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The Unequivocal Merit of Yellow Metal as Safe Investment Option

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ABSTRACT - Investment in gold has never gone out of style, more so at the time of economic crisis. When protectionism and trade war has made economies reeling under crisis, outbreak of corona virus in recent past dealt a mortal blow to market confidence before infuse it with invigorating exuberance. Rapid spread of COVID 19 across the geographies brought down stock indices to a great extent across all market but they recovered astonishingly in couple of months. In this mercurial market condition both money market and capital market remained dicey. Yellow metal made a comeback as a safe bet. Investors across the world demonstrated some affinity towards gold. It always worked well to act as hedge against inflation. Gold as an asset is comparatively liquid. Investment in gold comes in different form ranging from physical, ETF, paper gold to digital gold. Performance in gold has remained commendable in recent time. In the time of volatility influenced by trade war, middle east crisis, geopolitical tension and virus outbreak currency value, stock performance, oil price remained unpredictable and people have no option but to turn to yellow metal. Gold price is rising as investors across all geographies finding it as safe heaven. There is inverse relationship between gold value and stock market performance. In the wake of massive social and economic disaster caused by corona virus, market will remain jittery for coming months and gold will hold spotlight as reliable investment avenue. In India, gold has always held a special position as it's considered auspicious and can bring good fortune for the household. Besides all emotional factor gold has received some priority as no class of asset be it real estate, stock, bond or mutual fund seemed promising in present scenario.

KEY WORDS: ***Gold investment, return prospect, risk factor, storage value, market volatility, economic uncertainty, asset class***

I. INTRODUCTION

It is imperative to make investment with the residual sum left in disposable income after fulfillment of consumption need to secure future necessities. Golden rule of investment should be a guiding light which emphasizes on investment on regular and long-term basis. Series of disruptions in the market starting from demonetization, GST role out, market slackness, economic deceleration, finally worldwide pandemic and resultant impact of it taught everyone about unfavorable consequences. Economic downturn can affect rhythm of life and able to throw it out of gear. Just like act of God, man-made disaster can occur out of blue and can cause significant damage to human existence. With economic deceleration, joblessness, loss of income, deterioration in quality of life, expulsion from shelter, starvation, illness and death can happen. Year 2008 and 2020 remained grim reminder of them. To avoid all untoward catastrophes, calculated and disciplined investment is necessary. It is quintessential to build up a portfolio. More diversified the portfolio, better it is. Age old wisdom of not keeping all eggs in single basket can act as surefire strategy. Only bank deposit, term deposit or investment in fixed interest earning small scale savings instrument would not be adequate in rising inflation and reducing interest rate scenario. Focus could be given on long term income generating asset such as stocks and bonds but by no means gold should be avoided. At least 10-15 percent of investment should be channelized towards gold investment as it acts as hedge against inflation and uncertainty.

II. OBJECTIVES OF THE STUDY

The chief objectives of the research paper are as follows.

i. To explain the avenues of investment in gold and the necessity of the same.
ii. To decipher strength of gold that can withstand inflation and economic uncertainty.

III. METHODOLOGY

It is descriptive and analytical research. In the research we embarked on a journey to find out performance of gold in last 10 years so the research is longitudinal in nature. We also have seen the economic factors impacted on determination

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of gold price. There is the discussion made with respect to inflation and gold value and how gold investment is useful in defying negative impact of gold. There is positivism in approach as the study and interpretation had been logic based, reason oriented and completed with scientific way of accumulating knowledge and explanation in unbiased way. Empiricism is something deeply embedded in the study as it dealt with experience of price movement of gold with passage of time underwent by investors and how they reacted to it. Epistemological derivation is at the core of research mechanism as it sheds light on gold value and gold market. The research is quantitative and qualitative with respect to secondary data. Bullion segment of commodity market had been explored to get the understanding of gold as precious metal. Data were also collected from various reliable sources to see the gold market status and gold performance. In descriptive analysis data had been presented in graphical and tabular form. The same had been analyzed and interpreted to clarify the significance. Time series data had been presented in two-dimension line diagram form and comparative analysis presented in tabular form to show the superiority of gold among other types of financial assets. Interested researcher can pursue the research further on gold and the information on this paper can be useful for reference and citation.

