

# A STUDY ON PERCEPTION OF INVESTORS TOWARDS GOLD AS AN INVESTMENT AVENUE IN MADURAI CITY

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**Abstract** *Since the beginning of civilization, gold has been one of the most sought after metals in the world. Because of its durability it has been used by nations as fiat currency. Nations may fall, paper money may lose its value but gold will always remain as something of value. But there are certain disadvantages in investing gold. As compared to other precious metals, gold has a low industrial demand. Largely investors only decide its demand and value. In the short run, gold is an excellent store-house of wealth as long term investment gold is not an ideal investment. This is because its return is easily outplaced by the equity market. Moreover investment in gold has no payout in terms of dividends.*

*This study aims at collecting investor's response towards investment in gold. Seventy five respondents were interviewed through structured questions. Pros and cons of investing gold have been elicited.*

*The author has highlighted the limitations in investing in gold. It is learned that gold import has eroded most of our foreign currency. so it will increase our current account deficit resulting in declining our rupee value against dollar.*

**Keywords:** *Inflation, Reserve Bank of India, Inflation-Indexed Bonds, Current Account Deficit (CAD), Assocham (Associated Chambers of Commerce and Industry of India)*

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## 1. INTRODUCTION

Gold is a precious metal that has been valued by people since ancient times. People use gold for coins, jewelry, ornaments, and many industrial purposes. Until recently, gold reserves formed the basis of world monetary systems. Gold plays an important role in providing the best possible protection against the fluctuations of both political and economic scenario, mainly in Asia, the Middle east countries and also in India.

## 2. FACTS ABOUT GOLD

Gold, like no other metal, has a fascinating history and a special place in the world. . Gold is a very soft metal when it is pure (24 Kt. is pure gold).

Gold's many unique properties have secured it a central role in history and human development. Gold is a remarkable, rare metal, with an unparalleled combination of chemical and physical properties. It is the only yellow metal and bears its name from the Old English word for yellow, 'geolu'. It is

also the only metal that forms no oxide film on it's surface in air at normal temperatures, meaning that it will never rust or tarnish.

From the ancient time, gold has been in use as decorative ornaments for kings and also a currency and standard for global transactions. It has a wrinkle role in a wide range of electronic devices and medical applications, recently.

Even through gold was mainly used t wear it as an ornament, thus acting as a status symbol in India, the perception about gold has taken different dimensions, making a long journey from those days.

Increase of belief in gold among the Indians, not only deserves a place in home cupboard or bank locket, but also in the Indians investment portfolio. Reserve Bank of India makes changes in policy, according to the gold store in the Indian treasury.

In the year 2010, Gold jewellery and ornaments occupy nearly 75% of the total gold demand in India; the remaining 25% of Indian demand is accounted for the investment and technology sector.

### 3. THE METHODOLOGY OF THE STUDY

The design of a suitable methodology and the selection of the appropriate analytical tools were very important in making a meaningful analysis of any chosen research problem. This section had been devoted to a description of the methodology adopted in the present study. It had included the collection of data, a description of the sampling procedure adopted, and the tools used for analysing the data.

#### 3.1. Collection of Data

The data required for the present study were collected both from the primary as well as from the secondary sources. The primary data had been collected from the respondents in the study area directly by using a well designed interview schedule. The secondary data were collected from the published sources.

#### 3.2. Sampling Design

A total number of 75 sample respondents has been selected for the purpose of the present study. In the study area,

required primary data were collected from list of customers maintained by the jewelry shops. The data were collected from the respondents by the direct personal interview method. A Pre-test was initially conducted and the necessary corrections were made and the final draft of the interview schedule was then prepared.

#### 3.3. Tools of Analysis

The collected data, both the primary as well as the secondary, were analysed by employing the Percentile Analysis and Mean Scores of Five Point Scale.

#### 3.4. Period of the Study

The present study has been based on both the primary as well as the secondary data. The secondary data required for the present study had been collected for a period of 10 years, that is, for the years 2001-2002 to 2010-2011. The primary data were collected through a field survey conducted by the researcher during the months of March to June 2013.

