

AN EMPIRICAL STUDY ON THE INVESTORS' PERCEPTION TOWARDS INVESTMENT ALTERNATIVES

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ABSTRACT

The present article attempts to examine the relationship between investor's preference on various attributes and perceived satisfaction on different financial instruments. This relationship is shown in perceptual mapping. The study has hypothesized a positive relationship exists between perceived preference and perceived satisfaction of financial instruments among individual investors. In addition, to prove whether there is statistically significant difference on perceived satisfaction across demographic variables. Sample of 67 were collected which included students, employees, retired people, housewives etc. in Bangalore. ANOVA and correlation tests have been used to prove the hypothesis. Based on mean score of preference and satisfaction of investors ranking has been done. Results showed the attributes which are most preferred across various instruments among the investors.

Key words : Retail Investors, Financial instruments and perceptual mapping

INTRODUCTION

The Indian capital market has been growing tremendously with the initiation of various economic reforms.. The Indian economy has opened up and many developments have been taking place in the Indian capital market and money market. As a result, new investment avenues are opened up for individual investors, in particular.

Individual investors face lot of problems due to inadequate knowledge, lack of investment skills, non-availability of information, rural orientation, etc., to name a few that influence the formation of investment perception as well as investment activities. The perceptions influence the investment process including the choice of avenues, planning

of funds, holding, buying and selling of securities. Investors hold different perceptions on liquidity, profitability, collateral security, statutory perception, etc., for various investment avenues. In addition they also fix their own priorities for these perceptions. The formation of perceptions triggers the investment process in its own way, often leading to unrealistic apprehensions especially among individual investors. There is a need to help investors develop a realistic perspective of the investment avenues and their attributes

Investors are a heterogeneous group, they may be large or small, rich or poor, expert or lay man and not all investors need equal degree of protection (Mayya, 1996). An investor has three objectives



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while investing his money, namely safety of invested money, liquidity position of invested money and return on investment. The return on investment may further be divided into capital gain and the rate of return on investment as interest or dividend. Thus, it is high time to understand and analyze investor's perception and expectations, and unveil some extremely valuable information to support financial decision making.

Modern financial economics assumes that we behave with extreme rationality; but, we do not (Barber and Odean, 2001). The recognition that individual behavioural influences affect market outcomes initiated a new research stream in financial economics, called behavioural finance. Behavioural finance research applies lessons from psychology to financial decision by incorporating observable, systematic, and very human departures from rationality into standard models of financial markets. Gender differences in investment strategies are one such departure. Psychological research demonstrates that in areas such as financial decision making, women have different outlook and preferences than men.

What prompts investors to choose one investment option over another? The standard behavioural answer is that investors are striving to minimize investment risk. This notion is based on Kahneman and Tversky's [1979] prospect theory, which states that people tend to be more risk-averse than risk-seeking when it comes to gains (and the opposite when it comes to losses). However, to say that risk preference is at the core of investment choice is only part of the story—and, as recent research suggests, perhaps a very small part. Recent studies suggest that investor gender, personality, and even cultural factors are related to investor preference. For example, Olsen and Cox [2001] found that female investors are more risk-averse than their male counterparts. Felton, Gibson, and Sanbonmatsu [2003] replicated this difference, and also found that higher investor

optimism is associated with greater willingness to accept higher levels of risk in a portfolio. Therefore, in addition to gender effects, Felton, Gibson, and Sanbonmatsu [2003] found that personality characteristics can affect investment choice. Investors differ systematically in how they perceive and manage investment risk. People do not just *invest* their money; they do so in order to achieve personal goals. For example, some investors need to increase capital in order to purchase expensive commodities like houses or cars. Others aim to secure the financing of their retirement or their children's education. Yet others invest with more short-term goals in mind, such as being able to take a year off work to travel, or to get married. Typically, investment is a financial means toward a non-financial goal. The fact that the personal context of an investment can have an impact on an investor's choice seems intuitive. It also appears to be recognized by investment services providers, who often tout highly personalized portfolios and client-centered fund managers. So how can we quantify what effect investors' own goals have on their investment choices? We posit that rendering investor goals more salient is likely to result in investment decisions that minimize risk (or the variability in outcomes). Thinking about personal goals such as purchasing a house, getting married, or securing one's retirement is likely to focus people on such non-financial, personally important plans, and thus render them more risk averse.

