THE EXIGENCY IN FINANCIAL SKILLS ACQUISITION OF INDIVIDUAL INVESTORS – AN EMPIRICAL INVESTIGATION

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Abstract: This behavioral research was conducted to understand the individual investor's behavior with the primary objective to explore the level of financial skills acquisition. The empirical research design and survey method was adopted to collect responses from the individual investors through convenience sampling technique. The primary data collected were subjected to analysis using SPSS version 23.0 and the statistical tools such as, percentage analysis, descriptive statistics, cluster analysis and discriminant analysis has been applied in this study. The empirical evidences reveal that the underlying dominant dimensions of financial skill variables are grouped into three dominant factors namely Consideration Factor, Contemplation Factor and Intelligence Factor. The individual investors are classified into two cluster groups namely, value investor and index investors. Both the value and index investors are shown hesitation to take risk on investment and they use to prefer only their savings amount to invest in the different avenues. In this connection, the individual investors are suggested to take moderate risk to gain better earnings on their respective investments. The individual investors should focus on enriching the financial skills with respect to analysing the investment avenues, stock market participation, analyzing the market volatility conditions and risk & return analysis before making investment decisions. This present research was aimed to explore the dimensions and dominant groups of financial skills acquisition among the individual investors.

Key Words: Behavioral Finance, Financial Skills, Value Investor and Index Investor and Risk..

I. INTRODUCTION

Behavioral finance has gained momentum in the recent years due to the enhancement in the financial literacy and financial awareness among the peoples of the country. The behavioral researches in the realm of investment, literacy, awareness and skills are imperative to guide the individual investors towards earning more returns (Nilsson, J. 2008; Norvilitis, J. M., & et al., 2006; Canikli, S. 2019). There is persuasive evidence that individual investors are lacking in financial literacy, knowledge and skills for taking necessary and appropriate investment decisions in their day-to-day life (Howlett, E., & et al., 2008; Zokaityte, A. 2017; Fernandes, J. L. B., & Rosa, R. 2018). The Government is taking lot of initiatives to enrich the investor's knowledge, literacy level and skills acquired in the aspects related to various economies, interest rate, inflation, financial risk, diversification, portfolio management and investment procedures to take right investment decisions (Capuano, A., & Ramsay, I. 2011; Jappelli, T., & Padula, M. 2013; Mouna, A., & Jarboui, A. 2015; Awais, M., & et al., 2016). The policy makers are continuously working on devising the innovative ways to increase the financial inclusion via financial literacy and financial skills (Lusardi, A., & Mitchell, O. S. 2007; 2008; Lusardi, A., & et al., 2010). The major challenge in front of the Indians is financial inclusion for the inclusive and sustainable growth of the nation. However, after the global financial crisis, it is being increasingly recognised that many concerted attempt has been take by policy makers to promote financial inclusion to meet the economic development of the country (Chibba, M. 2009). This study primarily aims to explore the role of financial skills among the individual investors for taking better investment decisions and enhancement in the returns on their respective investment.

II. LITERATURE REVIEW

Waqar Younas and et al., (2019) carried an empirical study to examine the relationship among self-control, financial literacy, financial behavior and financial well-being among the Pakistani investors. The researcher has adopted cross sectional research design and employed structured questionnaire to gather the information from the investors. The result proves that self-control and financial literacy are significantly and positively influencing the financial behavior of the investor and financial behavior have significant and positive influence on the financial wellbeing of the investors in Pakistan. Finally, the researchers concluded that investors those who have self-control have higher savings perception and they have better future earnings as compared to other investors.

Lynn Bryson (2012) aimed to examine the role of financial skills partnership in the financial sector with special reference to higher apprenticeships. The researcher has developed and builds the information about various key imperativeness about the role financial skills among the higher apprenticeships. The result of the study exhibits that training is the major problem prevailing in the UK market to encounter the opportunities.

Nesleha Josef and Jancurova Vera (2017) studied the influence of financial literacy on the behavioural skills of the university students. The researcher has adopted survey method and structured questionnaires were employed in this survey to collect the primary information from the university students on their financial literacy level and behavioural skills acquisition. The data collected by the researchers were subjected to analysis by using STATISTICA software. The result indicates that financial literacy level of the university students has significant and positive influence on their behavioural skills. Finally, the researchers suggested the university students to overcome dissonance bias, availability bias, overconfidence bias, status quo bias, illusion of control bias and risk aversion bias to enrich their financial literacy level.

Fernando Munoz (2016) studied the imperativeness of cash flow timing skills among the socially responsible mutual funds investors. The researcher found that timing for net purchase and preserve timing are the important aspects need to be improved to take better cash flow timing decisions. Further, the researchers classified the socially responsible mutual fund investors into three categories namely, green fund investors, religious fund investors and conventional investors. The result proves that green fund investors have worst cash flow timing skills as compared to others.

