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# Comparing Gold and Stocks: Smart Investment Choices in Today's Market

***Dr.Sangashetty Shetkar***

Associate Professor in Commerce , Govt.First Grade College Naubad, Bidar-585404
Email: sangu8666@gmail.com , 9740212156

ABSTRACT:

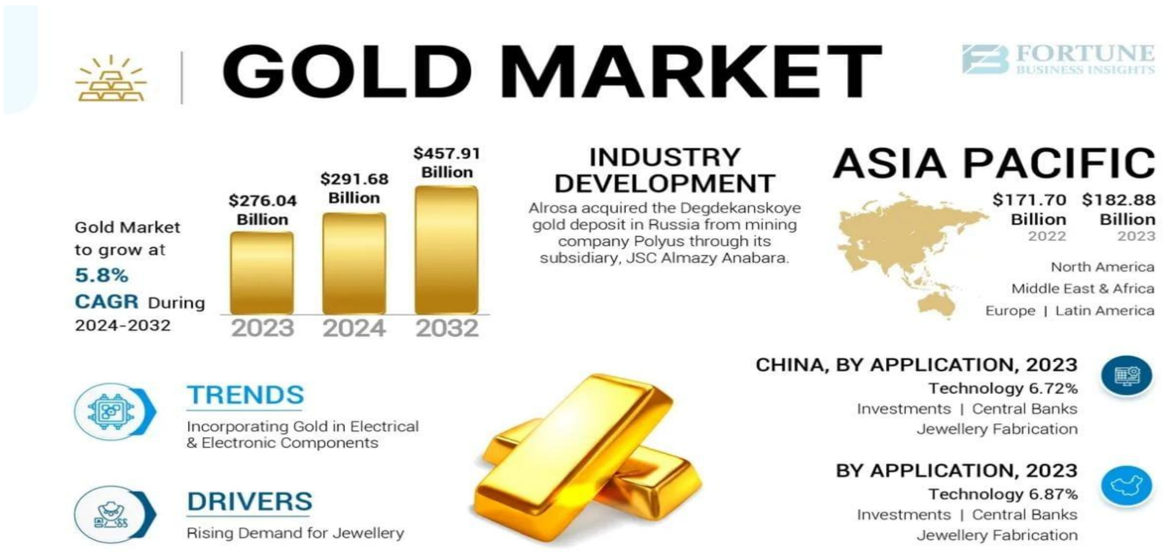
This research paper explores the comparative advantages of investing in gold versus the share market in the prevailing economic environment. The study spans the period from 2020 to 2025 and evaluates these two asset classes based on historical returns, volatility, investor sentiment, and associated risks. Gold has traditionally served as a safe-haven asset during economic downturns, while equities have offered higher returns during periods of growth. By analyzing performance trends, macroeconomic indicators, and risk-return profiles, this paper aims to identify which investment option is more aligned with the goals of conservative, moderate, and aggressive investors. The study also assesses the role of both gold and equities in a diversified investment portfolio. The findings indicate that neither asset class alone consistently outperforms the other across all market conditions. Instead, a balanced investment approach that includes both gold and equities tends to offer optimal results by minimizing risk and enhancing long-term returns. This paper concludes that asset allocation should be tailored to individual risk tolerance and market outlook, emphasizing the importance of diversification in strategic financial planning.

**Keywords: Gold Investment, Equity Market, Risk-Return Analysis, Portfolio Diversification, Investment Strategy.**

## INTRODUCTION:

Investment plays a central role in both personal financial planning and the broader economic development of a country. With the ever-evolving dynamics of financial markets, individual and institutional investors constantly seek out avenues that not only preserve capital but also generate sustainable returns. Among the most prominent investment choices globally, and particularly in India, are gold and equities (shares**)**. Each of these asset classes comes with its own set of characteristics, advantages, and risks. This paper aims to explore the comparative merits of investing in gold and equity markets in light of the economic trends and investor sentiments prevailing between 2020 and 2025.

