Motives and Origins of Gold Ownership among Private Individuals in Germany

KLEINE Financial Study

Munich, October 2011
Executive Summary

“Gold Ownership in Germany”

Introduction

An increasing number of Germans are buying gold to protect themselves against crises and inflation. Nevertheless, there is little information available about the origins of gold ownership and the motives when making purchases. This study, entitled “Motives and Origins of Gold Ownership among Private Individuals in Germany”, aims to close this gap in research and knowledge. In addition to the presentation of origin types and the timings of gold possession, this study analyses the motives and attitudes to gold and money and gold stability in detail by asking a variety of questions. This study by the Research Center for Financial Services at Steinbeis University Berlin supplements the study carried out in 2010 about gold ownership by private individuals.

The study “Motives and Origins of Gold Ownership among Private Individuals in Germany” is based on a representative survey of 4,297 individuals over the age of 18. All information about gold relates to a standard of 999.

Reasons for purchasing gold

70% of those questioned are currently concerned about rising inflation. This uncertainty among the population is a fundamental reason for investing in gold. The most important reasons for investing in gold are on the one hand protection from inflation (83%) and on the other hand the search for stable financial investments (84%). The speculation on capital gains, however, only plays a small role. According to the investors, gold investments can help currency reforms to be better withstood.

Currency and gold

The fact that currency reforms may take place in the next few years is a concern shared by over half of those questioned. A disproportionate number in this group are gold investors. When asked about the future of the Euro, opinions were split. Although almost half of Germans can imagine the collapse of the Euro, the other half do not consider this to be possible. In this regard it is interesting that 18% of Germans want a gold reserve currency.

The study is a representative analysis of gold ownership (n = 4,297 private individuals)

84% consider the retention of value to be a good reason to invest in gold

70% of Germans are concerned about rising inflation

Over 50% of Germans are concerned about currency reform
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Satisfaction with gold ownership

The survey shows that the vast majority of those who purchased gold in the past are happy with their decision. 58% want to keep the gold they purchased (Fig. 1).

The low number of gold sellers has reduced market availability

Only 19% plan to sell it. Here it is clear that gold already owned by the German population has been removed from the market for the long term. In view of the high prices, opinions are split about whether more gold should be purchased. 22% did not yet have an opinion. 47% do not want to buy gold at the moment because it is too expensive.

Total gold ownership

Every adult German (older than 18 years of age) currently owns an average of more than 100 grams. Three quarters of Germans keep their gold for investment purposes in physical form, in bars and coins. Only a quarter consists of gold-based securities, with a declining tendency. Only 12% would currently invest in gold securities.

Gold as a worthwhile investment

Gold has been a profitable investment in recent years. In 2010, the price of gold increased by 36% in Euro. On average, every German therefore made a profit of 650 Euro on their gold holdings.
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**Origin type of gold ownership**

German investors acquired only slightly more than half of their gold by purchasing it on the market. The rest was inherited (23%) or was given as a gift (25%). This indicates that gold is often seen as a long-term investment which is also held across several generations (Fig. 2).

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<th>Own acquisition</th>
<th>Gift</th>
<th>Inheritance</th>
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<td>Proportion of entire gold holding (weighted)</td>
<td>51.5%</td>
<td>25.3%</td>
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<td>Gold owned for investment purposes in tonnes (Σ 5,380)</td>
<td>2,771</td>
<td>1,361</td>
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<td>Gold owned for investment purposes in billion Euro (Σ 168)</td>
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Figure 2: Origin type of gold ownership for investment purposes

The gold purchases particularly originate from investors with a higher income and assets. They can afford to invest money to purchase gold. The gold held by lower earners was mainly obtained through inheritance or as a gift.

**Initial time of gold ownership**

The majority of gold purchases took place over the past three years, so since the beginning of the financial and economic crisis and the strong increase in the price of gold. It is possible to differentiate between three different phases of gold purchases. The first took place in 2007/8 during the subprime crisis in the USA and the insolvency of Lehman Bank. The second wave started at the same time as the problems in Greece and the beginning of the Euro crisis at the start of 2010. The third wave of gold purchases has been ongoing since the summer of 2011 with the escalation of the Euro crisis to also involve larger countries in Europe and the government debt crisis in the USA.
Almost a quarter of the gold purchased originates from the time of the Cold War before the reunification. It has not been sold since then. This is another indication that gold investments are long-term (Fig. 3).

### Storage of gold

The gold belonging to the German population is predominantly stored in banks. Almost two thirds of Germans can envisage keeping their gold there. In addition to this, particular emphasis is placed on storing gold at home. At least 33% can envisage storing their gold in their home. Gold owners also prefer storage in banks than storage in their own homes. The commissioning of specialist contractors to store gold is generally of little significance.
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Forms of planned gold acquisition

The uncertainty of Germans is also clear from the investment forms preferred when making an investment in gold. Only around 10% want to invest in gold-based securities. 63% would, however, opt for investment in physical gold bars. Gold coins (25%) are another attractive option (Fig. 4).

