



## INFLUENCE OF DEMOGRAPHIC VARIABLES ON INVESTMENT DECISIONS OF RETAIL INVESTORS WITH SPECIAL REFERENCE TO CUDDALORE TOWN

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### ABSTRACT

Since the economic liberalization, there is an increase in the number of investment avenues available for the retail investors, depending upon his/her preferred reasons; the investment avenues are selected and used. This research brings forth certain major characteristics of retail investors, living in Cuddalore town. The study was conducted with an objective of finding out the impact of demographic variables such as age, income, gender, education, family size, occupation etc., on investment decisions of investors. The research was a descriptive research with a sample size of 150 samples and the data was collected from the respondents with the help of a structured questionnaire. The sampling technique used for study was convenience sampling. It was identified that the demographic variables have an impact on the investment decisions and the major reasons behind their investment were Tax benefits, Future use, Liquidity, Get return and Security & Safety, from which the retail investors are allowed to rank their own preferences given for each investment avenue, they used for investing their money from the following avenues such as Bank/Post-office/deposits, Insurances, private/Government Bonds, Mutual Funds, Gold & Silver, and Real Estate Investments. The finding shows that the investors invest in Share Market and Real Estate investments, for getting higher return on their investments. Investors with low or medium income invest their money in bank/post office deposits and also they invest in insurances for safety and security purposes. Therefore, the answers for the objectives of the study were identified through the survey and also behaviour of the retail investors of Cuddalore town was analyzed.

**KEYWORDS** : Investment decision, Investment avenues, preferred reason, Retail Investors behaviour.

### INTRODUCTION TO THE TOPIC

An investment refers to the commitment of funds at present, in anticipation of some positive rate of return in future. Today the spectrum of investment is indeed wide. An investment is confronted with array of investment avenues like bank deposits, real estate, small savings, life insurance schemes, bullions, commercial deposits, corporate security- bonds, mutual funds, and equity and preference shares. Among all investment, investments in bank deposits are safest and most preferred by the household and in equity proportionately are most profitable. This is because the history of stock market is booming and bursts overnight millionaires, an instant pauper. Indian economy is doing indeed well in recent years. The main reasons behind the study is to study the demographic factors like income, gender, age, occupation, education and the risk covering nature of the household. The percentage of Indian investors investing in the Indian equity market is very less as compared to the bank deposits.

There are various investment avenues such as bank deposits, real estate, small savings, life insurance schemes, bullions, commercial deposits, corporate security- bonds, mutual funds, equity and preference shares, etc. A Portfolio is a combination of different investment assets mixed and matched for the purpose of achieving an investor's goal. The two key aspects of investment are preferences and pattern. Benefit is expected in the future and tends to be uncertain. In some investments (like stock options) risk element is dominant attribute while in some investment (like govt. bonds) time is dominant attribute.

There are various factors which affect investors' portfolio such as annual income, government policy, natural calamities, economical changes etc. According to RBI data, household sector accounted for 82.4% of gross domestic savings during 2001-02. They invested 38% of financial savings in deposits, 33% in insurance/provident funds, 11% on small savings, and 8% in securities, including government securities and units of mutual funds during 2001-02. Thus the, fixed income bearing instruments are the most preferred assets of the household sector.

**Their share in total financial savings of the household sector witnessed an increasing trend in the recent past and is**

**estimated at 82.4% in 2001-02.**

### Investment Objectives

Investing is a wide spread practice and many have made their fortunes in the process. The starting point in this process is to determine the characteristics of the various investments and then matching them with the individuals need and preferences. All personal investing is designed in order to achieve certain objectives. Financial objectives are safety, profitability, and liquidity. Personal or individual objectives may be related to personal characteristics of individuals such as family commitments, status, dependents, educational requirements, income, consumption and provision for retirement etc. Elements of investments are Risk and Return relationship, Time, Liquidity, Tax savings. Diversification of funds is an important principle of investment for earning higher rate of interest.

### Investment alternatives

Wide varieties of investment avenues are now available in India. An investor can himself select the best avenue after studying the merits and demerits of different avenues. The following investment avenues are popular and used extensively in India:

- Investment in shares, debentures and bonds of different types issued by companies, corporations and public sector organizations.
- Postal savings schemes
- PF, PPF and other Tax sheltered savings schemes such as national savings scheme, national saving certificates and tax saving schemes of LIC, ICICI, Infrastructure bonds and so on.
- Investment in investment intermediaries such as mutual funds.
- Deposits in companies, fixed deposit, recurring deposits.
- Life insurance investment i.e. investment in different life policies such as whole life policy, endowment policy, annuity plans and so on.
- Investment in gold, silver, precious metals and antiques.
- Investment in real estates.
- Investment in gilt-edged securities and securities of government and semi-government organizations. (e.g. Bonds, treasury bills, etc.)

