

## Investor's awareness, preference and pattern of investment in various financial assets

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### Keywords

financial decision making, financial knowledge, fixed deposits, investor's preferences, stock market

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### Abstract

*The purpose of this study is to investigate the current level of knowledge among investors about the various financial assets. We also study the multiple factors that could affect the investment decisions and investment style of the investors. We collect data using a questionnaire from 152 investors. The survey instrument consisted of two parts. The first part of the questionnaire is used to collect data related to demographics. The second part consists of questions to gauge the level of knowledge and factors affecting the investment decision and style of investors. We use "The Statistical Package for the Social Science" (SPSS) to analyse the data. Descriptive statistics are used to determine the relationships among the variables, which are expected to influence the investment decision of the investors. We found differences in the preferences of investors based on their characteristics like gender, academic credentials, age, occupation, and annual income.*

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### Introduction

Investment is a complex activity. It does not merely mean the activity of investing i.e., sacrificing resources today in different avenues for getting greater returns in the future, but it entails several other aspects. Investment is a function of the level of knowledge among investors about the various investment avenues, benefits and risks associated with the investment products, choosing the right kind of financial products according to the investment goal, investible funds, and risk appetite of the investor, etc.

Investment in financial assets has grown substantially in the past decade. The presence of several financial assets provides ample opportunities to invest. But it is possible only when investors have sufficient knowledge about financial assets. In a country like India with a very young demographic profile, the major investors are young professionals. To be financially independent the investors must be aware of the financial assets, various modes of investments and their associated risks. It is observed that young professionals are unaware of this basic information.

The research conducted here is an attempt to analyse the factors that affect the investment decision-making process of investors. It includes the analysis of demographic factors like gender, age, income and education in decisions taken by investors. The objectives of the study include ascertaining the awareness level of investors in different financial instruments, to know the investor's preference of medium of investment, and to understand the investment style or pattern of investment.

The present research work will help a financial company to understand the present status of awareness of financial instruments among the people and devise the strategies to make people aware of the various investment avenues. It is necessary to spread this awareness before marketing the various products to the people. Further, such studies should be conducted at periodical intervals since investor's behaviour, preferences or attitude change with time which ultimately changes the market scenario. At this juncture, it was felt necessary to study and understand the investors' awareness, preference, and pattern of investment in various financial assets.

### Literature Review

Velmurugan et al. (2015) emphasized that the aged and high-income investors prefer to invest only in the post office and bank deposits for a safe and secure investment avenue. Awais et al. (2016) investigate how investment experience helps to handle risky investment. They found that by an increase

in the level of knowledge about financial information and an increase in the ability to analyse that information, investors can improve the capacity to jump into more risky investments to earn higher returns by managing investment efficiently. Agrawal and Jain (2013) studied the preference of 300 investors of Mathura (a city in India) towards investment in mutual funds when other investment avenues are also available in the market. The outcome of the research suggested that Banks, LIC, Mutual Funds, Real Estate & NSC were amongst the most popular investment avenues among the investors and very few investors were aware of Commodity Market and Future & Options. Shukla (2016) studied the preference of 100 salaried personnel towards different investment avenues. By the outcome, it was evident that the majority of investors tend to invest much in Fixed Deposits, Post Office Scheme and Gold and Silver. He observed a significant impact of advice on the investors given by friends/relatives and financial advisor. Geetha and Ramesh (2011) studied the preference of 210 respondents from Kurumbalur (a city in India) towards various investment avenues. The study suggested that there is no significant relationship between the preference of investment avenues and education & occupation. The respondents were somewhat aware of various investment choices, but they were not aware of the Stock Market, Equity, Bonds & Debentures.

Deb and Chavali (2009) focused on how gender affects investment behaviour or financial decisions by analysing the data collected from 100 male and female each. The conclusion showed that there exists a significant difference between male and female investors with regards to making financial decisions. Bhushan (2014) studied the insights into awareness level and investment behaviour of salaried individuals towards financial products in Himachal Pradesh (a state in India). With the help of 516 respondents, he found that respondents are quite aware of traditional and safe financial products whereas the awareness level of new-age financial products among the population is low. Also, the majority of the respondents park their money in traditional and safe investment avenues. More people invest in mutual funds as compared to the stock market and very few people invest their money in debentures as well as the commodity market. Geetha and Ramesh (2012) studied the significance of demographic factors of the population such as gender, age, education, occupation, income, savings, and family size over several elements of investment decisions like priorities based on characteristics of investments, period of investment, reach of information source, frequency of investment and analytical abilities.

