International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Impact of Gold Price Volatility on Retail Investors' Investment Decisions

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Abstract:
Gold has long been regarded as a dependable investment option because of its ability to preserve wealth during periods of inflation, economic instability, and financial market uncertainty. However, increasing fluctuations in gold prices have influenced the way retail investors evaluate investment opportunities and manage financial risk. This study investigates the effect of gold price volatility on the investment decisions of retail investors by examining how price movements influence their investment preferences, risk perception, and allocation of funds towards gold. The research adopts a descriptive research design and is based on primary data collected from 100 retail investors using a structured questionnaire. Percentage analysis, mean scores, and Chi-square tests were employed to analyze the responses. The findings reveal that gold price volatility significantly affects investors' decision-making process, with most respondents considering gold a relatively safe investment during uncertain economic conditions. Investors were also found to monitor market trends and future price expectations before making investment decisions. Although physical gold remains the most preferred investment avenue, the growing acceptance of digital gold and other gold-based financial products indicates changing investment behavior among younger investors. The study concludes that gold continues to play an important role in portfolio diversification and wealth preservation despite short-term price fluctuations. The findings provide useful insights for investors, financial advisors, and policymakers in understanding retail investment behavior and designing appropriate investment strategies.

Keywords: Gold Price Volatility, Retail Investors, Investment Decisions and Risk Perception

Introduction:

Investment decisions are influenced by a combination of economic conditions, market expectations, individual financial goals, and an investor's willingness to accept risk. Among the various investment alternatives available today, gold has consistently maintained its importance due to its ability to preserve value and provide financial security during periods of uncertainty. Unlike many financial assets whose values are directly affected by market performance, gold is widely viewed as a defensive asset that helps investors protect their wealth against inflation, currency depreciation, and economic disruptions.

In India, gold occupies a unique position as both a financial asset and a culturally significant commodity. Apart from its traditional use in jewellery, it has emerged as an increasingly popular investment option through instruments such as Gold Exchange-Traded Funds (ETFs), Sovereign Gold Bonds (SGBs) and digital gold and gold mutual funds. These investment avenues have made gold more accessible to retail investors and have expanded its role beyond conventional ownership. As financial literacy and digital investment platforms continue to grow, retail participation in gold investments has also increased.

Despite its reputation as a relatively stable asset, gold prices are subject to considerable fluctuations. Changes in inflation, interest rates, exchange rates, central bank policies, geopolitical tensions, and global economic events contribute to volatility in the gold market. Such price movements create both opportunities and challenges for retail investors. While rising prices may encourage investment due to expectations of future gains, sudden declines or excessive volatility may increase uncertainty and influence investors to postpone or reconsider their investment decisions.

Retail investors generally possess limited financial resources and market expertise compared with institutional investors. Consequently, their investment behavior is often influenced by perceived risk, market sentiment, previous investment experience, and publicly available information. Understanding how these investors respond to fluctuations in gold prices is therefore important for evaluating investment behavior and identifying the factors that shape their financial decisions.

Although numerous studies have examined gold as a hedge against inflation and a safe-haven asset during financial crises, relatively fewer studies have focused specifically on how gold price volatility affects the investment decisions of Indian retail investors using primary survey data. Furthermore, the rapid growth of digital investment platforms and changing investor preferences have altered the manner in which individuals invest in gold, creating the need for updated empirical evidence.

Against this backdrop, the present study investigates the impact of gold price volatility on the investment decisions of retail investors. It examines the extent to which fluctuations in gold prices influence investment preferences, risk perception, and portfolio allocation. The findings of the study are expected to contribute to a better understanding of retail investor behavior and provide useful insights for investors, financial advisors, financial institutions, and policymakers in formulating effective investment strategies and promoting informed investment decisions.

Review of Literature:

Gold has attracted considerable attention in finance literature because of its role as a hedge against inflation, a safe-haven asset, and an effective portfolio diversification instrument. Researchers have explored the relationship between gold prices, market uncertainty, and investor behavior across different economic environments.

