Study on Investment Pattern of the Investors in India

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Abstract:- Investment culture is an essential key for capital structuring and the speedier development of an economy among the populace of a nation. Investment culture is the accumulation of the conduct, discernments, and ability of the people and organizations in setting their investment funds in different money related resources, all the more prominently known as securities. An investigation of the investors’ perceptions and inclination has a more noteworthy effect in the plan of arrangements for the improvement and regulation of security markets when all is said in done and therefore ensuring and advancing little and family financial specialists specifically. This study investigations investment pattern of the investors with respect to different investment avenues and their awareness on the mutual funds. The investors’ attitude towards investment is analyzed with respect to their financial needs, investment objective, and return period of investment, willingness to take risk, inclination and level of security for budgetary resources.

Keywords— Investment Culture, Institutions, Securities, Household Investors, Period of Investments, Degree of Safety etc.

1. INTRODUCTION

“To invest successfully over a lifetime one does not require a stratospheric IQ, unusual business insights or seaside information. What’s needed is a sound intellectual framework for making a decision and the ability to keep emotions from corroding that frame work” - Warren Buffet.

Financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. A widely accepted definition of financial literacy is one formulated by the U.K. National Foundation for Education Research which describes financial literacy as —the ability to make informed judgments and take effective decisions regarding the use and management of money. Participation in modern finance throws up a number of questions and choices for investing. A clear understanding of the different avenues of investments will help an investor to make a wise decision based on his investment goal. The financial market offers a wide variety of investments, which differ from one another with respect to the return, risk and the waiting period. An investor has to be aware of the merits and limitations with respect to each investment channel to decide a course of investment plan. When the financial literacy level increases, the investors may take an informed decision about his investment portfolio, which will benefit both the country as well as the individual investor.
There are numerous avenues of investment available today. Investing has been an activity confined to the rich and business class in the past. This can be attributed to the fact that availability of investible funds is a prerequisite to the deployment of funds. However, today with the growing income level of the public investment has become a household word and is popular with people.

a) Financial Securities: Financial securities include equity shares, preference shares, convertible debentures, non-convertibles debenture, public sector bonds, savings certificates, etc. Equity shares and public sector bonds are the most common investment avenues among the financial securities for the common man.

b) Mutual Funds Schemes: Instead of directly buying financial securities, one can invest in mutual funds. Those mutual funds managed by professionals decide where to invest, when to invest, how much to invest and when to disinvest so that the mutual funds scheme would be able to give a profit to its investors.

c) Real Assets: For the bulk of the investors, the most important asset in their portfolio is a residential house. In addition to a residential house, the more affluent investors are likely to be interested in the following types of real estate: Agricultural land, Semi-urban land, Time-share in a holiday resort. This study analyses the investment pattern of the investors with respect to different investment avenues and their awareness on the mutual funds. The investors' attitude towards investment is analyzed with respect to their financial needs, Investment objective, and degree of safety for financial assets.

2. REVIEW OF LITERATURE

B. Das, Ms. S. Mohanty and N. Chandra Shil (2008) studied the behavior of the investors in the selection of investment vehicles. Retail investors face a lot of problem in the stock market. Empirically they found and concluded which are valuable for both the investor's and the companies having such investment opportunities.

G. Ramakrishna Reddy and Ch. Krishnudu (2009) summarized that a majority of the investors are quite unaware of corporate investment avenues like equity, mutual funds, debt securities and deposits. They are highly aware of traditional investment avenues like real estate, bullion, bank deposits, life insurance schemes and small saving schemes. Study argued the primary motive of investment among the small and individual investors is to earn regular income either in form of interest or dividend on the investment made.

Nidhi Walia and Ravi Kiran (2009) studied that to satisfy the needs of investors' mutual funds are designing more lucrative and innovative tools considering the appetite for risk taking of individual investors. They also argued as per observation by survey responses of the individual investor's fact is clear that overall, among other investment avenues capital market instruments are at the priority of investors but level of preference varies with different category/level of
income, and an association exists between income status of investors and their preference for capital market instrument with return as objective.

