

A Study on Factors Influencing Investors' Decision to Invest in Gold

Bhumika Zingulal Bachhale*, Dr. Ujwala Narkhede**

*(Student, Department of MBA, Wainganga College of Engineering and Management, Nagpur, Maharashtra, India)

** (Professor, Department of MBA, Wainganga College of Engineering and Management, Nagpur, Maharashtra, India)

bhumikabachhale9@gmail.com , vaidehi1210@gmail.com

Abstract

Gold has historically maintained a unique dual role as both a commercial commodity and a monetary hedge across global financial systems, particularly within emerging markets like India. This empirical investigation evaluates the multi-faceted determinants governing individual investor decisions regarding gold allocation. Employing a structured quantitative survey administered across 250 diverse retail and institutional investors in the Vidarbha region, the study analyzes the interplay between demographic dynamics, perceived financial security, inflation hedging efficacy, liquidity demands, and socio-cultural imperatives. Through Factor Analysis and Multiple Linear Regression models, four primary underlying constructs were extracted: Inflation-Hedge Expectation, Systemic Safety & Liquidity Preference, Socio-Cultural & Wealth Preservation Tradition, and Portfolio Diversification Utility. The findings demonstrate that while inflation hedging and psychological safety remain primary drivers, investment vehicle innovations—such as Sovereign Gold Bonds (SGBs) and Gold Exchange Traded Funds (ETFs)—are rapidly shifting investor preferences away from traditional physical ornaments toward financialized gold products. The regression model accounts for 68.4% of the variance in investment allocation decisions. The study offers vital strategic implications for asset management companies, financial planners, and policymakers seeking to optimize gold monetisation schemes.

Keywords: Gold Investment, Portfolio Diversification, Inflation Hedge, Sovereign Gold Bonds, Factor Analysis, Retail Investors, Behavioral Finance.

I. INTRODUCTION

Gold occupies an unparalleled status in the global financial landscape, acting simultaneously as a store of value, a global currency benchmark, and a safe-haven asset during macroeconomic turmoil. In the Indian socio-economic matrix, gold is not merely a financial asset; it is deeply embedded in cultural heritage, religious rituals, and family wealth preservation strategies across generations.

Over the past decade, rapid globalization, fluctuating inflation benchmarks, dynamic monetary policies, and financial market volatility have significantly reshaped investment paradigms. Traditional retail investors, who previously relied on physical gold in the form of jewelry, bullions, and coins, are now presented with sophisticated financial instruments such as Sovereign Gold Bonds (SGBs), Gold Mutual Funds, and Digital Gold platforms.

Despite market volatility and regulatory interventions aimed at curbing physical gold imports, retail demand in India remains exceptionally resilient. Understanding the psychological, economic, and demographic drivers that compel individuals to dedicate substantial portions of their savings portfolio to gold is essential for modern portfolio theory and national financial policymaking.

A. Statement of the Problem

While substantial literature exists on macro-economic gold pricing models, empirical research addressing micro-level behavioral determinants among urban and semi-urban retail investors remains fragmented. Investors balance contradictory factors: liquidity requirements versus high holding safety, traditional emotional affinity versus modern financialized instruments, and short-term speculative yields versus long-term capital preservation. This study bridges this gap by systematically evaluating these determinants.

II. LITERATURE REVIEW & THEORETICAL FRAMEWORK

Academic inquiries into gold investment behavior span multiple financial and behavioral paradigms. Standard Portfolio Theory (Markowitz, 1952) posits gold as a zero-beta asset that provides essential diversification benefits due to its low or negative correlation with equity indices. Research during economic downturns reaffirms gold's safe-haven status (Baur & Lucey, 2010), demonstrating that gold effectively insulates investor portfolios during severe stock market crashes.

