

An Empirical Analysis of Investment Behaviour– A Case Study of Kerala

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Abstract—An investor has a wide array of investment avenues available in India. It is very important to know how people evaluate these alternatives. Macro economic theory simplifies and states that savings of people automatically becomes investment ($S=I$). The economic well being of the state depends significantly on how wisely people invest their savings.

This is a study which deals with various investment alternatives in India with special reference to salaried class of people. A sample of five hundred salaried people from Kerala has been taken for examining people's investment behavior towards various investment opportunities.

Keywords: investment behavior, investment avenues, salaried class.

1. INTRODUCTION

Investment is laying out money today to receive more money tomorrow” -Warren Buffet

In its broader sense, “investment is a sacrifice of current money or other resources for further benefits” and investment may be defined as the net addition to a nation's physical stock of capital. Today numerous avenues of investment are available. We can deposit money in a bank account or purchase a long term government bond or invest in the equity shares of a company or contribute to a provident fund account or buy a stock option or acquire a plot of land or invest in some other form,

The two main aspects of any investment are time and risk. The benefit is expected in the future and tends to be uncertain. The sacrifice takes place now and is certain in the case of investments. In some investments like government bonds, the time element is the dominant attribute. In other investments like stock options, the risk element is the dominant attribute. In yet other investments both time and risk are important.

Our economic well being in the long run depends significantly on how wisely we invest. According to Warren Buffet “Investment is simple, but not easy”. One of the richest men in the world; and without doubt the most successful investor, he made his fortune of more than \$40 billion almost exclusively through investing. There are many such successful investors in the world.

In simple terms investment means keeping some money aside so that it grows more valuable after a period of time. However, investment is difficult because it challenges our basic human nature- our urge to spend, enjoy and satisfy our needs as early as we can. It is difficult because people have to be patient and disciplined for long stretches of time. It's because all around us we see people spending and having the time of our lives while we sacrifice those pleasures.

Investing is also difficult because we have to make many decisions- differentiating between needs and wants. Food, clothing, home, medicines and education are needs. Eating out, going on vacations, watching movies etc. are wants and could be reduced to keep aside money for investing. Since it is easy to give in to these temptations, investing is such a challenge for people.

2. OBJECTIVES OF STUDY

- To study the awareness, confidence and preferences regarding various investment alternatives.
- To understand the investment behavior of the salaried class.

3. REVIEW OF LITERATURE

Investment behavior of a nation decides the employment and thereby welfare of the people. Gujarat has higher per capita investment than any other Indian states. The results of investment in Gujarat can be seen from the growth rate it produces. It is evident from these facts that investment behavior determines the prospects of an economy. Data is crucial in monitoring the development path. This study on the investment behavior of the people with special reference to salaried class is a step in that direction. In the absence of significant studies conducted on this topic, we are addressing the subjects relating to it in our pre research process.

Scharfstein, David S & Stein, Jeremy C, (1990) examines some of the forces that can lead to herd behavior in investment. Under certain circumstances, managers simply mimic the investment decisions of the other managers

ignoring substantive private information. Although this behavior is inefficient from a social standpoint, it can be rational from the perspective of managers who are concerned about their reputations in the labor market. They discuss applications of the model to corporate investment, the stock market, and decision making within firms.

Mark Grinblatt and Matti Keloharju (1999) in a study pointed out that the extent to which past returns determines the propensity to buy and sell. It also analyses whether these differences in past – return – based behavior and differences in investor sophistication drive the performance of various investor types. We find that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly households, tend to be contrarians. The distinction in behavior are consistent across a variety of past – return intervals. The portfolios of foreign investors seem to outperform the portfolios of households, even after controlling for behavior differences.

Microcredit is an innovative financial tool designed to reduce poverty and fix credit market imperfections- Michael Baues, Chitilova and Jonathan Mordcch (2012). They use experimental measures of time discounting and risk aversion for villagers in South India to highlight behavioral features of microcredit. Conditional on borrowing from any source, women with present – biased preferences are more likely than others to borrow through microcredit institutions. Microcredit contracts require loan repayments in regular, fixed installments and they harness peer pressure to encourage discipline. These innovations mirror mechanisms highlighted in behavioral approaches to saving, suggesting that microcredit's popularity stems partly from modes of encouragement and self discipline absent in typical lending mechanisms. In a study on Interest rates, saving and investment, Prema Chandra Athukorala (2010) finds the role of interest rates in the process of economic development is examined through an empirical inquiry into the interest rate - saving - investment nexus in the Indian economy during the period 1955 – 1995. the results are generally in support of the financial liberalization school of thought. Higher real interest rates seem to promote both financial and total savings, and stimulate private investment on the investment side. The combined salutary effect of interest rate increase operating through increased debt intermediation and self – financed capital accumulation outweighs the direct cost effect on investment. Overall, the study casts doubt on the robustness of results coming from the vast cross country literature on the subject and calls for systematic time – series analyses covering a variety of country situations to inform the ongoing policy debate.

