

AN EMPIRICAL INVESTIGATION OF RETAIL  
INVESTORS' BEHAVIOUR TOWARDS VARIOUS  
INVESTMENT AVENUES

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**ABSTRACT**

***Objective:** To know the investors' preferences regarding various investment instruments.*

***Design/methodology/approach:** The study is based on primary data collected from a sample size of 100 respondents via questionnaire method. The results have been analysed with the help of Chi-square test.*

***Findings:** Investors are still risk averse and most of them go for risk free investment options like govt securities, bank deposit etc. Investment in insurance is at the top most rank. Healthcare is not found to be an important objective of savings by investors.*

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**Research limitations:** *The study does not cover the entire population of the retail investors in Rohtak district due to the limitation of time and resources. The results need to be generalized with caution and these may not be entirely valid for the investors of some other districts.*

**Implications:** *The paper presents framework that will help the investment institutions to further expand their business and to publicise the existing products.*

**Originality/value:** *This paper offers insights into the retail investors behavior towards various investment avenues available, their saving and investment objective and the problems they face while investing.*

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**Key Words:** Investment, Retail investor, Avenues, Behaviour, Pattern

## INTRODUCTION

The economic development of a country depends upon the existence of a sound financial system. It is the financial system of a country that mobilises the savings and invests them in productive ventures. Foreign investment can play an important role, but its role is essentially complementary and subsequent to domestic efforts (Chakravarthi, 2001). Mobilisation of savings requires the various investment instruments. Since the economic liberalisation, Indian financial system presents a plethora of investment avenues to the investors and now they can invest their money as per their risk appetite. One needs to invest wisely and earn return to generate a specified sum of money for a specific goal in life and for future contingencies. The investor can choose between bank deposits, government/private bonds, equity, bullions, real estate and many others. There are several parameters like flexibility, return and risk etc. which an investor takes into consideration while investing. But the market also reacts upon the action of the investor. Thus, a study covering investors' behaviour analysis needs to be done so that the market can react on it.

## REVIEW OF LITERATURE

As per the recommendations of Representative Bias theory, the things, people don't know are reflected by the things they know. e.g., risk of an investment product about which investors

are unfamiliar is taken as similar to that investment product with which they are familiar. Many studies have been conducted regarding the behaviour of Indian investors. Gupta (1991) in his study argued that Indian investor is more concerned about designing a portfolio instead of picking up a single security. He stated that Indian investor classifies equity, company deposits and debentures in the same risk category and considers them almost as safe as the bank deposits.

There are different sources of the awareness of the investors about the various investment avenues. They can do self analysis, have the services of professional consultants and can get information from print media. Kevin James (2000) stated that retail investors delegate their work of wealth management to investment funds. Swarup (2003) study contradicted the results of the Kevin's study and she analysed that retail investors give importance to their own analysis instead of broker's advice.

A lot of factors like age, occupation, sex, knowledge level etc. determine the investor's behaviour. Each of these factors affects the investor's behaviour in one way or the other. Kabra et. al. (2010) worked on the factors affecting investment behavior and they concluded that investors' age and gender are the main factors deciding their risk taking capacity. Suman and Warne (2012) in their study found that investors' awareness level and duration of investment are the important determinants of their behaviour.

Avinash (2006) worked on "Investment pattern of people", as cited by Geetha and Ramesh(2011) in their study and in his study, he found that people of all age groups give more importance to investment in equity, except people above 50 who give importance to fixed deposits, tax saving benefits and insurance. Patidor (2010) in his study stated that the investor in the age group of below 35 years actively participates in speculative trade and the investor above 55 is risk averse. Further, he analyzed that investor having income less than Rs. 20,000 show more interest in share market investment. Gupta (2008) as cited by Geetha and Ramesh (2011) conducted a study in Shimla and he revealed that people are not aware about the different investment avenues and they simply invest their surplus income in banks, post offices, fixed deposits and savings accounts. A study conducted by Shaikh et. al. (2011) stated that knowledge level significantly leverages the investment return. Risk is inversely related to age {Palsson, 1996 and Riley and Chow, 1992}. Another determining factor in individual investment decision is gender. Various studies have shown that women are more risk averse than men (Watson and Mcnaughton, 2007 and Hallahan et. al., 2004).