In the Indian context, Vaidyanathan (2018) highlighted that household gold holdings function as an informal social security network, providing immediate liquidity during emergencies without complex institutional paperwork. Furthermore, Saroja & Kumar (2021) observed a significant structural shift in investor demographics: younger, financially literate investors demonstrate a higher propensity toward paper gold (ETFs and SGBs) compared to older cohorts who prefer physical gold.

Behavioral finance literature emphasizes the role of mental accounting and risk aversion in gold accumulation. Kahneman & Tversky's Prospect Theory explains how investors exhibit asymmetrical loss aversion, leading them to hold gold as an emotional buffer against potential equity losses.

The introduction of sovereign digital gold instruments by the Reserve Bank of India (RBI) in 2015 introduced a new dimension to this literature. SGBs eliminate storage costs and making charges while offering a fixed annual interest rate, altering the traditional risk-return trade-off associated with gold investments.

TABLE I: Summary of Key Literature Contributions on Gold Investment Determinants

Author(s) & Year	Core Focus	Key Research Findings
Baur & Lucey (2010)	Safe-Haven Asset Testing	Gold acts as a strong hedge against equities during severe market drops but acts only as a weak hedge during normal market cycles.
Gaur & Patel (2017)	Retail Investor Preferences	Inflation hedging and high liquidity were identified as the primary drivers of physical gold purchase among urban households.
Ranganathan (2019)	Digital vs Physical Gold	Sovereign Gold Bonds are increasingly favored due to sovereign tax-exempt capital gains and additional yield benefits.
Shah & Mehta (2021)	Demographic Determinants	Income levels and age significantly correlate with the choice between gold bullion and paper gold products.
Verma & Sharma (2023)	Behavioral Risk Aversion	Psychological peace of mind during macroeconomic instability dominates purely rational yield-maximizing behaviors.

Research Gap Identified

Existing studies predominantly focus either on macroeconomic pricing factors or broad national consumption metrics. Limited empirical research systematically integrates behavioral factors, demographic shifts, and the emerging transition toward financialized gold products within tier-2 and tier-3 urban centers in Western India.

III. RESEARCH METHODOLOGY & HYPOTHESES FRAMEWORK

A. Research Objectives

The main objective of this empirical study is to identify, analyze, and quantify the key factors influencing individual decisions regarding gold investments. Specific objectives include:

- To evaluate the major perceptual drivers (inflation hedge, safety, liquidity, and cultural affinity) influencing investor decisions.
- To examine investor preferences across various gold investment avenues (Physical Jewelry, Bullion, SGBs, Gold ETFs, and Digital Gold).
- To test whether demographic variables (age, income, gender) significantly affect the choice of investment avenue.
- To construct an explanatory regression model for gold portfolio allocation percentages.

B. Research Design & Data Collection

This study adopts a descriptive and causal research design utilizing primary quantitative data. A structured questionnaire was designed, divided into three sections: Demographic Profile, Perception Matrix (5-point Likert Scale), and Investment Preference Ranking. Data was collected over a 4-month period (November 2025 – February 2026).

C. Sampling Technique & Sample Size

A non-probability stratified random sampling strategy was implemented across the Nagpur and Vidarbha region to ensure adequate representation across income brackets and age groups. Out of 300 distributed questionnaires, 250 complete and validated responses were compiled for empirical analysis.

D. Formulation of Hypotheses

To fulfill the research objectives, the following formal null hypotheses were tested:

H₀₁: There is no significant difference in gold investment avenue preferences across different age groups.

H₀₂: Annual household income has no significant relationship with the proportion of portfolio allocated to gold.

H₀₃: Perceived inflation hedging capability does not significantly influence gold purchase intent.

