A STUDY ON INVESTMENT BEHAVIOR OF MIDDLE CLASS FAMILY IN AJMER CITY (RAJASTHAN)

Mukesh Kumar Jakhar, Research Scholar
Department of Management Studies, Government Engineering College, Ajmer
Rajasthan Technical University, Kota, Rajasthan
Deepchand Kumawat, Assistant Professor
Shekhawati Institute of Technology, Sikar, Rajasthan

ABSTRACT: The goal of the research is to identify the investment behavior of the middle class income family in Ajmer City. The rationale choosing this research matter is the premise that the middle class in India has achieved attentiveness of the economists, policy maker and the marketers, as still there remains a considerable untapped potential in the income class of India. The research has been organize to find out some significance on the preference of the investment pattern and instrument of the middle class family, there are many more objective of investment of the middle class family and know whether there has been increase in their savings? It is not only the income of the family that influences on the investment preferences but also the age group to which the head of the family belongs to. That's why the paper has been directed towards finding the difference in choice of investment avenues in different age-groups and income classes of the middle income group in Ajmer City.

KEY WORDS: Investment, Investment behavior, Investment pattern, investment avenues, Income group

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INTRODUCTION

Theoretically speaking when a family chooses an avenue to earn return on the surplus income, it has, is known as savings. Whereas, those instruments or avenues from which one earns income and wealth is known as investment, financial dictionaries like "investorwords.com" has defined investment as the purchase of a financial product or other item of value with an expectation of favorable future returns. In general the terms investment means the use of money in the hope of making more money. Saving is left over of the disposable income whereas when these savings are used to generating future returns it is known as investment return. 'Investing wisely not generates returns for the individual investor but is injected in the economy by entering into the chain of capital formation'.

The Reserve bank of India however does not differentiate between investments and savings made by the family. Reserve bank of India separate the family savings in two heads i.e. financial assets like in mutual fund, bank deposit, shares, insurance etc. and physical assets i.e. in gold and real estate. Cash in hand is neither a saving nor investment. Investment instruments can be separate into two basic parts:

1. Financial savings like mutual funds, bank deposits, shares, insurance and other minor schemes.
2. Physical savings like savings in gold and real estate.

Investment behavior and Saving has always been an area of interest to the economist, the economic cycles of boom, recession, depression and recovery not only effect the level of Growth Domestic Product (GDP) but also the income of the family and hence the investment behavior and saving. The movement of the economy from one cycle to another is to bring a change in the investment behavior and saving of the people. The financial globalization of the world economy has hint to the integration of various financial markets of the world. The changes in one part of the world bring an immediate effect on the other part of the world and the statement can be advocated with the help of the recession in 2008 in US economy had impacted the Indian economy.

The middle class investor also learns from these international economics events. He/she tries to be on the safer side by investing a portion in debt, hybrid, public provident fund etc. higher the age of the investor, lesser the interest towards investment in equity schemes/funds.

RESEARCH OBJECTIVES:

The research has the following objectives;

1. To study the various objectives of investment of the middle class family of Ajmer City.
2. To know whether there has been any increase in savings?
3. To analyze reasons behind any increase or decrease in savings.
4. To find out the means of investment available for middle class family in Ajmer city.
5. To know the preference of the investment instruments of the middle class family.

The paper admits into consideration investment options like bank deposits (private sector bank and public sector bank) mutual funds, insurance, real estate, shares and small saving schemes like Post office deposits etc. as the investment instrument in the portfolio of the family. The purpose of the study is to differentiate between saving and investment. Savings is the amount which remains with the household after deducting all the consumptions expenditures and taxes from the income. When the savings are used to generate return, to generate wealth/assets/gold etc, it is treated as investment.

