CONSUMERISM AND CHANGING APPROACHES TO GOLD PURCHASE PATTERN

Mrs.Sheeba K H*

Abstract:

Gold, the dense, soft and shiny metal has been associated with man since time immemorial due to its high value, with gold standards being the most common basis for monetary policies until they were widely supplanted by fiat currency as in the past century. The uncertainty in the global economy in present times has dampened investment returns from different asset classes. The study analyzes the shift in consumer's purchase pattern of gold from an emotional asset to an economic asset, authorizing an investor(consumer) centric approach.

Keywords: Gold, Asset, Emotional Asset, Economic Asset, Consumption, Purchase.

* Assistant Professor, Department of Business Administration,MES college,Marampally

Introduction

Many professional and retail investors view investments in gold as a hedge against risks in the financial system. Two major recessions have occurred in just the last decade: first, the bursting of the new economy bubble and later the mortgage scandal followed by a global financial and later an economic crisis. The still ongoing financial and economic crisis and the government responses have led to a strong increase in government debt in most developed countries like the US and the UK. For that reason, the economic and financial crisis has over the last several months developed into a sovereign debt crisis. Recognising this, many investors now try to protect their wealth or parts of it by investing in assets which are less dependent on the stability of the financial system. Gold is one asset class, which is perceived as a store of value in the long term. Gold is a unique asset class. Gold investments have historically shown a low correlation with investments in other asset classes such as stocks or shares, mutual funds, government and corporate bonds and even commodities and other precious metals. Investing in gold can help to preserve value by reducing the risk of severe losses. The relative independence of gold investments from other asset classes makes investing in gold an attractive strategy for diversifying an investment portfolio. Portfolio diversification is a pillar of risk reduction. The probability of one asset class or a single investment significantly dropping in value is far higher than the chances that a well balanced portfolio of many different investments from various asset classes will depreciate in value significantly. Over the last decade, gold investments were one of the best performing asset classes. In nominal terms, the price of gold has risen from below 300 US-Dollars to above 1,500 US-Dollars. In contrast to paper currencies like the US-Dollar, the British Pound or the Euro, gold is a limited resource. Gold cannot be inflated. For this reason, gold has historically remained a relatively stable purchasing power, whereas practically all currencies have lost purchasing power in the long run.The characteristic of gold to retain its value makes gold investments attractive for retirement and pension purposes. Over the past years, gold has gained in popularity as a retirement asset.

The study analyzes the shift in consumer's purchase pattern of gold from an emotional asset to an economic asset, authorizing an investor(consumer) centric approach.

Nature and Scope

It is with great pleasure that I am able to introduce The Direct Economic Impact of Gold, a new independent report from PwC, commissioned by the World Gold Council. This report is both ground-breaking in scope and timely in its analysis. It helps us understand the fundamental role that gold plays in advancing economic development and ultimately the needs of society. The scope of the report has been determined by the availability of data and therefore there are some limitations within the report. It details where additional research would improve understanding of the significant contribution the gold industry makes to households, communities and nations alike. If one were to add in the indirect value created by the gold industry, the value delivered would likely be significantly larger; indeed quantifying this "multiplier effect" would merit its own research report. it is important to be reminded of how gold contributes so broadly to the global economy, ranging from foreign exchange earnings for gold-exporting countries to employment opportunities and tax revenues This study demonstrates this clearly; of particular note is the fact that the economic value generated has a direct and sustained impact on the local economies where gold production or consumption takes place. I believe that it is only on the basis of a more realistic and better rounded understanding of gold's true impact on our global community that the gold industry can further develop and sustain effective partnerships with all our stakeholders. I hope that this research will contribute to the quality of this conversation and lead to further research and discussion.

Objectives

The basic objective of the study is to analyze the changing phase of gold from an emotional asset to an economic asset. The specific objectives of the proposed study are the following:

Minor:

1. To determine how Gold became an emotional asset.
2. To determine how Gold became an economic asset .

Major:

1. To determine the changing pattern of purchase of Gold from an emotional asset to an economic asset.

Methodology

Approach

The study basically relates to Management. Source materials are needed to be drawn from different branches of Management and Economics. Aspects of Shifts in Gold purchase are integral to basic concepts of Behavioural Psychology, and as such, the proposed study is interdisciplinary in character and it is based on a fundamental premise that growth of technology has contributed much to this phenomenon.

