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# "Demographic Factors and Investment Behaviour: A Study of Rajkot City"

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***Abstract:*** *Investment is an activity whereby fund is placed in some opportunity or instrument with the expectation of increase in its value and positive returns. The main investment goals are increasing the rate of return and reducing the risk. Investment in India can be broadly classified into two categories- Risky asset class and Risk – free asset class. Risky asset class includes direct equities, mutual fund, life insurance, commodities and real estate. Risk – free asset class encompasses fixed deposit, NSC, post office, PPF and bonds. Present paper is a study to find how demographic factors affect the investment behaviour.*

***Key Words:*** *Behavioural Finance, Efficient Market Hypothesis, Present Value*

## INTRODUCTION:

Basically there are two broadly classified theories of investment: Traditional Finance or Efficient Market Hypothesis and Behavioural Finance. EMH was considered to be the leading investing theory from the early 1960s to the mid-1990s. According to EMH, all investors in market are rational and thus rational market actors can value securities logically. Rational valuation of securities implies that securities are valued at their fundamental values, i.e., net present values of its future cash flows discounted by a risk factor.

EMH lost its importance amongst research scholars and financial markets with the arrival of Behavioural Finance in the early 1990s. It challenges the Efficient Market Hypothesis and focuses on how investors take decisions and judgements in market on the basis of their analysis of the information which is available to them. Thus, BF helps in understanding the behaviour of investors in the market and the actual practices that are prevalent in the market. Thus, fundamentally Behavioural Finance is a field where an effort is made to define how human psychology and particularly human behaviour affects investing decision making. Thus, psychology plays a crucial role in financial decision making.

The contribution of psychology is to identify the regularities -heuristics and biases – in people's perceptions and decisions that cause economic behaviour. To conclude, we can say that failure of traditional finance to explain behaviour of investors in definite situations raised doubts on efficiency of markets and prudence of investors. This required the study of psychology of investors to comprehend the way in which they make decisions in financial markets. The study of psychology of individual investors and role of demographic factors is pertinent and applicable in today's era. Therefore, the study of Behavioural Finance is very relevant and significant in the present day context.

## LITERATURE REVIEW:

1. **Kahneman and Tversky (1979)** used a value function to show why people take more risks when the losses are higher, which is another effect of sunk costs. If great losses have already occurred, people are likely to spend even more, as long as this could result in gains because it does not change their perceived value very much.
2. **Ambrose Jagongo and Vincent Mutswenje (2014)** conducted study to identify factors influencing investment decisions in NSE. The researcher found that the most important factors that affect individual investment decisions were reputation of the firm, firm's status in the industry, expected corporate earnings, profit and condition of statement, past performance, firms stock, price per share, feeling on the economy, expected dividend, etc.

3. **K. Parimalakanthi and Dr. M. Ashok Kumar (2015)** found that the behaviour of individual investors and the influences of demographics on the investment behaviour. It was observed from survey by using questionnaires in Coimbatore city towards available investment avenues in Indian financial markets, and also analysed factors affecting the Investment decision and found out the risk tolerance level of individual investors with respect to demographic variables

## Objectives of the Study

*Main objective of the present study is: To understand investment decision making of individual investors with reference to their demographic profile.*

On the basis of this main objective, following **secondary objectives** were formulated:

1. To examine the saving pattern of households of Rajkot city.
2. To study the pattern of investment of individual investors of Rajkot city.
3. To find out how investors get information about the various financial instruments.
4. To examine the purpose of savings of the households of Rajkot city.
5. To study the investor's preference of various financial instruments.
6. To examine the time horizon for which the investors would prefer to invest their money.
7. To study the objectives of investment of investor of Rajkot city.

## Research Methodology

**Population/ Universe of Study:**

Population consists of individual/household investors of Rajkot region. All the individual investors having their presence financial investment in the sense who have invested money in the various investment avenues and the ones who are residing in Rajkot region comprise universe for the present study. Thus, when following three facts coincide in any individual case, one becomes a part of universe for this study.

- ✓ A person is an investor in one's individual capacity that is one invests one's own money for achieving his/her objective.
- ✓ A person is an investor.
- ✓ A person resides in a region of Rajkot.

## Sampling Design

For all intents and purposes, the population is very huge in length and breadth. To ensure that a sample has wide geographical base, investors from different parts of Rajkot city including some sub-urban and villages were included in the sample. Sampling unit is individual stock market investor.

Sample of individual investors were taken from the defined population. So far as sampling design was concerned, basically non-random sampling design was used. Two specific methods of non-random sampling that were used were: purposive/convenient sampling and snowball sampling used to some extent.

The selection of sample respondents was mainly guided by investor's willingness to provide required information, willingness to spare time for the same and convenience. This is to ensure reliability of the responses given as the success of the study depends on the quality of the data gathered from the respondents. It was almost impossible to inject an element of objectivity in sample selection as this kind of attempt would not have been worth the gains in terms of greater reliability of results.

