Research Guru
Online Journal of Multidisciplinary Subjects (ISSN : 2349-266X)
UGC Approved Journal No. 63726
Impact Factor:4.081
Volume-12, Issue-4, March-2019 www.researchguru.net

# Study on High Income Group Individual Investor's behaviour towards different investment avenues

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**Abstract:** With the increase in income, consumption patterns have changed and a new High class has emerged, which is growing at a fast pace. There are large numbers of investment opportunities available today. This research paper, examine how the High Income Group Individual Investor manage their investments- their investment behaviour, their perception on investment and if there exists a style in their investment decisions. Investors do not act wisely in taking decisions relating to investment. They have certain weaknesses like cognitive and emotional which take a predominating role in taking investment decision of individuals. They have behavioural biases in the event of taking investment decision. Investment decisions also depends on the types of investors, risk tolerance capacity, education, occupation, age, gender, income, marital status, family back ground, living area and environment and attachment with the financial advisor etc. Despite all the resources and infrastructure, investors adopt some avenues after analysing different factors which are influenced by internal and external environments. Using the principles of behavioural finance the present study explores the psychological concept of high income group individual's attachment style, especially individual investors to different available investment avenues and their investment preference process.

**Keywords: Investment avenues, Behavioural finance, High income individuals**

**Introduction:** Behavioural finance attempts to explain and increase understanding of the reasoning patterns of investors, including the emotional processes involved and the degree to which they influence the decision making process. Essentially, behavioural finance attempts to explain the what, why, and how of finance and investing, form a human perspective. With the help of behavioural finance investment professionals understands the importance of making sound, rational investment decisions, while minimizing costs, taxes, and losses due to adverse decision making. It endeavours to bridge the gap between neoclassical finance and cognitive psychology. Thus, behavioural finance is the application of scientific research on the psychological, social, and emotional contributions to market participants and market price trends. It also studies the psychological and sociological factors that influence the financial decision-making process of individuals, groups. Investment is the most important things today. A proper considerate of money, its value, the available avenues for investment, various financial institutions, the rate of return/risk etc., are essential to successfully manage one‘s finance for achieving life‘s goal. What drives High Income Group investors to use different investment options available and what could be the motivators- reasons for saving money/making long term investments, sources of information/key Influencers, while selecting different financial investment options one must be aware of, performance of industry and economy, income and risk factors, as it provides the valuable insight for selecting the best avenue for investment.

**Literature Review**

- Abhilash Sreekumar Nair and Rani Ladha (2014) Religiosity and the belief that one’s actions can bring about a change in the society are the two important determinants of Indian investors’ pursuit of non-economic investment goal.
- Ambrose Jagongo and Vincent S. Mutswenje (2014) describes in their research an understanding of the various decisions to be made by investors based on the prevailing factors and the eventual outcomes for each decision and would identify the most influencing factors on the company’s investors’ behaviour on how their future policies and strategies will be affected since investment decisions by the investors will determine the company’s strategy to be applied
- Bogle and Ippolito (1992) have suggested that the Investors are selecting fund on the past performance. They also specify that Investor invest in such a fund whose past performance is positive rather than negative for specific period of time
- Dhimen Janiand & Dr. Rajeev Jain (2013) revealed in their study that Age Gender, Occupation, Educational Qualification, Income etc. have significance impact on the buying behavioural pattern on rural and urban investors, besides that on the basis of priority provided by investor, both investor gives first priority to financial planner and second to risk and return profile, third past performance, forth tax consideration and fifth to the brand.
- Durand, Newby, Peggs and Siekierka(2013) argued that investors’ personalities get associated with theory investment choices; some investors prefer tried and tested products while others opt for innovative investment products.
- Pandit and Yeoh (2014) it is apparent that the greater an investor’s risk propensity, the less likely it is that he/she will postpone purchases of shares or investments.
- Maheswari (2014) stated that there is a significant correlation between the age of the investor and the financial planning. An ANOVA test showed that there is the difference in the perception of planning by investors in different age groups.

- Herrmann, Andrew. F. (2007) provided the estimation results and discussed that supported the initial hypotheses regarding the roles of race/gender in investment preferences. Using multiple specifications and leveraging multiple risk/return measures, the evidence pointed to significant effects with respect to both race and gender.
- Kaustia and Knupfer, (2010) showed that the existing investors return in a neighbourhood experience in a given month encourage new investors enter the market following month if the returns are positive. Two channels through which peer outcomes could have an impact on individual actions are – extrapolated expectations and selective communication with relative wealth concern.
- Ronay, Richard & Kim Do-Yeong (2006) suggested that measuring individual variations in risk-taking propensity within laboratory contexts alone could be misleading. At least in the case of males, it appeared that individuals' attitudes towards risky decisions could significantly deviate from their explicitly expressed attitudes when placed in a group context.
- Sudipta Das and Parama Barai (2015) finds that the existence of dynamic beta in Indian market. The results also indicate systematic risk or beta of Indian industries is susceptible to the global economic effect. Finally, the Kalman filter generates the lower forecasting error compared to the other method for almost all the industries.
- Gulnur Muradoglu and Nigel Harvey (2012) describes the primary input to behavioural finance has been from experimental psychology. Methods developed within sociology such as surveys, interviews, participant observation, focus groups have not had the same degree of influence. Typically, these methods are even more expensive than experimental ones and so costs of using them may be one reason for their lack of impact. However, it is also possible that the training of finance academics leads them to prefer methodologies that permit greater control and a clearer causal interpretation

