CHANGING PERCEPTIONS TOWARDS GOLD (ETF) AS AN INVESTMENT OPTION

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Abstract

In today’s changing market scenario there are many options for a person to invest in and are creating a confusion on what to invest in and what in not. There are various options available to invest in gold through options like Gold ETF, coins, bullion, and jewellery. This study is to know more about the options available for people for investment and perception of people towards investment in Gold ETF with all the demographic factors that affect the view.

Keywords
Gold, Gold Investment, Gold ETF, Gold perception.

INTRODUCTION

A gold ETF, or exchange-traded fund, is a commodity ETF that consists of only one principal asset: gold. Exchange-traded funds act like individual stocks, and they trade on an exchange in the same manner.

Gold ETF holds secondary contracts that gets backed by Gold. Therefore, if you invest in a gold ETF, you will not actually own any gold. Even when the investor redeems a gold ETF, you do not receive the precious metal in any form. Instead, you as a potential investor will receive the cash identical.

Gold ETFs are open-ended mutual fund schemes that will invest the money collected from investors in standard gold bullion of 99.5 per cent purity or equal to. These funds are of open-ended nature that trade on a stock exchange just like the shares of an individual company. Therefore, investors can any time buying and selling units of gold ETF.

The annual expenses such as storage, insurance, and management fees are charged by selling a small amount of gold represented by each certificate, so the amount of gold in each certificate will gradually decline over time. In some countries, gold ETFs represent a way to avoid the sales tax or the VAT which would apply to physical gold coins and bars.

There are various types of Gold ETF’s that are available to trade. In which, they are Gold ETF’s that own physical gold, Gold ETF’s that own gold mining stocks, Gold ETF’s that own future contracts, ETF double gold, Gold short ETF. To invest in Gold ETF, one needs to
have a trading and de-mat account, as Gold ETF can be traded only in de-mat form. Gold ETF is classified under mutual fund and is taxed as per debt mutual fund taxation rules. Investors investing in Gold ETF’s are not liable to pay wealth tax.

The investor must know that the market price of gold ETFs tracks the domestic price of gold. So if gold prices are declining, gold ETFs will also decline. If one is buying gold for investment purpose or accumulating for marriage of their children, we would not suggest buying in the form of ornaments or jewelry because then investors have to pay making charges of around 10 per cent to 20 per cent. Additionally there is cost and risk of storing.

As there is a fluctuation in the economy and gold is a main part of the finance there was a need to research how much market has gold ETF captured. The main objective of research it to know the perceptions of people in different type of investment options, and buying gold in ETF form, and what are the things that affect the people in decision making of the investment.

RESEARCH OBJECTIVE
To understand the change in perceptions of consumers towards investment in Gold in ETF form.

PROPOSED HYPOTHESIS
H1: More than 65% of the working population invest in Gold ETF (Test of Proportion)

H2: Average age of respondents for Gold Investment (ETF) is more than 26 years (Test of Average)

H3: Reasons for investing in Gold (ETF) is NOT independent of the income of an investor (Test of Independence)

H4: Average age of respondents invest in Gold ETF is NOT same across their Occupation compared with reasons for Investing in it. (Test of Annona)

LITERATURE REVIEW

Fisher (2008) reported in his study that Gold Exchange-Traded Funds (ETFs) have made investing in the yellow metal very convenient and inexpensive. The study expressed that they offer a way of participating in the gold bullion market without the necessity of physical delivery of gold. The study listed out six reasons why gold ETFs are considered as the best way to invest in the gold. The reasons mentioned are Wealth tax exemption, Income tax benefit, Investment in small denominations, Hedging Convenience and better holding of ETFs as compared to physical gold holdings.
Noblett, & Jackie (2010) suggested that Gold ETFs have witnessed massive flows as institutions, advisers and individual investors look to gain exposure to the precious metal and with it a hedge against currency volatility and inflation.

Prasanna (2012) analysed 82 exchange traded schemes floated in Indian stock market and evaluated the performance using Data Envelopment method, it is found that large funds were not efficient and inferred that size does not indicate superior performance.

Athma and Mamatha (2012) compared the index funds, ETF based on tracking error, price transmission and return. It is suggested that ETF’s are good investment suitable to individual investors and professionals as they are low cost and liquid.

Jayanthi, Malathy and Radhulya (2013) studied performance of Gold ETF funds using returns, AUM and NAV. It is found that the gold ETF funds does not accurately reflect the movement of spot gold price and investor can hedge their asset against uncertain global market scenario.

Nemavathi and Nedunchezian (2013) analysed the volatility of Gold and Gold ETF using return, standard deviation, Beta and EGARCH, it is concluded that the performance of product depends on volatility and one has to choose based on return and their performance.