Baur and Lucey (2010) examined the hedging and safe-haven characteristics of gold by comparing its performance with stocks and bonds. Their study established that gold acts as a reliable hedge during normal market conditions and serves as a safe-haven asset during periods of financial crises. The findings suggest that investors increasingly allocate funds to gold when other financial markets experience instability.

Expanding this perspective, **Baur and McDermott (2010)** investigated the safe-haven role of gold across major international equity markets. Their research confirmed that gold provides protection against market downturns in several developed economies, although its effectiveness varies across countries and market conditions. The study emphasized that investor confidence in gold strengthens during periods of heightened uncertainty.

The relationship between gold prices and other macroeconomic variables was examined by **Narayan, Narayan, and Zheng (2010)**. Their findings indicated that commodity prices, particularly oil prices and exchange rate movements, significantly influence fluctuations in gold prices. This research highlighted the importance of broader economic conditions in determining gold market behavior.

Similarly, **Reboredo (2013)** analysed the interaction between gold prices and the U.S. dollar and concluded that gold provides effective protection against currency depreciation and financial risk. The study reinforced gold's importance as a portfolio diversification tool capable of reducing investment risk during volatile market conditions.

More recent research has shifted its attention towards market volatility and investor behavior. **Sehgal, Sobti, and Diesting (2021)** investigated price discovery and volatility transmission among spot gold, gold futures, and Gold Exchange-Traded Funds (ETFs). Their findings revealed that financial gold instruments play an increasingly important role in determining gold prices, reflecting changing investment preferences among modern investors.

The impact of global crises on gold investment was explored by **Tanin et al. (2021)**, who studied investor behavior during the COVID-19 pandemic. The authors found that periods of heightened uncertainty significantly strengthened the demand for gold as investors sought safer investment alternatives. The study also reported that volatility indices influence investors' perception of gold's safe-haven characteristics.

Examining interconnected financial markets, **Kumar, Singh, and Kumar (2022)** analysed volatility spillovers among crude oil, exchange rates, stock markets, and gold prices. Their study concluded that macroeconomic shocks affecting one financial market are often transmitted to the gold market, making gold prices sensitive to broader economic developments. These findings underline the importance of monitoring multiple economic indicators while making investment decisions.

Focusing on the Indian context, **Sarker (2024)** examined the relationship between gold price movements and stock market volatility. The study found that investors increasingly prefer gold during periods of stock market instability because of its relatively stable long-term performance. The research also highlighted that market uncertainty significantly influences investors' allocation towards gold investments.

Recent evidence by **Faraj, McMillan, and Al-Sabah (2025)** suggests that although gold continues to function as a defensive investment, it’s safe-haven properties have weakened in certain market situations due to increasing global financial integration. The study recommends that investors should evaluate market conditions carefully rather than relying solely on the traditional perception of gold as a risk-free asset.

Further empirical evidence from **Bhattacharya (2025)** examined forecasting models for retail gold prices in India using GARCH-based techniques. The findings demonstrated that gold prices exhibit significant volatility over time and that accurate forecasting models can assist investors in making better investment decisions. The study emphasized the growing importance of understanding price volatility in the Indian gold market.

Research gap:

Although numerous studies have examined gold as a safe-haven asset, hedge against inflation, and portfolio diversification tool, limited research has focused on the impact of gold price volatility on the investment decisions of Indian retail investors using primary data. Most previous studies have emphasized macroeconomic factors or international markets, while comparatively little attention has been given to behavioral aspects such as risk perception, investment preferences, and investment timing. Moreover, the rapid growth of digital gold, Gold ETFs, and Sovereign Gold Bonds has changed the investment landscape, creating the need for updated empirical evidence. This study addresses this gap by examining how fluctuations in gold prices influence the investment decisions and risk perceptions of retail investors in the current Indian financial environment

Objectives of the study:

- To analyze the impact of gold price volatility on the investment decisions and preferences of retail investors.
- To examine the relationship between investors' risk perception and their allocation towards gold investments during periods of price fluctuations.

