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# Investment Behaviour of Household Investors in Erode City

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**ABSTRACT**

*This paper emphasis on an empirical study on Investment Behaviour of Household Investors in Erode City. Investors' behaviour has been defined as the "Decision Process" engaged in by investors. There are a number of influences affecting the investments. Hence the investment action which is visible may be the result of interplay of a number of complex and hidden variables which may have influenced the ultimate investment activity. The final investment is just, one activity in the series of physical or mental activities that may have occurred in this whole process. Some of those activities may precede the final investment while others may take place later. Since all these activities exert influence on the final investment, they are considered as a part of investors' behaviour.*

*A stock exchange is a market place where trading of securities takes place. To get the securities takes place. To get the securities traded, investors are required to avail the services of members (brokers) who are the only persons authorized and recognized to transact the business on the floor of the exchange.*

**KEYWORDS :**

## 1. INTRODUCTION

Despite being a "poor" country, India has amazed the world by regularly saving above 20% of family incomes – the world's highest. However, these savings have been in the traditional fixed return channels.

But today, with the upswing in the economy and the Governments new, liberal policies – a host of new savings schemes have become available. So much so, despite the interest rates being lower, the saver is excited yet confused over the large number of return-patterns and finds it hard to choose his savings channels.

If the savings are not wisely invested, the returns will be far less than the rate of inflation. Hence, it's necessary that wise investment moves must be made to obtain growth in portfolio. The first step in planning an investment strategy is to be aware of the goals. These goals may be,

- Why do people want to save?
- When do they want to get what they are saving for?
- How much is the goal going to affect after that much time?
- Which instrument must be selected according to the goals?
- What is the capability and comfort level with the risk for the sake of high returns?

Three important aspects of demography require a critical consideration, the longevity of people, particularly the middle class, is rising, the joint family system is in a decline and there is no generalized social security system. Combined with this, is the fourth issue of changing lifestyle of elderly in terms of travel, entertainment, and so on, which are expensive. The number of elderly is increasing and expected to reach around 9 percent of the population.

Here are the various avenues of investment for an investor:

- Bank Deposits
- Company Deposits
- Debentures and Shares
- National Savings Certificates
- Post Office time Deposits
- Units of the UTI
- Mutual funds

A middle income group investor cannot opt for a long term investment. Moreover he is interested in getting a good rate of return on his investment. At the same time he is not ready to discard the safety of capital. Moreover he also expects some appreciation of capital. Further liquidity of investments is also important as he has to meet his contingent expenses only by disposing of his investments.

### 2.1. STATEMENT OF THE PROBLEM

The volume of stock exchange has surged over a period of time thanks to the growth in the number of corporate bodies and the interests shown by investors in the capital market activities. The intermediaries like brokers, stock exchanges, portfolio managers, registrars and share transfer agents etc. have a great role in investor servicing. In practice, the household investors face so many problems. Some of the problems of Indian investors are inadequate disclosures made in prospectus, miss-leading advertisements, delay / non-receipt of refund orders, delay in transfer of securities, allotment letters, Delay / non-receipt of letter of offer of right issue, bonus shares, annual reports, insider trading etc.

The researcher with an interest to have an insight into the problems of investors has chosen Erode City for research since the City has a concentration of genuine investors who invest for earning regular income.

### 2.2. RESEARCH METHODOLOGY

The research is the conceptual structure within which is conducted, it constitutes the blue print for the collection, measurement and analysis of the date. The research problem and interview schedule have been formulated and framed accordingly. The present study is descriptive type. The inference from the opinion survey in Erode City have emanated as suggestions of the study.

### 2.3. SAMPLE SIZE

A total of 100 households were contacted. Household here means immediate or nuclear family (i.e. husband, wife, dependents, etc.). For the purpose of the household investment will be taken together even if held in the names of various house hold members and if the householders are two or more earners. The household is the economic unit.

### 2.5. DATA COLLECTION

Both primary & secondary data have been used. Questionnaires will be used to collect their required information on the households. Which is given in the annexure of the report? Persuasive skills are to be used while approaching for response. The secondary data relating to the have been gathered from the standard text books, articles, journals and magazines.

## 3. INVESTMENT BEHAVIOUR OF HOUSEHOLD SECTOR

Investors' behaviour has been defined as the "Decision Process" engaged in by investors. There are a number of influences affecting the investments. Hence the investment action which is visible may be the result of interplay of a number of complex and hidden variables which may have influenced the ultimate investment activity. The final investment is just, one activity in the series of physical or mental activities

that may have occurred in this whole process. Some of those activities may precede the final investment while others may take place later. Since all these activities exert influence on the final investment, they are considered as a part of investors' behaviour.

