STUDY ON INVESTOR BEHAVIOURAL FINANCE IN INVESTMENT DECISION MAKING – IN TIRUCHIRAPPALLI.

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ABSTRACT:

Since the economic liberalization there is an increase in number of investment avenues for decision making of investment, It focuses upon how investor interprets and acts on information to take investment decisions it explains that individuals do not always act rationally in their financial decisions and that their behaviours cause them to make different choices about their financial decisions. Investment decisions also depends on the types of investors, risk tolerance capacity, education, occupation, age, sex, income, living area and environment and attachment with the financial advisor etc. This study indicates that there is a significant role of income and occupation in investment avenue selection by the male and female investors. For this an organized analysis has been made by taking primary data collected through structured questionnaire and secondary data for consideration.

Keywords*: Behavioural Finance, Investments, Investor Behaviour, Cognitive Decision Making.*

INTRODUCTION

The most crucial challenge faced by the investors is perhaps in the area of taking investment decisions. Every investor differs from the others in all aspects due to various factors like demographic factors, socio-economic background, marital status, educational attainment level, age, gender etc. An educated person's decision making towards investment differs from an uneducated one. A young bachelor, for instance, prefers to invest in risky avenues; where as an matured person with a family dependability prefers less risky and stable income generating avenues. Similarly, rural /urban background of individuals, availability of information, accessibility of avenues, and investment companies/colleagues also influence individuals in developing their perceptions. Investment behavior is the study of the decision making.

Behavioural finance attempts to explain and increase understanding of the reasoning patterns of investors, including the emotional processes involved and the degree to which they influence the decision making process. Essentially, behavioural finance attempts to explain the what, why, and how of finance and investing, form a human perspective. For instance, behavioural finance studies financial markets as well as providing explanations to many stock market anomalies. It endeavors to bridge the gap between neoclassical finance and cognitive psychology. It looks at the individual investor's decision making formula as well as at their behaviour, which, in turn, sheds light on the observed departures from the traditional finance theory. Thus, behavioural finance is the application of scientific research on the psychological, social, and emotional contributions to market participants and market price trends. It also studies the psychological and sociological factors that influence the process of individuals, groups. Human decisions are subject to several cognitive illusions.

The purpose of this study is to determine how the personal investment is affected by the level of knowledge an investor possesses about different investment instrument, knowledge of the relationship between risk and return along with the knowledge of companies' performance analysis technique and portfolio management techniques.

REVIEW OF LITERATURE

Sikidar and Singh (1996) carried out a survey with an objective to understand the behavioral aspects of the investors of the north eastern region towards mutual funds investment portfolio. The survey revealed that the salaried and self-employed formed the major investors in mutual fund primarily due to tax concessions.

Lewellen (1977) found that age, sex, income and education affect investors' preferences. Study by Rajarajan (2000) revealed an association between lifestyle clusters and investment related characteristics.

Among the major studies conducted in 2000's, **Chakrabarti and Rungta (2000)** emphasized on the importance of brand in ascertaining competence of asset management companies [30].

Shanmugham (2000) carried out a survey of individual investors with the objective to study on what information source does investor depends and he concluded that economical, sociological and psychological factors control the investment decisions [141].

Soch and Sandhu (2000) have studied perceptions of bank depositors on quality circles, customer complaint cell, quality, priority banking, telebanking, and customer meets in private banks.

Gupta (1991) argues that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. According to Gupta, investors in India regard equity debentures and company deposits as being in more or less the same risk category, and consider mutual funds, including all equity funds, almost as safe as bank deposits.

OBJECTIVES

The objectives of the study are:

1. To study the investment pattern of the investors based on their risk taking abilities.
2. To study investment decision-making process and to study the factors that influence investment behavior of Individual Investors
3. To study the attitude of respondents towards different financial instruments and to evaluate the awareness about various investment opportunities. To analyze investors‟ savings and risk attitude towards different investment avenue

RESEARCH METHODOLOGY

The primary dada has been used with the help of questionnaires. The data has been collected through survey method. The research has collected data from 75 respondents as convenient sampling method. The secondary data has been collected from different news papers, magazines website etc,.

LIMITATION OF THE STUDY

1. The study is limited to only 75 investors.
2. The study taken a few limited but representative investment avenue like Insurance, Post Office savings, Bank deposits, Gold and Real estates
3. The survey is conducted only in Tiruchirappalli city.

The study has also the limitation of time, place and resources.

