

A Study on Investment Preference of Salaried Individuals towards Financial Products

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ABSTRACT

In recent years due to the liberalization of financial markets and financial engineering, diverse financial products have been introduced in the Indian financial markets such as mutual funds, DVR, derivatives, life and non-life insurance schemes (Unit Linked Investment Plans (ULIPs), pension plans, children education plans, etc.). Investment preference differs from individual to individual, as every individual behaves differently when they concerned with investment of their fund. Investment behavior of an individual is guided by his own set of personal traits, market conditions, rate of return and risk associated with the investment product. With an expectation of generating high returns over a period of time and certain levels of risk, individuals will invest in various financial products. This study is an attempt to analyze the investment preferences of salaried individuals towards financial products based on various demographic factors.

KEY WORDS: Financial Products, Financial Engineering, Investment Preference, Derivatives.

1. INTRODUCTION

Various financial products serve as an investment avenue and provide adequate return with security. In the past banking institutions provided very limited number of traditional financial products for the people to invest their amount. Such investment venues are traditional with inbuilt limitations. Such traditional financial products/services include savings bank deposits, fixed deposits, chit funds and LIC etc. Investment preference differs from individual to individual, as every individual behaves differently when they concerned with investment of their fund. Investment behavior of an individual is guided by his own set of personal traits, market

conditions, rate of return and risk associated with the investment product. With an expectation of generating high returns over a period of time and certain levels of risk, individuals will invest in

various financial products. This study is an attempt to analyze the investment preferences of salaried individuals towards financial products based on various demographic factors. This study aims to identify the relationship between the demographic factors and investment preference of salaried classes and to make suggestions based on the study.

2. REVIEW OF LITERATURE

Woerheide (1982) conducted a study on “investor response to suggested criteria for mutual funds” in which he tested the effect of different factors. It was proved that factors like size of fund, effectiveness of marketing programme and past return of funds have great impact. Among these the effectiveness of marketing programme has strong impact.

Suguna G (1986) studied an investors attitude towards saving pattern in coimbatore. There exists poor positive savings are increasing when the income increase but in the same perception. There exists high positive correlation between income and tax indicating that the tax are increasing when the income increases most of the bank executives expressed the view that due to insufficiency of income they were not able to contribute to savings scheme like public provident fund, post office time deposit.

Gupta L.C. (1991) argues that designing portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. According to Gupta, investors in India regard equity, debentures and company deposits as being in more or less the same risk category and consider including all mutual funds, including all equity funds, almost as safe as bank deposits.

Pandurangan G (1993) concluded that the investors rate this mode of investment as excellent and they want only capital appreciation and dividend and for this they are ready to take calculated risk also. This mode of investment is urban oriented till today.

Sikidar and Singh (1996) carried out a survey with an objective to understand the behavioral aspects of the investors of the North Eastern Region towards equity and MFs investment portfolio. The survey revealed that the salaried and self-employed formed the major investors in MF primarily due to tax concessions.

Sivanesan S (1997) revealed that his analysis has brought out various results arising from different tools of analysis. All relevant factors have been considered to bring out the relationship

awareness. The investor's awareness increases with the duration of investment, when investors invest for a considerable long period they tend to acquire more awareness.

2.1 RESEARCH OBJECTIVES

The objectives of the study are as follows:

- To study the investment preferences of salaried individuals towards various financial instruments.
- To study the association between demographic variables and investment preference of salaried individuals towards financial instruments.
- To make suggestions and recommendations based on the study.

2.2 HYPOTHESES

Following are the demographic factors identified from literature review. Age, gender, marital status, income, nature of employment etc., We examining the association between these demographic and investors preference towards financial products.

Hypothesis 1

H0: There is no significant association between Investment preference for various financial instruments and age of the respondents.

H1: There is significant association between Investment preference for various financial instruments and age of the respondents.

Hypothesis 2

H0: There is no significant association between Investment preference for various financial instruments and gender of the respondents.

H1: There is significant association between Investment preference for various financial instruments and gender of the respondents.

Hypothesis 3

H0: There is no significant association between investment preference for various financial instruments and income of the respondents.

H1: There is significant association between investment preference for various financial instruments and income of the respondents.

Hypothesis 4

H0: There is no significant association between Investment preference for various financial instruments and marital status of the respondents.

H1: There is significant association between Investment preference for various financial instruments and marital status of the respondents.

Hypothesis 5

H0: There is no significant association between investment preference for various financial instruments and employment status of the respondents.

H1: There is significant association between investment preference for various financial instruments and employment status of the respondents.