## OBJECTIVES OF THE STUDY

- To understand the awareness among investors about the various investment avenues .
- To find out how investors get information about the various investment avenues.
- To find out the investors' preference regarding different financial instruments.
- To find out the factors influencing the investment decision of the investors.
- To give suggestions to the investors regarding the allocation of their assets.

## RESEARCH METHODOLOGY

The study is based on primary data collected via a structured questionnaire. The data was collected from the employees of Maharshi Dayanand University, Rohtak and its associated colleges. For the purpose of the study, questionnaires were sent to 100 people, but response was received from 80 persons. Questionnaire was divided into two parts. Part A consisted of five questions related to personal profile of the respondents. Part B was having twenty questions related to the investment profile like the purpose behind investment, awareness about different investment avenues, sources of such awareness, percentage of income being invested and the problems in such investment and many more.

The sampling technique used in this study is convenient sampling. It has been analysed on the basis of different descriptive techniques, bar charts and percentages. Chi- square test has been applied to find out the association between different variables.

### Sample composition on the basis of different demographic variables

Demographic Variable		No of Respondents	Percentage of Respondents
Age	25-35	15	18.75
	35-45	25	31.25
	45-55	27	33.75
	55 and above	13	16.25
	<b>Total</b>	80	100
Gender	Male	42	52.5
	Female	38	47.5
	<b>Total</b>	80	100

<b>Department</b>	Teaching Department	36	45
	Non-Teaching Department	44	55
	<b>Total</b>	80	100
<b>Income</b>	Up to 4 lakhs	43	53.75
	4-8	20	25
	8-12	12	15
	more than 12	5	6.25
	<b>Total</b>	80	100
<b>Investment Experience</b>	Beginning	28	35
	Moderate	35	43.75
	Knowledgeable	11	13.75
	Experienced	6	7.5
	<b>Total</b>	80	100

Source: Sample Survey

### LIMITATIONS OF THE STUDY

The study does not cover the entire population of the retail investors in Rohtak district due to the limitation of time and resources. The study is limited to the sample size of 80 employees only. The results need to be generalized with caution and these may not be entirely valid for the investors of some other districts.

### CONCEPTUALISATION

Today, there are a large number of investment instruments available. Some of them are marketable and liquid while others are not. The Investor has to choose appropriate option as per his/her investment objective. Different investment avenues available in India are:

- **Equity**

Equity is one of the most risky areas where an investor can get high returns. Investment in equities can be made directly through the purchase of shares from the market or it can be done through the mutual fund route.

- **Bonds/Debentures**

Investor earns a fixed rate of return on such investments. These returns are generally paid at the time of maturity or redemption of the investment.

- **Mutual funds**

An indirect route for investment in share market and an emerging area for investment are mutual funds, available in the market with a large variety of schemes, as per the risk appetite of the retail investor.

- **Bank fixed deposits**

Bank Fixed Deposits, also referred as term deposits are for those investors, who have low risk appetite. These are very safe because of the regulations of RBI and the guarantee provided by the deposit insurance corporation. The interest rate on fixed deposits' varies with the deposits' tenure. These enjoy high liquidity. These can be used as collateral against loans.

- **Post office savings**

A low risk saving instrument, which can be availed through any Post Office, provides an assured rate of return to be calculated bi-annually and to be paid annually. Its return is slightly higher than the returns received from banks.

- **Insurance**

It is the best way to promote saving and to provide insurance cover together. It is of two types: life and general. Insurance policies have the advantage of earning a reasonable interest on their investment in the form of insurance premiums, while catering to the risk compensation to be faced in future by the investor.

- **Public provident fund (PPF)**

A long term savings instrument with a maturity of 15 years provides an interest payable at 8% per annum compounded annually. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. The amount invested in it is eligible for tax exemption and the interest accrued on it is tax free.

- **Real estate**

This is a booming area for investment and equally strenuous. Investment decisions are often linked with the future development plans of the location. Investment can be made in options like commercial property, agricultural land, semi urban land, and resorts.

- **Bullions**

An emerging area for investment by retail investor, offers investment opportunity in the form of gold, silver, art objects (paintings ,antiques), precious stones and other metals (precious objects)

with trading of metals of specific categories in the metal exchange. The return on bullions generally moves against the share market return.

## FINDINGS AND DISCUSSIONS

On the basis of the responses obtained from the respondents, following results have been observed:

- **Planning for investment:-**

51.25% of respondent investors do not make a formal plan for their investment. It is not significantly associated with the any of demographic profile (Age, Income, Dept. and Gender) which shows that planning for investment doesn't get influenced by the investors' demographic profile (Table 11).

