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Understanding the Investment Behavior – A Review of Literature

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Abstract:

It is a normal tendency amongst most of us that every purchase we do or produce made is not meant for an immediate consumption. There is always a provision or a scope for certain future period. We also have a tendency to save certain amount of money and this saving is done mostly for fulfilling future needs or unknowingly or knowingly it is made as a hedge against expected inflation for coming period. The process of increasing wealth actually starts with savings. Savings are also essential for the nation's growth. If the savings are not properly channelized it will not give us the desired fruits. For all the above mentioned activities appropriate decisions have to be taken. This paper is an attempt to understand and present a glimpse of research work done on the said subject. For the purpose of the study the research papers were selected on random basis from various National and International Journals & Conference Proceedings.

Keywords: Investment Behavior, Investment Instruments

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Introduction:

In the old era also people knew the importance of savings, they use to save but the savings were mostly in the form of hard cash, gold/silver ornaments, precious stones etc and all savings may be of any current period or cumulated were either kept at home specially in underground castles or with some acquaintances on whom people could trust. The basic reasons for such acts could be non-availability of proper banking system or investment alternatives. The amount of expenditure and proportion of savings largely depends upon the income levels of people. It is also seen that people also saves when they get some surplus from occasional events like amount of some capital gain received from sale of some property, share from some ancestral property or some bonus, commission, prize money etc. 'Saving & investment behavior has always been an area of interest to the researcher. The economic cycles of boom, recession, depression & recovery not only effect the level of GDP but also the income of the households & hence the saving ratio & investment behavior.'(Kanti Das Sanjay 2012). The propensity to spend and save depends upon personal nature, future needs, present financial status and risk taking capacity of an individual. It may be found out that people with superior income might not be interested to save or if found interested the amount of saving might be minimal. On the contrary, there will be some people who will like to save maximum amount of what they earn. It is the savings which lays down the foundation stone and create the path for investment and it would be an injustice to attach words like spendthrift or miser to such investors. The reason for such behavior might be personal beliefs/requirements or it could be educational background, lack of knowledge about investment avenues or inadequate understanding about financial instruments and markets. Those who are investing are always interested to see that their savings are safe and profitable and are growing in a systematic manner as it was perceived before making any form of investment. Technically investing is committing funds to one or more financial asset and which are kept with an intention to grow and are held for certain time period. An investment takes place when an individual postpone his or her current consumption in anticipation of growth in the investment which will lead to certain additions to the total wealth. Investment decision takes place in the form of a trade-off between current and future consumption. It can be understood in the sense that lesser is the consumption level larger would be the proportion of investment. 'Investment has different meaning in the context of finance and economics. Finance Investment involves decision making process in order to ensure security of both the principle amount and the return on investment (ROI) within an expected period of time. In economics, investment means creation of capital or goods capable of producing other goods or services. On the basis of tenure, the investments are classified as Short-term & Long-Term. Almost everyone holding some portfolio of investment in the form of financial assets like bank deposits, bonds, stocks and so on; and real assets like, house, gold etc'.(Geetha N. & Dr. Ramesh M. 2012). 'Investments are often made indirectly through intermediaries, such as banks, mutual funds, pension funds, insurance companies, collective investment schemes, and investment clubs. Though their legal and procedural details differ, an intermediary generally makes an investment using money from many individuals, each of whom receives a claim on the intermediary.' (Rakesh Dr. K and Srinivas VSM. 2013) 'The two key aspects of investment are preferences and pattern. Benefit is expected in the future and tends to be uncertain. In some investments (like stock options) risk element is dominant attribute while in some investment (like govt. bonds) time is dominant attribute. There are various factors which affects investors' portfolio such as annual income, government policy, natural calamities, economical changes etc.' (Chaturvedi Meenakshi & Khare Shruti. 2012) It is a general tendency that people like to have maximum possible gains with minimum amount of risk and in order to fulfill this objective diversification is the best option available and for diversification the country has to provide various investment avenues which stands up to the expectations of investors. For proper growth and development of a nation it is mandatory that each amount of investments must be properly channelized and there should be a healthy environment in the country which motivates people to make investment. The presence of a well established financial system in the country helps in providing a proper channel for movement of funds as desired. The Planning Commission, Government of India, vide their Order No.3/2/2010-FR dated March 10, 2011 constituted a Working Group for the estimation of savings during the Twelfth Five-Year Plan (2012-13 to 2016-17), with eminent members for number of terms of reference, the first one is to estimate domestic private savings, physical and financial and their components in light of the policy and structural changes in the real and financial sectors and the demographic pattern. Total saving of the households comprises financial savings and physical savings. Financial savings are treated on a net basis i.e. households' (change in gross) financial assets less their (change in gross) financial liabilities. The members come up with facts that India's saving performance has been quite impressive in cross-country context. The report reveals the trends in household sector savings its rate and composition which presents that total household savings is 23.5% of GDP at current market prices for the period 2005-11 and as per the projection considering scenario of

Real GDP growth of 8.5%; inflation of 5% the household savings is predicted to 25.2% for the period 2016-17. The report also presents that the composition of gross financial asset and its bifurcation in terms of percentage for various periods among currency, bank deposits, non-banking deposits, life insurance funds, provident and pension funds, claims on government, shares and debentures, units of UTI and trade debt wherein bank deposits account for the predominant share of gross financial assets which account for 49.9% for the period 2005-11. Considering the above figures it can be said that there is a favorable environment for households to make investments. This also widens the horizons for financial institutions dealing in various investment options to cater the households and come up with customized investment plans and instruments.