**Need For the Study**

It is perceived that investors are more reliable and attached with a particular type of investment avenues. So it becomes substantial to study the motivational factors that induce them for selecting the investment avenues. So it is the immense need to study on the high income class investors' perceptions and preferences, as it has a greater significance in the economic development of a nation.

**Objectives**

The objectives of the study are:

- To find the important factors that influence the investment behaviour of High Income Group Individual Investors
- To study the attitude of respondents towards different financial instruments and to evaluate the awareness about various investment opportunities.

**Research Methodology**

Descriptive research is used to obtain information concerning the factors influencing the investment behaviour among investors**.** A convenient sampling technique was used in selecting the sample size. This study was based on primary data obtained through a structured questionnaire. The first part of the questionnaire relating to socio-economic background of respondents consisted of questions relating to age, educational qualification, income etc. The second part of the questionnaire collected information on different variables of investments and risk associated with it. The sample size was 200 and the respondents were selected from urban investors. The Primary data obtained from the questionnaire was analyzed by using the simple descriptive tools like average and percentage. The analysis was performed using Microsoft Excel application package. Further, the secondary data had been obtained from various internet websites, journals, magazines and other published sources.

## Hypothesis

The following hypotheses have been formulated on the basis of objectives:
H1: Demographic factors do not have a significant influence on the level of Investment by High Income individual investor.
H2: There exists no significant difference in the amount of investment in different financial assets by High Income individual investor

## Data analysis and interpretation

**Table1: Demographic Details of the Respondents**

| Demographic Factors | Variable | No. of respondents | Bullion | Post Office | Insurance | Bank Deposits | Mutual Funds (MF) | Equity Shares |
|---|---|---|---|---|---|---|---|---|
| Gender | Male | 120 | 15 | 11 | 29 | 36 | 11 | 21 |
| | Female | 80 | 21 | 15 | 17 | 20 | 5 | 2 |
| Age (in yrs) | 18-30 | 39 | 10 | 8 | 8 | 7 | 3 | 3 |
| | 31-40 | 72 | 10 | 8 | 14 | 16 | 13 | 11 |
| | 41-50 | 55 | 7 | 6 | 17 | 14 | 5 | 6 |
| | Above 50 | 34 | 8 | 8 | 7 | 7 | 1 | 3 |
| Annual Income (In lakhs) | Up to 10 | 25 | 4 | 5 | 6 | 5 | 3 | 2 |
| | 10-15 | 32 | 5 | 3 | 8 | 11 | 3 | 2 |
| | 15-20 | 53 | 8 | 7 | 7 | 14 | 8 | 9 |
| | 20-25 | 34 | 6 | 5 | 5 | 6 | 4 | 8 |
| | Above 25 | 56 | 8 | 4 | 7 | 7 | 13 | 17 |
| Education | Under matriculation | 33 | 8 | 7 | 10 | 7 | 1 | nil |
| | Intermediate | 54 | 12 | 8 | 13 | 15 | 4 | 2 |
| | Graduate | 88 | 18 | 15 | 24 | 20 | 6 | 5 |
| | Post graduate | 95 | 16 | 10 | 20 | 17 | 18 | 14 |
| Occupation | Govt. Employee | 62 | 12 | 8 | 16 | 14 | 7 | 5 |
| | Private Employee | 82 | 11 | 11 | 20 | 9 | 16 | 15 |
| | Self employed/ Business | 90 | 16 | 8 | 18 | 13 | 19 | 16 |
| | Retired | 36 | 6 | 5 | 9 | 10 | 4 | 2 |

It is observed from table 1 that the respondents vary in age, occupation, gender, income, risk bearing capacity etc. A total of six investment avenues namely Bullion, Post office savings schemes, Insurance, Bank Deposits, Mutual funds and Shares were taken for study. It can be observed that the investors take different investment avenues for meeting their Psychological, Social and Financial need. Table-1 as provided above presents the demographic details of different investors varying in age, occupation, education, gender and their preferences to different investment avenues.

In the above table out of six avenues, investment in shares is regarded as risky avenue as compared to other available avenues as it is directly associated with the capital or stock market. It shows that investors who are in the age group of 41-50 and above 50 years prefer to invest in safer investment avenues like Bank deposits, Insurance, Post office saving schemes and Bullion. 'Income' factor also affects in fund selection behaviour of investors.

