investment options in Gold ETFs and Gold Futures and Options.

**C. Preference for Investment Options**

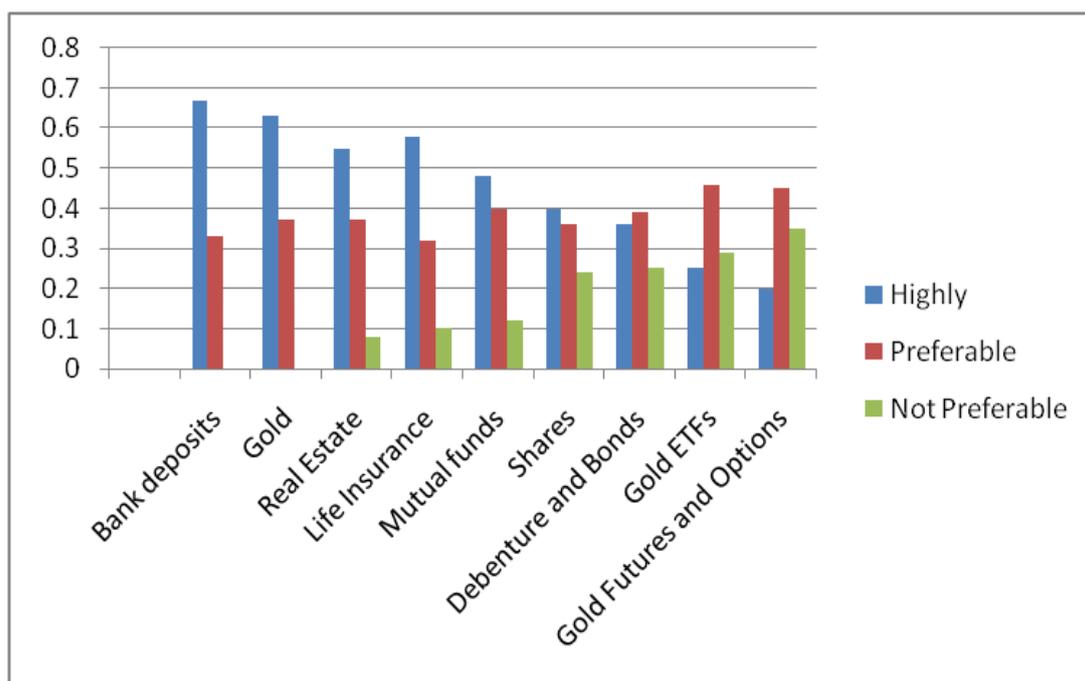
Table 3 summarizes the preference for Gold and Gold based securities among other investment options. It was observed that Bank Deposits were the most preferred form of investment followed by Life Insurance Policies, Gold and Gold derived Instruments and Schemes of Mutual Funds and Real Estate.

A further look at Table 3 would reveal that (Bank Deposits) was highly preferred by as high as 67% investors, and Gold was preferred by a significant majority comprising 63% of the sample. The Life Insurance Schemes were preferred by 58% of the sample and the investments in real estate were preferred by 55%, and investment in mutual fund is preferred by 48%. Figure 3 gives the preference of investors towards various schemes of investment.

**Table 3. Levels of Preference for various Investment Options**

| Sl. No. | Investment options       | Highly Preferable | Preferable | Not Preferable | Mean | Rank |
|---------|--------------------------|-------------------|------------|----------------|------|------|
| 1       | Bank deposits            | 67%               | 33%        | 0              | 2.67 | 1    |
| 2       | Gold                     | 63%               | 37%        | 0              | 2.63 | 2    |
| 3       | Real Estate              | 55%               | 37%        | 8%             | 2.47 | 3    |
| 4       | Life Insurance           | 58%               | 32%        | 10%            | 2.42 | 4    |
| 5       | Mutual funds             | 48 %              | 40%        | 12%            | 2.36 | 5    |
| 6       | Shares                   | 40%               | 36%        | 24%            | 2.16 | 6    |
| 7       | Debenture and Bonds      | 36%               | 39%        | 25%            | 2.11 | 7    |
| 8       | Gold ETFs                | 25%               | 46%        | 29%            | 1.96 | 8    |
| 9       | Gold Futures and Options | 20%               | 45%        | 35%            | 1.85 | 9    |

**Fig.2. Levels of Preference for Various Investment Options**



## Major Findings of The Study

### A. Awareness about Investment Options

The key highlights of the present study, conducted in the City of Bhubaneswar. Bhubaneswar is the Capital City of Odisha and its Population consists of a mix of Service holders, Professionals and Businessmen.

The Study was conducted to find out about the investment habits of the study for which a sample size consisting of a small population size of one hundred was chosen. One of the objectives of the study was to find out the preference of investors towards investment in Gold and the other objective was to find out their level of awareness about various gold derived securities which include Gold Exchange Traded Funds, Options and Futures in Gold. From the study it was derived that Gold has been and will remain as one of the most preferred investment options. Further it was found that not everyone is aware about and inclined to invest in Gold derived paper instruments. The reason for this is many. Not everyone is convinced about the paper based Gold derived Certificates. Further Indian people want gold in the form of jewelleryes. Hence physical gold is more preferred than the paper gold.

### B. Preference for Investment Options

The findings in respect of preference for investment options suggested that though awareness has influence on preference, it was not fully true. Bank Deposit has been preferred to be number one, followed by Gold, Real Estate, Life Insurance and Schemes of Mutual Funds, and investment in shares, debentures and bonds.

It was further observed that Bank Deposit was highly preferred with mean index score of 2.67, whereas gold is preferred second with a mean of 2.63 and the preference for Gold ETFs, Gold Futures and Options comes lower in the list of investment options having a mean of 1.96 and 1.85 respectively.

## Conclusion

This paper addressed the issues of individual's investors' awareness and preference for Gold and Gold derived securities with reference to Gold ETFs. For this purpose an empirical analysis was carried out on a sample of respondents.

The size of the respondents is one of the limitations of the Study. In order to make the study more accurate and purposeful the size of the population has to be increased. The Asset Management Companies need to spread more awareness about the various Gold Exchange Traded Funds. In the Pandemic Era the role of electronic based transactions in Gold will definitely gain momentum in the coming times.

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