Investor Behaviour Towards Various Investment Avenues - An Empirical Study

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Abstract: The researchers had proceeded to analyze the behavior of investors towards investment pattern. The investors from Thanjavur & Thiruchirapalli districts were surveyed using a validated questionnaire. The gathered data were analyzed by applying statistical tool. Descriptive statistics were used to describe all the variables. This would enable us to know the preferences of the investors towards various investments made by them. Findings reveals that there is no correlation between demographic factor and insurance. And thus the findings reveal that demographic factor and income does not influence investors in insurance.

Keywords: investments, investors, preferences.

I. INTRODUCTION

Investment has diverse meanings. Finance investment is investing into something with the anticipation of gain that upon careful analysis has a high security for the principal amount, as well as safe return, within desired period of time. In contrast speculation or gambling refers to putting money into something with an expectation of gain without complete analysis, without security of principal, and without security of return. As such, speculators are those shareholders who fail to carefully investigate their stock purchases, such as owners of mutual funds.

Indeed, given the efficient market hypothesis, which implies that a thorough analysis of stock data is irrational, all rational shareholders are, by definition, not investors, but speculators. Investment is associated to saving or deferring consumption. Investment is drawn in various areas of the economy, such as business management and finance whether for households, firms, or governments.

An Asset is always purchased with the hope that it will generate income or appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price. Money committed or property acquired for future income.

Two main classes of investment are (1) Fixed income investment such as bonds, fixed deposits, preference shares, and (2) Variable income investment such as business ownership (equities), or property ownership.

In economics, investment means creation of capital or goods capable of producing other goods or services. Expenditure on education and health is recognized as an investment in human capital, and research and development in intellectual capital. Return on investment (ROI) is a key measure of an organization's performance.

Investor:

An individual who commits money to investment products with the expectation of financial return is called as investor. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits.
An investor is a person who makes an investment on one or more categories of assets: equity, debt securities, commodity, real estate, currency, derivatives such as put and call options, etc. --- with the view of making a profit. This definition makes no distinction between those in the primary and secondary markets. That is, person who provides a business with capital and person who buys a stock are both investors. As those in the secondary market are considered investors, speculators are also investors.

Types of investors

The following classes of investors are not mutually exclusive:

- Individual investors (including trusts on behalf of individuals, and umbrella companies formed by two or more to pool investment funds)
- Collectors of art, antiques, and other things of value
- Angel investors (individuals and groups)
- Sweat equity investor
- Venture capital funds, which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds.
- Businesses that make investments, either directly or via a captive fund
- Investment trusts, including real estate investment trusts
- Mutual funds, hedge funds, and other funds, ownership of which may or may not be publicly traded (these funds typically pool money raised from their owner-subscribers to invest in securities)
- Sovereign wealth funds

Also, investors might be classified according to their styles. In this respect, an important distinctive investor psychology trait is risk attitude.

Investor Preference

How “Investor Preference” Will Help You Attract Funding (By Todd Taskey, December 23, 2010, In Venture & Angel Capital) an investor preference is limited only by your creativity and imagination. It is also a wonderful opportunity for entrepreneurs to create an offering that is more attractive to initial investors. With early investors, a preference is a great way to reflect management’s confidence in (and fairness towards) future prospects for the company.

Raising angel money is a very difficult task. A well-constructed investor preference can help minimize investor risk in a creative way that helps attract startup funding. There are a lot of variations, complications and opportunities when creating an investor preference, so be sure to do your homework and think through the implications for future financing rounds.

II. PURPOSE OF THE STUDY

This paper is an attempt

- To understand the investor’s behavior towards the investment.
- To identify preferences towards stock market, mutual fund, insurance, fixed deposits.
- To find out the factors affecting investment pattern.

