



Enhancing Financial Literacy and Investment Awareness Among Salaried Employees: A Focus on Financial Planning

Prameela N¹, Ramya M¹, Ramanatha A^{1*}, Shivaprasad S¹

¹Department of Commerce and Business Administration, Kukke Sri Subrahmanyeshwara College, Subrahmanya, Kadaba, Dakshina Kannada - 574238, Karnataka

Abstract

In today's dynamic economic landscape, financial planning and investment literacy are paramount for individuals, particularly salaried employees, to secure their financial future. The abstract highlights the importance of financial education in empowering individuals to make informed decisions, mitigate risks, and achieve long-term financial goals. The evolving world and increasing needs of individuals have prompted a quest for security and prosperity. Consequently, people are turning to various investment avenues in pursuit of financial stability. Investment involves committing funds with the anticipation of future returns. This research aims to explore investment awareness and savings behaviour among salaried employees, focusing on financial planning. It relies on secondary sources and employs both basic and applied research methods. Furthermore, it delves into the opportunities and challenges faced by salaried individuals, while also evaluating the risk performance of different investment options.

Keywords: Avenues of Investment, Salaried employees, Investor, Savings and Financial pattern.

Introduction:

Financial planning encompasses defining objectives, assessing present financial standing, and devising strategies to attain those objectives. This includes budgeting, saving, investing, and mitigating risks to ensure both short and long-term financial security. Proper financial planning can help individuals and families achieve their dreams, whether it's buying a home, saving for retirement, or funding education. It's about making informed decisions to maximize your financial resources and minimize financial stress.

“In investing money, the amount of interest you want should depend on whether you want to eat well or sleep well.” -J. Kenfield Morkey

Investment involves deploying funds with the aim of generating income and increasing their value, typically involving a waiting period for returns. It encompasses various forms, including savings in banks, real estate, mutual funds, gold, etc. Investments serve different purposes like security, income stability, profit and appreciation. Investors expect returns from their savings, often allocating a portion of their salary towards investments, particularly for retirement planning. Essentially, investment entails committing funds to assets held for future use, with anything saved today for future consumption considered an investment. Simply put, investing is about making your money work for you. Understanding investment is an integral aspect of financial literacy, which encompasses the skills and knowledge necessary for individuals to make informed and successful financial decisions. Investment plays a vital role in helping individuals achieve their life goals and objectives by involving

the allocation of funds through collateralized lending or depositing into secure institutions within the realm of finance.

There are other ways to invest, such as postal savings, shares, debentures, bonds, life insurance, gold, and silver. Investors divide their excess money among various possibilities; salaried staff members frequently give priority to retirement benefits, safety, security, consistent income flow, and tax savings. Compared to professionals and businessmen, salaried individuals have a distinct investment pattern. In the past, investment options were limited, but today, there is a wide array of choices, and investment awareness is prevalent. The three steps of the capital formation process are earning, saving, and investing. Investing entails sacrificing present value in exchange for undetermined future benefits. Investing entails risks and rewards, with higher risks typically associated with higher returns. However, the investment landscape has become more complex due to numerous savings and investment companies offering various products. Salaried investors, who receive fixed incomes, prioritize stability and security in their investments, whereas savings for non-salaried individuals are often irregular and subject to market conditions.

Some key aspects of investments include:

- **Return:** Investments offer the potential for returns in the form of capital appreciation, dividends, or interest payments.
- **Risk:** All investments carry some level of risk, ranging from low to high, depending on factors such as the asset class and market conditions.
- **Liquidity:** The ease with which an investment can be turned into cash without materially affecting its value is referred to as liquidity. Certain investments like stocks are very liquid, while other investments like real estate are not as liquid.
- **Time Horizon:** Investments can be made for a short, medium, or long period of time. While long-term investments may offer higher returns but require capital to be tied up for a longer period of time, short-term investments usually offer greater liquidity at lower returns.
- **Diversification:** To lower total risk, diversification entails distributing investments among several asset types (stocks, bonds, real estate, etc.).
- **Tax Implications:** Different investments are subject to varying tax treatments, which can impact the overall return on investment.
- **Inflation Protection:** Some investments, such as stocks and real estate, have the potential to provide returns that outpace inflation, helping to preserve purchasing power over time.
- **Volatility:** Volatility refers to the degree of variation in the returns of an investment over time. Investments with higher volatility typically carry higher risk but may also offer higher potential returns.