Against this background, this article aims at analyzing the investors' perception towards investment alternatives. The article is divided into 3 sections. Section I comprises Introduction, Review of Literature, Objectives and Hypothesis. Section II deals with Research Design and Methodology and Data Analysis Last Section includes Findings, Suggestions and Conclusions

1.1 REVIEW OF LITERATURE

Lewellen (1997) finds that age, sex, income and education affects the investors' preferences. **Karmakar (2001)** has found that the life insurance policy is the most popular investment avenue. **Huberman (2001)** is of the opinion that a person is more likely to invest in known companies and not in unknown. In **April 2004, Merrill Lynch Investment Managers** undertook a study of investors and examined their related attitudes, beliefs and knowledge levels. In gender terms, the survey found that a little self-knowledge can go a long way. Participants had to be solely or jointly responsible for financial and investment decisions for their household, and have at least \$75,000 in investible assets and an annual household income of at least \$75,000. **Nick Sevdalis & Nigel Harvey in 2007 has conducted a study on Investing versus Investing for a Reason Context Effects in Investment Decisions and found out that people i.e. investors who do self analysis choose to invest in less risky avenues. Yesh Pal Davar, Professor, University Business School, Panjab University and Suveera Gill have studied the role of gender in decision making in June 2007 and they found that male have more awareness than female and are less confident than male investors. Nicolas P. B. Bollen in September 2007 from school of Business Administration, University of Washington, Seattle, has studied the investor's behaviour towards mutual funds and found that there was greater response towards positive returns by investors than investors in conventional funds. Nidhi Walia Lecturer, School of Management & Social Sciences, Thapar University Patiala, India Dr. Mrs. Ravi Kiran School of Management & Social Sciences, Thapar University Patiala, India in 2009 conducted a study on Analysis of Investor's Risk Perception towards Mutual Funds**

Services and found out that the perception regarding investing in different avenues and returns differ from investor to investor based on their age. **K. Senthil Kumar (India), C. Vijaya Banu (India), V. Lakshmana Gomathi Nayagam (India) Financial product preferences of Tiruchirapalli investors using analytical hierarchy process and fuzzy multi criteria decision making (2008)** conducted the study and found out the rank preference of the financial product which are as follows Post office, bank deposit, gold, real estate, equity investment and mutual fund.

The present study is unique as it investigates the perceptions of investors towards different investment avenues unlike others who have studied mostly in only one or two investment avenues.

1.2 Objectives of the study

1. To find out the most preferred instrument among the individual investors.
2. To find out the reasons behind such preference of instruments.
3. To know the relationship between preference and satisfaction among investors
4. To capture the perception of investor with the help of perceptual mapping.

1.3 Research Hypothesis

In order to support the objectives of the study and to answer the research question, the following hypotheses are drawn:

H01: There is a positive relationship existing between preference and satisfaction of financial instruments among retail investors.

H02: There is statistically significant difference on perceived satisfaction across demographic variables (Total income).

II. Research Design and Methodology:

The type of research used in this study is exploratory and descriptive. It tries to explore the relationship existing between preference and satisfaction of financial instrument among investors. The study followed quantitative research approach, where survey method is followed as research method. This research centers on the typically structured and undisguised questionnaire style which is adopted as data collection method. Hypothetico-Deductive logic method is used to test the theory.

2.1 Data Collection and Sample Design:

2.1.2. Data Collection

Data is collected from two sources. Primary data and secondary data have been used in this study. Primary data is collected by administering a detailed questionnaire. Secondary data is collected through various sources which includes online and hard copy journals in order to understand the theoretical aspects and background of industry.

2.1.3. Sample Design

Target population is a person who is of the age of above 25 years and who has chosen more than 2 instruments and invested at least for past 2 years. For the purpose of this study, 100 questionnaires were distributed in and around Bangalore city. Out of 100, 67 samples were completely collected from respondents. The study used non probability sampling method, in that it followed convenient sampling. The study takes care of demographic composition in the different level of each variable such as age, sex, income etc. It is further ensured that major elements of target population are captured in the samples.

2.2. Measures Used in the study

All the measures used in the study are classified into 3 parts, in the Questionnaire. They are as follows:

part 1 concentrates on demographic variables which measured in categorical scale

part 2- preference of various instruments measured in 5 point scale, and

part 3 – Reasons for preference is measured in again 5 point scale where 1 is strongly disagree and 5 is strongly agree

2.3 Data analysis:

The data is analyzed using descriptive statistics such as frequency, mean score and standard deviation, ANOVA to prove statistical significant difference among various levels of income group. Correlation is used to know the relationship between preference and satisfaction, which is illustrated in perceptual mapping with the help of XY chart labeler in MS excel 2007.