### RESEARCH OBJECTIVES:

- To study relationship between the demographic profile of retail investors and its impact on investment decision.
- To study the objectives of the investors in portfolio selection and investments;
- To study and analyze the risk tolerance level of investors with respect to various investments.

**LITERATURE REVIEW**

- **Joseph Anbarasu D, Clifford Paul S and Annette B** in their article "An Empirical Study on Some Demographic Characteristics of Investors and its Impact on Pattern of their Savings and Risk Coverage Through Insurance Schemes" published in The IUP Journal of Risk & Insurance, January 2011 concluded that The saving pattern of the people is crucial to the government in designing policies to promote savings and investment. Their study reveals that the people are aware about the importance of saving, but the awareness about investment opportunities is low. Steps have to be taken by the government and private companies to increase the awareness by advertising campaigns. Investment companies need to offer schemes that are affordable by the low income, uneducated, unsalaried and families with children. Investment companies should make the provision and increase benefits, for their schemes, to allow people to invest in the monthly mode, which is preferred by most investors. If people invest in long term saving schemes and infrastructure, the national saving rate will increase, which in turn will lead to a more prosperous India.
- **Sarita aggrawal and Monika Rani** in their article "Attitude Towards Insurance Cover" published in The IUP Journal of Risk & Insurance, January 2011 concluded that people prefer public sector for the insurance than the private sector insurance, the reason behind this is the trust and faith in LIC. People from every occupation, age, income level and qualification want to secure their future by taking a policy, besides good return on investment and rebate on tax.
- **AP Pati and D. Shome** in their article "Do Households Still Prefer Bank Deposits? An Analysis of shift in Savings and Savings Determinants" Published in The IUP Journal of Bank Management, Feb-2011 concluded that Financial reforms have, in the recent years, opened up several avenues for the households for savings. The study suggest that despite the reform, households are still preferring the safe channels of bank deposit schemes rather than switching over to high yielding but risky channels of savings. However, between the two phases (pre- and post-liberalization period) a significant structural shift of savings in bank deposit is observed. Variables like income and inflation are found to be statistically significant determinants of savings in bank deposit of Indian households.
- **S. Saravana Kumar** in his article "An Analysis of Investor Preference Towards Equity and Derivatives" published in The Indian journal of commerce, July-September 2010 concluded that the most of the investor are aware of high risk involved in the derivative market. The study reveals that most of the investor prefers cash market where the script can be held for long term and the risk is less and it is transferable to others with minimal time period. Even though risk is higher, some investors prefer derivative market where return is also higher. The investors are highly satisfied with equity shares because of many reasons, i.e., liquidity, low investment, capital appreciation etc.
- **BBS Parihar, Rajeev Sharma,** and Deepika Singh parihar in their article "Analyzing Investors Attitude Towards Mutual Funds as a Investment Option" published in The ICFAI an Journal of Management Research, July 2009 concluded that the factors responsible for investment in mutual funds are, 'return potential' has got first rank, 'liquidity' has got second rank and 'flexibility,' 'affordability' and 'transparency' have been ranked

third, fourth and fifth, respectively. The main reason behind this has been observed to be lack of awareness of investors about the concept and working of the mutual funds.

**RESEARCH METHODOLOGY:**

In this study, descriptive type of research is used. Descriptive research describes a single event or characteristic or relates a few events or variables through statistical analysis. Here the characteristic of retail investors were studied and analyzed the behavior of the retail investor in Cuddalore town. Survey was conducted using a structured Questionnaire. The sample was collected from 150 respondents in Cuddalore town. The sampling technique used for the study was convenient sampling. The tools used for the study were percentage analysis and one way ANOVA.

**ANALYSIS**

**PERCENTAGE ANALYSIS ON DEMOGRAPHIC VARIABLES**

VARIABLE	OPTIONS	NO.OF.RESPO NDENTS	PERCENTAGE
<b>Age</b>	20-30	63	42
	31-40	51	34
	41-50	23	15.3
	Above 50	13	8.7
<b>Gender</b>	Male	101	67.3
	Female	49	32.7
<b>Marital Status</b>	Single	44	29.3
	Married	106	70.7
<b>Education Qualification</b>	Schooling	47	31.3
	Graduate	56	37.3
	Post Graduate	36	24
	Professional	4	2.7
	Others	7	4.7
<b>Occupation</b>	Private Employee	63	42
	Public Employee	18	12
	Business Man	33	22
	Professional	14	9.3
	Others	22	14.7
<b>Dependents</b>	None	5	3.3
	1-2	63	42
	3-4	72	48
	4&Above	10	6.7
<b>Monthly Income</b>	Below 10000	40	26.7
	10001-20000	79	52.7
	20001-30000	24	16
	Above 30000	7	4.6
<b>Investment Avenues</b>	Bank & Post office	59(Out of 150)	17.7
	Bonds	7(Out of 150)	2.1
	Mutual fund	13(Out of 150)	3.9
	Share Market	28(Out of 150)	8.4
	Real Estate	49(Out of 150)	14.7
	All type of insurance	93(Out of 150)	28.1
Gold & Silver	83(Out of 150)	25.1	

**One-way ANOVA between Educational Qualification and Level of Knowledge in Share Market.**

**Hypothesis:**

**H<sub>0</sub>:** There is no significant difference between the Education Qualification & Level of knowledge in Share Market.

