Non Ferrous Metal & Investment Behaviour:
A Hedging Approach

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Abstract
In the past decades, the non ferrous metal especially platinum, gold and silver are seen as new and profitable assets to invest in for investor during financial crisis. Therefore, this paper aims is to study both investor and investment behaviour for precious metal and its reason. Section one focuses on describing metals application and its importance for investment while, section two highlights the review of the people which shows that these metals acts as portfolio balancer for the investor in long terms. Thereafter, section three shows that a non-ferrous metal are a good option for hedging the uncertain situation and examines the end-use pattern of the metals for better knowing the importance in the financial market. Finally section four concludes that its value increases day by day because of its various usages in the market and its helpful for different people for different reasons.

Keywords: Non ferrous metal, investment, investor, hedge and financial market.

1. Introduction
Non-ferrous metal especially precious metals are traded over decades because of its global demand and supply. Possessions of precious metal are always a symbol of prosperity for people. It is well known to investor that precious metals always restore their intrinsic value in the financial market even at the time of uncertainty. These metals generally acts as “solid as a rock” in the unstable market. The class of non ferrous metal have unique property in itself. The shine of these classy metals had never vanished in history. Investors have more belief and faith in precious metal as compare to stock market because their prices are much stable than stock market price. In ancient times, gold had many applications all over the world in form of coin, currency and
jewellery etc. So gold acts as a reliable precious metal for investments. With advent of time both silver and platinum joined the bandwagon. These two metals other than investment application have its industrial application as the other important usages, adding precious value, especially platinum.

1.1 Investment behaviour
Investor behaviour is known as investment behaviour. The main objective of investment in precious metal is security of fund & not mere making profits. Return is second aspect of investment. Risk is always prime issue in any kind of investment. Different people have different thought process and select different investment option depending upon their age group, capital etc. There are number of options available in the market. Precious metal is one of the good options for investment in terms of capital security. Saloni Raheja (2013) classified investment into four group are Physical Investments, Financial Investments, Marketable and Non marketable Investments and Transferable and non transferable Investments. He concluded that depending upon their choice people opt their investment avenues [1]. Therefore investment behaviour are totally depends upon the type of people and the amount of money.

1.2 Investor behaviour & precious metal
Investors are those people who try to choose the option which provides high return at low risk in the market and investor behaviour means attitude of human towards investment. Therefore, there are number of reasons for investment in metals like gold, silver and platinum for investment, each has been elaborated by various researchers:

- Precious metal helps investor in diversifying their portfolio.
- Metals act as a retainer of economic value and best hedging against inflation in economy.
- Rise in price because of limited supply and high demand.
- A metal having high liquidity in market. Therefore, at the time of economic crisis people can convert their jewelry, currency, bars etc. into hard cash.
- The value of precious metals is not depreciated and provides high returns to the financial investors.
- Is subject to appreciation and rarely depreciation in terms of value.
- These metals are easily to store in form of physical or on paper like bonds and provide some sort of guarantee in return of their investment.
- In brief, investor have extremely positive attitude while investing in non-ferrous metal because it provide benefits at minimum risk at time uncertainty too.

2. Literature Review
Non ferrous metal have been used for portfolio diversification in the financial market. It is best known as hedging tool during economic instability. Lots of research had been done. C. Mitchell Conover (2007) emphasised that adding non ferrous metal in the
portfolio are cut down the risk and improve performance by providing reasonable return [2]. Adding precious metal to portfolio using monetary policy will provide more returns to the investor.

Shawkat Hammoudeh (2011) found that portfolio manager uses precious metal in the portfolio by analysing the risk so that it give high returns to the investor and remain in the portfolio. Precious metal reduces the chance of losing because of its increasing price value[3].

Gold survey (2013) by Thomas reuters found that investment in gold increased as compare to previous year. The price of gold is greatly affected by the United States monetary policy and its economy. Investor put gold as portfolio balancer in the portfolio for long term investment [4].

Morgan Stanley (2012) emphasized that gold, silver, platinum and palladium have wide application in jewellery making and industries application. Therefore, buying precious metal in physical form is also a good option during uncertainty. These metals are always considered as safe haven due to its increasing price in the market [5].

Cemil Otar (1996) highlighted that investor put precious metal in the portfolio because of high inflation rates. The bond and precious metal price are inversely proportional to each other. Therefore, investor adds precious metal in the portfolio with bond to optimize return. Possession of metal, in portfolios as inflationary hedge in the market [6].

Hilliard Lyons (2009) said that different people have different interest for investment in precious metals. Investors choose non ferrous metal investment when they are searching for alternative other than equities. These metals provide both security and return which major role in the mind of investors while doing the investment [7].

3. Non Ferrous Metal a Good Hedger for Investment in Portfolio Construction

Trading or investing in precious metal is considered as good hedger during unpredictable situation especially gold. Gold is always used as inflationary hedge in both short run and long run investment [8]. The price of gold will provide the hidden information regarding the movement of inflation rate of the economy [9]. Experts said that 5% of the precious metal in the portfolio will make the investor safe from the market ups and downs. Through these metals investors diversify its portfolio and adding more of precious metal will not always be beneficial for the people. The right amount of precious metal share in the portfolio will only benefits in the unsudden situation. Therefore, non ferrous metal acts as insurance policy for humans at the time of financial crisis. From the last two decades, it has been observed that the price of metals increases not only because of personal use but as industrial application too, especially silver and platinum. So silver and platinum are evergreen metal for investment because industrial usage makes these metals expensive day by day. It is clearly depicted from Fig. 1.
Fig. 1: End-Use Pattern of precious metal, 2012

Source: World gold council

Source: Thomson Reuters GFMS

Source: Platinum Johnson Matthey
4. Conclusion
In this paper, it is evident from literature that the non ferrous metal is considered as the good hedger against the inflation. It is clearly reflecting from various surveys that gold have more importance for jewellery purpose and industrial uses, while silver and platinum are industrial metal. To summarise, the use and importance of precious metals are increasing day by day because of its increasing market value. Therefore, investment in precious metals is always seen as good option in economy. Investors also want to invest in the commodity which provides return at time of uncertainty and normal scenario too.

References
