IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Study of Investors Preferences Among Various Investment Avenues

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"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."

Warren Buffett

Abstract

Every person who earns money spends it to take care of either their own fundamental requirements or those of their family. People utilise money for a variety of things, such as covering their regular household bills and costs associated with purchasing luxury for a better living. Earned money is typically stored for future requirements or utilized to pay for certain present obligations.

A person who lives within their means accumulates savings. These funds can be accumulated and grown to fulfil a variety of objectives, including paying for college, marriage, buying a car, house, or any other asset, paying for unexpected medical expenses, and covering post-retirement expenses. The full money saved is typically not stored in cash but rather invested in a variety of asset classes or investment vehicles in order to generate a return, which may come in the form of consistent income, capital growth, or occasionally both. Humans must invest if they want to prevent inflation in the future. Investments and savings are two coins. Both are necessary for humans to exist in a changing world and are helpful in meeting present and future requirements.

Keywords: Investment, Money, Inflation, Savings, Expenses.

Introduction

Sacrifice of certain present value for some uncertain future value is called investment as defined by Sharpe & Alexander. It entails arriving at numerous decisions such as type, mix, amount, timing, grade, etc of investment and disinvestment. Broadly speaking, an investment decision is a tradeoff between risk and return. Educated and learned people are also not able to take proper investment decision because they are still not aware of different kind of investment options available to them, they do not manage their funds scientifically rather follow others blindly. Managing of investment is not an easy job, it requires considerable financial and market knowledge, proper analysis and an understanding of different avenues available and their pros and cons forms an integral part of effective investment.

Investment has been actively confined to the rich and business class in the past. This can be attributed to the fact that availability of investible funds is a pre-requisite to deployment of funds. But, today, investment has become household word and is very popular with people belonging to middle class who look for ways to invest their savings and like to supplement their income with earnings from their investments. Increasing popularity can be attributed to the following factors like

- Increase in working population, larger family incomes.
- Provision of tax incentives in respect of investment in specified channels.
- Increase in tendency of people to hedge against inflation.
- Availability of large and attractive investment alternatives.
- Increase in investment related publicity.
- Ability of investments to provide income and capital gain.

Literature Review

Lewellen (2008) found that age, sex, income and education affect investors' preferences. Study by Rajarajan (2010) revealed an association between lifestyle of the people and investment related characteristics. Bandgar (2018) in his study found that investors are educated in investment decision making. Soch and Sandhu (2020) have studied perceptions of bank depositors on quality circles, customer complaint cell, quality, priority banking, telebanking, and customer meets in private banks. Karmaker (20200) has found that the life insurance policy is the most popular investment avenue. Huberman (2021) is of the opinion that a person is more likely to invest in companies known to him and shy away from the unknown avenues.

The investment decision making process of individuals has been explored through experiments by Barua and Srinivasan (2016, 2016, 2021). They concluded that the risk perceptions of individuals are significantly influenced by the possibility of maximum losses in addition to the variability of returns. Gupta (2021) argued 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.

Avinash Kumar Singh (20166) explored the investment pattern of people in Bangalore and Bhubaneswar. The analysis and interpretation of the data from the above study concluded a distinctive behavioral pattern towards various investment avenues among the investors in the two above mentioned cities. While in Bangalore, investors were very much aware about several investment avenues and the risk associated with them, investors in Bhubaneswar were more conservative in nature and preferred to invest in those avenues where risk is less like bank deposits, small savings, post office savings etc. The above study concluded that in Bangalore all the age groups gave more importance to investment in equity except people above 50 gave importance to insurance, fixed deposits and tax saving benefits. It was also found investors who had invested in equity, personally followed the stock market frequently i.e. in daily basis, but those who invested in mutual funds watched stock market weekly or fortnightly

Fatima Alinvi (2018) suggests that customers change their preferences according to their life circumstances and while certain preferences are well-defined others can be inconsistent. In an increasingly competitive environment, where insurance companies fight for the same customers, having a customer-oriented culture is extremely important not only to retain customers but also to acquire new ones.

