

A Study of Consumer Perception for Investment Towards Different Options Especially in Realstate and Gold

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Abstract

Investment is an activity that is engaged in by people who have savings i.e. investments are made from savings, or in other words people invest their savings. A variety of investment options are available such as bank, Gold, Real estate, post services, mutual funds & so on. Investors are investing their money with the different objectives such as profit, security, appreciation, Income stability. Researcher has studied the different avenues of investments as well as the factors while selecting the investment with the sample size of 150 consumers by conducting the survey through questionnaire in Indore, India. The study is based on personal interviews with the consumers, using a structured questionnaire. Actually, the present study identifies the preferred investment avenues among the individual investors. The study is based on primary sources of data which are collected by distribution of a close ended questionnaire. The data has been analyzed using pie charts and bar graphs. The study concluded that consumer prefers investing in gold as it is more secure and very high return generating option. Then they prefer investing in real estate and least preference gives to equity.

Key Words: *Investments, profit, Gold, saving, Real estate.*

Introduction

Since the ancient times where Barter System exist people used to exchange their goods with the goods of their requirement and take decisions of their capital and wealth appreciation and maximization by transfer of goods in their hand. With the passage of time money took various shapes from goods to asharfis to coins and paper money to current plastic money and e-money era. The term

“Investment” has always played a very crucial role in the lives of people throughout the universe and in all generations. The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc.

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With high capital output ratio, India needs very high rates of investments to make a leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instrument of economic growth and increase in national income.

Risk-Return Relationships:-

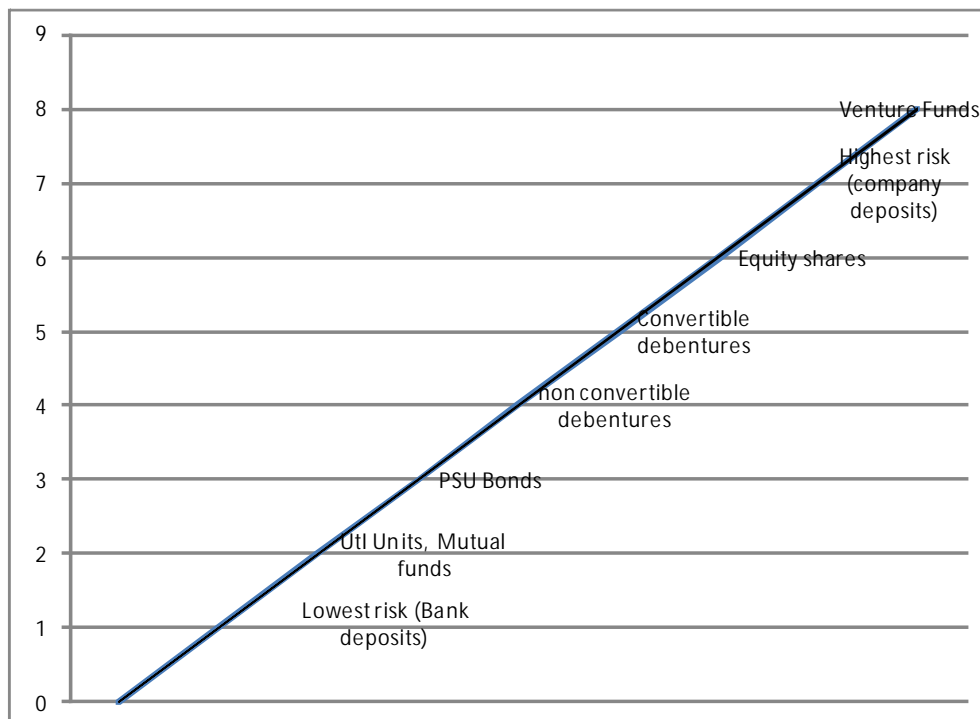
1) Risk: Risk is inherent in any investment. This risk may relate to loss or delay in repayment of the principal capital or loss or non –payment of interest or variability of returns. While some investments are almost riskless like Government securities or bank deposits, others are more risky. There are differences in risk as between instruments, which can be represented as a spectrum of risk, as in Fig. 1.1. This also shows the risk-return relationship.

