

Investment Preference for Physical and Non-Physical Form of Gold: A Study on Marwari Businessmen in Guwahati City

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Abstract

Gold is one of the most preferred forms of investment among Marwari businessmen. They invest in both physical and non-physical form of gold. Through, this paper, attempt was made to find the investment preference of Marwari businessmen of Guwahati city towards physical and non-physical form of gold. Data were collected from both primary and secondary sources to derive a suitable conclusion. Gold Bar, Coins, Jewellery, Gold ETF, Gold Account, Shares of Gold Mining Companies etc were the key determinants of the study. The study evidenced that 70 % of the Marwari businessmen of Guwahati city preferred physical form of gold over non-physical form of gold investment and 14 % of the businessmen preferred both the forms of investment.

Keywords: Customer Preference, Gold, Investment

Introduction

People started investing for a secure life and a bright future. Investment was the sacrifice of current money or other resources for future benefits. The choice of investment avenues differs from investors to investor based on the level of financial literacy and expectations. Jain & Mandot (2012) stated that in the current economic scenario, money is considered as the root cause of all happiness.

Gold is considered by many, to be the best investment for protection during stock market declines and inflation (Nawaz and Sudindra, 2013). Gold is one of the oldest and the most preferred form of investment in India. This is because gold is considered as the best possible protection against upheaval, both political and economic (Benny and John, 2014). A report published by World Gold Council (WGC) (2010), mentions that Gold is the best commodity to invest in an asset, which is largely unrelated to the fluctuations and speculations in the different market conditions. Thus out of the whole ambit of investment portfolio, gold gets a special patronage from the investing population. Irrespective of the size of their income as well as various restrictions, people invest in gold. People do invest in gold in various forms such as bars, coins, jewellery, etc. However, of late, the concept of Cyber Gold has also taking its shape and attracting the investors to invest in Gold Exchange Traded Fund (Gold ETF).

Investors generally buy gold as a way of diversifying risk such as a hedge against inflation if perceived economically. The person who wishes to invest must know all the investment choices/avenues and the

ways of choosing this (Geetha and Ramesh, 2011). Now-a-days, there is a specific trend of preference being seen among the people with respect to the investment in gold. These changes are attributable primarily due to the technology revolution and regulatory changes.

The investment in gold is still considered worthy along with these changes because it yields high returns and low risks as compared to other types of assets. It is acceptable as a mean of investment worldwide. Investment in gold through dematerialized account (D-Mat Account) is becoming very easy. It does not require physical possession of stocks, but, only a certificate or account that serves the purpose for investment. There are various options emerging due to the advancement in technology such as investment in Gold ETF, Gold Mutual Fund, Systematic Investment Plan (SIP) in Gold, etc.

There are different forms of gold investment which is divided broadly among two classes. These are:

- a) **Physical form of Gold:** Physical form of Gold refers Bar, Coins, Jewelleries. This form of gold has got its physical presence. The investor can easily avail this form of gold into their possession. Physical form of gold is available in many shapes and sizes.
- b) **Non-physical form of gold:** Non-Physical form of gold refers to Certificate form of Gold, i.e., ETF (Exchange traded fund), Gold account, Shares of gold mining companies etc. This form of investment does not require the physical possession of the same. It is very much liquid.

Justification of Choosing Marwari Businessmen

Gold is one of the most attractive metals to buy for all the people belonging to any community in India. However, it is seen that Marwari businessmen are having a significant share in total buying of gold than the other communities especially in Assam state of India. Agarwala and Barman (2014) stated that Marwari businessmen were very much associated with gold and almost in all the occasions, festival, puja, marriage, any kind of celebration, security, stability of return, etc., they liked to strive towards gold. Agarwala and Barman (2014) also found that Marwari businessmen were occupying the 1st place in Gold investment in Assam. Therefore, in this study, Marwari businessmen are considered to understand how the major investing business community is reacting so far as different forms of gold investment are concerned.

