A Study of Investment Preferences of Investors

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ABSTRACT

Financial Planning is very important for developing clear financial goals and chalking out the right investment portfolio to meet the financial needs and aspirations. Designing an effective investment portfolio require skills, knowledge and disciplined financial planning. This study explores association of demographic characteristics with the investment preferences of the individual investors. In this study, survey approach has been adopted using a structured questionnaire with sample size of 229 respondents. The study has been taken within the geographical area of Indore district in Madhya Pradesh State of Central India. The main findings of research are that fixed deposit is most preferred and capital market debt instruments are least preferred. Demographic variables have found to have significant association to investment preferences.

Keywords: Financial planning, Investment pattern, financial goals, demographic

1.Introduction

Personal financial planning is a comprehensive process of managing personal finances to achieve financial goals. However, financial planning is faced with many constraints as to meet one objective, the other objective may have to be traded-off causing a balloon squeezing effect. Thus, investors invest their money in different invest avenues to bring a balanced approach between conflicting goals. Every individual holds a unique financial position and have specific needs and goals. Thus, choosing a basket of different avenues would aim to achieve the fulfillment of set needs and goals at different life cycle stages of the investors. Every prudent investor would chalk out a well defined investment plan detailing the choice of investments to achieve the laid down financial goals (short, medium and long term), after considering the risk and return expectations. However, investors would have different attitude and behavior towards their investment preferences depending on external and internal financial environment surrounding them. Investment behavior is thus a field of constant study and exploration. This study explores association of demographic characteristics with preferences towards investment avenues of the investors and identifies the most and least preferred investment avenue among investors of Indore district using statistical tools.

Despite, Indian Household Sector has over the years have shown prudence in saving (depicted from the Indian household saving graph (Appendix I) below for the period between 2006 -2016 but have largely under-utilized its true potential.

Appendix I- INDIA HOUSEHOLD SAVINGS (Source: www.tradeeconomics.com)

The saving potential in India have increased multifold and have been comparable to many advance and growing countries. India has emerged as a fascinating market for investors across the globe as its holds a promising future. However, Indian investor's investment preference has proved to be tilted towards a conservative approach with low investment in financial assets as compared to physical assets. There are many identified and un-identified factors behind the conservative behavior such as rural-urban divide, difference in financial education and awareness, confidence towards statutory policies, social security, family composition, age, gender etc. Taking many past studies into consideration, this empirical research study has explored the relationship between demographic profile and investment preferences of the investors. In this study, survey has been conducted to identify the most preferred to least

preferred investment avenues and impact of demographic variables on investment choices. In total 229 number of Investors' responses has been captured through a well designed structured questionnaire. In the section of literature review studies by many researchers have been explored on various dimensions of saving/investment habits and investment preferences of the individual investors. For the study nine different popular investment avenues are taken comprising of financial products - life insurance, mutual funds, shares, capital market debt instruments and banks saving and fixed deposit account, governments small saving schemes and physical assets- real estate and gold/silver.

Investment behavior of investors has always been subject of keen interest and research by many academic scholars and practitioners across the globe. Many theories have been proposed advising the investors about what should be done with money. These theories have been part of normative studies been carried out from long time. Another side of the research is called positive research which tries to find answers to what people actually do with their money. This chapter overall studies both types of researches with special focus to researches on what people actually do with their money. References of various surveys, empirical and exploratory researches have been taken from the field of investment planning. The literature is reviewed from academic as well as practitioner's point of view.