**Table 1: Demographic Characteristics**

Variables	Categories	Number of Respondents	Per Cent
Age	Below 30 Years	2	2.67
	31-40 Years	12	16.00
	41-50 Years	44	58.67
	Above 50 Years	17	22.66
	Total	75	100.00
Sex	Male	17	22.67
	Female	58	77.33
	Total	75	100.00
Income Level	up to 10,000	7	9.33
	10000 to 20000	11	14.67
	20000 to 30000	30	40.00
	above 30000	27	36.00
	Total	75	100.00
Education	Illiterates	3	4.00
	Primary Level	9	12.00
	Plus Two Level	12	16.00
	College Level	51	68.00
	Total	75	100.00
Family Type	Nuclear Family	71	94.67
	Joint Family	4	5.33
	Total	75	100.00

Source: Primary Data

## 4. PROFILE OF THE STUDY AREA

Madurai is the administrative head quarters of Madurai district in the south Indian state of Tamilnadu. It is the third largest city in Tamilnadu. It is located on the banks of river 'Vaigai'. Madurai is built around Meenakshi Amman Temple, which acted as the geographic and ritual centre of the ancient city of Madurai. According to 2011 provisional census data, Madurai city had a population of 10,16,885 within the corporation limits with 5,09,313 men and 5,07,572 women. There were 2,15,265 households in the city.

## 5. DEMOGRAPHIC CHARACTERISTICS OF THE SAMPLE RESPONDENTS

The information regarding the demographic characteristics of the sample respondents in the study area had been presented in Table 1.

Table 1 has indicated that out of the 75 respondents studied, 17 (22.67 Per cent) were found to be male while 58 (77.33 per cent) were found to be female. Thus, most of the respondents belong to the age group of above 41 to 50 years (58.67 per cent). Further, it could be seen that most of the respondents in the study area have belonged to the income group of more than Rs. 30000. It could further be understood that the College level educated respondents constituted 68.00 per cent. Most of the respondents in the study area had belonged to the nuclear family category.

## 6. ANALYSIS AND DISCUSSION

### 6.1. Import of Gold In India

As India's indigenous production of gold is very limited, the rising and future demand, has to be met-out from the outside sources of the country. Thus import of Gold has become a necessary criteria in Indian gold market. Import of gold compels the foreign exchange reserve to become scarce resource for the import of other commodities like food etc.,

Moreover, Gold as a commodity on its own does not add much to the productive capacity of the economy. In both the cases, money spent on purchasing gold gets blocked since gold is not a productive asset n investor buys gold when it is selling at a high price in relation to the dollar and then sells it at a lower price, the investor will, of course, lose money.

India imports most of its gold requirement. Gold as a commodity on its own does not add much to the productive capacity of the economy. Such high value of gold imports has now started hurting India's current account position.

Gold's share in total import bill of the country has gone up from 8.1 per cent in 2001- 02 to 9.6 per cent in 2010-11. In 2008-09 the growth was 23.0 percent, in 2009-10 it was

38.1 per cent and in 2010-11 the recorded growth stood at 18.3 per cent. Thus the average rate of growth during this period was 26.8 percent. Even though, the prevailing global fancial conditions during this period was volatile, high levels of gold imports create an impression that India has passion / obsession with gold.

A look at the Indian import figures for gold over the period 2001-02 to 2010-11 suggests that: Gold's share in total import bill of the country has gone up from 8.1 per cent in 2001-02 to 9.6 per cent in 2010-11. In value terms, it has risen from US \$ 4170.4 million in 2001-02 to US \$ 33875.7 million in 2010-11. A growth rate of 63.5 percent is witnessed for the period 2008-09 to 2010-11.

**Table 2: Total Gold Imports (US Dollars in Million)**

Year	Gold Import	Total Import	Percentage Share
2001-02	4170.4	51413.3	8.1
2002-03	3844.9	61412.1	6.3
2003-04	6516.9	78149.1	8.3
2004-05	10537.7	111517.4	9.4
2005-06	10830.5	149166	7.3
2006-07	14461.9	185735.2	7.8
2007-08	16723.6	251439.2	6.7
2008-09	20725.6	298833.9	6.9
2009-10	28640.1	288372.9	9.9
2010-11	33875.8	352574.9	9.6

Source: ASSOCHAM OF INDIA.

A look at the top ten import commodities for India over a period of ten years suggests that: The percentage share of gold and silver combined has risen from the 3rd most imported commodity in 2000-01 to the 2nd most imported commodity in 2010-11 behind only crude oil. Whereas comparatively the import share of other key industrial raw materials such as Coal, Coke, Iron and Steel is much, lower in the total import bill of the country. Economists believe that most of our foreign currency has been eroded by importing gold.

## 7. WHY DO PEOPLE INVEST IN GOLD?

To know this answer, a study has been conducted in Madurai city with a sample of 75 respondents by asking them the factors influencing to buy gold. A simple questionnaire has been prepared which contains factors to motivate them and the risk involved in buying gold. The respondent has been asked to rank them on their priority.

