Factors Influencing Gold Buying Behavior of Retail Consumers in India with Respect to Individual's Determinants

Kirti Arekar
K.J. Somaiya Institute of Management Studies & Research, Mumbai, India

Swati Godbole
K.J. Somaiya Institute of Management Studies & Research, Mumbai, India

India's love affair with gold is timeless and gold is not just another precious metal but is a part and parcel of the Indian culture. However of recent there has been a shift in the mindset of the people and they have started looking at gold beyond a status symbol. Therefore the objective of this study is to examine the factors impacting the gold buying behaviour of the retail consumers and to examine which of these factors i.e. Risk and return, Market information, Motives, Security, Opinions and Benefits, have significant impact on the different age group. Regression analysis was done to identify the most significant factor out of the six identified factors (by factor analysis) that has impact on different Age groups. It has being observed that Motives behind buying gold, market information and risk and returns influence the investment decisions of the buyers with respect to different age groups.

INTRODUCTION

Earning money, savings and investing it wisely are part and parcel of human life, how rich or poor they may be. As a result we always see people looking out for different investment avenues. Each individual has their own life goals which in turn define their investment goals. Gone are the days when they had very few options for investment, today we see a plethora of avenues open for investments. One may select stock, options, derivatives or may not, but the basic aim behind investing remains the same i.e. Positive returns resulting into wealth creation.

However it is not easy always to invest and have positive returns unless one monitors the performance of the investment instrument and has clear objects in mind. One cannot forget one very important factor – Inflation. Inflation has a direct impact on the value of money and if proper investments are not done or investments are not monitored then the core object of investing (i.e. Positive returns – wealth creation) cannot be achieved for. Therefore it is very important that people should be aware and well versed with the various investment instruments and should do proper financial planning.

Gold is one of the oldest precious metals known to man & for years it has been valued as a global currency, an investment, a commodity and an object of beauty and India is not an exception to this. India's love affair with gold is timeless spanning over centuries and millennia. In India, Gold is not just another precious metal but it is a part of our culture, an inseparable part of our belief system and a matter of pride.

Gold has always been considered a sacred item in life and is a must in every religious function- reason being that Gold is pure having passed through fire in its process of evolution. Gold has become an inseparable part of almost every household in Indian Society and infused into the blood of an Indian. It's being seen as symbol of good fortune and prosperity.

However of recent there has been a shift in the mindset of the people and they have started looking at gold beyond a status symbol. People have realized its importance as an investment avenue too. The recent global crises in the form of US subprime issue, the euro zone issue, have resulted into changing the attitude of people towards gold.

Individuals even if they are siblings, are different in nature and so do are their financial needs, financial planning, investment decisions and risk patterns. Therefore in the present study we studied which of the factors (arrived at by factor analysis) i.e. Risk and return, Market information, Motives, Security, Opinions and Benefits, have significant impact on the different age group.

LITERATURE REVIEW

The Indian Gold demand has recovered and gone up since start of 2010, in 2011 the nation saw jewellery and investment demand of 933.4 MT. In 2011, India was by far largest single investment market and accounted for 25% of the total bar and coin demand. India imported a record of 969 MT of gold in 2011(Source: MCX) [21]. In the last fiscal year India ended up importing $56.5 Billion and in the first nine months of the current fiscal year it has already imported $38 Billion.

In India, consumer demand for gold in the second quarter from April to June 2013 was 310 tonnes. This shows an increase of 71 per cent as compared to the second quarter of 2012. Gold in the form of investment is exclusively in a physical form, typically a gold bar or a gold coin and sometimes the list includes gold medals as well (Neil 2010). During the second quarter of 2013, gold bars and gold coins investment rose to 116 per cent, while demand for jewellery rose by 51% as compared to second quarter of 2012. An increased demand for gold as an investment can be seen throughout these years as seen above (Source: World Gold Council Quarterly report-2011, 2012 &2013) [20]

By conducting an empirical test Bahram Adrangi et al (2003) [2] studied the relationship between real gold returns and inflation. The main object of the study was to establish whether Gold acts a reliable hedge against inflation or not. To study the hypothesis the authors covered a period starting from January 1968 to December 1999 and concluded that there exist a positive relationship between expected inflation and real gold returns.

Dr. M. Jayanthi, T. Poongothai, R. Preethi (April 2014) [7], in their paper on "An Investor's Investment in Gold: Physical Vs Paper" observed that for Indian's Gold is an important form of investment and it is more than just an asset. The concluded the study by stating that for traditional and prestigious value people prefers physical gold over paper gold.

Chua et al (1990) [4] and Jaffe (1989) [9] analyzed benefits of investment diversification in gold. Jaffe (1989) also concluded that gold gives an advantage in investment diversification.