Table 1: Formal plan for Investment

Nature of response	No. of Respondents	Percentage
Yes	39	48.75
No	41	51.25
	80	100

Source: survey

- **Satisfaction with current portfolio :-**

80% of respondent investors are satisfied with their current portfolio. Its association with all demographic factors is not significant, both at 5% and 10% level of significance (Table 11).

Table 2: Satisfaction with current portfolio

Nature of response	No. of Respondents	Percentage
Yes	64	80
No	16	20
	80	100

Source: survey

- **Utilisation of income being generated:-**

Table 8 shows that 48.75% of investors go with both consumption and reinvestment of their income being generated by investment but while checking association of this factor with demographic profile of the investors it was found not significant at both level of significance i.e. 5% and 10 % (Table 11).

Table 3: Utilisation of income being generated

Action on income being generated	No. of Respondents	Percentage	Cumulative %
Consumption	17	21.25	21.25
Reinvestment	24	30	51.25
Both	39	48.75	100
	80	100	

Source: survey

- Percentage of income invested:-**

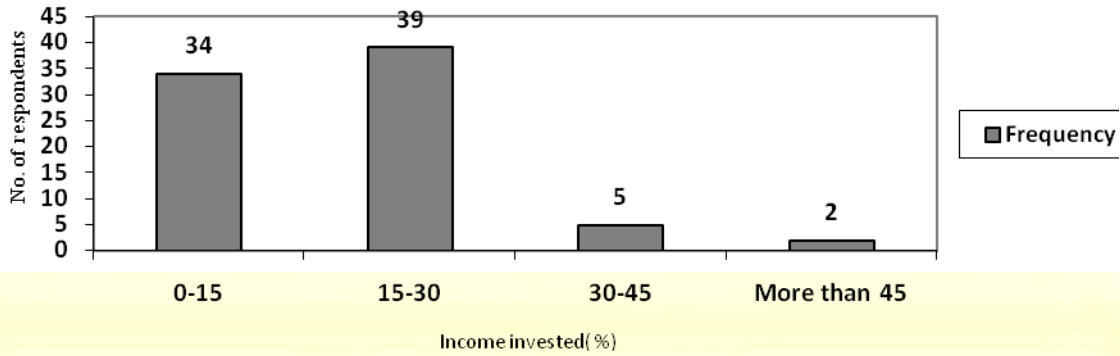
Majority of people i.e., 91.25% invest just up to 30% of their income and only 2.5% of investors invest more than 45% of their income. Chi-Square test indicates no significance association of this decision with demographic profile (Table 11).

Table 4: Percentage of income invested

Percentage of income invested	No. of Respondents	Percentage	Cumulative %
0-15	34	42.5	42.5
15-30	39	48.75	91.25
30-45	5	6.25	97.5
More than 45	2	2.5	100
	80	100	



Figure1: Income invested by investors(%)



Source: survey

• **Tenure of investment (Years):-**

43.75 % of investors put their money for investment for 1-3 years; while 36.25% of investors invest it for a time frame of 3-5 years. While checking association of tenure of investment with any of demographic profile of the respondent investors, it was found not significant at both levels of significance i.e. 5% and 10%. This shows tenure for investment doesn't get affected by the investors' demographic profile (Table 11).

Table 5: Tenure of investment (Years)

Tenure of investment (Years)	No. of Respondents	Percentage	Cumulative %
1-3	35	43.75	43.75
3-5	29	36.25	80
More than 5 years	16	20	100
	80	100	

Source: survey

• **Expectation for growth in returns :-**

60% of respondents expect their investment returns to grow at an average rate. This factor shows its significant association with age at 5% level of significance but it is not

associated with other demographic profile at both significance levels i.e. 5% and 10%. This indicates that expectation for growth in returns is related to age (Table 11).

Table 6: Expectation for growth in returns

Expectation for growth in returns	No. of Respondents	Percentage	Cumulative %
Steadily	24	30	30
At an average rate	48	60	90
Fast	8	10	100
	80	100	

Source: survey

• **Monitoring of the current profile:-**

The results highlight that 51.25 % of investors monitor their portfolio occasionally. It reveals that they are not so much bothered with the fluctuations in their investment returns. This factor is not associated with any of the demographic profile at both levels of significance (Table 11).