Who is an Investor?

An investor is someone who invests capital with the anticipation of a future financial gain. This can include individuals who provide funds to businesses or those who purchase stocks. Additionally, someone who holds shares in a company is referred to as a shareholder.

Types of Investors:

- **Conservative investors:** These individuals prioritize financial security and avoid high-risk ventures, preferring to manage their own finances rather than rely on professional advice. They carefully evaluate financial opportunities before making decisions.
- **Emotional investors:** They make investment decisions based on feelings rather than rational analysis. They struggle to let go of poor investments and often believe in luck to protect their finances.
- **Technical investors:** This type of investor relies on hard facts and numerical data to guide their investment decisions, often focusing on price trends and utilizing the latest technology to gain an advantage.

- **Busy investors:** They closely monitor market movements and frequently buy and sell investments based on rumours and news. They are deeply involved in financial markets, often checking prices multiple times a day.
- **Casual investors:** These individuals are typically busy with work or family commitments and may overlook their investment portfolios, trusting that investments will take care of themselves. They prioritize earning income through traditional means.
- **Informed investors:** They carefully consider financial opinions and expert assessments before making investment decisions, weighing the pros and cons of market trends. They are confident in their financial knowledge and experience.
- **Passive investors:** Security is paramount for these investors, who trust financial advisors to manage their portfolios. They are less likely to take risks and prefer to follow market trends rather than be contrarian.
- **Active investors:** With a higher risk tolerance and previous experience in wealth creation, these individuals are more inclined to take risks in their investments. They believe that actively managing their investments reduces risk and allows them to maintain control.

Distinguishing between Savings and Investments:

- Savings involves setting aside a portion of your income for future needs, while investments entail allocating funds into productive ventures.
- Investments carry a risk of financial loss, whereas savings are generally safer.
- Savings are typically reserved for unexpected expenses or immediate financial needs, whereas investments aim to generate returns over time.
- Savings offer easy access as they are liquid, whereas investments may not provide immediate access to funds.
- Savings involve setting aside current earnings, while investing involves growing your money.
- Savings serve as a foundation for investment, as investments enhance savings.
- Savings involve reserving money for emergencies or future purchases, while investing entails purchasing assets like stocks, bonds, or real estate with the anticipation of earning a return.

Review of literature:

Geetha and Ramesh (2011) assert that when it comes to investments, there are numerous options available, and it's crucial to select the most suitable one. Those involved in financial planning must be well-informed about the various options and how they can align with overall objectives. Gold and silver, bank deposits, real estate, life insurance, mutual bonds, equity, and company funds are a few examples of investment options. However, individuals tend to choose investments based on what aligns best with their preferences and suitability. Studies delve into how individuals strategize their investments to achieve their goals and objectives, taking into account factors such as age, income, education, savings, and gender. This research highlights a lack of proper awareness among individuals regarding investment options, particularly regarding the risk levels associated with different securities.

Sobhesh Kumar Agarwal (2013), In his research paper titled "Exploring Dimensions of Financial Literacy among Private Employees in Urban Areas," investigated the influence of socio-demographic factors on financial literacy among young working individuals in urban India. The study aimed to provide insights for policy formulation to improve financial literacy among Indian youth. Surprisingly, the research found that despite the high educational level of the sample respondents, there was a lack of adequate financial literacy, leading to profligate behaviour among the youngsters. Additionally, the study observed a significant negative correlation between financial attitude and behaviour, highlighting the need for targeted interventions to bridge this gap.

Prof. Priya Vasagadekar (2014) examined the investment awareness patterns among Indian working women. The author suggested that nowadays, women aspire to achieve financial independence and secure their future with

sufficient funds. The study aimed to understand the investment behaviour and patterns followed by working women across various sectors.

Sonali Patil (2014) used self-assessment tests to determine which investment paths were most popular with individual investors. Additionally, the survey revealed that salaried workers consistently place a higher priority on investment returns and safety.

Manjunath S. Awalakki (2015) discovered that compared to businesspersons, salaried employees did not significantly increase their investments. Unfortunately, many employees only consider investing when they are nearing retirement.

Murlidhar Ananda Lokhande (2015) aimed to assess the awareness of rural investors regarding different investment options, their preferences, and the factors they consider when investing. The study primarily focused on determining whether there were differences in investment awareness levels based on the educational qualifications of male and female rural investors.