Data Collection

The study requires primary and secondary data. Three districts from three different zones of Kerala are selected as project areas to study and analyze the changing phases of Gold. For collecting primary data, the envisaged field survey comprises an individual survey and an institutional survey to be conducted in each of these districts. For a thorough investigation, structured schedules containing aspects of multifarious facets of the subject of enquiry will be prepared and administered in consultation with the Research Guide and other Experts in the subject area. A comprehensive review of relevant of literature including books, articles, news reports and other published and unpublished documents will serve as sources of secondary data.

Analysis

A study on changing phase of Gold is multidimensional requiring a comprehensive approach. Analytical tools specific to those aspects will be improvised and employed in the present study, apart from the conventional statistical and analytical tools that are appropriately applicable to the nature of the data to be collected and conforming to the stated objectives of the study.

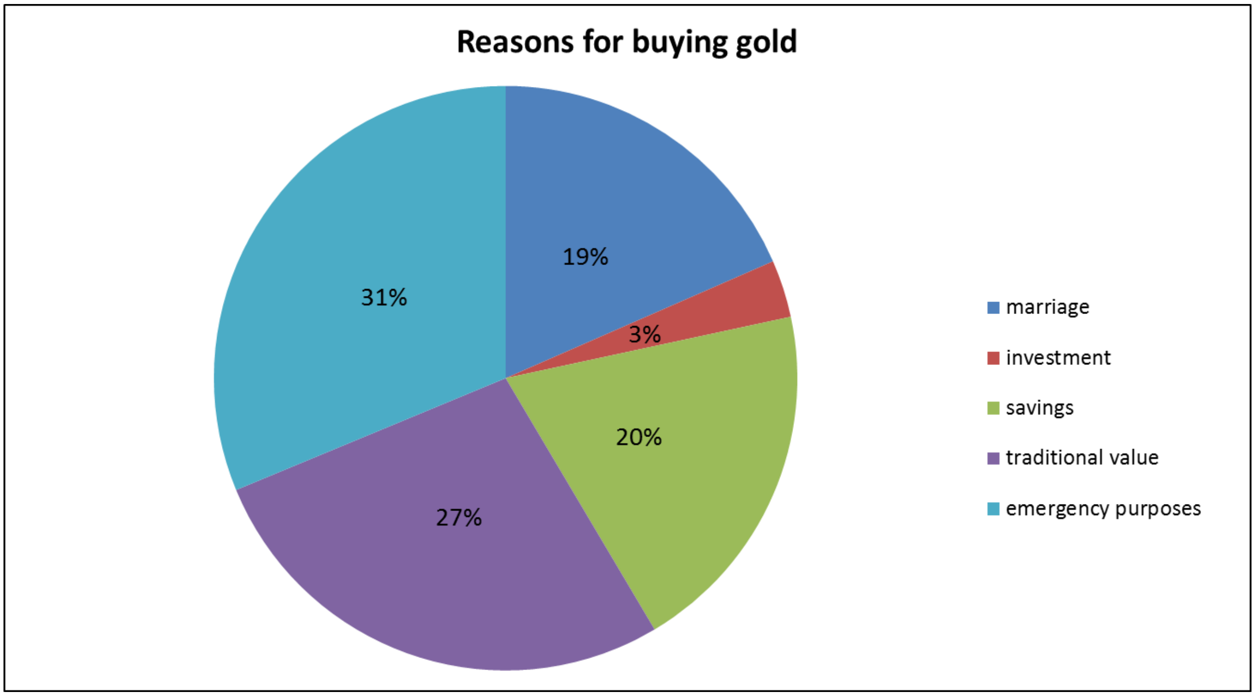
Gold as an Asset

For thousands of years Gold has been a pillar of tangible, storable and transportable wealth. Gold has always been a staple of global currency, a commodity, an object of beauty and an investment. During the late 80s and 90s financial markets rapidly developed and liquidity poured into stocks and mutual funds at an alarming rate. Gold, during this economically robust period, fell out of favor as the "safe haven" or "flight to quality" asset that it was through the 70s and early 80s when it was used as an inflation hedge. In recent years there has been a major resurgence in interest and investor demand in gold as an alternative asset class to paper based investments, the failing US dollar and even Real Estate. The current price rally from Gold's turn-of-the-century lows to its current levels has clearly awoken awareness about the shiny yellow metal. There are many reasons, both fundamental and psychological, that individuals as well as institutions around the globe are once again becoming very serious about investing in hard gold. In this column we will examine some of the more fundamental reasons investors are looking again at gold, examine the psychology of today's market and then, based on the data, you can decide if you should convert some of your paper savings to hard Gold…

