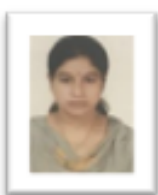


# Asian Resonance

## A Research on Investment Behaviour of Individual Investors

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### Abstract

Investment means utilizing money in various assets with the aim of getting more money in future. An individual has so many options available to invest his money which are of different kind and nature in terms of associated risks and returns. The objective of this research paper is to study the behaviour of individual investors towards available investment options and for this researcher has studied the different investment avenues available to the salaried individual investors of Prayagraj district as well as the factors that affect their investment decisions with the sample size of 50 individual investors using a structured questionnaire. The study identifies that the low risk options like bank fixed deposits and Public Provident Fund accounts are strongly preferred and there is a significant gender difference in investment awareness. The major suggestion is awareness should be given to people about some less known investment avenues to park their savings.

**Keywords:** Investment Avenues, Investment Behaviour, Risks, Returns.

### Introduction

Saving money is the best habit to adopt. Saving is important for an individual as it protects him in times of crisis. Savings help in avoiding debt, paying for large or heavy purchases, securing a better future and in leaving financial legacy. But for long term wealth creation to fulfill our desired goals, it is more important to channelize savings into assets that could give returns higher than the rate of inflation. Savings and investment both are extremely important from the point of view of economic growth too. Higher savings can help finance higher levels of investment and this boosts productivity.

Investing hard earned money in the right asset is a very crucial task for an individual. There are so many investment avenues available to an individual to invest. These investment avenues differ in associated risks and returns. Every individual holds a unique set of goals and a unique financial situation. While selecting an investment avenue from the available investment options, one has to match his own risk profile with the risk associated with that investment asset. Investment options are categorized under two categories namely (i) low risk options and (ii) high risk options.

### (A) Low Risk Investment Avenues

The best safe investments for money are:

#### 1. Saving Accounts

A Savings account is a bank account that pays interest. Technically not an investment saving account offers a modest rate of interest on invested money. It ensures high liquidity and it is immune to the fluctuations in the market. We should not forget that if the inflation rate is higher than the annual percentage yield of a savings account, invested money could lose its purchasing power. However, a savings account allows a person to have money available at any time.

#### 2. Post Office Saving Schemes

India Post provides several deposit avenues for investors. These deposit avenues are commonly known as post office saving schemes. These schemes provide investment avenues and inculcate saving discipline among individuals. These schemes are specially designed for salaried class and businessmen who are income tax asses. Presently the government provides 9 postal saving schemes for investment namely Public Provident Fund (PPF), National Saving Certificate (NSC), Post Office Monthly Income Scheme, Sukanya Samriddhi Yojana (SSY), Senior Citizen Saving Schemes, Post Office Saving Account, Post Office Recurring Deposit Account, Post Office Time Deposit Account and Kisan

Vikas Patra.

Post office saving schemes are considered risk free investment avenues as all post office schemes are government backed. Interest rates of these schemes range between 4% to 9% and thus give substantial returns to investors. Certificates of these schemes can be kept as collateral to get the loans from the banks and also there is no maximum limit for investment and no tax deduction at source.

### **Fixed Deposits**

A fixed deposit is an investment avenue provided by banks in which one can deposit a lump sum amount at predetermined interest rate. Rate of interest in fixed deposits is higher than savings accounts. Fixed deposits are locked in investments. Money cannot be withdrawn from the F.D. as compared to a saving deposit or recurring deposit. There is a penalty for early withdrawal but investors are often allowed to avail loans or overdraft facilities against their fixed deposits. F.D. is a traditional type of investment and is usually a part of every investor's portfolio. F.D. is free from market fluctuations so the risk factor is very low but the interest offered by banks on FD's changes as per the economic environment and is decided by the RBI's policy review decisions.

### **Public Provident Fund (PPF)**

One of the most popular investments to create wealth in the long term is PPF. Reasons for its popularity are low risk factor, tax benefit and moderate returns. PPF deposits are government backed which make it safer. The interest rate in PPF is revised on a quarterly basis by the Government but the returns are assured as PPF investments are not market linked. The additional tax benefits up to the investment of 1.5 lakh in PPF make it more lucrative than other investment avenues. PPF is most popular among those investors who wish to earn risk free stable returns. PPF comes with a 15 years lock in period and at the end of its maturity period of 15 years it gives entirely tax free lump sum to the investors. Maturity period can be extended within one year of maturity for further five years and so on. PPF account holder can avail loan facility against its account and it can partially withdraw after certain conditions are met. PPF accounts are offered by banks and post offices

### **Recurring Deposits (RDs)**

A recurring deposit is another kind of term deposit offered by banks and post offices that allows investors to deposit a fixed amount every month for a predefined time and earn a fixed rate of interest. Thus it is very similar to making fixed deposits of a certain amount on a monthly basis. RD offers capital protection and guaranteed returns. RD allows investors an opportunity to build up wealth through their regular monthly savings. Tax deducted at source (TDS) is applicable on RDs.