Table 7: Monitoring of the current profile

Monitoring	No. of Respondents	Percentage	Cumulative %
Daily	5	6.25	6.25
Monthly	34	42.5	48.75
Occasionally	41	51.25	100
	80	100	

Source: survey

• **Sector of Investment:-**

71.25% of investors invest their money exclusively in public sector. They said that reason for going with public sector is the safety of investment, low risk, average growth, flexibility and reliability. Not even a single respondent investor invests his money in foreign sector alone. Sector wise Investment is found to be associated with age at level of significance 5%. It means investing in a particular sector get impacted by the investors age but it doesn't impacted by other demographic profile (Table 11).

Table 8: Sector of Investment

Investment Sector	No. of	Percentage	Cumulative %
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	Respondents		
Public	57	71.25	71.25
Private	6	7.5	78.75
Foreign	0	0	78.75
All of above	17	21.25	100
	80	100	

Source: survey

• **Decision in case of Market fall:-**

63.75% of respondents replied that they will wait for the market to increase, if the market falls. Only, a small percentage of investors (5%) said they will put more money in the market in this situation as through this, they can get the benefit of averaging of their investment return. Investors' response to market fluctuations is not associated with any of the demographic profile at the both levels of significance (Table 11).

Table 9: Decision, if Market falls

Decision, if Market falls	No. of Respondents	Percentage	Cumulative %
Withdraw money	25	31.25	31.25
Wait to increase	51	63.75	95
Invest more	4	5	100
	80	100	

Source: survey

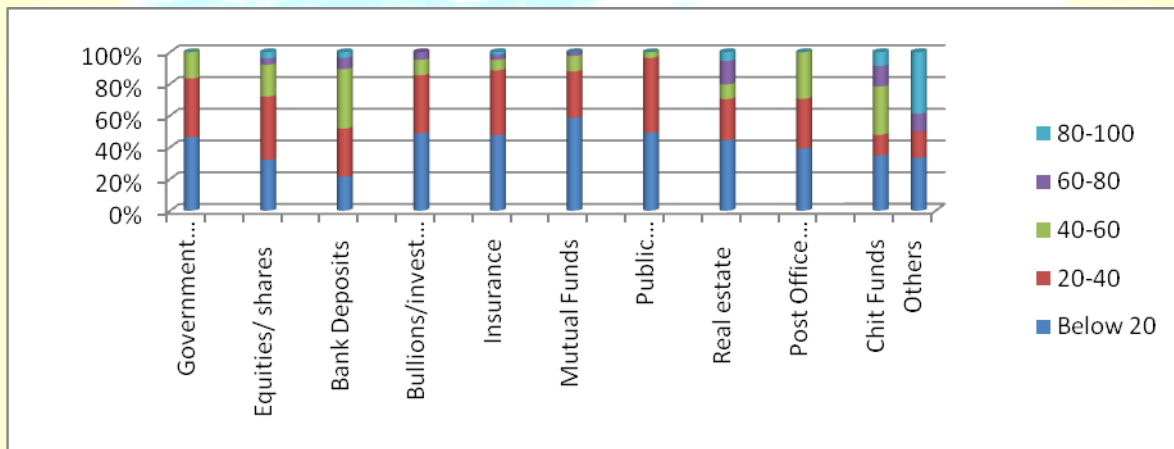
• **Pattern of investment:-**

Table-10– Pattern of investment in different sectors

Avenues/ no of respondents with these particular % of investment	Below 20	20-40	40-60	60-80	80-100
Government securities and Bonds	25	20	9	0	0
Equities/ shares	16	20	10	2	2
Bank Deposits	12	17	21	4	2

Bullions/investment in gold/silver	20	15	4	2	0
Insurance	29	25	4	2	1
Mutual Funds	24	12	4	1	0
Public Provident Fund	27	26	2	0	0
Real estate	24	14	5	8	3
Post Office Savings	20	16	15	0	0
Chit Funds	8	3	7	3	2
Others	6	3	0	2	7

