July 2015 IJMIE Volume 5, Issue 7 ISSN: 2249-0558

AFFECT OF INVESTOR'S FINANCIAL LITERACY ON INVESTMENT DECISIONS

Dr.R.Amudha*

R.Vignesh**

Abstract-

Financial literacy is one of the important concepts of investment decisions, it is the ability to understand how money works in the world, how someone manages to earn to make it, In this research study able to find out the person who are individual or family person who invested money from various investment avenues, whether the person to like the risk or not. The key objective is to explore the literacy level of individual in investment decisions and to suggest sustainable measures of increasing the awareness level. The study covered the 200 investors residing in the area of Chennai (Tier-1) and Trichy (Tier-2). Primary data were collected by administering a questionnaire. Primary data collected were analysed with help of SPSS package by using statistical techniques like percentage analysis and ANOVA single factor. From the analysis, it is found that the majority of the investors are below 40 years of age and 83.5% investors are graduates. The study reveals that many individual investors had entered into the market but only half of them have financial literacy. Investors are facing difficulties in selecting the investment avenues. Majority of the investors prefer to invest in shares, bank and gold. In stock market, volatility of stock results in risk for investor and at that time investor sell the stocks and move to various investment avenue like real estate and gold. The financial literacy of the investor is influenced in the help of the financial information from Advertisements, media, friends and best buy guidance.

Key words: Investment avenues, financial literacy, source of information, financial objectives and investors.

* Senior Assistant Professor, School of Management, SASTRA University, Thanjavur.

** MBA Student, School of Management, SASTRA University, Thanjavur.

1. Introduction

Financial literacy can be defined as the ability to understand, to evaluate, and communicate information about money and financial services. This includes the selection of appropriate financial options, the ability to plan for the future, and the capability to respond to life events and their effect on personal finances. The term financial literacy is a process that should begin at an early age and continue throughout life. It can emphasis the concepts of ranging from financial awareness and knowledge, it includes in all financial products, institution and its concepts (various investment avenues),financial skills, such as ability to calculate compound interest payments, risk bearing capacity and financial capability it generally refers to the terms of money management and financial planning. Financial literacy is the ability to understand how money works in the world, how someone manages to earn to make it, how that person manages, how he/she invest it, how the person denotes it to help others.

2. Review of the literature

Worthington, Andrew C (2013) revealed that the financial services markets require consumers to be more financially literate if they are to manage their finances effectively. Frijns, Bart Gilbert, Aaron; Tourani-Rad, Alireza (2014) revealed the impact of financial experience on financial literacy. Oseifuah, Emmanuel Kojo, (2010) revealed that financial literacy among youth entrepreneurs in the Vhembe District, South Africa appears to be above average and contributes meaningfully to their entrepreneurship skills. Chinen, Kenichiro; Endo, Hideki (2014) have studied about the level of financial literacy and confidence in making own financial decisions among college students in US and Japan. The US collegiate students selected for this study demonstrated a better understanding of financial literacy compared to Japanese counterparts in both measurement instruments. The impact of the survey is their lack of confidence in making financial decision was regrettably reflected on their poor performance in the financial literacy test. Mwangi Isaac Wachira; Kihiu, Evelyn N (2012) revealed that the financial literacy remains low in Kenya. Mak, Vanessa ; Braspenning, Jurgen (2012) revealed that the financial mistakes made by consumers lend support to the view that systematic mistakes of consumers exist in the EU credit market and that service providers respond strategically to these by redesigning their products. Shen.NA revealed (Mar 2014) have analyzed about the consumer rationality/irrationality and financial literacy in the credit card market. Consumers, as a whole, make a rational decision when they borrow using a credit card and bear the high interest rate and various mistakes in individual financial decisions and credit behaviour Bramley, Chantelle, (2012) have said that The Taskforce on Financial Literacy ("the Taskforce") was established by the Minister of Finance in June 2009 with a mandate to make recommendations to improve financial literacy in Canada. Xu, Lisa; Zia, Bilal, (2013) said that the financial literacy programs are fast becoming a key ingredient in financial policy reform worldwide.

3. Objectives and scope of the study

The key objective is to explore the literacy level of individual in investment decisions and to suggest sustainable measures of increasing the awareness level. The study covered the 200 investors residing in the area of Chennai (Tier-1) and Trichy (Tier-2). Convenient Random Sampling was followed to collect the primary data from the investors to analyse their literacy level.Primary data were collected by administering a questionnaire. Primary data collected were analysed with help of SPSS package by using statistical techniques like percentage analysis and ANOVA single factor.