A stock exchange is a market place where trading of securities takes place. To get the securities takes place. To get the securities traded, investors are required to avail the services of members (brokers) who are the only persons authorized and recognized to transact the business on the floor of the exchange.

**TABLE – 3.1**
**PERCENTAGE OF INVESTORS SELECTED DIFFERENT ASSETS IN THEIR PORTFOLIOS**

| Different Assets | age | | Education | | Income | | |
|---|---|---|---|---|---|---|---|
| | 18-35 Year | 36-60 Year | Graduate & Higher | Matriculation | Low | Medium | High |
| Recurring Deposit in P.O | 25.00% | 32.00% | 96.00% | 50.00% | 37.50% | 25.00% | 33.00% |
| Recurring Deposit with Bank | 33.33% | 44.00% | 40.00% | 37.50% | 37.50% | 35.71% | 50.00% |
| Bank Fixed Deposits | 29.16% | 32.00% | 31.00% | 25.00% | 25.00% | 32.14% | 33.00% |
| NSC/NSS | 08.00% | 44.00% | 28.57% | 12.50% | 06.25% | 28.57% | 67.00% |
| Life Insurance Policy | 83.33% | 88.00% | 90.00% | 50.00% | 62.50% | 93.00% | 100.0% |
| Mutual Funds | 08.00% | 32.00% | 21.00% | 25.00% | 31.25% | 14.28% | 33.00% |
| PPF | 20.00% | 40.00% | 31.00% | 37.50% | 12.50% | 42.85% | 33.00% |
| Real estates | 08.00% | 12.00% | 10.00% | 12.50% | 06.25% | 07.00% | 33.00% |
| Gold | 33.33% | 64.00% | 52.00% | 37.50% | 50.00% | 50.00% | 50.00%s |
| Shares and Debentures | 12.50% | 16.00% | 16.66% | - | 06.25% | 10.71% | 33.00% |

**Source: Primary data**

Table 3.1 displays the percentage of investors holding different components of assets in their portfolios. As noted, most of the investors have picked up more than one asset to construct their portfolios. They may not have expertise for modern portfolio management. However they seem to have a clear perception of risk diversification that is reflected in their selection of assets varying from post office savings to real estate.

It appears from the table that life insurance policy dominates the array of assets included in the portfolios. It is also observed that when income level increases investor's preference towards life insurance increases. This may be for income tax rebate, which is important for higher income people. For the same reason, investment in NSC etc. has increased with income. Income tax may be a factor for higher income class people. But it is the common tendency of all the investors to be under life insurance protection.

The proportion of MF and Company share investing population increases with age as usual. However, since there is no respondent of more than 60 years old in the sample, it is not clear whether the inclination towards risky assets would have been decline or not for those investors who are supposed to have the preference towards fixed income assets after retirement. Asset allocation appears to be more or less independent of education for all assets classes except company shares.

Table 3.2 reveals the categorization of assets on the basis of safety. It appears from the table that P.O. Savings is considered to be the safest assets followed by Life Insurance, Bank Deposits and NSC/NSS. More than 90 percent investors consider P.O. savings as absolutely safe. On the other extreme company shares and debentures are considered to be most unsafe. Of course, 66 percent of the respondents do not know about debenture and about50 per cent of them do not have knowledge about shares. This is mainly because of an under developed nature of stock markets which is also highly speculative in nature and low awareness level of the investors about the stock markets. Real estate and Gold are age - old investment avenues and hence they are considered as safe investments.

**TABLE - 3.2**
**CATEGORISATION ON THE BASIS OF SAFETY**

| Assets | Absolutely safe | Reasonably Safe | Very unsafe | Somewhat unsafe | Don't know |
|---|---|---|---|---|---|
| Company shares | - | 15% | 23% | 13% | 49% |
| Debenture | 04% | 16% | 04% | 10% | 66% |
| Mutual Funds | 12% | 22% | 20% | 02% | 44% |
| Bank Deposits | 80% | 20% | - | - | - |
| Life Insurance Policy | 88% | 12% | - | - | - |
| P.O Savings | 92% | 08% | - | - | - |
| PPF | 62% | 12% | 02% | - | 24% |
| NSC/NSS | -88% | 06% | - | - | 06% |
| Real estate | 58% | 24% | 12% | 02% | 04% |
| Gold | 60% | 26% | 08% | 06% | - |

**Source: Primary data**

The investors consider different factors such as risk, return, liquidity, capital appreciation, income tax etc., while investing in different assets. Of course, all the factors are not equally important. Again some investor give importance for a particular factors, while others consider the other factors as important depending upon their taste, preference and requirement which vary from person to person for their different stages of life cycle, education and income level etc.