2.3 SCOPE AND SIGNIFICANCE OF THE STUDY

The study is limited to Ernakulam district only; the results of the study enable us to understand the relationship between the socio economic factors and investment preferences of salaried individuals. Based on the findings financial institutions can take necessary steps to promote investment habit among salaried classes.

2.4 LIMITATIONS OF THE STUDY

- Limited sample size
- Representativeness of the sample
- Limited time for the collection of data
- Sampling error

3. RESEARCH METHODOLOGY

Both primary and secondary data were used for the study. Primary data collected from the respondents using structured questionnaire. Secondary data collected from published reports by government of India, Reserve Bank of India and other agencies, articles, journals and books.

4. ANALYSIS AND INTERPRETATION OF DATA

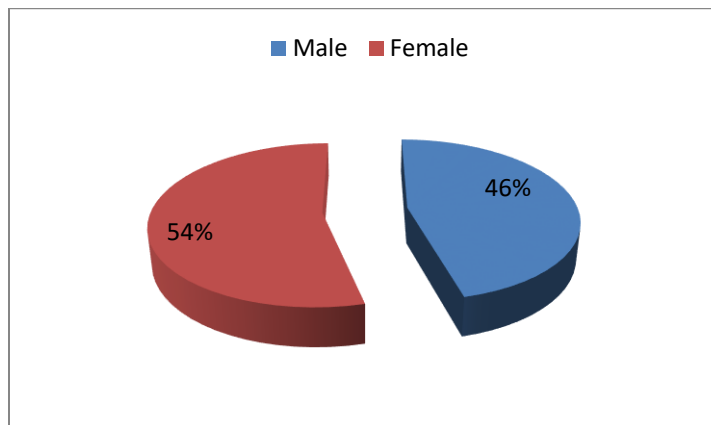
DEMOGRAPHIC PROFILE OF THE SAMPLE

4.1: Gender of the Respondents

Gender	Frequency	Percentage
Male	23	46
Female	27	54
Total	50	100

(Source: Primary Data)

Figure: 4.1 Gender of the Respondents



(Source: Primary Data)

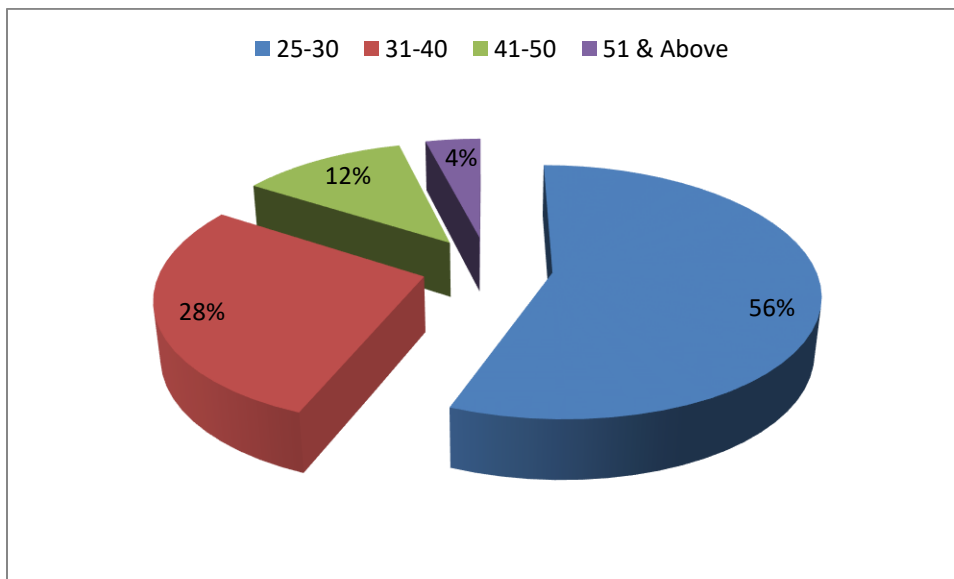
Interpretation: 54% of the respondents are belongs to female category and remaining 46% belongs to male category.

