

Investment Decision Making: A study of Individual Investors Perception

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Abstract:

Investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions and willingness of the individuals and institutions in placing their savings in various investment alternatives. There is vast change in the socio-economic and psycho-graphic profile of the Indian investors. The term investment is used to describe the process of investing money in shares, debentures, fixed deposits, gold, real assets, life policies, mutual funds and money market instruments etc. By investing, an investor commits the present funds to one or more assets to be held for some time in expectation of some future return in terms of interest (revenue) or capital gain. Individual investors consider a number of factors before deciding to invest their funds in various securities involving varying degrees of risk and return. In the present economic scenario, the options available to them are different and the factors motivating the investors to invest are governed by their socio-economic profile.

A study on the investors' perceptions and preferences, thus assumes a greater significance in the formulation of policies for the development and regulation of investment plans in general and protection of Indian investors. Exploratory research is used for the study. Data was collected through primary and secondary sources. Questionnaire has been designed to collect primary data. Samples of 100 respondents have been taken through convenience sampling process.

Key Words: Investment, Socio-economic, Psycho-graphic, Investment Culture.

Introduction:

India is the land of opportunities these days. There are a lot of sectors where finances are feasible and offer great returns. There are a number of great options available to people of India for investment. The process of internet and external liberalizations and financial sector reforms have brought about significant changes in the income distribution, consumption patterns, saving behaviors, and investment preference of an average household. Financial intermediaries play an important roles in converting the saving of investors into investment .The entry of private domestic and foreign commercial banks ,non banking financial companies, mutual funds and array of other financial intermediaries are likely to greatly influence choices of savers and investors with respect to the from and type of financial intermediaries. There is wide range of investment choices available to average investors ranging from traditional form of investments to innovative investment instruments.

An investment is a sacrifice of current money or other resource for future benefits. Individual investors consider a number of factors before deciding to invest their funds in various securities involving varying degrees of risk and return The two key aspects of any investment are time and risk .The sacrifice takes place and now is certain .The benefit is expected in the future and tends to be uncertain .In the present economy scenario ,the option available to them are different and the factor motivating the investors to invest are governed by their socio-economic profile including expected return and risk tolerance. In short, the investment decision making process is a multifaceted subject to change over a period of time attitude of investment is different in each alternative. Some investors are risk averse; while some have affinity of risk .The risk bearing capacity of investor is a function of person, economical, environment and situational factor such as income, family size, expenditure pattern and age. There are lot of investment alternative is available to investor in India are as follows:

Post Office Saving Schemes: India Possesses As the largest Postal Network in the world with 1, 55,000 Post Offices spread all over the country. There are various kinds of saving schemes for e.g. National Savings Certificates (NSC), National Saving Schemes, Post Office Time Deposits, Post Office Recurring Deposit Account (RDA), Post Office Monthly Income Schemes, Senior Citizen Scheme, Kisan Vikas Patra (KVP), RBI Relief Bonds, and Public Provident Fund etc.

Almost all of them have tax relieves and exemptions u/s 80C and u/s 10. The return varies from 6-9% and involves certain lock in period. These days, these schemes are not very popular and suitable for the investors who are very risk averse.

Bank Deposits in India: Bank deposits are fairly safe because banks are subject to control of the Reserve Bank of India (RBI) with regard to several policy and operational parameters. Now, most of the banks offer various facilities such as ATM cards, Credit cards etc. Through Debit/ATM card, one can take money from any of the ATM centers of the particular bank which will be open 24 hours a day. Through a Credit card, one can avail shopping facilities from any shop which accept the credit card. And many of the banks also give internet banking facility, with which one can avail facilities like – transactions like withdrawals, deposits, statement of account etc. Now days', different kind of accounts are available such as saving bank account, Bank Recurring Deposits, Bank Fixed Deposits, Current account. Bank Deposits are the safest investment after Post Office Savings because all bank deposits are insured under the Deposit Insurance and Credit Guarantee Scheme of India. It is possible to get loans up to 75-90% of the deposit amount from banks against fixed deposit receipts.

Provident Fund: These funds are of different types. Some of them are structured and mandatory for notified organizations to provide to their employees. In these funds, employees contribute a certain portion of their salary & an equivalent amount is required to be contributed by the employer. Post offices also provide for Public Provident Fund, popularly known as PPF. It is a saving cum tax saving instrument. It also serves as a retirement planning tool for many of those who do not have any structured pension plan covering them.