There are varied school of thoughts that researchers have adopted to explain the investors behavior and attitude towards investment avenues. One school of thought is based on central paradigm :(i) portfolio allocation of investor is based on expected return and risk , (ii) theory of agency,(iii) risk-based asset pricing model such as CAPM. These models are based on investor's rationality. The Modern Portfolio Theory (Markowitz, 1952) asserts that investor's choose their investments based on future expected return and to earn maximum return for a given risk. This theory suggests investors to select and design an investment portfolio from basket of different investment avenues which have a negative correlation with each other and can generate maximum return for a given risk. This theory has profound acceptance and use into personal financial planning. To overcome some of the underlying problems of this theory, it was refined by CAPM Model (Capital Asset Pricing) (Sharpe,1964). This model broke down the investment risk into systematic risk resulting from uncontrollable factors and investment specific risk. As per this model, through optimum investment portfolio designing, the investors could nullify investments specific risk and thus would only be impacted by systematic risk. However, this model has been criticized for many un-realistic assumptions (Nawrocki,1997). Normative models have failed to explain the actual behavior of investor and thus an alternative school of thought has developed over the years known as behavioral finance. The field of Behavioral finance studies the behavior of investors to find answers to why investors do what they do. Investors' have psychological and emotional biases towards making financial decisions. Many researches in this field has found relationship of demographic factors like age, gender, income, occupation, family composition, education etc. of investors and their investment behavior. However, there has been lot of heterogeneity in investors' behavior. The field of behavioral finance has two primary areas; firstly, it helps to identify "anomalies" in the efficient market hypothesis and helps to understand the real market practices and secondly, it identifies individual investor behavioral biases. Kahneman and Tversky (1979) were the first to propose the use of behavioral lens to evaluate individual investor decision making process. Their prospect theory and its latter versions posits four concepts, which can be classified as emotional biases that cannot be eliminated: investors take their financial decisions based on gain and losses (mental accounting), individuals are more averse to losses than they are attracted to gains (loss aversion), individuals are risk averse in domain of gains and risk seeking in the domain of losses (asymmetric risk preference) and individuals evaluate extreme probabilities in their decisions. After these pioneering behavioral theories, many more studies have been done to determine the critical factors affecting the investor's behavior and argued on many lacunae of standard finance theories.

Several authors have found the evidence of mispricing of shares and securities lying in the irrational or bounded rationality behavior of investors. Irrationality has a profound and long lasting impact on the prices and rational investors are bounded by such behavior. Thus, there are limitations to theory of arbitrage (Hoje Jo and Dong Man Kin,2008). Purohit (2004) conducted a study in Indore and Jaipur cities and found irrationality in the behavior of investors. It was found that speculative attitude among investors with low level of market awareness is significantly high. Another research by Mittal and Vyas (2009) on investors of Indore city of Madhya Pradesh, highlighted significant impact of income levels on the investment decisions of investors. Higher income group showed preference towards equities and mutual fund due to higher confidence level and lower income group showed preference towards low risk assets due to lack of confidence level. Behavioral difference in also observed among male and female investors. Males preferred equity and female preferred fixed income instruments of post office in their investment portfolio. Age factor highlighted that younger age preferred mutual funds while older group preferred debenture and bonds. Further, financial education levels also was observed to make significant and positive impact on the various investment choice of equities, mutual fund, derivatives ,bond and real estate and insignificant on fixed income investments like post office and bank deposit. It was also observed that type of occupation of investors also impacted investment decisions. Sultana S T (2010) study on Indian Investor behavior found that preferred investment avenues is fixed deposit and insurance

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policies and least preferred is real estate. Qawi R(2010) research provide evidence that individual investor decisions are influenced by herd behavior and is contagious. Group thinking impacts attitude towards risk and as social animals, opinion of majority becomes the guiding force. People generally prefer to have their opinion validated by those of others in the group. Coval and Shumway (2005) depicted that traders of Chicago Board of Trade Exchange took more risk during later part of the day to offset losses in the early part of the day, thus demonstrated risk aversion tendencies. This distorted the pricing of the market.

CFP Board conducted Household Financial Planning Survey in 2013 on more than 1000 household of America. A Household Financial Planning Index (HPI) on full range of financial planning activities and behaviors and Financial Preparedness Index (FPI) was developed. In the survey it was identified that demographic profile of household had effect on the financial behavior. Nagpal and Bodla (2009) studies on lifestyle effecting the investment decisions of investors of Haryana, Chandigarh, Delhi found lifestyle as a significant factor impacting investment size, return expectations, portfolio choice, risk bearing capacity, time perspective of investment, locus of control, source of information for investment, reference group influences. Behavioral studies have provided ample evidence that each investor is different in their investment behavior. Investors cannot be treated as one large homogeneous group but rather be provided customized solutions based on individual needs. Thus financial planning behavior should be a continuous field of study and exploration and there is a need to build logical framework of behavioral finance and improvise the research methods as an on-going process.