The study was made by surveying in Nagapattinam district of Tamilnadu, South India and the statistical inferences were deduced using computer software tools, statistical package for social science (SPSS), ANOVA and Chi-square test. The study reveals that the demographic factors have a significant influence over some of the investment decision elements and insignificant in other elements too. The study also discloses a general view of investor's perceptions over various investment avenues. Liquidity is identified as a major factor that influences investment decisions. Arora and Marwaha (2016) carried an exploratory attempt to have an insight towards awareness of stock market investments and the financial literacy level of the individual stock investors. A Chi-square test has been applied to test the differences in the financial literacy regarding stock market traits across demographics of Punjab. With the help of 100 investors equity has been found as the highly aware investment. The investment in Mutual funds is amongst the moderate level of awareness.

Bonds, Derivatives/Futures/Options/ Swaps, Commodities and Debentures are among unaware investments. Ramanathan and Meenakshisundaram (2016) carried out a descriptive study on the basis of secondary data and analysed the performance on the return on investments between Gold, Gold Exchange traded funds and Nifty indices for three financial years from March 2012 to March 2015. They emphasised that for a short period of 3 years between March 2012 and March 2015, investment decision in Gold ETF was not a wise one. They also concluded that investment in stock indices yield better return than the commodity indices. Bhatt and Bhatt (2012), in their analysis of investor behaviour among different classes of investors conducted on the basis of occupation and education level concluded that investment preferences change due to change in education and income level of investors. The study also suggested that because of being less risky bank deposits are most preferred among all classes of investors.

### Data and Research Methodology

**Research design:** It is the blueprint for undertaking a research project. The design adopted herein the project was Descriptive research. Since one of the objectives was to know the awareness of customers about investment products, thus, the design adopted was Descriptive.

**Sources of data:** The data sources for this project were both primary and secondary.

**Primary data source** – information collected from people across the country through the internet and survey.

**Secondary source** – information collected from the internet, books, etc. to know more about investments option, their features, etc.

### Data collection

The collection of primary data was done through the survey method. A structured questionnaire consists of close-ended questions. The questions were regarding the general demography of respondents, awareness of few financial products, preferences, risk appetite, objective and maturity of the investment, barriers affecting investment decisions, and sources of information about financial products to the investors.

### Sampling design

The sample was selected based upon non-probabilistic convenience sampling and consisted of 152 respondents.

### Data Analysis and Findings

The survey conducted for this project consists of 14 main questions and other related, descriptive questions as well. Data of 152 respondents were collected during the survey. An analysis of the data follows below.

The demographic profile of the respondents

Through the questionnaire, the respondents were asked to provide their demographics that comprised name, gender, location, age group, education qualification, occupation, and annual income. The following TABLE 1 provides the descriptive statistics of the same.

TABLE 1: Descriptive statistics for respondents' characteristics

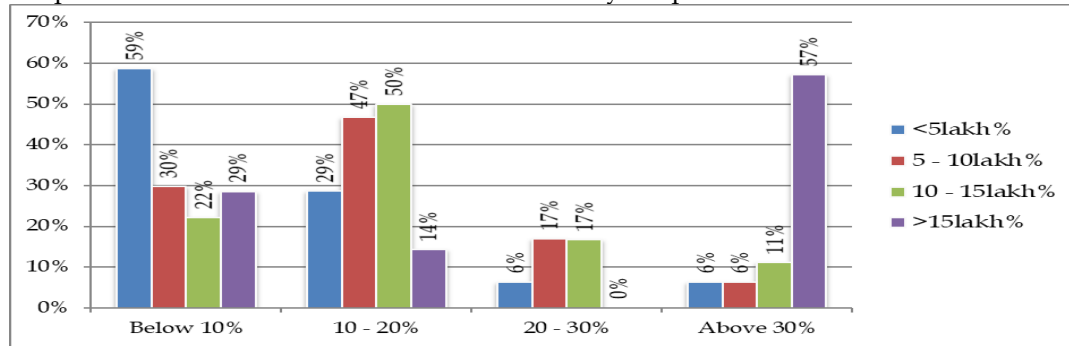
Characteristics	Number	Percentage
<b>Gender</b>		
Male	99	65
Female	53	35
<b>Location</b>		
Others	59	39
Lucknow	6	4
Mumbai	9	6
Bangalore	10	7
Delhi	16	10
Patna	52	34
<b>Age Group</b>		
20-35	121	80
35-50	21	14
50-65	10	6
>65	0	0
<b>Education Qualification</b>		
Ph.D.	1	1
Postgraduate	61	40
Graduate	83	55
Undergraduate	7	4
<b>Occupation</b>		