Ashutosh Vashishth and Satish Kumar (2010) studied encompasses scope an analysis of historical roots of derivative market of India. The emergence of derivatives market is an ingenious feat of financial engineering that provides an effective and less costly solution tithe problem of risk that is embedded in the price unpredictability of the underlying asset. In India, since its inception derivatives market has exhibited exponential growth in both terms of volume and number of traded contracts.

Sheng-Hung Chen and Chun-Hung Tsai (2010) wanted to identify key factors influencing individual investor "s decision to make portfolio choices is of importance to understand their heterogeneous investment behavior. Study stated female investors tend to be more detail oriented; elder is more likely to have low level of risk tolerance; the level of education is thought to impact on a person” s ability to accept risk; increasing income level of individual investor is associated with increased levels of risk tolerance. At last, they argued single investors are more risk tolerance than married investors are.

S. Gupta, P. Chawla and S. Harkant (2011) stated financial markets are constantly becoming more efficient providing more promising solutions to the investors. Study also proved that occupation of the investor is not affected in investment decision. The most preferred investment avenue is insurance with least equity market. The study also argued that return on investment and safety is the most preferred attributes for the investment decision instead of liquidity.

S. Saravanakumar, S. Gunasekaran and R. Aarthy (2011) showed the upswing in capital market allows the investors to harvest handsome return in their investments, but day-trader in stock market hard to take advantage in bullish and bearish market conditions by holding longer short positions. Now the derivative instruments offer them to hedge against the adverse conditions in the stock market.

B. Raja Mannar, B. Ramachandra Reddy (2013) analyzed investor’s perception and expectations towards mutual funds. Investors differ in their choice of investments based on the expected return against risk. Educational qualification of investors reflects on the financial needs and investment objective. Marital status influences impact on investment objective, willingness to take risk and volatility in investment value. Monthly income and monthly savings significantly influence financial needs, investment objective and volatility in investment value.

3. INVESTMENT TYPES

The most common terms that are related to different types of investments:

**Bond:** A debt instrument, a bond is essentially a loan that you are giving to the government or an institution in exchange for a pre-set interest rate paid regularly for a specified term. The bond pays interest (a coupon payment) while it's active and expires on a specific date, at which point the total face value of the bond is paid to the
investor. If you buy the bond when it is first issued, the face or par value you receive when the bond matures will be the amount of money you paid for it when you made the purchase. In this case, the return you receive from the bond is the coupon, or interest payment. If you purchase or sell a bond between the time it is issued and the time it matures, you may experience losses or gains on the price of the bond itself.

**Stock:** A type of investment that gives you partial ownership of a publicly traded company.

**Mutual fund:** An investment vehicle that allows you to invest your money in a professionally-managed portfolio of assets that, depending on the specific fund, could contain a variety of stocks, bonds, market-related indexes, and other investment opportunities.

**Money market account:** A type of savings account that offers a competitive rate of interest (real rate) in exchange for larger-than-normal deposits.

**Exchange-Traded Fund (ETF):** ETFs are funds – sometimes referred to as baskets or portfolios of securities – that trade like stocks on an exchange. When you purchase an ETF, you are purchasing shares of the overall fund rather than actual shares of the individual underlying investments.

**Investment strategies**

Once you have a better understanding of the investment choices available, you may come across specialized terms that explain how money can be invested:

**Allocation of investments:** Also known as asset allocation, this term refers to the types of investments/asset categories you own and the percentage of each you have in your investment portfolio.

**Diversification:** This is a risk management technique that mixes a wide variety of investments to potentially minimize your investment risk.

**Dollar cost averaging:** An investment strategy used whereby an investor purchases fixed investment amounts at predetermined times, regardless of the price of the investment. This strategy minimizes risk because it reduces the difference between the initial investment and the current market value over a long enough timeline.

**Investment terminology**

Once you start investing, there are a variety of terms that describe your gains, losses, and individual investments.

