

## IS GOLD A SAFER & BETTER ASSET THAN SHARES?

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### ABSTRACT

The purpose of this research paper is to determine whether gold is a better and safer investment avenue than stocks. This study aims to examine the rise in the gold rate as well as the BSE and NSE indices over the course of the last 25 years, i.e., from 1998 to 2023. The study consists of tables and charts explaining how the value and annual growth rate of these variables have changed over a period of 25 years. It is based on secondary data that was gathered from a variety of trustworthy sources, including official website of RBI, BSE India and NSE India, mass media coverage etc. This longitudinal research seeks to determine the relationship between the variables – gold, BSE Sensex and Nifty 50. The dynamic relationship between these variables is studied with the help of correlation analysis. The results are analysed and suitable conclusions are drawn.

**Keywords:** Gold Prices, Stock Market Return, BSE Sensex, Nifty 50, Investment Avenues

### Introduction

In India, gold is an emblem of wealth and fortune. Since ancient times, it has been devoted to an inherited value in terms of prosperity and purity.

Investment into gold is considered as the most vigorous asset creation by the common man as well as the financial professionals for many decades. On the other hand, the history dates to 1855, when 22 stock brokers gathered under the banyan tree in front of Mumbai's Town Hall and initiated the foundation of Bombay Stock Exchange (BSE) In 1986, the S&P BSE Sensex index, its most popular indices, was developed, giving the BSE a means to measure the overall performance of the exchange. In the year 1992, National Stock Exchange of India (NSE) was incorporated and eventually it commenced its operations from the year 1994. The most popular indices of NSE, Nifty 50 was developed in the year 1996 which has a representation of the fifty largest Indian companies listed on NSE.

It has been argued for years whether investment into gold or shares is desirable. Until now, the performance of these two investment alternatives has been questioned on different aspects. This research clearly focuses on the annual growth rate of these investment options and calculates the correlation between these variables to know their relationship.

### Gold as an Investment Avenue

Gold is one of the dearer and desirable investments options when compared with other valuable metals. Numerous studies on gold investments suggested that it was one of the finest ways to diversify. Gold provides a benefit in terms of diversification. (Jaffe, 1989).

Sumner et al. (2010) assert that portfolio diversification is a crucial task to perform. The diversification over numerous asset classes and markets is vital for the overall success of the investment. Gold has historically been considered a decent hedge against stock market fluctuations. The findings of this research and another one conducted by Lawrence et al. (2003) are equivalent. The study claims that there is no relationship between gold and financial asset returns. The lack of a correlation may be explained by the independence of gold returns compared to the dependence of returns on financial assets on macroeconomic conditions. The results of numerous research indicate that gold is a fantastic portfolio diversifier, as well as being viewed as an insurance asset and a hedging instrument.

### **The Indian Stock Market**

The financial market where the securities of all companies that are publicly listed are purchased and sold is known as the stock market or equity market. It is crucial to the health of any nation's economy, contributes to economic growth, and, if left unchecked, has the potential to have a great negative effect.

The average return on a diversified stock investment in India since 1997 has been approximately 18 % CAGR (CRISIL, 2017). Return and risk are closely related in the Indian stock market. The market has gone through a roller-coaster ride and displayed an extremely high level of volatility, particularly after the biggest fall years of 1992 and 2008. Different economic indices including inflation, GDP, the unemployment rate, producer price index, consumer price index and others have an impact on these stocks' movements.

Many investors now choose to participate in both the stock market and gold in order to lessen or entirely avoid systematic risk. Both purchasing gold for investment purposes and utilising it as a hedging mechanism are regarded as the risk management practices. (Bhunia, 2013).