The role of financial sector policies in determining private investment in the economies of India and Malaysia has been studied by James Ang (2009). The results suggest that significant directed credit programs favoring certain priority sectors tend to discourage private capital information in both

countries. Interest rate controls appear to have a positive impact on private investment, with the effect being more pronounced in Malaysia. While high reserve and liquidity requirements exert a negative influence on private investment in India, the effect is found to be positive in Malaysia.

These are a few studies conducted on investment behavior at various circumstances in India and abroad giving us the notion that this is a field where more studies is taking place. Since the study material is changing over due course of time, the sector won't lose the significance either. With a variety of studies in changing conditions and parameters this area of research has immense potential in future. Here we understand the importance of the study on investment behavior of individuals locally and thereby conducting the study on it. This is a humble attempt to peep into this vast and emerging area of great contemporary significance.

4. SOURCES OF DATA

Both primary and secondary data were collected and used for this study. Primary data was collected from a sample of population belonging to salaried class who has invested in various investment alternatives. Secondary data was collected from various journals and books.

5. METHODOLOGY

This study is basically exploratory in nature using field survey method for collection of primary data from among various salaried people. Sample size of the survey is five hundred. A pre-tested structured questionnaire has been used for the purpose of data collection. Random sampling method has been employed in the study.

6. RESULTS AND DISCUSSIONS

Since investment is a major way of generating additional income from what is being earned by working, it has remained as a favorite avenue for most people. So, we wanted to know the share of income people set apart for investing and the method of allocation of their savings between various alternatives.

Thus we have made a systematic survey to understand the investment behaviour of the people with special reference to the salaried class. Questionnaire method was used for the survey. The questionnaire consisted of questions concerning the attitudes and feasibility towards investing as well as studying the awareness, confidence and preferences regarding various investment alternatives. The questionnaires were distributed to a randomly selected sample population – confining to salaried class of people for convenience. We know that they are more aware of various investment options as they are educated and have investments. Although the survey was a study to know the investment behavior of people, it was also an opportunity to enlighten and give much awareness to the people about the various investment

alternatives. We have approached five hundred salaried workers mostly college lecturers including both men and women. Through our conversations with them we were able to understand that most of them looked for ease of liquidation, convenience, tax reductions and risk aversions while investing. Majority of them are interested in investing in long term investments like Fixed Deposits, Gold, Life Insurance, Post Office Saving Scheme etc.

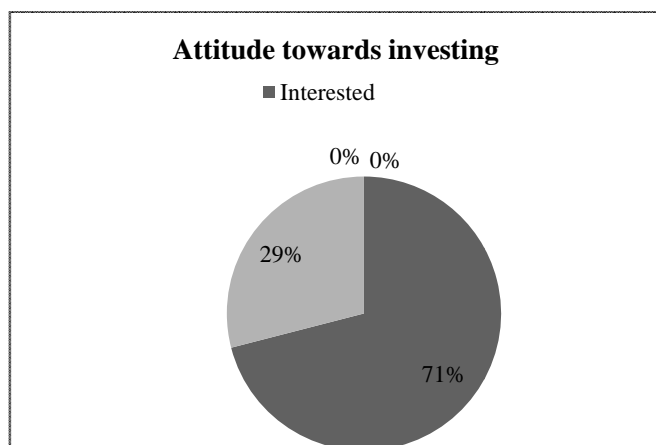
Both men and women, showed very similar behavioral patterns towards investing. This was mainly because female respondents had no individual say in investments; rather had joint investments along with their husbands. As, women enjoy a natural advantage over men while investing, they prefer long term investment in fixed deposits, post office savings, insurance etc. Investing in gold is also prevalent among women. None of them showed any inclination towards speculative investment options such as equity shares, real estate etc.

6.1. Family budget

We were able to observe that just about 60% of the sample population had a properly planned family budget. Out of which 70% cited increasing cost of living and 30% cited unexpected expenses as the major reasons behind why family budgeting is getting more stressful. In such circumstances family budgeting becomes more and more important.