**Capital asset:** A long-term asset such as land or a building that is not purchased or sold in the normal course of business. In other words, anything you own and use for personal or investment purposes. Examples include your home, your car, and stocks or bonds held in a personal account.

**Capital gain/loss:** Profit or loss from the sale of an asset.

**Capital appreciation/depreciation:** The amount by which the value of an asset increases or decreases compared to the amount you paid for
it. You receive the capital gain or loss when you sell the asset.

**Dividends:** A distribution of a portion of a company’s earnings, decided by the board of directors, to a class of its shareholders.

**Index:** A portfolio of securities representing a particular market or industry or a portion of it. Indices often serve as benchmarks for measuring investment performance— for example, the Dow Jones Industrial Average or the S&P 500 Index. Although investors cannot directly purchase an index, they are able to invest in mutual funds and exchange-traded funds that are based on the indexes. These types of vehicles enable investors to invest in securities representing broad market segments and/or the total market.

**Margin account:** An account that allows you to borrow money from your brokerage account in order to purchase securities. The loan is collateralized by the existing securities and cash held in the account.

**Prospectus:** A document filed with the SEC that describes an offering of securities for sale to the public. The prospectus fully discloses the risks, policies, and fees of the offering.

**Yield:** The income return on an investment. This refers to the interest or dividend received from a security based on the investments cost or face value. By taking the time to learn about the common types of investments and the language that accompanies them, you can become a smarter and savvier investor.

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**Investment** – parking of funds (current) to earn benefits or securing growth in future can be termed as Investments. It is a sacrifice from current income to gain returns at a later stage/date. Investment should be done to yield more return than rate of inflation. The current income of an individual can be put aside for two things – either consumption or savings. The money once consumed is gone forever, whereas the savings bears fruit. Major element of any investment is time and risk. It purely depends upon individual capacity to give importance to either of the two elements, on the basis of one’s need. There are plenty of areas where money can be invested like- government bonds, equities, gold, real estate, stocks, fixed deposits, etc. A proper planning and analysis should be done in order to reach to a perfect decision of investment/ or portfolio management. One’s skill improves with the timely investments.

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![Image: Investment risk vs reward chart](image_url)

**Fig3. Investment risk vs reward chart**

**4. Six Steps to Proper Investing**

Some people find investment management to be a time-consuming and overwhelming task. For other people it is an enjoyable past time. No matter your
feelings, these six steps will help you to manage your retirement savings properly and with ease.

**Step One – Evaluate and understand your investor type.**

It is critical to be aware of how you would like to interact with your investments. Perhaps it sounds like we’re recommending that you take a personality quiz. That’s not necessary, but you should take time to truly think about your personality and your feelings about investing. Understanding yourself in this regard will help establish the best plan for retirement investing. Most people will fall into one of three investor type groups: 1) enthusiastic investors, 2) help-me-to-help-myself investors and 3) please-just-do-it-for-me investors.

The enthusiastic investor enjoys finance and analysis. This person wants to be fully engaged in the research and decision-making for their investments. They will take time to research investment options, will understand investing terminology and will actively seek people to discuss investment strategy.

The help-me-to-help-myself investor is interested in investing but needs a push in the right direction. This investor type will have a basic investing plan and will want to discuss ideas for confirmation. A help-me-to-help-myself investor might have the drive to be an enthusiast, but he/she lacks the time to devote to the research necessary to get it done right.

Then there are people who would prefer a completely hands-off approach: the please-just-tell-me-what-to-do group. The people who fall into this group have neither the time nor interest in personally handling retirement planning. Please-just-tell-me-what-to-do types will want someone else to make decisions for them.

**Step Two – Understand your tolerance for risk.**

The word *risk* often appears in financial discussions, and it can be confusing and intimidating. Regardless of your investor type or the investments you’ve selected for your retirement savings, you are assuming a certain amount of risk.

In terms of investing, risk refers to the chance to lose your investment in exchange for the chance for gains. Generally, the greater the chance of loss, the greater the chance of higher returns. For more information, you can read our Risk Assessment article.