3. OBJECTIVES
1. To analyze the impact of age on investment preference of investors.
2. To analyze the impact of gender on investment preference of investors.
3. To study the impact of qualification on investment preference of investors.
4. To analyze the impact of marital status on investment preference of investors.
5. To identify the most preferred and least preferred investment avenue choice of investors

4. HYPOTHESIS
H1: Investment preference is Independent of age
H2: Investment preference is Independent of gender
H3: Investment preference is Independent of qualifications
H4: Investment preference is Independent of marital status

5. RESEARCH METHODOLOGY
Research methodology adopted aims to find relationship of demographic characteristics of investor's to their investment preferences. In this process, hypotheses of research problem are tested and relevant techniques and tools are identified which are best suited to the subject under study. At a preliminary stage, primary data from individual investors in the Indore district was collected. Secondary data is collected from various web sources and research papers.

Sampling Design
The target respondents include investors from varied backgrounds of education, occupation, income level, who have an investment portfolio and involved in individual financial planning decisions for self. Judgment sampling with a sample size of 229 respondents is used in the research.

Data Collection
The responses are gathered through structured questionnaire filled online or physically through a hard copy. The data collection went for period of five months during the month of February 2017 to June 2017. Secondary data has been collected from research papers and web portals.

A. Data Analysis
The Independent variables are age, gender, qualifications and marital status of respondent investors and dependent variables are nine types of investment avenues chosen for study. A chi-square test has been done to examine whether there exist any dependency between investment avenue choice and demographic factors of age, gender, qualification and marital status.
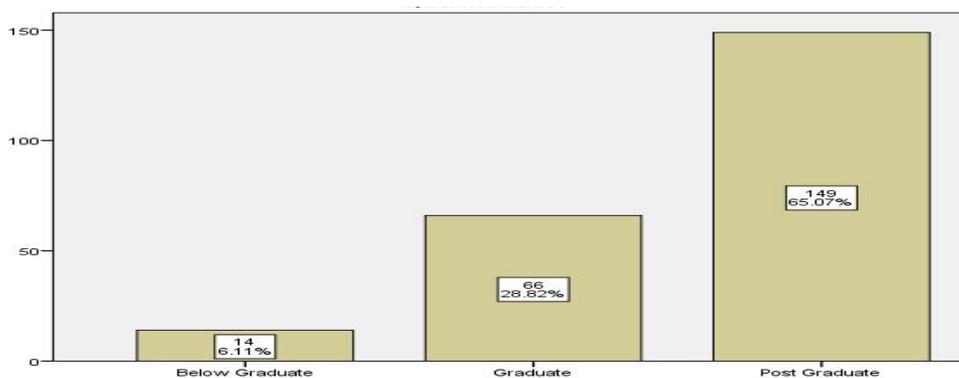**Data Analysis & Interpretation**
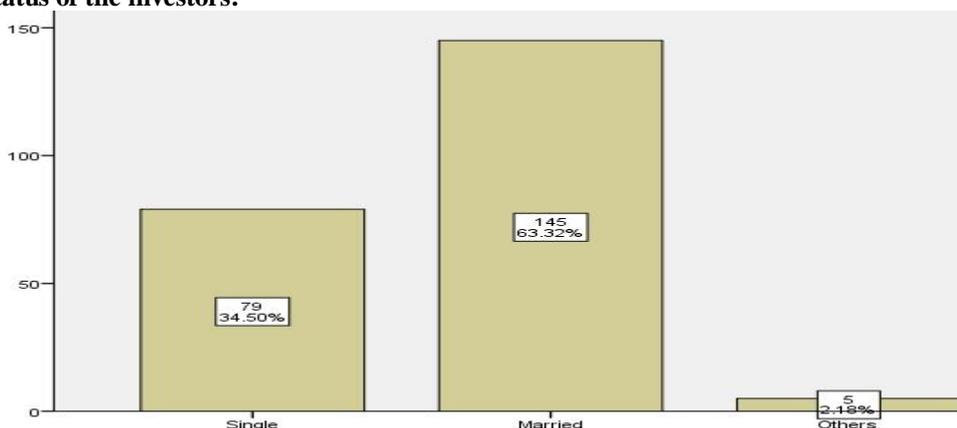
5.1 Age profile of the investors
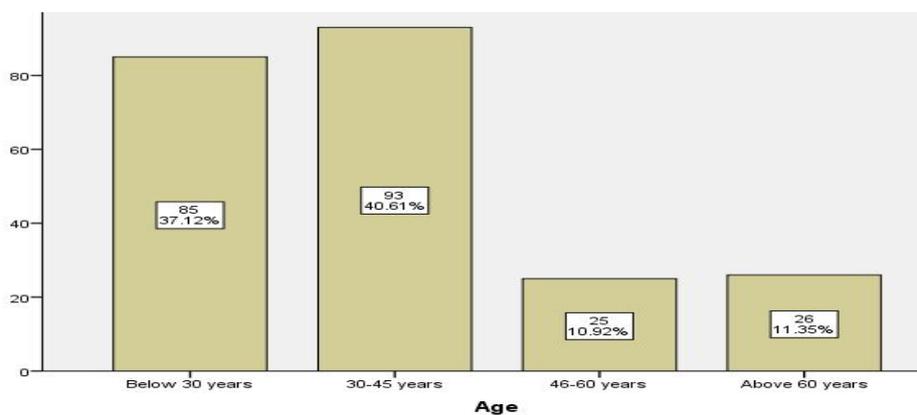
5.2 Gender profile of the investors:

5.3 Qualification profile of the investors:

5.4 Marital status of the investors:

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To determine the investment preference, the investors through structured questionnaire were asked to rank different investment avenues with Rank 1 as most preferred and Rank 9 as least preferred. Rank 1 to Rank 9 was given to nine different investment avenues.

B. FINDINGS

To identify the most and least preferred Investment Avenue of investors. Table VB.I represent summary of the preference of investors

Table VB.I – Summary of the Investment Preferences of Investors

Rank Factor	Number of Investors									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Total**
Saving Account	63	13	15	22	24	12	20	26	34	229
Fixed Deposit	26	63	29	23	20	14	20	23	11	229
Small Saving Scheme	13	22	64	24	22	24	27	22	11	229
Life Insurance	15	25	24	59	28	31	14	14	19	229
Mutual Fund	42	22	15	17	49	29	18	21	16	229
Shares	19	23	20	15	19	51	27	18	37	229
Capital Market Debt	8	10	20	20	22	26	66	28	29	229
Real Estate	29	28	17	17	27	20	16	53	22	229
Gold/Silver	14	24	25	32	18	21	21	24	50	229
Weightage	9	8	7	6	5	4	3	2	1	

Rank 1 given weight of 9, Rank 2 weight of 8, Rank 3 weight 7, Rank 4 weight 6, Rank 5 weight 5, Rank 6 weight 4, Rank 7 weight 3, Rank 8 weight 3 and Rank 9 weight 1. Weight age is multiplied with number of investors for a given rank and thus total value is calculated. Highest value is considered as most preferred and lowest as least preferred investment avenue.

Table VB.II represent weighted average value of the investment preference of investors

Rank Factor	1	2	3	4	5	6	7	8	9	Total	Rank
Saving Account	567	104	105	132	120	48	60	52	34	1222	4
Fixed Deposit	**234**	**504**	**203**	**138**	**100**	**56**	**60**	**46**	**11**	**1352**	**1**
Small Saving S	117	176	448	144	110	96	81	44	11	1227	3
Life Insurance	135	200	168	354	140	124	42	28	19	1210	5
Mutual Fund	378	176	105	102	245	116	54	42	16	1234	2
Shares	171	184	140	90	95	204	81	36	37	1038	7
Capital Market Debt	**72**	**80**	**140**	**120**	**110**	**104**	**198**	**56**	**29**	**909**	9
Real Estate	261	224	119	102	135	80	48	106	22	1097	6
Gold/Silver	126	192	175	192	90	84	63	48	50	1020	8

As per Table VB.II, the most preferred investment avenue if Fixed deposit with value of 1352 and least is Capital market debt instruments with value of 909.Mutual is second most preferred and Small Saving Scheme the third most preferred. Shares and Gold/Silver are among the least preferred. To analyze the relationship of demographic variable with investment preference of the investor's chi-square test is applied.

Table VB-III- Association of Age and Investment Preference ($\chi 2$)

Investment Avenues	Value	df	Asymptotic Significance (2-sided)
Saving Account	73.927[a]	24	.000
Fixed Deposit	44.813[a]	24	.006
Small Saving Scheme	25.778[a]	24	.365
Life Insurance	75.083[a]	24	.000
Mutual Fund	44.207[a]	24	.007
Shares	63.491[a]	24	.000
Capital Market Debt	26.945[a]	24	.307

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Real Estate	44.572[a]	24	.007
Gold/Silver	29.797[a]	24	.192

The Standard $\chi2$ value at 24 degree of freedom and 5% significance level is 36.4. The calculated values of investment avenues – Small saving scheme, Capital market debt and Gold/silver is below the standard value, hence the null hypothesis is accepted and thus there is no significant impact of age on the preference towards these avenues. However, for all other investment avenues the calculated value is higher, thus alternative hypothesis is accepted and there is significant impact of age on choosing these options.