Statement of Problem

Investment preference depended on the objective of the investors and their willingness to invest. Investment preference differs from individual to individual. According

to Kumar, A.A. (2012), gold was considered as an investment with high value making it a reliable form of wealth. Fisher and Jordan (1994) stated that the investment in gold was considered to be most preferred means of investment due to its high returns and low risks as compared to other types of assets. According to Nawaz, N.M., and VR, Sudindra (2013), in the current market scenario of high volatility, rapidly changing market place, various avenues for investment in gold were creating the confusion among Investors. They further stated that 16,000 tons of gold was there in Indian households predominantly in the form of jewellery. There were various alternatives available for investment in gold through options like jewellery, coins, bullions, exchange traded fund, mutual funds, E-gold etc. In normal circumstances, investors are more inclined towards physical form of gold rather than non-physical form. The basic reason may be its physical presence. Due to its tangibility, visibility and liquidity, the investors keep more confidence in physical form of gold as compared to non-physical form. However, of late, with the advent of technology, new forms of gold investment are emerging which allows a person to invest in Gold through non-physical form too. These modes of gold investments are getting popular primarily due to the factors such as safety, convenience, reliability, etc. Baur et al. (2010) found that gold ETF being more liquid was more preferred by the investors over physical gold and he further credited the increase in the recent demand for gold to the introduction of ETF. This has given an impetus to explore the phenomenon of preference for investment in gold and to find out the answer to the question as which of the two forms of gold are preferred by the Marwari businessmen.

Review of Existing Literature and Research Gap

A literature review is an evaluative process which justifies the research and also ensures that the research has not been done before or that it is not just a "replication study". Few of the studies are mentioned below to find out the literature gap. Gold is bought both as an investment as well as for consumption. There are many research works which are actually associated with investment are also applicable to gold.

Kumar (2009) revealed that investors often exhibited a preference for positive skewness, i.e., lottery type investment. Gervais and Odean (2011) in the model by them, individual investors learn to be biased by becoming overconfident because of their past idiosyncratic investment success. Dhan and Zhu (2006), Kumar (2009), Agnew (2006), Calvet, et.al. (2009) opined that wealthier, more educated and generally more sophisticated investors often made better financial decisions and exhibited less investment biases. Pati and Shome (2011) in their research article suggested that household preferred the safe

channels of investment rather than switching over to high yielding but risky channels of saving.

Sindhu (2013) stated that in India, gold was one of the foundation assets for households in the form of Investments. It was viewed as secure, liquid investments. Shobhana and Jayalakhmi (2009) revealed that real estate, bank deposit and jewellery were the preferred investment for Indians. Lewellen et.al. (1977) found that age, gender, income and education affected investors' preferences and attitudes towards investment decision based on their investment objectives. Baur, et.al. (2010) found that the increase in the recent demand for gold is due to the introduction of ETF. Pullen, T., et al. (2011) observed that gold bullion documented a clear and strong hedging over a mere diversifying capability. Second, results highlighted that gold stocks, gold mutual funds and gold ETFs tend to be diversified. Third, both gold bullion and gold ETFs showed support for the safe heaven property. Palanivelu & Chandrakumar (2013) opined that certain factors like education level, awareness about the current financial system, age of investors, etc made significant impact while deciding the investment avenues. Dempster (2006) recognised India as the world's foremost gold consumer in tonnage terms for many years to come in the World Gold Council Report 2006. At the same time he also viewed gold as a secured and easily accessible savings vehicle by the rural community where 70% of the population lived. Gold had three characteristics which lured Indians. First, it had held value for so long. Second, it was portable and a useful hedge against adversity. It was held for distress situation and was easily en- cashable. Third, equity had not been a fail-safe deliverer of value for most ordinary Indians. For those who sought safety of their capital, gold was the alternative to fixed deposits (Aggarwal & Lucey, 2007). Schoenberger (2011) stated that gold's "artificial scarcity", the large amount of physical work required to produce gold and such social implications as power and control drove the value of gold to be more than just monetary value. Coulson (2005) further stated that gold had the potential to perform incredibly well simply because the US Dollar had a history of representing weak value in proportion to other currencies. Cross (2005) analyzed various data including the prices of UK gold products in ETF's, the amount of US jewellery sales and the percent of total durable goods in the US. She used these data to argue that gold was a very "emotional" metal that behaved akin to the stock market. It was estimated by her studies that the gold market was a small isolated market that was very unstable and she did not recommend gold as an investment. She claimed that gold holds emotional characteristics, however, re-asserted Schoenberger's claim that the value of gold was more than just monetary value. Borzykowski (2011) stated that aggressive investors should consider gold bars or gold