Student	28	18
Salaried	98	65
Business	11	7
Professional	15	10
Retired	0	0

**Annual Income**

>15 Lakh	7	4
10-15 Lakh	18	12
5-10 Lakh	47	31
< 5 Lakh	80	53

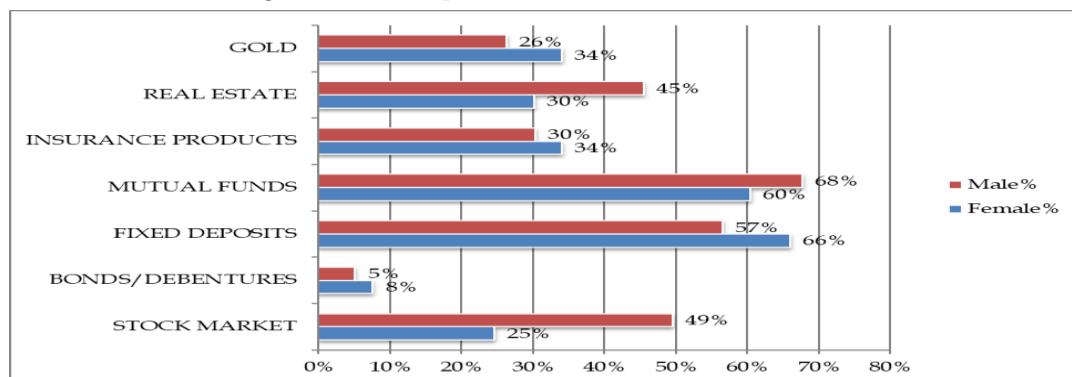
Graph 1: Income and Percent of Income Invested by People



Graph 1 shows the combined result of the income level of the respondents and the percent of their income that they invest in financial products. The objective of the question was to know what percent of income is invested by people belonging to the respective income level. We can infer from the graph that a maximum number of people with income less than 5lakh invest only 10% of their income. This also includes those people who not at all invest any percent of their income. Considering respondents with income 5-10lakh, they mostly invest 10-20% of their income. A similar trend can be seen in the income bracket of 10-15lakh. Most people in this bracket invest only 10-20% of their income. Respondents with more than 15lakh income invest more than 30% of their income. We can see a positive relationship between the income and amount invested by the investors.

Graph 2: Gender and preference of medium of investment

The following graph shows the combined result of what medium for investment is preferred by the respondents according to their gender. The purpose of this question was to compare the preferences of the two genders for each of the given financial product.

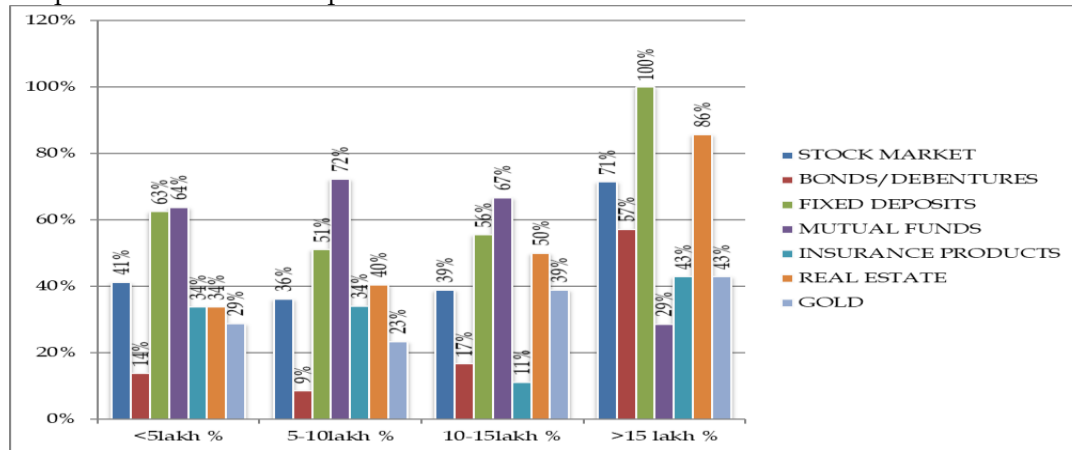


We can see that fixed deposits are preferred by females while males prefer mutual funds. The least preferred financial product under both the category is bonds/debentures. A sharp difference between the two categories of gender can be seen in the preference for the stocks. This might also reflect the risk appetite of both the genders, females being risk-averse contrary to males. This, in a way, reflects the attitude of the female gender that they prefer more safety and stability in their investment decisions and style thus, they choose fixed deposits more over any other products since fixed deposits are the safest