Gulati & Mody (1982) [8] studied the gold's price from 1972 to 1982 which was a period featuring large fluctuation in gold price, and concluded that the main factors of impact are: Inflationary expectation, exchange rate fluctuations and changes in interest rates.

Mr. P. Arulmurugan, Dr. K. Balanagaguruthan and Ms. Mirudhubashini (Feb 2013) [14], in their paper on Investment behaviour of professor towards Gold stated that Gold acts as a natural hedge against Two important macro-economical factors namely Inflation(Internal) and other currencies (External), however for the common man more than these factors the sheer value, the yellow metal is associated with, is mainly responsible. They examined the behaviours of professors from Tamil Nadu district by collecting Primary data based on questionnaire and concluded that demographic factors (age, gender, marital status etc) and family characteristics (stage of family life cycle, monthly family income etc.) as well as factors like safety, liquidity, traditional value, risk and returns determines the investment behaviour of the professors.

Dr. B. S. Hundal, Dr. Saurabh Grover and Jasleen Kaur Bhatia (2013) [5] , in their study on Herd behaviour and gold investment by retail investors observed that investors are of varied personality types and have behavioural biases which impact the investment decision process. Factors such as income tax, time value of money, future prospects and profitability influence the retail investor's decision making process and gold is the most sought after asset due to its high liquidity, conventional value and cultural value features.

K. Balanga Gurunathan and S. Muniraj (2012) [10], in their study evaluated the impact of customer awareness and buyer behaviour on buying jewellery products and concluded that gold jewellery is given highest priority over silver, diamond and platinum jewellery.

Robert A. Nagy & Robert W. Obenberger (1994), in their study on "Factors influencing Individual Investor's behaviour" viewed that even though different criteria's are being employed by investors for choosing stock, wealth maximisation was found to be the most important criteria for all. Also the recommendations by friends, peers, advisors or brokers are largely ignored by Investor's at the time of choosing the stocks.

Mittal & Vyas (2008) [12] observed that investors have certain cognitive and emotional weaknesses which come in the way of their investment decisions.

Mohanta & Debasish (2011) [13] in their study observed that investors mainly invest for safety, security, liquidity, tax benefit, periodic returns, secured future etc. In other words they mainly invest to fulfil their financial, social and psychological needs.

Bishnoi Sunita (March 2013) [17], in her study on Investor's behaviour in NCR with respect to Investment decisions, observed that investors from Faridabad preferred Insurance as most important instrument of Savings and investment. She also observed that the investor's give more importance to the risk and return they can bear and Safety & Capital gain were observed to be most important investment objective.

Kasillingam R and Jayabal G (2009) [11], in their study on characteristics of investors with different motives observed that precautionary motives (Desire to build for reserve for unforeseen contingencies) was rated the most important savings motives by the people as against the speculative motive was rated the lowest. It was also observed that Motives like Enterprise (desire to carry out speculative business) and Avarice (To spend less/ Misery instinct) does not exist in the eyes/mindset of investors or savers or people.

N. Geeta and M. Ramesh (2012) [15] in their paper on "A study on relevance of demographic factors in investment decisions", studied the significance of demographic factors such as Gender, income level, age, education, occupation, savings and family size over several elements of investment decisions like priorities of investments , period of investments, frequency of investments etc. And concluded that few demographic factors such as size of family, annual income and annual savings have significant relationship with period of investment where as the rest of demographic factors have no significant relationship.

National Council of Applied Economic Research (NCEA) (1961) [19], in their survey on "Urban Savings" observed that irrespective of the occupation, age, education, each individual feels the need for savings for old age, emergencies, contingencies etc. Thus savings for old age, emergencies, contingencies etc was one of the important factors across all the strata's of people.

Ronay and Kim (2006) [16] observed that there is no difference in risk attitude between individuals of different gender however risk tolerance was found to be high in male respondents.

Carter & Chen (2006) viewed that the experience of investing has an impact on the investor's behaviour and an experienced investor has relatively higher level of risk tolerance and that their portfolio mainly consists of products with high risk.

Ajmi (2008) [1] in his study on factors influencing risk tolerance of individual investors, observed that men are less risk averse than women and that education has a direct correlation with risk taking appetite as less educated investors are less likely to take risk. With respect to age and income level, he viewed that age is an important factor for evaluation of risk tolerance and that wealthy/rich investors are more risk tolerant as compared to less wealthy/rich investors.

Barua & Srinivasan (1986, 1987, 1991)[3], observed while exploring the investment decision making process of individuals through experiments and concluded that risk perceptions of individuals is significantly influenced by returns. While making investment decisions investors are concerned about the possibilities of loss as well as the variations in returns.