Research Methodology:

The primary data for this study on the impact of gold price volatility on retail investors' investment decisions were collected through a structured questionnaire administered to retail investors. A convenience sampling technique was employed to select a sample of 100 respondents who actively invest in gold. The collected data were coded, tabulated, and analyzed using appropriate statistical tools. Descriptive statistics were used to summarize the demographic profile of the respondents, and the results were presented through graphical representations (pie charts). To examine the relationship between gold price volatility and retail investors' investment decisions, the Chi-square test was applied to test the significance of the responses and evaluate the research hypotheses. These analytical techniques facilitated a systematic interpretation of the data and helped achieve the objectives of the study.

Hypothesis:

Hypothesis 1

H_{01}: Gold price volatility has no significant impact on the investment decisions and preferences of retail investors.

H_{11}: Gold price volatility has a significant impact on the investment decisions and preferences of retail investors.

Hypothesis 2

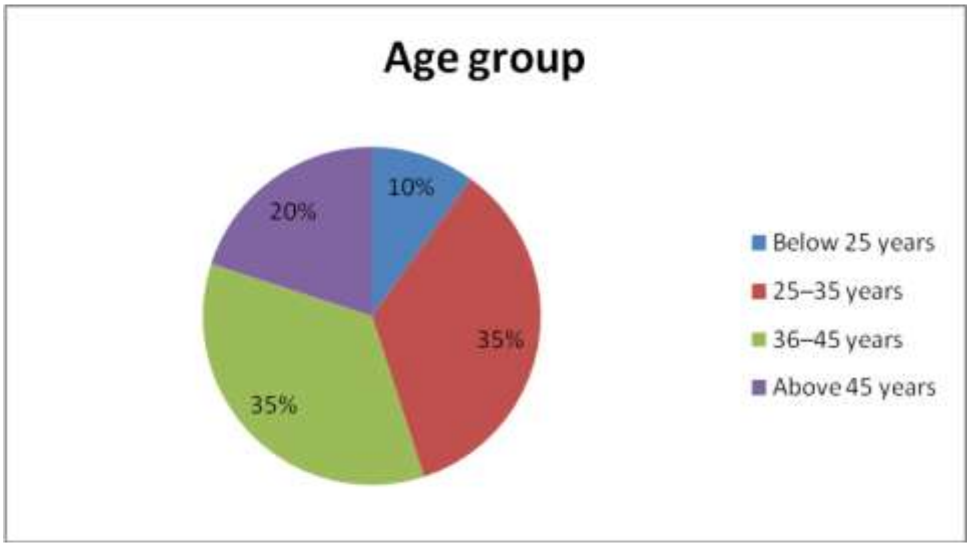
H_{02}: There is no significant relationship between investors' risk perception and their allocation towards gold investments during periods of price fluctuations.

H_{12}: There is a significant relationship between investors' risk perception and their allocation towards gold investments during periods of price fluctuations.

Findings & discussions:

Analysis 1-

Age Group	**Number of Respondents**	**Percentage**
Below 25 years	10	10%
25–35 years	35	35%
36–45 years	35	25%
Above 45 years	20	20%