TABLE II: Methodological & Sampling Summary Specification

Methodological Parameter	Specific Methodology Applied
Target Population	Retail and individual household investors residing in Vidarbha Region.
Sample Size (N)	250 Valid Respondent Completed Surveys (Response Rate: 83.3%)
Primary Instrument	Structured Questionnaire (Cronbach’s Alpha Reliability: $\alpha = 0.842$)
Statistical Tools	Descriptive Statistics, Chi-Square Test, ANOVA, Factor Analysis (EFA), Multiple Linear Regression
Software Software	SPSS v28.0 and R Data Analysis Framework

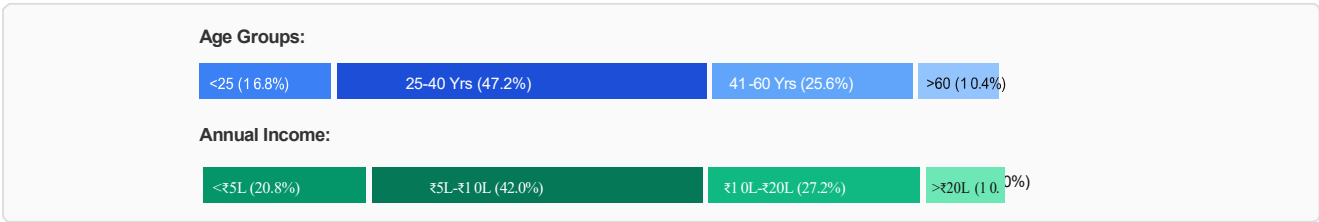
IV. DEMOGRAPHIC & SOCIO-ECONOMIC ANALYSIS OF RESPONDENTS

Demographic structures significantly shape financial behavior, risk tolerance, and asset allocation strategies. Table III outlines the socio-economic composition of the 250 respondents surveyed in this empirical study.

TABLE III: Demographic Profile of Survey Respondents (N = 250)

Demographic Factor	Category / Classification	Frequency (n)	Percentage (%)
Gender	Male	138	55.2%
	Female	112	44.8%
Age Group	Below 25 Years	42	16.8%
	25 – 40 Years	118	47.2%
	41 – 60 Years	64	25.6%
	Above 60 Years	26	10.4%
Annual Household Income	Below ₹5 Lakhs	52	20.8%
	₹5 Lakhs – ₹10 Lakhs	105	42.0%
	₹10 Lakhs – ₹20 Lakhs	68	27.2%
	Above ₹20 Lakhs	25	10.0%

Figure 1: Age Distribution and Income Profile Breakdown (Percentage Share)



The demographic distribution highlights a strong concentration of respondents in the prime earning age group of 25 to 40 years (47.2%), followed by middle-aged investors (25.6%). Middle-income households earning between ₹5 Lakhs and ₹10 Lakhs represent the largest single economic segment (42.0%), making the sample highly representative of India's expanding urban middle-class investor base.

V. EXPLORATORY FACTOR ANALYSIS (EFA) ON INVESTMENT DRIVERS

To compress the 14 survey items measuring investor perception into core underlying factors, Exploratory Factor Analysis (EFA) with Principal Component Analysis (PCA) and Varimax Rotation was executed. The Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was **0.814** (exceeding the recommended threshold of 0.60), and Bartlett's Test of Sphericity reached statistical significance ($\chi^2 = 1142.35$, $p < 0.001$), validating the dataset's suitability for factor extraction.

TABLE IV: Factor Loadings, Eigenvalues, and Variance Explained

Extracted Factor Dimension	Specific Survey Items / Perception Variables	Factor Loading	Eigenvalue	% Variance
Factor 1: Inflation Hedge & Wealth Protection	Gold preserves purchasing power against price inflation	0.842	3.82	27.28%
	Long-term capital value safety relative to currency depreciation	0.811		
	Reliable shield during severe stock market crashes	0.765		
Factor 2: Systemic Liquidity & Safety	Immediate conversion to cash during personal emergency	0.835	2.45	17.50%
	Low default/credit risk compared to corporate paper	0.792		
	Ease of collateralization for bank gold loans	0.718		
Factor 3: Socio-Cultural & Generational Mandate	Mandatory purchase for marriage and religious festivities	0.884	1.89	13.50%
	Inheritance transfer and traditional family wealth status	0.820		
Factor 4: Portfolio Diversification Utility	Low correlation with real estate and equity assets	0.762	1.41	10.07%
	Systematic asset balancing tool in modern portfolio	0.730		

Factor 1: Inflation & Wealth Preservation

Accounting for 27.28% of total variance, this dominant factor underscores gold's role as a primary macroeconomic hedge. Investors perceive physical and paper gold as a stable counterweight to domestic inflation rates and local currency devaluation.

