



Behavioural aspects of investors: A conceptual exposition of demographic variables

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Abstract

Saving is an important part for the economy of any nation. The money invested in various options available to people acts as the driver for growth of the country. Indian financial sight also boons a plethora of opportunities to the investors, certainly not the best or deepest of markets in the world. Investors invest the money to receive return on their idle resources and generate a specified figure for a Specific goal in life and make a provision for an uncertain future. We invest to meet the cost of inflation (Inflation is the rate at which the cost of living escalates) Inflation causes money to lose value because it will not buy the same amount of a good or services in future as it does now or did in the past. One should invest as early as possible. By investing early you allow investments more time to grow, whereby the concept of compounding increases income of investor by accruing the principal and the interest or dividend earned on it, year on year. A conceptual exposition of Behavioural aspects of Investors especially demographic variables is the theme of the present paper.

Keywords: Behavioural finance, demographic variables, education, income, investment pattern

Introduction

Investment is the process which includes giving up something at the present with a view to get some profits in future. It is the contribution of funds with the objective of craning further income in future. Investment may be defined as the giving up of the definite present value of money in order to get the future uncertain value. Investment is the increase of money at different higher or lower rates which depends on long-term investment or short-term investment and also on risky investments or risk-free investments.

There are three concepts of investment which are economic, business and financial investment. Economic investment means the investment in the form of purchase of new machines, increase in stocks, amount spent on plant, inventory, and others. Business investment means the amount which is used to start a new business or the amount which is used in the business. Financial investment means the investment in risk-free or risky assets in order to earn some profit in the future. The profit may be in the form of rent, interest, premiums, dividends, and others.

The emerging field of Investors behaviour examines the Psychological, Sociological and demographic issues that impact the decision-making process of Investors. Investor's behaviour is a new approach to financial markets that has emerged in response to the difficulties faced by the traditional paradigm. It focuses on investors' behaviour and the decision-making process. This field merges the concept from financial economics and cognitive psychology in an attempt to construct a more detailed model of human behaviour in financial markets. An investment in stock market is made with the expectations of renewable growth for out winning the inflation. Behavioural finance seeks to identify market conditions in which investors are likely to over react or under react to new information. An attractive feature of behaviour finance investment strategies is that they have an advantage over most traditional approaches to investing. There is a growing literature that suggests an

individual's investment decisions which are affected by behavioural biases.

The study of investor's psychology indicates during Bull Run, many people will invest in stock market and move away when there is a bear phase. A prudent investor who can control his emotions can use his money for hedging against inflation by identifying source of right analytical presentations, by sparing sufficient time for investment decisions for directly taking part in the stock market operations. Various researchers have examined the financial markets in hopes of finding investment strategies that yield the best result. Psychological studies have demonstrated that the pain of losing money from investments is nearly three times greater than the joy of earning money. Small corrections in capital market have often disintegrated into full-scale crashes as a result fuelled by panicked investors who made rash decisions to avoid losing money in the short term rather than focusing on an investment's long-term potential.

Investors behaviour is a branch of finance that studies how the behavior of investor in the financial market and influenced by psychological factors and the resulting influence on decisions made while choosing different kinds of investment avenues. In fact, it is the psychology on the behaviour of Financial Practitioners and the subsequent effect on market. Investors' behaviour deals with theories and experiment focused on what happen when investors make decision based on hunches emotions. It is a field of finance that proposes explanation on how behavioural factors affect investment decision-making process. Behavioural finance emerged in 70's is a relatively new paradigm of finance, which seeks to complement the standard theories of finance by introducing behaviour aspects to the decision-making process. In fact it is a branch of finance which focuses how psychology and other variables affect the investment decision-making process. It is proved that investors are irrational in investment decision making.

Review of Literature

A large number of studies on the investors behaviour have been performed during the past few years all over the world. In this modern era, so many types of investments are available. Each type of investment has its own advantage and disadvantages. An investor can also choose the type of investment which suits his needs.