4.2: Age of the Respondents

Age	Frequency	Percentage
25-30	28	56
31-40	14	28
41-50	6	12
51 & Above	2	4
Total	50	100

(Source: Primary Data)

Figure: 4.2 Age of the Respondents



(Source: Primary Data)

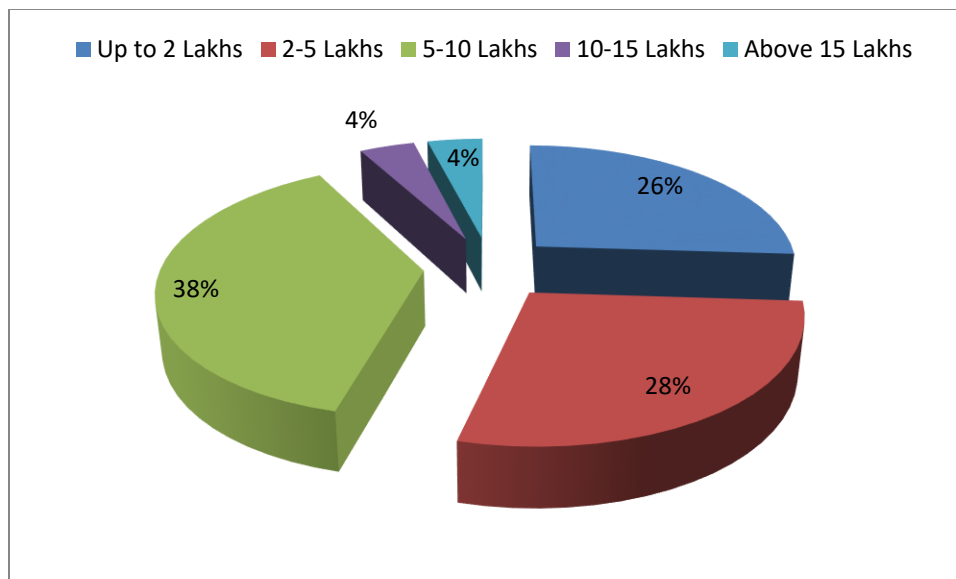
Interpretation: 56% of respondents belongs to 25-30 age group and 28% belongs to 31-40 age group.

4.3: Annual Income of the Respondents

Income	Frequency	Percentage
Up to 2 Lakhs	13	26
2-5 Lakhs	14	28
5-10 Lakhs	19	38
10-15 Lakhs	2	4
Above 15 Lakhs	2	4
Total	50	100

(Source: Primary Data)

Figure 4.3: Annual Income of the Respondents



(Source: Primary Data)

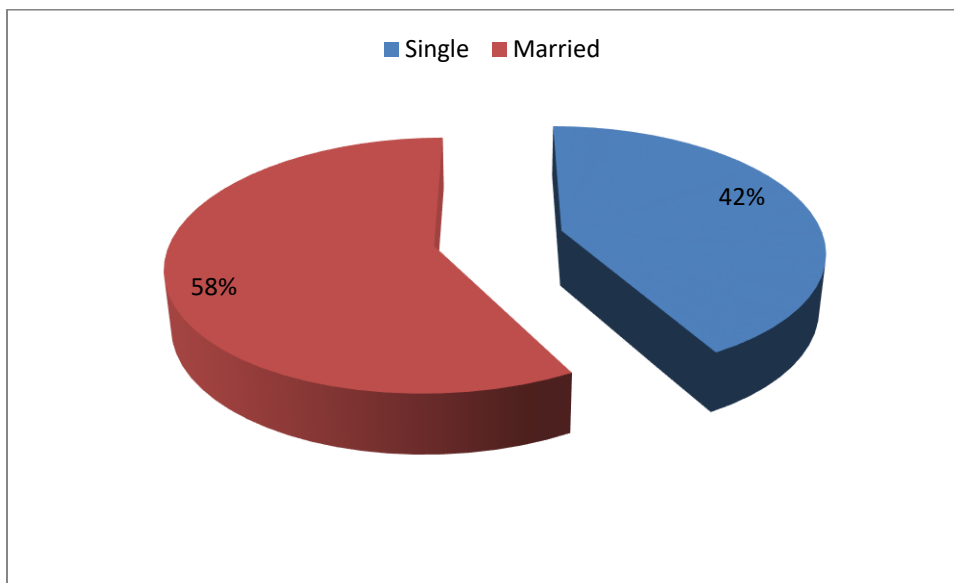
Interpretation: Majority of the respondents are from the income slab of 5-10 lakhs, were 28% of the respondents having income between 2-5 lakhs.