Gold as a Traditional Investment Avenue: Gold has historically been viewed as a safe-haven asset — a store of value during times of economic distress, political instability, or inflationary pressure. In the Indian context, the affinity for gold transcends mere financial motives. It carries deep-rooted cultural, religious, and emotional significance, especially in rural and semi-urban households. Weddings, festivals, and auspicious events often involve gold purchases, contributing to consistent domestic demand. From a financial perspective, gold is preferred by conservative investors who prioritize capital preservation over aggressive returns. During uncertain periods, especially when inflation rises or the equity markets experience heightened volatility, gold tends to perform well. Notably, during the COVID-19 pandemic in 2020, global gold prices surged as investors rushed to safety. Gold reached an all-time high in August 2020, crossing USD 2,060 per ounce, and also saw record prices in the Indian market due to a depreciating rupee and rising global demand.

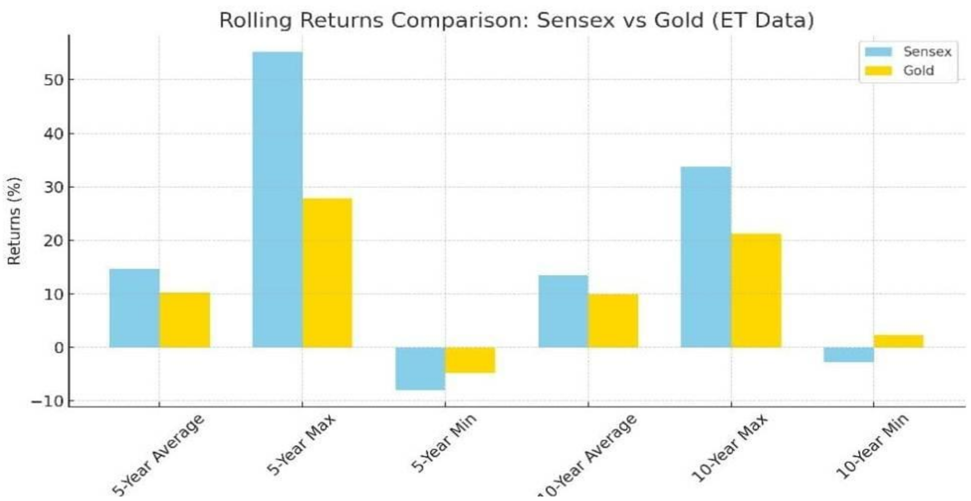



**Source: (https://www.fortunebusinessinsights.com)**

The global gold market is projected to grow at a 5.8% CAGR from 2024 to 2032, driven by rising jewellery demand and use in electronics, with market value expected to reach $457.91 billion by 2032.Asia-Pacific leads the market, and China's key applications in 2023 include technology (6.7%), investments, and central bank reserves.

Equities: Engine of Growth and Long-Term Wealth Creation: Conversely, the equity market represents ownership in businesses, offering investors a stake in the growth and profitability of companies. Over the long term, equity investments have historically delivered superior returns compared to most traditional assets, including gold. However, this comes at the cost of higher volatility and risk.In India, the equity market has witnessed remarkable transformation, especially since the economic liberalization of the 1990s. The emergence of digital trading platforms, a surge in mutual fund investments, increased financial literacy, and growing retail investor participation have made equity markets more accessible. Regulatory support from institutions like SEBI (Securities and Exchange Board of India) and initiatives like Systematic Investment Plans (SIPs) have further fueled retail interest.

During the initial phase of the pandemic, the Indian stock markets — like their global counterparts — experienced a sharp correction. The benchmark Nifty 50 and Sensex saw steep declines in March 2020. However, markets rebounded impressively in the subsequent years. Driven by a combination of liquidity infusion, robust corporate earnings, retail investor influx, and strong foreign institutional investments, Indian equities posted impressive gains in 2021 and 2022. The IPO market also flourished during this time, with companies like Zomato, Nykaa, and LIC coming to market, though their post-listing performances varied.




