

A Study on People's Preferences in Investment Behaviour

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ABSTRACT

There are a lot of investment choices and one must select the most appropriate one. The person dealing with the planning must know all the various investment choices and how these can be chosen for the purpose of attaining the overall objectives. The details of making the investment along with the various ways in which the investment has to be maintained and managed. This study examined on people's choice in investment avenues of Kurumbalur. Data were collected using structured questionnaires. The sample size of area is analyzed by tools selected for this study was two hundred and ten respondents were randomly selected from the town. Data were analyzed using descriptive statistics and chi-square technique.

Key words: *Dimension of investment choices, Behavior of people in investment choices.*

1. PROLOGUE

The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the -vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make a leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment was considered the crucial determinant and capital formation had to be supported by appropriate volume of saving.

1.1 INVESTMENT OPTION AVAILABLE:

There are a large number of investment instruments available today. To make our lives easier we would classify or group them. In India, numbers of investment avenues are available for the investors. Some of them are marketable and liquid while others are non marketable and some of them also highly risky while others are almost risk less. The people has to choose Proper Avenue among them, depending upon his specific need, risk preference, and return expected Investment avenues can broadly categories under the following heads.

1. Equity
2. FI Bonds
3. Corporate Debenture
4. Company Fixed
5. Bank Fixed
6. PPF
7. Life Insurance
8. Post Office-NSC
9. Gold/Sliver
10. Real Estate
11. Mutual Fund
12. Others

1.2 EQUITY

Equity is one of the most risky areas. But, at the same time this is also a place where an investor can earn high rates of returns that will push up the returns of the entire portfolio. There is a need for the investor to separate the speculation from the investment. The former is a process where the money is invested without thinking much about how and why the money is being put there. On the other hand, investment calls for a long term approach that will absorb the funds for a longer period of time. Investment in equities can be made directly by the purchase of shares from the market or it can be done through the mutual fund route, whereby the investor buys the mutual fund units and the fund in turn buys equity shares for its portfolio. There are various benefits as well as risks associated with both these routes and it is up to the individual to make up his mind.

1.3 DEBT

Debt is a route that most people will know and have the necessary experience of. There is a wide range of debt instruments that are present from bank fixed deposits to company fixed deposits and even bonds and debentures whose issues come in the market. Debt is simple as the investor will earn at a fixed percentage of the investment, which will then be returned to the investor at the time of maturity or redemption of the investment. The good part for the investor is that the risk in the investment is very less. But on the other hand, the returns are limited to the interest as a percentage of the total amount. This is a trade off that the investor takes for the purpose of the investment.

1.4 MUTUAL FUNDS

This is an emerging area for investment and there is a large variety of schemes in the market to suit the requirements of a large number of people. The features of these schemes will determine the kind of risk that the investment carried but overall the position remains the same which is that for equity oriented funds the risk is greater but at the same time the chances of a return are

also quite high. If there is a debt scheme in which the investor is putting the money, then the requirement is such that the returns expectations will have to be lowered because this is a low-risk, low return investment. At the same time, here is the expectation that quite a few new types of funds will be launched in the coming months in the Indian markets and this will provide another element or sector wherein the investor can invest their funds. The term's meaning depends very much on the context. In finance, in general, you can think of equity as ownership in any asset after all debts associated with that asset are paid off. For example, a car or house with no outstanding debt is considered the owner's equity because he or she can readily sell the item for cash. Stocks are equity because they represent ownership in a company.

1.5 FI BONDS

The fixed income assets include internally managed investment grade securities and externally managed high yield securities.

1.6 CORPORATE DEBENTURE

Corporate debentures are normally backed by the reputation and general creditworthiness of the issuing company. Corporations occasionally issue this type of debt securities in order to raise capital and like bonds; the debentures too, are documented as indentures. It is a type of debt instrument that is not covered by the security of physical assets or collateral. Debentures are a method of raising credit for the company and although the money thus raised is considered a part of the company's capital structure, it is not part of the share capital.

1.7 COMPANY FIXED DEPOSIT

Company fixed deposit is the deposit placed by investors with companies for a fixed term carrying a prescribed rate of interest. Used as a measure to build up capital for the company, these deposits offer high rates (as compared to bank FDs) of interest on investments. Company FDs are primarily meant for conservative investors who don't wish to take the risk of vagaries of the stock market. But experts say the due diligence that an investor should undertake is similar to that before buying shares. Getting lured by the high interest rate alone is not advisable.