Gold as an Emotional Asset

Emotional assets are an emerging asset class. The term "Emotional Assets" covers a broad spectrum of collecting categories that include fine art,contemporary design,rare stamps,ancient coins,etc. What all of this have in common is the emotional dividend that ownership of them bestows on the owner and the emotional premium that the owner is willing to pay to acquire them. What makes buying these assets fundamentally different from other assets is Emotion –the combustible that fuels the art making engine. In recent years,fine art,diamonds and rare musical instruments have all been promoted as stand-alone asset classes. Art and diamonds have their own unique cycles of boom and bust that make their risk and return profile very difficult, if not impossible, to predict and control. That makes them unsuitable for the majority of investors. When one combines a number of these categories into a broad based portfolio that the returns and volatility become far more stable and predictable. That is, they take on the characteristic of a real asset class..

Indian consumers are ready to pay any price for gold.Cultural and religious traditions involving wearing of jewellery play a major role in influencing indian gold demand,this foundness for gold is acting against "The law of demand" because of this the price does not determine demand as gold comes under luxury goods and people think of it as more of a status symbol and a valuable investment.The desire and willingness to own a commodity (goods/services) and the ability to pay for it is termed as Demand. Case: The demand in the case is for Gold. There exists a desire for Gold in Indian market, with most of the people having the desire, willingness and ability to purchase it. But it is observed that the pattern of the consumption and the range of price don't always follow the Law of Demand.



Gold as an Economic Asset

Economic assets are entities functioning as stores of value and over which ownership rights are enforced by institutional units, individually or collectively, and from which **economic** benefits may be derived by their owners by holding them, or using them, over a period of time.

Gold is a very unique substance and it is something that is important to our economy. In fact, some politicians suggest that gold would make a much better currency than the paper dollar that we use today.

1 – Gold takes time and energy to be produced

Gold is a desirable item. Most people like gold because they consider it a commodity. It's shiny, it sparkles, and it's attractive. What people don't realize is that their attraction to gold is what makes it cost money and be important to the economy. People want it and they are willing to spend money on it. This makes it valuable and because gold takes time and energy to be produced, it retains its economic value and is important to the economy. Unlike the paper dollar, gold cannot be printed and therefore the currency cannot get inflated by man's greed. The paper dollar is currently printed in the United States by the Federal Reserve. They regulate the economy by controlling interests rates, handling the money supply, and essentially overseeing inflation. The problem is that this is a system controlled by man. Human beings are susceptible to greed and when you place an entire currency in man's hand, it's inevitable that there will eventually be failure. The paper dollar costs nothing to produce either, it is simply printed. Gold cannot be manipulated because it must be found, which takes time and costs money. You cannot print gold and it can't be created free of cost.

2 – Gold retains its value at all times

No matter what state the economy is in, or how inflated the paper dollar is, gold always retains its value. The reason for this is because gold cannot be produced easily. It must be harvested from earth, which takes time and energy. This makes gold very stable in terms of its economic value. That is why free market advocate Ron Paul feels very strongly that gold should return to being used as a currency, in replace of paper money. It protects society from being overrun by those that obtain power. There would be no way for the government to print moneyand inflate the currency for narrow political reasons. In fact, wars would become far less common. Currently, when a nation goes to war, the currency is inflated and money is printed in order to afford it. This is better for politicians than taxing everyone, because inflation in the currency is far less noticed. This allows them to spend money on the nation's military presence and wars can be started with very little sign of any economic problem by the people. However, food becomes more expensive, housing is more expensive, and the lower and middle income families suffer greatly.

3 – Should we return to a gold standard?