IV. INVESTMENT OPTIONS IN GOLD

Investment in gold is not limited to physical gold only. Market offers various options to invest in yellow metal. It could be in the form of buying gold coin or bar, investment in gold fund, gold ETF, sovereign gold bond etc. Each option comes with its respective pros and cons. Gold can be purchased in physical form as it is available at jeweler outlets, bank, NBFC and online stores (issued by MMTC). Gold coins are purchased in standard denomination such as 5, 10 grams and bars are available at 20 grams with 24 karat purity and arrives with hallmark in conformity with BIS standards. Investment in gold having some religious sentiment in India as it is considered auspicious and a craze is observed to invest in gold on pre-Diwali Dhanteras which is sacrosanct of all. India is a large importer of gold and demand from jewelry industry is massive to cater to domestic demand. India imports about 800-900 tons of gold per year in volume. As per commerce ministry statistics, gold import fell by 14.23 per cent to $ 28.2 billion during 2019-20 which led to softening of current account deficit. Gold import in India registered a negative growth since December 2019. Gold import duty had been hiked by Indian govt, from 10% to 12.5% to assuage the trade deficit and invariably Current Account Deficit (CAD) owing to humungous gold import. But it didn’t dampen the sentiment of buyers as it acted as safest bet during economic downturn, Investment in bullion primary accounts for gold which is presented in bars or stockpiled in ornaments and jewellery. India has proved to be well-known large market for gold jewelry.

Investment in gold can happen through mutual fund. There are host of funds such as Axis Gold Fund, SBI Gold Fund, Kotak Gold Fund, HDFC Gold Fund etc which invest in Gold ETF and help to avoid hassles related to bulk investment, storage expense, safety concern, liquidity factor that comes as matter of concern for physical gold. Investors can opt for Systematic Investment Plan and can initiate automated electronic clearing facility for gold specific mutual fund schemes. Gold investment return work well in long run as in short run it can deliver negative return. Information are available across various websites such as ET money, value research, Money control which helps investors to gain comprehensive idea of fund structure, performance, comparison among various gold MF schemes, and take decision as per feasibility.

Direct gold ETFs or Exchange Traded Funds are also lucrative option for gold investors. Gold ETFs are basically commodity based mutual funds invest in gold metal. These exchange traded funds act similar to equity share and traded in same fashion at stock exchange. They are being offered in dematerialized as well as in paper form. Actual metal is transformed as stock and investors receive units once invested in Gold ETF. The accumulated fund of ETF is used to invest in gold bullion with 99.5 % purity. Gold ETF doesn’t face any liquidity issue and completely devoid of security concern as it is operated through demat account.

Sovereign Gold Bond is a good option for conservative investor as it is issued by central bank i.e. RBI on behalf of Govt. of India. There is no storage or insurance charge attached to it as it is recorded in the books of central bank. Investors receive certain predetermined rate of interest during the term of the bond. It is a rewarding investment option for 8 years duration with exit facility intact after 5 years. Redemption of the bond happens at an average of existing rates. No capital gain tax is imposed if it is held till maturity,

Digital gold also gained popularity among investors in India. Safety in digital gold is high as held in vaults. The other promising features are low transaction cost, absence of lock in period and it comes with high purity factor. Like majority of types long-term capital gain tax is borne by investors if held for more than 36 months. One time storage and safety cost remained counted at the time purchase. It is available through various platforms including Paytm, Amazon Pay along with investment platforms such as Kuvera, Groww and stockbrokers. Currently three enterprises are offering digital gold in India such as MMTC-PAMP India Pvt Ltd and Digital Gold India Pvt. Ltd.

PERFORMANCE OF GOLD AMONG ALL ASSET CLASS

Like all asset class, gold comes with risk and return. Investor can judge gold investment with respect to cost and benefit. It is unequivocal that gold is a hedge against rising inflation and it literally glitters during darkness of economic dismay. There is an apparent inverse relationship between stock