investment medium. All this can also be attributed to the income level of the females under study since the majority of females were in the bracket of less than 5lakh followed by 5-10lakh. With low investible funds females, according to their attitude, prefer a mode of investment which is safe. Therefore, female respondents prefer fixed deposits followed by mutual funds.

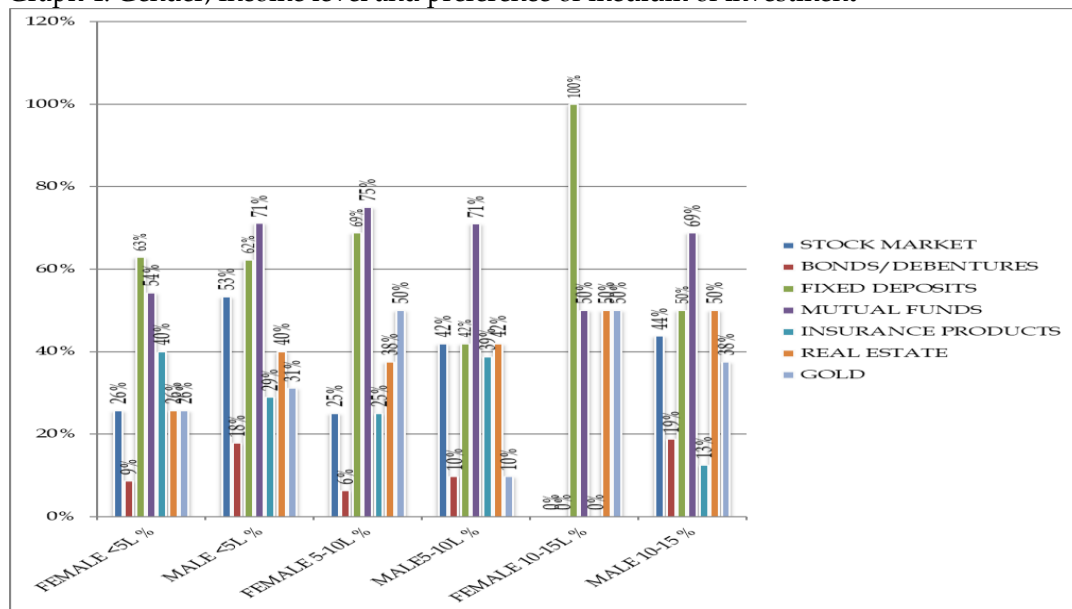
Talking about the male gender, here, a lot of them have shown interest in the stock market and real estate apart from mutual funds and fixed deposits. This difference between the two genders can be attributed to the difference in the income level, risk appetite and somewhat to the fact that a greater number of respondents were in the male category.

Graph 3: Income level and preference of medium of investment



We can infer from Graph 3 that respondents belonging to less than 5lakh category mostly prefer mutual funds and fixed deposits. Mutual funds are a modern mode of investment which has gained a lot of popularity in recent years. These are nowadays, preferred among almost all people irrespective of their income level. The graph also shows that a good number of people prefer mutual funds. As evidenced in the graph, fixed deposits remain ahead of any financial product in all categories of income level. Respondents belonging to more than 15lakh still prefer fixed deposits the most, followed by real estate and stock market respectively. The probable reason for them preferring real estate and the stock market could be the availability of more funds and higher risk appetite.