Narend (2014) empirically studied the performance of exchange traded funds and index funds using tracking error, active returns and Jensen’s Alphas. Over all study reveal that index funds have done better than ETFs in terms of tracking error and in terms of active returns ETFs performance is better.

**RESEARCH METHODOLOGY**

**Type of research:** The methods used in this study are primary and quantitative & descriptive in nature.

**Source of Data:** The secondary data was collected from Internet based sources. The primary data was collected through a primary survey with the help of an E-Form.

**Sampling Size and Techniques:** The sample size for the study was 372. The sampling technique used was random sampling in order to obtain a fair representation of the population.

**Analysis Methodology:** The collected data was analyzed by testing of hypothesis with the help of statistical tests such as T-Test, Z-Test for proportions, Chi-Square & ANOVA. Excel software was employed for Analysis purposes.
Sample Demographics

INCOME GROUP

- Less than 2 lacs: 45%
- 2 lacs to 3 lacs: 16%
- 3 lacs to 5 lacs: 18%
- 5 lacs to 7 lacs: 8%
- 7 lacs to 10 lacs: 6%
- Above 10 lacs: 7%

OCCUPATION

- Service: 35%
- Student: 22%
- Business: 17%
- Professional: 18%
- Others: 6%
- Homemaker: 2%
GENDER

Female 42%
Male 58%

Qualification

12th Pass, 33
Graduate, 198
Professional (MBA, Doctor, Lawyer, Architect, Engineer), 96
Finance Professional - MBA - Finance, CA, CS, CWA, CFA, FRM, CFP, ICWA, 45
HYPOTHESIS TESTING

Hypothesis 1: Test of Proportions

\[ H_0: p \leq 65\% \]
\[ H_a: p > 65\% \]

\[ \text{Right-Tailed Test} \]
\[ \text{Alpha} = 0.1 \]
\[ \text{Probability} = 0.9 \]
\[ \text{Critical - value} = 1.28 \]

Calculating the Observed value
\[ x=69 \]
\[ n=96 \]
\[ p'=72\% \]
\[ p=65\% \]
\[ q=35\% \]
\[ p'-p=7\% \]
\[ \sqrt{p*q}/n = 0.05 \]
\[ p'-p = 1.41 \]

\[ \text{Observed-value} = 1.41 \]
\[ 1.28 < 1.41, \text{critical-value < observed value} \]

Therefore, reject the null.

Insights:

1) Gold investment in ETF form has been increase tremendously in past few years. With rise in income levels over the years, there has been a significant rise in investment level of people of the working class.

2) Gold ETF is been classified as a long-term fund that gives returns in quite passive manner. In addition, security fear is eliminate; therefore, investment here is upward trending.
Hypothesis 2: Test of Proportions

Ho: Average age of respondents for Gold Investment (ETF) is less than or equal to 26 years.
Ha: Average age of respondents for Gold Investment (ETF) is more than 26 years.

Ho: \( \mu \leq 26 \)
Ha: \( \mu > 26 \)
Test of Average
Right-Tailed Test
Alpha = 0.1
Probability = 0.1
**Critical-value = 1.282**
Calculating the Observed value
\[ x' = 28.83 \]
\[ \mu = 26 \]
\[ x' - \mu = 2.83 \]
\[ S = 8.51 \]
\[ N = 96 \]
\[ s/ \sqrt{n} = 0.87 \]
\[ x' - \mu \ s/\sqrt{n} \]
**Observed-value = 3.26**
3.26 > 1.282,
Critical-value < observed value
Therefore, we reject the NULL.

**Observations:**
We reject the NULL Hypothesis. Hence, we can say that Average age of respondents for Gold (ETF) is more than 26 years.

**Insights:**
1) Young Millennials try to invest in Gold after they are settle in their career.
2) People invest in Gold when the income level rises. That comes when the savings increases. Hence Gold investment is in direct relationship with the age of the working population.
Hypothesis 3: Test of Independence

Ho: Reasons for investing in Gold (ETF) is independent of the income of an investor.

Ha: Reasons for investing in Gold (ETF) is not independent of the income of an investor.