Random selection of sample was not done because in this kind of study, one needs to involve oneself to come to some conclusion while giving responses to different questions included in the questionnaire.

Targeted sample size was 225. In quantitative research, larger sample size is preferred and in qualitative research, smaller sample size is advisable. As the nature of present research is mixture of both quantitative and qualitative, it was decided to keep sample size 225, not very large and not even very small. But at the end of data collection process, 209 filled questionnaires could be collected, and 16 respondents did not return their response by questionnaire. Among the 209 filled questionnaires, completely filled and properly responses were only 200.Thus, response rate was 92.89%.

## Data Collection

So far as data collection is concerned, basically data is of two types: primary and secondary

Both the types of data are widely used in the present research study.
Secondary data is used to construct theoretical and conceptual framework for the study. Moreover, it helps to understand the exact nature of the prevalent situation, importance and relevance of the study and the contribution and implication of the research.
Mainly the core part of the data has been collected from primary source. For this purpose, two methods are used.

- Questionnaire
- Interview

Content of questionnaire was decided on the basis of literature review that was done prior to the beginning of the study. Investors take their financial decisions based on many factors and variable influencing them like demographic factors. Investors are found to be irrational in different ways. Irrationality prevails among investors when they take investment decisions in different respects.

**Tools & Techniques**

The following tools and techniques were employed to analyze the data with reference to fulfilled the objectives of this study.

- Percentage
- Weighted Average Method
- Chi-Square Test *(As a test of independents)*

**Hypotheses**

**Null Hypotheses:**

**$H_1$:** There is no significant association between investor's Gender and annual saving.
**$H_2$:** There is no significant association between investor's Marital status and annual saving.
**$H_3$:** There is no significant association between investor's Background and annual saving.
**$H_4$:** There is no significant association between investor's Occupation and annual saving.
**$H_5$:** There is no significant association between investor's Educational qualification and annual saving.
**$H_6$:** There is no significant association between investor's Gender and purpose of saving.
**$H_7$:** There is no significant association between investor's Age and purpose of saving.
**$H_8$:** There is no significant association between investor's Gender and annual investment.
**$H_9$:** There is no significant association between investor's Age and annual investment.
**$H_{10}$:** There is no significant association between investor's Background and annual investment.
**$H_{11}$:** There is no significant association between investor's Occupation and annual investment.
**$H_{12}$:** There is no significant association between investor's Monthly Income and annual investment.
**$H_{13}$:** There is no significant association between investor's Age and Time Horizon of investment.
**$H_{14}$:** There is no significant association between investor's Age and Objective of investment.
**$H_{15}$:** There is no significant association between investor's Marital Status and Objective of investment

**Significance of the Study**

The findings and conclusions of the study provide clear picture of investment decision making and investment preferences of individual investors of Rajkot when they invest in different investment avenues. The study covers various important aspects and criteria of investment that individual investors borne in mind while taking investment decision, diversification and making different choice of investment.

Behavioural finance approach examines the behavioural patterns of investors and tries to understand how these patterns guide investment decision. Behavioural finance offers many useful visions for investment professionals and thus, provides a framework for evaluating active investment strategies for the investors.
Behavioural finance is relevant in many ways. It educates investors about how to avoid biases, designing long term and short term strategies to exploit biases, and being aware that decision makers in financial markets are human beings with biases.

**DATA ANALYSIS:**

**1. Demographic Profile**

| No. | Characteristic/Variable | Proportion of respondents in sample profile | | | |
|---|---|---|---|---|---|
| | | Highest | Percentage (%) | Lowest | Percentage (%) |
| 1. | Gender | Male | 60 | Female | 40 |
| 2. | Age | 31 to 45 | 38.5 | 61 to 70 | 7.5 |
| 3. | Marital Status | Married | 74.5 | Unmarried | 35.5 |
| 4. | Background | Urban | 71 | Rural | 29 |
| 5. | Educational Qualification | Post Graduate | 38 | HSC | 12.5 |
| 6. | Occupation | Service (Private Sector) | 23 | Any Other | 16 |
| 7. | Monthly Income | Up to 25,000 | 28 | More than 1,00,000 | 11 |
| 8. | Structure of Family | Nuclear | 63 | Joint | 37 |
| 9. | No. of Family Member | 1 to 5 | 57.5 | 16 to 25 | 3 |

