PREDICTING GOLD INVESTMENT INTENTION THROUGH BEHAVIORAL BIASES: EMPIRICAL EVIDENCE FROM GUJARAT STATE.

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Abstract

The primary purpose of this research paper was to investigate the influence that ingrained behavioral biases have on the decision to save money for gold. The three types of behavioural biases that were investigated in this study were overconfidence bias, loss aversion bias, and Recency bias. According to the findings, all three biases are statistically significant and have a significant impact on people's intentions to invest in gold. This finding supports the hypothesis. Respondents who are overconfident, risk adverse, and Recencybiased are more likely to invest in gold.

Keywords: Gold Investment Intention, Overconfidence bias, loss aversion bias, Recency bias

Introduction

Gold is a precious metal that is both abundant and scarce, and it has a long and intimate history with human civilization. Gold is viewed as much more by the Indians than simply a valuable metal by these people. Since ancient times, the colour gold has been closely connected with virtues such as chastity, comfort, wealth, status, grace, love, and good fortune in India. This bright yellow metal, when polished, has the ability to allow humans to create emotional attachments that are stronger than any other metal. Gold, similar to liquid currency and risk collateral, has been considered a secure method of funding for a very long time. As a consequence of all of these factors, the gold industry in India is the most significant in the entire globe.

In recent years, India has established itself as the developing economy with the highest growth rate in the world. Over the course of the past several years, the typical income of Indians has seen a considerable growth. Those who were at the lowest level worked their way up to the medium level, while those who were in the middle level worked their way up to the upper middle level. Although it is a well-known fact that increased wealth causes an increase in demand for gold, the link between income and the purchase of gold in India is more nuanced. Gold is intertwined in the fabric of Indian society and cannot be separated from it.

When all other parameters are held equal, a 1 percent rise in income results in a 1 percent increase in demand for gold. A gold survey that spanned 25 years found that income level was the most important factor in determining the market demand for gold over the long term. (Information obtained from the World Gold Council on January 24, 2017) As a consequence of this, it is essential to investigate the gold holdings of individual retail investors in India.

It seems that the process of deciding what to do with one's finances is highly significant. The

process of coping with difficult circumstances in a way that is both productive and efficient is referred to as decision-making. The technique of decision-making can be influenced by both internal and external influences in equal measure. The investor's ability to make sound financial decisions is directly influenced by a number of important aspects, the most important of which are human qualities and systemic effects. As a result of people's limited capacity for thinking, they are more likely to base their decisions on their instincts and feelings rather than on the information that would be necessary to make informed choices. Making a choice is a challenging endeavour that is very susceptible to being impacted by a person's motives. The intention to make a financial investment is what ultimately determines a person's conduct while making decisions. Investing in gold is unpredictable and illogical in the same way that investing in general is. The study of behavioural finance is predicated on a variety of psychological elements that have an effect on individuals when they are performing the role of investors (Brown & Reilly, 2004). When an individual is confronted with ambiguity or uncertainty, he or she will apply heuristics or thumb rules to numerous possibilities in attempt to lessen uncertainty and develop a decision process that is more easy (Raines & Leathers, 2011). This research paper follows in that vein, attempting to find out the level of influence that behavioural biases have on gold investment intention. Given that behavioural biases are very important in the decision-making process regarding gold investment in such a scenario, this research paper follows in that vein.

Literature review

Gold is not typically included as a component of diversified portfolios, utilised as a tool for risk management, or considered a secure investment alternative, particularly in poor nations. Gold may be included as a diversified investment choice in a portfolio since the factors that affect the price of gold and the value of financial assets are different (Hoang, 2011). In spite of the fact that its material gold is often highlighted, new studies have shown that gold is an essential component of a diversified investment portfolio. Conover, Jensen, and Johnson (2009) state that the effectiveness of a portfolio may be significantly improved by allocating 25% of its assets to gold. The vast majority of research tend to centre on gold's capacity to maintain its stability in the face of catastrophic disruptions in the financial sector. (Ibrahim and Baharom, 2011; Ghazali, Lean, and Bahari, 2013). As a consequence of this, purchasing gold as an investment asset looks to be a viable and significant choice.

When attempting to grasp the myriad facets of customer behaviour, behavioural economics may be of great assistance. The authors Chuah and Devlin (2011) state that behavioural economics has an impact on the decision-making process. A number of studies have shown that investors are subject to a range of behavioural biases. [Citation needed] According to Tversky and Thaler, people in the financial markets are making forecasts with an excessive amount of confidence (1990). Because purchasers are in need of cash, Deanlebaron (1999) said that they are leaning toward selling some equities that have witnessed a gain in value, despite the fact that the increase in value is not anticipated to occur any time in the near future. According to Shiller, there is a reluctance among investors to sell equities that have seen a decline in value (1997).
Overconfidence was a common kind of psychosomatic bias that was responsible for making investing decisions that were inefficient as a result of erroneous pricing and excessive levels of volatility (Ko& James Huang, 2007, Daniela et al., 2002). Therefore, overconfidence is a key

mistake that people make when they misunderstand their talents, misread information, or enhance the subjective likelihood of a given conclusion. This can lead to disastrous outcomes (Glaser & Weber, 2010).