Risk is associated with volatility. More volatile investments experience more significant swings in value during a given time frame, which places investments at higher risk. The key to risk is to understand whether you are a more conservative investor or a more aggressive investor. The more time you have until you will need to use your retirement assets, the more aggressive the investment strategy you can employ. A longer time line means you have more time to endure short-term market volatility, and, if you are comfortable doing it, you can focus on long-term growth.

The higher the amount of risk you are willing to assume, the higher the potential reward/return you may experience, and vice versa as you pursue more conservative investments. More aggressive investments have historically been highlighted by periods of volatility that investors with short-term
horizons (one-to-five years before needing access to retirement assets) may want to limit or avoid.

**Step three – Determine the right allocation to fit your risk tolerance.**

The chart below briefly describes and ranks the level of risk and volatility for several of the most commonly available asset classes in employer-sponsored retirement plans.

![Risk and Volatility Chart](chart.png)

**Fig 4. Ranks the level of risk and volatility**

Familiarize yourself with the risks associated with different asset classes then determine whether you are conservative, moderate, aggressive – or somewhere in between. Take a look at some sample allocations for conservative and aggressive investors:

- **Step four – Select funds to fit within your target allocation.**

If you would like to know more on this subject, read the Asset Allocation article in the Retirement Basics Resource Center.

After you’ve determined the right allocation mix for your risk profile, you will need to select the appropriate funds from your investment options – this will likely be the most time-consuming task you face. Using the Asset Class Categories chart from step three, select funds that fit into each category. Mutual funds available to the public (these funds will have a ticker symbol for tracking) will have a prospectus providing necessary information about fund objectives, the management team and fees. You should also review fund style. Morningstar.com is a good
resource for fund style information. Funds unavailable to the public still have literature outlining objectives, management and fees – your retirement provider should be able to provide the information.

Research the available funds’ historical performance, management history and associated fees. Look for funds to provide consistent performance rather than a few “hot” investment return situations. Find funds with a stable management team, and avoid funds with too much turnover. Always be aware that higher fund-assessed fees will cut into your return. Weigh all of your available options carefully to choose the most appropriate funds for your allocation.

Step five – Evaluate how current holdings fit your needs.

Review any existing investments within your employer-sponsored plan to determine whether your investment choices fit with your strategy. You worked hard to research and establish your investment plan, so be sure to apply your blueprint to existing retirement investments.

Also evaluate any assets held outside of your employer-sponsored plan. How do these investments fit into your strategy? Do you have IRAs or other retirement plans through previous employment? How does your strategy fit with that of a spouse or partner?

Step six – Monitor your investments and reallocate.

Step six is often forgotten, but it is extremely important. Funds will earn returns at various levels over time, causing your allocation to become weighted differently than you intended. Also, funds are often added or removed from your plan options. Quarterly evaluation and reallocation will help keep your portfolio balanced in the appropriate asset classes and ensure you continue to have the most appropriate choices for your situation.

Monitor the historical performance of your funds, but avoid making short-term decisions. Chasing returns is one of the biggest, and most common, investor mistakes. Its costs investors millions each year. Look for funds to perform consistently and within the parameters outlined by the fund prospectus.

Additionally, personal investment needs change over time, and so must your strategy change. Re-evaluate your time-to-retirement, your lifestyle needs, your health-care expense concerns and your changing tolerance for risk. Do not hesitate to alter your asset allocations as your needs change.

6. CONCLUSION:

This paper is a reflection of the behavior of various categories of investors. Selection of a perfect investment avenue is a difficult task to any investor. An effort is made to identify the tastes and preferences of a sample of investors selected randomly out of a large population. Despite of many limitations to the study I was successful in identifying some investment patterns, there is some commonness in these investors and many of them responded positively to the study. This report concentrated in identifying the needs of current and future investors, investor’s preference towards various investment avenues are identified based on their occupation. Investors risk in selecting a particular avenue the individual investor still
prefers to invest in financial products which give risk free returns. This confirms that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors prefer to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant.

REFERENCES:


