A Comprehensive Study on Factors affecting Investment Behavior

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Abstract: Individuals earn money in order to spend their livelihood, but after using a part of earnings for expenditure they save the rest amount in form of savings. This saving is called investment if the individual puts the money into a financial instrument which reaps a percentage over that amount as return. Every individual invests money in instruments which he feels is correct for him. Selection of the financial instrument depends of how much return he needs, the cost benefit tradeoff between his investment and cost of investment, his risk-taking ability etc. Here we have analyzed a few psychological and physiological factors like age, gender, financial literacy etc. and determine whether they have any effect on the investment behavior. From our findings we can imply that the factors mentioned here do have an effect on the choice of financial instruments. The instruments here are a few of the money market, metal market and stock market or equity linked. People knows that the risk in investing in the equity market is the maximum while that in the public sector banks is the minimum. This risk tolerance of an individual decides where the individual will put his money into, even his demand for the return depends on these factors. By analyzing these factors, we can design a method by which we can predict an individual's investment strategy and help channelize our efforts to sell a financial product to the target segment. It will reduce the efforts involved in selling a product to an unwilling customer.s

***Index Terms* -** Investment Behavior, Risk Tolerance, Psychology, Physiology, Behavior.

I. INTRODUCTION

Investment is a type of activity that is engaged in by the people who have to do savings i.e. Investments are made from their savings, or in other words it is the people invest their savings. A variety of different investment options are available that are bank, Gold, Real estate, post services, mutual funds & so on much more. Investors are always investing their money with the different types of purpose and objectives such as profit, security, appreciation, Income stability. The developing countries in world, like India face as seen the enormous task of finding sufficient capital to utilize in their development efforts. Most of countries find it difficult at stage to get out of the vicious circle of poverty that is prevailing of low income, low saving, low investment, low employment etc. and the list goes on. With high capital output ratio, that is observed India needs very high rates of investments that would take and make leap forwarding her efforts continues of attaining high levels of growth. The major features that is seen in an investment are safety of principal amount, liquidity, income and its stability, appreciation and lastly easy transferability. A different variety of investment avenues in abundance and types are available such as shares, bank, companies, gold and silver, real estate, life insurance, postal savings. All the investors invest who wish to invest, invest their surplus money in the above-mentioned avenues that are available based on their risk-taking attitude and capacity bearing. Key Differences between Savings and Investment

The differences between savings and investment are explained in the following points: 1. Savings means to set keep aside a part of your earned income for future use. Investment is often defined as the act of putting funds into the productive uses, i.e. investing in such investment vehicles which can reap money over a period of time. 2. People often save money, to fulfil their unexpected and sudden expenses or urgent money requirements. Conversely, investments are made or done to generate returns over the period so that it can help in capital formation of an individual. 3. With an investment, there is follows always a risk of losing money. Unlike savings, there are comparatively fewer chances of the losing the hard-earned money. 4. Investment provides higher returns than savings, as there is an assured and nominal rate of interest on savings. However, the investments in turn can earn money more than the invested amount, if invested wisely. 5. You can have easily had access to your savings, anytime because they are highly liquid and flexible, but in the case of investment you cannot have easy access to money as compared, because the process of selling the investments and making liquid takes some time.

<u>Investment Option Available:</u>

There are a large number of investment instruments available today. The people have to choose proper avenue among those available, depending upon their specific need, risk preference, and return that are expected. Different Investment avenues can be broadly categories under the following heads.

1. Equity 2. Debt 3. Mutual Funds 4. Corporate 5. Debentures 6. Company Fixed Deposits 7. Fixed Deposits 8. Post office Savings 9. Public Provident Fund 10. Real Estate 11. Life Insurance 12. Gold/Silver/Others

The main purpose of investors engaged in investment is to both maximize their income and minimize their expenses. In the literature of finance, individuals are considered to behave rationally when pursuing their own benefits. In this context, individuals spare some of their income for expenditure and some for saving. Within this framework, individuals route their savings into investment. Probability of profit and loss in the investment process makes decision-making difficult for individuals. In this scope, the rational use of savings is determined by how quickly and efficiently information about investment reaches the investor, the income the individual will get and the level of risk. Likewise, proper pricing cannot be realized on the occasions that the information accuracy in the markets is not reflected to the investors completely and transparently.