1.8 FIXED DEPOSITS IN BANK

Fixed Deposits with Banks are also referred to as term deposits. Minimum investment period for bank FDs is 30 days. Fixed Deposits in banks are for those investors, who have low risk appetite. Bank FDs is likely to be lower than money market fund returns. Deposits in banks are very safe because of the regulations of RBI and the guarantee provided by the deposit insurance corporation. The interest rate on fixed deposits varies with term of the deposits Bank deposits enjoy exceptionally high liquidity. Loans can raised against bank deposits.

1.9 POST OFFICE SAVINGS:

Post Office Monthly Income Scheme is a low risk saving instrument, which can be availed through any Post Office. It provides an interest rate of 8% per annum, which is paid monthly. Minimum amount, which can be invested, is Rs. 1,000/- and additional investment in multiples of Rs. 1,000/-. Maximum amount is Rs. 3,00,000/- (if Single) or Rs. 6,00,000/-(if held jointly) during a year. It has a maturity period of 6 years. A bonus of 10% is paid at the time of maturity. Premature withdrawal is permitted if deposit is more than one year old. A deduction of 5% is levied from the principal amount if withdrawn prematurely. The 10% bonus is also denied. Deposits can be made in multiple of Rs.50. Deposits can be pledged. The interest rate on deposits is slightly higher than banks. The interest is calculated half yearly and paid yearly

1.10 LIFE INSURANCE POLICIES

Insurance companies offer many investment schemes to investors. These schemes promote saving and additionally provide insurance cover. LIC is the largest life insurance company in India. Some of its schemes include life policies,

- Convertible whole life assurance policy,
- Endowment assurance policy,
- Jeevan Saathi,
- Money back policy
- Unit linked plan
- Term assurance
- Immediate annuity
- Deferred annuity
- Riders etc.

Insurance policies, while catering to the risk compensation to be faced in the future by investor, also have the advantage of earning a reasonable interest on their investment insurance premiums.

1.11 PUBLIC PROVIDENT FUND (PPF):

A long term savings instrument with a maturity of 15 years but no of contributions annually has to be 16 and interest payable at 8% per annum compounded annually. The subscriber to a PPF has to make minimum of deposits of Rs.100 Annually. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. Tax benefits can be availed for the amount invested and interest accrued is tax-free. A withdrawal is permissible every year from the seventh financial year of the date of opening of the account and the amount of withdrawal will be limited to 50% of the balance at credit at the end

of the 4th year immediately preceding the year in which the amount is withdrawn or at the end of the preceding year whichever is lower the amount of loan if any.

The subscriber to the PPF is eligible to take loan from the third year sixth year after opening of account and interest for that loan is 1 % higher than PPF ACC interest rate.

1.12 REAL ESTATE

Investment in real estate also made when the expected returns are very attractive. Buying property is an equally strenuous investment decisions. Real estate investment is often linked with the future development plans of the location. At present investment in real assets is booming there are various investment source are available for investment which are directly or indirectly investing real estate. In addition to this, the more affluent investors are likely to be interested in other type of real estate, like commercial property, agricultural land, semi urban land, and resorts.

1.13 GOLD/SILVER /OTHERS

The bullion offers investment opportunity in the form of gold, silver, art objects (paintings ,antiques), precious stones and other metals (precious objects), specific categories of metals are traded in the metal exchange. The bullion market presents an opportunity for an investor by offering returns and the end value of future. It has been absurd that on several occasions, when stock market failed, the gold market provided a return on investments.

OBJECTIVE OF THE STUDY:

- To study the factor that influence investment behavior of the people.
- To study the attitude of the respondents towards different investment choices.

HYPOTHESIS

- There is no significant relation between investment avenues and gender and age groups.
- There is no significant relation between investment avenues and educational and occupational.
- There is no significant relation between investment avenues and income level and saving level.

2. REVIEW LITERATURE

Behavioral finance is a new emerging science that studies the irrational behavior of the people. Avinash Kumar Singh (2006) The study entitled "Investment Pattern of People" has been undertaken with the objective, to analyze the investment pattern of people in Bangalore city and Bhubaneswar analysis of the study was undertaken with the help of survey conducted .After

analysis and interpretation of data it is concluded that in Bangalore investors are more aware about various investment avenues & the risk associated with that. All the age groups give more important to invest in equity & except people those who are above 50 give important to insurance, fixed deposits and tax saving benefits. Generally those investors who are invested in equity, are personally follow the stock market frequently i.e. in daily basis. But those who are invested in mutual funds are watch stock market weekly or fortnightly. In Bangalore, investors are more aware about various investment avenues and the risk associated with that. But in Bhubaneswar, 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.

