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Factors Influencing Investment Choice of Different Class of Individual Investors

***Premalatha K P**

****Dr S J Manjunath**

*Research Scholar, DOS in Business Administration, University of Mysore

** Professor, DOS in Business Administration, University of Mysore

Abstract

Efficient transformation of savings into investments by financial institutions leads to financial development of an economy. Even though the capital market has seen gradual transformation in 1990s still majority of investors gives least preference for equity investment due to its risk factor. This Conceptual study identifies the major elements influencing investment choice of different class of investors. Majority of respondents opt for insurance, bank deposits and post deposits as their main investment vehicle because of its safety feature. Mutual fund investment has gained popularity due to its increased profit maximisation with minimum risk factor.

Key Words: Investments, Investor, Return, Risk.

1. INTRODUCTION

Investments are the driving vehicle for the economic growth of the developing country like India and to get rid of vicious circle of poverty, unemployment, low income, etc. National savings and economic resources have to be efficiently mobilised with the support of financial sector intermediation so that it results in sustainable economic growth. Financial sector includes well-functioning financial market, financial institutions and instruments which provides optimal allocation of investment with diversified opportunities.

Investors decision making process are influenced by various factors like risk perception, awareness about companies and securities, expected earnings, stock market fluctuations, tax benefits etc., So it is important to understand the investor's cognitive process for framing suitable and profitable financial instruments

2. Need for the Study

"ALL SAVERS ARE NOT INVESTORS". It is proved that the large percentage of savings is not transformed into investments due to demographic, psychographic and socio economic factors influencing the investor's decisions. There is a need to identify the specific factors influencing the decision of different classes of investors so that sufficient amount of funds can be mobilised by financial institutions.

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This article is based on the review of an extensive set of literatures which provides inputs to understand the investor's decision making pattern.

3. STATEMENT OF THE PROBLEM

Even though the share ownership population has doubled between 1990 -1999 due to gradual transformation of capital market in 1990's, still major percentage of the investors gives least preferences for stock market securities .There is an enormous amount of opportunities for investors to increase their expected returns with minimal risk exposure if they allocate their funds optimally with right financial intermediary. This study concentrates on the elements which affects the investor's choice among various investment alternatives.

4. Objectives of the Study

As investments is the main driving force of any financial market, it is crucial for the financial intermediaries to understand the investment pattern of investors in respect of various available alternatives. So this study has conducted with the following objectives:

a) To identify the factors influencing the investment pattern of different class of investors.

b) To understand the investors preference between mutual fund and equity investments.

5. Review of Literature:

Ramanathan and Meenakshi **(2015)** identified that all age group bank employees prefer insurance productsas their first choice of investment followed by gold and bank deposits. Bank investors also prefer safe and risk free alternatives. It is identified that as the income increases investment preference shifts from gold to bank, bank to real estate and then equity market which clearly indicates that there exists a relationship between income and investment. **Tejinder Singh (2018)** in his survey found that age, gender and income influences the investment decision and many potential investors are not much aware about mutual fund investment. **Bhagaban Das and MS Sangeetha (2008)** points out that Indian insurance & MF industry has gained popularity as investment vehicle in Indian capital market. Majority of investors choose LIC as investment vehicle compared to MF and Govt. securities (Specifically public sector insurance cos.) **Md. Qamruzzaman and Jianguo Wei (2018)** adopted ARDL model and reports that financial innovation positively influences economic growth both in short and long run as it accelerated economic activity by fostering financial system. The research suggests that as the financial innovation is treated as a driver of economic growth, regulatory bodies has to focus more on financial innovation which in turn results in economic development. **Akiko et al (2003)** depicted the patterns of investments of 7 different Japanese investor groups.Foreign investors, banks and securities firms who are information based and possessing high market timing ability has won the

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Tokyo stock exchange.Japanese individual investors who depend more on behavioural factors end up as losers bearing poor market timing returns.