Manish Mittal and Vyas (2018) Investors have certain cognitive and emotional weaknesses which come in the way of their investment decisions. Sunil Gupta (2019) studied the investment pattern among different groups in Shimla and revealed a clear as well as a complex picture. The complex picture means that the people were not aware about the different investment avenues and therefore did not respond positively, probably it was difficult for them to understand the different avenues. The study showed that the more investors in the city preferred to deposit their surplus in banks, post offices, fixed deposits, saving accounts and different UTI schemes, etc. The attitude of the investors towards the securities in general was bleak, though service and professional class were going in for investment in shares, debentures and in different mutual fund schemes. As far as the investments were concerned, people put their surplus in banks, past offices and other government agencies. Most of the horticulturists in Shimla city who belonged to Apple belt though being rich showed a tendency of investing their surpluses in fixed deposits of banks, provident funds, post office savings, real estates, etc. for want of safety and suitability of returns.

Mohanta and Debashis (2021) in their study on investment preferences among urban investors in Orissa indicated a significant role of income and occupation in investment avenue selection by the male and female investors. Mostly male investors were found as active participant in avenue selection than female and generally they were sound in these two respects than female investors.

Objectives of study

- To understand various avenues of investment.
- To know about the various investment schemes

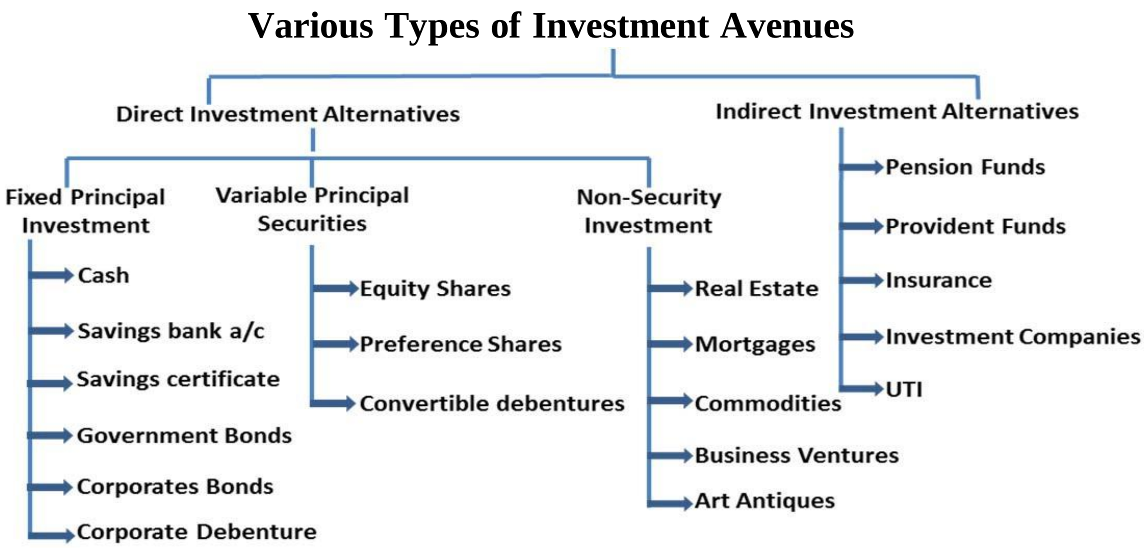

Figure 1: The schematic diagram showing various investment avenues currently available in India to Indian investors

Investments in Fixed Deposits:

Fixed Deposit or FD is accruing interest of yearly profits, depending on the bank's tenure and guidelines, which makes it's widely sought after and safe investment alternative. The minimum tenure of FD is 15 days and maximum tenure is 5 years and above. Senior citizens are entitled for exclusive rate of interest on Fixed Deposits.

Investments in Insurance Policies:

Insurance features among the best investment alternative as it offers services to indemnify your life, assets and money besides providing satisfactory and risk free profits. Indian Insurance Market offers various investment options with reasonably priced premium. Some of the popular Insurance policies in India are Home Insurance policies, Life Insurance policies, Health Insurance policies and Car Insurance policies. Some top Insurance firm in India under whom one can buy insurance scheme are LIC, SBI Life, ICICI Prudential, Bajaj Allianz, Birla Sun life, HDFC Standard Life, Reliance Life, Max New York Life, Metlife, Tata AIG, Kotak Mahindra Life, ING Life Insurance, etc.