Sudalaimuthu and senthil kumar (2008) Mutual fund is the one of investment avenues the researcher research in this area about investors perception towards mutual fund investments has been analyzed effectively taking into account the investors reference towards the mutual fund sector, scheme type, purchase of mutual fund units, level of risks undertaken by investors, source of information about the market value of the units, investors opinion on factors influenced to invest in mutual funds, the investors satisfaction level towards various motivating factors, source of awareness of mutual fund schemes, types of plan held by the investors, awareness of risk category by investors, problems faced by mutual fund investors. Running a successful mutual fund requires complete understanding of the peculiarities of the Indian Stock Market and also the awareness of the small investor. The study has made an attempt to understand the financial behavior of mutual fund investors in connection with the scheme preference and selection. An important element in the success of a marketing strategy is the ability to fulfill investor expectation. The result of these studies through satisfactory on the investor's perception about the mutual funds and the factors determining their investment decisions and preferences. The study will be useful to the mutual fund industry to understand the investor's perception towards mutual funds investments and the study would also be informative to the investors.

Sunil Gupta (2008) the investment pattern among different groups in Shimla had revealed a clear as well as a complex picture. The complex picture means that the people are not aware about the different investment avenues and they did not respond positively, probably it was difficult for them to understand the different avenues. The study showed that the more investors in the city prefer to deposit their surplus in banks, post offices, fixed deposits, saving accounts and different UTI schemes, etc. The attitude of the investors towards the securities in general was bleak, though service and professional class is going in for investment in shares, debentures and in different mutual fund schemes. As far as the investments are concerned, people put their surplus in banks, past offices and other government agencies. Most of the horticulturists in Shimla city who belong to Apple belt though being rich have a tendency of investing then surpluses in fixed deposits of banks, provident funds, Post Office savings, real estates, etc. for want of safety and suitability of returns.

Manish Mittal and Vyas (2008) Investors have certain cognitive and emotional weaknesses which come in the way of their investment decisions. Over the past few years, behavioral finance researchers have scientifically shown that investors do not always act rationally. They have behavioral biases that lead to systematic errors in the way they process information for investment decision. Many researchers have tried to classify the investors on the basis of their relative risk taking capacity and the type of investment they make. Empirical evidence also suggests that factors such as age, income, education and marital status affect an individual's investment decision. This paper classifies Indian investors into different personality types and explores the relationship between various demographic factors and the investment personality exhibited by the investors.

3. METHODOLOGY

This part explain the methodology used in this study. The methodology includes data and sources of data, sample size, area of the study and framework of analysis. The study is based on primary and secondary data. Primary data have been collected from 210 respondents through a structure questionnaire covering different groups of peoples among Kurumbalur Town. The secondary have been collected from various books, magazine, journals, news papers and websites. The samples sizes of 210 respondents were taken for the research work among in Kurumbalur Town. The sampling technique followed in this study is probability sampling. Simple random techniques are used to select the respondent from the available database.

In order to analyse the collected data, the following tools were used. Simple percentage analysis: it states the frequency and percentage of the customers profile, attitude and opinion regarding peoples.

4. ANALYSIS OF INVESTMENT PATTERN

In this analysis male and female respondents are giving most preference to insurance, NSC, PPF and bank deposit etc. Among the table we can conclude that, all the age groups are give more preference on investing in insurance, Post Office Savings (NSC), Public Provident Fund (PPF) and Bank Deposit (BD) except those who are more than fifty years. And the second more preferable investment avenue is gold, others like SHG, equity, mutual funds and real estates. But the age group which is more than fifty one to sixty years gives more preference to invest in Life Insurance (LI). In this survey 51.9 percent people respond the question is below 30 and second responds people is above 31. Above 51-60 age group are covered only 8.1 percent for that reasons we cannot able to analysis the senior citizen behavior in investment. There is not significant relation between investment avenues and gender and age groups. Here null hypothesis rejected and alternative hypothesis accepted.

A critical analysis reveals that maximum earners are lying in occupational followed by Private Sector Employee, Public Sector Employee, Self- Employed and Professional belonging, not

employed is out of taken sample for study. Another interesting feature was that out of the total respondent 55.7 percent of private- employed performance well in the investment avenues and 29.5 percent of self-employee and 16.2 percent of public sector employee lastly performance in the invest who adopted professional. By judging the critical difference and comparing educational and qualification with each other, we find insignificant variation among the respondent from education level. Graduate level of the respondent more attention on invests at the level 29.5 percent, second preference given by the professional at the level of 27.1 and post graduate at percentage of 24.1 and 18.6 percentage followed by others. Preference to the investment compare to the educational and occupational level there is not significant relation between investment avenues. Here null hypothesis rejected and alternative hypothesis accepted.