### **Real Estate**

Investment in real estate involves the purchase, ownership, management, rental and/or sale of real estate for property. Any building, land and other tangible property which is immovable but

its ownership is transferable is known as real estate. Real estate ownership is considered to be the secured form of investment. Real estate has been a part of investor's portfolio for thousands of years and in present days too, many investors found it attractive because it offers very high returns and has potential to hedge against unexpected inflation, but its lumpiness, heterogeneity and illiquidity prevent money investors to include it in their investment portfolio.

### **Gold/Silver**

Precious metals are considered to be a good portfolio diversifier and hedge against unexpected rate of inflation. Gold and Silver have been a part of investment portfolios for a long time. It has been seen that in times of instability in the stock market precious metals provide good returns.

### **High Risk Investment Avenues**

#### **Equity**

Investment in equity shares offers an opportunity to an investor to maximize returns provided he is ready to take the required amount of risk. Equity investment refers to the buying and holding of shares in the stock market in anticipation of income from dividends and capital gains. Equity shares are one of the main sources of finance to a firm. Equity shares are issued to the general public by the company to raise funds. Equity holders are the actual owners of the firm and they bear the highest risk as they are entitled to residual income of the company but they have the right to control the affairs of the business by their voting power. The ownership of equity share is transferable. Investors can invest in equities via two markets (i) primary market and (ii) secondary market. Equities are introduced to the public in the primary market. IPO is an example of a primary market. IPO provides an opportunity for investors to buy securities/equities from the bank that did the initial underwriting for a particular stock. The secondary market is commonly known as the "Stock Market". In the secondary market investors trade among themselves of previously issued securities, without the issuing company's involvement.

#### **Mutual Funds**

A mutual fund is made up of money pooled in by a large number of investors. This pool of money is managed by a professional fund manager who invests the fund in equities, bonds and in other instruments and for this fund manager is paid a fee which comes from the money in the fund. Mutual fund's investors may be retail investors as well as institutional investors. Mutual funds are traditionally classified by their principal investments as equity funds, bonds or fixed income funds, hybrid funds, small cap funds, large funds, mid cap funds, index funds etc. An investor of mutual funds is known as its unit holder. The smallest portion of ownership in a mutual fund is called its unit. The performance of any mutual fund is evaluated by its net asset value (NAV). Fund's NAV is calculated by dividing the total value of all the cash and securities in a fund's portfolio minus its liabilities by the number of shares outstanding. Thus NAV is the price of a mutual fund

unit. Usually a mutual fund's unit begins with a cost of Rs. 10 and it rises as the assets of the fund grow. All unit holders of a mutual fund scheme gains or losses on an equal proportion to the amount of money they have invested.

### Review of Literature

Gupta et.al. (2001) examined the perception and awareness of investors on various investment instruments. They found that the people are not aware about the various financial products and they did not respond positively. Most of the investors prefer bank deposits, savings accounts, PPF and Post Office Schemes.

Bhushan (2014) examined the awareness level and investment behaviour of salaried individual investors towards investment avenues and found that most of the investors were aware about various investment alternatives but they preferred conservative and safe investment avenues. Srivastava P.K. (2014) found that older and retired people were more inclined to invest in bonds than younger people. Elan Kumaran and Ananth (2013) examined the factors influencing the behaviour of investors and found that low risk, informational asymmetry, high return and objective knowledge were the major factors that have influence on investment decisions. Bashir Ahmed, Jahangir Zaigam, Saeed and Shafi (2013) analysed the relationship between demographic variables and investment preferences and found that female investors are more risk averse than male investors. Krishnanan V.S. (2015) studied that most of the salaried individuals were aware of investment in equities and mutual funds but they were not investing in them considering them more unsafe.

Jain A. (2017) identified that mostly investors choose fixed deposits as it is a most safe instrument.

Chandran Swathy V (2019). Found that low risk avenues were selected by most of the investors and the returns were low as such.

### Objectives of the Study

1. To study the behaviour of individual investors towards various investment instruments.
2. To analyse the choice of investors for their investment.
3. To analyse the impact of gender on investment preferences.
4. To analyse the impact of income in investment preferences.

