

UNDERSTANDING INVESTMENT BEHAVIOR OF INDIVIDUALS: REVIEW OF INDIAN STUDIES

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ABSTRACT

Investment or investing is a term with several closely related meanings in finance and economics, related to saving and consumption. An asset is usually purchased or equivalently a deposit made in a bank, in hopes of getting a future return or interest from it. Individual Investors include those investors who are in some way associated with the company. This includes existing shareholders, employees, creditors, friends, relatives of management, customers, suppliers, consultants, etc. Research covered review of ten selected Indian studies particularly on understanding the investment behaviors and attitudes of retail individual investors in India. There existed diverse aspects which impacted and affected the investment decisions and perceptions of individuals towards investments. Present study is an attempt to focus and highlight some of these vital factors and determinants.

KEYWORDS: Investments, Behavior, Individuals, Review, India.

INTRODUCTION

Investment or investing is a term with several closely related meanings in finance and economics, related to saving and consumption. An asset is usually purchased or equivalently a deposit made in a bank, in hopes of getting a future return or interest from it. An individual who commits money to investment products with the expectation of financial return is called investor. An investor is a person who uses money for the purchase of some species of property from which interest or profit is expected. An investor is usually willing to take modest risk with his money to earn moderate returns. An investor makes his investment with an objective of earning long term gains which will be realised over a reasonable period of time.

Individual Investors include those investors who are in some way associated with the company. This includes existing shareholders, employees, creditors, friends, relatives of management, customers, suppliers, consultants, etc. These also include those investors who are not associated with the company which include general investing public which in turn would include investors and speculators.

RESEARCH DESIGN

1. Research covered review of ten selected Indian studies particularly on understanding the investment behaviors and attitudes of retail individual investors in India.
2. There existed diverse aspects which impacted and affected the investment decisions and perceptions of individuals towards investments.

3. Present study is an attempt to focus and highlight some of these vital factors and determinants.

REVIEW OF SELECTED INDIAN STUDIES

1. Chandra Abhijeet and Kumar Ravindra (2011) aimed to identify the psychological biases which determine individual investor trading behavior. Especially the psychological biases which may drive their trading behavior were identified. The suitability of the techniques adopted in this study was tested through various statistical tests such as KMO test of Sampling Adequacy and Bartlett's Test of Sphericity. The results of the principal components reveal the five underlying psychological axes that appear driving the Indian individual investor behavior. These five pertinent axes on the basis of the underlying variables are named as prudence and cautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction. The results reveal some psychological axes, such as conservatism and under confidence, which are consistent with the prior literature to some extent; but there are some contrary behavioral axes reported by the multivariate analysis such as prudence and cautious attitude and informational asymmetry which are not yet considered in prior literature in growing economies, particularly in the Indian context. These psychological components seem to be influencing individual investors' trading behavior in Indian stock market.
2. Barber Brad and Odean Terrance (2011) inferred that the investors who inhabit the real world and those who populate academic models are distant cousins. In theory, investors hold well diversified portfolios and trade infrequently so as to minimize taxes and other investment costs. In practice, investors behave differently. They trade frequently and have perverse stock selection ability, incurring unnecessary investment costs and return losses. They tend to sell their winners and hold their losers, generating unnecessary tax liabilities. Many hold poorly diversified portfolios, resulting in unnecessarily high levels of diversifiable risk, and many are unduly influenced by media and past experience. Individual investors who ignore the prescriptive advice to buy and hold low-fee, well-diversified portfolios, generally do so to their detriment. The majority of the empirical evidence indicates that individual investors, in aggregate, earn poor long-run returns and would be better off had they invested in a low cost index fund.
3. Singh Elangbam (2011) tried to identify some of the important issues relating to the formal finance and Marups for the economic development of rural areas. Study analyzed the rural savings of rural people of Manipur with reference to formal vis-à-vis Marups, an informal finance. Research analyzed the determinants of rural savings and its investments. Study offered suggestions for increasing rural saving and its investment so that the economy of the rural people may improve in the state of Manipur. After analysing both formal and marups as an informal means of savings, a simple endeavor was made to ascertain the viewpoints of the respondents of the study regarding the climatic conditions for savings and its investment in the rural areas of the state. Generally, almost everybody was of the opinion that formal mechanism for savings and investment should be expanded to all the rural masses for a better climatic conditions for

savings and investment and that is the reason for 'financial inclusion' which is the 'buzzword' of the present time.

4. Samudra Aparna and Burghate M. A. (2012) studied the investment behavior of the middle class households in Nagpur. They took into consideration investment options like bank deposit (public sector and private sector banks), insurance (public and private), shares and mutual funds, real estate and small saving schemes like Kisan Vikas Patra, Post office deposits etc. as the investment instruments in the portfolio of the households. For the purpose of study saving and investments were classified by analyzing the amount of money left after consumption and paying taxes and when these savings are used for all sorts of earnings like return on investment, generating wealth, formation of assets, gold etc. they were treated as investment. Study examined into preference of the investment instruments of the middle class households. Study found that overall the bank deposits and insurance are the most preferred investment instruments in all income groups, inconsistency is seen in preference in shares and mutual funds, real estate and small savings scheme. It was found that majority of the respondents said that they look for high return while investing in any instrument. Tax advantage is desired by 18% of the respondents in the upper income group whereas only 11% in the lower income group thought it to be desired feature. The research results brought out the fact that 70% of the respondent have increased in past five years. 31% of the households said that their savings have increased because of increase in their income which supports the hypothesis that the income and savings are directly related. 60% of the respondents have reported that there has been a change in their investment pattern in the last five years 0.52% of the respondent said the change in income (increase in income) has been the prime reason for the change in their investment pattern. 76% of the respondents wish to change their current portfolio of the assets. 52% of the respondents have reported that they take investment decisions on their own whereas only 28% of the respondents take professional help in making their investment choices.
5. Kaur Mandeep and Vohra Tina (2012) investigated into various factors that influenced investment behavior of individuals. Research provided detailed and comprehensive review of researches on such investment behavior in financial market. Study found that diversification of the financial services sector has provided the individual investors with a wide range of opportunities to invest. They found that an enquiry into the investor's portfolio practices, preferences, risk perceptions, intentions, their awareness level, factors influencing their investment behavior is needed in order to understand the individual investor behavior. Factors such as demographic profile, stock fundamentals, lifestyle characteristics, psychological influences and personal values influence the behavior of investor. Study recommended creation of conducive environment and simplification of procedural formalities is required for the revival of the lost confidence of the investors. The policies of the government should be such so as to induce the semi urban and rural investors to plank their savings into corporate securities. There is need for favorable fiscal policy and development of appropriate regulatory mechanisms in order to encourage investments in financial asset. There is an urgent need for financial literacy