Review of Literature

The glimpses of prior studies made in relation to the current study undertaken are enumerated here. An attempt has been made to review researches covering different categories of investors of different areas and different factors as far as possible are covered.

Das Kanti Sanjay (2012) studied the middleclass household's investment behavior and found that the trends of investment by households are not similar in nature and they vary between several financial instruments. The study reveals that amongst other avenues the bank deposits remain the most popular instrument of investment followed by insurance and small saving scheme with maximum number of respondents investing in fixed income bearing option.

Chaturvedi Meenakshi & Khare Shruti (2012) studied the Saving Pattern and Investment Preferences of Individual Household in India found out that most investors preferred Bank Deposit as the first choice of investment and next to bank deposits small saving schemes constitutes the second choice of investment.

Geetha N, & Ramesh M. (2012) studied the Relevance of Demographic Factors in Investment Decision and reveals that there is significant relationship between the demographic factors such as gender, age, education, occupation, annual income and annual savings with the sources of awareness obtained by the investors.

Rakesh Dr. K and Shrinivas V.S.M (2013) with his study on individual investment behavior in mutual funds on 400 investors covering the categories of Executive & Non-Executives and observed that 185 investors are interested in investing in bank sponsored mutual funds because of security and 126 investors are interested in investing in institutions because of their returns, remaining 89 investors are interested in investing in private sector & joint venture to maximize their returns and to hedge against risk.

Shaik Pasha Majeeb Abdul, Murty Dr. T. N., R.Vamsee Krishna, Gopi Kiran V.Hemantha (2012), the study examines that the level of importance assumed by the retail equity investors on various investment objectives based on the socio economic variables and selective investment profile factors. With the help of average score analysis with the help of Kruskal Wallis H-Test found out that the investors attach/attract more importance to liquidity, quick gain, capital appreciation and safety in equity investments compared to others.

Bhat Abass Mohd, Dar Ahmad Fayaz (2013) studied the role of emotions in individual investment behavior describe and conduct a research on what factors, **investing** characteristics, and decision-making processes affected individual investors and analyzed the emotional factors that are in the back of an investor when he makes an investment decision.

Kumaran Sunitha (2013) has explored whether there was a link between an individual's personal epistemology, such as Locus of Control, and the mechanism of stock market decision-making (using gambler's fallacy versus hot-outcome). The primary outcome of the paper, has confirmed that an individual's personal epistemology does have an effect on the investment decisions

Harikant Dr. D & Pragathi B. using the principles of Behavioral Finance the study explores the psychological concept of individual attachment style, especially individual investors to different available investment avenues and their investment preference process. This study indicates that there is a significant role of income and occupation in investment avenue selection by the male and female investors.

Panda Dr. B.N. & Panda J.K (2013) made an analytical study on perception of risk and return for individual investment which aims to put on some knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision making process in this analysis it was presented that higher returns are expected on Mutual Fund followed by Postal deposits and Insurance Schemes than other types of investment.

It is said that people save for future contingencies and would like to see their savings grow. In order to fulfill the objective people look forward for different investment avenues. 'A behavioral finance perspective or school, which is made from psychological and financial integration, believes that psychology plays an important role in financial decision. Since cognitive errors and distortions impact investments' theories, therefore, they will also influence financial options.' (Kumaran Sunitha 2013) 'Investors do not act wisely in taking decisions relating to investment. They have certain weaknesses like cognitive and emotional which take a predominating role in taking investment decision of individuals. They have behavioral biases in the event of taking investment decision.'(Harikant Dr. D & Pragathi B) It is seemingly necessary for the market makers to understand the behavior of such investors in selecting an investment option.

On going through the above review of literature it is found that there are number of factors which affect the investment decisions of an individual and the scope for the research in this area is wide and not conclusive.

Results and Discussions

On going through the above literature we found many investment options opted by people including Currency, Bank Deposits, Non-Banking Deposits, Life Insurance Fund, Provident Fund& Pension Fund, Claims on Government, Shares & Debentures, Units of UTI, National Saving Certificates.

The studies can be further extended to understand the behavior of investors in relation to other macro economic variables like Economic environment, Inflation, Interest Rates, etc. The studies can also be extended to cover all the educational institutions comprising of Schools, colleges offering undergraduate and postgraduate degrees. It also leaves a scope for its further extension on other dimensions like studying satisfaction level of returns from any investment, trends of pay scale, effect of VIth pay commission etc. The studies can be further extended towards any other metro city wherein the size of the population will be much higher in turn analysis can be done on large set of database.

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