### **Literature Review**

Gold serves as a solid hedge in India and the US while it plays a variety of roles in China. When it comes to serving as a haven, gold continues to be a crucial investment, especially in India, where it plays a significant cultural role, as well as in the US and the UK. Gold has a far smaller influence in developing economies like Malaysia. In India and the US, investors can use gold to hedge against stock market fluctuations as a regular course of action, whereas in the UK, gold is only considered a money-making asset only during a stock market crash. (Ghazali, Lean, & Bahari, 2019). The US Dollar and UK Pound have a negative association with gold rate while Sensex, Nifty, Japanese Yen, Euro, and Crude Oil share a positive relationship with gold rate. The Foreign Institutional Investors (FII) has less of an impact on the prices of gold. The best time to purchase or invest in gold is from January to March. (Balaji, Mahalingam, 2018)

Gold is the most popular investment avenue among the other precious metals like platinum, silver etc. Its capacity to offer competitive returns and its effectiveness as a diversifier account for its popularity. Based on the trade-off between risk and reward, gold is a safer investment option than other investment options like stocks and bonds. (Shobha, 2017). There is no causal relationship between the price of gold and stock market indices in the short term. The fact that the gold price and stock market price are related over the long term, however, indicates that there is a positive relationship between them and that they change parallel in one direction. The price of stocks can be used to forecast the gold rate. (Tripathy, 2016). As per the portfolio analysis, including gold in the Chinese equities' portfolio boosts its risk-adjusted return. It works well as a long-term hedge against stock risk exposure. The gold asset acted as a safe haven for stocks on the Chinese stock exchanges throughout the international financial disasters. (Arouri et al., 2015)

The price of gold, oil, the volatility of the gold price, and the volatility of the oil price all have a substantial impact on the GSPC index. The daily adjustment speed of the S&P 500 stock market price index, which includes the contribution of the prices of oil and gold markets and their volatility, accelerates to its long-run equilibrium level by 1.2%. (Gokmenoglu, Fazlollahi, 2015). The performance of gold when adjusted for inflation is superior to the performance of the nifty. Gold inclusion boosts a perfect portfolio's performance. The history of gold as a commodity is rather more recent, even though it is one of the oldest metals known to mankind and has long been regarded as a precious metal. Although there is a wealth of literature on the precious metal gold, the commodity gold has only received limited research. (Kanojia, Jain, 2014)

In the United States during some periods of time silver, platinum and palladium acted as a safe haven while gold did not serve this purpose. At times gold is not the strongest and safest haven. (Lucey, Li, 2014). Gold is considered as a significant hedge. Gold can be risky for investors during times of financial stress, but it is safe to invest in at certain levels. In order to defend against economic crises and assist provide an acceptable return, it is advised to maintain a well-diversified portfolio. Since gold is seen to be crucial in providing useful diversification properties beyond those obtainable in a portfolio devoted only to financial assets, a significant and rising body of literature has examined the function of gold in portfolio allocation. Gold investments might be a useful tool for portfolio diversification since they allow for both risk reduction and return enhancement. (Ghazali, Lean, and Bahari, 2013).

A benefit of investing in gold is that it is a dependable tool for diversification and a safe tool in volatile stock market conditions. On the other hand, stock investments are susceptible to both domestic and international stock market potential hazards. Thus, gold investment is preferable over stock investment. (Mulyadi, Anwar, 2012)

Gold has been used in the form of jewellery for years but now it is considered as an important instrument for investment to hedge against inflation. The demand for gold is on the rise daily due to a variety of factors. India has recently overtaken China as the world's top gold consumer. There is no correlation between the price of gold and the Sensex, but there is an inverse association between the value of the dollar and the price of gold. (Narang, Singh, 2012)

### Research Gap

This Review of literature shows that different researchers and experts in the fields of investment have discussed gold and share market variables. Further, studies have also been carried out to determine the relationship between gold and BSE Sensex or Nifty 50 separately. But studies dealing with all the three variables i.e. Gold, BSE Sensex and Nifty 50 together on a long run basis are rare.

### Research Methodology

This research paper is an empirical study. The data for the study have been collected from the official website of RBI, BSE India, NSE India, and BankBazaar to name a few. The data comprises 25 years, i.e., from 1998 to 2023. The month wise data for all these years have been downloaded from the official websites and yearly average has been taken into consideration. The time series is formed as per the calendar year, starting from the month of January. For the ongoing year 2023, the data of the first quarter has been considered.

The research studies the value and annual growth rate of gold prices, BSE Sensex and Nifty 50. It also focuses on understanding the relationship between gold prices with BSE Sensex and Nifty 50 using correlation techniques.