Graph 4: Gender, Income level and preference of medium of investment



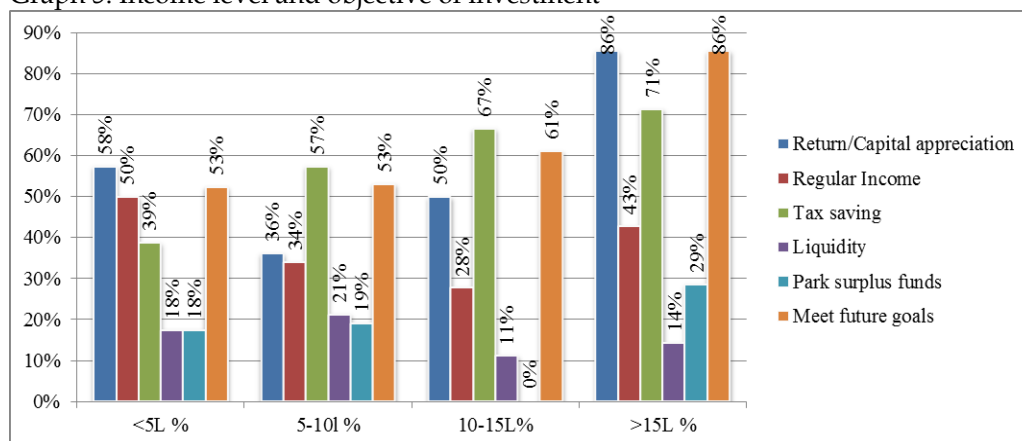
The above graph depicts the combined effect of gender and income level on the preference of medium of investment. When both the genders under less than 5lakh income are compared, we can see

that females prefer fixed deposits the most while males prefer mutual funds the most. With an increase in income level 5-10lakh, females shift their interest towards mutual funds, while males in this category as well prefer mutual funds the most. Also, females with 5-10lakh income showed a significant rise in preference for gold. This is attributed to the fact that an increase in income leads to an increase in investible funds and risk-taking ability. In the male category with 5-10lakh income, a good amount of increase in demand can be seen for the stock market. Coming to the income bracket of 10-15lakh, females are indifferent among mutual funds, real estate, and gold while still preferring fixed deposits the most. A prominent decrease in choice for insurance products is reflected by males in this category. On the downside, both genders in all the income levels are least interested in investing in bonds/debentures.

TABLE 2: Pertains information regarding characteristics of investment by investors

Characteristics	Number	Percentage
<b>Objective of Investment</b>		
Return/capital appreciation	78	51
Regular Income	64	42
Tax Saving	75	49
Liquidity	27	18
Park surplus funds	25	16
Meet future goals	84	55
<b>Maturity of investment</b>		
1-2 years	43	28
3-4 years	39	26
5-10 years	44	29
>10 years	26	17
<b>Basis of investment analysis</b>		
Past performance	89	59
Portfolio	60	39
Fund manager	48	32
Fundamental/technical	72	47
Market sentiments	55	36

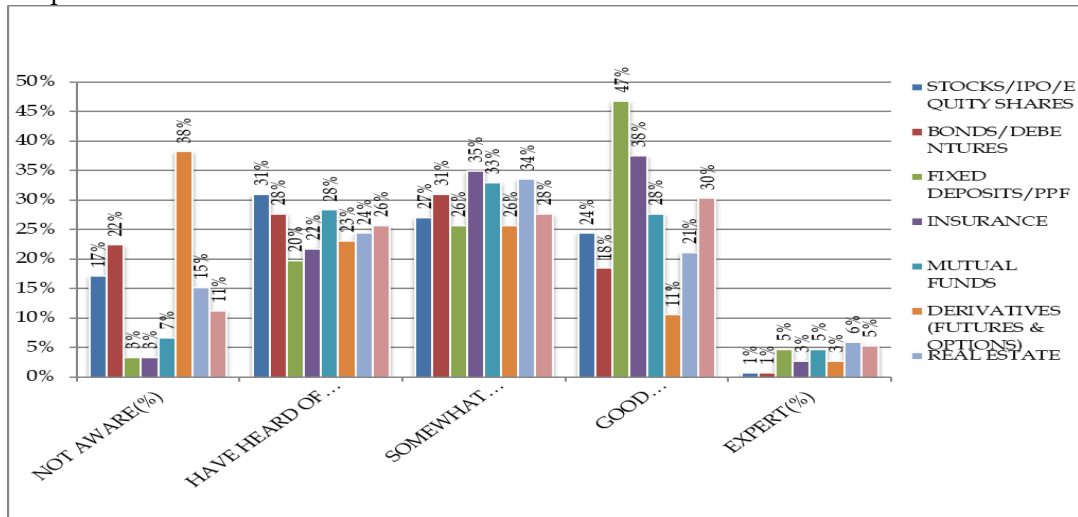
Graph 5: Income level and objective of investment



This graph is a combination of the income level of investors and the objective behind their investment. It depicts what are the possible motives behind the investment decision of people belonging to different income brackets. People under less than 5lakh income are more concerned about return/capital appreciation when making decisions and least concerned for liquidity and parking surplus funds. This is because they want to get compensated for the risk, they take for investing with all they have. A good return/capital appreciation and meeting future goals are the most important factors for