Alfonso Arellano & et al., (2017) examined the gender gap in the financial literacy level through the role of non-cognitive skills among the fifteen year old students in Spain. The researcher has adopted questionnaire method for measuring the financial literacy among the students. The result indicates that there is a significant gap between the boys and girls with respect to their financial literacy with the effect of non-cognitive skills and the researchers also concluded that enhancement in the financial literacy can be achieved through enrichment in the non-cognitive skills among the students.

Elena horská and et al., (2013) explored key determinants of financial exclusion process of rural dwellers in Poland via financial knowledge and financial skills. The researchers were randomly choose the rural dwellers to gather the information about financial knowledge and financial skills as a key factor to induce the financial exclusion. The researchers have adopted non-parametric chi-square analysis and cluster analysis to examine the influence of both economic and non-economic factors on the level of knowledge and financial skills. The result shows that lack of access to banks in rural areas and worst banking infrastructure are the major problems of financial exclusion among rural dwellers in the study area.

Njeri Kagotho and et al., (2017) conducted an exploratory study to investigate the role of family financial socialization and financial management skills among the youth savings behavior in Kenya. The researcher has applied an exploratory research design to test the research hypothesis developed for the study. The result proves that individual characteristics, household characteristics have significant influence on family financial socialization and financial socialization have significant influence on the financial management skills among the Kenyan youth. Finally, the financial management skills have positive and moderate effect on the saving behavior of the youth.

III. SIGNIFICANCE AND SCOPE OF THE RESEARCH

This empirical research will help the investors to understand the role of financial skills in determining the investment decisions and returns on the investment. This study is only limited to investors residing in Chennai city and scope of the findings of this research is limited since; non-probability convenience sampling technique was adopted for the data collection. Financial skills acquisition is alone considered for this behavioral research.

IV. STATEMENT OF THE PROBLEM

The present behavioural research was aimed to explore the key dimensions and dominant groups of financial skills acquisition to take investment decisions with respect to the various investment avenues in the high volatile market conditions. This study is need of the hour to explore the investor's financial skills in Indian Stock market environment.

V. RESEARCH OBJECTIVES

1. To study the demographic and investment profile of the investors in the study area.
2. To identify the underlying dominant dimensions of the Financial Skills (Fs) variables.
3. To classify the investors based on their financial skills acquisition factors.

VI. RESEARCH METHODOLOGY

Research Design: This behavioral research was exploratory and analytical in nature (Calder 1977). The convenience sampling method was adopted to gather the primary information from the individual investors.

Data Collection: The target population of the study was Individual Investors residing in Chennai, India. The total 180 questionnaire were distributed to the respondents in the one wave during the month of January to April 2019 and only 156 filled questionnaires were returned by them. In that 156 responses, incomplete and response possess extreme values were rejected and finally, 140 responses are alone considered for this empirical study.

Statistical Software and Tools Usage: The data collected were subjected to analysis using SPSS Version 23.0 and the statistical tools such as, percentage analysis, descriptive statistics, cluster analysis and discriminant analysis has been applied to draw meaningful outcomes to the research objectives of the study.

Research Instrument Design: The questionnaire with three parts has been finanlised to collect responses from individual investors in the Chennai city. Section one deals with demographic profiles and section two contains investment profiles of the individual investors. Section three comprises of twelve variables related financial skills of the individual investors.

Reliability: In order to measure the internal consistency of the questionnaire the variables were measured using 5 point Likert scales. Financial skill variables were subjected to Cronbach's Alpha reliability coefficient. The value is being 0.829 indicates that scale is more consistent and highly reliable as suggested by Cavana and et al. (2001).

VII. RESULTS AND DISCUSSION

Percentage analysis has been applied to understand the demographic profiles and investment profiles of the respondents and the results are presented in table 1 and table 2.

Table 1: Demographic Profile of the Respondents

Demographic Profiles	Frequency	Percent
Gender		
Male	102	72.9
Female	38	27.1
Educational Qualification		
Higher Secondary	22	15.7
UG	42	30.0
PG	56	40.0
Professional	20	14.3
Occupational Status		
Government Employee	8	5.7
Private Employee	100	71.4
Own Business	32	22.9
Monthly Income(Rs)		
Below 30,000	72	51.4
30,001-60,000	46	32.9
60,001-1,00,000	16	11.4
Above 1,00,000	6	4.3
Marital Status		
Single	60	42.9
Married	80	57.1
Family Type		
Joint Family	38	27.1
Nuclear/Small Family	102	72.9

Table 1 shows that majority of the respondents are males (72.9%), married (57.1%), private employees (71.4%), hailing from nuclear families (72.9%) and earning below Rs.30,000 (51.4%) as monthly family income. Further, the sizeable portion of the respondents is post-graduates (40.0%).