Analysis from the above table indicates that liquidity is the highest preference followed by appreciation of the value of gold and for beauty and pride. So the above analysis indicates that investors consider that gold can be realizable easily into cash.

**Table 3: Factors Influencing the Sample Respondents to Invest in Gold**

S. No	Description	Strongly Agree	Agree	Agree nor Disagree	Disagree	Strongly Disagree	Position Weight	Rank
1	Liquidity	34	29	9	3	0	319	1
2	Appreciation	30	31	8	1	5	305	2
3	Safety	16	26	13	15	5	258	4
4	Beauty & Pride	16	29	23	5	2	277	3
5	Universal Exchange	12	28	15	8	12	245	5

Source: Primary data

## 8. RISKS ON INVESTING IN GOLD

It is not an essential commodity. People cannot eat gold. Gold investment does not provide any current income like dividend or rental as in Stocks or real estate where investors can reap the rewards of their investment without having to sell their asset. Besides when an investor purchases gold, attention needs to be given to how the gold will be safely stored. Storing gold coins in one's house is the equivalent of putting money under one's mattress: It is not a safe place to keep it. Some investors use safe deposit boxes (available at some banks) to store gold. Other investors purchase gold in a manner that does not require taking delivery on the gold. For instance, a gold exchange traded fund enables the purchase of gold without having to take possession of gold.

So the study identified the risk in investing in gold. The above table indicates that No Regular return has been given highest score followed by Less realizable value and High making charges. These things are real concerns, though most people agree that the advantages outweigh the negatives and they purchase gold anyway.

## 9. GOLD PERCEPTION NEEDS TO CHANGE

The price of gold, in dollar terms, has fallen 12-15 per cent in last six months. This is the longest period of continuous

decline in 16 years. It could have interesting repercussions, not just on gold-loan non-banking finance companies (NBFCs) but on the broader space of personal finance, as well as India's macroeconomic status.

Gold has been in a bull run since 2002, when international prices started climbing from \$300/ounce (about \$11/gm). The price was \$700/ounce (\$25/gm) in 2008, when the subprime crisis broke. The Bull Run that followed took prices up till all-time highs of \$1,900/ounce in 2012. The metal has been a terrific hedge against currency weakness and fears of stagflation, with a compound annual growth rate of about 19 per cent. It was the best asset to hold between 2008 and 2012. It has now reacted till about \$1,600. If the global economy does recover through 2013 and major currencies stabilize, prices could fall further. Gold is a counter-cyclical. It loses value when the business cycle is up, since it has limited industrial utility.

If prices fall, it will probably reduce the current account deficit, since India is the world's largest importer. Gold import value for the year 2010-11 was higher than the budget estimated expenditure on urban development, housing, family welfare for the year 2010-11. Thus there is an urgent need to encourage the substitution of gold purchase with alternatives in the formal financial sector which shall also help in increasing the productive capacity of the economy.

**Table 4: Respondent's perception on risk in buying gold**

S. No	Description	Strongly Agree	Agree	Agree nor Disagree	Disagree	Strongly Disagree	Position Weight	Rank
1	High Making charges	14	27	12	12	10	248	3
2	Storage Cost	9	24	14	6	22	217	7
3	Fear of Theft	12	28	15	8	12	245	4
4	Fluctuation in price	10	26	15	7	17	230	6
5	Impurity	11	27	16	6	15	238	5
6	No Regular Return	30	31	8	1	5	305	1
7	Less Realizable value	17	25	12	15	6	257	2

Source: Primary Data

## 9.1. Inflation-Indexed Bond

Both the government as well as the RBI is concerned over the rising gold imports as its putting pressure on Current Account Deficit (CAD), which widened to historic high of 6.7 per cent in third quarter of 2012-13. So the Reserve Bank of India plans to introduce inflation-indexed bonds (IIBs) to discourage investments in gold.

“Thus these bonds provide inflation protection to both principal and coupon payment. At maturity, the adjusted principal or the face value, whichever is higher, will be paid,” RBI said. The objective of this issue is mainly to protect the savings of poor and middle classes of people from inflation and motivate them to save in financial instruments rather than buy gold.

The first set of such bonds will be auctioned on June 4. The Government plans to issue around Rs 1,000-2,000 crore of such bonds every month, to raise Rs 12,000-15,000 crore in the current fiscal.