4. Analysis and Discussion

The primary data were collected from the investors through questionnaire and the same were analysed using the statistical tools like One-Way ANOVA which were interpreted in the following tables.

Table No. 1

Socio-Economic profile of the respondents

Gender	No. of respondents	Percentage to total	Marital Status	No. of respondents	Percentage to total
Male	96	48.0	Married	109	54.5
Female	104	52.0	Unmarried	91	45.5
Total	**200**	**100.00**	**Total**	**200**	**100.00**
Age (years)	**No. of respondents**	**Percentage to total**	**Annual Income (Rs in lakhs)**	**No. of respondents**	**Percentage to total**
15-30	115	57.5	Up to 5	124	62.0
30-45	50	25.0	5-10	43	21.5
Above 45	35	17.5	Above 10	33	16.5
Total	**200**	**100.00**	**Total**	**200**	**100.00**
Occupation	**No. of respondents**	**Percentage to total**	**Education**	**No. of respondents**	**Percentage to total**
Business	3	1.5	Post Graduation	116	58.0
Govt Employee	58	29.0	Profession	14	7.0
Private Employee	79	39.5	Under Graduation	37	18.5
Self Employee	38	19.0	School level	33	16.5
Retired	22	11.0	**Total**	**200**	**100.00**
Total	**200**	**100.00**			

Source: Primary data

From the above table shows that the 48% are male respondents, 52% are female respondents. 57.5% are 15-30 years age, 25.0% are 30-45 years age, and 17.5% are above 45 years age. It is found that the 54.5% are married, 45.5% are unmarried. It is infers that 1.5% are doing business, 29.0% are

Govt employees, 39.5% are Private Employees, 19.0% are self employed and 22% in retired persons. The private employees are not having pensioned and other benefits so they are more interested in their future plan ultimately. 58.0% are post graduates, 7.0% are professionals, 18.5% are under graduates and 16.5% have completed school level. 62.0% of respondents are earning up to Rs.5 lakhs, 21.5% of respondents are earning between Rs. 5-10 lakhs, 16.5% of respondents are earning of Rs.10 lakhs

The relationship between gender and the factors influencing the maintenance of investment portfolio is studied by using ANOVA single factor as follows:

Ho: Gender do not influence the factors influencing the maintenance of investment portfolio

Table No. 2

Gender and the factors influencing the maintenance of investment portfolio –ANOVA single factor

Factors influencing the maintenance of investment portfolio	P value	Result
Maintaining adequate financial records	0.000	Rejected
Maintaining diversified investment portfolio regularly	0.281	Accepted
Spending less amount from regular income	0.002	Rejected
Maintaining adequate insurance coverage	0.019	Rejected
Confidence in financial decision making	0.776	Accepted
Avoid borrowing to balance personal budget	0.568	Accepted
Using multiple sources for financial information	0.405	Accepted

Source: Primary data

There is no relationship between the gender and the factors maintaining the diversified investment portfolio regularly, confidence in financial decision making, avoidance of borrowing to balance personal budget and using multiple sources for financial information as the gender of the respondents do not influence the factors influencing the maintenance of investment portfolio. There is a relationship between the gender and maintaining adequate financial records, spending amounts from regular income and maintaining adequate insurance coverage as the female respondents give more importance to the keeping records regularly and avoid borrowing to manage the personal budget.

The relationship between age and the factors influencing the maintenance of investment portfolio is studied by using ANOVA single factor as follows:

Ho: Age does not influence the factors influencing the maintenance of investment portfolio.

Table No 3

Age and the factors influencing the maintenance of investment portfolio - ANOVA single factor

Factors influencing the maintenance of investment portfolio	P value	Result
Maintaining adequate financial records	0.002	Rejected
Maintaining diversified investment portfolio regularly	0.000	Rejected
Spending less amount from regular income	0.000	Rejected
Maintaining adequate insurance coverage	0.010	Rejected
Confidence in financial decision making	0.741	Accepted
Avoid borrowing to balance personal budget	0.168	Accepted
Using multiple sources for financial information	0.397	Accepted

Source: Primary data

There is no relationship between the age and confidence in financial decision making, avoidance in borrowing to balance personal budget, using multiple sources for financial information as the respondents of all age group have in confidence financial decisions and multiple sources of information. There is relationship between the age and other factors influencing the maintenance of investment portfolio as the youngsters are interested in their maintenance of portfolio.