Company Fixed Deposits in India: The Company fixed deposits was started in India in 1964 by Bajaj Capital Ltd. Today, its market has grown to approximately Rs. 25,000 crores. The number of depositors has increased to around five million. Fixed deposits in Corporations that earn fixed rate of return over a period of time are called fixed deposits. Financial institutions and Non-Banking Finance companies (NBFCs) also accept such deposits. Deposits thus mobilized are governed by the Companies Act u/s 58A. The benefits of company deposit are numerous like superior returns from reputed companies, fixed and assured returns, premature encashment, and

simplicity of transactions, TDS benefits, and wide choice. All these features have made company deposits a preferred instrument of investment. These deposits are unsecured.

Bonds and Debentures in India: A bond or debenture is a long term debt instrument. Bonds issued by the government or the public sector companies are generally secured. The private sector companies issue secured or unsecured debentures. In the case of bonds or debentures, the rate of interest is fixed and known to the investors. A bond is redeemable after a specific period. The key risks of corporate bonds are that the company will go out of business and you'll lose your investment, and that interest rates will rise and you'll lose if you have to sell on the open market. Corporate bonds are you're generally more risky than government bonds. Corporate bonds often pay higher returns than government bonds. Bonds can be broadly classified into Tax-Saving Bonds & Regular Income Bonds.

Money Market: The money market is a mechanism that deals with the lending and borrowing of short term funds. The India Money Market has come of age in the past two decades. The Products are: treasury-Bills, Commercial Papers (CP), Certificate of Deposits (CD), Obligations, Government of India Securities, and Call linked products, Collateralized Borrowing and lending (CBLO)

Stock Market: With over 20 million shareholders, India has the third largest investor base in the world after the USA and Japan. Over 9,000 companies are listed on the stock exchanges, which are serviced by approximately 7,500 stockbrokers. The Indian capital market is significant in terms of the degree of development, volume of trading and its tremendous growth potential. Successful investing in equity market requires some skill, some experience, some luck and lots of patience. The growth in well-managed companies gets eventually reflected in the growth in their stock prices. Thus, a well-chosen stock can give good returns over a period of time. Ultimately the actual return earned by the investor would depend on (i) Which stocks he bought (ii) When he bought them and (iii) How long he retained them before selling them off. Returns as well as risk would be combinations of these three decisions by him.

Insurance: Insurance is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, form one entity

to another in exchange for a premium Basically, the Insurance companies can be classified into two categories i.e. Life Insurance & Non-Life.

Mutual Funds: A mutual fund is a professionally managed firm of collective investment that collects money from many investors and puts it in stocks, bonds, short-term money market instruments, and /or other securities. The fund manager, also know as portfolio manager, invests and trades the fund's underlying securities, realizing capital gains or losses and passing any proceeds to the individual investors.

Real Estate: Real estate is basically defined as immovable property such as land and everything permanently attached to it like buildings. The investment in real estate essentially depends on the risks associated with it. It is attracting investors by offering a possibility of stable income yields, moderate capital appreciations, tax structuring benefits and higher security in comparison to other investment options.

Jewellery : Basic purchase of jewellery is not for pure investment but human desires. In the Hindu, Jain and Sikh community, where women do not inherit landed property, precious metal jewellery is a major component of the streedhan. At the most obvious level, it is a form of adornment satisfying men innate desire to beautiful himself. However, jewellery also serves as an identity marker, as security and as symbol of social contracts.

As we know the financial market is driven by the investors. From the mid 1950's the field of finance has been dominated by the traditional finance model developed primarily by the economics of the University of Chicago. The central assumptions of the traditional finance model are that people are rational. However psychologists challenged this assumption. They realized that investors can be irrational and make predictable errors about the return on investment on their investment. As we known are social creatures that unique values and that fund make decisions in accordance with their emotions and behavior. One should not expect to humans to make decision solely based on objective factors. It is at this point that behavioral finance brings a novel perspective to analyze those areas that traditional finance failed to explain or had difficulty in explaining. Behavioral finance argues that behaviors and mood states of humans are determinant factors in shaping their investment preference.

Human beings take action due to complex influence of both internal and external stimulants (drive) and display certain action (reaction). In psychology this interaction is called behavior. Behavioral finance approach investigates the influence of emotions on investment decisions. These are huge psychology literature documenting that people make systematic errors in the way they think. They always making decision easier (heuristics), overconfidence, put too much weight on recent experience (representativeness), separate decisions that should be combined (mental accounting), wrong presenting the individual matter (framing), tend to be slow to pick up to changes (conservatism), and their preferences may also create distortion when they avoid realizing paper losses and seek to realize paper gains (disposition effect).