**Source: Economic Times (March 2025)**

The chart compares rolling returns of Sensex and Gold using Economic Times (March 2025) data, showing that Sensex outperformed Gold in average and maximum returns over both 5-year and 10-year periods.However, Gold showed better stability with higher minimum returns, especially in the 10-year timeframe.

## Fast Facts: Gold vs. Share Market

1. Global inflation remains high in major economies due to geopolitical tensions and supply chain disruptions.
2. Central banks, especially the U.S. Federal Reserve, have increased interest rates, strengthening the U.S. dollar and impacting emerging markets.
3. Gold prices have remained stable and resilient, acting as a safe-haven asset amid global uncertainty.
4. Equity markets have shown volatility; while sectors like IT and pharma corrected, banking, FMCG, and infrastructure witnessed growth.
5. In India, the RBI has balanced inflation and growth, keeping domestic macroeconomic indicators strong.
6. Gold is stable but does not offer dividends or interest, making its long-term real returns comparatively lower than equities.
7. Equities offer higher growth potential and compounding benefits, but they carry higher short-term risk and require timing.
8. Taxation for gold includes capital gains tax and additional costs like storage and making charges (for physical gold).
9. Equity investments get favourable long-term tax treatment: 10% on gains above ₹1 lakh after one year, 15% on short-term gains.
10. Liquidity is higher in equities, especially listed shares and mutual funds, with lower transaction costs than physical gold.
11. Gold buying is influenced by emotion and cultural factors, especially in India during uncertainty or inflationary periods.
12. Digital gold, SGBs, and gold mutual funds have made gold more accessible and financialzed.
13. Rising demat accounts, trading apps, and financial literacy have expanded equity participation in tier-2 and tier-3 cities.
14. Gold acts as a wealth protector, while equities act as wealth creators in the long run.
15. A diversified investment strategy balancing both gold and equities is essential for managing risk and maximizing returns.

## REVIEW OF LITERATURE:

Mankiw (2019) highlighted gold's role as a safe-haven asset, performing well during periods of macroeconomic instability. Similarly, Baur and Lucey (2010) found that gold exhibits a negative correlation with equities during market downturns, reinforcing its use as a hedge.Ranganathan (2021) examined retail investor behavior in post-pandemic India, noting a significant shift toward Systematic Investment Plans (SIPs) and mutual funds, reflecting growing trust in structured equity investments.Das and Mukherjee (2023) analyzed the returns of gold and equities between 2018 and 2022, concluding that diversified portfolios achieve better risk-adjusted returns than investing in a single asset class.Recent reports from the RBI Bulletins and the World Gold Council support the view that both gold and equities have their strengths, depending on market conditions, economic cycles, and investor goals.

### OBJECTIVES

1. To compare the returns and volatility of gold and stock market investments during the period 2020 to 2025.
2. To assess the risk and liquidity associated with both gold and equity investments.
3. To recommend an appropriate investment strategy based on investor risk profiles and preferences.

## Gold and stock market investments during the period 2020 to 2025.

Between 2020 and 2025, both gold and the Indian stock market (represented by benchmark indices like Sensex and Nifty 50) experienced significant fluctuations due to global events such as the COVID-19 pandemic, inflationary pressures, interest rate hikes, and geopolitical tensions.
Comparison with Facts & Figures:

1. Gold Performance: Gold prices in India surged in 2020, reaching an all-time high of ₹56,000 per 10 grams due to pandemic-induced uncertainty. From 2020 to 2025, gold provided an average annual return of 6–8%, but returns were moderate in later years as interest rates rose globally.
2. Equity Market Performance: After a sharp fall in March 2020, Sensex rebounded strongly, crossing 60,000 in 2021 and touching over 75,000 by early 2025.The 5-year CAGR (2020–2025) for Sensex was approximately 12–14%, higher than that of gold.
3. Volatility Comparison: Gold showed lower volatility, making it suitable for risk-averse investors. Equities displayed higher volatility, but also higher growth potential over the long run. Rolling Returns (as per Economic Times, March 2025):Over 5-year rolling periods, Sensex outperformed gold in terms of average and maximum returns. However, gold showed better minimum returns, indicating stability during downturns.
4. Risk-Return Trade-off: While gold is better at preserving capital during crises, equities have delivered superior long-term returns, especially in a growing economy like India. Gold offers safety and stability, whereas the share market provides higher returns with more risk. A balanced approach is ideal depending on the investor's goals.