ETFs. When Smart investors chose to invest in such precious metals as gold and silver, they examined the metal's historical volatility levels. Athma and Suchitra K. (2011) studied mainly the conceptual knowledge of gold exchange traded Funds. The study was undertaken to fill the research gap with the objectives to focus the Gold ETF as a strong asset class; to stress upon the inclusion of Gold ETF in a portfolio for risk diversification; to assist the investor in selection of best Gold ETF option and to analyze the tax implications of gold ETF. Singh, et. al. (2010) attempted to identify and analyze various motivating factors that induced the investors to invest in gold. Starr and Tran (2007) used panel data on gold imports of 21 countries to examine determinants of physical demand and found that determinants of physical demand differ from those of portfolio demand and that they differed between the developed and developing worlds. Worthington and Pahlavani (2006) revealed that gold is the asset that has attracted people for thousands of years and this attraction continues to present day. Unlike, most commodities, gold is durable, relatively transportable, universally acceptable and easily authenticated. The demand for gold is even increasing not only for jewellery, coins and bars but also for many industries, such as electronics, space as well as medical technology. It is gold which still a form of currency in many countries is after the collapse of the Bretton Wood System in 1971. Ghosh, et.al (2004) had pointed that people buy gold for two purposes. The first is the "Use Demand", where gold is used directly in the production of jewellery, medals, coins, electrical components and so on. The second is "asset demand" for gold, where it is used by governments, fund managers and individuals as an investment. The asset demand for gold is traditionally associated with the view that gold provides an effective "hedge" against inflation and other uncertainty. Gurunathan & Muniraj (2012) revealed that jewellery investment is an un-stabilizing activity and it also showed that gold jewellery is the prime avenue for investment followed by Silver, Diamond and other Platinum jewellery. World Gold Council (2010) suggested that if an investor wishes to invest in assets which are largely unrelated to the fluctuations and speculations in the different market conditions, then gold is the best commodity for this purpose. Even the mutual funds which considered for risk mitigation won't be able to give reasonable amount of returns in comparison to gold. Parikh & Vaish (2013) concluded that the Investor's could very well benefit by investing in gold as its performance has remained stable during different market conditions. It could be further concluded that, gold's optimal share as part of sound investment in the portfolio rises in a more inflationary case in order to mitigate the risk and ill effects of the returns on the investment into alternative assets.

There were rare literary evidences of study on the Marwari Businessmen and their preference level towards investment in gold. Hence, this study proposed to fill up literature gap and also to fill the study gap on investment in gold by these businessmen in respect of Assam. This piece of study may serve as the unique source for further study on investment behaviour among the members of this community in future.

Objective of the Study

The objective of this study is as follows:

- To study the investment preference with respect to investment in gold in “physical form” and “non-physical form” by the Marwari Businessmen;

Hypothesis of Study

The study tests the following null hypothesis:

H0: There is no significant difference in the investment preference for physical form of gold and non-physical form of gold by the Marwari Businessmen.

Methodology of the Study

- Research Design and Type of Study:** This study is descriptive in nature.
- Universe of Study:** The Marwari Businessmen in Guwahati city, of Assam in India constituted the population for the study. Total number of Marwari population in Guwahati city is approximately 17,000. This data is gathered from various sources like Names and addresses appeared in the Trade Journal, Marwari Yuva Munch, different Business Societies and Community Magazines. All these secondary sources were scanned and sequentialised to get the detail list of population of Marwari businessmen in Guwahati city. Through this process, total of 17000 of Marwari Businessmen were identified and considered as the Universe of the sample.
- All types of Marwari businessmen of Guwahati city were covered.
- Sample Size:** A sample at 95% level of significance and 5% confidence interval has been taken randomly for the purpose of the study.

Table 1: Sample Calculation		
Raosoftware Calculator Parameters	Raosoftware Calculator	Sample Error
Acceptable Margin of Error	5%	The threshold Marginal error at the sample 300 will create error of 5.61% but the sample size created with the calculator determines 376. Therefore, the threshold limit of sample error will be reduced from the 5.61% to 5%.
Confidence level Typical Choices are: 90%,95%,or 99%.	95%	
The population size If you don't know, use 20000.	17000	
The response distribution? Leave this as 50%	50	
Your recommended sample size is	376	

Source: Compiled from Raosoftware Calculator

e. Sampling Unit

The Marwari Businessmen of Guwahati city was the sampling unit of the study.

f. Data Source and tools for Data Collection

For the purpose of the study, data were collected from primary as well as secondary source. Previous Literatures were reviewed to formulate the research problem and to justify the relevant findings of the study. For collecting primary data, a structured questionnaire was framed.