2) Return: Yield or return differs from the nature of the instruments, maturity period and the creditor or debtor nature of the instrument and a host of other factor. The most important factor influencing return is risk. Normally, the higher the risk, the higher is the return

Various Avenues of Investment

- **Bonds:** Grouped under the general category called fixed-income securities, the term bond is commonly used to refer to any securities that are founded on debt. When you purchase a bond, you are lending out your money to a company or government. In return, they agree to give you interest on your money and eventually pay you back the amount you lent out. The main attraction of bonds is their relative safety.
- **Stocks:** When you purchase stocks, or

Figure 1: Risk-Return Relationship



equities, you become a part owner of the business. This entitles you to vote at the shareholders' meeting and allows you to receive any profits that the company allocates to its owners. These profits are referred to as dividends. While bonds provide a steady stream of income, stocks are volatile.

- **Mutual Funds:** A mutual fund is a collection of stocks and bonds. When you buy a mutual fund, you are pooling your money with a number of other investors, which enables you (as part of a group) to pay a professional manager to select specific securities for you. Mutual funds are all set up with a specific strategy in mind, and their distinct focus can be nearly anything: large stocks, small stocks, bonds from governments, bonds from companies, stocks and bonds, stocks in certain industries, stocks in certain countries, etc.
- **Fixed deposits:** These accounts are open to individuals either separately or jointly for varying fixed periods of time, say 1 to 5 years. The interest rates vary from 6.25% to 7.5%. The interest is payable half-yearly and interest income is tax exempt up to a limit.
- **Public Provident fund (PPF):** The PPF deposits can be made in monthly installments with a minimum of Rs.100 and maximum of Rs.60000 per annum. These deposits carry cumulative interest of 8% credited to the account. The account has a maturity period of 15 years. One withdrawal per financial year can be made any time after 5 years from the end of the year in which the subscription is made. Withdrawal is limited to 50% of the balance at the end of the fourth year.
- **Investments in Gold:** In today's troubled

economic scenario, everyone prefers the kind of investments that will protect their wealth rather than create wealth. Gold is one such investment. Investments in gold are made through gold coins, gold jewellery, gold bullion (biscuits or bars trading through demat account), gold futures, gold ETFs and the recently-acknowledged gold mining companies.

- **Real Estate:** Real estate can include business and/or residential properties. The real estate sector in India is on a growth path. The development in the real estate market encompasses growth in both commercial and residential spheres.

The different types of real estate investments are as follows –

- a) Rental –** The aim of this form of investment is to rent out property to a tenant and earn a continuous stream of rent from the tenant. The value of the property also increases over a period of time. The risk in this form of investment is the owner of the property has to find out a tenant and also need to pay for the maintenance expenses.
- b) Trading –** Basically traders in real estate in order to make a quick profit buy properties for a short tem (six months) and sell them at a profit. Traders look out for buying undervalued properties/very hot properties and sell them at a profit.
- c) Long Term Investment –** There is a certain group of investors who invests in real estate basically plot of land from a long term perspective. The objective is over a period of time the value of the property will rise and the owner will make a profit by selling it. The biggest flaw in this investment is money is blocked for an indefinite period.

Review of Literature

Gold, although not specifically mentioned as an artifact, is also a valued possession according to its significant role in Indian culture (Dempster, 2006). Gold is an artifact because the status it holds in the Indian culture designates membership to that culture (Craig and Douglas, 2006). Gold is unique, however, because it is not necessarily a 'cherished' possession. Cherished possessions carry reminiscences about life and '... create a personal and durable sense of identity' (Price, Arnould and Curasi, 2000, p 187). When gold is purchased with the intention that it will be passed to children, daughters in particular, at some future date, the 'attachment' is never solidified because arguably, it is never fully acknowledged as one's own.