- programs in order to make people understand their financial needs at different stages of life and the investment options available to them.
6. Patel Yogesh and Patel Charul (2012) studied the behavioral pattern of investment among the salaried people working in private sector and the difference in perception of an individual related to various investment alternatives. Research studied the behavioral pattern of investments among salaried people working in private sector. Study examined the difference in perception of an individual related to various investment alternatives. Research provided an insight into factors considered for an appropriate investment. Study concluded that Mutual Fund is the most favored option of the youngsters. Saving tax is one of the major reasons behind investment by the youth. Other Traditional Investment options like the Fixed Deposit or the Post Office schemes (PPF/NSC / NSS/ KVP/IVP) are losing their way due to blocking of funds and lower returns. Youngsters today are aware of what is happening around them and are intelligent enough to decide what is best for them.
 7. Brahmabhatt P. S., Kumari Raghu and Malekar Shamira (2012) analyzed and determined the investment behavior of investors and investment preferences for the same. Study aimed to understand in depth about different investment avenues available in market. Research examined the pattern of the investors at the time of investing. Study found factors that investors consider before investment. According to the data that have been collected, it can be seen that investing is mostly a man's game although women are doing their investment in some way or another but they are very less, and done mainly through financial instruments. People like to invest in Stock market as compared to any other markets, even if they face huge losses. Most of the people whose survey was done mostly were retired persons or the age group between 35-50 years. This suggests that youth of India is unaware about investment opportunities. According to the data that have been collected people give more preference to savings and safety but at the same time they want higher interest at low risk in shorter span. According to the data that have been collected people are having less knowledge of managing their income and assets. Most of the investors possess higher education like graduation and above. Most investors opt for two or more sources of information to make investment decisions. Most of the investors discuss with their family and friend before making an investment decisions. Percentage of income that they invest depend on their annual income, more the income more percentage of income they invest. The investor's decisions are based on their own initiative. Most of the investors are financial illiterates. Increase in age decreases the risk tolerance level. Women are more attracted towards investing gold than any other investment avenue.
 8. Chaturvedi Meenakshi and Barabanki Shruti (2012) studied the awareness and preferences of investor for different investment options available to them and to analyzed the factors influencing their perceptions and preferences. The basic objective of this research was to study the investment culture among the Indian Investors. Study investigated into saving pattern and investment preferences of the individual household in India. There is an explosion in the growth of middle class families due to double income and increase in number of working women. Hence effort should be made to attract

women investors by providing right information and knowledge about the market through advertisement. There is a dire need to initiate steps to inculcate saving habit among the growing middle class families. The savings are to be pooled and channelized into productive investments. Thereby enhancing the return to the investor which may result in the further investment in corporate securities also.

9. Thomas T. C. and Rajendran G. (2012) tried to understand the relationship between model developed by Thomas Bailard, David Biehl and Ronald Kaiser and investment choices of individual investors. Findings of the present study suggest that the personality of an investor influences the investment patterns and types of investments made. This study establishes the various investment patterns of individual investors. For many years financial services sector has been educating individual investors towards creating wealth and hence providing financial security. A regression analysis was conducted to test the relationships between investment choices and BB&K investor personality. To test the first hypothesis, the dimensions of BB&K were used as the independent variables and investment choices of Type 1 were used as dependent variable. Likewise all the remaining types of investments namely type 2 to type 5 were tested. It suggests that financial sector and its intermediaries should aim for investment pattern according to investor behavior. To understand the investor behavior one has to study the investor personality, before making the investment plans.
10. Bairagi Ujwala and Rastogi Charu (2013) aimed to study the awareness and preferences of investor for different investment options available to them and to analyze the factors influencing their perception and preferences. Study investigation into saving pattern of and analyze the Investment preferences of individual household in Pune City. Study explored into relation between saving pattern and investment preferences to social, economic, educational and occupational background of the individual household. Study inferred that there is an explosion in the growth of middle class families due to double income and increase in number of working women. Hence, effort should be made to attract women investors by providing right information and knowledge about the market through advertisement. The savings are to be pooled and channelized into productive investments; thereby enhancing the return to the investor which may result in the further investment in corporate securities also. Different groups of investors like, professionals, businessman pay less attention while evaluating the pros and cons of investing in different securities. The need and benefits of the systematic and analytical evaluation of different alternatives and competitive avenues need to be explained to them. Then only it is possible to park their surplus funds in economical viable condition.

CONCLUSION

Research indicated review of ten selected Indian studies focusing on understanding the investment behaviors and attitudes of retail individual investors in India. Research highlighted various aspects that affected the investment decisions and perceptions of individuals towards investments in Indian context.

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