DATA ANALYSIS AND INTERPRETATION

Table1: Demographic Details of the Respondents

Demographic factor	Variable	Number of respondents	Insurance	Bank Deposits	Post Office Savings	Gold	Real Estate
Gender	Male	64	15	21	12	06	10
	Female	11	2	4	3	2	0
Age (in yrs)	18-30	09	2	1	4	1	1
	31-40	26	3	5	3	12	3
	41-50	22	10	4	2	3	2
	Above 50	18	2	8	4	2	2
Annual Income (In lakhs)	Up to 1.2	9	4	2	1	1	1
	1.2-3.0	12	6	1	3	1	1
	3.0-5.0	18	1	5	6	3	3
	5-10.0	15	2	8	2	1	2
	Above 10.0	21	2	9	8	1	1
Education	Under matriculation	10	4	3	3	0	0
	Intermediate	14	3	6	3	1	1
	Graduate	25	8	7	4	3	3
	Post graduate	32	8	12	4	2	6
Occupation	Govt. Employee	18	6	5	3	2	2
	Private Employee	24	8	5	5	3	3
	Self employed/Business	26	8	6	5	3	4
	Retired	07	1	4	2	0	0

It is observed from table 1 that the respondents vary in age, occupation, gender, income, risk bearing capacity etc. A total of five investment avenues namely Insurance, Post office savings schemes, Bank Deposits, Gold and Real estate were taken for study.

It can be observed that the investors take different investment avenues for meeting their Psychological, Social and Financial need. Table-1 as provided above presents the demographic details of different investors varying in age, occupation, education, gender and their preferences to different investment avenues.

From the above table gender shows that 85.33% are male, out of which28%prepare to invest in bank, 20% investor on insurance, post office savings 16%, real estate in 13 % and 8%investnent in gold.

It was found that the investors age group majority of 31-40 in 34.66%.gold investing on 16%,bank investment in 6.66% and 4% on insurance, real estate, post office.

The investors having high income prefer to invest in share market even though it involves more risk as compared to other available investment avenues. Among the investors with income above 10 lakh, 12% of them prefer investing in bank, 10.66% in post office savings, 2.66% in insurance, 1.33 % in gold and real estates.

The investors having low level in Under matriculation 13%.investment insurance 5.33% and bank deposit on 4%,the other savings investment in not using the investors.

It was found that out of investors who were in the business class/Self employed, 10.66% invest inInsurance,8% in bank deposit, 5.92% in post office, 4.33% in real estate and 2.96% in gold schemes.

Table-2: Factors and Scores Influencing the Investment Decisions

Factor	Rank/gold	Rank/Post office savings	Rank/Insurance	Rank/Bank deposits	Rank/Real estate
Safety	47	40	58	54	4
	62.2%	53.7%	77.7%	72.2%	5.9%
Periodic returns/dividends	13	21	12	15	16
	17.7%	27.7%	15.9%	20.3%	21.8%
High returns	22	12	20	12	24
	28.8%	15.8%	26.6%	16.6%	31.4%
Secured future	24	26	36	33	5
	31.4%	34.0%	48.1%	44.4%	7.4%
Ease of purchase	22	19	24	21	7
	29.6%	25.1%	33.3%	27.7%	7.0%
Liquidity	29	18	9	23	8
	38.8%	23.7%	12.9%	30.7%	11.1%
Easy marketability	18	9	14	11	15
	24.0%	12.9%	19.2%	14.8%	20%
Tax benefit	2	11	19	10	-
	2.9%	14.4%	25.1%	12.9%	-

Mortgage need	20	11	5	16	7
	26.6%	14.0%	7.4%	21.1%	9.2%
To meet future contingency	32	26	38	28	13
	42.2%	35.1%	50.0%	37.0%	17.0%

It can be seen from table 2 that investors preferred those types of avenues which are safe, lead to secured future, liquidity and meet future contingency etc. It was also observed that 77.7% of investors preferred insurance and 72.2% preferred bank deposits for safety purpose, 48.1% preferred insurance and 44.4% towards bank deposits for secured future, 50% preferred insurance to meet future contingency and 25.1% for getting tax benefits. Similarly, 37.0% of investors preferred bank deposits, 42.2% preferred gold and 35.1% towards post office deposits primarily to meet future contingency. This is probably because they assume that real estate are more risky investment avenues than other four investment options namely , insurance, bank deposits, and post office deposits. Column 3 of table 2 shows that 31.4% investors prefer investing in equity share in order to obtain high returns in the form of capital gains,11.1% for liquidity purpose, and 17.0% investors for meeting future contingency.

It can be found from table 2 (column 4) that 25.5%, the investors (irrespective of any demographic class) select it for reasons of safety, secured future, tax benefit, meeting future contingency, getting periodic return, easy to purchase, capital appreciation, and liquidity etc. Among these77.7% investors select for safety needs, 48.1% for secured future, and 25.1% for tax benefits and 50% for meeting future contingency.

CONCLUSION

The study reveals that investors invest in different investment avenues for fulfilling financial, social and psychological need. While selecting any financial avenue they also expect other type of benefits like, safety and security, getting periodic return or dividends, high capital gain, secured future, liquidity, easy purchase, tax benefit, meeting future contingency etc. They also make a good portfolio for them and think for their future with an objective of getting high capital gain from a particular avenue. Hence it can be suggested that the financial investment avenues should be designed by seeing the geographical horizon of the investors, their age, income, occupation, gender and risk tolerance capacity etc, as investors or customers are the key of success for any business.

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