

A Study on Gold ETFs as a Preferred Investment Option for Individual Investors

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Abstract

This research explores the extent of awareness and actual investment behaviour related to Gold Exchange-Traded Funds (Gold ETFs) among individual investors. The study identifies the major factors affecting investor awareness and participation and discusses their implications for financial advisors, policymakers, and asset management companies. Although extensive research exists on investor preferences for mutual funds, equities, and physical gold, there is limited research specifically addressing Gold ETFs from the perspective of retail investors. Most existing studies emphasise institutional investors or market-wide analysis, resulting in a significant gap in understanding individual investors' perceptions and adoption of Gold ETFs. Given that the expansion of ETF markets largely relies on retail investor involvement, this study offers timely insights into awareness levels and investment behaviour among small investors.

By evaluating both awareness and actual investment in Gold ETFs, the study adds meaningful empirical evidence to the limited body of literature in this area. The results provide practical guidance for financial educators, advisors, and product developers. As financial markets continue to evolve and introduce diverse investment options, gaining insight into investor responses to relatively new instruments such as Gold ETFs is increasingly essential.

Keywords

Gold ETF, Investor Awareness, Financial Literacy, Investment Behaviour, Financial Instruments

Research Gap:

Although earlier studies have broadly examined gold as an investment avenue, very few have focused on investor perceptions of Gold ETFs using primary data.

Introduction:

Gold has long been regarded as a highly reliable and culturally important form of investment, particularly in countries such as India, where it holds a significant place in household savings and traditions. Traditionally, investors have preferred physical forms of gold, including jewellery, coins, and bars. However, the investment environment has evolved significantly with the growth of digital finance and the introduction of innovative financial products.

Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Gold Exchange-Traded Funds (Gold ETFs) have emerged as a modern investment option, allowing investors to access gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns.

gold prices without the challenges associated with physical ownership, including storage, security, and purity concerns. Traded on stock exchanges in a manner similar to shares, Gold ETFs offer features such as transparency, liquidity, and cost efficiency, making them an appealing choice for investors who value ease and convenience.

Despite these advantages, a large segment of individual investors remains unaware or insufficiently informed about Gold ETFs. Awareness and understanding strongly influence investment choices. In the absence of adequate understanding of how ETFs function, their advantages, and the risks involved, many investors are unlikely to include Gold ETFs in their investment portfolios, even when these products may offer better financial outcomes than traditional alternatives.

Investor awareness is strongly linked to financial literacy, which encompasses knowledge of concepts such as diversification, returns, inflation, and risk management. Previous studies indicate that individuals with higher levels of financial literacy are more inclined to adopt contemporary investment instruments, while lower literacy levels often lead investors to depend on familiar and traditional investment options.

Gold ETFs were introduced as a straightforward and accessible mechanism that enables small investors to gain exposure to the gold market.

Even though the product is regulated and easily tradable, its penetration remains relatively low when compared to the massive demand for physical gold. It brings forward the central questions of the study: How aware are individual investors of Gold ETFs? And among those who are aware, how many actively invest in them?

Objectives

- To assess the level of awareness about Gold ETFs among individual investors.
- To determine how many aware investors actually hold Gold ETFs.

Hypotheses

Null Hypothesis (H₀): There is no significant relationship between financial literacy level and awareness of Gold ETFs.

Alternative Hypothesis (H₁): A significant relationship exists between financial literacy levels and awareness of Gold ETFs.

Research Design

Descriptive research of individual investors (n = 200). Data collected via a structured questionnaire (paper or online).

Literature Review

1. Vidhi Savaliya (2024), in the study "Financial Literacy and Investment Behaviour Among Investors," emphasises that demographic variables such as age, education, income, and occupation have a significant impact on investment decisions. The findings suggest that younger and more educated investors are more likely to experiment with modern financial products, while older or less educated individuals generally prefer safer and more traditional investment avenues. Awareness is identified as a crucial determinant of adoption, as the absence of adequate awareness substantially reduces the likelihood of investing in new financial products.
2. Urban Jermann (2023), in "Gold's Value as an Investment," develops a gold pricing model based on no-arbitrage principles. The study reveals that gold's value is primarily derived from its function as an investment asset rather than merely as a commodity. It further establishes a strong relationship between gold prices, real interest rates, and futures markets, thereby reinforcing gold's appeal as a hedging instrument.

