CHALLENGES IN GOLD INVESTMENT AND MITIGATING RISK ON INVESTMENT IN INDIA DURING COVID 19 SITUATION

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ABSTRACT

Investors have many investment options. Out of numerous options, investors prefer to invest in gold during this pandemic. In this present study, it is mainly focused to examine the methods of investing gold and how to balance the investment risk during this covid-19 pandemic situation. In this research, the researcher has mainly used secondary data and it has been collected through various authorized websites, research articles and research magazines. Past 10 years gold prices has been collected and discussed its growth through annual growth rate and difference between every year. Also, the researcher has discussed about the gold prices, in particularly, from January 2020 to September 2020. In this pandemic situations, even though the gold prices has more fluctuated, it is continuously increases due to increase of investors' online purchase behavior. Owing to the pandemic situation, most of the investors are not invest their money in gold investment through physically and so they have to invest their money in gold paper, gold bonds, gold ETF, etc. through online. Hence, the researcher has recommended to the investors that they have to invest their amount on gold investment for 5% to 10% in this pandemic situation.

Keywords: Gold Investment, Gold Investors, Economic uncertainty, Pandemic, Covid-19.

1. INTRODUCTION

In Indian history gold has a significant role in investment, economy and culture. Gold is an integral part in religious ceremonies, family heirlooms. Golden gifts are considered auspicious and status of symbol. Gold has been considered the safest investment and it is a protector against bad time. Owning gold is consider as extremely smart choice and is reflected in the amount of gold Indians own. Gold as an asset usually shares negative correlation with other assets such as equity, debt and real estate and tends to perform better during risk-off periods. It protects the investors' capital against tail risks and other events that have an adverse impact on capital or wealth.

Now-a-days all countries in the world including India suffering from outbreak of covid 19 pandemic. It leads to financial uncertainty, lower interest rates and weakening global economic growth. The covid 19 lockdown of course, clogged the activity in gold market including India. In rupee terms, price per 10 grams of gold corrected by 3.2%. In march, it remained over Rs.40,000 per 10 grams. During January to march 2020 quarter, gold gained nearly 5%. But gold futures data reveal that gold is gaining some lost ground price per 10 grams of gold is over Rs.46,000. So this shows that investors are rightly approach gold as a safe heaven.

In many parts of the world, gold ETFs have positive participation as central banks continued to lower interest rates and adopt an accommodative monetary policy stance to support growth. Smart investors' choice is buying gold to hedge against bad time. Even the central banks of the world, recognizing gold reserve against risk. It plays an important role in central banks' reserve management.

5 best options to invest in gold in times of covid 19:

1. Buying physical gold from local jewellery.
2. Investing in Gold ETFs.
3. Gold accumulation plans.
4. Buying / Selling gold on futures and options platform.
5. Investing in sovereign gold bonds issued by the government of India.

2. REVIEWS

Brahmabhatt, et al. (2012) made a research about investors' behaviour on investment avenues in Mumbai city. Sample size of this research was 100 investors. Primary data were collected through personal interview. Statistical tools like regression, correlation, factor analysis and cluster analysis were used to analysis. This study concluded that people give more preference to savings and safety. Women investors prefers gold investment than other investment avenues.

Arulmurugan et al. (2013) made an attempt to investigate the investment behavior of professors towards gold investment. They collected data from 101 professors and analysed by using chi-square test, reliability analysis, factor analysis and Kolmogrov Smirnov test. Result of their study indicated that professors give more inclination to safety, security, high returns and status. This study also found that professors' first choice goes to ornaments, gold coins, bars and ETF.

Nishad Nawaz and Sudindra (2013) found that 36% of investors preferred investing in gold is jewellery, 16% and 20% in gold bullions and gold coins, only 2% investors were aware of gold certificates and futures and options, gold mutual fund, e-gold and ETF.