Rationale of Study:

The investor attitude has changed tremendously after the recession effect. These are several parameters that an investor will think before investing like return, flexibility etc. but the market will face a question mark in knowing the pulse of an investor's. So a study must be made on the behavior of the investors such that market can know the pulse of investor and can act upon it. A study of behavior analysis of investor's attitudes towards financial product helps the investors, financial companies as well as country. This study assumes a greater significance in the formulation of policies for the development and regulation of investment plans in general and protection & promotion of small and household investors in particulars.

A study of behavior analysis of investor's attitude is an attempt to know the profile of the investor and also the characteristics of the investors So as to know their preference with respect to their investment. This study can facilitate the financial product designer to design product which can cater to the investors who are low risk tolerant. In today's fast changing and highly competitive world, it is quite difficult to earn an impressive rate of return on investment. This study will also help investor to earn better profits from the investment option in this current market situation. If a financing firm understanding the logic behind the survey on investor attitude it can easily frame up its strategies for a nearby future and can even encourage the investor to invest in such an investment which close to his mindset and ideology where it can cut the cost on promoting him to grab a product of the company which is away from his view. This study is much helpful to those financing firms which are into the operation of portfolio

management. If a portfolio that is being offered by the firm matches which the ideology of a customer then he easily agrees to invest in that in that portfolio without any hesitation. So, this study helps the companies to build such product to its investors which are in reach of his/her mindset and thinking.

Review of work already done on the subject:

Researches worldwide have shown that investment attitude mostly depends on demographic and psychographics factors. Leena B. dam (2010) indicates that in most cases investor across all categories found them to be safer with taking up insurance policies. Among the different variables taken in the study, investment in insurance has the benefit of life protection, tax advantage and making provision for the future. Syed Tabassum sultana (2010) found that the individual investor still prefers to invest in financial products which give risk free returns. This confirm that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors prefer to play safe. R. kasilingam et. All (2009) found that perception of investors has an impact on their risk bearing capacity and range of investment. It is also stated that perception is influenced by age, experience, and tax payment and it has an association with saving motives and behavior of individuals. Dr. Bhagaban das et. All (2008) observed that investors with the graduate and post graduate level of academic qualification are investing more in life insurance and the professionals are investing more in mutual fund.

Karthikeyan (2001) has conducted research on small investor's perception on post office saving schemes and found that there was significant difference among the four age groups, in the level of awareness for Kisan vikas patra (KVP), National saving schemes (NSS), and Deposit scheme for retired employees (DSRE), and the overall score confirmed that the level of awareness among investors in the old age groups was higher than in those of the young age group. No difference was observed between male and female investor except for the NSS and KVP. Out of the factors analyzes, necessity of life and tax benefits were the two major ones that influence the investors both in Semi urban and Urban areas.

Objectives of the Study:

(1) To study the investment preferences of individual investors through demographic factors.

(2) To study the factor influencing investors towards different investment plans.

(3) To study the sources of information influencing the investors and to examine the preferred mode of communication.

Data Analysis and Interpretation:

The data has been processed and analyzed by tabulated interpretation so that the findings can be communicated and easily understood. The Findings are presented in best possible way. The present study is based on primary sources of data. The data has been collected from 100 respondents which are from Udaipur city. The data has been analyzed using the percentage and chi-square test with the help of SPSS.

Profile of Respondents: The analysis of the profile indicate that the age group of 31-40 years constitutes the largest group amongst the respondents. It accounted for 38 percent of the sample size followed by 26 percent amongst the age group of 41-50 years. Based on qualification Graduate consists of 46 percent of sample size. Further classification on income

20001-30000 consist of 36 percent of sample size. Friends & Relatives is main source of awareness (38 percent). The main objective of investment is tax saving (40 percent).

According to table 1 shows that the age group b/w 21-30 years invested in share market. While b/w 31-40 years they invest in life insurance. B/w 41-50 years invested maximum in life insurance. Above 50 years people invested maximum in life insurance and real estate. Chi-square test shows that the association between age and preferred investment avenue is not significant.