3. Ekta Singh, Ajay Pratap Yadav's bibliometric analysis of Exchange-Traded Funds (ETFs) highlights a significant increase in ETF-related research since the late 1990s. Their study identifies key contributing institutions and emerging research themes, including the effects of COVID-19, Bitcoin, and Environmental, Social, and Governance (ESG) factors. The authors recommend further investigation into arbitrage mechanisms, tracking errors, and pricing efficiency to provide investors, regulators, and asset managers with deeper insights into ETF performance and associated risks.

Overall, the reviewed literature highlights the increasing importance of financial literacy and the expanding role of ETFs in contemporary investment portfolios. However, studies that specifically examine awareness of Gold ETFs among individual investors remain limited, and this research seeks to address that gap.

Sampling Plan

Sampling Method: Random sampling

Data Collection Tool: Structured Questionnaire

Sample Size: 200 individual investors

Data Type: Primary data (From Questionnaire) and secondary data (from journals, reports, websites)

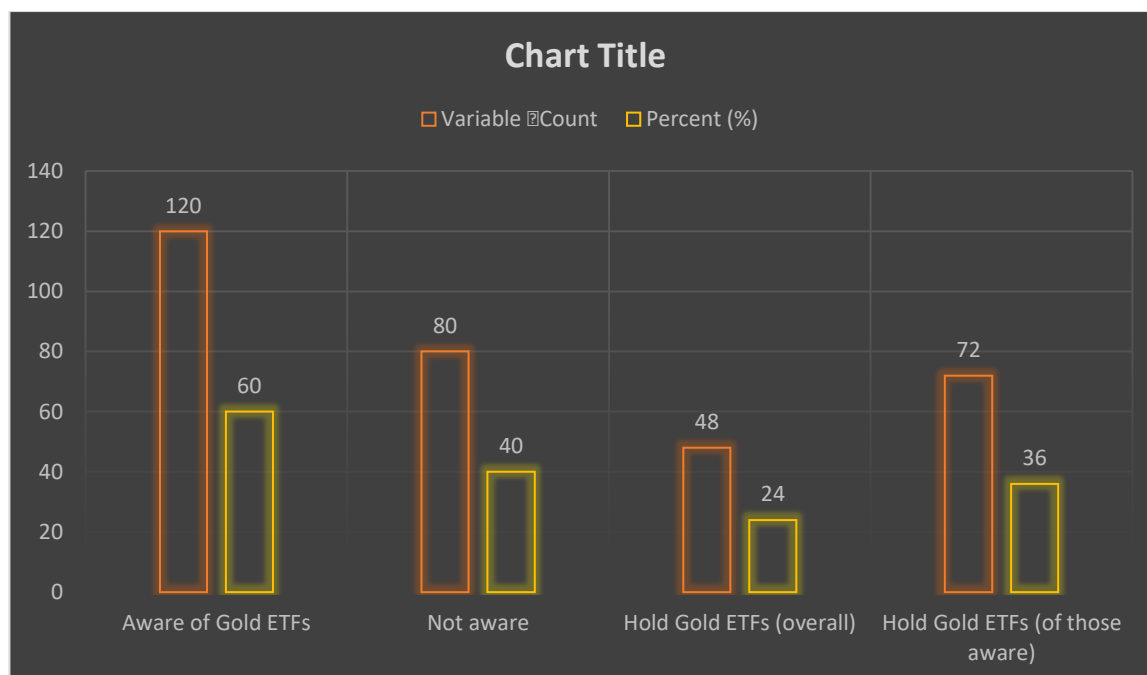
Data Collection Method: Structured Questionnaire (Online)

Statistical Tool

Average, Percentage, Chi-Square Test.