## Risk and liquidity associated with both gold and equity investments

Investors often evaluate asset classes based not just on returns, but also on risk and liquidity—two key pillars of investment decision-making. Risk refers to the potential for loss or fluctuation in investment value, while liquidity denotes how quickly and easily an asset can be converted into cash without significant loss in value. Both gold and equity investments differ substantially on these fronts, and understanding these differences is crucial for building a robust portfolio.

1. Nature of Risk in Gold vs. Equities Gold is considered a low-risk asset, often termed a “safe-haven” investment. It tends to retain value during economic uncertainties such as recessions, currency devaluation, or geopolitical tensions.
2. Equities, on the other hand, are high-risk assets. Share prices are influenced by company performance, market sentiment, interest rates, global cues, and political events. This makes them more volatile, especially in the short term.During the COVID-19 crash in March 2020, Sensex fell by over 30% in a few weeks, while gold prices rose by nearly 20% in the same period.
3. Volatility Comparison: Gold prices are relatively less volatile and exhibit slow, steady price movements. This makes gold suitable for conservative investors or as a hedge in a diversified portfolio. Equity markets are much more volatile, with daily fluctuations that can be both an opportunity and a risk. Long-term equity investments tend to smooth out volatility and deliver better returns, but short-term market timing can be risky. According to Economic Times (March 2025), gold had lower standard deviation in 10-year rolling returns compared to equities, proving its lower risk profile.
4. Liquidity Comparison: Equities (especially listed stocks and mutual funds) offer high liquidity. Investors can buy or sell shares instantly through stock exchanges with minimal transaction costs. Gold, particularly physical gold, is less liquid. While selling gold is possible, it often involves making charges, purity tests, and price negotiation. However, digital gold and gold ETFs have improved liquidity in recent years. Sovereign Gold Bonds (SGBs) have a lock-in period of 5 years (though tradable), which further reduces liquidity compared to equity.
5. Market Access and Costs: Equity investments incur low transaction costs via brokerage platforms and benefit from real-time trading access. Gold investments involve hidden costs like storage charges, making charges (for jewellery), and purity concerns. Additionally, physical gold carries risk of theft or damage.: Equity mutual funds and SIPs allow flexible, low-cost investing even with small amounts, unlike physical gold which often requires a lump-sum purchase.
6. Suitability Based on Investor Profiles: Risk-averse investors or those nearing retirement may prefer gold due to its stability. Aggressive investors or those with a long investment horizon may prefer equities for growth and wealth creation. A combination of both assets can reduce overall portfolio risk while maintaining return potential.: A young investor might hold 80% in equities and 20% in gold, while a retiree may reverse the allocation for capital protection.
7. Gold and equities offer different risk and liquidity profiles. Gold provides stability but limited growth, whereas equities offer higher returns at higher risk with superior liquidity. A well-balanced portfolio that considers personal risk tolerance, investment goals, and market conditions can benefit from including both asset classes.