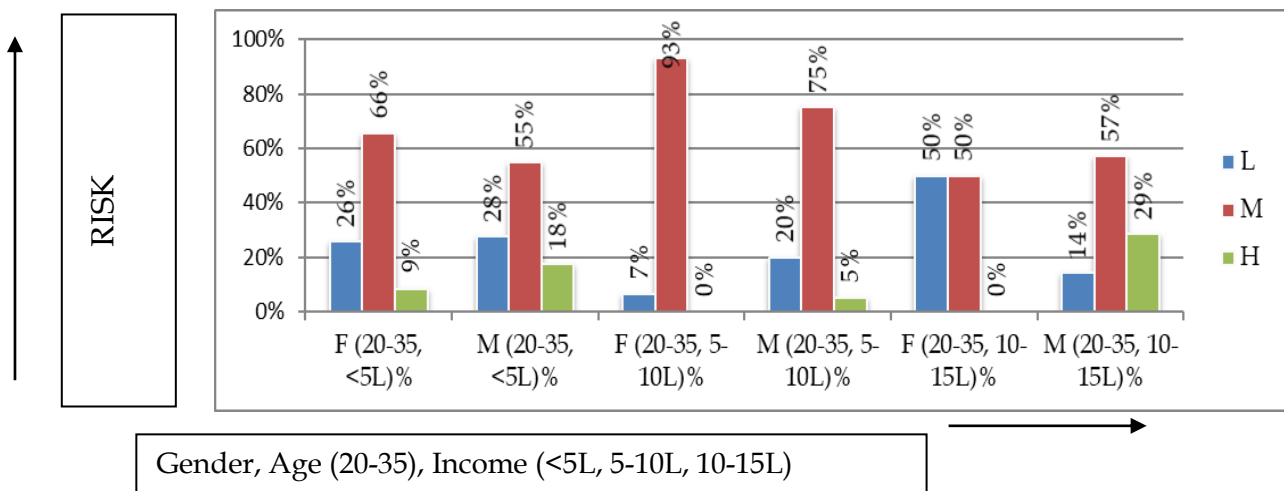
investors with more than 15lakh income. Surprisingly, liquidity and parking of surplus funds remain low here as well. For people with 5-15lakh income, tax savings is the prime concern when making an investment decision.

Graph 6: Awareness of different financial instruments



It is very much clear from the graph that very few people have expert knowledge about any of the given investment options. The majority of respondents are unaware of Derivatives. These are more complex than other products. Since the term itself is not used frequently in day-to-day lives it remains side-lined. Talking about mutual funds, it is slowly gaining popularity and we see herding behavior of people. With the greatest number of people having good knowledge of fixed deposits, it reveals that people working in financial institutions have been able to convince customers about various advantages of investing in fixed deposits. With time, people have witnessed the reality and are happy with returns from fixed deposits. This is why people suggest their relatives and friends to invest in fixed deposits. Hence, this increases the awareness of the same. The same can be inferred about insurance. Fixed deposits and insurance have been able to make their place with time. But the same is not true for the stock market in spite of it being a traditional form of investment. The educational and promotional strategy for this sector has always been very low.

Graph 7: Gender, age, income level, and risk



This graph gives us an understanding of how the two genders with income ranging from less than 5lakh to 10-15lakh belonging to 20-35 age bracket prefer risk as low, moderate and high. In a broader

sense, both genders in 20-35 age groups in all the income levels prefer to take moderate risk. 29% of males in 10-15lakh income range and 18% males with less than 5lakh income would like to take high risk while investing. They are aware of the fact that greater risk gives a greater return. Females having income 10-15lakh are indifferent between low and moderate risk but do not want to take a high risk at all.

### Conclusions

We found that respondents were least aware (38%) about derivatives but the majority had good knowledge about fixed deposits (47%) and insurance (38%). Gender, income level, and education qualification have a dent over the preference of medium of investment. Predominantly, the preference of investment medium is most affected by gender. Investment options that are riskier & involve a comparatively large amount of money are preferred more as income increases. Income affects the objective of investment. As income increases from less than 5L to more than 15L, the objective of tax-saving increases from 58% to 71%. Respondents in the age group 20-35 of both the genders mostly prefer moderate risk even after knowing the fact that greater risk gives greater returns. People with low-income levels utilize less amount of income for investment purposes.

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