P K Mishra, J R Das and S K Mishra (2010) study the "Gold Price Volatility and Stock Market Returns in India" emphasizing on the capital market of a country in terms of a wide range of macroeconomic and financial variables has been the subject matter of many researches of last few decades. Coulson, Michael in "Gold as an investment" (Volume 114, Number 2, June 2005 , pp. 122-128(7) state that an investor should pick a straight producer or an exploration hopeful. As to the metal itself, the key issues encompass dealing, holding charges and security. Other gold assets such as bonds may be too obscure and illiquid, bullion funds can be too expensive selling above net value, coins may have a numismatic value in excess of their gold value and jewellery usually has a substantial 'added' value. Gold derivatives provide an outlet for gearing up gold's performance but carry severe health warnings due to their volatility.

"The Dynamics of Savings and Investment Relationship in India" European Journal of Economics, Finance and Administrative

Sciences ISSN 1450-2275 Issue 18 (2010) by P K Mishra, J R Das and S K Mishra study the empirical relation between savings and investment in developed as well as developing countries has received considerable attention in recent years. Economists often claim that higher savings contribute to increased investment and GDP growth in a country. The paper investigates the dynamics of the relation between savings and investment in India for the period 1950-51 to 2008-09 using annual data.

"A report of the World Gold Council says that the craze for gold in India is unmatched. The craving people have for gold in India is indubitable and no one can compete with us in this matter, China being an exception to an extent. It is assumed that Indians purchase gold with 7% of their total annual savings, the amount estimated to be around \$256 billion."

"According to the report of Centre for Monitoring Indian Economy, between 2010-2015 India's GDP will lie somewhere around 10% which will boost the economic growth of the country. On the other hand, the United Nations estimates that till 2030, 41% of India's total population will be residing in cities & along with it the literacy rate and per capita income will also reflect a fast pace growth. In the next 10 years not only the social-economic scenario will change but the middle class will also prosper. McKenzie's report suggest that, till the year 2010, about 4 crore Indian households will have an annual income more than \$7000 and by 2020 this figure will cross the mark of 10 crore. It is natural that the gold market is also looking at these changes with high expectations."

The World Gold Council (WGC) published a research paper entitled "India: Heart of Gold", which addresses recent developments in the market; in the context of the revival of Indian

demand for gold in 2010. The report is the first in a new series on the Indian gold market, with the second scheduled for publication in 2011, which will analyses the strategic outlook for Indian gold demand over the next several decades.

Eily Ong, Investment Research Manager at the World Gold Council, said "India is the largest gold market in the world and, as such, the likely recovery of local gold demand to pre-crisis levels is of considerable strategic importance to the wider gold market. Gold is an integral part of Indian society and a foundation of wealth and savings in India. As consumers have adjusted their price expectations upwards, a further rise in gold jewellery and investment demand is anticipated and this trend is projected to continue over the long-run as local investors are buying gold driven by wealth accumulation motives."

Objectives of the Study

- 1) To examine the income, saving levels and investment pattern in Indore.
- 2) To study the effect of age on Investment pattern in Indore city.
- 3) To determine the preference of the investors while investing.
- 4) To find out the most preferred investment option.
- 5) To know the constraints while deciding an investment mix.

Research Methodology

The study is based on primary as well secondary data, however primary data collection was given more importance since it is overbearing factor in attitude studies. One of the most important uses of research

methodology is that it helps in identifying the problem, collecting, analyzing the required information data and providing an alternative solution to the problem. It also helps in collecting the vital information that is required by the top management to assist them for the better decision making both day to day decision and critical ones.

Data Sources:

Research is based on primary as well secondary data. Secondary data is used for the reference. Research has been done by primary data collection, and primary data has been collected by interacting with various people. The secondary data has been collected through various journals, books, newspapers, magazines and websites.

Sampling:-

Sampling procedure:

The sample was selected of them who are the investors of various sources of investment. It was also collected through personal visits to persons, by formal and informal talks and through filling up the questionnaire prepared. The data has been analyzed by using mathematical/Statistical tool.

Sample size:

The sample size of the study is limited to 150 people only. Out of which only 80% people had invested in Gold. Other 20% people did not have invested in Gold.