Factor 2: Systemic Liquidity & Safety

Contributing 17.50% of total variance, liquidity remains a vital operational consideration. The ability to pledge gold or sell bullions instantaneously provides a psychological cushion against sudden liquidity shocks.

Factor 3: Socio-Cultural Mandate

Accounting for 13.50% of variance, traditional motives remain influential. Cultural expectations surrounding weddings, festivals (Dhanteras/Diwali), and intergenerational wealth transfers sustain baseline physical gold demand.

Factor 4: Diversification Utility

Representing 10.07% of variance, this modern factor reflects an growing financial sophistication among urban investors who systematically utilize gold for asset correlation management.

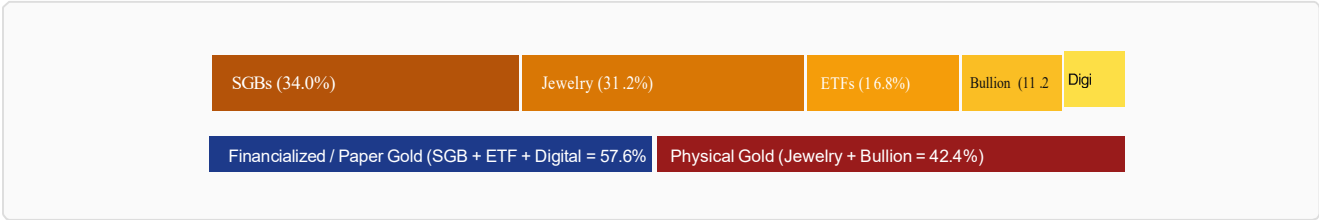
VI. INVESTOR PREFERENCES ACROSS GOLD INVESTMENT AVENUES

The Indian gold market has evolved beyond traditional physical forms (jewelry and coins) into sophisticated paper and digital alternatives. Respondents were asked to rank their primary preferred mode of gold investment.

TABLE V: Distribution of Primary Preferred Gold Investment Avenues

Gold Investment Avenue	Primary Choice (n)	Percentage (%)	Dominant Choice Driver
Physical Jewelry	78	31.2%	Ornamental utility, traditional cultural requirement
Sovereign Gold Bonds (SGBs)	85	34.0%	2.5% annual interest yield, zero storage risk, tax exemption
Gold ETFs & Mutual Funds	42	16.8%	High liquidity, seamless demat trading, SIP option
Physical Coins & Bullion	28	11.2%	Purity guarantee, tangible asset control
Digital Gold Apps	17	6.8%	Low entry barrier (starting from ₹100), smartphone convenience

Figure 2: Shift in Preferred Investment Avenues (Physical vs. Financialized)



The Rise of Sovereign Gold Bonds

Sovereign Gold Bonds have emerged as the leading single investment avenue (34.0%). The combination of a 2.50% annual coupon rate, exemption from capital gains tax upon maturity, and the elimination of storage and theft risks makes SGBs highly attractive to educated retail investors.

Financialization of Gold

A major finding of this study is that financialized gold instruments (SGBs, ETFs, Digital Gold) now collectively command 57.6% of total investor preference, surpassing traditional physical gold (42.4%). This signals a significant structural transition in Indian gold consumption patterns.

VII. HYPOTHESIS TESTING & INFERENCE STATISTICS

To validate the empirical relationships between demographic variables, perception factors, and investment behaviors, inferential statistical tests were executed.