Investments in National Saving Certificate (NSC):

National Saving Certificate (NSC) is subsidized and supported by government of India as is a secure investment technique with a lock in tenure of 5 years. There is no utmost limit in this investment option while the lowest amount is estimated at 100. National Saving Certificate falls under Section 80C of IT Act and the profit accrued by the investor stands valid for tax deduction up to 1, 00,000.

Investments in Public Provident Fund (PPF):

Like NSC, Public Provident Fund (PPF) is also supported by the Indian government. An investment of minimum ` 500 and maximum 1, 00, 000 is required to be deposited in a fiscal year. The prospective investor can create it PPF account in a GPO or head post office or in any sub-divisions of the centralized bank. PPF also falls under Section 80C of IT Act so investors could gain income tax deduction of up to 1, 00,000. The rate of interest of PPF is evaluated yearly with a lock in tenure of maximum 15 years.

Investments in Stock Market:

Investing in share market yields higher profits. Influenced by unanticipated turn of market events, stock market to some extent cannot be considered as the safest investment options. However, to accrue higher gains, an investor must update himself on the recent stock market news and events.

Investments in Mutual Funds:
Mutual Fund firms accumulate cash from willing investors and invest it in share market. Like stock market, mutual fund investment are also entitled for various market risks but with a fair share of profits.

Investments in Gold Deposit Scheme:
Controlled by SBI, Gold Deposit Scheme was instigated in the year 1999. Investments in this scheme are open for trusts, firms and HUFs with no specific upper limit. The scheme is also attractive from tax perspective as the interest earned as well as tax on any capital gains arising from rise in price of gold after maturity is exempt from tax. Gold so deposited has also been exempted from wealth tax.

Investments in Real Estate:
Indian real estate industry has huge prospects in sectors like commercial, housing, hospitality, retail, manufacturing, healthcare, etc. Calculated realty demand for IT/ITES industry in 2010 is estimated at 150mn sqft around the chief Indian cities. Termed as the "money making industry", realty sector of India promises annual profits of 30% to 100% through real estate investments. However 2 benefits of investing in property are Capital appreciation and Rental income.

Investments in Equity:
Private Equity is expanding at a fast pace. In 2020, private equity and venture capital firms invested 7.97 billion dollars in 325 deals (excluding real estate) as against 4.07 billion dollars in 290 deals during the previous year. Indian equities promise satisfactory returns and have more than 365 equity investments firms functioning under it.

Investment in Bonds / Debentures:
The volatility of bonds (especially short and medium dated bonds) is lower than that of shares. Thus bonds are generally viewed as safer investments than stocks, but this perception is only partially correct. Bonds do suffer from less day-to-day volatility than stocks, and bonds' interest payments are often higher than the general level of dividend payments. Bonds are liquid, as it is fairly easy to sell one's bond investments, though not nearly as easy as it is to sell stocks and the comparative certainty of a fixed interest payment twice per year is attractive. Bondholders also enjoy a measure of legal protection: under the law of most countries.

COMPARISION BETWEEN THE MOST PREFERRED AVENUES:

Fixed Deposit & Mutual funds:
Mutual fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document. Whereas Fixed Deposits with banks are for investors with low risk appetite, and may be considered for 6-12 months investment period as normally interest on less than 6 months bank FDs is likely to be lower than money market fund returns.

Money Market or Liquid Fund
These funds are also income funds and their aim is to provide easy liquidity, preservation of capital and moderate income. These schemes invest exclusively in safer short-term instruments such as treasury bills, certificates of deposit, commercial paper and inter-bank call money, government securities, etc. Returns on these schemes fluctuate much less compared to other funds. These funds are appropriate for corporate and individual investors as a means to park their surplus funds for short periods.

Load or no-load Fund

A Load Fund is one that charges a percentage of NAV for entry or exit. That is, each time one buys or sells units in the fund, a charge will be payable. This charge is used by the mutual fund for marketing and distribution expenses. The investors should take the loads into consideration while making investment as these affect their yields/returns. However, the investors should also consider the performance track record and service standards of the mutual fund which are more important. Efficient funds may give higher returns in spite of loads.

A no-load fund is one that does not charge for entry or exit. It means the investors can enter the fund/scheme at NAV and no additional charges are payable on purchase or sale of units.