Geethu Gopi, D. Priyanka, and R. Preetha (2018) observed that the majority of employees direct their savings towards personal expenses such as their child's education and marriage, indicating a tendency towards risk-averse investment behaviour. They also concluded that the salaried workforce is becoming increasingly aware of the importance of financial planning and prosperity.

Objectives of the study:

- Investigating the level of investment awareness among salaried employees.
- Identifying the challenges encountered by investors.
- Analysing the investment and savings patterns observed among salaried employees.

Statement of the problem:

Inflation significantly impacts investment awareness, as rising prices affect the cost of living, impacting savings and investments. With inflation increasing, the amount saved or earned in interest each month may not keep pace. Consequently, inflation exerts additional pressure on savings and investments. Investors encounter a variety of obstacles, such as insufficient disclosure, insider trading, manipulation of prices, excessive demand for shares, absence of clarity, and grievances from investors. Although many salaried workers are aware that mutual funds and the stock market offer investment opportunities, they view these as high-risk options. Investment involves manoeuvring money at varying rates, influenced by factors such as the investment term and the level of risk involved.

Importance of the study:

- **Increased life expectancy and retirement planning:** Earnings should be managed to allocate a portion towards savings, as savings alone do not generate wealth.
- **Rising taxation rates:** Various investment options in the country offer avenues for tax deductions, helping to lower personal income tax levels.
- **Fluctuating interest rates:** Different investments offer varying interest rates, influenced by risk levels and benefit schemes.
- **Impact of inflation:** Inflation has been a persistent issue, leading to several associated problems and a decline in living standards.
- **Income growth:** With the rise in employment opportunities in India since Independence, investment decisions have become increasingly important.
- **Diversified investment channels:** Economic growth has introduced a wide range of investment opportunities, including corporate stocks, provident funds, life insurance, and fixed deposits.

- **Achieving financial goals:** By diversifying investments across assets, individuals can build up the necessary funds for future expenses such as purchasing a home, funding children's education, and retirement.

Research Methodology:

The research for this study encompasses diverse secondary sources, including the internet, websites, magazines, research articles from national and international journals, as well as relevant books and other references.

Results and Discussion:

Every investor aims to achieve the highest possible rate of return while minimizing risk, making risk and return the cornerstone of investment decisions. However, many salaried employees lack investment awareness, emphasizing the importance of financial planning. Research has shown a focus on savings and investment among employees. Timely salary payments are crucial for employees to realize returns on their investments, highlighting the interconnectedness of risk and return. It's commonly understood that higher returns often entail greater potential losses. Investments can span across different securities, including shares, debentures, and bonds.

Futures present a popular avenue for investors looking to directly invest in commodities like oil and gold. Investors can opt for direct futures contract investment, managed futures accounts, or ETFs holding commodity futures contracts. Risk arbitrage involves exploiting temporary price disparities, including merger and acquisition arbitrage, pairs trading, and liquidation arbitrage. Long/short equity trading combines both long (buy) and short (sell) positions to mitigate risk or maximize profits. Various approaches exist, such as buying one market sector while selling another, or purchasing one stock in an industry while short selling another stock in the same industry. Long/short trading also includes option trading strategies to hedge overall long or short positions. Real estate typically underperforms when stocks are struggling, offering investors options like REIT stocks or real estate-focused ETFs or mutual funds. The forex market presents opportunities in a global economic landscape characterized by divergent monetary policies. Retail investors can access forex trading through ETFs or mutual funds, while hedge funds may employ forex trading as part of a global macro trading strategy.

Despite the financial stability of employed individuals, many lack comprehensive knowledge of portfolio management, hindering their ability to make informed investment decisions, particularly in high-risk ventures. Often, they rely on peer recommendations when investing in stocks or equities, increasing the likelihood of significant losses. Efforts to enhance financial literacy among employees are crucial, requiring proactive engagement from both individuals and government-led investment awareness campaigns tailored for the workforce. This research paper sheds light on the current state of investment awareness among Indian employees, serving as valuable insight for management students considering Investment Management as their specialization.