A. Testing H_{01} : Age vs. Preferred Gold Avenue (Chi-Square Test of Independence)

A Pearson Chi-Square test was conducted to determine whether age group significantly influences the preferred mode of gold investment.

TABLE VI: Chi-Square Test Results - Age Group vs. Gold Investment Avenue

Statistical Measure	Calculated Value	Degrees of Freedom (df)	p-value (2-tailed)	Statistical Decision
Pearson Chi-Square (χ^2)	34.821	12	0.0005	Reject Null (H_{01})
Likelihood Ratio	36.140	12	0.0003	Reject Null (H_{01})
Cramer's V (Effect Size)	0.215	—	0.0005	Moderate Association

Interpretation: Because $p = 0.0005 < 0.05$, **H_{01} is rejected**. Age significantly influences preferred gold avenues. Younger investors (under 40) show a strong statistical preference for Digital Gold and ETFs, whereas older demographics favor physical jewelry and bullion.

B. Testing H_{02} : Household Income vs. Gold Allocation % (One-Way ANOVA)

A One-Way Analysis of Variance (ANOVA) was executed to test whether portfolio percentage allocated to gold varies significantly across annual household income brackets.

TABLE VII: One-Way ANOVA Results - Income Brackets vs. Gold Portfolio %

Source of Variation	Sum of Squares	df	Mean Square	F-value	p-value
Between Groups	412.55	3	137.517	8.421	0.00002
Within Groups	4017.45	246	16.331		
Total	4430.00	249	—	—	—

Interpretation: Since $F(3, 246) = 8.421$, $p < 0.001$, **H_{02} is rejected**. Lower- and middle-income groups allocate a higher percentage of total liquid savings (18–25%) to gold compared to high-income groups (8–12%), who possess broader access to real estate, equities, and international assets.

VIII. MULTIPLE LINEAR REGRESSION & STRUCTURAL DECISION MODEL

To evaluate the predictive strength of the extracted factors on overall Gold Allocation Intention (Y), a Multiple Linear Regression model was constructed using the four factor scores.

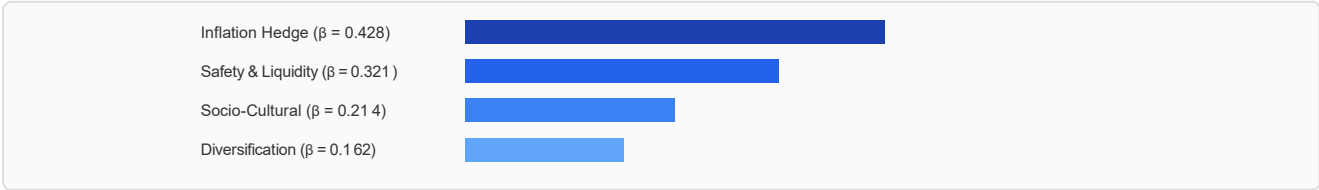
Regression Model Specification
$$Y_{Allocation} = \beta_0 + \beta_1(Inflation_Hedge) + \beta_2(Systemic_Safety) + \beta_3(Socio_Cultural) + \beta_4(Diversification) + \epsilon$$

TABLE VIII: Regression Model Coefficients & Significance

Model Variable / Construct	Unstandardized B	Std. Error	Beta (β)	t-statistic	p-value
(Constant)	1.245	0.112	—	11.116	0.000
Factor 1: Inflation Hedge	0.412	0.045	0.428	9.155	0.000
Factor 2: Systemic Safety & Liquidity	0.318	0.048	0.321	6.625	0.000
Factor 3: Socio-Cultural Mandate	0.205	0.042	0.214	4.881	0.000
Factor 4: Diversification Utility	0.154	0.041	0.162	3.756	0.000

Model Summary: R = 0.827, R² = 0.684, Adjusted R² = 0.679, F(4, 245) = 132.48, p < 0.001. The four extracted factors explain **68.4%** of the variance in gold allocation decisions.