Among the investors with income of 10 lakh, 8% of them prefer investing in shares, 12% in mutual funds 24%, in insurance 20% in bank Deposits, 16% in Bullion and only 20% in post office savings schemes. Out of the investors whose income is between 10 to 15 lakh p.a., it was found that 6.25% invest in equity share, 9.375% in mutual funds, 34.37% in Bank deposits, 25% in insurance and 15.625% Bullion and 9.375% invests in post office saving schemes. Similarly analysing the investor preference in the income group of Rs.15 to 20 lakh per annum, revealed that 17% of investors invest in shares, 15.09% in mutual funds, 13.20% in Insurance and Post office. The investors having high income prefer to invest in share market even though it involves more risk as compared to other available investment avenues. as it was observed that investor group with income level more than Rs.25 lakh per annum invest in investment avenues (Shares and Mutual funds) in a higher rate or percentage than the investors having low income level .So there is great impact or influence of income level of investors on investment avenue selection.

**Table-2: Factors and Scores Influencing the Investment Decisions**

| Factor | Score/ Bullion | Score/ Post Office Deposits | Score/ Insurance | Score/ Bank Deposi | Score/ Mutual Fund | Score/ Shares |
|---|---|---|---|---|---|---|
| **Safety** | 168 | 145 | 210 | 195 | 18 | 16 |
| | 62.2% | 53.7% | 77.7% | 72.2% | 6.6% | 5.9% |
| **Periodic returns/ dividends** | 48 | 75 | 43 | 55 | 20 | 59 |
| | 17.7% | 27.7% | 15.9% | 20.3% | 7.4% | 21.8% |
| **High returns** | 78 | 50 | 72 | 45 | 69 | 85 |
| | 28.8% | 18.5% | 26.6% | 16.6% | 25.5% | 31.4% |
| **Secured future** | 85 | 92 | 130 | 120 | 23 | 20 |
| | 31.4% | 34.0% | 48.1% | 44.4% | 8.5% | 7.4% |
| **Ease of purchase** | 80 | 68 | 90 | 75 | 16 | 19 |
| | 29.6% | 25.1% | 33.3% | 27.7% | 5.9% | 7.0% |
| **Liquidity** | 105 | 64 | 35 | 83 | 38 | 30 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | 38.8% | 23.7% | 12.9% | 30.7% | 14.0% | 11.1% |
| **Easy marketability** | 65 | 35 | 52 | 40 | 35 | 54 |
| | 24.0% | 12.9% | 19.2% | 14.8% | 12.9% | 20.0% |
| **Tax benefit** | 8 | 39 | 68 | 35 | 5 | 0 |
| | 2.9% | 14.4% | 25.1% | 12.9% | 1.8% | 0 |
| **Mortgage need** | 72 | 38 | 20 | 57 | 12 | 25 |
| | 26.6% | 14.0% | 7.4% | 21.1% | 4.4% | 9.2% |
| **To meet future contingency** | 114 | 95 | 135 | 100 | 35 | 46 |
| | 42.2% | 35.1% | 50% | 37.0% | 12.9% | 17.0% |

It can be seen from table 2 that investors preferred those types of avenues which are safe, lead to secured future, liquidity and meet future contingency etc. It was also observed that 77.7% of investors preferred insurance and 72.2% preferred bank deposits for safety purpose, 48.1% preferred insurance and 44.4% towards bank deposits for secured future, 50% preferred insurance to meet future contingency and 25.1% for getting tax benefits. Similarly, 37.0% of investors preferred bank deposits, 42.2% preferred bullion and 35.1% towards post office deposits primarily to meet future contingency. This is probably because they assume that equity shares are more risky investment avenues than other four investment options namely mutual funds, insurance, bank deposits, and post office deposits. Column 3 of table 2 shows that 31.4% investors prefer investing in equity share in order to obtain high returns in the form of capital gains,11.1% for liquidity purpose, and 17.0% investors for meeting future contingency.

It can be found from table 2 (column 4) that 25.5% investors select mutual fund for getting more return as compared to other avenues with single exception of equity share since investing in mutual funds carry relatively less risk as it is invested in a well-diversified portfolio by the well qualified professionals. But, in case of investing in insurance products it is observed that, in general, the investors (irrespective of any demographic class) select it for reasons of safety, secured future, tax benefit, meeting future contingency, getting periodic return, easy to purchase, capital appreciation, and liquidity etc. Among these77.7% investors select for safety needs, 48.1% for secured future, and 25.1% for tax benefits and 50% for meeting future contingency.

## Conclusion

- The study discloses that investors invest in different investment avenues for fulfilling financial, social and psychological need(like, safety and security, getting periodic return or dividends, high capital gain, secured future, liquidity, easy purchase, tax benefit, meeting future contingency etc.)

- Result indicates that Gender do effect the investment pattern like Males prefer Equity Capital Market Instruments and mutual fund ,whereas females prefer Bank Deposits & bullions more as mode of investment than males.

- It is conferred that the most important reason for High Income Individual investors to invest is Money required for emergency purposes and to secure their lives after retirement.

- It has observed that there exists major difference in the average investment in different financial assets.

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