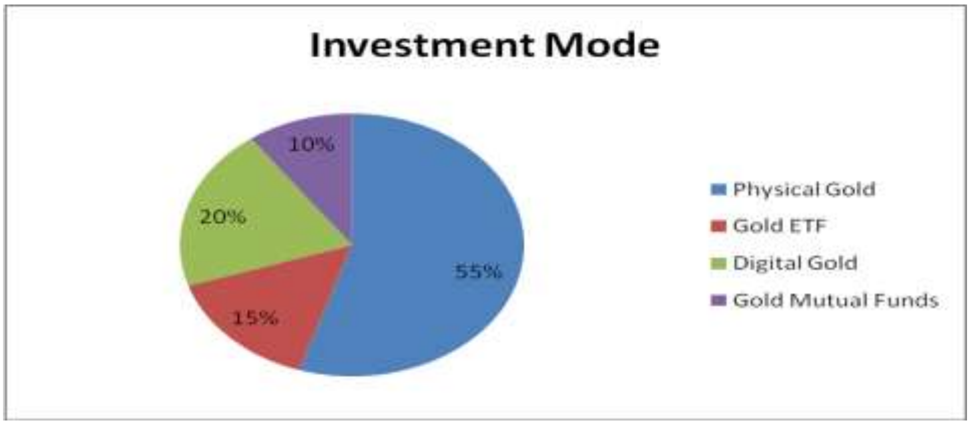


Interpretation-

The age-wise distribution of respondents indicates that the majority of participants belonged to the 25–35 years age group (35%), followed by those 36–45 years (25%), while respondents above 45 years accounted for 20% and those below 25 years represented 10% of the sample. This distribution suggests that the study primarily reflects the perspectives of economically active individuals who are more likely to make independent investment decisions. The strong representation of respondents aged 25–45 years provides valuable insights into how working professionals respond to fluctuations in gold prices. Their investment behavior is particularly significant, as this age group typically balances wealth creation with financial security. Overall, the sample offers a suitable demographic profile for examining the impact of gold price volatility on retail investors' investment decisions.

Analysis 2-

Investment Mode	Respondents	Percentage
Physical Gold	55	55%
Gold ETF	15	15%
Digital Gold	20	20%
Gold Mutual Funds	10	10%

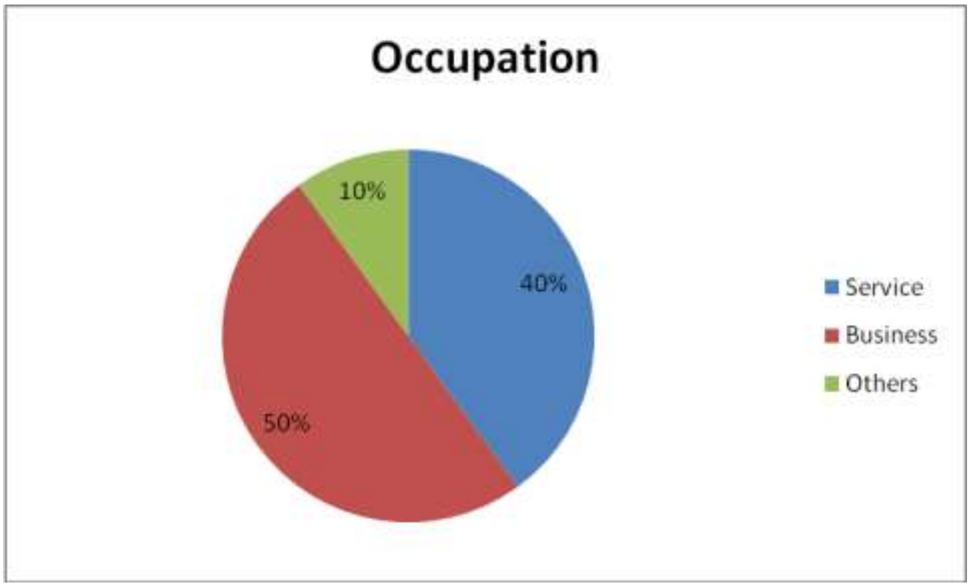


Interpretation-

The data on respondents' preferred mode of gold investment reveals that Physical Gold is the most popular investment option, with 55% of respondents choosing it. This indicates that retail investors continue to prefer tangible gold due to its traditional value, liquidity, and perceived safety during periods of price volatility. Digital Gold is the second most preferred option (20%), reflecting the growing acceptance of technology-driven investment platforms among investors. Gold ETFs account for 15% of the respondents, while Gold Mutual Funds are preferred by only 10%, suggesting relatively lower awareness or acceptance of market-linked gold investment instruments. Overall, the findings indicate that despite the emergence of modern investment avenues, retail investors continue to rely predominantly on physical gold when making investment decisions amid fluctuating gold prices.