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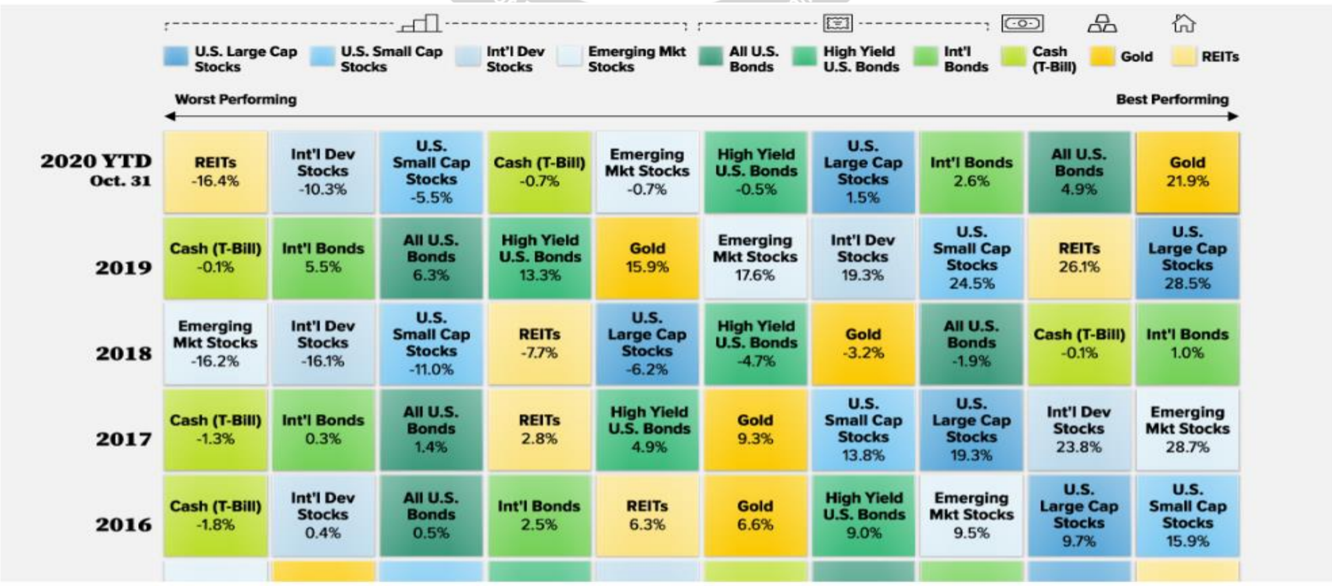
market performance and gold value. When stock market is bullish gold loses it worth as fund flows to stocks or promising equity shares. But when stock market crashes and panic grips over public sentiment, gold rises in value. Gold is considered as safe bet when stock or bond market looks lackluster.

Diagram I: Gold price movement in the recent decade

Source: FastMarkets, ICE Benchmark Administration, Thomson Reuters, World Gold Council, 25 November, 2020

In the above diagram we see the historic journey of gold price. After remaining subdued for couple of years, gold price started soaring since mid of 2019 and breached psychological $2000 per ounce level in August 2020. In India, gold price reached Rs 51,200 per 10 grams on August 26, 2020. It was long time after post price hike of gold in August 2011. In 2020 gold has given above 25 % return to investors. Gold is most revered metal for Indian customers as religious and cultural sentiment is attached to it. For investors of the world, gold is rare precious metal which gives cushion to portfolio as price escalates over time and performs better during market turmoil. Gold is famous for its inflation defying factor. When currency market also remained dicey and volatile, gold gives hope as price shoots high during inflationary trend. As economic slowdown occurred with emerge of coronavirus, US central bank reduced interest rate and increased money supply. It reduced currency value to great extent. US dollar plummeted to the level of April 2018 value in December 2020. And future indicates further decline for this reserve currency as prospect of economic recovery dimmed with staggering death toll. Crude oil price saw a great volatility in 2020 as lockdown in several economies, trade and tourism restriction continued across the globe and reduction in industrial activities lowered oil price below $ 20 per barrel. Later it recovered significantly and hope about vaccine launch brought crude oil price to the level of $50 per barrel in December 2020 as arrival of vaccine implies gradual progress of economic activities. Stock market astounded investors in 2020 like never before. From steep downfall, stock indices skyrocketed across geographies when majority of economies were saddle with fiscal imbalance, low output, abysmal GDP growth and high debt GDP burden. Gold price correction was observed during last few months of 2020 as more capital flowed towards booming stock market.