Saranya and Jisha (2014) made a study on investors' attitude towards physical gold and e- gold in Coimbatore city. They suggested that investors prefer e-gold than physical gold by the reasons of awareness, security, safe return and affordability. They used percentage analysis, chi – square test and weighted average score analysis as a tools.

Suvarchala and Narasimha Rao (2014) carried out a study to measure changing perspectives of investors towards gold investment. They used the sample size of 500 people (220 male and 280 female). They viewed that majority of the investors preferred gold as their investment avenue and majority of the respondents preferred jewellery as their Investment Avenue rather than gold biscuits, coins and ETF in the region of Gudivala, Krishnakiri District.

Swati S. Godbole and Kirti A. Arekar (2014) were analysed gold buying behavior of retail investors in Mumbai city with 125 samples. They concluded that gold being highly preferred investment avenue as against the other investments. They used the statistical tools namely mean and standard deviation.

Aghila Sasidharan (2015) made an attempt to investigate the investment pattern of investors in kerala.200 samples were selected for these study. Primary data were collected through questionnaire survive and those data analysed by the statistical tools like percentage, average, rank correlation and chi-square test. This study conclude that investors selected different ways to invest in gold.

Bhuvaneswari and Muthupandi (2015) made an attempt to know the buying behaviour of women towards gold ornaments. They used chi - square test for analyses and they study revealed that women respondents prefer to buy gold ornaments for dual purpose that is for their own use and investments. They purchased gold on their income pattern. 392 women respondents were selected from Madurai city.

3. CHALLENGES IN GOLD INVESTMENT

Gold investment plans :

The most important question is "How to invest money in gold". The answer for this question is there are some conventional and modern types of gold investment proffered by people. In conventional forms, it is just buying physical gold in the forms of jewellery, coins, bullions or artifacts. The scenario has changed nowadays and investors have more options to invest such as gold ETF, and gold funds. Gold ETFs is similar to buying physical gold but the only difference is the gold bought is stored in paper format that is gold fund deal with investing in gold mining companies.

The basic differences between gold investments methods are as follows:

In case of physical gold, no demat account is needed, no additional charges are levied other than the physical gold itself and no paperwork. But this form of investment has risk of theft, burglary and market fluctuations are proportionate to the price of gold.

In the form of Gold ETFs, gold is purchased in proportionate value of gold instead of physical form. Demate account needs to maintain for Gold ETF investment and it include additional charges like brokerage. But this form of investment is free from the risk of theft. Paperwork required. Gold price directly affects that of gold ETFs.

Gold fund methodology is the investment in the form of bullions and the companies involved in gold mining. Demat account is not needed but paperwork is required. Additional charges are levied minimum to manage the funds. This form of investment also free from the risk of theft or burglary and price changes does not affect gold funds.

What are Sovereign gold bonds?

Sovereign gold bonds are the safest method of buying digital gold. It is issued by Reserve Bank of India on behalf of the government of India with an assured interest of 2.5% p.a. The bond is denominated in units of gram of gold. The basic unit is 1 gram. Investors can invest 4 kg maximum. These bonds have a tenor of 8 years with an exit option from the 5th year onwards.

Top gold funds in India:

- Axis gold funds
- Aditya Birla sun life gold funds
- Canara Robeco gold savings fund
- HDFC gold funds
- ICICI pru regular gold savings fund.

The following documents are need to invest in physical gold:

- PAN card is need to investment in physical gold for more than Rs.2 lakhs of investment.
- Whereas, ETF investment need to open an account with brokerage firm followed by a Demat account with the same firm.
- For investing in SGBs, KYC required and the documents such as Aadhar, PAN Voter ID or Passport are required.

Why should gold investment prefer?

Normal investors expects safety, liquidity and profitable returns. Gold investment fulfills such expectations. Gold is a safest investment in times of uncertainty. It is an inflation – beating investment. Gold provides excellent liquidity to the investors. Most of the people look at gold as money, because it meets the features of money which was defined by ancient Greek philosopher Aristotle.