6.2. Attitude

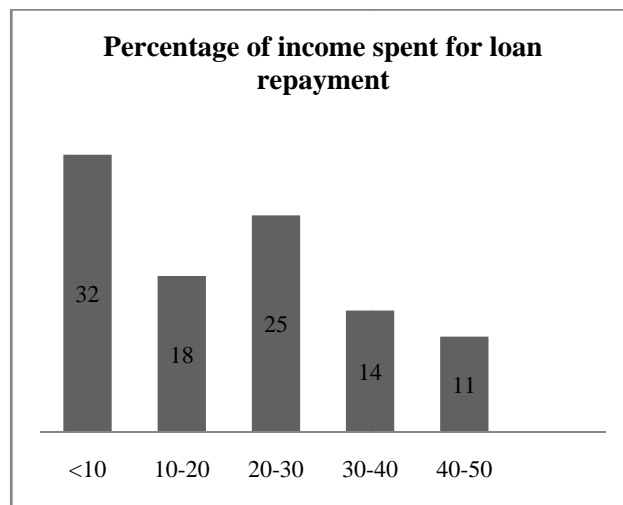
71% of the sample population preferred earning an extra income through investing. Even though all of them have one or the other forms of investments, not all of them were found to be positive towards the concept of investment.



6.3. Proportion of income spent for loan repayment:

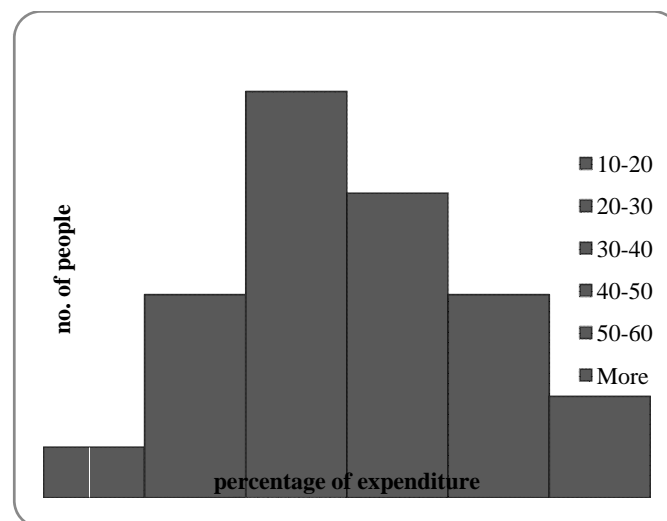
We were able to observe that 32% of the sample population had only less than 10% of their income set apart for loan repayment. Almost all of them were found to be below 40 years of age. They had very few asset holdings and their responsibilities towards family was less. On the other hand,

14% of the sample population had about 30-40% of their income spent for loan repayments and another 11% had 40-50% of their income spent for loan repayment. They were mostly senior professors who had large asset holdings and higher family expenses.



It was also observed that purchase of land, houses, cars and marriage of daughters were the major expenses for which they had to depend fully or partially on loans.

6.4. Average monthly expense out of income:



6.5. Expenses

The statistics regarding the proportion of income spent to meet the day to day expenses was much revealing. About one-fourth of the sample population spent nearly 50% of their income on expenses and one-third spent about 40% of their income.

People having a higher level of asset holdings had higher level of day to day expenses. Medical, health and educational expenses were also cited as a major drainer of income. The

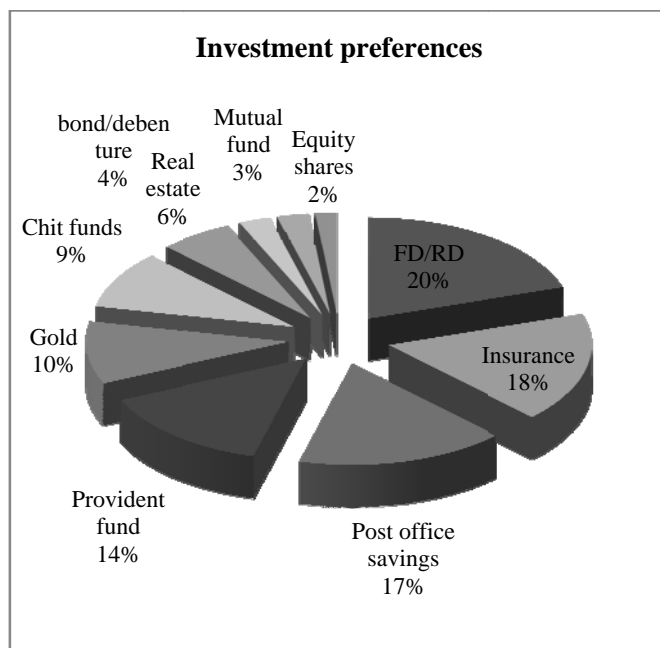
individuals having higher expenses were spread more or less equally among junior and senior professors. Moreover, people earning extra income from asset sources had lesser expenses which were to be financed out of income. They were also the major investors in our sample.