### Objectives of the Study

1. To study the annual growth rate of gold prices, BSE Sensex and Nifty 50.
2. To analyse whether gold has been a safer and better asset as against Indian share market indices, BSE Sensex and Nifty 50's performance.
3. To study the correlation between gold prices and BSE Sensex.
4. To study the correlation between gold prices and Nifty 50.

To supplement the objectives of the study, the following hypotheses were framed.

### Hypothesis of the Study

Ha - There is a correlation between gold prices and BSE Sensex.

Hb - There is a correlation between gold prices and Nifty 50.

### Data Analysis

#### • Annual Growth Rate

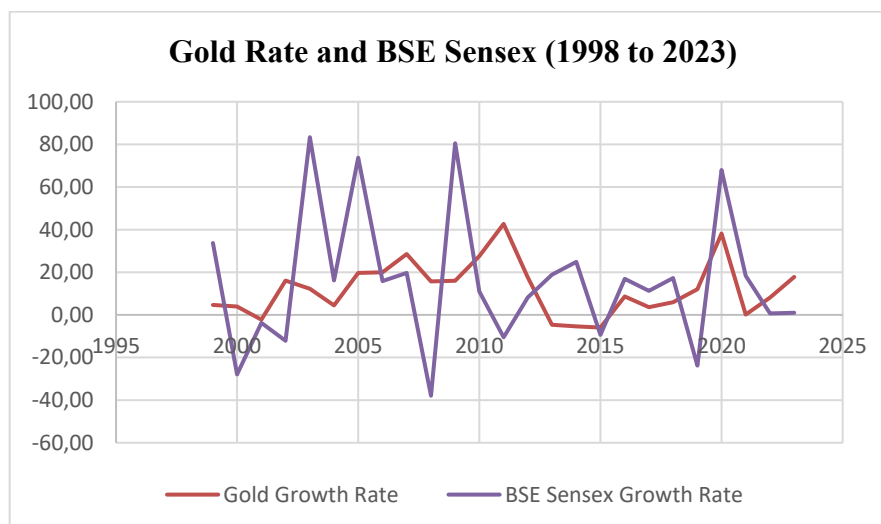
The time series data on gold prices, BSE Sensex and Nifty 50 was observed and annual growth rate of these variables have been calculated. This has mainly helped researchers to know about the long run price/point movement and the stability or volatility involved in it. The tabular and graphical presentation of time series data is as follows:

#### ➤ Gold Rate and BSE Sensex

Sr. No.	Year	Gold Price (10 gm)	Annual Growth Rate	BSE Sensex	Annual Growth Rate
1	1998	4045.00		3739.96	
2	1999	4234.00	4.67	5001.28	33.73
3	2000	4400.00	3.92	3604.38	-27.93
4	2001	4300.00	-2.27	3469.35	-3.75
5	2002	4990.00	16.05	3048.72	-12.12
6	2003	5600.00	12.22	5590.60	83.38
7	2004	5850.00	4.46	6492.82	16.14
8	2005	7000.00	19.66	11279.96	73.73
9	2006	8400.00	20.00	13072.10	15.89
10	2007	10800.00	28.57	15644.44	19.68
11	2008	12500.00	15.74	9708.50	-37.94

12	2009	14500.00	16.00	17527.77	80.54
13	2010	18500.00	27.59	19445.22	10.94
14	2011	26400.00	42.70	17404.20	-10.50
15	2012	31050.00	17.61	18835.77	8.23
16	2013	29600.00	-4.67	22386.27	18.85
17	2014	28006.50	-5.38	27957.49	24.89
18	2015	26343.50	-5.94	25341.86	-9.36
19	2016	28623.50	8.65	29620.50	16.88
20	2017	29667.50	3.65	32968.68	11.30
21	2018	31438.00	5.97	38672.91	17.30
22	2019	35220.00	12.03	29468.49	-23.80
23	2020	48651.00	38.13	49509.15	68.01
24	2021	48720.00	0.14	58568.51	18.30
25	2022	52670.00	8.11	58991.52	0.72
26	2023	62060.00	17.83	59567.80	0.98

Table 1: Annual Growth Rate Gold Price and BSE Sensex (January, 1998 to March, 2023)



Graph 1: Annual Growth Rate Gold Price and BSE Sensex (January, 1998 to March, 2023)

The gold prices have shown a stable increasing returns till the year 2012 but observed a negative dropdown in growth for the next three years i.e., from 2013 to 2015. The gold prices recovered in the year 2016 and again observed a major fall in the year 2021 but this time, it offered a negligible growth rate.