SAMPLE DESIGN:

"According to the National Council of Applied Economic Research in the Market Information survey of family in association with business standard in August 2005, the term middle class applies to those earning between Rs.90,000 to 10,00,000 a year. The family are further divided into aspires, middle – middle class and upper middle class. The family with an annual income between Rs.90,000 to 2,00,000 have been defined as aspires, income between Rs. 2,00,000 to Rs. 5,00,000 are middle class and income between Rs. 5,00,000 to Rs. 10,00,000 are classified as upper middle class. As it is definition would be used for this research purpose and the population would be divided into three segments on the basis of above criteria. The sample is also divided on the basis of age concerned with each income group. Primary data have been collected from 300 families which have been selected from each of the three income slabs as defined by NCAER. The sample has also been divided on the basis of the age of the head of the family as -under 35 year, 35-54 years 55 year and above. The classification of the sample would help in the depth analysis of the investment preference of the sample.

REVIEW OF LITERATURE:

Psychological features play an important role in the individual investment decision process. The psychological features like risk taking ability and mental accounting relate to family expectations, their self-reported financial risk taking behavior and their self-reported risk aversion are some of the important variables having an impact on the investment decision of an individual. An understanding of household portfolio allocation may additionally go some way helping policymakers estimate the likely impacts of various policy decisions such as change in the welfare payments and the introduction of a consumption tax as evidenced by Dilnot “1990” and Freebairn “1991”. Evidence for the hypothesis of “Haliassos” and “Bertaut” 1995 that individual seem to depart from expected utility maximization plays an important role here in standard expected utility maximization, risk averse agents are willing to take risk for the benefit of higer expected returns, the more the agent is risk averse, the higher the expected return has to be in order to compensate for risk. The life cycle hypothesis is the most common theoretical approach to consumption and saving at the microeconomic level, and suggests that saving and dissaving are undertaken to smooth consumption and utility while yearly income varies over the stages of lifecycle. Although the vast majority of studies with assessing the appropriateness of this hypothesis as description of the family saving behavior, its one drawback is that it does not distinguish between various types of asses. However commentators have suggested such information can help evaluate competing model of 0, “Stefan Hochguertel et al 1997 studies Netherlands Family portfolio allocation and found that income, education and tax have positive impact on the proportion of financial wealth held in risky assets, while age had a hump shaped relationship.”

Lungi Guiso and Tullio Jappelli 1999 studied the portfolio of 8000 Italian family and found that wealth college education and index of financial information had important effect on the risky assets ownership and share in their portfolio, while age showed a hump shaped profile. “Rob Alessie et al 1999 studied the family portfolio heterogeneity and found that non capital income, total net worth, interest on financial matters; employment status had positive impact on the ownership of different assets classes. Family size was found to have a negative impact while age followed a humped shaped profile. SEBI-NCAER 2000 studies that family investment in share and in Mutual Funds range from “7 percent “to “9 percent”. Majority of the Equity investor family portfolio was found to be undiversified and of relatively small value of less than Rs.25,000. It also found that one set of family, in spite of their lower income and lower penetration level of consumer durables, are in the securities market, while another set of household with higher income and higher penetration level of consumer durables do not have investments in securities market.

PREFERENCE OF THE INVESTMENT INSTRUMENT BY THE SELECTED FAMILY:

Small saving schemes such as PPF, Post office saving deposits are the first preferred investment option as per the survey conducted, the return is very less but these carries high security of the amount invested. The respondents in the sample were asked to give their preference to the five investment options starting from most preferred investment option to least preferred investment option. The aggregate results of the investment options marked by the respondents show that the small saving schemes remains the most preferred investment option of the middle class income family in Ajmer City with 48% respondents marking it as most preferred investment option.