Sample design:

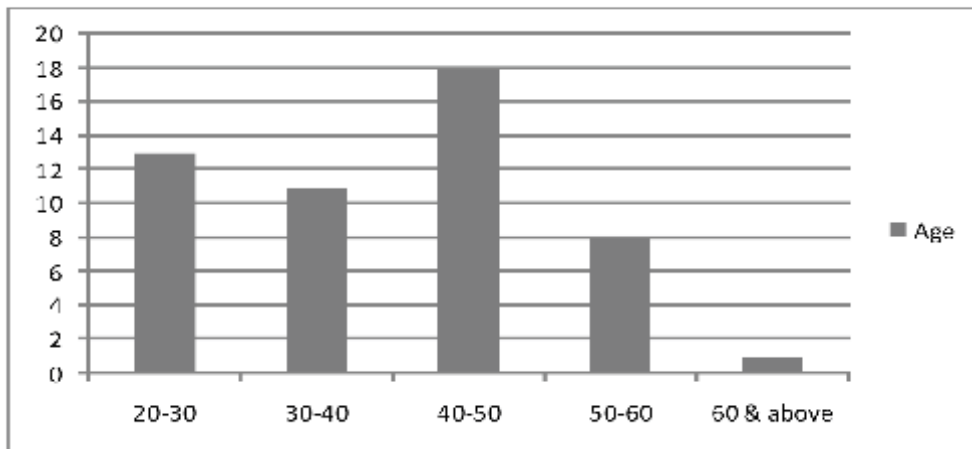
Data has been presented with the help of pie charts, bar graphs, tables etc

Data Analysis:-

Demographic Analysis:-

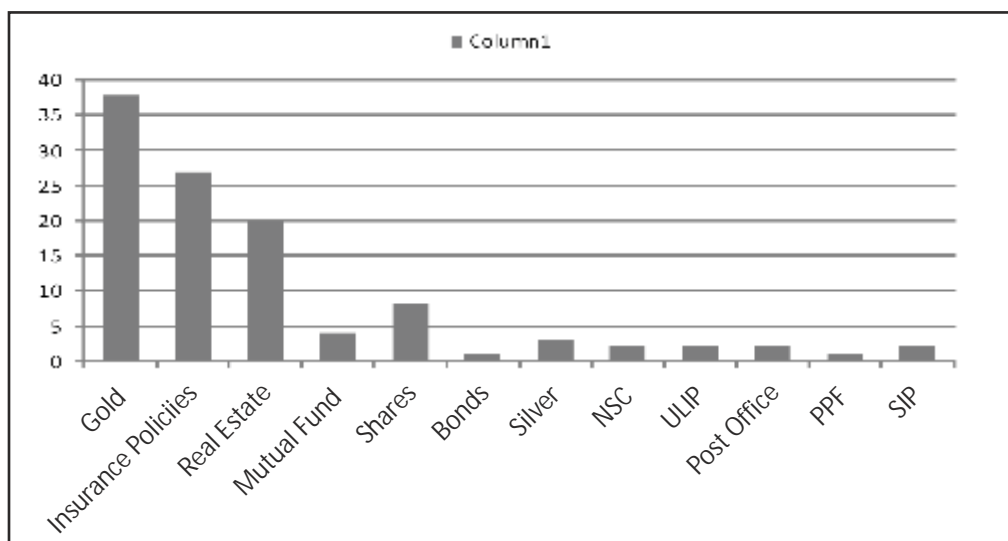
Age distribution of Investors

Age Group	20-30	30-40	40-50	50-60	60 and above
No. of Investor	13	11	18	8	1



Result: According to this chart out of 60 investors the most are in the age group of 40-50 yrs. i.e. 35%, the second most investors are in the age of 20-30yrs. i.e. 25% and the least investors are in the age group of 60 and above.