Comparing to higher income levels respondents and lower income levels respondents, lower income levels respondents given more preference to invest in insurance, bank deposits, PPF, NSC and some others invest in other investment avenues. Lower income levels respondents have more awarded about investment avenues compare to high income level respondents. It implies that the lower income level groups are preferred to take more safety in investment rather than higher income level. And those who are taken more risk in investment are preferred to invest in insurance rather than any investment avenues. The saving behavior of the respondent on invest 48.1 percent of respondents saving level is less than 20,000 even though they try to invest their money in the investment avenues and high level saving of the respondent ideas and themes also nearly to same performance. There is not significant relation between investment avenues and income level and saving level.

There is various factors influence to take investment decision making, Most of the respondents invest depends upon safety propose of their invest 59.5 per cent of respondent investment decision is depend on return and protection of investment, 22.7 percent and 19.3 percent of respondent second important factor is liquidity and risk performance and 16.7 per cent of respondents' investment is based on safety involved. Choice of factor is changing from respondent to respondent. There is not significant relation between investment avenues and Annual income and Annual savings. Here null hypothesis rejected and alternative hypothesis accepted.

5. EPILOGUE:

The study on people's choice in Investment Choices has been undertaken with the objective, to analyze the investment choice of people in Kurumbalur. Analysis of the study was undertaken with the help of survey conducted. After analysis and interpretation of data it is concluded that in Kurumbalur respondents are medium aware about various investment choices but they do not know aware about stock market, equity, bond and debentures. The study is conducted by taking a limited number of sample sizes which is stated earlier. And this study reflects the perceptions of those respondents who are residing in Kurumbalur. There might be a chance that the

perceptions of the respondents of different are varied due to diversity in social life, living pattern, income level etc. All the age groups give more important to invest in Insurance, NSC, PPF and bank deposit. Income level of a respondent is an impotent factor which affects portfolio of the respondent. Middle age group, Lower income level groups respondents are preferred to invest in Insurance, NSC, PPF and bank deposit rather than any other investment avenues. In Kurumbalur respondents are more aware about various investment avenues like Insurance, PPF, bank deposits, small savings like post office savings etc. For that awareness program has to be conducted by Stock Brokering firms because most of the respondents unaware about this new service and about stock market.

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Table -1 Respondents Profile

DEMOGRAPHIC FACTOR	VARIABLE	INVESTMENT CHOICES										No. of Respondents
		EQUITY	DEBENTURES	CF	BD	PPF	LI	POS	G/S	RE	MF	
Gender	Male	7	4	5	15	4	62	13	6	11	12	139 (66.2)
	Female	1	4	1	15	1	23	7	1	5	13	71 (33.8)
Age	Less than 30	4	5	4	18	3	44	11	3	9	8	109 (51.9)
	31-40	2	1	2	9	-	21	5	1	3	13	57 (27.1)
	41-50	1	2	-	2	-	15	2	1	3	1	27 (12.1)
	51-60	1	-	-	1	2	5	2	2	1	3	17 (8.1)
Educational level	PUC Graduation	1	2	2	11	3	26	6	3	3	5	62 (29.5)
	Post Graduation	4	1	-	10	-	24	1	2	6	4	52 (24.1)
	Professional	2	3	4	7	-	19	7	2	3	10	57 (27.1)
	Others	1	2	-	2	2	16	6	-	4	6	39 (18.6)
Occupational	Private Sector	5	1	3	13	3	42	9	2	4	14	96 (55.7)
	Public sector	1	4	1	5	2	11	-	3	3	4	34 (16.2)
	Self Employed	1	3	1	8	-	28	7	2	7	5	62 (29.5)
	CA/Lawyer/Docotr/Others	1	-	1	4	-	4	4	-	2	2	18 (8.6)
Annual Saving	Less than 20000	3	6	5	16	3	33	9	3	9	14	101 (48.1)
	20001-30000	2	1	-	4	1	17	5	1	2	1	34 (16.2)
	30001-40000	3	-	-	4	1	17	1	1	3	3	33 (15.7)
	Above 40001	-	1	1	6	-	18	5	2	2	7	42 (19)
Annual Income	Less than 2 lakhs	6	6	3	20	3	58	15	5	11	16	143 (68.1)
	2-3 lakhs	-	1	3	5	2	13	1	-	3	4	32 (15.2)
	3-4 lakhs	2	1	-	2	-	9	3	1	1	3	22 (10.5)
	4-5 lakhs	-	-	-	3	-	5	1	1	1	2	13 (6.2)
Factors		No. of respondents	Percent									
	Risk	25	11.9									
	Return Protection	31	14.8									
	Liquidity	24	11.4									
	Safety	125	59.5									
	Other Factors	5	2.4									
Total	210	100.0										