Real Estate Vs Stock Market

- At present real estate, especially the residential realty that is purchase, renting, reselling and holding of realty assets is the matter of investment choice for the most of investors.
- Money generally flows as a direct consequence of low interest rates.
- Mortgaging assets is safer than high risk speculative investments.
- The primary reason of the investment revolution is the tangibility of assets. Most of the investors would opt for real estate investment where they would be able to see, touch, paint and above all feel the sense of security and possession, rather than the purchase of a share into a distant company over which the investor cannot access any control.
- In the stock market, there is a constant fear of being severely affected by its loss, as millions of investors have been the victims of such losses, earlier. But, only a few buyers and sellers have been affected in the scandals relating to Real Estate.
- A financial institution would lend money far more easily to a qualified real estate buyer than to a stock market buyer.
- Banks generally give loans on appraised values, and an appraiser of a residential realty determines its real market value with a relatively higher degree of accuracy. This is easier than a stock analyst trying to evaluate the books of a corporation accurately.

- especially during the crisis.

Data Analysis

Research Methodology

For the purpose of the study the sampling universe was taken as people working in Government or Private sector. The total number of respondents for the study were 70 who were selected through judgmental and convenience Sampling. The secondary data were collected from published reports, articles and journals and PDF versions of Investment Company data published on the respective company's official website. The data collected from various primary and secondary sources have been analyzed by using various formulas and graphs in appropriate software tools certain tools used to derive conclusion are: Average, Percentage, Pie Charts, Bar Charts, etc.

Findings Regarding Investment Awareness and Preferences

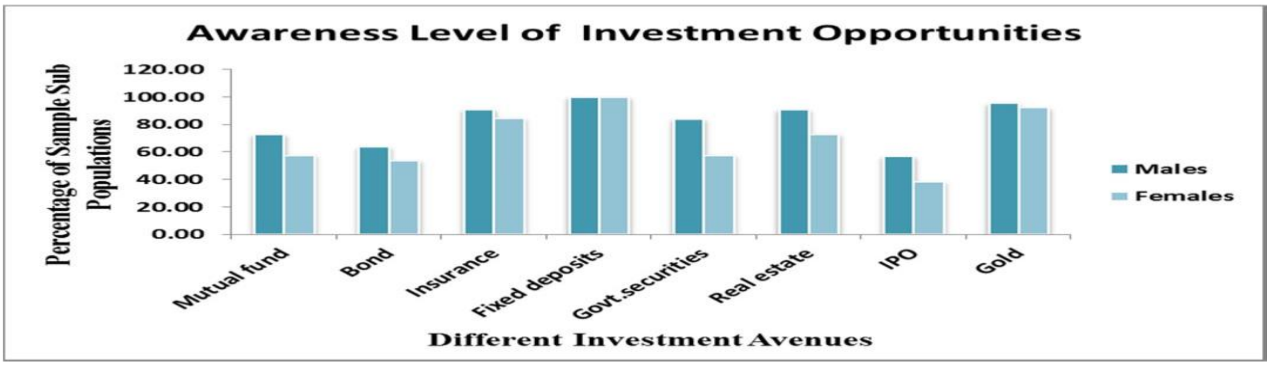

Figure 2 Graph showing the awareness regarding various investment opportunities currently available

As can be seen from the **figure 2**, almost all the sample investors are fully aware of investment avenues like fixed deposits and gold. A very minute difference is observed among the male and females with regard to gold as an investment which can be attributed to the fact that females are more enamored by its ornamental and jewelry value rather than its utilization as tool for investment. In contrast, nearly 50% of the sample investors are not aware of investment options such as IPO, mutual fund and bonds. Comparably investment avenues like real estate and insurance are also quite popular, as 90% of the sample investors had prior knowledge on these investment opportunities.