Figure 2: Investment in various securities



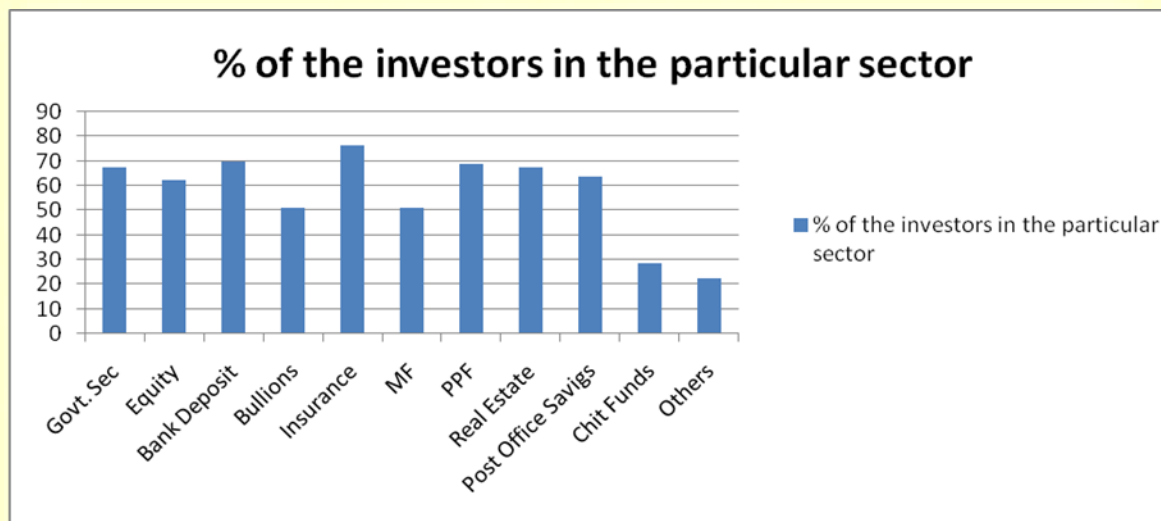
Source: survey

Investment in different avenues is done only up to the limit of 40% by the majority of investors. But Bank Deposits and equity are amongst those sectors in which investment is done within the range of 40-60% of total investment by the 21 and 10 respondents respectively (Table 10). Also, there are 8 respondents who have made investment in real estate and that is within the range of 60-80% of total investment. Insurance is in the priority area for investment for 76.25% of investors (Fig 3). Majority of respondents invest their money in insurance but that is only up to the extent of 20% of their total investment. Reasons for this may be taken as safety and tax savings. These facts open the door for insurance companies to further expand their business and

to publicise the existing ones. chit funds are amongst the least attractive avenues as only a small number of respondents go for invest in this sector (Fig. 3).

In PPF, approximately 70% people (fig 3) invest their money and majority of them invest up to just 40% of their total investment (fig. 2). Also, the decision to invest the money is associated with age, when checked at the 5% level of significance. Insurance is also significantly linked with age when checked at 10% level of significance. This indicates that the PPF and insurance, both providing future safety are affected by the age of the investors ( Table 16).

Figure 3: Investors’ investment in a particular sector (%)



Source: survey

Bank deposits come at the second position in terms of most attractive sector for investment as 70% people invest their money in it also just for the sake of liquidity, assured return and safety of principal amount. Percentage of investment in bullions and other are low. Their decision is significantly associated with the annual income when checked at 10% level of significance; all remaining avenues of the investment remain unaffected. This is clear from the chi square test shown in Table 11.

Investors are less attracted towards mutual funds as compared to insurance, bank deposits, PPF, Govt. Securities, post office savings etc. as evident from fig. 3. Investors are reluctant to invest in Mutual funds because of lack of awareness and the scams by the mutual fund companies, e.g., UTI scam. Respondents prefer to invest more in Post office savings as

compared to mutual funds because of less volatility in its returns. Chit funds are also not an attractive sector as the chances of fraud in it are quite high. Chit funds fall behind in the list of investment avenues.

- **Problems faced by the investors:-**

Most of the investors face multiple problems, while investing their money. These problems are in the form of: lack of knowledge and technical skills, lack of transparency and publicity, financial problems, high documentation and incomplete information. Female investors are also facing some problems like non-supportive behaviour and lack of family support.

- **Reasons for opting risk free investments:-**

Reasons for opting risk free securities like bank deposits options are: balanced growth of portfolio, safety of investment, wealth creation, current income, child safety, high return etc. Some of them opt for these options just because of their attitude, while others opt for it to get the tax benefits.

- **Awareness regarding various investment avenues:-**

The investors are aware of two investment avenues the most, i.e. Insurance and Bank deposits. This data has also been supported by their real investments in these avenues. Although the mutual funds are among the top 5 ranks of the investments as the awareness is concerned, yet the investment in this particular sector is not that much high. Only 2.98 percentages of investors are aware of the chit funds.