<u>Definitions</u>

1. Investment Behavior –

Investment behaviors are defined as how the investors judge, predict, analyse and review the procedures for. decision making, which includes investment psychology, information gathering, defining and understanding, research. and analysis.

2. Risk Attitude –

In finance and economics, risk is a term that's related to uncertainty about an event and its outcome, regardless of whether the event and outcome are positive or negative. A good example of this is the risk of making a financial investment. We are uncertain about the outcome of investing in a stock, and may quantify our uncertainty of loss and/or gain via a probability distribution model.

However, some models of risk are quite subjective. This is because some of our assumptions about risk deal with a person's individual attitudes toward risk and their understanding of a specific situation.

The different types of risk attitudes.

• Risk aversion is a type of attitude where an individual gravitates toward certain events.
• Risk seeking is a type of behavior where a person is inclined to take on less-certain activities in lieu of more certain ones.
• In the middle are risk neutral individuals, who have an indifferent attitude toward risk.

Investment risk – simple rules to follow

• The greater return you want, the more risk you'll usually have to accept.
• The more risk you take with your investments, the greater the chance of losing some or all of your initial investment (your capital).
• If you're saving over the short-term it's wise not to take much capital risk. So, what you are investing for and when you'll need access to your money will have a big impact on what types of investments are right for you.
• If you're investing for the long-term you can afford to take more risk as your money has more time to recover from falls in the markets.
• Investing in share-based assets has historically proved to be the best way for providing growth that outstrips inflation. There is a risk attached but, when you invest over the long-term, there is more time to recover your losses after a fall in the stock market.

II. Literature Review

Financial literacy has a variety of definitions but it is commonly referred to as "the ability to make informed judgements and to take effective decisions regarding the use and management of money" (Schagen & Lines 1996, p.ii).

In the United Kingdom, the term 'financial capability' tends to be used, rather than financial literacy. "It is reasoned that capability comprises broader concepts than simply knowledge and that financial capability consists of three interrelated elements: knowledge, skills and attitude" (FSA 2006 a).

In an exploratory study in the UK, Atkinson et al. (2006) suggest that financial capability could be conceived as encompassing four different domains of 'managing money', 'planning ahead', 'choosing products' and 'staying informed'. The researchers used factor analysis to derive factor scores, and subsequently used cluster analysis to identify groups with similar factor scores across the four capability scores (Atkinson et al. 2006).

Empirical research (most of it from the US in the form of large-scale surveys) demonstrates fairly consistently that women are more risk averse than men in their attitudes and behaviors towards investment decisions, including those that relate to pensions.

A review of psychological studies suggests that this reflects a lower tolerance to risk among women generally, financial or otherwise (Byrnes, Miller and Schafer, 1999, cited in Watson and McNaughton, 2007).

V.R.Palanivelu & K.Chandrakumar (2013) examined the Investment choices of salaried class in Namakkal Taluk, Tamil Nadu, India with the help of 100 respondents as a sample size & it reveals that as per Income level of employees, invest in different avenues. Age factor is also, important while doing investments.

III. Research Methodology

Research Objectives

1. To find whether financial literacy affects the investment decision.
2. To find whether gender affects the investment decisions amongst the professors.
3. To find whether age affects the investment decisions.

Research Design

The study undertaken is descriptive in nature. The research involves studying the effect of age, financial literacy and gender on the investment behavior of the professors of Banaras Hindu University

Sample

• Sampling Unit: Individual Professors.
• Sample Size: 31
• Sample Technique: Non-Probability Convenience Sampling.

