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# FACTORS AFFECTING THE INVESTORS' CHOICE FOR INVESTMENT DECISION MAKING- A STUDY

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## ABSTRACT

*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 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.*

## I. INTRODUCTION

Income of a person is mainly divided in to two parts – consumptions and savings. Savings are further divided in two parts – savings in liquid form with the person and investment. Saving is income not spent, or deferred consumption. Methods of saving include putting money aside in, for example, a deposit account, a pension account, an investment fund, or as cash . In brief Savings are personal earnings that are not spent. Investments are savings that people put to work to earn additional money . Simply saying investment is the deployment of funds with the aim of achieving additional income or growth in value . In the present era there are a large number of investment options available with an investor these investment options are also known as investment avenues or financial products. Financial products mean the variety of plans designed by the banks and other financial institutions to attract an investor to invest his or her money. The above may be understood with the help of the following diagram:

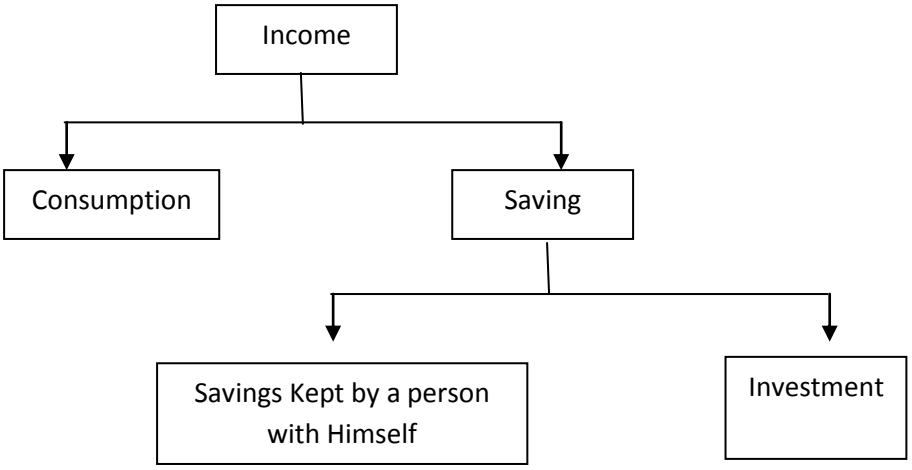


**Figure 1 Flow of Money from Income to Investment**

## II. FINANCIAL PRODUCES AVAILABLE FOR INVESTMENT

In India there are a large number of investment avenues available. These investment avenues may be classified on the basis of long term and short term (high liquidity and low liquidity) and risky and risk free. In present study the following investment avenues will be taken into consideration.

### 2.1 Risk free investment options

- Saving Bank Account
- Public Provident Fund
- Fixed Deposits
- Guaranteed income insurance plans
- Post office monthly income account schemes (single)
- National Saving Certificate
- National Pension Scheme
- Bonds and Debentures

### 2.2 Investment options without Diversified Risk

- Traditional Life Insurance Policies (non-guaranteed)
- Mutual Funds with and without Systematic Investment
- Unit Linked Insurance Plans
- Gold ETF (Exchange traded funds

### 2.3 Investment options with Diversified Risk

- Direct Investment in Stock market
- Direct Investment in Real Estate
- Gold and other Precious Metals

## III. FACTORS AFFECTING THE CHOICE OF A FINANCIAL PRODUCT

Following are the factors that affect a person's decision for choosing particular financial products mentioned above. Overall these factors may be divided into 5 types

1. **Financial literacy of a person** – such a person may choose risk free products and traditional financial products
2. **Total Money to be invested** – A person with less money will mainly go for SIP mutual funds, saving bank account or fixed deposits and a person with more money in hand may invest in the stock market
3. **Demographic Profile of a person** – Generally a young person invests in risky products and an elder age person will go for risk free investments
4. **Risk taking ability** – A venturesome person will invest in Risky ventures rather a non-venturesome would invest risk free ventures.

**5. Investment Objectives:**

a) **Security of funds –**The investment need may be security of funds. Such person will go for saving account or fixed deposits

b) **Liquidity of funds –** Saving account, Fixed deposits and Mutual funds

c) **Expected returns –** If the expected returns of a person are high, he will invest in the stock market, real estate or gold. However, a person with expectations of low returns will invest in the risk free securities.

d) **Tax Saving –** Saving income tax is one of the prime objectives that people go for investment.

## IV. REVIEW LITERATURE

Stern P. Walter (1969) in his study "The Investment scene – An overview" identified the two broad styles of investing that are emerging; firstly the aggressive investor, who feels that he can identify changes before they invest and capitalize on it. He is identifiable, he is young, he is able, he is arrogant, and he deals in concepts, not in price earnings ratio. He is ―opportunity oriented‖ and he checks out every idea you present to him before he acts. He wants freedom to act quickly, secondly the ―Serious long term investor‖, basically interested in earnings trend, concepts relating to area of long term growth and fundamental work. He is fewer concepts oriented and is more profit earnings ratio oriented.