Analysis 3-

Occupation	Respondents	Percentage
Service	40	55%
Business	50	15%
Others	10	20%

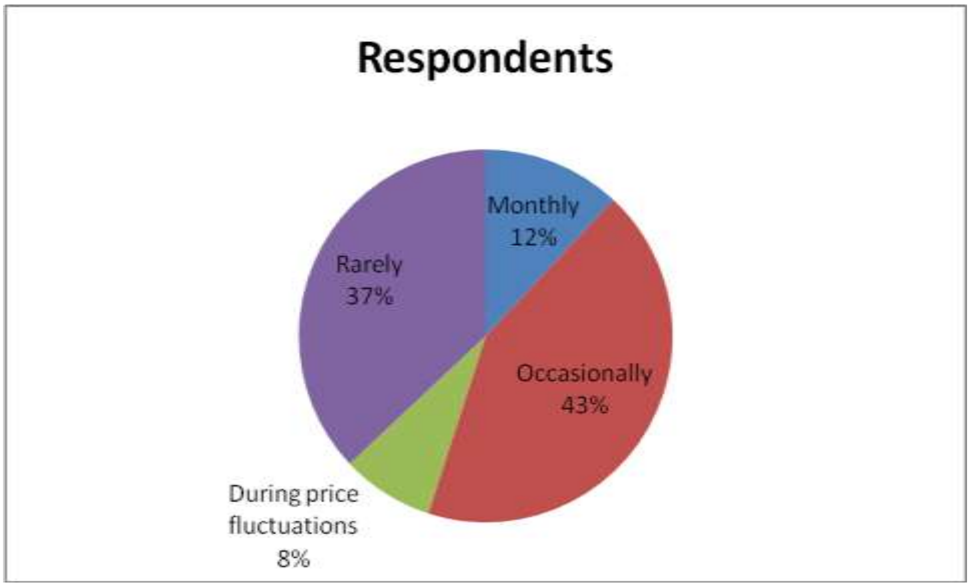


Interpretation-

The occupational profile of the respondents indicates that business professionals constitute the largest share of the sample, accounting for 50% of the respondents, followed by service employees at 40%, while others represent 10%. The higher participation of business owners suggests that individuals engaged in entrepreneurial activities are more inclined to invest in gold, considering it a reliable asset for wealth preservation during periods of price fluctuations. Service professionals also form a significant segment, reflecting their interest in gold as a secure investment option and hedge against economic uncertainty. The relatively smaller proportion of respondents from other occupations indicates comparatively lower participation in gold investment. Overall, the findings suggest that occupation plays an important role in shaping retail investors' investment preferences and responses to gold price volatility.

Analysis 4-

Frequency of investments	Respondents	Percentage
Monthly	12	12.00%
Occasionally	43	43.00%
During price fluctuations	8	8.00%
Rarely	37	37.00%



Interpretation-

The frequency of investment in gold indicates that 43% of the respondents invest occasionally, making it the most common investment pattern among retail investors. This is followed by 37% who invest rarely, suggesting that many investors purchase gold only when specific financial needs or opportunities arise. A smaller proportion of respondents (12%) invest on a monthly basis, reflecting a disciplined and regular investment approach. Only 8% of the respondents reported investing during periods of price fluctuations, indicating that relatively few investors actively time the market based on changing gold prices. Overall, the findings suggest that most retail investors prefer occasional investments rather than frequent or price-driven investment strategies, highlighting a cautious and long-term approach toward gold investment decisions.