4.4 Marital Status of the Respondents

Marital Status	Frequency	Percentage
Single	21	42
Married	29	58
Total	50	100

(Source: Primary Data)

Figure 4.4: Marital Status of the Respondents



(Source: Primary Data)

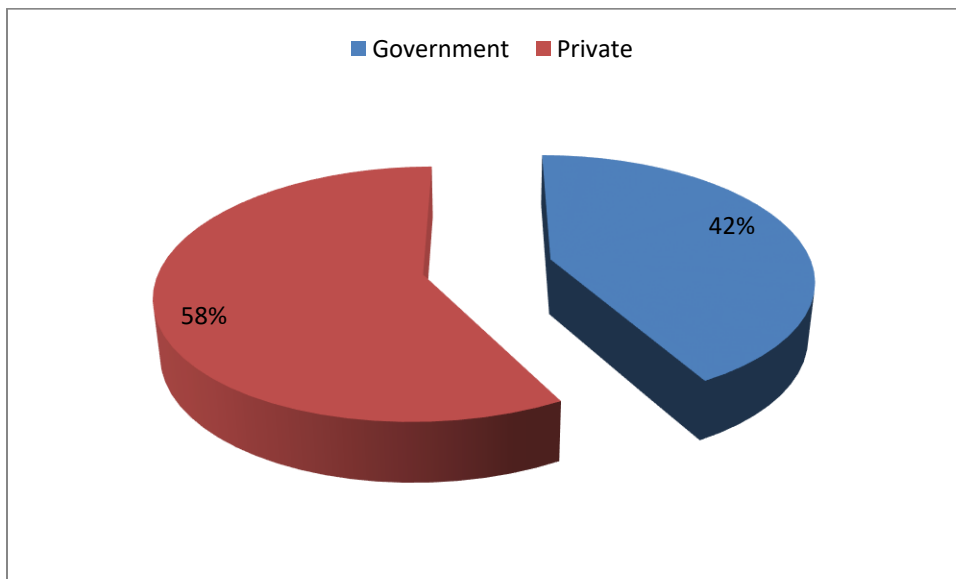
Interpretation: 58% of the respondents are married and 42% of the respondents are single.

4.5 Nature of Employment

Nature of Employment	Frequency	Percentage
Government	21	42
Private	29	58
Total	50	100

(Source: Primary Data)

Figure 4.5 Nature of Employment



(Source: Primary Data)

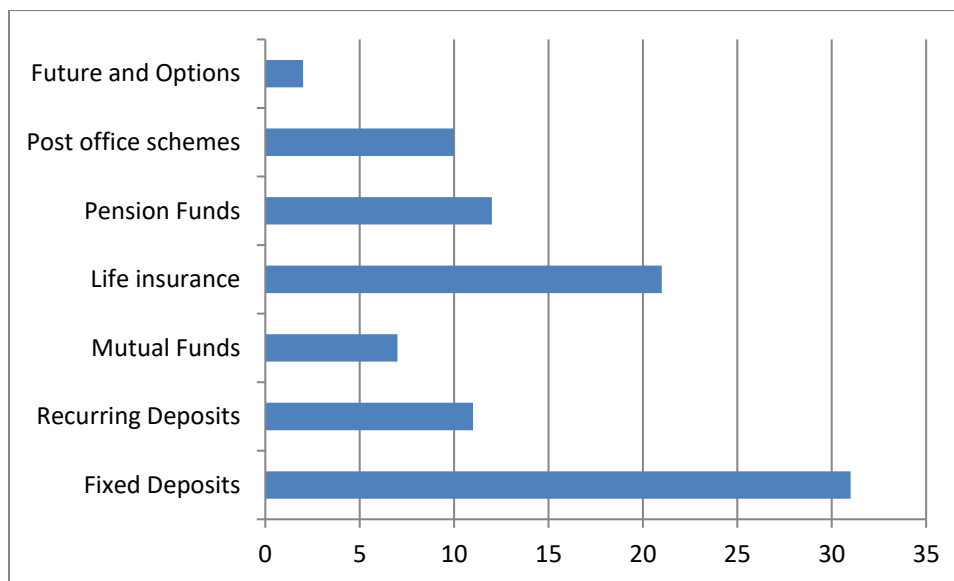
Interpretation: Majority of the respondents have private job were 42% of the respondents have private job.

4.6 Investment preference of respondents

Type of Investment	Frequency
Fixed Deposits	31
Recurring Deposits	11
Mutual Funds	7
Life insurance	21
Pension Funds	12
Post office schemes	10
Future and Options	2

(Source: Primary Data)

Figure 4.6 Investment preferences of Respondents



(Source: Primary Data)

Interpretation: From the above diagram it is clear that majority of the respondents prefer to invest in fixed deposits. Second most preferred investment venue is life insurance. Third position goes to pension funds. People not interested to invest in futures and options.