Awareness and Holding of Gold ETFs

Variable	Count	Per cent (%)
Aware of Gold ETFs	120	60.0
Not aware	80	40.0
Hold Gold ETFs (overall)	48	24.0
Hold Gold ETFs (of those aware)	72	36.0



Interpretation

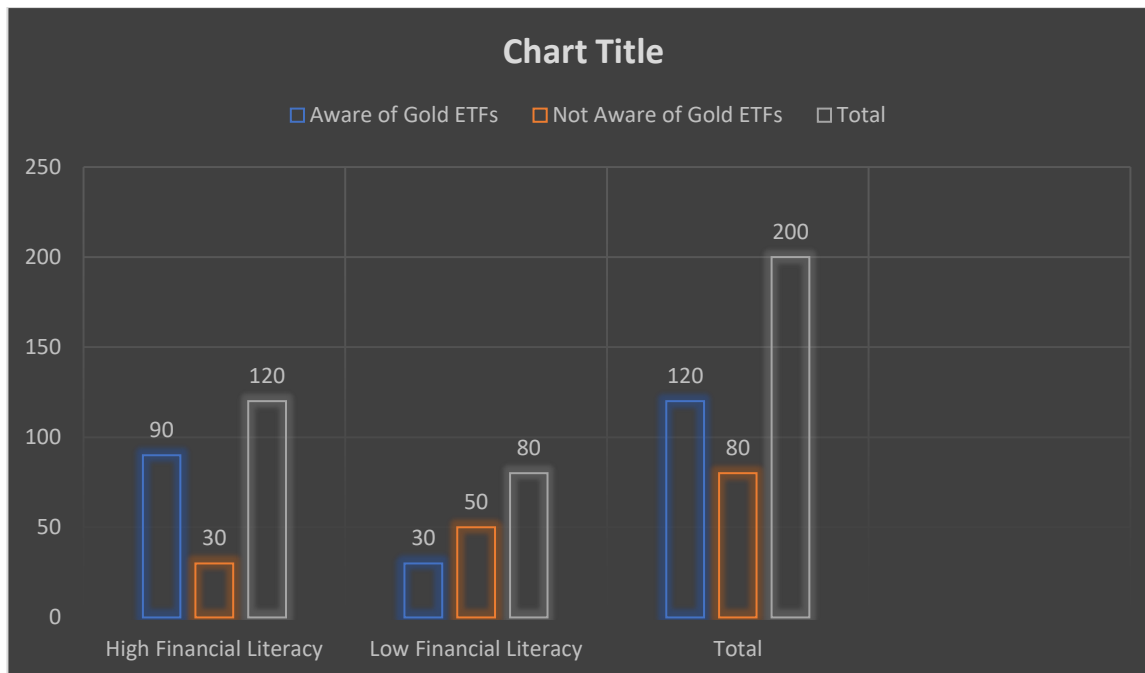
The results show that 60% of the surveyed investors are aware of Gold ETFs, indicating a moderate level of awareness among retail investors. Within this aware segment, 40% have actually invested in Gold ETFs, suggesting a fairly satisfactory transition from awareness to investment. However, out of the total sample of 200 respondents, only 24% currently hold Gold ETFs, revealing a considerable disparity between awareness and actual adoption.

Financial literacy, ease of access, and investor confidence emerge as key factors influencing investment decisions. The findings imply that strengthening financial education initiatives and enhancing investor support mechanisms could contribute to increased adoption of Gold ETFs.

Financial Literacy vs Awareness of Gold ETFs

(Total respondents = 200)

Financial Literacy Level	Aware of Gold ETFs	Not Aware of Gold ETFs	Total
High Financial Literacy	90	30	120
Low Financial Literacy	30	50	80
Total	120	80	200



Interpretation

The Financial Literacy table presents the distribution of respondents by level of financial literacy and awareness of Gold Exchange Traded Funds (ETFs). Of the 200 respondents, 120 have a high level of financial literacy, while 80 fall into the low financial literacy category.

Among the financially literate respondents, a substantial majority (90 out of 120, i.e., 75%) are aware of Gold ETFs, whereas only 30 respondents (25%) are not aware. In contrast, among respondents with low financial literacy, awareness of Gold ETFs is considerably lower: only 30 out of 80 respondents (37.5%) report awareness. In comparison, a higher proportion (50 respondents, or 62.5%) is not aware of Gold ETFs.