### Hypothesis

#### Hypothesis 1

H<sub>0</sub> - Awareness for investment avenues is independent of gender

H<sub>1</sub> : Awareness for investment avenues is not independent of gender

#### Hypothesis 2

H<sub>0</sub> - Awareness for investment avenues is independent of level of income.

H<sub>1</sub> - Awareness for investment avenues is not independent of level of Income.

### Research Methodology

The Study deals with psychology and behavior of investors. The study is based on the

primary data collected from individual investors of Prayagraj. Total 200 questionnaires were distributed and 82 were received back from the respondents out of which 32 questionnaires were found incomplete. Finally 50 questionnaires were used and analysed for the study. The questionnaire was designed keeping in mind the objective of the present research and was pre-tested by means of a pilot study. The data is analysed by using tables, percentage, chi square test technique and diagram.

### Limitations of Study

1. The Study is location specific as data has been collected from the persons belonging to a specific location.
2. Some respondents were not willing to express their opinion; they may have expressed a common view on investment behavior.

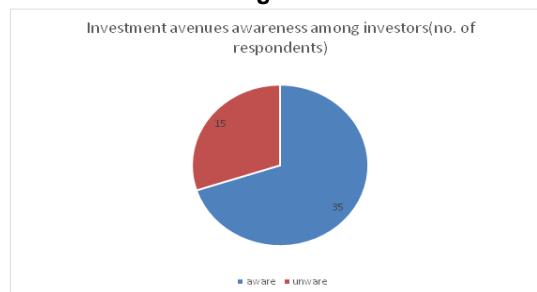
### Data Analysis and Interpretation

To find out how much knowledge respondents have about the available investment options a survey was conducted and the result has been presented in the table given below:

**Table-1 Awareness About the Investment Avenues**

Sr. No.	Investment avenues awareness	No. of respondents	Percentage
1	Yes	35	70
2	No	15	30
	Total	50	100

**Figure 1**



Above table and pie chart shows that out of total no of respondents 70% are aware about investment instruments whereas 30% are unaware. Out of 50 respondents 35 were aware of investment options of stocks, bonds mutual funds etc. and 15 were unaware of them.

### Testing of Hypothesis 1

Gender difference and investment avenues awareness

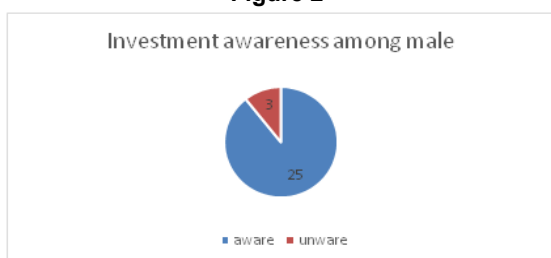
**Table 2: Gender difference in Investment Avenues Awareness**

	Aware	Unaware	Total
Male	25	3	28
Female	10	12	22
Total	35	15	50

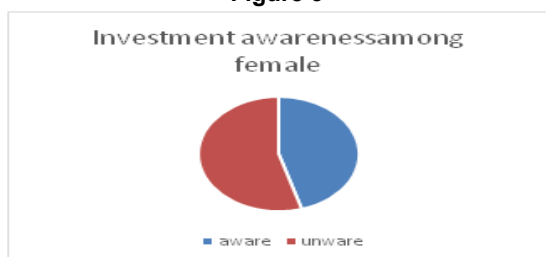
### Degree of freedom

$$\begin{aligned}
 v &= (r-1)(c-1) \\
 &= (2-1)(2-1) \\
 &= 1
 \end{aligned}$$

**Figure 2**



**Figure 3**



**Table 3: Calculation of Chi Square**

Observed frequency (O)	Expected Frequency (E)	O-E	(O-E) <sup>2</sup>	$\frac{(O-E)^2}{E}$
25	19.6	5.4	29.16	1.488
3	8.4	-5.4	29.16	3.471
10	15.4	-5.4	29.16	1.893
12	6.6	5.4	29.16	4.418
			Total	11.27

The table value of chi square of 1 degree at 5 percent significance level is 3.841 while the above calculated value is 11.27 which is more than the significant level which means our null hypothesis is rejected and alternate hypothesis is accepted.