Ganapathi (2014) frames out the government employees in Madurai city were not able to select the best area for investment due to lack of inputs about different investment opportunities and returns. Government employees choose insurance as their prime investment avenue followed by banks, NSS, PF. Mutual fund, equity and debt have lower ranks. **Oleksandra and Oldrich Rejnus (2015)** highlights that Increased attractiveness of mutual fund industry is due to lower abnormal returns and inefficient diversification possibilities of capital market.In case of India, it is observed that there are all possibilities that funds will reach the mild out performance level in the coming year. **Rakesh (2014)** tried to analyse the Mysore investor's behaviour and points out that the level of saving and the factors responsible for savings has a direct impact on the investment decision. Investors mainly depend on different sources of information for equity and they are fully aware about the securities market fluctuations and movements.

Venkateshraj (2015) in his Doctoral Theses identified women investors are risk averse and prefer bank deposits, insurance and provident funds followed by mutual fund. Financially literate women tend to invest in equity rather than on any other avenues. Due to lack of awareness about innovative financial instrument many of the women saves tend to purchase gold for consumption purpose instead of investing in capital market instruments. **Krishna Kumar (2016)** in his Doctoral Theses projected that ELSS stands at one extreme with highest amount of variability in return to the investors. By providing lesser risk premium and better performance ELSS satisfies its investors. **Kaur et al (2013)** examined the reasons for selecting mutual fund as an investment option rather than selecting stock market. Factor analysis adopted in the study conveys that efficient asset management company and flexible mode of investment induces investors to opt mutual fund compared to stock market which seems risky and complex.

Arathy B, Aswathy A Nair (2015) explains that even though the mutual fund industry is gaining popularity, still many investors are not holding their investments for more 6 months to 1 year due to poor fund management, increased risk exposure etc. The study suggests that investment in different schemes (diversified portfolio) earns better compared to concentrated portfolio. Tax benefits, liquidity and transparency attract investors toward mutual fund. **Gagan Kukreja (2012)** suggests that capital market instruments have to be customized in order to attract investments from senior citizens and potential investors. Demographic variables have a direct relationship on the investor's decision towards capital market instruments. **Geethu Gopi et al (2018)** understood by the study that relationship exists between demographic features and investment behaviour of private sector employees. To be in specific age, gender, marital status is related to expected return except annual savings. Employees are dependent on the information disclosed by the company and they are ware about the low risk investment products/securities. **Jeyakumaran and Soundaravalli (2015)** points out that majority of respondents choose insurance and bank deposits as their investment avenue assuming safety and tax benefits. 15-20% teachers opt for post office deposits followed by mutual funds, real estate and Gold. Share market has gained least preference due to its risky factor.

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Yesh Pal Davar and Suveera Gill (2007) reported that individual investors consider their past and current experiences for their future decisions. The exploratory research conducted in Chandigarh (one of the top most cities for stock market trading in India) revealed that out of 4 investment decision making variable – satisfaction variable has a strong influence on investor's present decision, BUT future decisions are based on their opinion. Even though the age and education effects the decision of investors, the study shows that age factor is negatively correlated with present and future investments in both equity and mutual funds. Familiarity plays a positive influence on equity and mutual fund investment decision than on any other avenues. Author's projects platform for future research with large sample of various other dimensions for better understanding.

6. Research Methodology:

This research is a conceptual study which is based on the review of articles and statistical information available from the secondary sources like websites, journals, books etc. Analysis of various alternatives is been done with the help of previous studies, articles and books. The study is limited to the review of related articles and on other sources of secondary data. This study is not specific to any particular year and geographical areas.

7. Analysis and Interpretation:

In order to find out the investment pattern of different classes of investors, it is necessary to compare and understand the rate of return and risk factor involved in different investment alternatives. In specific, investment decision in respect of mutual funds and equity has to be compared with the help of statistical info and literature reviews.

Different Rates Of Return From Various Investment Avenues.

Table No. 1.

Rate of Return on Fixed Deposits of Commercial Banks

Bank	**Best Fixed Deposit Interest Rates* (p.a.) – 1 year**		**3 years**		**5 years**	
	Regular Citizens	**Senior Citizens**	**Regular Citizens**	**Senior Citizens**	**Regular Citizens**	**Senior Citizens**
IndusInd Bank	7.25%	7.75%	7.15%	7.65%	7.15%	7.65%
DCB Bank	7.00%	7.50%	8.00%	8.94%	7.75%	8.25%
Kotak Mahindra Bank	6.75%	7.25%	6.25%	6.75%	6.25%	6.75%
YES Bank	7.25%	7.75%	7.25%	7.75%	7.25%	7.75%
ICICI Bank	6.45%	6.95%	6.75%	7.25%	6.75%	7.25%

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HDFC Bank	6.45%	6.95%	6.85%	7.35%	6.75%	7.25%
SBI	6.40%	6.90%	6.25%	6.75%	6.25%	6.75%
RBL Bank	7.60%	8.10%	7.35%	7.85%	7.50%	8.00%
Axis Bank	6.60%	7.25%	6.75%	7.25%	6.75%	7.25%
DBS	6.75%	6.75%	6.50%	6.50%	6.50%	6.50%
IDFC First Bank	8.00%	8.50%	7.50%	8.00%	7.50%	8.00%
Bandhan Bank	7.25%	8.00%	7.35%	8.10%	7.25%	8.00%
Canara Bank	6.50%	7.00%	6.25%	6.75%	6.25%	6.75%
Federal Bank	7.20%	7.70%	7.25%	7.75%	7.25%	7.75%
OBC	6.60%	–	6.70%	–	6.70%	–
Bank of Baroda	6.45%	6.95%	6.45%	6.95%	6.25%	6.75%
Lakshmi Vilas Bank	7.50%	8.10%	7.50%	8.10%	7.25%	7.85%

Table No. 2

FD Interest Rates of Small Payment Banks

Bank	**Fixed Deposit Interest Rates* (in % p.a.) 1 year**		**3 years**		**5 years**	
	Regular Citizens	**Senior Citizens**	**Regular Citizens**	**Senior Citizens**	**Regular Citizens**	**Senior Citizens**
ESAF Small Finance Bank	8.25%	8.75%	7.30%	7.80%	7.30%	7.80%
Suryoday Small Finance Bank	8.35%	8.85%	8.75%	9.25%	8.25%	8.75%
Utkarsh Small Finance Bank	8.20%	8.70%	8.00%	8.50%	8.35%	8.85%
Jana Small Finance Bank	8.50%	9.10%	8.00%	8.60%	8.00%	8.60%
Equitas Small Finance Bank	8.00%	8.60%	8.30%	8.90%	7.00%	7.60%
Fincare Small Finance Bank	8.00%	8.50%	9.00%	9.50%	8.00%	8.50%

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Table No. 3

Return Expected from Different Plans of Insurance Investment

1. Ulip	Policy Tenure	Annual Premium	Nominee Receives In 4% / 8% Plan	Assumed Returns @ 4% / 8% P.A.
Age: 30 Years (M)	30 Years	Rs. 30,000	Rs. 4.94 Lakh/ Rs. 6.64 Lakh	Rs. 13.6 Lakh / Rs.27.3 Lakh
2.Endowment Plan	Policy Tenure	Annual Premium	Nominee Receives	On Maturity
Age: 30 Years (M)	17 Years	Rs. 30,000 For 12 Years	Rs. 5.75 Lakh	Rs. 5.75 Lakh
3.Money Back Plan	Policy Tenure	Annual Premium	Nominee Receives In 4% / 8% Plan	Assumed Returns @ 4% / 8% P.A.
Age: 30 Years (M)	28 Years	Rs. 25,000 P.A. (Periodic Returns Rs. 1.2 Lakh [On Every 7th Year (3 Times During (Policy Tenure)]	Rs. 4.3 Lakh/ Rs. 5.5 Lakh	Rs. 3 Lakh / Rs.5.85 Lakh

Table No .4

Expected Returns from Different Types of Mutual Funds.

Fund Name	**Fund Type**	**1 Year**	**5 Year**	**Risk Grade**	**Return Grade**	**Tenure**
Mirae Asset Emerging Blue Chip Fund	Equity: Large & Mid Cap	12.12%	16.70%	Moderately High	High	Long Term
SBI Small Cap Fund	Equity: Small Cap	5.75%	17.82%	Average	High	Long Term

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Kotak Standard Multi cap Fund	Equity: Multi cap	9.98%	12.96%	Below Average	High	Long Term
Axis Long Term Equity Fund	ELSS (Tax Saving)	16.50%	13.46%	Below Average	High	Long Term
Mirae Asset Tax Saver Fund	ELSS (Tax Saving)	10.49%	–	Low	High	Long Term
L&T Midcap Value Fund	Equity: Mid Cap	-1.04%	12.14%	Below Average	High	Long Term
Nippon India Gilt Securities Fund	Debt: Gilt	18.13%	11.96%	Average	High	Medium-Long Term
Franklin India Ultra-Short Bond Fund – Super Institutional Plan	Debt: Ultra Short Term	10.15%	9.28%	Below Average	High	Ultra Short Term
Aditya Birla SL Short Term Opportunities Fund	Debt: Short Term	10.65%	9.09%	Above Average	Above Average	Short Term
Axis Liquid Fund	Debt: Liquid	7.26%	7.59%	Low	Average	Very Short Term

Table No 5.

Different Rates of Return of Pension Funds Returns of NPS (Equity) As of July 19, 2019

Pension Fund	**1 Year Return**	**3 Year Return**	**5 Year Return**	**Returns since Inception**
BIRLA PF	1.19%	NA	NA	8.39%
HDFC PF	3.67%	11.10%	9.48%	13.92%
ICICI PF	3.31%	9.54%	8.72%	11.12%
KOTAK PF	5.53%	9.66%	8.84%	10.21%
LIC PF	3.77%	8.29%	7.79%	11.12%

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RELIANCE PF	4.90%	8.82%	8.08%	10.16%
SBI PF	3.93%	9.83%	8.97%	9.46%
UTI PF	2.51%	9.45%	9.30%	11.02%
Average	**3.6%**	**9.5%**	**8.74%**	**10.67%**

Table No. 6

Post Office Savings Schemes and Interest Rates

SMALL SAVING SCHEME	**INTEREST RATE**
Post Office Savings Account	4.0%
Post Office Recurring Deposit	7.2%
Post Office Monthly Income Scheme	7.6%
Post Office Time Deposit (1 year)	6.9%
Post Office Time Deposit (2 year)	6.9%
Post Office Time Deposit (3 year)	6.9%
Post Office Time Deposit (5 year)*	7.7%
Kisan Vikas Patra (KVP)	7.6%
Public Provident Fund (PPF)	7.9%
Sukanya Samriddhi Yojana	8.4%
National Savings Certificate	7.9%
Senior Citizens Savings Scheme	8.6%

Table No. 7

Coupon Rates of Government Bonds with Different Maturity

Bond Name	**Coupon**	**Ratings**	**Tax Benefit**	**Tenure**
PFC Capital Gains Bonds	5.75%	AAA	Section 54EC	5 Yrs
IRFC Capital Gain Bonds	5.75%	AAA	Section 54EC	5 Yrs
REC Capital Gains Bonds	5.75%	AAA	Section 54EC	5 Yrs
NHAI Capital Gains Bonds	5.75%	AAA	Section 54EC	5 Yrs
7.75% Savings (Taxable) Bonds, 2018	7.75% p.a.	AAA	N.A.	7 Yrs

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Table No .8

Return and Risk Factor of Investments on Shares, Gold and Real Estate.

Sl. No	Investments	Average Return	Risk	Details
VIII	Share Market	10 %	High	Return depends on Period of investment, market timing, economic condition and selection of stock.
IX	Gold	10 -11%	Moderate	Performs better than equity. Gold ETF is considered better form of investment
X	Real Estate	11-12%	High	Involves huge investment, yields varies according to area and timing of sale.

The analysis of the above return percentages and risk factor of various investment alternatives like bank deposits, post office deposits, insurance, share market etc. clearly indicates that as investor expecting higher returns should be ready to take higher risk. As it is proved by many financial theories, risk and return are interrelated and it can be balanced optimally using efficient portfolio management strategies.

Return: The above tables projects that investor can earn 7 % to 8% interest from commercial and small payment banks, 4% to 8% return from insurance plans, 6% to 7% from different schemes of post office deposits, 5% to 6% yield from government bonds, 10% to 11% in gold investments, 11% to 12% in real estate holdings, approximately an average of 10% gain in share market and 10% to 12% in mutual fund schemes.

Risk : Even though investments on gold, real estate, share market and mutual funds provides higher rate of return, investors prefer bank deposits, post office deposits, bond and insurance vehicle due to its less risk feature. Security market is always exposed to price fluctuations/volatility, changes in interest rates, economic conditions, political instability, tax regulations etc. Equity investors can expect good rate of return in the long run i.e they should hold their investments for 3- to 5 years. It is observed that as the time duration of investment increases, the risk will be minimized with a maximum return.

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The study points out that apart from risk and return there are many other influential factors which affect the investor's decision making pattern such as age, gender, income, occupation, education, level of awareness, and behavioural variables.

8. FINDINGS

On the basis of articles reviewed it is identified that there are various factors such as demographic, psychographic and socio economic variables which affects the individual investor's choice among different investment avenues. The major highlights are:

1. Majority of the investors select insurance, bank deposits and government securities for their investment because of safety and security purposes.
2. Even bank employees and college teachers who come under the professional / educated group select safer securities like insurance and bank deposits due to its less risk factor and tax benefits.
3. Age, gender, occupation and family dependency has a major effect on the investment decisions. As the income of investor rises, he tries to invest in risky sector like stock market.
4. Creating awareness about the financial instruments and stock market trading is crucial because large no. of potential investors are not gearing up their funds to stock market as they lack sufficient information of efficient portfolio management.
5. The performance evaluation of emerging economies projects that Indian equity mutual funds have all the possibilities to reach mild performance level from the level of low performance in the coming year.
6. Equity and mutual fund investors expect complete disclosure of information by the company, financial institutions and regulatory bodies to have efficient stock market trading.
7. Mutual funds are the first option for investors when compared to equity investments as they can reduce the risk probability in mutual funds along with expert's opinion.
8. According to studies and financial advisors, equity investments will be profitable only when it is invested for longer duration.
9. Mutual funds industry has created attractive platform for investors by offering wide variety of schemes which provides around 12% return on investment.
10. Investors can expect better rate of return from mutual funds by selecting appropriate mutual fund company and suitable scheme.
11. Gold investments are most preferred by female investors as they it feel it safe and profitable.
12. Investors can choose ELSS funds to avail tax benefits along with good return from equity investments. MFs offer different schemes to suit the needs of retirement, education, holiday plans and others.

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9. CONCLUSION

Innovation in the financial sector in respect of various financial instruments can attract investors to accumulate funds for investment and minimise risk through portfolio diversification which in turn accelerates the financial development of the economy. Even educated investors are opting for safe and risk less securities like insurance, post office, government bonds and bank deposits. Increased stock market fluctuations and risk has made investors to shift their investments from direct stock market investments to safer vehicles like mutual funds. Investors can achieve optimal rate of return with minimal risk exposure by efficient portfolio management. Financial institutions and regulatory bodies have to create investment awareness programs to tap the unutilised savings of different class of individuals and convert into profitable investment.

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