This distribution clearly indicates that awareness of Gold ETFs is markedly higher among individuals with greater financial literacy. The findings suggest a positive link between financial literacy and awareness of Gold ETFs, providing initial evidence for the hypothesis that higher financial literacy levels align with greater awareness of advanced investment instruments like Gold ETFs.

Null Hypothesis (H_0):

There is no significant relationship between the level of financial literacy and... awareness of Gold ETFs.

Alternative Hypothesis (H_1):

There is a significant relationship between financial literacy level and awareness of Gold ETFs.

calculated χ^2 Value: 28.13

Degrees of Freedom: $df = 1$

Significance Level (α) = 0.05

Table Value $\chi^2 = 3.84$

Comparison: χ^2 Calculated value = 28.13 > χ^2 Table Value = 3.84

Result & Interpretation

Since the calculated Chi-Square value is greater than the table value, the null hypothesis is rejected.

Conclusion:

The Chi-Square test indicates a statistically significant relationship between financial literacy level and awareness of Gold ETFs ($\chi^2 = 28.13$, $df = 1$, $p < 0.05$). Therefore, we reject the null hypothesis and accept the alternative hypothesis. It confirms that individuals with higher financial literacy are significantly more aware of Gold ETFs compared to those with lower financial literacy.

Findings:

1. The analysis shows that most respondents (120 out of 200) have a high level of financial literacy, while the remaining 80 respondents are classified as having low financial literacy.
2. Awareness of Gold Exchange-Traded Funds is considerably higher among respondents with higher levels of financial literacy. The analysis shows that most respondents.... Approximately 75% of financially literate participants reported being aware of Gold ETFs, reflecting greater exposure to and understanding of structured investment instruments.
3. In contrast, respondents with lower financial literacy exhibit relatively limited awareness of Gold ETFs. Only 37.5% of these individuals indicated awareness, while the majority (62.5%) reported no knowledge of this investment option.
4. The difference in awareness levels between the two literacy groups reveals a significant gap, indicating that financial knowledge is vital in understanding modern financial instruments like Gold ETFs.
5. The observed distribution provides preliminary empirical evidence of a positive relationship between financial literacy and awareness of Gold ETFs.

Conclusion:

Based on the interpretations, financial literacy significantly influences awareness of Gold Exchange Traded Funds.

People with higher financial literacy are significantly more aware of Gold ETFs compared to those with lower financial literacy. People with higher financial literacy are significantly more aware of Gold ETFs compared to those with lower financial literacy.

This result lends support to the hypothesis that higher levels of financial knowledge contribute to increased awareness of advanced, market-linked investment instruments.

The study emphasizes the importance of financial literacy in improving investor awareness and encouraging informed investment decisions, particularly regarding products like Gold ETFs. Therefore, strengthening financial education programs can play a vital role in increasing investor participation in modern financial markets.

Suggestions:**Expand Investor Awareness Initiatives**

Financial institutions and regulatory bodies should organise regular investor awareness programs, workshops, and seminars to improve understanding of Gold ETFs among individual investors, particularly those with lower financial literacy.

Adopt Clear and Investor-Friendly Communication

Information related to Gold ETFs should be presented in simple and easy-to-understand language through brochures, short videos, and digital platforms to help individual investors grasp the concept easily.

Integrate Financial Education at the Grassroots Level

Educational institutions and community centres should introduce basic financial literacy programs that include investment options such as Gold ETFs, thereby improving awareness from an early stage.

Promote the Transition from Awareness to Investment

Financial advisors and mutual fund distributors should emphasise converting awareness into actual investment by clearly communicating the benefits, risk characteristics, and long-term relevance of Gold ETFs.

Streamline Access and Investment Processes

Making account opening and trading procedures more user-friendly, along with offering guided assistance through banks and online platforms, can motivate informed investors to begin investing in Gold ETFs.

Build Trust through Transparency and Demonstrations

Demonstrations, case examples, and transparent information on returns, costs, and safety of Gold ETFs can build investor confidence and motivate aware individuals to invest.

Reference:

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