This preference for physical gold costs Germans money. This is due to the fact that physical gold is often more expensive. It is difficult to get hold of. It also results in storage costs, in particular because just under two thirds of the gold is stored at a bank. On the other hand, physical gold can be used as a direct money substitute in crisis situations.

Gold indicator

A gold indicator was developed to forecast future developments and data has now been collected three times since the initial data collection in 2010. This is sub-divided into the two forecast dimensions investment attractiveness and buyer readiness. The dimension investment attractiveness measures the attractiveness of gold investments from the point of view of the German population. The dimension buyer readiness measures people’s readiness to buy gold.

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1) The dimension investment attractiveness represents the difference between positive and negative expectations in relation to the attractiveness of gold.

2) On the other hand, the dimension buyer readiness represents the expectation value of future gold purchasing by private households weighted by the buying probability.
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Investment attractiveness

In comparison to the third quarter of 2010, the attractiveness of gold investment has fallen slightly from the point of view of those who took part in the study. However, an overall indicator value of 41.8 indicates that the positive attitude is continuing. In a comparison of gold, silver and platinum, gold emerged as having significantly higher investment attractiveness. The investment attractiveness of silver, on the other hand, is lowest.

Buyer readiness

In contrast to the estimation of the attractiveness of investment in gold, readiness to buy gold in the future has increased in comparison to the third and fourth quarters of 2010 (Fig. 5).

The fact that many investors are still prepared to invest in gold despite the increasing prices over the past year can be valued as an uncertainty indicator. Although gold is considered to be expensive, investors continue to buy it due to concerns that their money may lose value.
Comparison of Germany, France and Italy

The fear of crises and the trend towards buying gold as protection is particularly pronounced in Germany. While 23% of Germans bought gold for investment purposes, this percentage was only 7% in Italy and a mere 3% in France. Furthermore, Germans purchased more gold during the last crisis than the French or Italians (Fig. 6.).

The type of origin of gold ownership differentiates significantly between the two countries. While the gold held by German citizens mainly consists of purchases (52%), inheritances are the most common source in France (44%). The largest proportion of investment gold in Germany originates from the years of the financial and economic crisis (43%). In Italy and France, on the other hand, the greatest proportion of gold was purchased in the past 10 years but before the crisis (37 and 35% respectively).

Germans bought three times more gold than Italians and seven times more gold than French people over the past few years.

Figure 6: Proportion of individuals who bought gold for investment purposes
Key findings of the study:

**Gold and gold value stability**
- 70% of Germans are concerned about increasing inflation
- Split opinion regarding currency stability - around half of those questions could imagine the Euro collapsing, while the rest cannot

**Motives and attitudes about gold**
- 60% would not resell their gold, so they have removed it from the market for the long term
- 73% are satisfied with their decision to buy gold
- Gold as security anchor - more than 80% buy gold due to its retention value and protection against inflation
- Paradox: Falling attractiveness of gold but increasing buyer readiness highlights uncertainty and the search for a safe haven

**Types of origin and timings**
- Flight to gold during the financial crisis - more than 40% of gold ownership among Germans (70 billion Euro) originate from the past three years
- Bought rather than inherited - more than 50% of gold owned was purchased by the investor; only around a quarter originates from inheritances

**Investment object and storage location**
- Gold bars are the most popular, followed by coins in second place
- Banks are the gold storage location number 1
- At least 30% of Germans store their gold at home

**Comparison of Germany, France, Italy**
- Germans bought three times more gold for investment purposes than Italians and seven times more gold than French over the past few years
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Fig. 1) Question: “Do you want to keep your gold?”
1) Only taking into account those participants who answered the question "Have you bought gold in the past for investment purposes?" with "yes" (random samples Q4 2010 and Q3 2011)

Fig. 2) Question: “How would you divide up the percentages of your gold held for investment purposes into types of origin and the time of purchase?”
The gold owned by the population in Germany was calculated on the basis of the results per person among all study participants according to the study: “Gold Ownership by Private Individuals in Germany” at Steinbeis University, Berlin without taking owned jewellery into account, which was multiplied by the population over the age of 18 (Source: Federal Statistical Office as of 12/2008), gold ownership for investment purposes includes physical gold investments (coins, bars etc.) and investments in gold-related securities (ETFs, certificates, shares etc.) (Source: Steinbeis University “Gold Ownership by Private Individuals in Germany, 2010)
1) For the conversion of the gram information in EUR, we used the conversion rate used on the first study “Gold Ownership by Private Individuals in Germany” to ensure the data was standardised and comparable. For this purpose, a gold price of 971.84 EUR per troy ounce was used (=31.25 EUR/gram as of 01.09.2010)
2) The calculation of the total sum was made taking the values with decimal points into account

Fig. 3) Question: “How do you divide up the gold you own for investment purposes into types of origin and the time of purchase?”
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Fig. 4) Question: “If you sold your gold, what would you be likely to buy instead?”

Fig. 5) Question: “Do you plan to buy physical gold in the next three years?”

Fig. 6) Question: “Have you bought gold in the past for investment purposes?”
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**“Gold Ownership in Germany“**

**Detailed results of the study**

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- Assumptions and foundations
- Gold ownership by private individuals (total overview - weight, value, volumes)

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