III. REVIEW OF LITERATURE

A literature review can be interpreted as a review of an abstract accomplishment. Most often associated with academic-oriented literature, such as a thesis, a literature review usually precedes a research proposal and results section. Its main goal is to situate the current study within the body of literature and to provide context for the particular reader.
Economic Challenger (Apr 2011) describes Mutual Fund industry provides the ideal platform for the retail investors especially in India, which is gaining popularity; it is because of a great appeal of minimum return to the retail investors.

Vetrivel, T; Devasenathipathi, T (Nov 2010) findings says that insurance services have been paid limited attention and the study recommends special attention on banking insurance-service satisfaction.

Nwogugu, Michael (2005) thus conclude that Government regulators, central banks, judges, risk managers, executives, derivatives regulators, stock exchange regulators, legislators, psychologists, boards of directors, finance professionals, management science/operations research professionals, health-care-informatics professionals, scientists, engineers, and people in any situation that requires decision making and risk assessment.

Grinblatt, Mark; Keloharju, Matti (Jan 2000) describes that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly households, tend to be contrarians. The portfolios of foreign investors seem to outperform the portfolios of households, even after controlling for behavior differences.

Mittal, Manish; Vyas, R K. (Sep 2011). His study indicates that men engage in more risk taking and are more overconfident than women. Women tend to put in a major portion of their funds in low risk - low return investments. The study suggests that men and women do not differ in their information processing and accumulation styles.

Abarbanell, Jeffery S; Bushee, Brian J; Jana Smith Raedy. (Apr 2003).There is strong evidence that the investment strategy and fiduciary restrictions affect institutional investor demand for stocks after spin-offs. The trading is not associated with abnormal price movements for parents or subsidiaries around the spin-off.

Utete, Gwinyai (Oct 2009). His conclusion says the transient institutional investors (those that trade frequently with a view to maximizing short term gains) possess superior information to other market participants and actively seek out situations in which they can exploit this informational advantage.

Shalini Kalra Sahi; Arora, Ashok Pratap. (2012) Indian investors have been exposed to a plethora of investment opportunities in the past decade and a half, after the liberalization process which commenced in 1991.

Cox, Paul; Brammer, Stephen; Millington, Andrew. (Jun 2004) findings describes that Investigation of the impact of investment screens on the selection of stocks suggests that long-term institutional investors select primarily through exclusion, rejecting those firms which have the worst CSP.

Nagy, Robert A; Obenberger, Robert W. (Jul/Aug 1994). The behavioral variables underlying individual investor behavior provides a more comprehensive understanding of the investment decision process.

David Schroder (Feb 2011) says The decision maker’s attitude towards ambiguity is similarly crucial for investment decisions. The presence of ambiguity often leads to an increase in the subjective project value, and entrepreneurs are more eager to invest.
IV. METHODOLOGY

Primary data collection was carried out using a validated questionnaire. A survey of 100 respondents from Trichy and Thanjavur was carried out during March and April 2012. The gathered data were analyzed by applying statistical tool. Descriptive statistics were used to describe all the variables.

V. DISCUSSION AND FINDINGS

Table A. Percentage Analysis:

Table 1. For demographic Findings:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Maximum respondents lies between this range</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>31-40</td>
<td>36</td>
</tr>
<tr>
<td>Gender</td>
<td>Male</td>
<td>60</td>
</tr>
<tr>
<td>number of dependents</td>
<td>1</td>
<td>33</td>
</tr>
<tr>
<td>Occupation</td>
<td>Business</td>
<td>34</td>
</tr>
<tr>
<td>Working in public or private sector</td>
<td>Private</td>
<td>34</td>
</tr>
<tr>
<td>Income per annum</td>
<td>Less than 1.5 lac</td>
<td>33</td>
</tr>
</tbody>
</table>

Source: primary data. Computed using spss 16.0.

The table infers 36% of the respondents are between 31-40 years of age and they usually tend to avoid risk, 60% of them are male, 33% of the investors have one dependent, 34% of the investors have business as their occupation and 34% work in private sector companies. 33% of the investor earns 3-5 Lakhs as their annual income.