Testing of Hypothesis

I. Gender and Investment preferences

variables	Fixed Deposits	Recurring Deposits	Mutual Funds	Life insurance	Pension funds	Post office schemes	Futures & Options
Male	15	5	5	10	4	4	2
Female	16	6	2	11	8	6	0

(Source: Primary Data)

Calculated value of Chi-square is 6.165 and table value @ 5% level of significance is 12.59, since calculated value is less than the table value. H0 is accepted

II. Age and Investment preferences

variables	Fixed Deposits	Recurring Deposits	Mutual Funds	Life insurance	Pension funds	Post office schemes	Futures & Options
25-30	15	4	5	5	1	2	2
31-40	8	3	2	10	5	4	0
41-50	6	2	0	5	4	2	0
51 & Above	2	2	0	2	2	2	0

(Source: Primary Data)

Calculated value of Chi-square is 29.85 and table value @ 5% level of significance is 28.87, since calculated value is more than the table value, H0 is rejected.

III. Annual Income and Investment preferences

variables	Fixed Deposits	Recurring Deposits	Mutual Funds	Life insurance	Pension funds	Post office schemes	Futures & Options
Up to 2 Lakhs	13	3	2	3	1	2	0
2-5 Lakhs	8	3	2	10	4	4	1
5-10 Lakhs	6	2	3	5	3	2	1
10-15	2	2	0	2	2	2	0

Lakhs							
Above 15 Lakhs	2	1	0	2	2	0	0

(Source: Primary Data)

Calculated value of Chi-square is 37.70 and table value @ 5% level of significance is 36.42, since calculated value is more than the table value, H0 is rejected

IV. Marital Status and Investment preferences

variables	Fixed Deposits	Recurring Deposits	Mutual Funds	Life insurance	Pension funds	Post office schemes	Futures & Options
Married	23	6	5	15	8	6	1
Single	8	5	2	7	4	4	1

(Source: Primary Data)

Calculated value of Chi-square is 2.28 and table value @ 5% is 12.59, since calculated value is less than the table value H0 accepted.

V. Nature of Employment and Investment preferences

variables	Fixed Deposits	Recurring Deposits	Mutual Funds	Life insurance	Pension funds	Post office schemes	Futures & Options
Government	21	6	5	12	8	6	2
Private	10	5	2	5	4	4	0

(Source: Primary Data)

Calculated value of Chi-square is 0.55 and table value @ 5% level of significance is 12.59, since calculated value is less than the table value H0 is accepted.

5. FINDINGS OF THE STUDY

- Investment preferences of one salaried individual to another is found different
- Age and annual income of the respondents found to have significant association with the investment preference of individuals. All other demographic variable not associated with the investment preferences.
- Majority of them prefer safety of their investment rather than the return.
- Government employees prefer a regular income in the future after their retirement, they prefer pension funds than the private sector employees.
- People have knowledge about various investment venues i.e both traditional and modern.
- Very few investors prefer to invest in future and options.
- Very few investors prefer mutual funds as venue for investing their funds.
- Fixed deposit is the most preferred investment venue.
- Life insurance, recurring deposits etc found to have significant preference among the salaried individuals.

6. SUGGESTIONS OF THE STUDY

- People more concerned about safety than the rate of return, they should change such attitude.
- Investors should switch over from the traditional investment venue to modern venues.
- RBI, SEBI and Stock Exchanges have to enhance the technical knowledge of the investors.
- There should be an appropriate mechanism for disseminating market and instrument related information to all investors.
- Much importance should be given to investors safety.
- Agents, intermediaries must have a close contact with the investors, given them adequate guidance regarding investment, gaining return etc.
- With diversification of fund they can balance risk and return.

7. Conclusion

Due to the liberalization of financial markets and financial engineering, diverse financial products have been introduced in the Indian financial markets such as mutual funds, DVR, derivatives, life and non-life insurance schemes (Unit Linked Investment Plans (ULIPs), pension plans, children education plans, etc.). Investment preference differs from individual to individual,

as every individual behaves differently when they concerned with investment of their fund. Investment behavior of an individual is guided by his own set of personal traits, market conditions, rate of return and risk associated with the investment product. With an expectation of generating high returns over a period of time and certain levels of risk, individuals will invest in various financial products. The study found that the investment preferences of salaried individuals are different from one individual to another. People give much importance to return rather than safety. They are not willing to invest in modern venues and instruments due to heavy safety concerns and lack of technical knowledge or awareness. Some of the demographic variable has significant association with the investment preferences of salaried individuals. This study suggest that people should change their outlook while they are going to invest their money. They have to give much importance to return and reduce the risk by diversification of the portfolio.

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