In today's environment, the importance of successful investment decisions has grown significantly. Sound investment choices demand a blend of both expertise and judgment. Assessing risk and returns requires skill, while understanding the array of investment options necessitates knowledge. This aims to raise awareness among investors about their behavioural biases and their impacts on decision-making. While it's commonly assumed that higher-income individuals can tolerate greater risk, our research doesn't strongly support this notion, potentially due to various factors like increased responsibilities or dependents. This study aims to assist stakeholders in making informed decisions regarding investment timing, duration, amount, and portfolio selection. By utilizing projected return values, one can anticipate potential outcomes, though actual results may vary. The breadth of a probability distribution of returns serves as a measure of risk. Investors must conduct a comprehensive analysis of companies, considering factors such as capital structure, shareholding patterns, and market intricacies, to make informed investment decisions.

Conclusion:

Individuals' investment decisions are influenced by multiple factors rather than a single one, often leading them to rely on instincts and emotional biases. Research suggests that there isn't a universal variable dictating these decisions, as they vary based on individual traits, locations, and securities. This study aims to raise awareness among investors about their behavioural biases, which can impact long-term decision-making. It also investigates the savings and investment behaviours of salaried employees, focusing on financial planning, and assesses the risk performance of different investment options.

Enhancing investor awareness across diverse investment options can bolster the study. Policymakers in emerging economies are increasingly concerned about the growing trend of firms investing abroad, fearing it may detract from domestic investment. Market size, indicative of consumer purchasing power, reflects demand expectations for goods and services, influencing investment decisions. Investment analysis is a continuous process that assesses current and potential financial asset allocations to align with investor objectives. Addressing various investor challenges can steer them in the right direction. While all investments entail risk and potential returns, those willing to accept higher risk typically anticipate greater returns alongside the possibility of substantial losses.

References:

- Dr. M. Ashok Kumar (September 2013) A study on investment pattern and awareness of salaried class investors in Coimbatore District. Indian journal of research, 2(9).
- Geethu Gopi (et.al) (2018) An Insight Into the Savings and Investment Pattern of Salaried Employees Working in Private Sector of Shipping Industries at Ernakulam. International Journal of Pure and Applied Mathematics Volume 118 No. 18 (1347-1363).
- www.semanticscholar.com
- Prof. Priya Vasagadekar (June 2014) A research paper on investment awareness among Indian working women with reference to Pune region. International journal of scientific & engineering research, 5(6).
- Dr. Kalpana Nandawar (sep-oct 2014) A study on preferred investment avenues among salaried people with reference to Pune, India. Journal of economics and finance, 5(2).
- Wike Juniati (December 2019) A wisdom local in improving investment awareness communities. Airlangga International journal of Islamic economics and finance, 2(2).
- Dr.Navdeep Kaur (February 2015) A study of saving and investment pattern of salaried class people with special reference to Chandigarh, India. International Journal of research in engineering, 5(2).
- S mary maglin alven, (2019), research paper -to explore the personal Finance planning of salaried employees, st. Xavier college for women, Aluva, Affiliated to MG University Kottayam, India.
- Prof. Sanket L.Charkha (June 2018) A study of saving and investment pattern of salaried class people with special reference to Pune city. India. International journal for research in engineering applications & management, 4(03).
- Dr. Vedala Naga Sailaja (March 2018) A study on investors awareness towards mutual funds investment. International journal of civil engineering and technology, 9(3).
- <https://www.researchgate.net> (Investment preferences of salaried individuals towards financial products)
- Murlidhar Ananda Lokhande (July 2015) A study of investment awareness and patterns of savings and investments by rural investors. Indian journal of finance, 9(7).
- Prof. Puneet Bhushan (March-May 2014) Insights into awareness level and investment behaviour of salaried individuals towards financial products. International journal of engineering, business and enterprise application, 8(1).
- www.shodhganga.com
- Sonali Patil and Dr.Kalpana Nandawar (2014) A Study on Preferred Investment Avenues Among Salaried People With Reference To Pune, India IOSR Journal of Economics and Finance (IOSR-JEF) e-ISSN: 2321-5933, p-ISSN: 2321-5925. Volume 5, Issue 2. (Sep.-Oct. 2014), PP 09-1.

- Singh, P. 2013. Investment Management: Security Analysis and Portfolio Management. Bombay: Himalaya Publishing House
- Manjunath. S.Awalakki (August 2015) A study on investment patterns and awareness of salaried class investors. International journal of scientific research, 4(8).