2.4 Results:

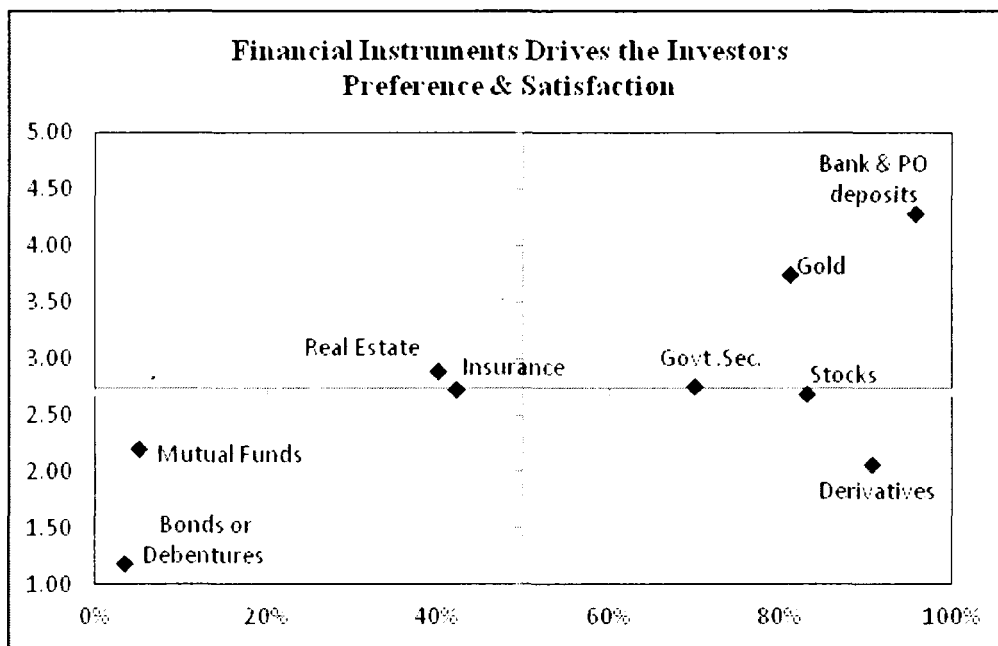
2.4.1. Demographic composition

Out of 67 respondents, the results showed (refer **Annexure 1**) that 52.2% are female respondents, 26.9% are in the age group of 36-45 years and 46-55 years, 32.8% respondents belong to the category of matriculation, 68.7% respondents belong to the annual income category of up to 5 lakhs, 38.8% respondents belong to the occupation category of business, 82.1% respondents feel that the reason for investment is fixed income and 97% of respondents go by friend's suggestion for getting the source of information.

2.4.2 Perceptual mapping

Correlation shows the relationship between investors' preference and satisfaction among various financial instruments. In addition, mean score is calculated for all the 9 instruments on satisfaction. Based on the above 2 output, perceptual mapping is generated, X axis is correlation score and Y axis is satisfaction mean score. Perceptual map contains 4 quadrants; top right quadrant shows the most preferred and highly satisfied instruments like bank and post office deposits, gold etc. The least preferred and least satisfied instrument is bonds or debentures which

can be seen in the bottom left quadrant. The graph given below shows clearly the investor's preference and satisfaction among various financial instruments. **Also refer Annexure 2.**



H1: There is a positive relationship existing between preference and satisfaction of financial instruments among retail investors.

H0: There is no positive relationship existing between preference and satisfaction of financial instruments among retail investors.

From the above perceptual mapping it is clear that there exists a positive relationship between the preference and satisfaction of financial instrument among retail investors. Hence H1 is accepted and H0 is rejected.

Mean score for each instrument is calculated and the ranking is done. When all the 9 instruments were ranked based on the preference across 16 attributes, government securities were ranked 1 followed by bank and post office deposits in rank 2, stocks were ranked 3, real estate & gold ranked 4. Refer **Annexure 3**

H1: There is statistically significant difference between the income level of investors and different financial instruments.

H0: There is statistically no significant difference between the income level of investors and different financial instruments.