Analysis 5-

Test for Hypothesis 1:

S. No.	Statement	χ^2 Value	df	p-value	Result	Interpretation
1	Gold price fluctuations influence my investment decisions.	56.28	4	<0.001	Reject H_0	Gold price fluctuations significantly influence investment decisions.
2	I increase gold investment when prices rise continuously.	18.74	4	0.001	Reject H_0	Investors modify their investment behavior in response to rising gold prices.
3	I monitor gold prices before	63.87	4	<0.001	Reject	Investors actively monitor gold

	making investment decisions.				H_0	prices before investing.
4	I prefer gold over other investments during market instability.	37.81	4	<0.001	Reject H_0	Investors prefer gold during periods of market uncertainty.
5	Future expectations of gold prices affect my investment decisions.	54.22	4	<0.001	Reject H_0	Expected future price movements significantly influence investment decisions.

Interpretation-

The Chi-square results indicate that all five statements are statistically significant ($p < 0.05$). Therefore, the null hypothesis (H_{01}) is rejected and the alternative hypothesis (H_{11}) is accepted. The findings confirm that gold price volatility significantly influences the investment decisions and preferences of retail investors. Respondents consider both current and expected gold prices while deciding the timing and amount of their investments.

Test for Hypothesis 2:

S. No.	Statement	χ^2 Value	df	p-value	Result	Interpretation
1	I consider gold as a safe investment during economic uncertainty.	69.42	4	<0.001	Reject H_0	Investors perceive gold as a safe-haven investment.
2	High volatility creates risk while investing in gold.	48.95	4	<0.001	Reject H_0	Investors associate price volatility with increased investment risk.
3	Gold provides portfolio diversification benefits.	41.36	4	<0.001	Reject H_0	Investors recognize gold as an effective diversification tool.

Interpretation-

The Chi-square analysis reveals statistically significant responses for all three statements ($p < 0.05$). Hence, the null hypothesis (H_{02}) is rejected and the alternative hypothesis (H_{12}) is accepted. The results indicate that investors' perception of risk significantly affects their allocation towards gold investments. Retail investors view gold as a relatively safe investment during periods of economic uncertainty while simultaneously recognizing that excessive price volatility increases investment risk. Consequently, gold is preferred as a portfolio diversification instrument during unstable market conditions.

Overall Hypothesis Testing Summary-

Hypothesis	Decision	Conclusion
H_{01}: Gold price volatility has no significant impact on retail investors' investment decisions.	Rejected	Gold price volatility significantly influences retail investors' investment decisions and preferences.
H_{02}: There is no significant relationship between investors' risk perception and allocation towards gold investments.	Rejected	Investors' risk perception significantly influences their allocation towards gold during periods of price fluctuations.

Summary:
The present study, "Impact of Gold Price Volatility on Retail Investors' Investment Decisions," examined how fluctuations in gold prices influence the investment behavior of retail investors. Gold has traditionally been regarded as a safe-haven asset and an effective means of preserving wealth during periods of economic uncertainty. However, increasing price volatility has altered investors' perceptions and investment strategies, making it important to understand the relationship between gold price movements and retail investment decisions.
The study adopted a descriptive research design and collected primary data from 100 retail investors using a structured questionnaire. A convenience sampling technique was employed for selecting respondents. Data were analyzed using frequency and percentage analysis, graphical representations, mean score analysis, and the Chi-square test to examine the relationship between gold price volatility and retail investors' investment decisions.
The findings indicate that gold price volatility significantly influences retail investors' investment decisions. Investors actively monitor gold prices before investing and consider future price expectations while making investment choices. The study also reveals that retail investors perceive gold as a safe investment during periods of economic uncertainty and recognize its importance in portfolio diversification. Although physical gold continues to be the preferred investment avenue, digital gold and Gold ETFs are gradually gaining acceptance among younger investors. The Chi-square analysis further confirmed that gold price volatility significantly affects investment decisions and that investors' risk perception has a significant relationship with their allocation towards gold investments.
Overall, the study highlights the continuing importance of gold in retail investment portfolios and emphasizes the need for informed investment decisions based on market conditions and long-term financial objectives.