The BSE Sensex has shown more vibrant returns over a period of 25 years. The year 2008 and 2019 can be stated as major downfall years whereas the BSE Sensex has experienced good returns during the years 2003, 2005, 2009 and 2020.

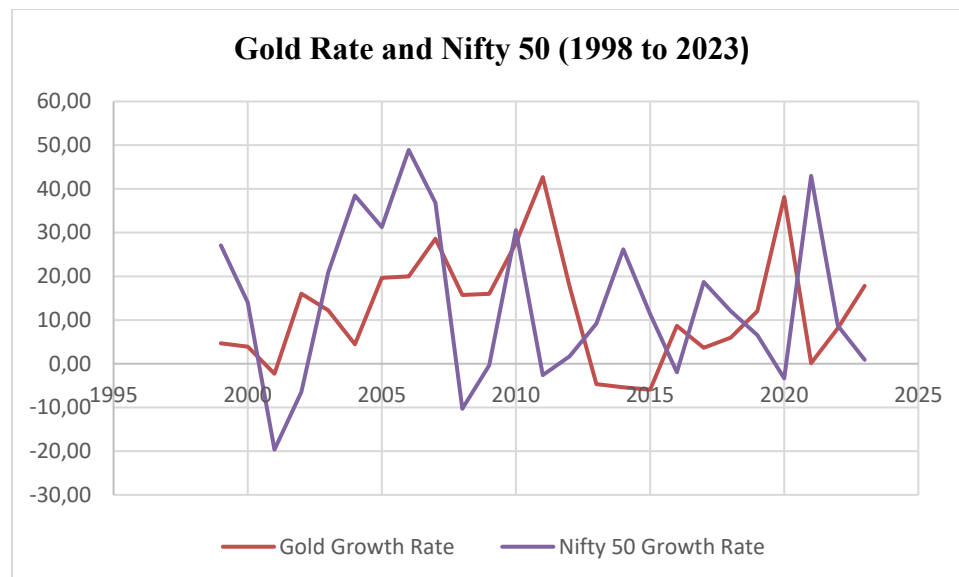
The secondary data reveals that the BSE Sensex has more volatile movement as compared to gold prices. High returns have appropriately rewarded the risk involved with BSE Sensex.

➤ **Gold Rate and Nifty 50**

Sr. No.	Year	Gold Rate	Annual Growth Rate	Nifty 50	Annual Growth Rate
1	1998	4045.00		960.08	
2	1999	4234.00	4.67	1220.09	27.08
3	2000	4400.00	3.92	1390.91	14.00

4	2001	4300.00	-2.27	1117.58	-19.65
5	2002	4990.00	16.05	1045.48	-6.45
6	2003	5600.00	12.22	1264.07	20.91
7	2004	5850.00	4.46	1750.25	38.46
8	2005	7000.00	19.66	2297.10	31.24
9	2006	8400.00	20.00	3420.48	48.90
10	2007	10800.00	28.57	4680.65	36.84
11	2008	12500.00	15.74	4198.83	-10.29
12	2009	14500.00	16.00	4183.45	-0.37
13	2010	18500.00	27.59	5462.09	30.56
14	2011	26400.00	42.70	5319.93	-2.60
15	2012	31050.00	17.61	5410.56	1.70
16	2013	29600.00	-4.67	5908.09	9.20
17	2014	28006.50	-5.38	7453.50	26.16
18	2015	26343.50	-5.94	8298.82	11.34
19	2016	28623.50	8.65	8138.21	-1.94
20	2017	29667.50	3.65	9661.42	18.72
21	2018	31438.00	5.97	10826.45	12.06
22	2019	35220.00	12.03	11535.40	6.55
23	2020	48651.00	38.13	11150.46	-3.34
24	2021	48720.00	0.14	15942.68	42.98
25	2022	52670.00	8.11	17329.47	8.70
26	2023	62060.00	17.83	17487.48	0.91