Stovic Paul (1972) in his study entitled "Psychological Study of Human Judgement: Implications for Investment Decision Making" examined the use of psychological approach in the field of financial decision making. According to him many decisions were made not by individuals but by groups. The ultimate finding was that decisions made by groups were riskier than the average of the individual member's decision.

Fama (1972) in the study titled "Components of Investment Performance" analysed the Investment and introduced two terms ―Selecting‖ and ―Timing‖ which were more important compared to risk and return. Further, he suggest methods for measuring the efforts of foregone diversification when an investment manager decides to concentrate his holdings in which he thinks that there are only a few winners. Eventually he was successful in presenting a multi period model that allowed evaluation both on period by period and on a cumulative basis.

Lewellen Wilbur.G et.al. (1977) in their study "Pattern of Investment Strategy and Behaviours among Individual Investors" ascertained the portfolio decision process of individual equity investors. Data was collected from 972 individual investors residing in the U.S. The result shows that age has a strong influence on the portfolio goals of the Investors. Older Investors have interest in long term capital gains and young investors have a desire for short-term capital gains. Age and risk taking propensities were found to be inversely related. The study concluded that the women investors were found to be broker reliant unlike men.

James R.F. Gay (1978) in his article "The performance of the British Investment Trust Industry" evaluated the risk adjusted performance of the UK Investment Trusts through the applications of the Sharpe and Jensen measure. The study concluded that no trust had exhibited superior performance compared to the London Stock Exchange Index.

Dr. Ajay and Dr. Singh (1979) in their article captioned, "A Study of certain aspects of Household Savings Behaviour in New Delhi" studied the reasons for savings, attitude towards savings and extent of risk taken by respondents in Delhi. The authors have said that, while investing, savings behaviour, risk tolerance, savings

ratio and satisfaction with the level of savings and the change in reasons to save, the needs of household varies as the household heads progress in age and occupational status. The author found that the satisfaction level of savings is higher for household heads belonging to Delhi or those who have stayed for more than 41 years in Delhi. The study concluded that the persons who are residing in their own houses, have higher income, higher savings, more than two earners and no dependent girl are found to be more satisfied with their savings.

Arnold and Moizer (1984) in their article titled "A Survey of the Methods used by the U.K. Investment Analyses to Appraise the Investment in the Ordinary Shares" says the respondents in this study were the investment analysts and not the investors. The study opined that investment analysts are both investors in their own right and also advisers to other institutional and individual investors. Arnold and Moizer found that the principal share appraisal technique used by investment analysis was fundamental analysis. Although some of the principles of technical analysis like price earning ratio and dividend yield were used for appraisal, none of them mentioned that they used technical analysis. The study has provided that the most influential sources of information according to investment analysis perception were found to be the company‘s annual profit and loss account, balance sheet and its interim results.

Thirumavalavan.P (1987) in his research study titled "A Study on the New Issue Market in India and its Investors Behaviour in Madurai City" found that investors preferred more of equity shares than other securities.

SEBI along with National Council of Applied Economic Research (NCAER) (2000) conducted a comprehensive survey of the Indian Investor Households entitled "Survey of Indian Investors" in order to study the impact of the growth of the securities market on the household and to analyse the quality of its growth, 25,000 investors were drawn from all over India and the data were collected by administering a questionnaire and through personal interviews. The survey was conducted with the major objective of drawing a profile of the household and investor and to describe the demographic, economic and financial and equity ownership characteristics. The study also was conducted to understand the investor‘s preference for equity as well as other savings instruments, their perception about market risk, their exceptions, nature of their grievances and difficulties to estimate the number of households which had refrained from investing in equity market and the reasons for their reluctance. The survey revealed that age, educational qualification, occupation and income were found to influence the attitude of an investor towards investments.

Ranjith. V.K (2002) in his article entitled "Risk Preference of Investors in the City of Ahmadabad" revealed that the increase in age leads to the increase in tendency to invest and to take risk declines. Working class People are actively involved in share business. The respondents who are graduates actively participate in investment activities. Therefore, the study reveals that the investors‘ awareness about the investment decisions is limited to financial performance of the company.

Dhananjoy Rakshit (2003) in his article "Investors Awareness in Stock Market" found that the awareness among the small investors about the stock market is not upto the mark. The small investors should be properly taught to create investors confidence as well as for strengthening market integrity in the country. It has also found that small investors refer the price earnings ratio, beta value of the share through the data bank published in some Investment magazines before making their investment decisions.

Society for Capital Market Research and Development (2004) conducted a survey entitled "Indian Household Investors survey- 2004" to identify the investor‘s preference, problems and policy issues. The study was based

on direct interviewing of a large sample of 5908 household heads over 90 cities and across 24 States. The study states that price volatility, price manipulation and corporate mismanagement/fraud have been the household investor's top three worries in India. A large percentage of investors had a negative opinion on company management. A majority of retail investors in India do not regard mutual fund equity schemes as a superior investment alternative to direct holding of equity shares. Retail investors prefer bank deposits rather than liquid/money market funds.

V.K.Thomas (2005) in his article "Tax Saving Avenues to the Salaried Class" suggested that an optimum plan of saving schemes will bring maximum return and lesser tax burden to the tax payers. In the new scenario, the savings in the form of contribution of PF/ Pension Fund will take a portion, tuition fee paid for children also take a portion.

Dr.V.L.Shobhana and J. Jayalakshmi (2006) in their study titled "Investors Awareness and Preferences – A Study" have examined the level of investor awareness regarding investment options and investment risks. The analysis revealed that the investment in real estate is preferred by a majority of the respondents. The second most preferred investment is bank deposits. Awareness about investment options and risks are high among aged, highly educated and those who are professionals by occupation. Demographic variables such as age and education do not have significant influence over investors' awareness whereas difference in occupational status leads to difference in the awareness level of Investors. Thus, it has been found that the majority of the investors invest in Real Estate.

L.Krishnaveni (2007) in her study titled "Savings Behaviour in India" she has suggested a different form of financial savings for individuals. A systematic Investment Plan (SIP) is gaining popularity among the salaried people. They may deposit their savings either in the form of short-term or long-term deposits. The retired employees and the senior citizens may invest in public sector banks as they have been offering an additional rate of interest as an incentive to senior citizens. The financial savings have more liquidity than the physical saving.

R.Kasilingam and G.Jayabal (2008) in their article titled "Segmentation of Investors based on Saving Motives" analysed that around 95 per cent of Indians agree with the existence of motives to save money and 75 per cent of the people have high level of motivation towards savings. Another important finding of the study is that the level of motives has a significant influence on size of savings. India has high savings rate because Indians have high level of motives to save. The present high level of savings rate will continue as long as Indians have high level of motives. Hence, the savings in India mainly depends on the ability to save. Understanding the requirements and characteristics of various segments, the marketers of investment products can tailor different instruments exclusively to fit their needs. This will help them to tide over the competition effectively and efficiently which might arise out of globalisation.

Dr.G. Jeyabal and G. Prabakaran (2009) in their article titled "Investors Risk Tolerance Towards Mutual Fund Investments" stated that the mutual fund investors are from low and moderate risk tolerant groups and the socio economic variables alter the risk tolerance of individual investors. The mutual fund organisations must consider these socio-economic variables of the investors that have an important influence on investment decision making. In addition to that, mutual fund organisation must concentrate on creating awareness among retail investors, controlling the operational costs, penetrating in the rural areas, curbing the unethical practices, spreading the

mutual fund culture, maintaining transparency and flexibility, introducing innovating products, creating a good rapport with the investors which will enable the mutual fund investors to have a high level of risk tolerance.

Gaurav Kabra et.al (2010) carry out a study " Factors Influencing Investment Decision of Generations in India: An Econometric Study" the present study aims to gain knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision making process among men and women and among different age groups. It is to find out Factors which affects individual investment decision, Difference in perception of Investors in the decision of investing on the basis of Age and gender. The data were analyzed using standard techniques of factor analysis, Regression analysis and other basic techniques. The study concludes that investors' age and gender predominantly decides the risk taking capacity of investors.

P. Neelakantan et.al (2011) in their research study "Impact of Risk analysis in selection of investment avenues- A study on Debt Market Investors" suggested that investment in Debt Market instruments as become an imperative choice of the investors with the objectives of return optimization. Uncertainty of expected returns is a vital part of the investment option in debt market. Variations in the anticipated returns and actual returns lead to the possible consequences of the decision related to selection of debt market investment vehicle. Risks in debt market instruments are poised of the demands that bring variations in the return of income. Market price and interests play a significant role on the risk associated with the debt markets which are being influenced by the various internal and external considerations. Uncontrollable external risks have a greater impact of the volatility of returns on the investment vehicles and they are of systematic in nature.

Brahmabhatta et.al. (2012) in their article entitled "A study of investor behavior on investment avenues in Mumbai Fenil" stated that investor's perception will provide a way to accurately measure how the investors think about the products and services provided by the company. The main objective of the study is to find out the need of the current and future investors and to study on investor behavior. 100 investors were taken for the study. Most are making conservative decisions that reflect a survival mode in the business operation. During these difficult times, understanding what investors on an ongoing basis is critical for survival. Therefore, the study is identified that people like to invest in stock market as compared to any other markets, even if they face huge losses.

## V. RESEARCH METHODOLOGY

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. 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.

## VI. 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.

## VII. DATA ANALYSIS AND INTERPRETATION

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 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).

**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 1 shows 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 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 2 shows Post graduate and professional maximum invest in share market. Chi-square test shows association between qualification and preferred investment avenue is extremely significant. 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.

**Table 3**: 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 3 Chi-square test shows that the association between source of awareness & preferred investment avenue is not significant.

## VIII. 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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