1. It must be durable. Money must not the test of time and the elements. It must not fade, corrode or change through time.
2. It must be portable. Money holds a high amount of worth relate to its weight and size.
3. It must be divisible. Money should be relatively easy to separate and recombine without affecting its fundamental characteristics.
4. It must have intrinsic value. This value of money should be independent of any other object and contained in the money itself.

Will gold prices continue to rise?

It is expected that gold prices could go up to Rs.65,000 per 10 grams in the next 18 – 24 months. Analysts are bullish as the fundamental factors like lower interest rate, negative rate in some economies, enormous amount of liquidity and expected to push growth amidst covid-19 are expected to dictate the price trend. With prices on the rise, investors have embraced gold in 2020 as a key portfolio hedging strategy. Regardless of the recovery type, the pandemic will likely have a lasting effect on asset allocation. "It will continue to reinforce the role of gold as a strategic asset. And we believe that the combination of high risk, low opportunity cost and positive price momentum looks set to support gold investment and offset weakness in consumption from an investment contraction". Says a world gold council report.

Has it given good returns?

Historically, gold has generated long term positive returns in both good and bad times. Looking back almost half a century, the price of gold has increased by an average 14% p.a. since 1973.

How big is India's gold market?

WGC has estimated that households in India may have piled up around 24000-25000 tonnes of gold. Various temples across the country also hold sizeable gold. The Reserve Bank of India bought 40-45 tonnes of gold in the financial year 2019-20. Taking its total holdings of the yellow metal to 653.01 tonnes.

TABLE NO. 1

GOLD RATE FOR LAST 10 YEARS: (PRICE- 24 KARAT PER 10 GRAMS)

Year	Rs.	AGR (%)
2011	26,400.00	-
2012	31,050.00	117.6
2013	29,600.00	95.3
2014	28,006.50	94.6
2015	26,343.50	94.1
2016	28,623.50	108.7
2017	29,667.50	103.6
2018	31,438.00	106.0
2019	35,220.00	112.0
2020 (Till 31.07.2020)	54,390.00	154.4

Source : Gold rate history in India – Bank Bazaar

It is understood from the above table that the gold rate for last 10 years from 2011 to 2020. From the above table it is cleared that among the ten years period of the study, in 2020, the gold is recorded highest growth ie., 154.4 percent, than other succeeding years. In 2013, 2014, 2015 and 2017 the market rate of gold has registered decreasing trend. On the whole, In 2020, the gold rate is registered as high and in 2015, the gold rate is low. The difference in the gold rate during the study period is shown graphically as follows.

CHART NO. 1
GOLD RATE FOR LAST 10 YEARS: (PRICE- 24 KARAT PER 10 GRAMS)