Joseph *et al* (2014) ^[8] has carried "A Study on Preferred Investment Avenues among the People and Factors Considered for Investment". The study has been undertaken with the objective, to analyze the investment choice of people in few cities in Bangalore. The study is based on using a structured questionnaire. The study concludes that all the age groups among the respondents give more importance to invest in bank deposit and insurance. Income level of a respondent is an important factor which affects investment portfolio of the respondent. Respondents are more aware about various investment avenues like insurance, bank deposits, small savings like post office savings etc. Many people are not willing to take risk for their funds, so many prefer to invest in bank deposits, insurance, post office saving etc., The study suggested to every respondents that, they have to acquire a specific knowledge of various kinds of investment opportunities available in the financial market and appraisal of investment for avoiding loss.

Pandian *et al* (2013) ^[9] carried out a study on "A Study of Investors Preference towards Various Investments Avenues in Dehradun District". The study was conducted to understand the awareness of people towards various investment avenues and the investors' preference towards various investment avenues in Dehradun Districts. The investors are selected by convenient sampling technique. Accordingly, the researcher has selected 120 investors in the study area. The investigation shows that, majority of the investors invest their money in equity shares only and also the majority invest their money for the purpose of capital appreciation. The study revealed that when comparing the earnings and the loss incurred by the investors in stock market. It is heartening to note that most of the investors incurred loss only. The study offered suggestion to the investors that; the investor has to invest their money in less risky securities like mutual fund and debenture.

Sireesha *et al* (2013) ^[10] has carried out a study on impact of demographics on select investment avenues: a case study of twin cities of Hyderabad and Secunderabad, India. The research study seeks to reveal the relationship between the demographic factors and investment avenues selected by investors. A survey method is adopted to gather information from 165 respondents through questionnaire in Hyderabad and Secunderabad and the samples were selected at random from different age groups, occupations, income levels, and qualifications. Points were allotted to the preferences specified by the respondents through the questionnaires. The study finally concludes that income and amount saved has an impact on the purpose of investment made by the investors. Most of the investors preferred to invest their money in the bank and post office savings schemes and this reflects the conservative nature of an investor i.e., the investor wants their money to be safe and they do not require any higher return and capital appreciation. The study offers a suggestion to the wealth manager to design a portfolio to their client according to their income pattern.

Malekar *et al* (2012) ^[11] in their article entitled "A study of investor behaviour on investment avenues in Mumbai Fenil" stated that investor's perception will provide a way to accurately measure how the investors think about the products and services provided by the company. The objective of the study is to find out the need of the current and future investors and to study on investor behaviour. A sample of 100 investors was taken for the study. Most of the investors were making conservative decisions that reflecting a survival mode in the business operation. During these difficult times, understanding what investors decide on an ongoing basis is critical for survival. Therefore, the study is identified that people like to invest in stock market as compared to any other markets, even if they face huge losses.

Giridhari *et al* (2011) ^[12] have carried out a study on "Investment Preferences among Urban Investors in Orissa". They discuss that people were irrational in their decision making about investment in securities. They make cognitive or emotional mistakes in decision making. It happens due to various biases which are being discussed in the field of behavioural finance. It explains that investment decisions and risk tolerance of investors depend on age, sex, income, marital status, education, family background, occupation and also the environment on which people lived. The investors of urban areas were targeted for, this research study. This research study also cleared that male investors are more risk seeker and more active than compare to female investors. The types of investors are also discussed in this study. Structured Questionnaire and statements used for conducting this research and the sample size was 210. The results of study show that individuals invest to full fill their needs and also take other benefits like safety, tax benefits, high capital gains, liquidity, secured future and for future needs.

Thirupath (2011) ^[13] has conducted a study on "Investment Patterns and Tax Planning of Salaried Class Investors in Vellore District". The focus of this study is on the individual salaried class investors. Keeping in view the potential savings of the salaried class investors, this study outlines the conceptual background with focus on investment and tax planning, examines the profile and awareness of the salaried class investors, analyses the attitude and satisfaction of the salaried class investors towards investments, evaluates the factors motivating the investors for investments and expected rate of return on investment, analyses the awareness and attitude of investors towards tax planning and offers suggestions for increasing investments in Government sectors and on balanced investment patterns for individual investors.