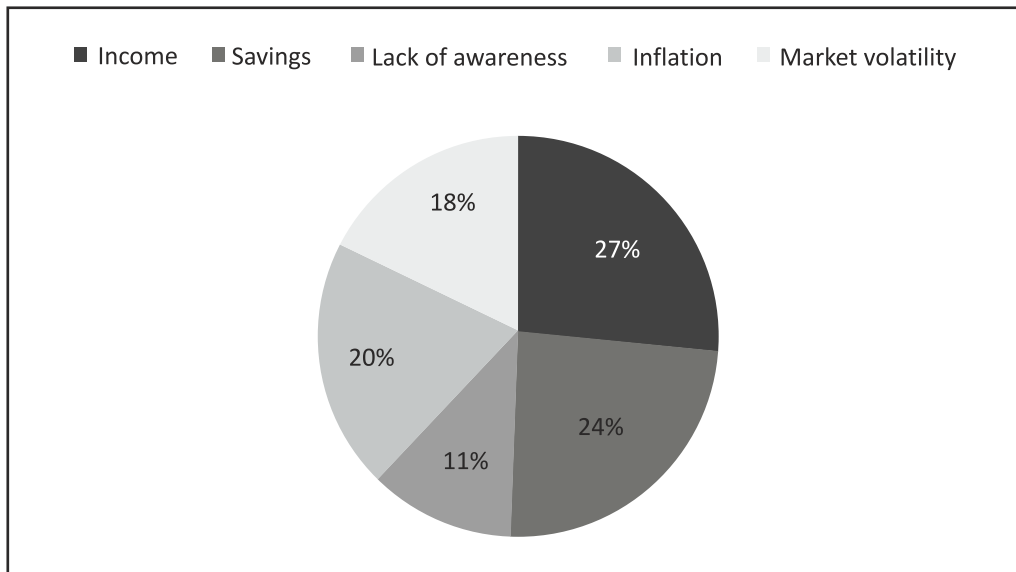
Except bank account, which are top 3 investment destinations



Result: According to this chart, except bank account people invest in various other forms of investment. From which gold is the most preferred one. The second most preferred form is the insurance policies, third is the real estate and least preferred is bonds and PPF.

Interpretation: Thus, except bank account the most preferred investment form is Gold as Indians have more obsessions for gold. After it come insurance policies as people want to secure their present and future. And then they prefer real estate as we can see real estate is very high growing sector now.

What are the constraints you are facing while deciding your investment mix

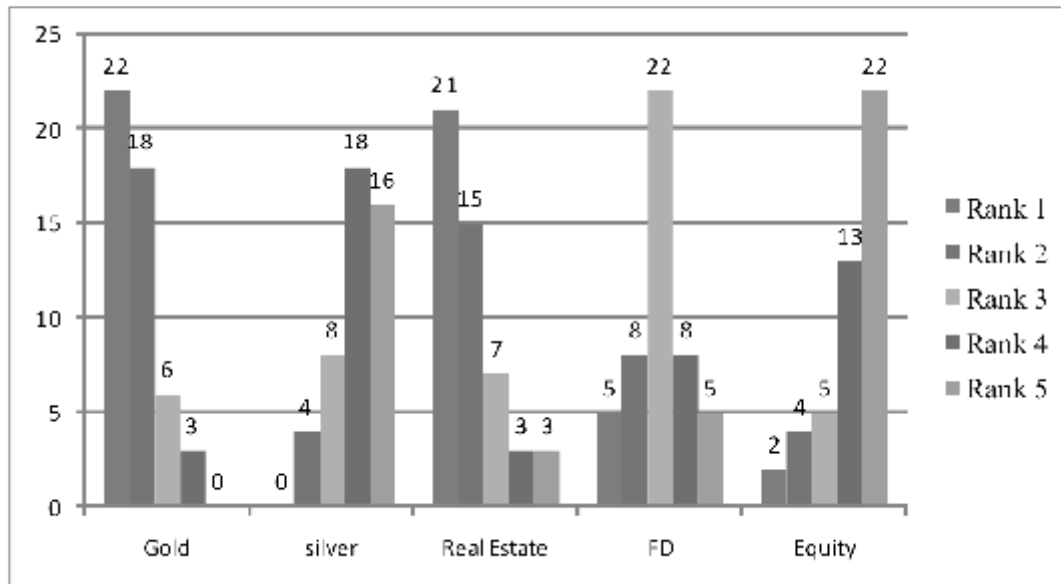


Result: 27% people feel income is biggest constraint faced by them while deciding their investment mix. 24% people find it to be savings, 20% feel that it is inflation. Other constraints faced by people are-market

volatility by 18% people and lack of awareness by 11% people.