Data Collection

Primary Source:

• In-depth personal Interview with the Professors
• Questionnaires filled personally by individual and through e-mail.

Secondary Source:

• Websites – Data from RBI, SEBI
• Ministry of Finance

Statistical Tools

• Sun Burst Diagram

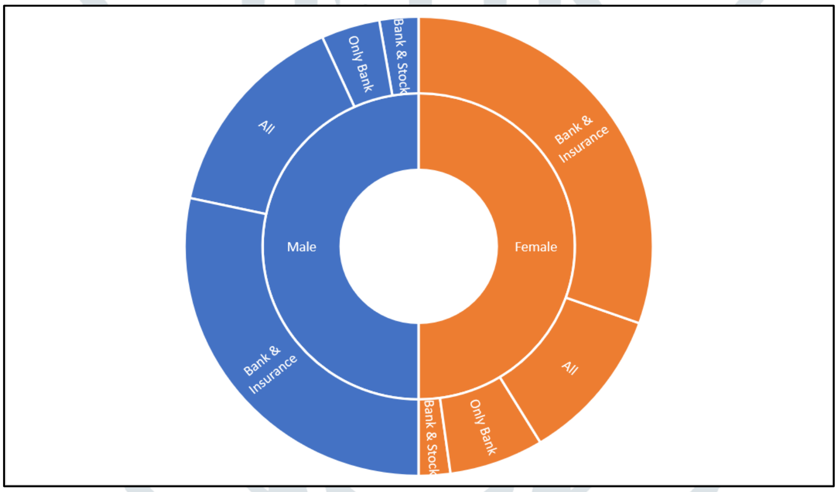
IV. Analysis and Result

It is expected from theories, that the 3 factors mentioned in the previous section of objective affect the investment decisions of an individual. The age of a person makes him risk aversive i.e. more the age lesser the risk-taking attitude, at higher age people do not like to take any type of risk especially in financial matters. Again, with enhanced financial education, the risk-taking ability of a person increases as he gets to know what he is getting into i.e. the risk he takes up is partly calculated and apprehended. It has already been seen in previous researches that gender plays an important role while in risk taking attitude affecting the investment behavior. We will analyze the result of our survey to understand whether these effects can actually be found in our sample.

Age:

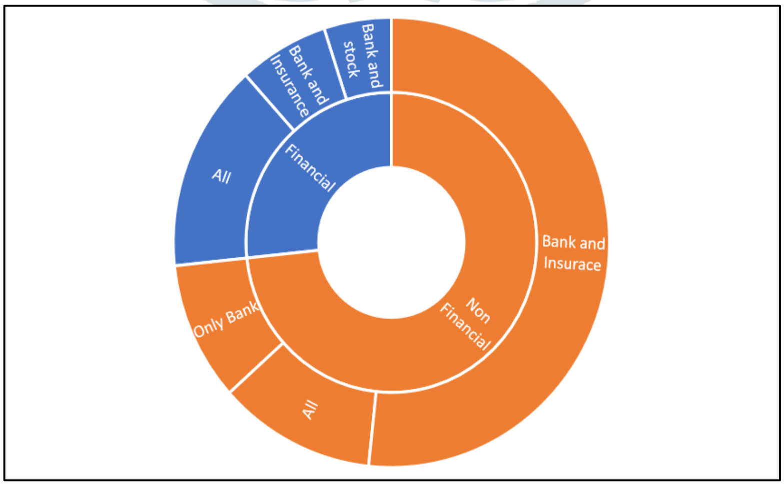
The maximum number of people still tend to use the instruments of bank and insurance as their primary choice of investment and with all the ages it seems to be the same. Highest number of respondents were from the age of 41 – 50 so the highest number of people are investing into bank and insurance. There is no investment in insurance and stock alone as the risk avenue in such an investment is very high. There are people who has only invested into bank and that is because of lack of financial literacy and risk aversion nature. The people who has invested in bank and stock are moderate risk takers, the figure shows that here people are not much interested into only bank and stock. From here we see that though plays an important factor on the risk tolerance, but other factors also affect the decision-making process.