<table>
<thead>
<tr>
<th>Fe (Expected) Reasons for Investing in Gold (ETF)</th>
<th>2 lacs to 3 lacs</th>
<th>3 lacs to 5 lacs</th>
<th>5 lacs to 7 lacs</th>
<th>7 lacs to 10 lacs</th>
<th>above 10 lacs</th>
<th>less than 2 lacs</th>
<th>Grand Total</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Education</td>
<td>3.51</td>
<td>3.26</td>
<td>1.88</td>
<td>1.14</td>
<td>1.47</td>
<td>7.75</td>
<td>19.00</td>
<td></td>
</tr>
<tr>
<td>Children’s Marriage</td>
<td>1.29</td>
<td>1.20</td>
<td>0.69</td>
<td>0.42</td>
<td>0.54</td>
<td>2.85</td>
<td>7.00</td>
<td></td>
</tr>
<tr>
<td>Emergencies</td>
<td>1.85</td>
<td>1.72</td>
<td>0.99</td>
<td>0.60</td>
<td>0.77</td>
<td>4.08</td>
<td>10.00</td>
<td></td>
</tr>
<tr>
<td>Good Returns</td>
<td>18.45</td>
<td>17.17</td>
<td>9.87</td>
<td>6.01</td>
<td>7.73</td>
<td>40.77</td>
<td>100.00</td>
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</tr>
<tr>
<td>Retirement Plan</td>
<td>1.11</td>
<td>1.03</td>
<td>0.59</td>
<td>0.36</td>
<td>0.46</td>
<td>2.45</td>
<td>6.00</td>
<td></td>
</tr>
<tr>
<td>Secure Family Future</td>
<td>16.79</td>
<td>15.62</td>
<td>8.98</td>
<td>5.47</td>
<td>7.03</td>
<td>37.10</td>
<td>91.00</td>
<td></td>
</tr>
<tr>
<td>Grand Total</td>
<td>43.00</td>
<td>40.00</td>
<td>23.00</td>
<td>14.00</td>
<td>18.00</td>
<td>95.00</td>
<td>233.00</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Fo (Observed) Reasons for Investing in Gold (ETF)</th>
<th>2 lacs to 3 lacs</th>
<th>3 lacs to 5 lacs</th>
<th>5 lacs to 7 lacs</th>
<th>7 lacs to 10 lacs</th>
<th>above 10 lacs</th>
<th>less than 2 lacs</th>
<th>Grand Total</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Children’s Education</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>5</td>
<td>6</td>
<td>19</td>
<td>8.15%</td>
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<td>Children’s Marriage</td>
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<td>2</td>
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<td>3.00%</td>
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<tr>
<td>Emergencies</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>2</td>
<td>3</td>
<td>10</td>
<td>4.29%</td>
</tr>
<tr>
<td>Good Returns</td>
<td>14</td>
<td>21</td>
<td>12</td>
<td>7</td>
<td>7</td>
<td>39</td>
<td>100</td>
<td>42.92%</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>2</td>
<td>2</td>
<td>0</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>6</td>
<td>2.58%</td>
</tr>
<tr>
<td>Secure Family Future</td>
<td>20</td>
<td>11</td>
<td>6</td>
<td>5</td>
<td>4</td>
<td>45</td>
<td>91</td>
<td>39.06%</td>
</tr>
<tr>
<td>Grand Total</td>
<td>43</td>
<td>40</td>
<td>23</td>
<td>14</td>
<td>18</td>
<td>95</td>
<td>233</td>
<td>100.00%</td>
</tr>
</tbody>
</table>
Chi-squared test
Right-Tailed Test
Alpha = 0.1
Probability = 0.1

Critical Value = 34.38
Observed-value = 31.88
P-Value = 0.16
Alpha = 0.10
0.16 < 0.10
P-value > Alpha
Fail to Reject the Null.

Observations:
We fail to reject the Null Hypothesis. Hence, we can say that reasons for investing in Gold ETF is dependent on the income of the investor.

Insights:

1. Reasons for investing in Gold differs from income of the investor as income level of respondents varies.
2. People tend to make investment as per their savings, especially in case of working professionals.
3. Gold investment in ETF are directly relate to the general awareness of the stocks & commodity listed in the market.
Hypothesis 4: Test of Independence

**Ho:** Average age of respondents invest in GOLD ETF is same across their Occupation compared with reasons for Investing in it.

**Ha:** Average age of respondents invest in GOLD ETF is NOT same across their Occupation compared with reasons for Investing in it.