Interpretation: Thus, it is observed that income is the biggest constraint faced by people while deciding their investment mix.

If given Rs.10,00,000 Rank the following in order of the preference you give while investing

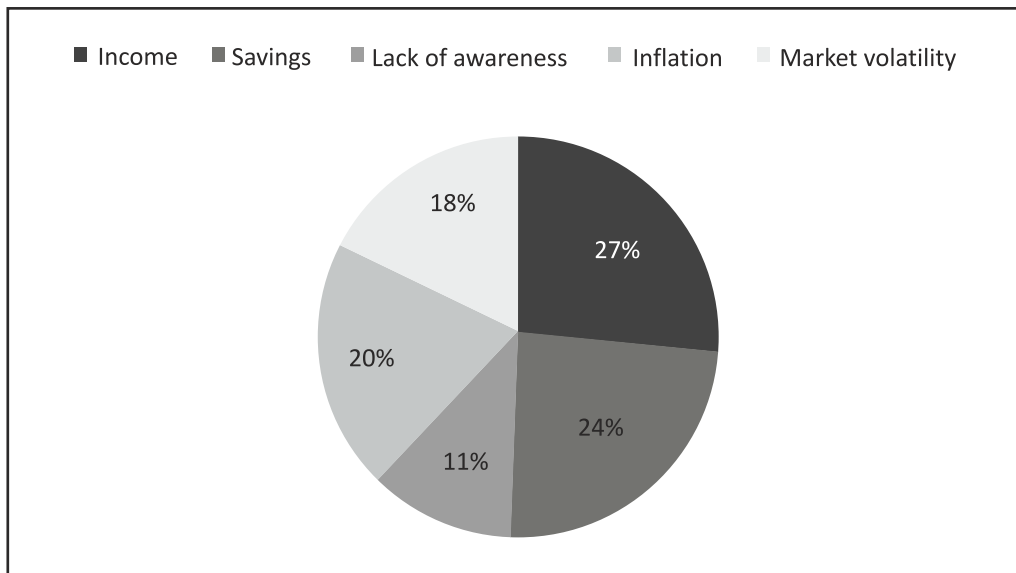


Result: If given Rs. 10,00,000 than people would prefer to change their current investment mix. Now, out of 60 people 22 give 1st preference to gold, 21 give 1st preferences to real estate, 5 give it to FD and only 2 & 1 give it to equity and silver respectively. 18 people give 2nd preference to gold, 4 give 2nd preference to silver, 15 give it to real estate, 8 give it to FD and only 4 give 2nd preference to equity. Only 6 people give 3rd preference to gold, 8 people give 3rd preference to silver, 7 give it to real estate, 22 give it to FD and 5 give it to equity. only 3 give 4th preference to gold, 18

give it to silver, 3 give it to real estate, 8 give it to FD and 13 give 4th preference to equity. No one prefer gold on 5th rank. 16 people give 5th preference to silver. Only 3 and 5 people give 5th preference to real estate and FD respectively. 22 people give 5th preference to equity.

Interpretation: If given Rs. 10,00,000 to invest than people will prefer investing in gold as it is more secure and very high return generating option. Than prefer real estate and least preference will be given to equity.

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Conclusion

The tendency to purchase gold is getting popular in India because Indians feel that it is a good investment option despite of its high price as in future its price will rise and there is no expectation of fall in price of gold, which is correct too. From the records of past two decades it is clear that the price of gold has only risen and no significant downfall has been registered. This tendency of Indians to purchase gold is a major factor that doesn't let

the price of gold fall in the international market. During the research I found that people are having money but they are not diversifying it properly, leading to money laundering and disinvestment of funds.

It is human behavior that we tend to do things as our parents and grandparents have been doing. As the gold prices are increasing day by day, as a result it is able to give high returns with low risk. From the past trends it is observed that there is an increase in gold prices every year and no significant downfall has been observed. This trend will continue in the future too, so it is wise to invest some money in gold.

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