**TABLE - 3.3**
**IMPORTANCE OF FACTORS IN THE CHOICE OF INVESTMENTS**

| Factors | Very Important | Important | Not much important | Not Important at all |
|---|---|---|---|---|
| Capital appreciation | 12% | 26% | 26% | 36% |
| Regular annual income | 18% | 46% | 10% | 26% |
| Income tax | 16% | 20% | 08% | 56% |
| Higher return | 20% | 60% | 14% | 06% |
| Safety | 70% | 30% | - | - |
| Liquidity | 40% | 36% | 20% | 04% |

Source: Primary data

Table 3.3 reports the importance of various factors as a whole. Since there is no clear pattern for demographic characteristics, people's overall perception of importance for different factors regarding their investment choice are shown in the tables. As appeared in the table, safety has been given the highest priority. The other important factors are high return and liquidity. Both are regarded equally important. Income tax has been considered least important factor. This is perhaps for relatively low-income level of rural population. Very few people usually fall under tax bracket. Of course, those who are in tax bracket are found to have considered income tax as an important factor. Capital' appreciation has also been considered as equally unimportant factor.

The investors were asked whether they consider stock market too risky. The responses are summarized in table 3.4 as usual 30% respondents responded that they do not know about stock market. This reflects unawareness of the rural people. On an average 56% of them responded that it is too risky, whereas only 14 per cent suggested that it was not risky, Age-wise result shows that proportion of people who feel that stock market is risky is more among aged person. In fact, very few of them disagreed about the market is too risky. This reflects that either the young generation seems to be aggressive investors or they may think that they have just entered in the job market and they will get enough time to compensate the loss of risky investment, if any, by earning in future. Education-wise analysis also reveals that people having lower qualification outnumbered educated person to consider stock market as risky investment.

**Table – 3.4**
**IS INVESTING IN SHARE TOO RISKY?**

| Response | Total | Age | | Education | | Income | | |
|---|---|---|---|---|---|---|---|---|
| | | 18-35 Year | 36-60 Year | Graduation | Matriculation | Low | Medium | High |
| Yes | 56.00% | 52.00% | 60.00% | 54.76% | 62.00% | 50.00% | 57.14% | 66.67% |
| No | 14.00% | 24.00% | 04.00% | 14.28% | 12.50% | 06.25% | 21.42% | - |
| Can't say | 30.00% | 24.00% | 36.00% | 30.95% | 25.00% | 43.75% | 21.42% | 33.33% |

**Source: primary data**

## FINDINGS

It has been disclosed that 18 respondents belong to 20-30 years of age group, 22 respondents are in the age group of 31-40 years, 36 respondents belong to 41-50 years, 16 respondents are in the age group of 51-60 years and out of 100, eight respondents are in the age group of above 60 years.

It was found that out of 100 respondents 83 are graduates and 17 are non-graduates.

With regard to occupation of the respondents, it was found that 36 are Government employees, five are professionals, 23 respondents undertake other service, and 10 respondents are retired and 28 respondents easily on their own business.

Life insurance policy dominates the array of assets included in the portfolios. It is also observed that when income level increases investor's preference towards life insurance increases.

The study has brought to sharp focus that safety has been given the highest priority. The other important factors are high return and liquidity. Both are regarded equally important. Income tax has been considered least important factor. This perhaps for relatively low-income level of rural population.

It has been found out from the study that 30% respondents responded that they do not know about stock market. This reflects unawareness of the rural people. On an average 56% of them responded that it is too risky, whereas only 14 per cent suggested that it was not risky.

Three-fourths on the respondents did not invest. The investors, who have bought share or debenture during the period, do not belong to a particular group of highly educated or not so educated people.

## SUGGESTIONS

Since Life Insurance policies are still popular among the masses, the LIC can tap the untapped potentials through innovative schemes, which offer both insurance coverage and reasonable return.

Most of the respondents have poor knowledge about shares and debentures. Hence investor awareness programme may be organized in huge number to motivate people to invest in shares and debentures.

Most of the Investors consider safety, high return and liquidity as the prime factor for investment in shares and debentures. Hence the companies have to focus on these factors.

As a vast majority of Investors want the settlement period to be reduced, it may be considered.

Hence, it is suggested that the demat charges to be minimized.

## CONCLUSION

The Investment behavior of the respondents has been consistent and safety of the funds invested has been given the top priority, followed by high return and liquidity. The investors need awareness regarding investments. The small investors are hesitant to enter the stock market in view of the volatility of the market. The Demat form of holding securities has become popular among the investors. A majority of the respondent's investors expressed their view that the corporate governance is good in Indian companies.

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