Gender:



From the sunburst diagram we can see that men have more risk-taking attitude than women and then they can invest in stocks along with bank and insurance. Men has highest percentage of investment in Stock market which has highest risk associated with it.

Financial Literacy:



From the above diagram, we see that maximum number of the investors who invests in Bank and insurance are from the category of non-financial background. Whereas the people with financial background tries to diversify their portfolio into different instruments of the investment markets. The people with low financial literacy were risk aversive to the degree that they invested only into banks and felt no requirements of other avenue.

V. INTERPRETATION

1. Age though as shown by "Kahneman and Tversky" age is related to the risk-taking ability of a particular human being but from the results of this research not much of correlation of age and investment is found here amongst the professors of BHU.

2. Financial literacy is a deciding factor of the investment decision as with higher financial knowledge, people are easily able to judge risk and invest money depending upon that. With financial knowledge 75% of the respondents invest in the instruments of stock market whereas without the financial knowledge people mostly tend to keep money in banks and insurance. Even at times people save money in the banks alone.
3. Gender is another important deciding factor of the investment decision, in prior research papers it has been noticed that women have higher susceptibility to risk, so the risk-taking capacity of men are higher that is why men invest in stock market more than women. The percentages show that the male professors in BHU are more interested into the stock market and diversify in portfolio, whereas women are risk aversive and tend to put money into safer avenues of investment.

VI. Conclusion

From all the data and evidences, we see that the findings of prior research papers are true, and the gender and financial literacy are the factors which controls the financial decisions. So, in case of selling different policies which are used to invest money, these things should be taken care of while pitching in.

Men has more risk-taking capacity hence a riskier portfolio with a satisficing return should be targeted for them whereas for women the investment portfolio should have a lower risk index. The portfolio may consist of equity, mutual fund, ELSS etc., with a correct mix of bank instruments like fixed deposits, recurring deposits etc. and insurance like life insurance and pension plans.

On the other hand, the professors from the financial colleges like Institute of management, Faculty of commerce and Department of Economics who have financial knowledge are more risk-takers than professors from colleges like Faculty of performing arts, Institute of Science are risk aversive. So, the risk takers invest in a diversified portfolio whereas the risk aversive people invest in more traditional instruments.

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VIII. References

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IX. Tables

Sl. No.	Gender	Background	Age	Investment Decision
1	M	Financial	31-40	Bank and Stock
2	M	Financial	31-40	All
3	M	Financial	31-40	All
4	M	Financial	31-40	Bank and insurance
5	M	Financial	41-50	All
6	M	Financial	41-50	All
7	M	Financial	41-50	All
8	M	Financial	41-50	Bank and insurance
9	M	Financial	41-50	All
10	M	Financial	51-60	Bank and Stock
11	M	Non Financial	21-30	Bank and insurance
12	M	Non Financial	31-40	Bank and insurance
13	M	Non Financial	31-40	Bank and insurance
14	M	Non Financial	31-40	Bank and insurance
15	M	Non Financial	31-40	Only Bank
16	M	Non Financial	31-40	Bank and insurance
17	M	Non Financial	31-40	Only Bank
18	M	Non Financial	31-40	Bank and insurance
19	M	Non Financial	41-50	Bank and insurance
20	M	Non Financial	41-50	Bank and insurance
21	M	Non Financial	41-50	All
22	M	Non Financial	41-50	Bank and insurance
23	M	Non Financial	41-50	Bank and insurance
24	M	Non Financial	41-50	Bank and insurance
25	M	Non Financial	41-50	Only Bank
26	M	Non Financial	41-50	Bank and insurance
27	M	Non Financial	41-50	All
28	M	Non Financial	41-50	Bank and insurance
29	M	Non Financial	41-50	All
30	M	Non Financial	41-50	Bank and insurance
31	M	Non Financial	41-50	All