OBJECTIVES

To examine which factors i.e. Risk and return, Market information, Motives, Security, Opinions and Benefits, have significant impact on the different age group.

RESEARCH METHODOLOGY

Sampling

A sample of 200 respondents was collected out of which 50 responses were discarded since they were not complete in all respect. It was convenient sample of working executives from the city of Mumbai.

Variables of Study

By carrying out factor analysis factors influencing the gold buying behavior of retail consumers were identified to be Motives, Market information, Risk and Return, Security, Opinions and Benefits. The above was done by using questionnaires which were mainly related to demographics of the respondents and on the above six factors based on Likert scale.

The collected data was analyzed by using SPSS (21.0) package. By applying factor analysis 13 variables were first reduced to 8 and then further to 6 to identify the factors impacting gold buying behavior. These factors were:

1. Motives: This factor contains variables related to the reasons/ objects behind gold buying decisions of the retails consumers.
2. Market Information: This factor contains variables related to the reactions of investors due to market movements and investments in gold
3. Risk and return: This factor covers variables which mainly focus upon the perceptions of the consumers with respect to the risk and returns and investment in gold.
4. Security: This factor contains the variables related to the security perceived by the customers while making investment in gold.
5. Opinions: This factor basically refers to the thought process that an investor goes through before making an investment decision.
6. Benefits: This factor includes variables which mainly talk about the expected, perceived benefits consumers look for while making investment in gold. It was observed that all the six factors affect the gold buying behavior of consumers and on the basis of the descriptive analysis of the factors with respect to gender and age, it was observed that factors like Risk and return, Opinion, Market information, Benefits and Security affects the buying behavior of consumers.

FINDINGS AND INTERPRETATIONS

Regression Analysis

Regression analysis was carried out to identify the most significant factor out of the six identified factors that has impact on different Age groups. Stepwise regression was applied and the results were obtained as follows:

Three models for the age group 20-29 were generated, whereas four models were obtained for the age group 40-60 & above, however no model fit was found for the age group 30-39 for the collected data. On the basis of High R square value Model 3 for (20-29 age group) and Model 4 for (40 – 60 and above age group) were accepted.

Analysis of Models on the Basis of Age

A brief summary of all the models is given in the table 1 below. From the same it was observed that Model 3 for 20-29 age groups was found to be the best since it had a high R square. For the age groups 30-39 no model fit was observed for the collected data, whereas Model 4 was found to be best fit for the age groups 40 – 60 & above.

The model that was used is:

$Y_i = \alpha_i + \beta_i X_i + \varepsilon$

α_i = intercept

i =1 20-29 age group

i =2 30-39 age group

i =3 40-60 & above age group

Model 3 which were accepted for age group 20-29, had 3 factors out of the 6 factors. Motives (β =0.410, t = -5.744, $p < 0.05$), Market Information (β =0.216, t = 2.953, $p < 0.05$) and Risk & returns (β =0.207, t = 2.841, $p < 0.05$). This implies that the most influencing factor has been Motives followed by Market information and Risk & returns for the age group of 20-29. This also means that for the people from the age group 20-29, Motives for gold buying are important. Elements such as high rate of returns, mortgagable property, financial security, cash purchase, no documents requirements etc play very vital role in their gold buying decision making.

Accepted model 4 for age group 40 – 60 & above had 4 factors out of the 6 factors. Motives (β =0.715, t = 11.61, $p < 0.05$), Security (β = -0.299, t = -4.83, $p < 0.05$), Risk & returns (β =-0.219, t = -3.77, $p < 0.05$) and Market Information (β =-0.162, t = -2.78, $p < 0.05$). This implies that even for the age group of 40 to 60 & above the most influencing factor is Motives.

TABLE 1
AGE BASED REGRESSION MODEL

Age group Models	20-29 1	 2	 3	30-39	40-60 & above 1	 2	 3	 4
R^2	0.164	0.233	0.273	NO MODEL	0.358	0.459	0.523	0.547
p Value	0.000	0.000	0.000	FIT FOUND	0.000	0.000	0.000	0.000
F	28.850	22.133	18.161		81.798	61.953	52.895	43.460
Durbin Watson	0.454				1.080			

TABLE 2
REGRESSION ANALYSIS FOR ACCEPTED MODELS –

FACTORS/ ACCEPTED MODEL	20-29 AGE GROUP MODEL 3			40-60 & ABOVE AGE GROUP MODEL 4		
	Beta	t value	p value	Beta	t value	p value
F_1 = Motives	.410	-5.744	0.000	0.715	11.61	0.000
F_2=Market Information	.216	2.953	0.004	-0.162	-2.78	0.006
F_3 = Risk & return	.207	2.841	0.005	-0.219	-3.77	0.000
F_4 = Security				-0.299	-4.83	0.000
F_5 = Opinions						
F_6 = Benefits						

From the above table we observe that Model 3 the accepted model for the age group 20-29 years, the p value for all the 3 factors (F_1, F_2,F_3) is less than 0.05, so we reject the H_0 and accept H_1 i.e. the coefficient of these 3 factors is statistically significant.
Similarly for the age group 40 to 60& above, for the accepted Model 4, the p value fir all the four factors is less than 0.05, so we reject the H_0 and accept H_1 i.e. the coefficient of these 4 factors is statistically significant.