Stephan *et al* (2009) ^[15] in their article entitled "Investment Avenues for Senior Citizens" stated that it is necessary on the part of the elders to find a definite source of income for themselves. The senior citizens have various alternative avenues of investments for their savings in accordance to their preference. A definite idea about investment will provide senior citizens a steady income which helps them in the phase of rising cost in future. Hence, it is the need of the hour for the elders to think and act wisely in their investment decision. As all the investments are not equally good, awareness of various schemes and the privileges for the aged will help them to select the best suitable investment avenue.

Vijayalakshmi (2009) in her article entitled "Liquidity Preference among Employed Women" identified that all the respondents preferred the liquid cash for transaction and precautionary motives. They have no speculative motive regarding bank deposits. They did not pre-pone or postpone their deposits according to the fluctuations in interest rates. Most of the respondents preferred to invest in chit funds than bank deposits. They felt that there are many formalities in bank transactions and also it is time consuming. Moreover investments in chit funds are more beneficial than the meager interest rate from bank deposits. Thus, from the study it is concluded that chit funds are a beneficiary.

Bandgar (2000)^[14] has conducted "A Study of Middle Class Investors Preference for Financial Instruments in Greater Bombay". The main objective is to study the existing pattern of financial instruments in India and the preference of middle class investors, their behaviour and problems. A questionnaire was used to collect data. Average, skewness, Chi-square test and Fisher Irving tests were used to analyse the data. The study disclosed that only 16 per cent of the investors were facing difficulties in buying and selling of securities. Middle class investors were highly educated but they were lacking skill and knowledge to invest. Female investors preferred to invest in risky securities as compared to male investors. The study also revealed that there was a moderate and continuing shift from bank deposits to shares and debentures and a massive shift towards traditional financial instruments namely, LIC policies and Government securities.

Demographic variables of Investor's behaviour

Investors' behaviour is strongly driven by various demographic variables. Demographic profile of investors are major influence factors that affect investment decisions. Demographic factors of investors such as Age, Gender, Marital Status, Educational Qualification, Income level, effect of investors' level of Risk tolerance etc. have much significance in investment decision making process, especially in the Indian Context.

Age and Investment Pattern

Age is found to be the most important determinants which have direct bearing on investor's decision-making pattern. It is a proven fact that investment choices differ in accordance with different stages of life cycle. Young investors usually find investing in stock market/ derivative more comfortable, while old investors prefer to invest in low riskier avenues. Middle aged investors prefer investing in mutual funds and NSC. As age increases, the ability to take risks decreases and people go for safer investment with respect to investment, individual who are above 20 years and below 30 years in their golden age of investment. As investors in this category have long years ahead of them to save and invest. As a long duration is available with them investors can invest with long term objective, take more risk of investing into unconventional financial products. Senior investors and old aged investors have a different decision-making style and choice of investment products. There is a significant relationship between the effects of age on investors risk perception in the investment decision. Risk tolerance capacity changes in different stages of life cycle. It indicates that life cycle characteristic as segmentation variable which provides an opportunity for segmentation of investors and

blurs some difference between individual investors and their financial requirements.

Gender and Investment Patterns

Gender plays a very significant role while making investment related decision. Women differ from men in many ways including the aspects like attitude towards savings and investment. Traditionally men were the prime focused segmentation of financial institutions and women were treated as less confident investors. But on account of recent societal developments and improvement of financial literacy, the career seeking women are more knowledgeable of financial services.

The level of risk taken by male and female investors are different. Men are usually more risk taking than women. Women prefer risk free investment while men prefer high degree of risk. Women investors tend to display less confidence in their investment decision and hence have lower satisfaction levels. It simply indicates that there is a significant difference in the level of risk taken by male and female investors. Mostly male investors are very active participants while selecting investment avenues than female investors. Therefore, it is a proven fact that women are generally more risk averse than men which results into investing in less risky avenues in their investment plans. Differences in financial literacy between male and female also explain differences in their investment decision making process. It shows that gender-based segmentation is always useful for financial services marketers in order to adapt their communication policy.