The relationship between occupation and the factors influencing the maintenance of investment portfolio is studied by using ANOVA single factor as follows:

Ho: Occupation do not influence the factors influencing the maintenance of investment portfolio

Table No 4

Occupation and the factors influencing the maintenance of investment portfolio - ANOVA single factor

Factors influencing the maintenance of investment portfolio	P value	Result
Maintaining adequate financial records	0.000	Rejected
Maintaining diversified investment portfolio regularly	0.023	Rejected
Spending less amount from regular income	0.006	Rejected

Maintaining adequate insurance coverage	0.266	Accepted
Confidence in financial decision making	0.049	Rejected
Avoid borrowing to balance personal budget	0.028	Rejected
Using multiple sources for financial information	0.001	Rejected

Source: Primary data

There is no relationship between the occupational pattern and the factors maintaining adequate insurance coverage. Irrespective of the occupational pattern, the respondents are particular to insurance coverage for the purpose of the pension and post retirement life coverage. There is a relationship between the occupational pattern and other factors influencing the maintenance of investment portfolio namely, diversified investment portfolio, spending less amount from regular income, multiple sources of information and avoiding borrowing to balance personal budget.

The relationship between annual Income and the factors influencing the maintenance of investment portfolio is studied by using ANOVA single factor as follows:

Ho: Annual Income does not influence the factors influencing the maintenance of investment portfolio.

Table No 5

Annual Income and the factors influencing the maintenance of investment portfolio - ANOVA single factor

Factors influencing the maintenance of investment portfolio	**P value**	**Result**
Maintaining adequate financial records	0.433	Accepted
Maintaining diversified investment portfolio regularly	0.329	Accepted
Spending less amount from regular income	0.920	Accepted
Maintaining adequate insurance coverage	0.922	Accepted
Confidence in financial decision making	0.008	Rejected
Avoid borrowing to balance personal budget	0.060	Accepted
Using multiple sources for financial information	0.255	Accepted

Source: Primary data

There is no relationship between the annual income of the respondents and the factors influencing the maintenance of investment portfolio namely, maintaining adequate financial records, maintaining diversified investment portfolio regularly, spending less amount from regular income, maintaining adequate insurance coverage confidence in financial decision making and using multiple sources for financial information as majority of the respondents under study are earning less than Rs. 5 lakhs which results in the non-requirement of maintenance of financial records. There is a relationship between the annual income and the factors influencing the maintenance of investment portfolio namely avoiding borrowing to balance personal budget. The sales of shares may be good when it is in boom; the purchasing of shares is good when it is in low price. The mutual relationship between the investor and organisation is essential. To invest in the immovable asset and to reap the gain should be made. Investors should concentrate in the equity and mutual fund, as it is high risk but get the high return. The investor is must open the dematerlised account with authorised brokers.

5. Conclusion

The investors should be more conscious in safety measures regarding investment. It is better for the individuals to give attention for the tax planning. It is better to collect information from the branch so that the idea of different packages can be known better. The respondents are showing more interest in investments. Most of them are looking for tax benefits. To live peacefully during the retirement period, investments only support a man's life. Investment is very helpful for each and every individual or family for the future requirement.

References

1. Bramley, Chantelle(2012), Addressing Indebtedness in Canada: An Evaluation of the Final Report by the Taskforce on Financial Literacy, Banking & Finance Law Review 27.4:711-721.
2. Chinen, Kenichiro; Endo, Hideki (2014), Observation of Financial Literacy among the Selected Students in the U.S. and Japan, International Journal of Economics and Finance 6.9: 95-106.
3. Frijns, Bart Gilbert, Aaron; Tourani-Rad, Alireza(2014), Learning by doing: the role of financial experience in financial literacy, Journal of Public Policy 34.1: 123-154.
4. Mak, Vanessa; Braspenning, Jurgen, Errare humanum (2012), Financial Literacy in European Consumer Credit Law, Journal of Consumer Policy 35.3: 307-332.
5. Mwangi Isaac Wachira; Kihiu, Evelyne N (2012), Impact of Financial Literacy on Access to Financial Services in Kenya, International Journal of Business and Social Science 3.19:42-50.
6. Oseifuah, Emmanuel Kojo (2010), Financial literacy and youth entrepreneurship in South Africa, African Journal of Economic and Management Studies 1.2: 164-182.
7. Shen, Na (2014), Consumer rationality/irrationality and financial literacy in the credit card market: Implications from an integrative, Journal of Financial Services Marketing 19.1: 29-42.
8. Worthington Andrew C,(2013), Financial literacy and financial literacy programmes in Australia, Journal of Financial Services Marketing, suppl. Special Issue: Financial product complexity and the limits 18.3: 227-240.
9. Xu, Lisa ; Zia, Bilal (2013), Financial Literacy in the Developing World, SSRN Working Paper Series.