We know that investments can be made out of income only after deducting all expenses, loan repayments, precautionary savings etc. Thus only about 34% of the sample population was able to set apart at least 50% of their income for investment – out of which a significant part will be leakages from the money circulation in the form of savings.

6.6. Confidence

Of all the investment alternatives fixed deposits, post office savings, insurance, chit fund and provident fund remained the favorite of all investors. Confidence regarding these type of investments were also very high. Investors were least confident with speculative investment avenues like equity shares and real estate. Recent market situations also show a soaring speculative market. Most people were unaware of bonds and debentures as an investment option and hence less confident.

6.7. Preferences among alternatives



7. INFERENCE

Fixed Deposit – People are more interested in FD's because of its long term credibility and reliability. Easiness to operate and tax benefits also attracts investors. People also keep in mind the opportunity of taking loans against FD.

Insurance – A sense of security and peace of mind is the basic motive behind investing life insurance. Besides, premium

payments for insurance enjoy tax benefits. Insurance has gained such popularity that almost every Indian knows about it.

Post Office Savings – This is favored on a long term basis. Investors see it as a way to earn steady income on monthly basis after retirement. Guarantee of the government also makes it more reliable.

Provident Fund – Complete security of the investment, zero taxes on the interests along with tax deductions backed by the guarantee of the government make PF a favorable avenue for investment for most people.

Gold – The value of gold keeps on increasing steadily and hence investors show a positive attitude towards keeping gold either as coins, bars or jewelry. Gold is mostly favored as an investment than an ornament.

Chit Funds – Investment in chit funds was less sought after when compared to its kind.

Real Estate – Very less investment in real estate is due to the very nature of lump sum investments. It is not in the reach of common man. The amount of ground work and the higher element of risk also discourage people from investing in real estate.

Equity Shares – The instability and complexity in capital market makes investing in equity a risky venture. Constant monitoring, research and follow up is required not only to gain profit but also to avoid losses.

Thus, fixed deposit was the most preferred investment option followed by life insurance, post office savings, provident fund and gold and equity shares, bond/debentures, mutual funds and real estate were the least preferred options.

8. FINDINGS

- An investor is normally not willing to assume more than moderate risk. Rarely does he knowingly assume higher risk.
- An investor usually seeks a modest rate of return which is commensurate with the limited risk assumed by him.
- Investors prefer long term benefits to short term gains.
- Investors sacrifice present consumption for a better future.
- Time and risk are the two key aspects of investment.
- Risk taking enhances a good return in future.
- An investor is a long term planner.
- Fixed deposits are the most trusted investment option among salaried class.
- Gold is considered as a long term investment as well as jewelry for use, hence preferred.
- Real estate is much preferred but it requires large chunks of money and hence beyond the reach of many.
- Life insurance has remained a favorite of all investors.
- Post office saving is a convenient small scale investment option having high investor confidence.

- Employment provident fund is compulsory and is preferred by all employers.
- Very few people have knowledge and confidence in equity, bonds and debentures.
- Chit funds are very much resorted to meet heavy expenses by investors.
- Only half of the sample population has a proper family budget.
- Seventy five percentages of salaried people prefer earning extra income through investing.
- Significant portion of the income is spending on repaying loans.
- Living expenses are very high due to increased cost of living.

9. RECOMMENDATIONS

It is time that investments are inevitable for growth and development. So, measures are to be taken for the growth of investment alternatives

1. Good awareness should be given to people regarding various investment alternatives.
2. Financial literacy have to be improved at the earliest
3. Investment procedures should be made very simple
4. People should be made free from fear to invest in various alternatives.
5. Women enjoy natural advantage over men when it comes to investing. So there should be more women investors.
6. There should be a planned family budget in order to reduce unwanted expenses.
7. Confidence in investment alternatives should be enhanced through awareness campaigns.

10. CONCLUSION

Investment is one of the corner stone's for the economic well being of a country. It plays an important role in the growth and developmental activities of an economy. There are many investment alternatives in India and many investors too. It is an attempt to find out the investment behavior of people belonging to salaried class. There are many investment opportunities in India but people are concentrating more on the major long term investments like fixed deposits, gold, life insurance, post office savings, real estate, provident funds and short term alternatives like the chit funds, private financial firms etc.

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