Table 2: Annual Growth Rate Gold Price and Nifty 50 (January, 1998 to March, 2023)



Graph 2: Annual Growth Rate Gold Price and Nifty 50 (January, 1998 to March, 2023)

The Nifty 50 has shown more vibrant returns over a period of 25 years. The year 2001 and 2008, and can be stated as major downfall years whereas the Nifty 50 has experienced good returns during the year 2006, 2007, 2010 and 2021.

According to secondary statistics, the Nifty 50 fluctuates more violently than gold prices. High returns have adequately compensated for the risk involved with the Nifty 50.

● **Pearson’s Correlation Test**

Pearson’s correlation test was performed on time series data to understand the relationship between gold and BSE Sensex and Nifty 50 separately.

**Hypothesis**

Ha - There is a correlation between gold prices and BSE Sensex.

Hb - There is a correlation between gold prices and Nifty 50.

	<b>Gold Price (10 gm)</b>	<b>BSE Sensex</b>
<b>Gold Price (10 gm)</b>	<b>1</b>	
<b>BSE Sensex</b>	<b>0.961244529</b>	<b>1</b>
<b>Result</b>	<b>Very strong positive correlation</b>	

Table 3: Correlation between Gold Prices and BSE Sensex

The positive correlation between the variables has been observed as there is a pattern in the data, the variables under the study tend to move together. Here, the relationship between gold price and BSE Sensex is strongly positively correlated with each other. Thus, hypotheses, Ha is accepted.

	<b>Gold Price (10 gm)</b>	<b>Nifty 50 prices</b>
<b>Gold Price (10 gm)</b>	<b>1</b>	
<b>Nifty 50</b>	<b>0.958549601</b>	<b>1</b>
<b>Result</b>	<b>Very strong positive correlation</b>	

Table 4: Correlation between Gold Prices and Nifty 50

Here, the relationship between gold price and nifty 50 is strongly positively correlated with each other. The variables tend to move together, showing positive correlation. Thus, hypotheses, Hb is accepted.

**Findings**

- The Gold is evidently set for its best till date since 1998 based on multiple global factors. Gold is safer as it is less volatile and better as a consistent performer when compared with BSE Sensex and Nifty 50. This study supports the reviewed research of Shobha (2017), Kanojia, Jain (2014), Ghazali, Lean & Bahari (2013), and Mulyadi, Anwar (2012) while contradicts the study of Lucey, Li (2014) with respect to US share market when compared with other metal’s performances.
- Adding gold to a stock portfolio can reduce the overall portfolio risk as gold serves as a haven. (Ghazali, Lean & Bahari, 2019; Chkili, 2016; Arouri et al., 2015; Kanojia, Jain, 2014; Ghazali, Lean & Bahari, 2013; Mulyadi, Anwar, 2012).
- There is a strong positive correlation between gold prices and BSE Sensex and Nifty 50. This study supports the reviewed research of Balaji, Mahalingam (2018), Tripathy (2016), Gokmenoglu, Fazlollahi (2015). Thus, the study concludes that BSE and NSE indices, BSE Sensex and Nifty 50 can be used to predict the gold rate as they move together.
- The current research contradicts the research conducted by Narang, Singh (2012), which stated that there is no relation between the gold price and BSE Sensex. The research also contradicts a yearlong saying that gold and equity have an inverse relationship.

**Conclusion**

The study concludes that when compared to the oldest and most well-known Indian share market indices, BSE Sensex and Nifty 50, gold is safer, less volatile, and a better long-term asset due to its consistency in performance. The risk averse individuals can include the gold component to their investment portfolio to reduce the ill effects of the market fluctuations on their portfolio performance to a certain extent. The study also indicates that the BSE Sensex and Nifty 50 can be used to predict the gold rate as they move together.

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