Table 2: Investment Profile of the Respondents

	Frequency	Percent
Type of Investor		
Hereditary Investor	72	51.4
New Generation Investor	68	48.6
Source of your investment		
Own Savings	110	78.6
Borrowings	10	7.1
Both	20	14.3
How much percentage of income do you invest every month?		
10%	56	40.0
10-20%	50	35.7
20-30%	24	17.1
More Than 30%	10	7.1
Did you take your own investment decision?		
Yes	110	78.6
No b	30	21.4
Are you ready to invest your savings in the risky investment?		
Yes	62	44.3
No	78	55.7
If yes, up to which percentage level you are ready to take risk?		
0	78	55.7
Less Than 30%	28	20.0
30-50%	24	17.1
50-70%	10	7.1

Table 2 shows that majority of the respondents are hereditary Investors (51.4%) followed by first generation investors (48.6%). Majority of the investors are agreed that their source of investment is from savings (78.6%) followed by both borrowings and savings (14.3%) and only from borrowings (7.1%). Majority of the respondents are take their investment decisions on their own (78.6%) and they are not ready to invest their savings in the risky avenues (55.7%). Maximum number of respondents made upto 10 % (40.0%) of the earnings into investment in every month.

Table 3: Descriptive Statistics of Age of the Respondents

Descriptive Statistics	(In Years)
Mean	31.83
Std. Deviation	7.497
Minimum	23
Maximum	56

Table 3 reveals that average age of the respondents is 31.83 years with the standard deviation value of 7.497. The age of the respondents ranges from 23 years to 56 years respectively.

The data reduction technique of exploratory factor analysis has been applied to understand the underlying dimensions of financial skill (FS) variables. The results of exploratory factor analysis have been discussed in the table 4.

Table 4: Factorisation of Financial Skills (FS) Variables

Dimensions &Reliability	Financial Skills Variables	Mean (SD)	Communalities	Variance (Eigen Value)	Factor Loadings
Consideration Factor 0.780	Understanding the concept of stock trading (IFS2)	4.01 (0.937)	0.649		0.791
	Knowledge to save money (IFS1)	4.24 (0.936)	0.668		0.742
	Understanding of the trade terminologies (IFS3)	3.86 (1.043)	0.628	22.178% (2.661)	0.707
	Understanding the concept of risk (IFS4)	3.79 (1.128)	0.575		0.627
	Understanding of various trading strategies (IFS5)	3.84 (1.142)	0.529		0.613
Contemplation Factor 0.767	Ability to analyse overall stock market performance (IFS8)	3.74 (1.090)	0.764		0.862
	Understanding the Risk return concept (IFS11)	3.70 (1.180)	0.600	20.082% (2.410)	0.627
	Knowledge about various types of instruments (IFS9)	3.83 (1.144)	0.559		0.618
	Ability to analyse various stock prices (IFS7)	3.72 (1.100)	0.447		0.560
Intelligence Factor 0.693	Knowledge of Tax benefits (IFS12)	3.86 (1.063)	0.708		0.830
	Cost and Benefits of various investment avenues (IFS10)	3.79 (1.028)	0.614	18.064% (2.168)	0.737
	Understanding of clearing and settlement procedures (IFS6)	3.84 (1.070)	0.500		0.539

Total Variance = 60.325% - Meaningfully Extracted as 3 Dimensions

Cronbach's Alpha Value = 0.849 of 12 items

KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy = 0.806

(Bartlett's Test of Sphericity   Approx. Chi-Square 1585.027; Df = 66; P-Value = < 0.001)

Table 3 shows that Financial Skills (FS) variables with their communality values ranging from 0.447 to 0.764 have goodness of fit for factorization. Kaiser-Meyer-Olkin Measure of Sampling Adequacy (KMO-MSA) value of 0.806 and chi-square value of 585.027 with df 66 and P-value of 0.000 reveals that factor analysis can be applied for factorization of twelve Financial Skills (FS) variables. Three dominant independent Financial Skills (FS) factors explaining 60.325% of total variance have been extracted out of 12 FS Variables. Of them the most dominant factor is Consideration Factor followed by Contemplation Factor and Intelligence Factor in the order of their dominance.