If you want fewer wars, a more stable economy, and a government that doesn't control how much value your paychecks actually have, then returning to a gold standard would be great. The problem is that much of society is ill-informed about how important gold is to our economy and they don't understand why it's a better alternative than the paper dollar. While it may take a significant amount of time and the paper dollar will probably have to cripple itself before it happens, an actual consideration on returning to a gold standard will like take place at some point in the future.

Shift of Gold from an Emotional Asset to an Economic Asset

***Risk Reduction*:**

Gold is unique in that it does not carry a credit risk. Gold is no one's liability. There is no risk that a coupon or a redemption payment will not be made, as for a bond, or that a company will go out of business, as for an equity. And unlike a currency, the value of gold cannot be affected by the economic policies of the issuing country or undermined by inflation in that country. At the same time, 24-hour trading, a wide range of buyers - from the jewelry sector to financial institutions to manufacturers of industrial products - and the wide range of investment products available, including coins and bars, make liquidity risk very low. The gold market is deep and liquid, as demonstrated by the fact that gold can be traded at narrower spreads and more rapidly than many competing diversifiers or even mainstream investments.

Gold and the Dollar

Gold is often used as an effective hedge against fluctuations in the US dollar, the world's main trading currency. If the dollar appreciates, the dollar gold price falls, while a fall in the dollar relative to the other main currencies produces a rise in the gold price. While this may also be true of other assets, gold has consistently proved among the most effective in protecting against dollar weakness.

Gold and Inflation:

Market cycles may come and go, but - over the long term - gold keeps its purchasing power. Its value, in terms of the real goods and services that it can buy, has remained remarkably stable. In contrast, the purchasing power of many currencies has generally declined due to the impact of rising prices for goods and services. As a result, gold is often bought to counter the effects of inflation and currency fluctuations. Investors in gold can point to a growing body of research supporting gold's reputation as a protector of wealth against the ravages of inflation. I don’t think it takes an economic wizard to deduce that the trillion dollar bailouts of the financials, housing and auto makers will weigh very heavy on the shoulders of the US Dollar in the mid and certainly long term. In the short run, experience has shown that gold can deviate from its long-run inflation-hedge price, and, when enjoying a sustained buoyant period, as is currently the case, can offer opportunities for impressive returns. Returns that should only get better as we print more money and spend our way out of the current economic crisis.

***Portfolio Diversification*:**

Asset allocation is an important aspect of any investment strategy. By balancing asset classes of different correlations, investors hope to maximize returns and minimize risk. However, while many investors may believe that their portfolios are adequately diversified, they typically contain only three asset classes - stocks, bonds and cash. There are a wide range of reasons and motivations for people and institutions seeking to invest in gold. And, clearly, a positive price outlook, underpinned by expectations that the growth in demand for the precious metal will continue to outstrip that of supply, provides a solid rationale for investment. Of the other key drivers of investment demand, one common thread can be identified: all are rooted in gold's abilities to insure against uncertainty and instability and protect against risk.

How Important is it to Own Gold in this Economy?

Gold has attracted investors throughout the centuries, protecting their wealth and providing a 'safe haven' in troubled or uncertain times. This appeal remains extremely compelling for modern investors. Although there are also a number of other reasons that underpin the widespread renewal of investor interest in gold. Namely the current lending and credit crisis, massive bailouts and their effect on the US Dollar, the feds inability to use rates to fight inflation and the uncertainty and risk associated to the US stock and equity markets. To look the other way at owning physical Gold and, instead, continue to invest 100% of your portfolio in paper-based asset classes is to be desirous of losing more money. It is more important than ever to have a non-trivial percentage of your overall portfolio in physical metals for protection, safety and growth. At Wholesale Direct Metals we specialize in helping our clients to build a measure of protection into their portfolios with addition of physical metals. Local communities in gold producing regions are benefiting from the economic assistance being provided by mining companies in the form of infrastructure development, procurement spending and support for local development schemes.The top 20 gold producing countries are responsible for producing more than 75% of the world’s annual gold output and gold makes a sizable contribution to their economies.Golden growth: generating wealth and income for countries

Investors buy gold as for one of three reasons: A hedge, a safe haven or a direct investment.