Limitations:
The present study has certain limitations. It is based on a sample of 100 retail investors selected through convenience sampling, which may limit the generalization of the findings. The study is confined to Indore city, and therefore the results may not represent the investment behavior of retail investors in other regions. The analysis relies on respondents' self-reported perceptions, which may introduce response bias. Additionally, the study focuses only on gold investments and does not compare them with other investment avenues. Since the research is cross-sectional, it reflects investor behavior at a particular point in time and does not capture changes over different market conditions.

Conclusion:
The present study examined the influence of gold price volatility on the investment decisions of retail investors and provides empirical evidence that fluctuations in gold prices significantly shape investors' financial behavior. The findings demonstrate that retail investors closely observe gold price movements, prevailing economic conditions, and future market expectations before making investment decisions. Rather than viewing gold solely as a traditional asset, investors increasingly recognize its strategic importance in preserving wealth, managing risk, and achieving portfolio diversification.
The analysis further reveals that investors' perception of risk plays a crucial role in determining their investment allocation towards gold. During periods of inflation, economic uncertainty, or financial market instability, gold continues to be regarded as a reliable safe-haven asset, reinforcing investor

confidence despite short-term price fluctuations. However, the study also indicates that excessive volatility may create uncertainty and encourage investors to adopt a cautious investment approach, highlighting the need for informed and disciplined investment decisions.

An important finding of the study is the gradual transformation in investment preferences among retail investors. Although physical gold remains the most preferred form of investment due to its cultural significance, liquidity, and perceived security, increasing awareness of Digital Gold, Gold Exchange-Traded Funds (ETFs), and Sovereign Gold Bonds (SGBs) reflects the changing dynamics of the Indian investment landscape. This shift suggests that retail investors are gradually embracing technology-enabled and financially efficient alternatives to traditional gold ownership.

The statistical analysis supports both research objectives by confirming that gold price volatility has a significant impact on retail investors' investment decisions and that investors' risk perception strongly influences their allocation towards gold during periods of market uncertainty. These findings are also consistent with previous empirical studies that identify gold as an effective hedge against inflation, a safe-haven asset during economic crises, and an important instrument for portfolio diversification.

From a practical perspective, the study contributes to a better understanding of retail investor behavior and offers valuable insights for financial advisors, investment institutions, and policymakers. Promoting financial literacy, improving awareness of modern gold investment products, and encouraging informed investment planning can enable retail investors to make more rational and balanced investment decisions. As financial markets continue to evolve and global economic uncertainties persist, gold is expected to remain an integral component of retail investment portfolios, serving not only as a store of value but also as a strategic asset for long-term financial stability and wealth creation.

Overall, the study concludes that while gold price volatility influences the timing, magnitude, and nature of retail investment decisions, investors continue to perceive gold as a dependable asset capable of balancing risk and return. Future research may build upon these findings by examining larger and more geographically diverse samples, comparing different categories of investors, and incorporating behavioral finance variables such as financial literacy, investor sentiment, and digital investment adoption to provide a more comprehensive understanding of gold investment behavior.

Suggestions:

Based on the findings, retail investors should adopt a long-term investment approach and avoid making decisions based solely on short-term gold price fluctuations. They should diversify their portfolios by investing in a mix of asset classes and consider economic factors such as inflation and interest rates before investing. Financial institutions and policymakers should promote awareness of modern gold investment options, including Gold ETFs, Sovereign Gold Bonds (SGBs), and Digital Gold, to encourage informed investment decisions. Future research may include larger and more diverse samples, compare gold with other investment avenues, and employ advanced statistical techniques for more comprehensive analysis.

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