Table 5: Formation and Validation of Cluster Groups on Financial Skill Dimensions

Financial Skills (FS)	Discriminant Coefficient	Discriminant Loadings	Value Investors Mean (SD)	Index Investors Mean (SD)	Tests of Equality of Group Means Wilks' Lambda	F-Value	P-Value	t-test t-value	P-Value
Consideration Factor	0.652	0.616	15.95 (3.79)	21.42 (3.00)	0.555	110.836	<0.001	-10.528	<0.001
Contemplation Factor	0.736	0.741	11.19 (2.76)	16.67 (2.17)	0.463	160.178	<0.001	-12.656	<0.001
Intelligence Factor	0.122	0.430	9.51 (2.86)	12.36 (1.69)	0.719	53.909	<0.001	-7.342	<0.001

(Wilks Lamba = 0.321; Chi-square = 155.023, df = 3, Sig. = 0.000) Eigen Value = 2.113; t-value = -16.164 with P-Value = 0.000

Validation of Cluster Classification					
Cluster Groups			Predicted Group Membership Value Investors	Index Investors	Total
Original	Frequency	Value Investors	43	0	43
		Index Investors	1	96	97
	Percentage	Value Investors	100.0	0.0	100.0
		Index Investors	1.0	99.0	100.0
99.3% of Cluster Classification is Correct.					

Table 5 indicates that two dominant clusters have been formed significantly differentiated by three financial skills factors namely, Consideration Factor, Contemplation Factor and Intelligence Factors. The first cluster formed with 44 respondents and labeled as "Value Investors". The dominant second cluster formed with 96 respondents and labeled as "Index Investors". The discriminant function with the eigen value of 2.113, Wilk's Lamda value of 0.321, chi-square value of 155.023 with degrees of freedom of 3 with P-Value of < 0.001 proves that cluster classification is significant differentiation of all the financial skill factors. In addition, the discriminant analysis result proves that 99.3 percentage of such classification is correct. The results of t-values of three financial skill factors are significantly differs with respect to two cluster groups and the mean differences clearly shows that index investors have higher financial skills as compared to value investors.

VIII. MAJOR OUTCOMES

After the perusal of the empirical evidences, following are the major findings and suggestions for the various stake holders in stock market and investment participation in India for the purpose of enrichment in the financial skills of individual investors.

1. Majority of the respondents are males, married, private employees, hailing from nuclear families and earning below Rs.30, 000 as monthly family income. Further, the sizeable portion of the respondents is post-graduates. The average age of the respondents is 31.83 years.

2. Majority of the respondents are hereditary Investors followed by first generation investors. Majority of the investors are agreed that their source of investment is from savings followed by both borrowings and savings and only from borrowings. Majority of the respondents are take their investment decisions on their own and they are not ready to invest their savings in the risky avenues. Maximum number of respondents made upto 10 percentage of their earnings into investment in every month.

3. Three dominant independent Financial Skills (FS) factors explaining 60.325% of total variance have been extracted out of 12 FS Variables. Of them the most dominant factor is Consideration Factor followed by Contemplation Factor and Intelligence Factor in the order of their dominance.

4. Two dominant clusters have been formed significantly differentiated by three financial skills factors namely, Consideration Factor, Contemplation Factor and Intelligence Factors. The first cluster formed with 44 respondents and labeled as "Value Investors". The dominant second cluster formed with 96 respondents and labeled as "Index Investors". The discriminant analysis result proves that 99.3 percentage of such classification is correct.

5. The results of t-values of three financial skill factors are significantly differs with respect to two cluster groups and the mean differences clearly shows that index investors have higher financial skills as compared to value investors.

IX. IMPLICATIONS AND CONCLUSION

This behavioral research was carried to explore the dimensions and dominant groups of financial skills acquisition of individual investors in the in the Chennai city. The empirical evidence proves that financial skills are grouped into three meaningful and manageable factors namely, Consideration Factor followed by Contemplation Factor and Intelligence Factor and based on these factors the investors are significantly grouped into two cluster groups such as, value investors and index investors. The individual investors opined that consideration as an imperative aspect of financial skills rather, contemplation and Intelligence. So, the individual investors are suggested to nurture their Intelligence and proper planning via critically analysing the investment avenues before making investment decision.

Both the value and index investors are shown hesitation to take risk on investment and they use to prefer only their savings amount to invest in the different avenues. In this connection, the individual investors are suggested to take moderate risk to gain better earnings on their respective investments. The individual investors should focus on enriching the financial skills with respect to analysing the investment avenues, stock market participation, analyzing the market volatility conditions and risk & return analysis before making investment decisions. To conclude, the individual investors have acquisition of moderate level of financial skills and value investor's needs to improve and enhance their financial skills as compared to index investors.

X. LIMITATIONS AND FUTURE DIRECTIONS FOR RESEARCH

Owing to time and cost constraint the present research study was restricted its sample size to 140 individual investors in Chennai city. Behavioral researches are basically cannot give long lasting and enduring findings over a period of time due to behavioral, cultural and socio-economical changes among the society. So, the findings of this empirical study may be differs over a period of time. Since, this study is adopted convenience sampling for the primary data collection; the limitations associated with non-probability sampling techniques are also applicable to this present study.

This behavioral research can be extended to other cities, states and even country as a whole in near future to understand the geographical segmented behavior of individual investors. This study may be conducted among institutional investors only or comparative study between institutional investors and speculators and their acquisition on financial skills can be explored in near future.

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