Table I: Comparative data on performances of various investment instruments in recent past



U.S. Large Cap Stocks, U.S. Small Cap Stocks, Int'l Dev Stocks, Emerging Mkt Stocks, All U.S. Bonds, High Yield U.S. Bonds, Int'l Bonds, Cash (T-Bill), Gold, REITs

Worst Performing → Best Performing

2020 YTD Oct. 31	REITs -16.4%	Int'l Dev Stocks -10.3%	U.S. Small Cap Stocks -5.5%	Cash (T-Bill) -0.7%	Emerging Mkt Stocks -0.7%	High Yield U.S. Bonds -0.5%	U.S. Large Cap Stocks 1.5%	Int'l Bonds 2.6%	All U.S. Bonds 4.9%	Gold 21.9%
2019	Cash (T-Bill) -0.1%	Int'l Bonds 5.5%	All U.S. Bonds 6.3%	High Yield U.S. Bonds 13.3%	Gold 15.9%	Emerging Mkt Stocks 17.6%	Int'l Dev Stocks 19.3%	U.S. Small Cap Stocks 24.5%	REITs 26.1%	U.S. Large Cap Stocks 28.5%
2018	Emerging Mkt Stocks -16.2%	Int'l Dev Stocks -16.1%	U.S. Small Cap Stocks -11.0%	REITs -7.7%	U.S. Large Cap Stocks -6.2%	High Yield U.S. Bonds -4.7%	Gold -3.2%	All U.S. Bonds -1.9%	Cash (T-Bill) -0.1%	Int'l Bonds 1.0%
2017	Cash (T-Bill) -1.3%	Int'l Bonds 0.3%	All U.S. Bonds 1.4%	REITs 2.8%	High Yield U.S. Bonds 4.9%	Gold 9.3%	U.S. Small Cap Stocks 13.8%	U.S. Large Cap Stocks 19.3%	Int'l Dev Stocks 23.8%	Emerging Mkt Stocks 28.7%
2016	Cash (T-Bill) -1.8%	Int'l Dev Stocks 0.4%	All U.S. Bonds 0.5%	Int'l Bonds 2.5%	REITs 6.3%	Gold 6.6%	High Yield U.S. Bonds 9.0%	Emerging Mkt Stocks 9.5%	U.S. Large Cap Stocks 9.7%	U.S. Small Cap Stocks 15.9%

Historical Returns by Asset Class (1985-2020)

Source: https://www.visualcapitalist.com/historical-returns-by-asset-class/, Nov 20, 2020

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In the above matrix of asset performance over the period of time, gold had beaten other asset class with considerable margin till October 2020. It remained best performing asset with more than 20% return whereas all US bonds yielded barely 4.9 % return International bonds, US Large cap stock yields remained far behind with miniscule return. Although gold didn't perform same all through since 2016. It registered negative return in 2018 when majority of the asset types got beaten out. In the recent time gold remained outlier as fear gripped global economy with unprecedented debt and uncertainty. Trade war between economic superpower China and US, geopolitical tension in middle east and Africa and border tension between India and China kept economic strain high. To tackle pandemic problem, health crisis and economic slump, majority of central banks reduced interest rate resulting in higher liquidity in the market. Investors across world preferred gold over other asset amidst stock market downfall and dire economic circumstances. Central banks like US Federal Reserve and RBI of India got busy in buying gold. India doesn't produce much gold or silver and country is mostly import dependent. With upward rally of bullion in world market and spike in import expense of bullion metals, India witnessed domestic price rise for bullions. In 2016, small cap stocks in US had been the top performer with 15.9% return and had been much ahead of gold which ended up yielding barely 6.6% return. But economic recession since outbreak of trade war which got intensified by pandemic brought stock return to negative level. International stocks remained lackluster before it rebounded in 2020. In summery of the finding we see gold remained outlier and beaten out equity-based assets and debt-based securities alike with its meteoric rise in value amidst uncertainty in business world and economy fueled by pandemic.

V. FINDINGS: GOLD INVESTMENT IN INDIAN CONTEXT

Gold purchase or investment is deemed auspicious and it is revered as metal of all seasons and occasions in India. It is believed to be auspicious and ushers in good omen. No celebration is considered complete without use of gold, be it birth, marriage or religious festival. Gold is preferred metal for generations and India ended up being second-largest consumer of gold in the world. India remained dependent on import as domestic production is insignificant. Buying of physical gold needs certain knowledge and precaution. Majority buy high priced gold with lesser purity. It is necessary to purchase hallmarked gold certified by Bureau of Indian Standard(BIS). Physical gold is movable and exchangeable. It is free from market collapse, diversifies portfolio and hedge against inflation.