Table VB-IV- Association of Gender and Investment Preference ($\chi2$)

	Value	df	Asymptotic Significance (2-sided)
Saving Account	46.281[a]	8	.000
Fixed Deposit	12.904[a]	8	.115
Small Saving Scheme	17.828[a]	8	.023
Life Insurance	11.119[a]	8	.195
Mutual Fund	19.160[a]	8	.014
Shares	20.131[a]	8	.010
Capital Market Debt	8.801[a]	8	.359
Real Estate	23.350[a]	8	.003
Gold/Silver	26.907[a]	8	.001

The Standard value of $\chi2$ at 8 degree freedom and 5% level of significance is 15.5. The calculated value of $\chi2$ of Fixed deposit, Life insurance and Capital market debt instruments is less than the standard value, hence null hypothesis is accepted. Thus, gender has no significant relationship with preference towards these investment avenues. Other investment avenues , alternative hypothesis is accepted hence significant relationship exist between gender and investment avenues – Saving account, Small saving scheme, Mutual Fund, Shares, Real Estate and Gold/Silver.

Table VB- Association of Qualification and Investment Preference($\chi2$)

	Value	Df	Asymptotic Significance (2-sided)
Saving Account	22.329[a]	16	.133
Fixed Deposit	24.121[a]	16	.087
Small Saving Scheme	12.378[a]	16	.718
Life Insurance	16.177[a]	16	.441
Mutual Fund	20.594[a]	16	.195
Shares	25.247[a]	16	.066
Capital Market Debt	17.647[a]	16	.345
Real Estate	21.035[a]	16	.177
Gold/Silver	29.177[a]	16	.023

The Standard value of $\chi2$ at 16 degree freedom and 5% level of significance is 26.3. The calculated value of $\chi2$ of investment avenue gold/silver is higher than standard value, hence alternative hypothesis is accepted and significant relationship between qualification and preference towards gold/silver is deduced. Rest for all other investment avenues, the calculated value is less than the standard value, hence null hypothesis is accepted and no significant relationship between qualification and these investment avenues is found.

Table VB-VI- Association of Marital Status and Investment Preference $\chi2$

	Value	df	Asymptotic Significance (2-sided)
Saving Account	67.960[a]	16	.000
Fixed Deposit	31.718[a]	16	.011
Small Saving Scheme	27.817[a]	16	.033
Life Insurance	28.877[a]	16	.025
Mutual Fund	38.915[a]	16	.001
Shares	39.361[a]	16	.001
Capital Market Debt	14.517[a]	16	.560
Real Estate	39.148[a]	16	.001
Gold/Silver	26.863[a]	16	.043

The Standard value of χ2 at 16 degree freedom and 5% level of significance is 26.3. Calculated value of χ2 except Capital market debt is higher than the standard value, hence alternative hypothesis is accepted and significant relationship of marital status and preference towards all investment avenues except Capital market debt instrument exist.

6.General Findings

A. The most preferred investment avenue is fixed deposit. This reflects conservatism and lack of awareness among the investors of various investment avenues.

B. The least preferred investment avenue is capital market debt instruments. Again, this reflects fear and lack of confidence among investors of the Indian Capital Markets.

C. Demographic characteristic of age has significant relationship with preference towards small saving scheme, capital market debt and gold/silver.

D. Gender has significant association with preference towards saving account, small saving scheme, mutual fund, shares, real estate and gold/silver.

E. Qualification has found to impact preference toward gold/silver.

F. Marital status is not significant towards preference of capital market debt instruments but vital relationship exists for other eight investment avenues under study.

7. Recommendations

On the basis of the empirical study conducted in this research paper, it is observed that investors of Indore district are generally conservative and lack confidence in capital market. Thus there are some recommendations:

• There is need of investor's financial education and awareness program. Investors must be made aware of various investment avenues through continuous campaign, advertisement, personal counseling and investor's clinic.

• Financial planning workshop should be conducted for investors from different walks of life.

• Investor's counseling cells should be established by Government of India to guide and educate people about financial management through experts. This will help is busting investment myths and foster financial welfare.

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