Gold as a Hedge

Investors use hedges to offset losses in another asset class. Many investors buy gold to hedge against the decline of a currency, usually the U.S. dollar . This also protects against the resultant inflation .

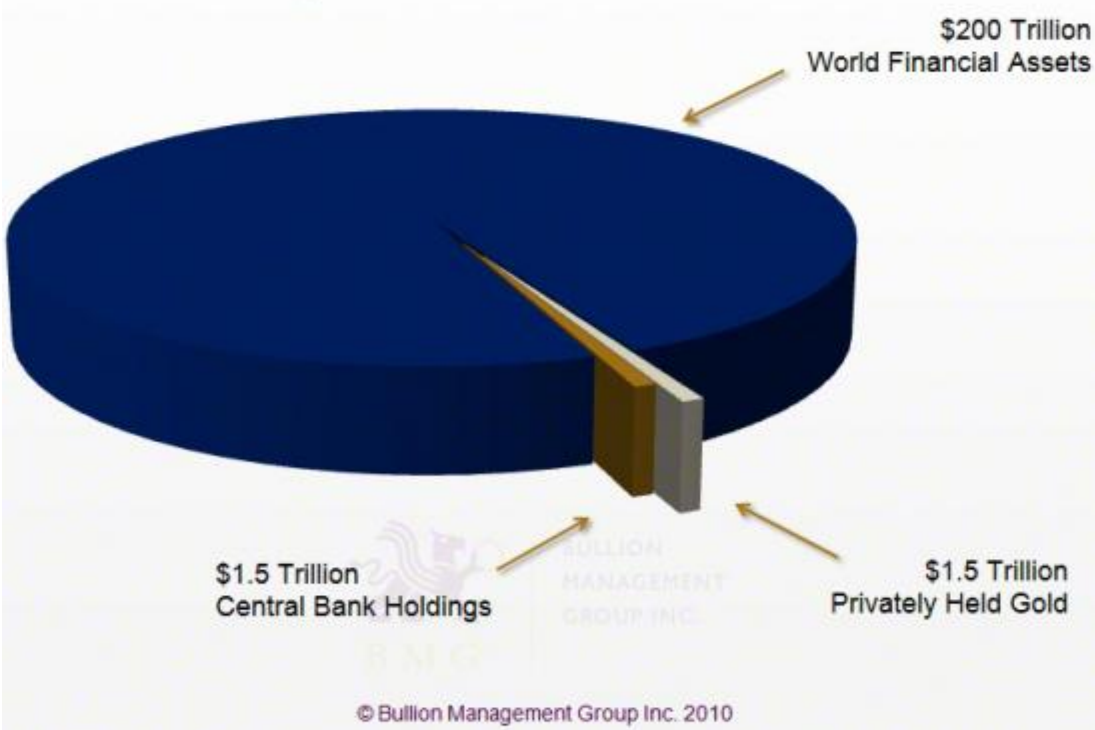
For example, the price of gold more than doubled between 2002-2007, from $347.20 to $833.75 an ounce. That's because the dollar's value (as measured against the euro) fell 40% during that same time period. In 2008, despite the financial crisis, some investors continued to hedge against a dollar decline caused by two new factors. One was the Federal Reserve's Quantitative Easing program, launched in December 2008. The other was record-level deficit spending that drove the debt-to-GDP ratio above the critical 90% level. For more details, see Gold Price History.

Gold as a Safe Haven

A safe haven protects investors against a possible catastrophe. That's why many investors bought gold during the 2008 financial crisis. Gold prices continued to skyrocket in response to the eurozone crisis , the impact of Obamacare , the Dodd-Frank Wall Street Reform Act , and the 2011 debt ceiling crisis. Many other wanted to protect their investments against a possible U.S. economic collapse. As a result of this extreme economic uncertainty, gold prices more than doubled again, from $869.75 in 2008 to a record high of $1,895 on September 5, 2011.

Gold as a Direct Investment

Figure 12: Gold vs. Financial Assets



Many, many investors saw these tremendous increases in the price of gold and bought it as a direct investment to take advantage of future price increase. Others continue to buy gold because they see it as a finite valuable substance, with many industrial uses. Last but not least, gold is held by many governments and wealthy individuals.