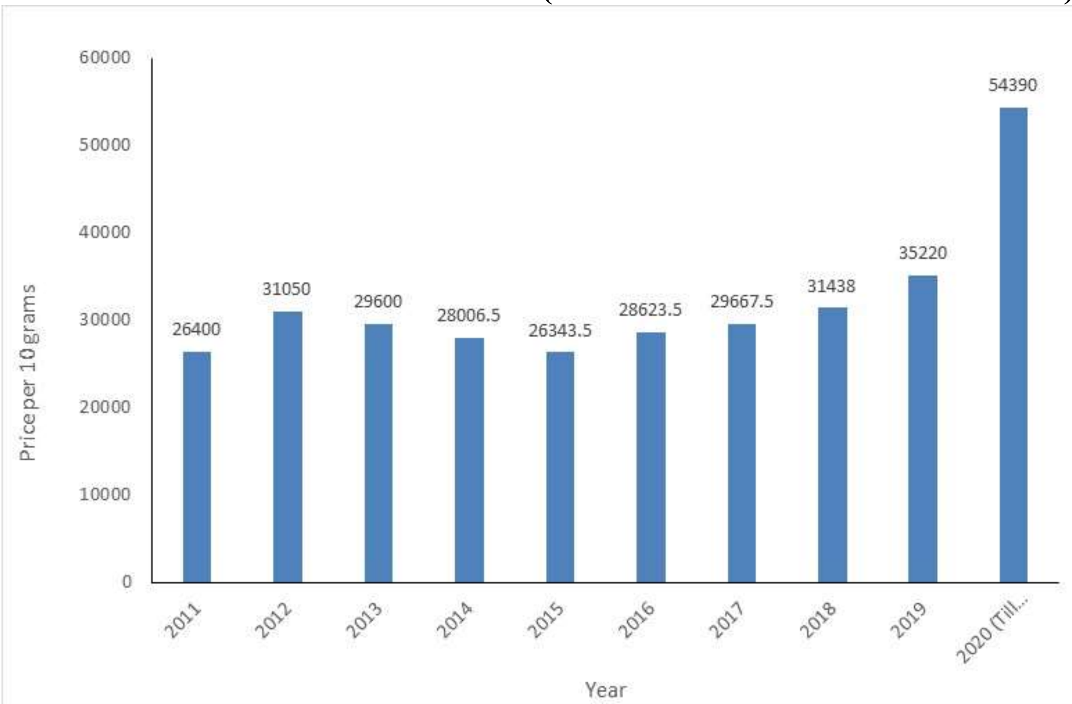


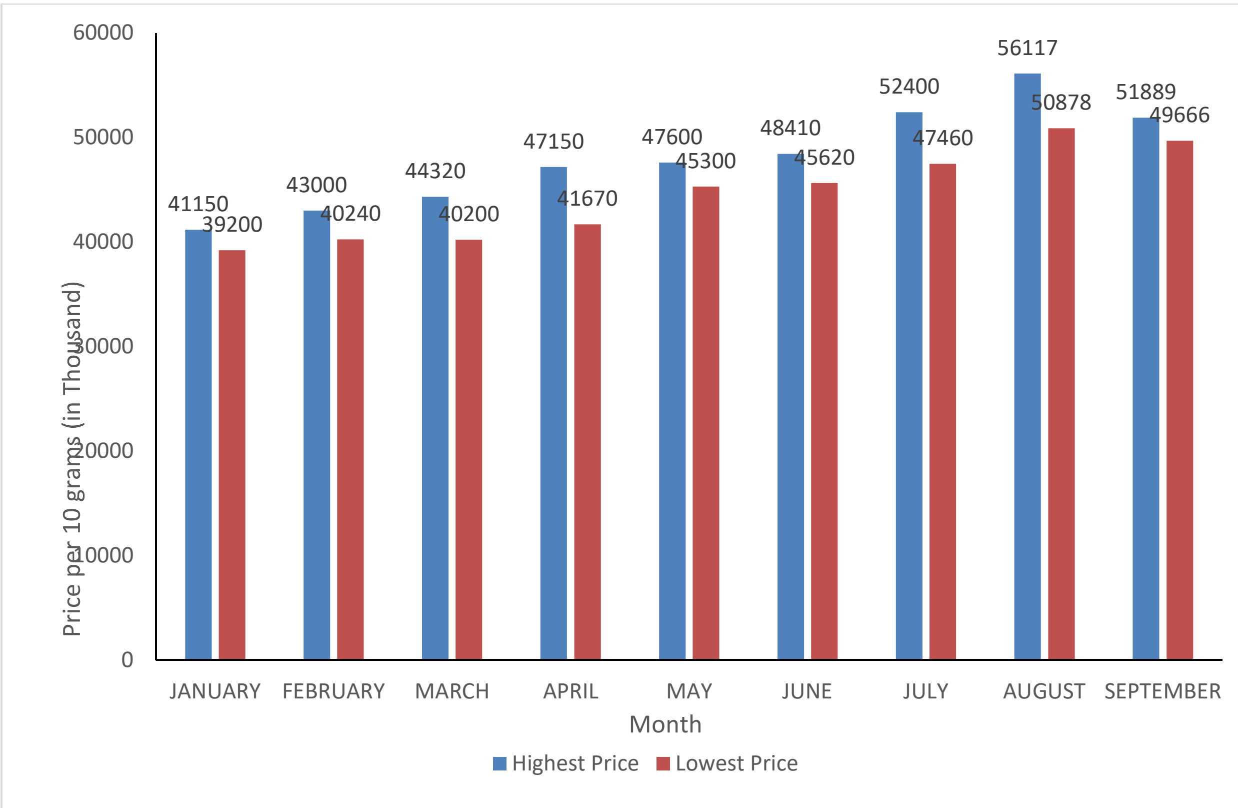
TABLE NO. 2
GOLD RATE TREND DURING THE YEAR 2020 (from January to July)
(Rs. for 24 carat per 10 gms)