It hopes the new instruments will attract retail investors. Before to conclude this article the researcher wants to remember, the Warren Buffett's an investing icons most controversial statement about gold. His portfolio does not contain gold bullion, gold miners and gold ETFs.

## 10. CONCLUSION

It is a well-known fact that gold is an unproductive asset. There is no way to actually value gold other than to compare it with other asset classes. The price of gold, in dollar terms, has fallen 12-15 per cent in last six months. This is the longest period of continuous decline in 16 years. Surely a lot of people would love to see gold down, a lot of people may not want gold to fall but there is no way one can form a great opinion on gold. Gold may easily surprise. So, one does not want to get into that argument at all because it is a very difficult asset class to value.

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**Table 1.1: Correlation Matrix****Correlation Matrix**

		Awareness	Opinion	Image	Charity	Trustworthy	CSR	Participation	Explore	Willingness
Correlation	Awareness level of consumer	1.000	.303	.350	.229	.025	.069	.237	.243	.167
	Opinion	.303	1.000	.406	.684	.467	.580	.498	.383	.455
	Image	.350	.406	1.000	.005	.106	.171	.250	.269	.246
	Charity	.229	.684	.005	1.000	.758	.653	.654	.597	.636
	Trustworthiness	.025	.467	.106	.758	1.000	.752	.760	.724	.765
	CSR	.069	.580	.171	.653	.752	1.000	.583	.664	.657
	Participation	.237	.498	.250	.654	.760	.583	1.000	.636	.752
	Explore	.243	.383	.269	.597	.724	.664	.636	1.000	.879
	Willingness	.167	.455	.246	.636	.765	.657	.752	.879	1.000
Sig. (1-tailed)	Awareness level of consumer		.016	.006	.055	.432	.318	.048	.045	.123
	Opinion	.016		.002	.000	.000	.000	.000	.003	.000
	Image	.006	.002		.485	.232	.117	.040	.030	.043
	Charity	.055	.000	.485		.000	.000	.000	.000	.000
	Trustworthiness	.432	.000	.232	.000		.000	.000	.000	.000
	CSR	.318	.000	.117	.000	.000		.000	.000	.000
	Participation	.048	.000	.040	.000	.000	.000		.000	.000
	Explore	.045	.003	.030	.000	.000	.000	.000		.000
	Willingness	.123	.000	.043	.000	.000	.000	.000	.000	

**Table 1.2: Kaiser-Meyer-Olkin (Kmo) And Bartlett's Test**

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.754
Bartlett's Test of Sphericity	Approx. Chi-Square	323.948
	df	36
	Sig.	.000

Result Of Principle Component Analysis

**Table 1.3: Communalities**

Communalities		
	Initial	Extraction
Awareness level of consumer	1.000	.626
Opinion	1.000	.590
Image	1.000	.674
Charity	1.000	.720
Trustworthiness	1.000	.868
CSR	1.000	.708
Participation	1.000	.709
Explore	1.000	.720
Willingness	1.000	.792

Extraction Method: Principal Component Analysis

**Table 1.4 Total**

**Variance**

Total Variance Explained									
Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	5.032	55.912	55.912	5.032	55.912	55.912	4.731	52.571	52.571
2	1.375	15.277	71.189	1.375	15.277	71.189	1.676	18.618	71.189
3	.793	8.812	80.002						
4	.717	7.972	87.973						
5	.411	4.572	92.546						
6	.289	3.207	95.753						
7	.200	2.228	97.981						
8	.099	1.104	99.084						
9	.082	.916	100.000						

Extraction Method: Principal Component Analysis

**Table 1.5 Factor/ Component Matrix**

Component Matrix		
	Component	
	1	2
Awareness level of consumer	.284	.738
Opinion	.700	.317
Image	.317	.757
Charity	.836	-.146
Trustworthiness	.880	-.305
CSR	.824	-.172
Participation	.842	-.018
Explore	.848	-.043
Willingness	.885	-.099

Extraction Method: Principal Component Analysis

**Table 1.6 Rotated Component/Factor Matrix**

	Component	
	Factor 1	Factor 2
Awareness Level of consumer		.789
Opinion	.579	
Image		.816
Charity	.842	
Trustworthiness	.931	
CSR	.838	
Participation	.812	
Explore	.825	
Willingness	.876	

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	Components	
	1	2
Awareness level of consumer	.060	.789
Opinion	.579	.504
Image	.087	.816
Charity	.842	.100
Trustworthiness	.931	-.040
CSR	.838	.071
Participation	.812	.224
Explore	.825	.201
Willingness	.876	.159