Table No.1
Aspire Income Group (Rs. 90,000 – Rs. 2,00,000)
Preference of the investment instrument
Total respondent = 100

Scale ⇩	Small saving schemes	Bank Deposit	Insurance	Real Estate	Shares and mutual funds
Most preferred	48	41	19	10	06
Relatively preferred	24	20	30	15	11
Preferred	13	18	26	15	10
Relatively less preferred	10	12	21	19	15
Least preferred	05	09	04	41	58

Table 1.1
Preference of investment instruments (in %) based on various age group of
Aspire income group (Rs. 90,000 – Rs. 2,00,000)

Age (Years) ⇩	Small saving schemes	Bank Deposit	Insurance	Real Estate	Share and mutual funds
< 35	20	35	05	10	30
36 – 54	25	30	15	15	15
55 & Above	20	55	07	13	05

The above table offers the findings as follows…

1. The age group below 35 is aggressive in risk taking as 30% of the respondent wants to invest in shares and mutual funds for higher returns although it carries huge risk.
2. The next age segment of 36-54 year deals in different manner as these people invests more in bank deposits due to the safer side of it.
3. The last segment is introvert in risk taking, these are looking for capital protection only that's why these again prefers bank deposits and similar options.

Table No.2
Middle Income Group (Rs. 2,00,000 – Rs. 5,00,000)
Preference of the investment instrument
Total respondent = 100

Scale ⇩	Small saving schemes	Bank Deposit	Insurance	Real Estate	Shares and mutual funds
Most preferred	18	41	20	20	52
Relatively preferred	19	20	30	35	13
Preferred	10	18	23	18	10
Relatively less preferred	18	12	22	12	10
Least preferred	35	09	05	15	15

The results of the above table show the dynamic consumer behavior. Unlike the aspire income group share and mutual funds have been preferred most by the investors. It is 52% of the total respondents. Bank deposits have been treated as the second most preferred instrument of investment with 41%. Small savings schemes are the least preferred instrument with 18%.The results are varying because of the increase in the amount of savings.

Table 2.1
Preference of investment instruments (in %) based on various age group of Middle income group (Rs. 2,00,000 – Rs. 5,00,000)

Age (Years) ⇩	**Small saving schemes**	**Bank Deposit**	**Insurance**	**Real Estate**	**Share and mutual funds**
< 35	12	18	15	10	45
36 – 54	15	20	25	15	25
55 & Above	10	35	05	45	05

The results of the above table are as follows…

1. The first age group which is below 35years is aggressive in risk taking as 45% of the respondent wants take risk for higher returns.
2. The segment of 36-54 year deals in the same manner as these people invests more in shares and mutual funds.
3. The results of the last segment is quite different as these invests more in real estate to create more wealth for the family and own future.

Table No. 3
Income Group (Rs. 5,00,000 – Rs. 10,00,000)
Preference of the investment instrument
Total respondent = 100

Scale ⇩	Small saving schemes	Bank Deposit	Insurance	Real Estate	Shares and mutual funds
Most preferred	20	32	35	40	35
Relatively preferred	12	18	22	20	15
Preferred	13	15	06	14	19
Relatively less preferred	15	16	07	16	16
Least preferred	40	17	30	10	15

The inferences of the concern table shows that as the income increases the investment point of view also shifts towards being wealthy, as 40% of the respondents wants to deal in real estate. There is a tie between insurance, shares & mutual funds as 35% of the total respondents have shown interest in these instruments.

Table 3.1
Preference of investment instruments (in %) based on various age group of Upper middle income group (Rs. 5,00,000 – Rs. 10,00,000)

Age (Years)	Small saving schemes	Bank Deposit	Insurance	Real Estate	Share and mutual funds
< 35	10	10	15	25	40
36 – 54	20	20	15	30	15
55 & Above	20	55	05	15	05

The above table offers the findings as follows…

1. The age group 55 years & above is more centric towards bank deposits for secure wealth protection. These are less interested in insurance.
2. The next age segment of 36-54 year takes risk in early age by investing in real estate. the second option choose by them is bank deposit and small saving schemes with an increase in age.
3. The last segment is below 35 years. In this age the inverters are having a long horizon of investment tenure thus cultivates the benefits of early investment in equity. 40% of the total respondents support the argument.