The study used ANOVA to prove whether there is statistically significant difference between the income level of investors and different financial instruments. One financial instrument that is Insurance shows statistically significant difference among the preference of investors. Except insurance other financial instruments do not have any difference. Hence H0 is accepted for all the financial instruments except Insurance and H1 is rejected. Refer **Annexure 4**

III. SUGGESTIONS AND CONCLUSION

This study finds that most of the respondents prefer bank and post office deposits over other financial instruments. This study effectively captures the perception of investor about instruments with the help of perceptual mapping. There is a strong relationship between perceived preference and perceived satisfaction of financial instruments among retail investors. There is statistically significant difference on perceived satisfaction

across demographic variables i.e., between income level and perception towards Insurance. Irrespective of the age, income level and occupation, people still have great faith on government securities, bank and post office deposits. This shows that people do not get secured feeling towards other instruments like mutual funds, derivatives etc. One of the reasons could be lack of awareness towards such instruments. Hence it is suggested that awareness programmes and promotional activities should be organized to enlighten the people about other financial instruments highlighting liquidity, security and returns.

SUMMARY

The present study endeavored to give a look on investor's perceptions towards various investment avenues. Understanding of investor's expectations from various avenues has become a necessary issue. Facts revealed in this study highlights the preferences of varied investors who desire to invest in bank and post office deposits but also require some innovations and added quality dimensions in existing services. This study also revealed that most of the people make investments for fixed income purpose rather than for retirement or medical requirement. The age does not have any influence on their reason for investing and most people base their investment decision on their friend's suggestions.

The study attained the objectives of finding the most preferred financial instrument and the reason for such preference & also captures the perception of investors about instruments with the help of perception mapping.

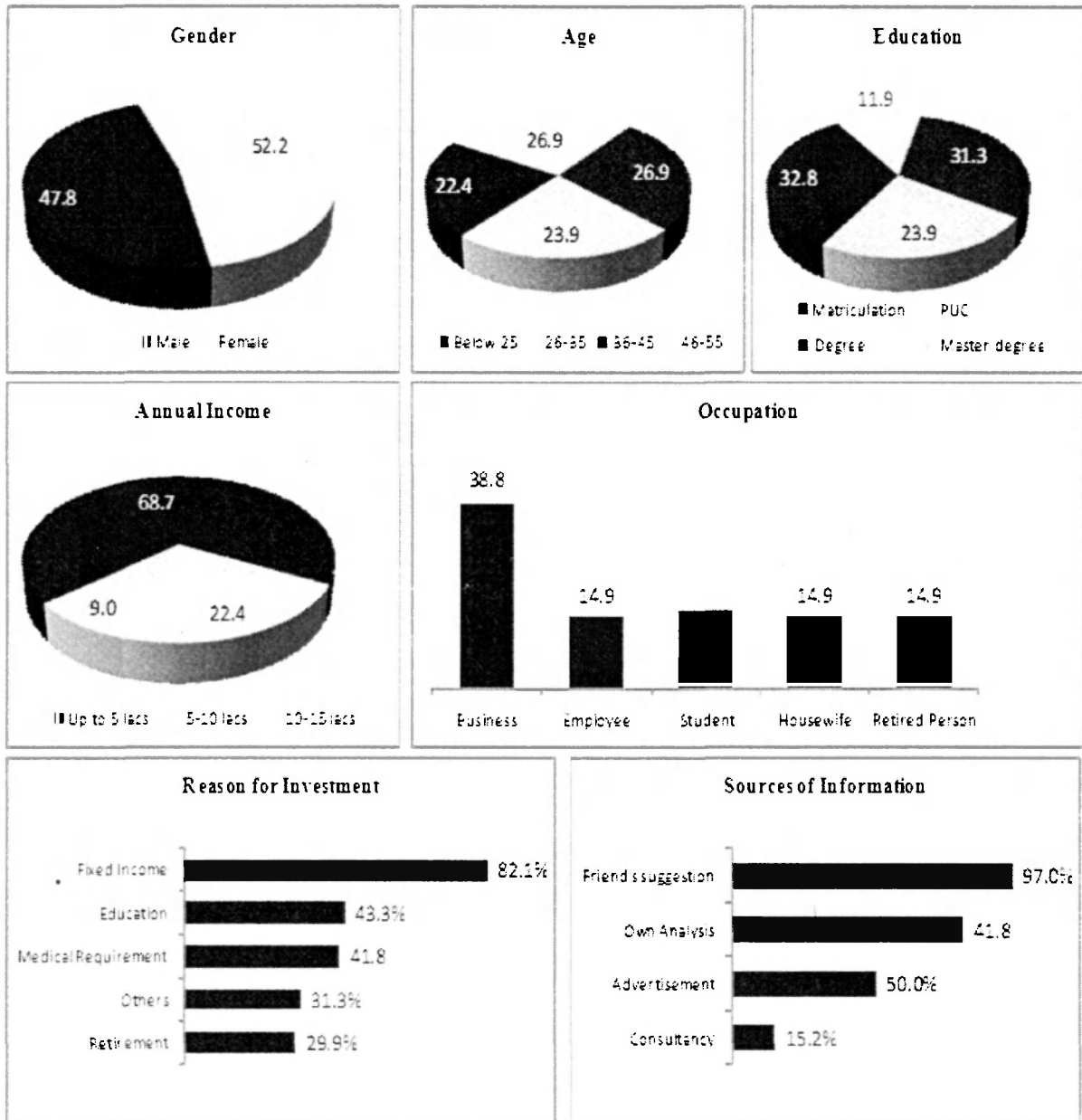
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ANNEXURE 1