Damage aversion is the consequence of a combination of a greater sensitivity to injuries than to gains, as well as an inclination to analyse outcomes on a daily basis. Both of these factors contribute to the individual's tendency to review their performance more frequently. The research conducted in the laboratory has focused on two distinct forms of myopic loss aversions. Investors with myopic risk aversion are more likely to consider danger because they assess their investments less frequently in order to achieve high returns. The other type of investor, on the other hand, will not embrace uncertain risk or low returns with established risk. This is because investors with myopic risk aversion suffer from a high loss aversion psyche or have limited financial knowledge. As a consequence of this, they believe that investors who are sensitive to loss make judgments regarding their investments that are more irrational.

Recent occurrences have a greater impact on people's opinions than the facts themselves (Tversky and Kahneman, 1974). In accordance with this, Greenwood and Shleifer (2014) created return predictions based on prior profits by using data from a survey that was conducted in the United States. For instance, investors that have a stronger behavioural bias have a greater propensity to acquire capital for companies with high existing earnings. Current returns in the fund flow returns are more essential than historical returns, according to research that was conducted by Barber et al. (2016).

Overconfidence, aversion to loss, and recency biases have all been found to play a key role in the investment process. In the midst of market instability, many investors view gold as a viable investment option. In recent years, the market has been subject to a number of roller coasters as a result of the worldwide pandemic and other economic slowdowns. As a result, investors have been looking for opportunities to invest in gold. Research on people's intentions about gold investments is essential in such a scenario, as is an understanding of the role that behavioural biases play in the decision-making process. As a consequence of this, the major objective of the study work was to assess the influence that behavioural biases have on the intents of preserving gold.

Research Methodology

The research was conducted with the participation of a total of 250 institutional investors. The investors who call the major cities of Gujarat their home serve as the study's sample unit. Because samples were picked based on the researchers' judgement, non-chance judgement sampling methods were employed for the analysis rather than chance sampling methods. For the purpose of this thesis, a singular descriptive cross-sectional analytic design procedure was utilised. The data came from a wide number of sources. Various venues were used. For the objectives of gaining knowledge, respondents were provided with a standardised questionnaire to fill out. In order to collect both primary and secondary data, structured questionnaires were designed using the various databases that were accessible. The study instrument is broken up into three distinct sections: Section A provides the demographic information of the respondents, Section B measures behavioural biases, and Section C assesses acts that are performed for the "gold purpose." The authors drew on questions on behavioural biases from Pompian (2006) as well as questions regarding gold investing intention drawn from earlier research. The evaluation of

investment motive in gold employed a Likert scale with three components and a maximum score of five.

Data analysis
Demographic profile of Respondents
According to the demographic profile of the survey, 56 percent of the respondents are male and 44 percent are female. The majority of respondents (74%) are married, with the remainder unmarried. The plurality of respondents was between the ages of 41 and 50 years (28 percent), followed by 26 to 40 years (26 percent), less than 26 years (18 percent), greater than 60 years (18 percent), and 51 to 60 years (18 percent) (10 percent). The plurality of respondents had a postgraduate degree (36 percent), led by graduation (32 percent), up to HSC (16 percent), and no formal schooling (8 percent) and others (8 percent). The plurality of respondents (42 percent) are salaried, led by the industry community (38 percent), academics (18 percent), and others (2 percent). The highest percentage of respondents (36%) came from the income bracket of 200001 to 400000, while the lowest percentage came from the income bracket of more than 100000. (8 percent). The majority of the respondents (58%) come from a nuclear family, while the remaining 42 percent are from a mixed family.

Overconfident bias and Gold Investment Intention
Overconfident bias affects 165 investors out of a total of 250 respondents, indicating that the bulk of retail investors are affected. The aim of this research is to determine the effect of the overconfident bias on gold investment intentions. As a classification component, the overconfident bias has two types, and as a testing variable, Gold investment intention was assessed on a scale basis, two independent t tests were used.

Table 1 Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
Gold Investment Intention	Equal variances assumed	4.232	.041	5.207	248	.000
	Equal variances not assumed			5.061	157.110	.000

Levene's Test for Equality of Variances is statistically valid at the 5% level of significance, with a p value of 0.41 and a F value of 4.233, indicating that no party has comparable variance. Since the p value of the t test is 0.000, which is statistically significant at the 5% level of significance, two independent t tests indicate that there is a significant gap in the mean score of the gold investment intention for the vulnerable to overconfidence bias investor group and the non-prone to overconfidence bias investor category.