Findings

You can't manufacture gold from thin air and that will eventually be the undoing of the fiat money system as it always has in the past.
Among the major reasons why gold should be an important part of all portfolios are:

1. Out of control government spending with budget and trade deficits;
2. Negative real interest rates;
3. Tremendous financial market leverage coupled with misallocated capital;
4. Continual importation of deflation, killing pricing power and jobs;
5. Demand is rising while production is declining;
6. Gold has a negative beta which should offset times when stocks decline;

7. We are in a war environment which has historically been very inflationary;
8. Financial derivatives are out of control and hiding huge financial failures;
9. Energy prices are hitting all time highs as well as many other commodities;
10. The relative size of the gold market is tiny with the bulk of inflows yet to come;
11. The biggest growers and savers (Asians) are already moving into gold;
12. Huge short positions in gold and silver that may not be possible to cover;
13. Foreign buying of US debt is waning which should continue to exacerbate money printing.

Suggestions

The robustness of the impacts associated with the supply of mined gold can potentially be enhanced by gathering mine or country level data from mining companies through primary research. Such work would be especially valuable in improving the quality of the estimates of the impacts on employment and investment.

•Further work could be undertaken to understand better the significance and economic contribution of artisanal gold production.

•The estimates of the economic impact of gold recycling can be enhanced by developing a better understanding of where the refining activity takes place and how much value added is associated with this process.

•There is more scope for strengthening the methods and data used to estimate the impacts associated with the demand for gold as the nature of the organisations involved and the complexity of the value chains mean that more challenges need to be overcome.

These challenges can potentially be met in several(complementary) ways:

–By undertaking an exercise to identify and analyse the published accounts of companies actively involved in the different parts of the value chain in the 13 countries which are in scope. Depending on the scope of the activities covered by these accounts, and the basis upon which they have been prepared, this could enable better data to be obtained on the value added by these companies.

–By undertaking primary research to gather data from samples of producers in each part of the value chain. Besides covering the elements of value added, such research could also be used to capture data on employment, investment and exports.

Both these approaches would also enable to scope of the impact measures covered by the analysis to be extended beyond GVA.

Conclusion

It has been over two decades since gold was widely referred to as an asset class by Wall Street and the media. When our forefathers founded this country, it was for good reason that they demanded that money only be backed by precious metals. They understood well that putting the wealth of the nation in the hands of politicians and private bankers was equal to handing an automatic weapon to an assassin. Gold, the dense, soft and shiny metal has been associated with man since time immemorial due to its high value, with gold standards being the most common basis for monetary policies until they were widely supplanted by fiat currency as in the past century. The uncertainty in the global economy in present times has dampened investment returns from different asset classes. Moreover, with inflation levels rising across the globe coupled by a surge in fuel prices, investors are increasingly looking at gold as an investment instrument that can provide safety and value to their investments. Though the debate that whether gold could be a hedge against inflation could go on, with some arguing otherwise, as they feel that a rise in inflation would also result in a spike in gold prices, one must remember that the precious metal is money (wealth), unlike other commodities that are used for production and consumption purposes only. Gold is the premier store of wealth and this fact remains unchanged even though it is not the official currency anymore. And it is especially during periods of high inflation and economic crises that one needs an effective preserver of wealth or buying power.

If inflation were to run its full course, as it happened in Zimbabwe, which went under a period of hyper inflation, the only bankable asset would be tangible assets. Paper currency could become worthless as well as debt denominated in that currency. This means that prices in paper currency terms would also be of no meaning. All assets are then priced in terms of other assets, especially those that have monetary properties and will trade at a premium because they are more useful in asset exchange transactions. In such situations, gold acts as the perfect hedge against inflation. Even if just a quarter of one's investments are in gold, they can make up for other investments that are not keeping up with inflationary trends.

References

The report draws on a range of secondary sources including:

•Thomson Reuters GFMS Gold Survey 2013;

•Thomson Reuters GFMS Mine Economics;

•World Gold Council publications;

•Official statistics, notably data from national accounts (and other national government statistics);

•Trade associations;

•Company accounts and reports;

•Multilateral organisations such as the International Monetary Fund and UNCTAD; and

•Fiscal data from a number of Extractive Industries Transparency Initiative (EITI) country reports (wherethey are available)