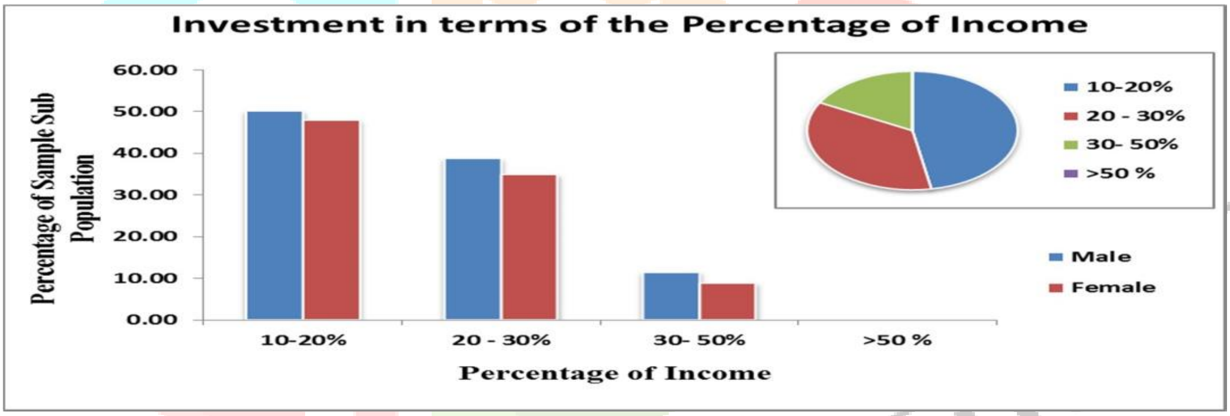

Figure 3: Graph showing percentage of total income earned by sample investors available for such investment.

The above **figure 3** shows that 47% of the sample investors are expected to invest 10-20% of their total income. While none of the investors subjected to this survey showed interest in investing more than 50% of their total income, only 10% of the sample investors are expecting to invest 30-50% of their total income for the purpose. Over all females showed less interest in investment decisions than the males in every group which may be because males bear the financial responsibility in Indian society and therefore females basically depend upon their male counterparts to make decisions regarding financial obligations.

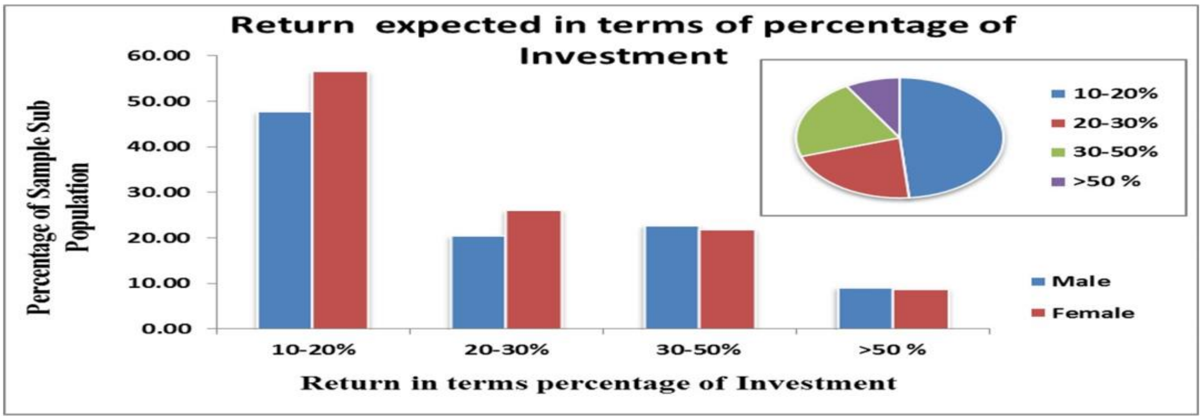

Figure 4: The graph showing the percentage of sample sub population expecting different annual return on their proposed investments.

As shown in the **figure 4**, maximum (49%) sample investors are expecting only 10-20% of annual return on their investments. While equal (21%) number of the sample investors are expecting both 20-30% and 30-50% of annual return on their investment, very miniscule number of sample investors (8%) are expecting more than 50% of annual return on their investment. The result is quite in line with the current investment scenario in India. Stock market all over the world remained bullish throughout the year and this may have led to a large number of investors expecting to invest in fixed deposits which provides the annual interest in the range of 8-12%. Similarly, gold which is also equally attractive investment option for approximately same percentage of sample investors provided around 20% return for last two years. It can also be inferred that difference in expectation in terms of annual return among the males and females are not significant except in case of the first option which can be neglected owing to small sample of female investors compared to male investors. Overall this data suggest that majority of sample investors are not expecting higher return on their proposed investment. More importantly majority of the investors belong to the low income group earning 1-3 lakh per annum and therefore do not have enough fund available for the investment unlike the investors belonging to high income group earning 5-10 lakh per annum.