Table II: Return of gold in comparison with other investment options in India since 2016-17

NAME	2016/17	2017/18	2018/19	2019/20	2020/21
PPF	8.10%	7.80%	7.60%	7.90%	7.10%
EPF	8.65%	8.55%	8.65%	8.50%	8.65%
SCSS	8.30%	8.30%	8.30%	8.60%	7.40%
NSC	8.10%	7.80%	7.60%	7.90%	6.80%
FD	7.00%	6.50%	6.75%	7.00%	6.10%
Gold	-0.14%	6.66%	4.24%	36.44%	23.45%

Public Provident Fund (PPF); Employee Provident Fund (EPF); Senior Citizen Savings Scheme (SCSS); National Savings Certificate (NSC); Bank Fixed Deposit (FD)

Source: Fintrust Services Data, September 2020

In the above table of various financial instruments and gold had been presented. We see the performance of all tracked over the period of time since 2016-17. Although fixed income earning instruments such as Public Provident Fund, Employee Provident Fund, National Saving Certificate and Fixed deposit at bank or post office performed in consistent way but percentage return remained unimpressive single digits only. In the face of soaring inflation, real return would turn barely 1 or 2% or in worst possible scenario, real return would turn negative during hyperinflation. Investors would find it difficult to beat inflation and maintain same standard of living in long run if relied on only fixed interest bearing assets. On the contrary, gold provided negative return in short run but made a giant leap of return in longer duration with convincing double-digit performance. So, it would be a blunder for Indian investors to give it a complete miss in portfolio construction. Gold has never let its investors feel disappointed in long run. Trust and craze for gold took the price of gold above $2000 in 2020. When majority of central banks went into quantitative easing and government tried to support economy with stimulus measure, apprehension was high for inflation in 2020. Return of PPF, EPF, SCSS, NSC and FD remain inadequate and impaired to tackle inflationary challenge. Gold performs better in panic-ridden circumstances and outshine other investment instruments with better return. Historically, gold worked best when interest decline below rate of inflation. As inflation adjusted return becomes negative on bond, investors feel safe owning gold on account of its store of value even if it's yield reduces to nothing. In US market, bond yield remained near zero level and European sovereign bonds turned low or negative in the wake of high liquidity and fiscal uncertainty. Gold market is not as hyped as stock market. Gold market of entire world is merely 16% the size of global stock markets in current period. But at the time of crisis it proved to be propitious to investor with its uncertainty discounting factor. Gold has no productive contribution to economy. There is lack of dynamism and innovation in gold asset. Money invested in gold get stranded and do not get channelized to business output and industrial expansion. So, investment in gold in no good for economy. But when economic

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deceleration starts and currency devaluation occurs owing to excess money supply by central bank to salvage economy, gold appears promising in fear gripped market environment.

VI. CONCLUSION

In today's dynamic complex world predicting future is a difficult task. More so when disruptions are on recurring basis be it man made or act of god. Life doesn't progress on linear path and crisis occurs almost out of blue. It is a daunting task to maintain standard of living or improve it during entire life span as income level doesn't remain same although. Market volatility makes stocks and bonds difficult to rely on for non-market experts. Reduction of rate of interest by govt. on fixed income earning assets such as NSC, KVP and PF made it tough for common investors to depend on it as it would not give necessary income support in the face of rising inflation rate. There is need for asset class which can fight inflation head-on and provide assurance of price escalation in long run. In the history of investment, gold has never let down investors in long haul as price of gold kept on escalating through economic boom and bust. As gold has universal appeal and doesn't go out of fashion owing to seasonal variation it kept proving supportive strength in asset portfolio. Due to innovation in the financial instruments, gold is not limited to physical form. It found its presence in dematerialized ETF, sovereign bond and mutual fund way. In recent time, gold value made an astronomical journey due to uncertainty created by global pandemic. When all asset class reduced their worth, gold made a steady progress as safe heaven giving courage to gold investors. Gold should be given due weightage in portfolio building exercise as gold outshines other class of assets during economic turmoil and assures capital gain in longer duration. Short tern performance of gold asset may dishearten investor as it tends to show negative return. But wise investor knows with confidence that gold stands the test of time and value appreciation happens for sure with the passage of time.

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