Month	Highest Price	Lowest Price	Difference	Month wise growth Difference
JANUARY	41,150	39,200	1950	-
FEBRUARY	43,000	40,240	2760	810
MARCH	44,320	40,200	4120	1360
APRIL	47,150	41,670	5480	1360
MAY	47,600	45,300	2300	-3180
JUNE	48,410	45,620	2790	490
JULY	52,400	47,460	4940	2150
AUGUST	56,117	50,878	5239	299
SEPTEMBER	51,889	49,666	2223	-3016

Source : https://www.paisabazaar.com/gold-rate/

The above table shows the highest and lowest prices of the gold rate per 10 grams from January 2020 to September 2020. Also, the table shows the difference between the highest and lowest price of the gold rate every month and calculate the difference of the gold rate between the selected months in 2020. It clearly reveals that highest difference ie., Rs.5480 has recorded the gold rate at April 2020 and has recorded the lowest difference at January 2020 as Rs.1950. On the other hand, difference of gold rate between the months indicates, only from April month to May month, the gold rate shows vast difference as low followed by in September month from August 2020. During the study months, the lowest amount of difference in months has recorded at August 2020 and highest amount of difference has recorded at July. The negative amount of difference has recorded at May and September months.

CHART NO. 2
GOLD RATE TREND DURING THE YEAR 2020 (from January to July)



4. MITIGATING RISK IN INVESTMENT

The outbreak of Covid – 19 has brought dramatic transformation in business, industry and investment sectors. The outbreak happened at a time when the global economy was already showing signs of a slowdown. This has fueled anxiety among investors and led to immense anticipation among them about government support to the industry. It is also becoming increasingly evident that this pandemic would continue to have consequences in the foreseeable future. Investors now need to focus on effective planning more than ever before.

The diversified portfolio helps to mitigate risk in investment. Job loss situation and depletion of interest rate are the risk factors in fixed deposit, investment in properties with EMI facilities. So, investors are switch over to other investment options. Gold becomes an attractive investment and smart choice of investors now a days. Anticipation of continuous rise in price of gold push the investors to purchase gold. Government of India has launched gold coin scheme, Sovereign bond schemes and assured that price transparency in ETFs. Investment in these options can mitigate the risk than other investments like real estate, fixed deposit etc.

5. FINDINGS AND CONCLUSION

In this research article, the researcher has discussed mainly about the challenges in gold investment and mitigating risk on investment in India during the Covid-19 situation. This research is mainly based on the secondary sources that are available in various authorized reliable sources. Also, the researcher has discussed about the different gold investment methods in a detailed manner. Past 10 years of gold prices has discussed in this research. Even though there is some fluctuations, gold prices has continuously increases and its growth reached as 154.4 percentage when compared to the previous year. But from January 2020 to July 2020, the gold prices has continuously fluctuated and have a high difference in April month of this year due to covid-19 pandemic situation. So, the investors has highly confused in gold investment. So, it is recommended to the gold investors in the current situation that they have to allocate 10% to 15% of the entire investment portfolio to gold and maintain it as a long term investment horizon. Gold Exchange Traded Funds (ETFs) or Gold saving fund is the smart choice of gold investors out of various gold investment options. Gold will continue to play its role as an effective portfolio diversifier and a storage of value during economic uncertainty.

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