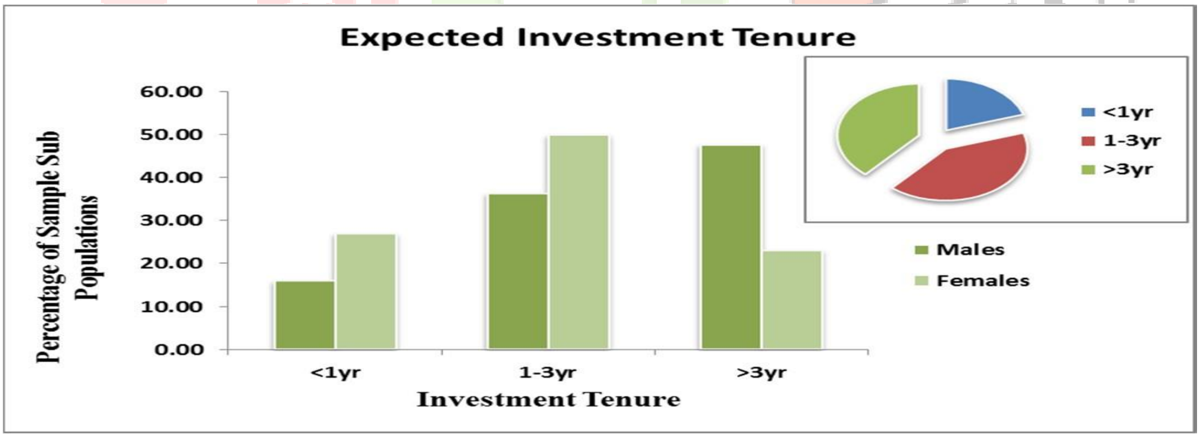

Figure 5: The graph showing percentage of sample sub population of investors expecting to invest for different tenures.

As seen from the **figure 5**, majority of sample investors are interested in long term investments, which is more than one year. Infact 50% of this group is expecting to invest for more than three years whose mood can be gauged from the fact that current status of Indian economy is quite stagnant. Therefore, it is obvious from the figure that investors are having a future outlook.

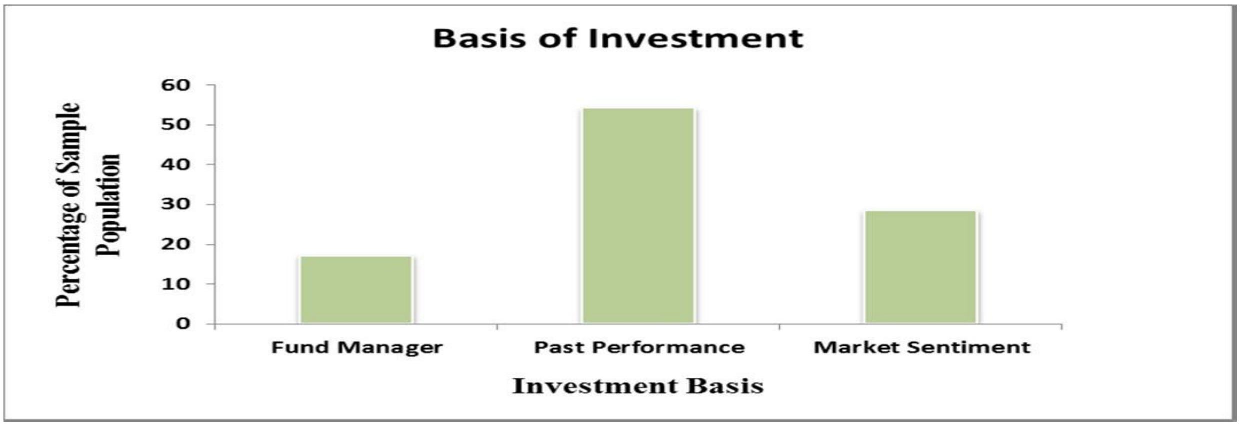

Figure 6: The graph shows percentage of sample investors basing their potential investment on different factors.

It was very much imperative to determine factors upon which these sample investors are expected to base their potential investment. It can be observed from the **figure 6,** that more than 50% of respondent investors are basing their potential investment upon past performance. While 30% sample investors would like to focus on market sentiment, only 15% investors are depending upon the fund manager to base their investment. The above result suggest that majority of investors are doing their own research before making any potential investment.

