An Empirical Study On The Factors Influencing Investment Behavior Of Investor Towards Gold Futures

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Abstract

The financial instruments which derived their prices from physical Gold are Known as Gold derivatives. Gold derivative is contracts between seller and buyer who take exposure to physical gold. Types of gold derivatives traded enormously in India are Gold coins/Gold Bar, Gold ETF, Gold Options, Gold Futures. The Indian government aims to transform the Indian gold market by initiating Make in India, setting up of Bullion Exchange that would provide an efficient market to gold and so on. In this sense it's very important to know the investor behavior towards gold and its derivatives. In this research attempts to know the investment behavior of investors towards Gold Futures using Factor Analysis method. The deciding factors of the investors such as diversification, market fluctuations are inclined towards investing in Gold Futures.

Key Words: Gold Futures, Gold Investment, Investors Behaviour.

Introduction

Gold is considered as prominent of all precious metals for its beauty, investment qualities, liquidity and in[1]dustrial properties. Gold as an investment viewed as a financial asset that maintains value and purchasing power during inflation. Due to its unique chemical properties like malleable and ductile metals with high melting point with recyclability, it has a long and fascinating history in a wide range of industries. Because of biocompatible, gold is the choice of metal in medicine and dentistry. In recent times it has emerged as a key in nanomaterial. Government, mining companies, companies dealing with gold products rely on gold bullion for their risk management. Indians may not be cash rich but people from every stature invest in gold in one or any other form. Gold is an intrinsic part of an Indian as it is considered as ready convertible with high appreciation value at any given point.

Gold futures are contracts that are traded on exchanges in which a buyer agrees to purchase a specific quantity of the commodity at a predetermined price at a date in the future.

Literature Review

Researcher Xavier, A. J., & Kamalam, G. (2016) in his study observed that Gold is one of the best options of investment due to its resale and its cultural values. Bhatnagar, Vinod. (2014) observed that there is no difference between the psychology of investors; either Male/ female has the same investment pattern towards gold investments. Virginie Coudert and Hélène

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Raymond-Feingold, (2011) observed that gold qualifies for being a safe haven, as it does not co-move with stock returns on average neither during recessions nor bear markets. This result holds for all the considered stock indexes. Laurence E. Blose (2009) Gold prices do not change because of changes in expectations regarding future inflation. Paresh Kumar Narayan, Seema Narayan and Xinwei Zheng (2013) A rise in the oil price leads to a rise in the general price level (inflation), which translates into higher gold prices. This also implies that the oil market can be used to predict the gold market prices and vice versa, thus rendering these markets jointly inefficient. These research findings help to identify the variables which help to determine the investment behavior of the investors.

Need of the study

Based on the Literature review we understand that researchers have researched the investor behavior on different investment avenues underlying physical gold and gold coins or Bars. As the government is on the proposal to come up with a gold bullion market in India, it's necessary to study the investors behavior towards gold derivative markets like Golf EFTs, and gold futures.

Scope of the study:

Gold futures is an instrument in the gold commodity market. The present study focuses and evaluates the deciding factors of investors to invest in gold futures.

Objective of the study:

To study the factors influencing investment behavior of Investors towards Gold Futures.

Research Methodology:

Factors are extracted by the secondary data collection through reading vast varieties of social and economic Journals, articles related to the investment and behavioral aspects of investors. Based on this, a well-structured close ended questionnaire was used to collect the primary data. Data was collected from 450 respondents with various backgrounds based on age, gender, socio economic background and educational qualification using convenience sampling method.

The collected data has been proceeded to Factor Analysis. Factor analysis is carried to identify the core factors influencing investment decisions towards gold futures. This technique was considered appropriate; it doesn't require any pre-existing functional relationship. It is known for data reduction. The test helps in reducing the larger number variables into a few core factors. The purpose of data reduction is to remove redundant (or highly correlated) variables from the data

Firstly, reliability of the instrument was measured with the help of Kaiser- Meyer-Olkin Measure of Adequacy. Secondly, factor analysis was done to extract the risk factors impacting the investment decision towards gold futures.

Data Analysis and Interpretations

The variables or factors are analyzed, to know whether the variables are correlated using KMO and Bartlett's Test. The correlation matrix yielded a substantial number of large correlations

indicating that factor analysis is an appropriate statistical methodology which is shown as below table

Test of adequacy

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.808	
Bartlett's Test of Sphericity	Approx. Chi-Square	1338.226
	df	55
	Sig.	.000

As per the KMO test conducted. The value is 0.808 which is acceptable and Bartlett's test of sphericity tests showed a significant level is 0.000*, hence the data is adequate and further study is followed.

Further factor analysis was carried out to extract the factors influencing investment decisions towards gold futures. Principal component analysis was carried out to extract factors, as per kaiser criterion, the eigen value more than 1 are considered. Three factors in the initial eigenvalues are greater than 1. These three factors 58 % of total variance with original variables The items falling under each of these factors were then dealt with quite prudently. Table below shows the communality and eigenvalues of the factors.

Total Variance Explained								
Component	Communities	Initial Eigenvalues	Extraction Sums of Squared Loadings					
		Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	
1		3.782	34.386	34.386	3.782	34.386	34.386	
2		1.517	13.794	48.180	1.517	13.794	48.180	
3		1.108	10.070	58.250	1.108	10.070	58.250	
4		.893	8.114	66.364				
5		.778	7.072	73.436				
6		.694	6.305	79.741				

7		.579	5.263	85.004			
8		.486	4.414	89.418			
9		.440	3.999	93.417			
10		.393	3.573	96.990			
11		.331	3.010	100.000			

Component	Factors	Factor Loading
1	Investment in gold future for wealth creation	0.812
	Maximum savings towards Gold Futures	0.645
	Active trading	0.634
	Mostly I bought/sold future schemes during recent price movements in the market	0.633
	Investment decision on gold future based on current economic indicators e.g. inflation rate, business cycle movements	0.616
	I get my expected return on my investment decision	0.549
	While investing in gold future I am more concerned about safety of principal	0.477
2	Risk tolerance towards my investment decision	0.715
	Investment decisions is based on my investment objectives	0.649
3	Investing in Gold Futures as a Diversification	0..559

Component Matrix

From the above table, we observe that Factor 1 accounts, 34% of total variance which mainly relates investor behavior towards market fluctuations and quick wealth creation, Factor 2 about 13% of variance of investment related to confident and clarity in investing in Gold Futures, and Factor 3 about 10% of total variance which relates to diversifications. For this, the cumulative variance extracted is 58% of the total variance.

From the above analysis it was clear that the investors are mainly focusing on quick wealth creation by taking risk and diversifying the portfolio to overcome the market fluctuation such as inflation, government policies and so on.

Conclusion

The study critically examined the deciding factors of investors investing towards Gold futures. The study is limited to the state of Karnataka using convenience sampling methods. Hence the results can be further improvised by selecting the group of respondents and further analysis can be carried out to different geographical locations. As the findings of the study gives a positive outcome, and keeping gold futures has an expiration date to trade, results will be varied as per the time and policies of the government. Due to vast information of the stock exchange and the emerging digital platforms among the youth, it was observed that investors are willing to invest in Gold futures and the factor influencing investors to invest in gold futures is to maximize the profit during market fluctuations and also to diversify their portfolio.

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