- **Source of information :-**

As highlighted by the results, 25.93% investors go for the personal references to get information regarding the investment opportunities. A good number of investors also go for news channels and internet. Books are the least referred source of information for investors under the study.

- **Purpose of saving and investment:-**

The major saving objective of the investors has been their child education with 27.27 percentages, followed by retirement safety and child marriage. They are not too much concerned for the healthcare. The top most purpose behind their investment is to get tax relief. Investors are also concerned to increase their wealth for future safety.

• **Motive of investment:-**

The main factor guiding their investment decision is return, followed by safety of principal. The investors are least bothered for the progressive value of the investment. The retail investors are considering the safety of principal as a priority factor before choosing any investment options.

**CONCLUSIONS AND RECOMMENDATIONS**

- It is evident from the Chi-square test that gender and working department are not associated with the investment behaviour of retail investors.
- According to this survey, mostly retail investors have moderate experience.
- Mostly investors are aware about Insurance products and Bank deposits. Investment is done in these avenues for the purpose of balanced growth of portfolio, safety of investment, risk-free nature of these avenues.
- The major problems faced by investors are lack of knowledge and technical skills.
- Mostly investors invest in public sector due to safety of principal.
- Retail investors depend upon the personal references to get information regarding the investment opportunities available.

**Table No. 11: Results of Chi square as a test for association between the different variables and demographic profile of the respondents**

Demographic factor Variables	Age	Gender	Annual Income	Dept.
Investment experience of Investors	0.38	0.71	0.144	0.39
Utilisation of income being generated	0.29	0.41	0.36	0.65
Percentage invested	0.17	0.92	0.87	0.32
Planning for investment	0.52	0.495	0.24	0.84

Tenure of investment	0.76	0.29	0.245	0.85
Expectation for growth in returns	0.024*	0.78	0.92	0.85
Percentage In govt. security and Bonds	0.38	0.65	0.47	0.70
Percentage In Equities shares	0.53	0.309	0.845	0.497
Percentage In Bank deposits	1.00	0.305	0.42	0.175
Percentage In Bullions	0.59	0.45	.050**	0.34
Percentage In Insurance	0.051**	0.34	0.91	0.80
Percentage In Mutual funds	0.19	0.81	0.60	0.85
Percentage In PPF	0.004*	0.41	0.40	0.29
Percentage In Real-estate	0.54	0.46	0.64	0.475
Percentage In Post office savings	0.89	0.78	0.84	0.76
Percentage In Chit funds	0.27	0.94	0.168	0.68
Percentage In Others	0.28	0.16	.076**	0.225
Percentage investment in different sectors	0.024*	0.11	0.72	0.12
Decision in case of Market fall	0.16	0.51	0.92	0.38
Monitoring of the current profile	0.24	0.52	0.52	0.78
Satisfaction with current portfolio	0.65	0.74	0.61	0.65

Source: survey

\*significant at 5% level of significance

\*\*significant at 10% level of significance

- Mostly investors invest for the period of 1-3 years. This implies that they are short term investors who want money soon.
- Mostly Investors are investing up to 30% of their income.
- Mostly investors are satisfied with their profile. They don't change it frequently on the basis of fluctuations in income generated by the investment. They use returns for both consumption and reinvestment purpose.
- Most of the investors don't have a formal plan for the investment.
- Mostly investments are done for the purpose of getting tax relief.



On the basis of above analysis, It is clear that the investors are still risk averse and most of them go for risk free investment options like govt securities, bank deposit etc. Though the Indian stock market is burgeoning yet the investors are reluctant to invest in equities and Mutual fund because of the frequent scams and frauds in the equity market as well as unpredictable volatility in the prices of share market. Decision to invest money in various sectors and expectation of returns on investment are found to be associated with age profile.

Investment in insurance is at the top most rank. Healthcare is not found to be an important objective of savings by investors. It indicates that the people are going for investment in insurance other than healthcare motive. This fact opens the scope for the this sector as the income elasticity of demand for insurance products is greater than one ( $\epsilon_y > 1$ ).

Now in this techno era, people refer to electronic media like news channel and internet to fasten their knowledge. There is a need to encourage people to invest more to remove the saving investment gap. For this purpose, problems faced by the investors must be addressed. This can be done by organising seminars, making investment process transparent and by promoting new schemes.

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