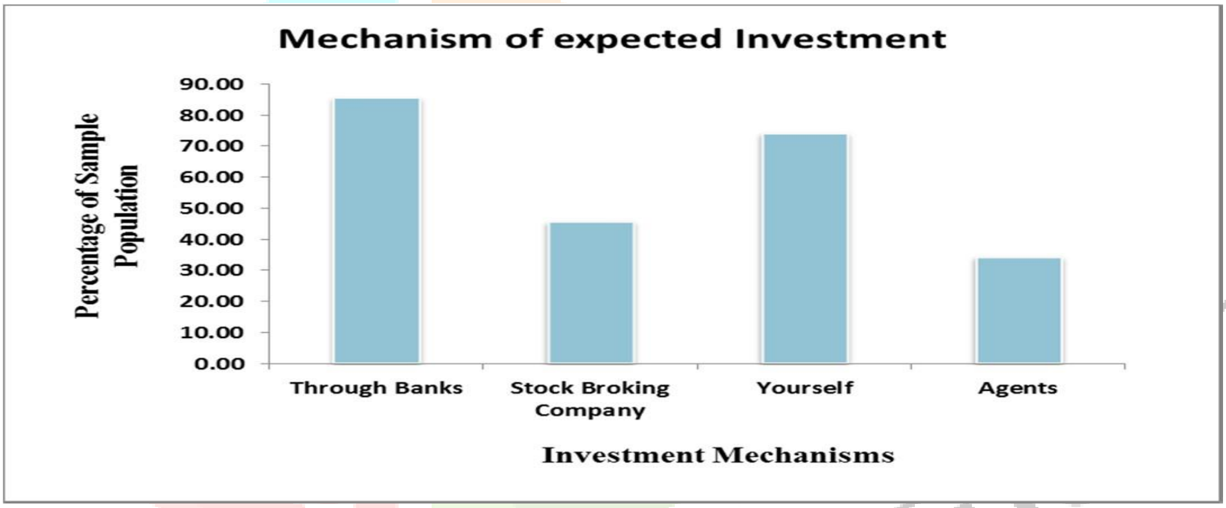

Figure 7: The graph showing percentage of sample investors expected to channel their investment through different mechanisms.

It can be seen from **figure 7** that more than 80% of investors surveyed for the purpose are going to channel their investment through banks. This may be due to the fact that traditional banking investments such as fixed deposits, recurring deposits and savings account banking are quite risk free investments. Similarly more than 70% respondent investors want to invest directly which involve investment avenues such as gold and real estate which are also quite risk free as discussed before and also it includes a great number of investors investing in directly in stock market too as a number respondent investors are young and quite savvy in obtaining financial information themselves. In contrast less than 50% sample respondent investors have no problem in channeling their investment through stock broking companies and various fund agents such as agents for mutual funds and insurances.