**H<sub>1</sub>:** There is significant difference between the Education Qualification & Level of knowledge in Share Market.

Education Qualification	Level of Knowledge					Total
	Expert	Great Extent	Somewh at	very little	nothin g	
Schooling	0	1	1	1	0	3
Graduate	2	1	7	6	2	18
Post Graduate	0	2	2	3	0	7
Total	2	4	10	10	2	28

Source of Variance	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	23.329	3	5.832	3.514	0.005
Within Groups	240.671	145	1.660		
Total	264.000	149			

**Inference:** As observed value 0.005 is less than P value 0.05 alternative hypothesis is accepted.

**One-way ANOVA between Monthly Income and Risk taking ability in Share Market.**

H<sub>0</sub>: There is no significant difference between the Monthly income & Risk taking ability in Share Market.

H<sub>a</sub>: There is significant difference between the Monthly income & Risk taking ability in Share Market.

Monthly Income	Risk taking ability				
	Low	Medium	High	Very High	Total
Below 10000	0	0	0	1	1
10001-20000	4	1	3	7	15
20001-30000	1	0	3	4	8
Above 30000	1	1	1	1	4
Total	6	2	7	13	28

Source of Variance	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20.331	3	6.777	4.523	0.003
Within Groups	218.743	146	1.498		
Total	239.073	149			

**Inference:** The observed value 0.003 is less than the P value 0.05, so the alternative hypothesis is accepted.

**One-way ANOVA between Age and Risk taking ability in Real Estate**

H<sub>0</sub>: There is no significant difference between the Age & Risk taking ability in Real Estate.

H<sub>a</sub>: There is significant difference between the Age & Risk taking ability in Real Estate.

Age	Risk taking ability					Total
	Low	Medium	High	Very High	No Risk	
20-30	5	4	5	4	3	21
31-40	6	3	4	2	1	16
41-50	0	4	2	0	1	7
Above 50	1	1	2	1	0	5
Total	12	12	13	7	5	49

Source of Variance	Sum of Squares	Df	Mean square	F	Sig.
Between Groups	1.566	3	0.522	0.251	0.002
Within Groups	303.207	146	2.077		
Total	304.773	149			

**Inference:** The observed value 0.02 is less than the P value 0.05, so the alternative hypothesis is accepted.

**RESULTS AND DISCUSSIONS:**

From the above analysis it is found that majority of the respondents belong to the age group of 30-40 years and majority of the respondents were male and they were married. Most of the respondents were graduates working as private employees. Their monthly income was between Rs.10000-20000. The no. of dependents for most of the respondents in the family was 3-4 members. It was found from the study that majority of the investors preferred to invest their money in insurance and their second preference was gold and silver, their third preference was investment in bank deposits. It reveals that the risk averse kind of the investors is very low and they are more conservative towards their

investment. From the ANOVA test it is found that there is significant difference between educational qualification and level of knowledge on share market investment, which means the less educated investors are not aware of investing their money in share market. Another test was conducted between monthly income and risk taking ability in share market which also shows that there is a significant difference. It means that the people with lesser income hesitate to invest in share market as the risk quotient is high. ANOVA was tested to find out the difference between age and risk taking ability in real estate, it also proves that there is a significant difference between the age of the investor and his risk taking ability in real estate as the real estate price is highly volatile. Thus from the analysis it can be understood that the demographic variables of the investors have a huge influence on their investment decision.

**CONCLUSION:**

Economic development of any country is mainly influenced by the growth of the financial, market in that country: Due to an gradual increase in the number of investment avenues and the preferences given by the retail investors to the different investment options are changing as per their This research assesses the impact of demographic factors on retail investor's investment decisions and has identified that investors investment decisions are based on various factors like age, gender, marital status, level of income educational qualification of retail investors, the number of dependents, level of satisfaction, frequency of investments, source of information, risk taking ability and level of knowledge in each investment avenues used. These factors have a major impact on investment decisions and behaviour of retail investors in Cuddalore town. Regarding all types of investment avenues in the financial market, it is suggested to the financial institutions to create awareness about each financial instrument and make it reach to the more prospective investors, who are all having excess money to invest in any of the investment avenues. The purpose of this awareness campaign is to induce the retail investors to make more use of Bonds, Mutual Funds and Share market investments, when compared with other investment avenues like Bank/Post – office deposits, Gold & Silver, Insurance, and Real Estate Investment. The study also recommends all investors to construct their portfolio based on the above said factors so that they reap maximum return with minimum risk.

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