MIDDLE CLASS FAMILYS' OBJECTIVES OF ESTMENT:
Psychological characteristics play an important role in the individual investment decision process. The behavioral features like risk taking ability and mental accounting relate to family expectations are responsible for it.

Table - 4
Objectives of an investment of the selected middle income Family
(Figures in Percent)

Income group / Objective	5,00,000 to 10,00,000	Rs.2,00,000 to 5,00,000	Rs. 90,000 to 2,00,000	Average response of middle income class
Higher Risk	38	32	22	31
Low Risk	15	18	30	21
Liquidity	14	30	40	28
Tax Advantage	33	20	08	20

The respondents were given four options to understand the objectives of investment while investing.
First choice: It is concluded that majority of the respondents behaves to take high risk for higher returns. The figure is 31% of the respondents of the total middle income group. This is mainly to conserve the value of money and the inflation rate in the economy.
Second choice: Liquidity is still a great issue with middle class. 28% respondents , which is second largest, still believes in keeping more and more liquid in hand or in savings bank account. This % will go down with an increase in income and can be seen in the table also.
Third choice: 21% of the respondents want to deal in the instruments which carry low risk nature because these respondents prefer to have access to their investments and don't want to hold their investments for long tax.
Fourth choice: Tax advantage of the investment was the fourth preference for investment. This consists of maximum from the upper middle income group. 20% respondents have shown their interest in this instrument. The desirability of tax advantage in an investment instruments increase as the income level of the Family increase.

INVESTMENT HORIZON:
Investor behavior plays an important role in determining the time period for which they wish to make an investment. The respondents were asked to give their investment time which will help to understand the psychology of the investor behind any investment decision that they make. This can also help in offering the investment options to the investors by the companies and formulate relevant government policies. It was revealed in the research that the middle class income family in Ajmer City has an investment horizon of medium term or in other word that wish to get back their investments in a medium term time. The reasons behind this behavior can be that either doesn't wish to part away with liquidity for longer time period or they are not very sure of the investment decision that they have taken.

Table - 5
Investment Horizon of the selected Family
(Figures in Percent)

Horizon / Income group	Short Term	Medium Term	Long Term
5,00,000 to 10,00,000	15	40	45

2,00,000 to 5,00,000	60	18	22
90,000 to 2,00,000	40	47	13

It has been observed from the table that the middle class investors prefers the investment for short term like small savings, bank deposits, post office schemes. The second preference is given to the medium term investments like insurance, bank deposits etc..

CONCLUSION:

The saving and investment pattern of the middle class income family in Ajmer City can be summarized that the bank deposits remain the most popular instrument of investment followed by insurance, shares and mutual funds with maximum number of respondents investing in these fixed income bearing options.

Bank deposits remain the most preferred investment options of the middle class income family in Ajmer City with 41% respondents marking it as the most preferred investment option. This is followed by the life insurance and shares and mutual funds with 35%.

The largest share of family with savings accounts can be found in the oldest age categories. All over the bank deposits and insurance are the most preferred investment instruments in all the income groups, inconsistency is seen in preference in share and mutual funds, real estate and small savings schemes. It was found that majority of the respondents said that they look for high return while investing in any instrument. Tax advantage is desired by 20% of the respondents in the upper income group.

DIRECTIONS FOR POLICY FORMULATION:

1. The research results bring out the fact that the saving habits of the selected family of the middle class are good but they don't want to save for long term or build a financial corpus.
2. This implies that these savings would not be available to the nation for a long period of time and hence can't be put to use for mobilization of projects which have long gestation period. Therefore the polices should be framed in such a manner that these family are willing to part away with their consumption for a longer period of time.
3. The tax incentives should be designed in manner that the middle class are encouraged to save for at least 15 to 20 years assisting in long term growth of the nation.
4. Tax benefits on pensions and long term savings need to be increased so that people are encouraged to invest for long term.
5. There is also a need for increasing the financial literacy of the middle class income family.

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