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Children’s Education</th>
<th>Children’s Marriage</th>
<th>Emergencies</th>
<th>Good Returns</th>
<th>Retirement Plan</th>
<th>Secure Family Future</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>1%</td>
<td>0%</td>
<td>0%</td>
<td>12%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Homemaker</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>1%</td>
</tr>
<tr>
<td>Others</td>
<td>0%</td>
<td>0%</td>
<td>0%</td>
<td>3%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Professional</td>
<td>3%</td>
<td>0%</td>
<td>2%</td>
<td>7%</td>
<td>1%</td>
<td>6%</td>
</tr>
<tr>
<td>Service</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>11%</td>
<td>0%</td>
<td>17%</td>
</tr>
<tr>
<td>Student</td>
<td>1%</td>
<td>0%</td>
<td>1%</td>
<td>10%</td>
<td>0%</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Anova: Two-Factor Without Replication**

<table>
<thead>
<tr>
<th>SUMMARY</th>
<th>Count</th>
<th>Sum</th>
<th>Average</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>6.00</td>
<td>0.19</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Homemaker</td>
<td>6.00</td>
<td>0.01</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Others</td>
<td>6.00</td>
<td>0.08</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Professional</td>
<td>6.00</td>
<td>0.18</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Service</td>
<td>6.00</td>
<td>0.33</td>
<td>0.06</td>
<td>0.00</td>
</tr>
<tr>
<td>Student</td>
<td>6.00</td>
<td>0.21</td>
<td>0.03</td>
<td>0.00</td>
</tr>
<tr>
<td>Children’s Education</td>
<td>6.00</td>
<td>0.08</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Children’s Marriage</td>
<td>6.00</td>
<td>0.03</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Emergencies</td>
<td>6.00</td>
<td>0.04</td>
<td>0.01</td>
<td>0.00</td>
</tr>
<tr>
<td>Good Returns</td>
<td>6.00</td>
<td>0.43</td>
<td>0.07</td>
<td>0.00</td>
</tr>
<tr>
<td>Retirement Plan</td>
<td>6.00</td>
<td>0.03</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Secure Family Future</td>
<td>6.00</td>
<td>0.39</td>
<td>0.07</td>
<td>0.00</td>
</tr>
</tbody>
</table>

**ANOVA**

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>SS</th>
<th>df</th>
<th>MS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rows</td>
<td>0.01</td>
<td>5.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Columns</td>
<td>0.03</td>
<td>5.00</td>
<td>0.01</td>
</tr>
<tr>
<td>Error</td>
<td>0.02</td>
<td>25.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total</td>
<td>0.06</td>
<td>35.00</td>
<td></td>
</tr>
<tr>
<td>$F$</td>
<td>P-value</td>
<td>$F_{crit}$</td>
<td>$\alpha$</td>
</tr>
<tr>
<td>-----</td>
<td>---------</td>
<td>------------</td>
<td>---------</td>
</tr>
<tr>
<td>2.73</td>
<td>0.04</td>
<td>2.09</td>
<td>0.10</td>
</tr>
<tr>
<td>7.98</td>
<td>0.00</td>
<td>2.09</td>
<td>0.10</td>
</tr>
</tbody>
</table>

**Observations:**

We reject the Null Hypothesis. Hence, Average age of respondents invest in Gold ETF is NOT same across their Occupation compared with reasons for Investing in it.

**Insights:**

1. Reasons for investing in Gold differs from income of the investor as income level of respondents varies since the occupation is different.
2. A retired employee is not as concerned with Gold as a security investment. But a Young salaried employee will love to Invest in gold (ETF) for their children marriage in future.
CONCLUSION

The study on the investment perceptions of Gold ETF was conducted in order to get an overview of the ETF investment patterns. The people within the age group of 26-45 invest in Gold ETF. In addition, the investment pattern here is quite towards the working population.

It is quite clear from the research paper, that the reasons from investing in Gold is independent of the income of the Investor. There were many reasons of investment but the investor is quite clear that, Gold ETF investment is quite a secure & safe option in future terms of family security.

The Gold ETF investment varies across the occupation of the investor. A homemaker might save first. The cumulative sum of the savings is been then converted in to Gold ETF. In case of executives, the investment is quite a business approach; the investor knows which ETF is a better option. The education of the stocks is heavily recommend before investing in Gold ETF.

LIMITATIONS OF THE RESEARCH

1. Data collection using primary research is expensive technique.
2. There exists a possibility that the respondents might be in hurry & responded the survey quickly.
3. Due to time constraints, the data was limited to 372 respondents only.
4. The data is collected from suburbs of Mumbai & Thane only.
5. Secondary data used as a base for research, over a period, its vitality can been depleted.
6. The response was taken from E-Form that led to low personal interaction.
REFERENCES

AGHILA SASIDHARAN Vol. 3, Issue 1, pp: (681-684), Month: April 2015 - September 2015

Dr. Jyoti H. Lahoti ISSN - 2250-1991 | IF: 5.761 | IC Value: 79.96 An Analytical Study on Perception of investors towards Gold as an Investment Option

Dr M Nawaz Mr Sudindra V R, June 2013, Volume No: 2 Issue: 4 A study on various forms of gold investment


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