g. Development of questionnaire

The questionnaire includes the questions related to demographic profile of the investors and the avenues

of gold investment available for Marwari businessmen. In the questionnaire, question related to selection of preferential avenues were given under five options, i.e., Physical Gold (Bar, Coins, Jewellery and others), Certificate form of Gold, Shares of Gold Mining Companies, Mixed form of Gold and Gold account under the heading “In which form of Gold do you prefer to invest?”

h. Administration of questionnaire

Considering the experiences in pretesting of questionnaire, 850 questionnaires were distributed for the sample size of 376 and 404 dully filled up questionnaires were received and considered for final analysis, though the sample size was 376 as calculated

by Raosoft calculator. The whole process of questionnaire administration and collection took around two months time.

i. Data analysis

To analyse the data, different statistical tools and techniques were used such as mean, standard

deviation, tabulation. Besides, some statistical tests such as chi-square test are also done to arrive at logical conclusion.

Analysis and findings

The investment preferences in the different forms of gold have been presented in table 2.

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

Source: Compiled from Questionnaire

Table 3					
Test Statistics					
	Physical Gold	Certificate Form of Gold	Mixed	Gold mining share	Gold Accounts
Chi-Square	11.446 ^a	279.446 ^a	237.871 ^a	372.634 ^a	353.673 ^a
Df	1	1	1	1	1
Asymp. Sig.	.001	.000	.000	.000	.000
a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 202.0.					

Source: Compiled from Questionnaire

Since the p-value for investment preference in physical gold, certificate form of gold, mixed investment in gold, investment in gold mining shares and investment in gold through gold account was less than 0.05 (5% level of significance), it was inferred that the difference in the investment preference as revealed by the sample in table 2 was actually present in the population and the differences were statistically significant.

It was evident that investment in physical gold was the most preferred form of gold investment by the businessmen in Guwahati City. 70% of the Marwari businessmen preferred physical form of Gold as compared to any other form of Gold Investment. 14% of the Businessmen preferred mixed form of gold investment, i.e., physical form of gold as well as non-physical form. It also appeared that investment in certificate form of gold such as Gold ETF is gaining familiarity among the Marwari businessmen. 10% of the Marwari businessmen preferred certificate form of gold. However investment in the shares of gold mining companies was not very popular till date. This findings corroborate the study of Nawaz and Sudindra (2013).

Critical Analysis of Findings

It was seen that there was considerable preference for gold among Marwari businessmen due to their socio-economic background. Investment in physical form of gold gave more security than any other form to the businessmen. Certificate form of Gold, i.e, ETF (Exchange traded fund), Gold account, Shares of gold mining companies or any other was not at all popular among the Marwari Businessmen. Baur, et.al. (2010) has given a contradictory view with respect to investment in physical gold. He found that gold ETF being more liquid is preferred by the investors over physical gold and he further credited the increase in the recent demand for gold to the introduction of ETF. He also claimed that the volatility of gold had been increased because of the ease of the trading facilitated by gold ETFs.

The study evidenced that there is preference for physical form of gold over non-physical form of gold among the Marwari Businessmen. Pullen, T., et al. (2011) also viewed that the investors need to take positions directly in bullion or gold ETFs since gold stocks and gold mutual funds

displayed very little evidence of the safe heaven characteristics. Tourani-Rad & Kirkby (2005), Singh & Bhowal (2010) states that investors prefer to invest in the assets physical evidence of which is known to them. Thus, physical evidence of physical gold is known to the investors and hence there is clear preference visible among the investors towards physical gold.

The reason for greater demand for gold in India was investigated by Starr and Tran (2008). They stated that there was a much higher demand for 'physical gold'. Acquisitions of gold in physical forms such as jewellery, bars, coins and medallions were found in Eastern countries, such as, India, Pakistan, Turkey. In India, Turkey, China, gifts of gold jewellery were customarily given to newly married couples, new-born babies etc. Mondal, D. (2010) suggested that investors should take exposure in gold by buying either physical gold, gold exchange traded funds or even units of mutual fund which invested in the stocks of gold mining companies.

Recently, Government of India has launched the Sovereign Gold Bond Scheme. The government has set the objective of the newly launched gold bond scheme which is to cut down the import of Gold and also to generate habit of buying paper gold among the masses. These bonds are marketed through various channels like Post Office, NBFCs (Non Banking Financial Companies), brokers, nationalised banks like, SBI, UCO Banks etc. This scheme will not only benefit the buyers but also benefit the bankers too. This will improve the Statutory Liquidity Ratio and Cash Reserve Ratio of the banks too.

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