Demographic Profile Retail Investors (n=67)



ANNEXURE 2

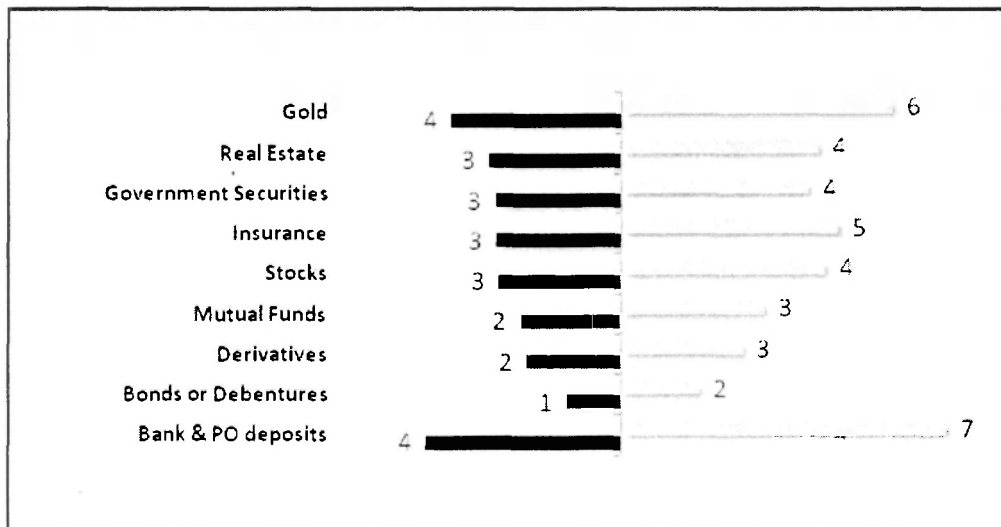
Instruments	Derived Score (X axis)	Stated score (Y axis)
Bank & PO deposits	96%**	4.28
Real Estate	40%**	2.89
Gold	81%**	3.75
Govt .Sec.	70%**	2.75
Insurance	42%**	2.73
Derivatives	91%**	2.07
Stocks	83%**	2.68
Bonds or Debentures	3%(NS)	1.19
Mutual Funds	5%(NS)	2.21