Income and Investment

Higher rate of savings transformed into higher rate of investment and boost productivity over the long term. If people generate more income, it enables them financially sound and provide protective coverage against future economic security. Investment income refers to money received in the form of interest, dividends, capital gains realised with the sales of stock or other assets or any additional profit made through an investment vehicle. There is a significant relationship between the effects of income on investors risk perception in the investment decision making process. Income is a very key determinant of investment decision making. Investment pattern changes in accordance with different income groups such as lower income, middle income and high-income group. Each group having different savings and different preferences regarding investment. People from lower income group invest in low risk investment avenues like post office deposit, fixed deposits, NSC etc. Investors with middle income group usually prefer to invest in moderate investment avenues such as – Mutual fund and people from high income group prefer to invest in equities. The level of income decides the level of savings. It means as the income rises the proportion of investment increases. Therefore, preferred investment avenues and income group segmentation can be widened to get more insight in financial service industry.

Education and Investment

There is a significant relationship between education and financial literacy and investment. The level of education can help an investor to predict which investment to take and how to determine investment steps to generate profit in the future. Lack of education and financial literacy will make it

difficult for investors to decide on investing. Education plays vital role in making choice of an investment. It has been observed that investors with less education prefer high risk investments such as- equity and derivatives under graduate investors invest in high risk, high return investments such as derivatives and real estate. Graduates prefer moderate risk and moderate return investment like debentures/ bonds while post graduate and professional invest in mutual funds and equity. Recent researched that propensity to take risk decreases with increase in education level. The level of education is categorized under, non-matric, senior secondary, graduate, post graduate, professional etc. It is difficult to depict exact trend of association between education and investment pattern. Investing in various kinds of avenues is a challenging exercise and level of education plays an important role in this context.

Investment is the placement of funds hoping to generate profits in the future. Investors in making decisions need important information as the base for determining investment choices. Investment decision is strongly driven by the level of education. Individual investors have different level of education so that it can be understood that there are different ways of investment decisions with different level of education. The higher level of education, the more investor understands selecting stock investments that can provide optimal return and avoid risk. The higher level of education enables higher the tolerance for risk in investment decision. These investors who are highly educated to graduate or post graduate level can consider many factors related to investment activities before taking a decision association with various avenues of investment. Education is an indispensable for the right investment decision.

▪ **Occupation and Investment**

Individuals belonging to different occupations exhibit varying investment pattern every occupation is having different income. Some occupations are having fixed income and few occupations are having fluctuating income. There person who salaried having fixed income every month. Their consumption pattern and investment behaviour are different from the Businessmen and traders because they are having fluctuating income. Investment choices are different in accordance with different nature of investor's occupation. Generally, service class, traders or businessman, professionals, students and retired persons are the major classes under the head of occupation.

Occupation determines certainty of income inflow and amount of risk associated with it, few occupants tend to have certainty of income with low risk. The certainty of occupation and income leads to certainty of savings. Srinivasan Sakthik, 2006 found significant relationship between occupation and percentage of income saved and insignificant relationship between occupation and purpose of investment. Service class investors invest their savings in stock market and mutual fund (Mittal Manish, 2007) business class have shown an inclination to invest in debentures, bonds, real estate. Professional invest in post office schemes and derivatives mutual fund and insurance. Students prefer to invest in high risk investment avenues like derivatives and equities. Retired person prefers to invest in post office schemes and PPF because they prefer to invest in more safety avenues rather than return. Occupation determines attitudes while investing in ULIP (J. Chandra

Prasad, 2009). It is also observed that Businessman have a positive attitude than other investors towards fund options, liquidity and transparency. Employees in Private Sector have a more attitude with flexibility and agriculturist have a positive attitude towards the option for riders. Occupation of investors play important role in investment decision making. Investment choice on the basis of occupation are making associated with risk bearing capacity of investors.

▪ **Marital Status and Investment**

Investment is an important vehicle to accumulate wealth. Every person whether single or married wants to be financially independent and secure his/her future with enough funds. The individuals who are single have enough advantages in investment related planning. They can make their own investment choices of savings and investment. Married individuals generally do not make investment decision on their own. Married people investment decisions are tending to be affected by their spouse, as they do acts as the important element for deciding financial matter. The couple makes combined decisions for investment related matters. Married couples allocate assets in their financial portfolio, with particular emphasis on retirement savings accounts. In comparison to married couples, unmarried people are freer to take their financial decision. They do not to seek any one's permission to invest in highly risky assets. They can make their desirable financial future. But when comes to married people, their investment decision is strongly driven by their spouses. Both plans together regarding household expenses and future economic planning. They focus more on assured return on investment. A household's financial decisions are based on relative control of resources in the household, and spouses may have different preferences especially for risk tolerance, that can affect those decisions. The behaviour of spouses is affected by the income controlled by each of them separately.

▪ **Family Earning Status and Investment**

The financial situation of investors is depending upon various parameters like income-expense ratio, borrowing habits, disposable income, individual income, family income, savings and investment pattern. Family earning is an important element which governs savings and investment pattern of investors. Indian households have traditional value and the relationship between the family members are emotional unlike other countries. The traditional ancestral properties have been transferred, gift of gold as ornaments from one generation to other generation to other generation. If only a single person earns in a family their savings and investment portfolio is relatively poor than two or more person. Investment pattern is strongly driven by family annual income, income-expense ratio of individuals, family awareness on investment and individual's investment individual having low income their parents are investment decision maker in their family, middle income class of investors their spouse and high net worth individual self-decision one taken in care of investment. Decision making of investment in identified with regard to their classification based on their family annual income. Individual who makes self-decision regarding investment pattern is fully responsible for the results of their investment decisions. Households where spouse makes investment decision reveal the fact that their family members and children are aware of the investment details. Investment decision maker in a

household could be the family head, spouse, parents or children and sometimes as joint decisions after considering the opinion of all members.

Conclusion

Investment can be made in physical form such as in tangible assets & financial assets. Investment decisions include the investor's judgement, prediction, analyze the process of decision making which covers the psychology of investment, gathering of information, defining and understanding the process, research, and analysis. How much money is invested by the individuals from their savings, the frequency of investment, the financial products in which they invest and the perception of risk shows their investment behaviour? The investors have their own particular financial need which is based on their financial goals and the risk. The investors want maximum return on the investment and capital protection. Investment decisions depend on different variables-personal features, emotions.

It is assumed that people are rational and they try to maximise their utility by choosing the best alternative among the available options. But, the irrational behaviour of individuals lead to the existence of Behavioural Finance which focuses on investigating the reasons for such irrational behaviour among individuals. Evidence show that emotions and insight which are referred as behavioural biases has an influence on investment decision making.

Behavioural factors such as overconfidence, familiarity and Anchoring bias influences the decision making of an individual. Besides these, an individual is also influenced by external factors such as level of engagement and spouse effect, which has not been explored earlier. This chapter tries to find out the impact of behavioural factors and the level of engagement and spouse effect in investment decision making and performance. This study is relevant as it attempts to development a framework of different variables that govern an investor's decision to save and invest. It will assist individuals in developing a financial plan that incorporate investor's values, needs and wants in order to reach their financial goals. Understanding investor behaviour can help in improving investment decision making process. We can conclude that investor's behaviour is affected by various psychological and sociological factor while making investment decision. The degree of deviation depends on expertise, skill, knowledge and experience in the field of finance. If an investor identifies their biases in early stage of investment that would help in better investment decision. It is very important for customer as well as service provider to understand the behavioural profile each other. Thus, we may quote that "understanding the margin of success and failure is completely depending upon investors' different channel".

With the growth in economy and increasing investment in securities in recent years, the study would greatly help prospective investors, portfolio managers and financial planners to advise their clients on diversifying their risk effectively. A study of behavioural finance can help investment advisers and investment planners in advising their clients in a better way and help them take better financial decisions.

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