Table 2 Overconfidence bias group wise Mean Score					
Overconfidence bias		N	Mean	Std. Deviation	Std. Error Mean
Gold Investment Intention	Prone to Overconfidence bias	165	3.4242	1.16484	.09068
	Not Prone to Overconfidence bias	85	2.5882	1.27309	.13809

By comparing the mean scores of the two classes, it is clear that overconfident investors (3.42) have a higher mean score than those who are not overconfident (2.58). Overall, overconfident biases seem to have an impact on Gold investment intentions.

Loss aversion bias and Gold Investment Intention
There are 135 investors who are not vulnerable to loss aversion bias out of a total of 250 respondents, indicating that the bulk of retail investors are not susceptible to loss aversion bias. The effect of the loss aversion bias on gold investment purpose was determined using a two-sample t test for two separate samples.

Table 3 Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
Gold Investment Intention	Equal variances assumed	42.574	.000	5.951	248	.000
	Equal variances not assumed			**6.137**	**235.335**	**.000**

The T test is based on the equality of variance assumption, and Levene's Test for Equality of Variances is used in the same way. At the 5% stage of significance, Levene's Test for Equality of Variances is significant, indicating that there is no equality of variation between the two classes. The p value of the T test for loss aversion tendency and gold investment goal is 0.000, which is less than 0.000. As a result of the statistical importance of the t test at the 5% stage of significance, we can infer that there is a substantial gap in the average score of the gold investment intention of the Prone to Loss aversion bias investor group and the Not Prone to Loss aversion bias investor category.

Table 4 Loss aversion bias wise mean score					
Loss aversion bias		N	Mean	Std. Deviation	Std. Error Mean
Gold Investment Intention	Prone to Loss aversion bias	115	3.6232	.91715	.08553
	Not Prone to Loss aversion bias	135	2.7284	1.37207	.11809

Prone to Loss aversion bias has a higher mean score (3.6232) than Not Prone to Loss aversion bias, according to the Loss aversion bias community mean score (2.7284). Investors that are vulnerable to loss aversion prejudice are more inclined to invest in gold, according to loss aversion and gold investment purpose.

Recency bias and Gold Investment Intention

Table 5 Independent Samples Test						
		Levene's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig.	t	df	Sig. (2-tailed)
Gold Investment Intention	Equal variances assumed	1.631	.203	3.968	248	.000
	Equal variances not assumed			3.933	216.770	.000

145 investors out of 250 are vulnerable to recency bias, indicating that the bulk of retail investors are vulnerable to recency bias. The effect of the Recency bias on gold investment purpose was investigated using a two-sample t test for two separate samples.

Levene's Test for Equality of Variances is not statistically valid at the 5% level of significance since it has a p value of 0.203 and a F value of 1.631, implying that all classes have similar variance. Since the p value of the t test is 0.000, which is statistically important at the 5% level of importance, two separate t tests indicate that there is a significant difference in the mean score of the gold investment purpose for Vulnerable to Recency bias investor community and not prone to Recency bias investor group.

Table 6 Recency bias wise Mean score					
Recency bias		N	Mean	Std. Deviation	Std. Error Mean
Gold Investment Intention	Prone to Recency bias	145	3.4023	1.19921	.09959
	Not Prone to Recency bias	105	2.7778	1.26733	.12368

By comparing the mean scores of the two classes, it is clear that the Prone to Recency Bias investors (3.4023) have a higher mean score than the Not Prone to Recency Bias investors (3.4022). (2.778). Overall, it can be said that recency bias has an effect on the desire to invest in Gold.

Finding andConclusion of the study

The primary purpose of the study was to investigate the influence that cognitive biases have on the decision to invest in gold. Overconfidence bias, loss aversion bias, and recency bias are the three types of behavioural biases that are discussed in depth throughout this article. According to the data, the majority of inserters are still susceptible to recency bias, and three out of every four investors are affected by the overconfidence bias. According to the results of a test that looked at all three types of behavioural biases and gold investment intention, each of the three types of behavioural bias is statistically significant and has a substantial influence on investment intention in gold. Investors that suffer from overconfidence bias, loss aversion bias, or recency bias are more likely to put their money in gold because they have the misconception that it will yield positive returns. Despite the country's stock market experiencing a number of shakeups, gold prices in India have had a substantial upward trend. In this kind of situation, retail customers are more lured to the investment potential of gold. The study of behavioural bias can assist financial institutions and economies in better understanding their clientele, which can lead to increased profits. Individual investors may also be advantageous, and if they are aware of the cultural biases that are associated with gold investment, they may be able to alleviate post-purchase cognitive dissonance. In further studies on the gold investment, it is possible that researchers may take into account additional biases in addition to characteristics that are not related to interpersonal biases.

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