CONCLUDING REMARKS

There is a change in the mindset of the people with respect to the gold buying as was observed from the study. Gold has not remained just a status symbol but is being looked at as an investment avenue. From the study it can be concluded that people from different age groups are interested in investing in gold because it gives financial security; it's a safe haven, its mortgagable. It was also observed that even though people discuss or give preference to the opinions of their friends and family but they also look out for market information before making investment decisions. The intention of this study is to give an insight of the investor's decision making, beliefs, to the financial managers which will help them in constructing their financial products and marketing strategy.

REFERENCES

Ajmi J.Y. A (2008), "Risk Tolerance of individual investors in emerging markets", International Study Journal of Finance & Economics, Vol. 17, 15-26.

Bahram Adrangi et al. (Fall 2003), "Economic Activity, Inflation and Hedging: The case of Gold and Silver Investments", The Journal of Wealth Management, 60-77.

Barua & Srinivasan G (1986, 1987, and 1991), "Investigation of Decision Criteria for Investment in Risky Assets", OMEGA: International Journal of Management Science, Vol. 15, No. 3, p. 247-253.

Chua et al (1990), “Diversifying with gold stocks”, Financial Analysts Journal, July-August issue, 76-79.
Dr. B. S. Hundal, Dr. Saurabh Grover and Jasleen Kaur Bhatia (2013), Herd Behaviour and Gold Investment: A perpetual study of retail investors, IOSR Journal of business and management (IOSR-JBM), Volume 15, Issue 4, 63-69.
Dr. Kirti Arekar & Swati Godbole (2014), “A study of factors influencing Gold Investment decisions of retail customers in India”, “International Journal of Applied Business and Economic Research”, Vol. 4.
Dr. M. Jayanthi, T. Poongothai, R. Preethi (April 2014), “An Investor’s Investment in Gold: Physical Vs Paper”, The International Journal of Business & Management, Volume 2, Issue 4, 79-81.
Gulati & Mody (1982), “International Gold Price Movement -1972 – 1982”, Centre for Development Studies, Working paper 150.
Jaffe (1989), “Gold and Gold stock as investments for institutional portfolios”, Financial Analysts Journal, Vol. 49, no.2, 53-59.
K. Balanga Gurunathan and S. Muniraj (2012), “Impacts of customer awareness and buyer behaviour on buying jewellery products with special references to Tamil Nadu State, European Journal of Social Sciences, Volume 29, Issue 3, 337-342.
Kasillingam R and Jayabal G (2009), “A study on the characteristics of Investors using Motive based Segmentation”, IUP Journal of Financial Economics, 7.1, 66-83.
Mittal & Vyas (2008), “Personality type & Investment choice: An empirical study”, The ICFAI University Journal of Behavioural Finance, 5(3), 7-22.
Mohanta, Giridhari & Debasish, Sathya Swaroop (2011), “A study on Investment preferences among Urban Investors in Orissa”, Prerna Journal of Management thought & practice, 3 (1), 1-9.
Mr. P. Arulmurugan, Dr. K. Balanagaguruthan, Ms. Mirudhubashini (Feb 2013), “A study on Investment behaviour of Professors towards Gold with special reference to Tamilnadu State”, International Journal of Scientific research, Volume 2, Issue 2, 233-237.
N. Geeta and M. Ramesh (2012), “A study on relevance of demographic factors in investment decisions”, Perspectives of innovations, Economics & Business, Volume 10, Issue 1.
National Council of applied economic research (NCEA) 1961, “Urban Savings “, a survey.
Ronay, R. & Kim, D.Y. (2006), Gender differences in explicit and implicit risk attitudes: A socially facilitated phenomenon. British Journal of Social Psychology, 45: 397–419.
Sunita Bishnoi (March 2013), “An empirical study on investor’s behaviour in National Capital Region (NCR)”, International journal on Global Business Management & Research, Vol. 1, Issue 2, 14-26.
Swati Godbole & Dr. Kirti Arekar (2014), “Retail Investors and Gold Buying Behaviour – A Perpetual Study of Indian Retail Investors”, Accounting & finance research, Volume 3, No.4, November 2014.
World Gold Council- WGC, India Heart of gold Revival Report, April 2010-11.
www.mcxindia.com