Table 1: Age and Preferred Investment Avenue

Age	Life insurance	Share Market	Mutual Fund	Bank Savings	Real estate	Total
B/w 21-30 Years	5(22.7)	9(40.9)	6(27.27)	1(4.5)	1(4.5)	22
B/w 31-40 Years	12(31.5)	10(26.31)	2(5.26)	8(21.05)	6(15.7)	38
B/w 41-50 Years	9(34.61)	6(23.07)	1(3.84)	4(15.38)	6(23.07)	26
Above 50 Years	5(35.71)	1(7.14)	1(7.14)	3(21.4)	4(28.57)	14

Total	31	26	10	16	17	100
Chi-square	19.45					
DF	12					

Table 2 shows the qualification and preferred investment avenue .High school qualified person invest generally in life insurance & bank. Graduate person that the maximum invest in mutual fund. Post graduate and professional maximum invest in share market.. Chi-square test shows association between qualification and preferred investment avenue is extremely significant

Table 2: Qualification and Preferred Investment Avenue

Qualification	Life insurance	Share Market	Mutual Fund	Bank Savings	Real estate	Total
High School	2(50)	0(0)	0(0)	2(50)	0(0)	04
Graduate	10(21.7)	6(13.04)	12(26.08)	10(21.7)	8(17.39)	46
Post Graduate	2(13.33)	9(60)	1(6.67)	1(6.67)	2(13.33)	15
Professional	2(8.69)	11(47.82)	8(34.78)	0(0)	2(8.69)	23
Others	2(16.67)	1(8.33)	2(16.67)	6(50)	1(8.33)	12
Total	18	27	23	19	13	100
Chi square	39.63					
Df	16					

Table 3 shows that the respondents belonging to income below 20000 pm invest maximum in life insurance. Income belonging to 20000-30000 & 30000-40000 prefer to invest in life insurance & share market. Income above 40000 respondents prefers to invest in Real estate and share market. Chi-square test shows that the association between income & preferred investment avenue is not significant.

Table 3: Income and Preferred Investment Avenue

Income Group	Life insurance	Share Market	Mutual Fund	Bank	Real estate	Total
Below 20000 pm	11(50)	2(9.09)	2(9.09)	5(22.72)	2(9.09)	22
20001-30000	15(41.67)	10(27.77)	4(11.11)	2(5.55)	5(13.88)	36
30001-40000	12(37.5)	12(37.5)	1(3.12)	1(3.12)	6(18.75)	32
Above 40000	1(10)	3(30)	1(10)	1(10)	4(40)	10
Total	39	27	8	9	17	100
Chi square			20.2			
Df			12			

Table 4 shows that for investment in real estate & life insurance main source is friends & relatives. While for Share market & mutual fund main is advertisement and brokers.

Chi-square test shows that the association between source of awareness & preferred investment avenue is not significant.

Table 4: Source of Awareness and Preferred Investment Avenue

Source of awareness	Life insurance	Share Market	Mutual Fund	Bank	Real estate	Total
Friends& Relatives	10(26.31)	7(18.42)	5(13.15)	2(5.26)	14(36.84)	38

Advertisement	12(41.37)	8(27.58)	3(10.34)	2(6.89)	4(13.79)	29
Brokers	2(9.09)	8(36.36)	6(27.27)	0(0)	6(27.27)	22
Others	4(36.36)	1(9.09)	1(9.09)	2(18.18)	3(27.27)	11
Total	28	24	15	6	27	100
Chi square	18.36					
Df	12					

Table 5 shows that the main objective of investment is tax saving fulfill by life insurance and banks. To earn regular income respondents invest in share market. Investment for future respondents invests in life insurance, share market & banks. Chi-square test shows that the association between objective of investment & preferred investment avenue is significant.

Table 5: Objective Of Investment & Preferred Investment Avenue

Objective	Life insurance	Share Market	Mutual Fund	Bank	Real estate	Total
Tax saving	22(55)	0(0)	8(20)	10(25)	0(0)	40
Investment for Future	14(46.67)	5(16.67)	3(10)	5(16.67)	3(10)	30
Interest Earning	5(25)	10(50)	3(15)	2(10)	0(0)	20
Others	2(20)	1(10)	1(10)	5(50)	1(10)	10
Total	43	16	15	22	4	100
Chi square	38.01					
Df	12					

Conclusion:

It is concluded that investors are more aware about various investment avenues & the risk associated with that. . Investors are more conservative in nature and they prefer to invest in those avenues where risk is less like bank deposits, small savings, post office savings etc. This study shows that Life insurance is most preferred investment avenue among different variables. It gives benefit of life protection, tax advantage & making provision for future.

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