## FINDINGS

1. Gold reached a record high of approximately ₹97,000 per 10 grams (24K) in India in 2025 due to global geopolitical tensions, central bank buying, and currency fluctuations.
2. In contrast, the BSE Sensex also hit its all-time high, crossing 854780 points in 2024, showing strong momentum in the equity market.
3. Average annual return on gold from 2020 to 2025 was 6–8%, with stronger gains during uncertainty but subdued growth in interest-rate hike periods.
4. Equities rebounded sharply after the March 2020 crash and maintained a strong bull run, especially from late 2021 to 2025.
5. The 5-year CAGR for Sensex stood at around 12–14%, significantly outperforming gold in terms of long-term returns.
6. Gold showed lower volatility, making it attractive for risk-averse investors looking for capital preservation.
7. Equities were more volatile, impacted by economic cycles, but provided superior long-term returns, especially for young or aggressive investors.
8. During the COVID-19 crisis in March 2020, Sensex fell over 30%, while gold prices rose nearly 20%, showcasing gold’s defensive value.
9. Rolling returns data (Economic Times, March 2025) revealed that Sensex outperformed gold in terms of average and max returns, but gold offered better downside protection (higher minimum returns).
10. Equities offer high liquidity, allowing investors to buy/sell quickly with low transaction costs through stock exchanges.
11. Physical gold is less liquid, involving making charges, purity tests, and price negotiations. However, gold ETFs and digital gold have improved accessibility.
12. Sovereign Gold Bonds (SGBs) provide attractive interest but come with a 5-year lock-in, reducing liquidity compared to equities.
13. Equity investments via mutual funds and SIPs are cost-effective, offer compounding benefits, and can start with small amounts.
14. Gold has hidden costs, such as storage fees and making charges (for jewellery), and risk of theft or damage in physical form.
15. Portfolio Suitability: A conservative investor (e.g., retiree) may prefer 70–80% gold, while a young investor may choose 70–80% equity for long-term wealth creation.
16. Diversification is key—a blend of both gold and equity reduces overall portfolio risk and improves return consistency across market cycles.

## SUGGESTION

1. Diversified Approach: Combine both gold and equities in your portfolio to balance risk and return. For most investors, a 60:40 equity-to-gold ratio is a good starting point and can be adjusted based on age and risk appetite.
2. Prioritize Equities for Long-Term Growth with the Sensex showing a 12–14% CAGR, long-term investors (10+ years) should allocate a major portion of their portfolio to equity mutual funds or direct stocks to build wealth.
3. Use Gold as a Hedge Against Market Crashes: Allocate 10–20% in gold, especially in the form of Sovereign Gold Bonds (SGBs) or Gold ETFs, to protect your capital during economic uncertainty or equity downturns.

4. Avoid Over-Reliance on Physical Gold:Due to low liquidity, high making charges, and safety risks, avoid excessive investments in jewellery. Prefer digital gold, gold ETFs, or SGBs for better liquidity and transparency.
5. Use SIPs for Equities to Manage Volatility: Start Systematic Investment Plans (SIPs) in equity mutual funds to average out costs and reduce the impact of market volatility over time.
6. Rebalance Your Portfolio Annually: Monitor your gold and equity allocation yearly. Rebalance based on changes in market trends, returns, or personal financial goals.
7. Senior Citizens Should Focus More on Stability: Retirees or low-risk investors should maintain 70–80% in gold or fixed-income instruments, limiting equity exposure to reduce risk and protect capital.
8. Young Investors Can Take More Risk: Investors under 40 can maintain 70–80% in equities for long-term growth, using gold only for diversification or hedging purposes.
9. Be Cautious During Market Highs: With gold peaking at ₹97,000 and Sensex at 85,478.25, avoid lump-sum investments at market highs. Stagger your investments or wait for corrections.
10. Evaluate Liquidity Needs Before Investing: If you need quick access to funds, prioritize equities or digital gold. Avoid locking money in SGBs or physical gold unless you're investing for the long term.

## CONCLUSION

Between 2020 and 2025, gold and equity investments exhibited contrasting characteristics in terms of returns, volatility, risk, and liquidity. Gold proved to be a stable, low-risk asset, reaching a record high of ₹97,000 per 10 grams in 2025, offering protection during economic crises. Equities, though more volatile, delivered higher long-term returns, with the BSE Sensex peaking at 85,478.25 in 2024 and achieving a 12–14% CAGR. While equities provided superior liquidity and growth, gold ensured capital preservation. Considering the study’s objective, a diversified portfolio blending both assets is recommended to balance risk and reward based on investor profile and financial goals.

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