** sig @1%, *sig@5%, NS-non sig.

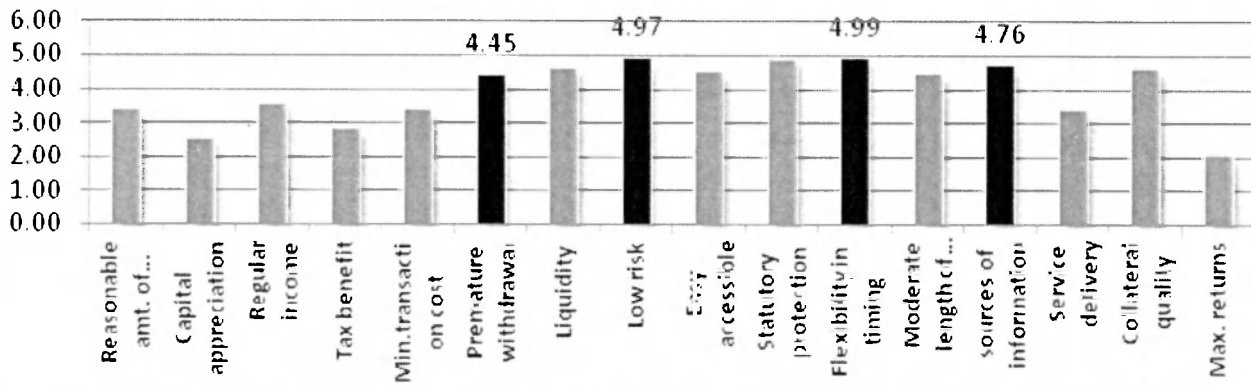
Note: Derived score is the correlation between Preference and Satisfaction of financial instruments and Stated Score is Mean score of Satisfaction.

ANNEXURE 3

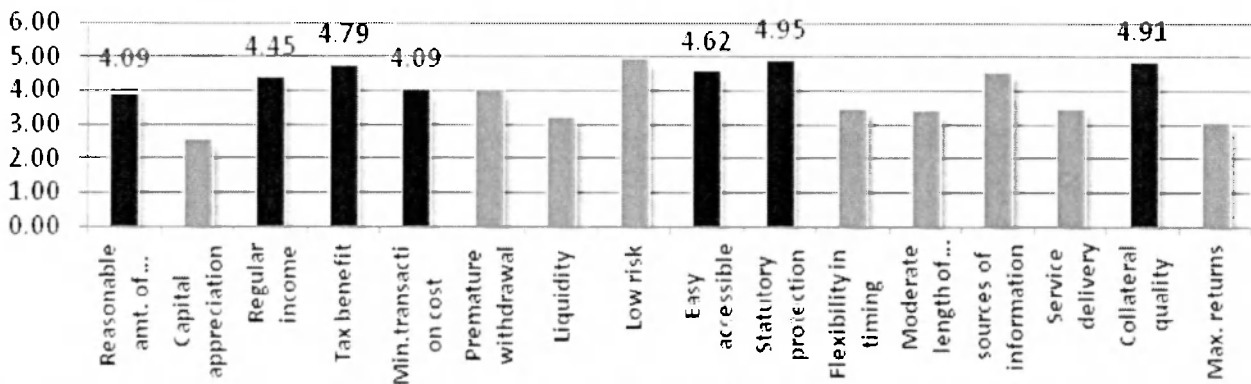
Instruments	Satisfaction (max 5)	Preference (max 9)
Bank & PO deposits	4.28	7.15
Bonds or Debentures	1.19	1.72
Derivatives	2.07	2.68
Mutual Funds	2.21	3.17
Stocks	2.68	4.49
Insurance	2.73	4.78
Govt. Securities	2.75	4.12
Real Estate	2.89	4.35
Gold	3.75	5.96