### Income level and Investment Awareness

**Table 4: Income level and investment awareness (observed frequencies)**

Sr. No.	Income Level	Aware	Unaware	Total
1	upto 3 lakh	1	6	7
2	3 Lakh – 6 Lakh	10	5	15
3	6 Lakh-12 Lakh	17	3	20
4	12 lakh- and above	7	1	8
	Total	35	15	

#### Degree of freedom

$$v = (r-1)(c-1)$$

$$= (4-1)(2-1)$$

$$= 3.1$$

$$= 3$$

**Table 5: Calculation of Chi Square**

Observed Frequency (O)	Expected Frequency (E)	(O-E)	(O-E) <sup>2</sup>	$\frac{(O-E)^2}{E}$
1	4.9	-3.9	15.21	3.104
6	2.1	3.9	15.21	7.243
10	10.5	-0.5	0.25	0.024
5	4.5	0.5	0.25	0.056
17	14	03	09	0.643
3	6	-3	09	1.5
7	5.6	1.4	1.96	0.35
1	2.4	-1.4	1.96	0.817
			Total	13.737

The table value of chi square of 3 degree at 5% significance level is 7.815 and the above calculated value is 13.737 which is more than the significant level that means null hypothesis is rejected and alternate hypothesis is accepted. Hence it is observed that there is a significant relationship

between income level and awareness of the investors.

Investment preferences: The table given below shows the preference of respondents towards investment avenues.

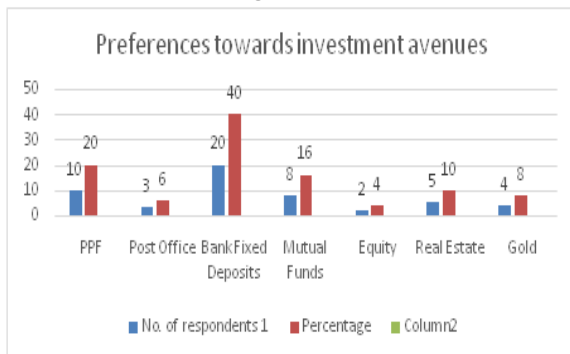
**Table 6 : Preference towards investment**

Sr. No.	Investment awareness	No. of respondents	Percentage
1	PPF	10	20
2	Post Office Schemes	03	06
3	Bank Fixed deposit	20	40
4	Equity	02	4
5	Mutual funds	08	16

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6	Real Estate	05	10
7	Gold/Silver	04	8
	Total	50	100

Figure:4



The table 6 and figure 4 shows that mostly people prefer bank fixed deposits. Out of 50 respondents 40% of the investors prefer to invest their money in bank fixed deposits, 20% of the investors invest their money in PPF, 16% of the investors invest their money in mutual funds, 10% of the respondent invest their money in real estate, 8.% of the investors invest their money in gold 6% of the respondents prefer post office saving scheme and equity is the least preferred avenue which was the first choice of only 4 percent respondents.

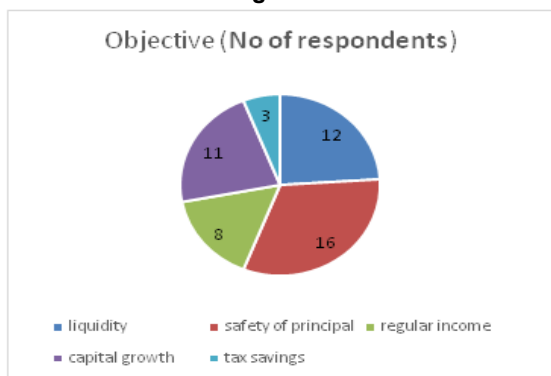
**Objectives of Investment**

According to the questionnaire the following table shows the main objective of investors.

Table 7 Objectives of Investments

Sr. No.	Objectives	No. of Respondents	Percentage
1	Liquidity	12	24
2	Safety of Principal	16	32
3	Regular Income	8	16
4	Capital Growth	11	22
5	Tax Savings	03	06
	Total	50	100

Figure 5



The table and figure given above shows that 16 out of 50 respondents' main objective while investing was safety of principal 12 respondents (24%) considered liquidity, 11 respondents (22%) were interested in growth of capital, 8 respondents (16%) shown their interest in regular income and only 3 respondents' (6%) main objective was to reduce tax burden.

**Conclusion**

From the sample size of 50, 70 percent of the respondents were aware of available investment avenues while others were unaware. From the chi-square test the researcher found that (i) there is a significant gender difference in awareness for investment avenues and (ii) there is significant relationship between income of investors and awareness for investment avenues. The most preferred investment avenue is bank fixed deposits as 40% of investors preferred to invest in them. This reflects conservatism among the investors. The least preferred option is equity investment. Safety of principal is the most important factor for the investor before taking any investment followed by liquidity.

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