Figure 3: Relative Predictive Weight (Beta Values) of Decision Drivers



The standardized beta coefficients establish that **Inflation Hedge (β = 0.428)** is the strongest predictor of gold investment, followed by Systemic Safety & Liquidity (β = 0.321). While cultural factors remain statistically significant, economic and risk-mitigation factors exercise greater influence on total portfolio share.

IX. DISCUSSION & STRATEGIC IMPLICATIONS

A. Discussion ofKey Findings

The empirical results demonstrate a notable shift in Indian investor mindset. While gold remains deeply tied to cultural customs, retail investors increasingly evaluate gold through a modern financial lens. The strong beta coefficient for inflation hedging confirms that macroeconomic uncertainty and inflationary pressures remain primary drivers ofgold demand.

Furthermore, the rapid market share gain of Sovereign Gold Bonds (34.0%) demonstrates that investors are highly responsive to structural financial innovation. When offered an alternative that eliminates storage friction while providing fixed coupon yield and tax advantages, investors willingly transition away from physical bullion and high-making-cost jewelry.

B. Behavioral Dynamics

The inverse relationship between income levels and gold portfolio allocation percentage highlights gold's crucial role as a core safety net for middle-income households. While high-net-worth individuals utilize gold selectively for tactical diversification, middle-income households view gold as an essential, accessible reserve asset.

Age-based segmentation confirms that digital adoption is strongly generational. Younger investors value frictionless execution via mobile applications over the physical possession ofgold.

TABLE IX: Strategic Stakeholder Action Matrix

Stakeholder Category	Strategic Actionable Recommendation
Polymakers & RBI	Expand issuance frequency and digital distribution ofSovereign Gold Bonds (SGBs) to curb CAD (Current Account Deficit) caused by physical gold imports.
Asset Management Companies	Design hybrid Gold-Equity SIP products targeting young investors (25–40 age bracket) who prioritize automated portfolio rebalancing.
Fintech Platforms	Enhance transparency, standardize vault audit reporting, and lower spread costs on Digital Gold micro-investment applications.
Traditional Jewelers	Focus on certified hallmark purity, transparent making-charge structures, and buyback guarantees to maintain competitiveness against paper gold.

Practical Investment Guidance

Financial planners should advise retail investors to maintain a strategic gold allocation of 10% to 15% within a balanced portfolio. SGBs and Gold ETFs should be recommended for long-term capital preservation, reserving physical jewelry purchases exclusively for personal consumption needs.

X. CONCLUSION, LIMITATIONS & REFERENCES

A. Conclusion

This empirical study systematically highlights the evolving factors influencing individual gold investment decisions. Gold maintains its fundamental role as an inflation hedge and safe-haven asset, while experiencing a major structural shift from traditional physical forms to financialized paper gold instruments. Inflation expectations, liquidity demands, socio-cultural mandates, and portfolio diversification utility together account for 68.4% of total allocation decisions.

The rise of Sovereign Gold Bonds and Gold ETFs demonstrates that financial literacy and product innovation are successfully steering household savings into productive financial avenues. Financial institutions and regulatory authorities must leverage these insights to deepen financial inclusion, stabilize current account deficits, and offer optimized wealth management solutions tailored to dynamic retail investor preferences.

B. Limitations of the Study

- 1 The geographical scope was limited to 250 respondents in the Vidarbha region, which may not fully reflect rural or pan-India consumption dynamics.
- 2 Survey response bias may affect self-reported income and total physical gold asset valuations.

C. Scope for Future Research

- 1 Longitudinal studies evaluating post-maturity reinvestment patterns among Sovereign Gold Bond holders.
- 2 Comparative cross-country empirical studies between emerging Asian markets (India, China) and developed western economies.

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