Table 2. For Investments:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Maximum Range Lies Between This Range</th>
<th>Percentage %</th>
</tr>
</thead>
<tbody>
<tr>
<td>objective of your investment</td>
<td>Stability of principle</td>
<td>36</td>
</tr>
<tr>
<td>preferable tool of investment</td>
<td>Insurance</td>
<td>27.7</td>
</tr>
<tr>
<td>what proportion of your income would you prefer to invest</td>
<td>0-10%</td>
<td>36</td>
</tr>
<tr>
<td>time horizon for investment</td>
<td>Within a year</td>
<td>29</td>
</tr>
<tr>
<td>From investment, what amount of return do you expect</td>
<td>Reliance 1-10%</td>
<td>37</td>
</tr>
</tbody>
</table>

Source: primary data. Computed using spss 16.0.
36% of the investors believe that stability of principle as their objective of investment. 27.7% of the respondents show insurance as their preferable tool of investment. 36% of the respondents invest 0-10% of their income. 29% of the investors invest within a year. They expect 1-10% return on investment.

Table 3. For corporate social responsibility:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Maximum Range Lies Between This Range</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate social responsibility as a key determinant</td>
<td>Strongly agree</td>
<td>52</td>
</tr>
</tbody>
</table>

Source: primary data. Computed using spss 16.0.

52% of the respondents strongly agree corporate social responsibility as a key determinant of stock selection.

39% of the investors invest 1-10% of their income in the stock market. 36% of the investors get their information from the print media. 34% of the respondents prefer other sources for broking firm. 35.6% of the respondents have chosen their broking firm due to proximity. 20.2% of the respondents have chosen real estate as a sector in stock market.

38% of the investor has chosen debt fund type of a mutual fund. 23.3% of the respondents go for monthly income plan. 25% of the respondents are fascinated by SBI Asset Management Company.
18.2% of the respondents have chosen ICICI Insurance Company. 52% of the respondents prefer money back plan as the area for insurance investment.

50% of the respondents prefer to have one year time horizon for their fixed deposit investment and 51% of the respondents prefer private banks for their Fixed Deposits.

Table B. For Correlation Findings:

<table>
<thead>
<tr>
<th>Investment pattern</th>
<th>Stock market</th>
<th>Mutual fund</th>
<th>Insurance</th>
<th>Fixed deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographic</td>
<td>.412</td>
<td>.479</td>
<td>.038</td>
<td>-.019</td>
</tr>
</tbody>
</table>

Source: primary data. Computed using spss 16.0.

Stock market is highly positively correlated with demographic factor (0.479) and insurance is negatively correlated with demographic factor (-0.019).

<table>
<thead>
<tr>
<th>Investment pattern</th>
<th>Stock market</th>
<th>Mutual fund</th>
<th>Insurance</th>
<th>Fixed deposit</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>.186</td>
<td>.109</td>
<td>-.054</td>
<td>.568</td>
</tr>
</tbody>
</table>

Source: primary data. Computed using spss 16.0.
Fixed deposit is highly positively correlated with investment pattern (0.568) and insurance is negatively correlated with investment pattern.

VI. CONCLUSION

Majority of the investors are male and mostly prefer insurance as the tool of investment due to less risk, and are expecting higher rate of return etc. There is no correlation between investment pattern (on insurance) and income. There is no correlation between demographic factor and insurance. And thus the findings reveal that demographic factor (age, gender, occupation, education) and even income does not influence investors in insurance investment. Moreover insurance is generally considered as security for life and this too contributes to this findings. Since most of the respondents lies between 31-40 years and they usually tend to avoid risk and moreover they lack in awareness in stock market and hence not ready to invest in stock market. Now a day’s corporate social responsibility is considered as the key determinant in the stock selection.

VII. BIBLIOGRAPHY

[2] Cox, Paul; Brammer, Stephen; Millington, Andrew. (Jun 2004); Journal of Business Ethics 52.1; an Empirical Examination of Institutional Investor Preferences for Corporate Social Performance: JBE; 27-43.