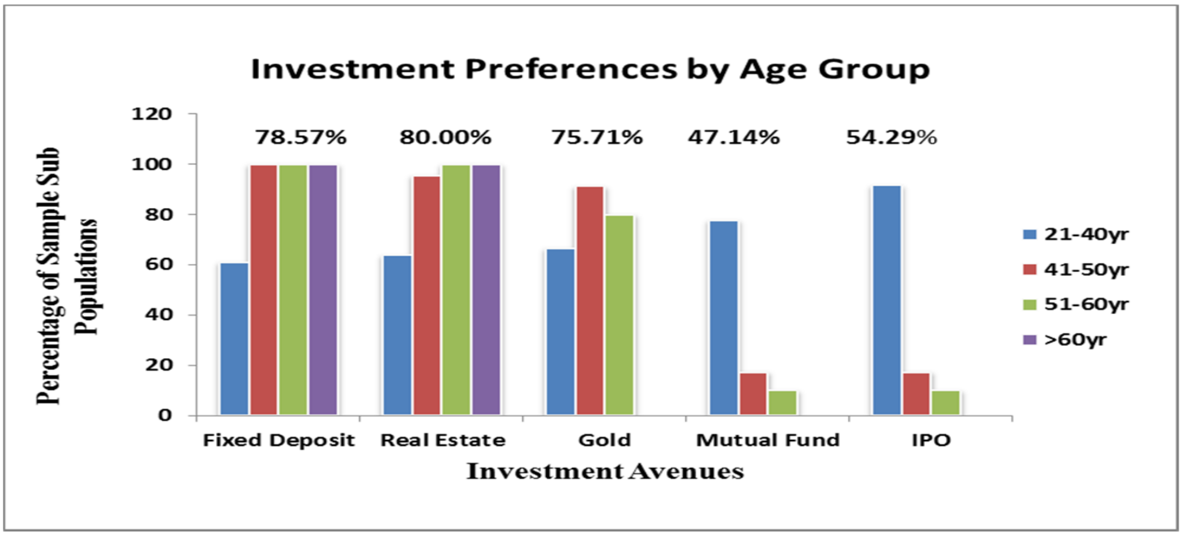

Figure 8: Graph showing percentage of sample sub population by age preferring different investment avenues

Since the age of the respondent investors is an important factor influencing the decisions of the utilization of potential investment avenues, therefore it was included as part of the questionnaire to know investment preferences according to different age groups. **Figure 8** shows that more than 80% of samples investors belonging to age group of 21-40 years are more oriented towards high return and have no qualms in channeling their investment through investments avenues such as IPO and mutual funds. It is very well known that these investment avenues are subject to high risk; however, these investments options have potential for extremely high return too. In other words, the above result suggests that young investors are interested in high return on their investments and for that, they have no hesitation in taking any risk associated with these types of investment opportunities. Inversely more than 90% and in some cases even 100% of respondent investors belonging to other age groups are oriented towards risk free investments such as fixed deposits, real estate and gold.

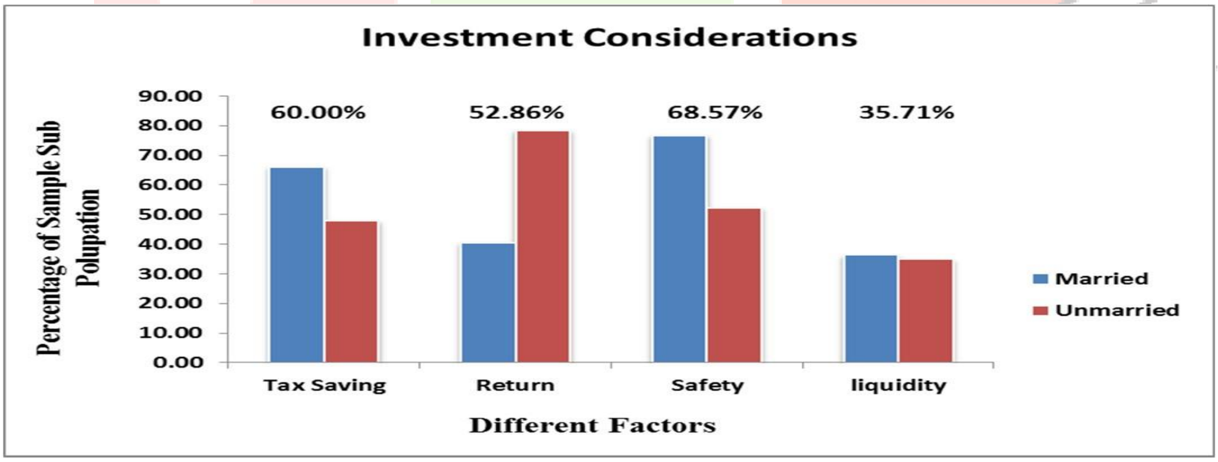

Figure 9: The graph showing percentage of sample sub population by their marital status basing their potential investment on different considerations.

As shown in the above **figure 9**, marital status also plays an important role in choosing different investment avenues. The result suggests that, unmarried respondent investors would like to invest in those investment avenues which have potential to provide high return on their investment. On the contrary married investors are more focused on those investment avenues which are very safe and which are designated for low but fixed return on their investment.

Conclusion

This study reveals the behavior of Indian investors towards different investment opportunities currently available in India for fulfilling their financial, social and psychological obligations. The taste and preferences of the respondent investors is concomitant with various benefits like safety and security, uniform returns or dividends, tax benefits and meeting future contingency. Regardless of inherent limitations of sample size, this study has been successful in identifying investment patterns across various demographics such as age, sex, income and marital status. This study may not only help the investors but also different financial institutions, organizations and consultants in ascertaining and understanding the main factors that induce Indian investors to invest in different avenues and their decision making process.

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