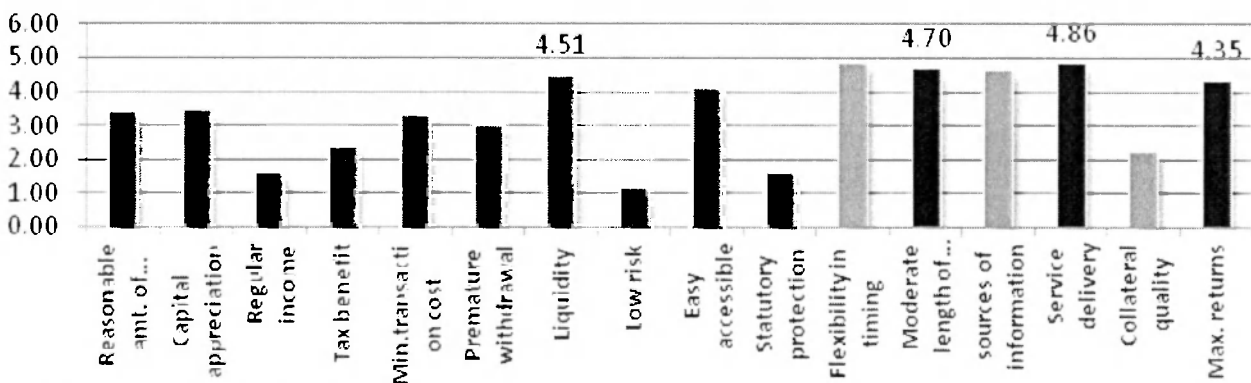
Bank deposits and post office savings

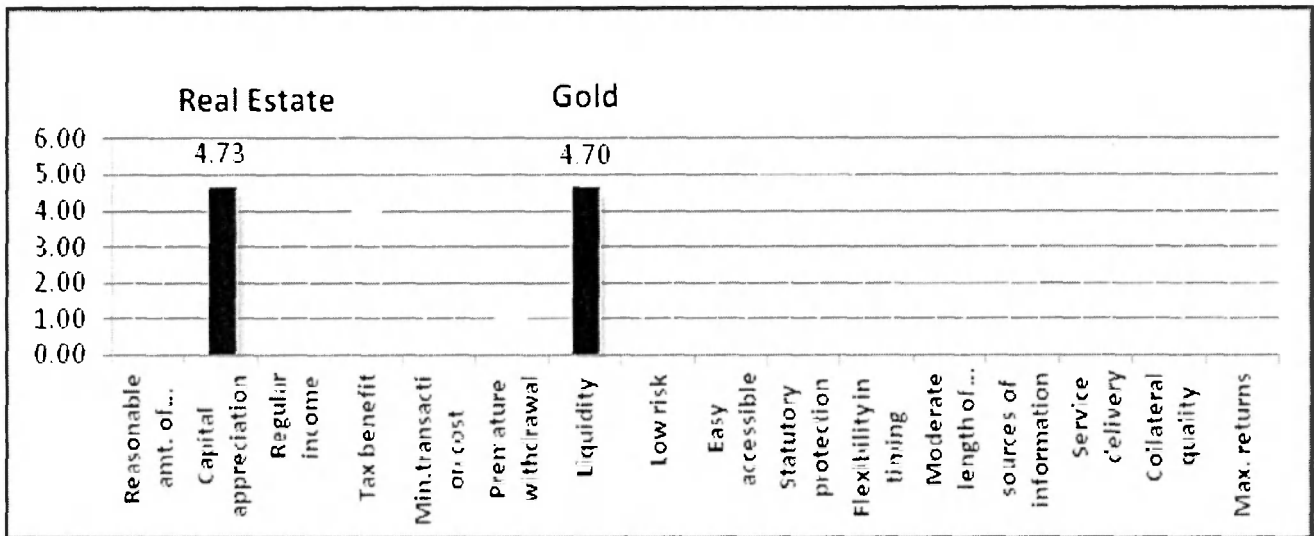


Government Securities



Stocks





	Bank deposits and post office savings	Real Estate	Gold	Government Securities	Insurance	Derivatives	Stocks	Bonds or Debentures	Mutual Funds
Number of 1st preference across 16 attributes	4.00	1.00	1.00	7.00	0.00	0.00	3.00	0.00	0.00
Rank For Preferred Investment	2	4	4	1	6	6	3	6	6

ANNEXURE 4

ANOVA						
		Sum of Squares	df	Mean Square	F	Sig.
Bank deposits and post office savings	Between Groups	39.973	2	19.986	20.100	0.000
	Within Groups	63.639	64	0.994		
	Total	103.612	66			
Real Estate	Between Groups	3.713	2	1.856	1.291	0.283
	Within Groups	77.656	54	1.438		
	Total	81.368	56			
Gold	Between Groups	0.547	2	0.274	0.162	0.851
	Within Groups	108.139	64	1.690		
	Total	108.687	66			
Government Securities	Between Groups	37.189	2	18.595	12.044	0.000
	Within Groups	83.372	54	1.544		
	Total	120.561	56			
Insurance	Between Groups	7.793	2	3.897	3.223	0.046
	Within Groups	77.371	64	1.209		
	Total	85.164	66			
Derivatives	Between Groups	4.347	2	2.174	1.375	0.262
	Within Groups	85.372	54	1.581		
	Total	89.719	56			
Stocks	Between Groups	0.010	2	0.005	0.002	0.998
	Within Groups	134.306	54	2.487		
	Total	134.316	56			
Bonds or Debentures	Between Groups	0.144	2	0.072	0.362	0.698
	Within Groups	10.733	54	0.199		
	Total	10.877	56			
Mutual Funds	Between Groups	0.472	2	0.236	0.174	0.840
	Within Groups	86.603	64	1.353		
	Total	87.075	66			