**2. Investment Profile**

| No. | Characteristic/Variable | Proportion of respondents in sample profile | | | |
|---|---|---|---|---|---|
| | | **Highest** | Percent (%) | **Lowest** | Percent (%) |
| 1. | Annual Saving | 25,000 to 50,000 | 32.5 | Above 1,00,000 | 20 |
| 2. | Thought for Saving and Expenditure | S = I – E | 59 | E = I – S | 41 |
| 3. | Objective of investment | Retirement | 32 | Children's Marriage | 8 |
| 4. | Annual Investment | 25,000 to 50,000 | 31.5 | Above 1,00,000 | 19.5 |
| 5. | Source of investment information | Family/ Friends | 27 | Agents/ Brokers | 8 |
| 6. | Highest Share in Portfolio | Deposits | 30.5 | Fixed income Security | 2 |
| 7. | Experience of Investment | More than 1 but less than 5 years | 39.5 | More than 10 years | 13 |
| 8. | Time horizon of Investment | Medium term | 47.5 | Long term | 20.5 |

**Hypotheses Testing**

| No. | Variable | $\chi^2_{Cal}$ | $\chi^2_{tab}$ | Result |
|---|---|---|---|---|
| 1. | **Gender and annual saving** | **0.89** | **7.815** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| 2. | **Marital status and annual saving** | **3.99** | **7.815** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| 3. | **Geographic background and annual saving** | **13.83** | **7.815** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |

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| | | | | |
|---|---|---|---|---|
| **4.** | **Occupation and annual saving** | **29.75** | **21.026** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **5.** | **Educational Qualification and Annual saving** | **16.94** | **16.919** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **6.** | **Gender and Purpose of saving** | **9.02** | **9.488** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| **7.** | **Age and Purpose of saving** | **13.74** | **21.026** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| **8.** | **Gender and annual investment** | **6.17** | **7.815** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| **9.** | **Age and annual investment** | **44.67** | **16.919** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **10.** | **Background and Annual Investment** | **9.93** | **7.815** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **11.** | **Occupation and Annual Investment** | **29.69** | **21.026** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **12.** | **Monthly Income and Annual Investment** | **70.10** | **21.026** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **13.** | **Age and Time Horizon of Investment** | **8.43** | **12.592** | $\chi^2_{Cal} < \chi^2_{tab}$ **$H_0$ accepted** |
| **14.** | **Age and Objectives of Investment** | **24.90** | **21.026** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |
| **15.** | **Marital Status and Objectives of Investment** | **9.85** | **9.488** | $\chi^2_{Cal} > \chi^2_{tab}$ **$H_0$ rejected** |

**Findings:**

- ✓ The weighted average of the purpose of saving analysis results shows the most important purpose of saving among the respondent is children's education. As importance of education has increased in the modern era so it is found that people are more conscious about the future of their children.
- ✓ As the second rank is given to home purchase as the peoples wants to have new house in the city.
- ✓ Retirement, Health care and children's marriage are finally ranked 3rd, 4th and 5th respectively. The majority respondents are in age group of 31 to 45 so they are saving for retirement and health care purpose.
- ✓ The final rank derived from the weighted average rank analysis of objective of investment shows that the people give priority to safety of money as it can be found that the majority respondents tend to invest higher amount of money into deposits.
- ✓ The tax saving objective is ranked after the safety of money. As future plans objective is ranked 3rd, constant income and wealth creation are ranked 4th and 5th respectively, it shows the risk taking nature of people is very moderate and respondents are risk averse. It is seen that the respondents invest in the deposits, mutual funds, insurance and gold and silver.
- ✓ The weighted average rank of preference of Investment Avenue reveals that the sample respondent investors prefer risk free and low risky securities to investment.
- ✓ As deposits are given first rank it shows the risk averse character of investors. The second rank is derived for the mutual fund schemes as MFs are the tailor made for the people who do not have experience of stock market. After that commodities and precious metals like gold and silver, real estate is preferred 4th and 5th respectively, as the objective of the investors match with the avenue.
- ✓ Equity shares and fixed income securities are ranked 6th and 7th, as the earlier finding of sample respondents reveals that less people are opting to investing long term because equity shares are long term Investment Avenue.

- ✓ The majority of respondents have invested higher portion of saving in deposits and mutual funds, and in insurance thirdly which suggest the present scenario of investment in Rajkot.

## Suggestions

Based on the study, the researcher wants to offer few valuable suggestions and recommendations to the investors. They are:

- ➢ The majority respondent form saving after making expenses, they are suggested keep a fixed portion of income as saving and the remaining part they can spend for expenditures.
- ➢ To enhance the saving habits, the saving mode must attract the people and fulfilling their purpose/objectives of saving by providing attractive returns.
- ➢ It is observed that respondents are investing less money in spite of having fair income. They may change their way of thinking for savings and thereby they may increase their investment and earn extra income.
- ➢ The main source of investment information/advice is family, friends and colleagues, the persons who want to invests in stock markets should read newspapers, magazines and other special publications on investment. They may take advice from professionals like Brokers and financial advisors to mitigate the overall risk of their portfolio.
- ➢ The investor should make necessarily analysis prior investing money in new investment opportunity.
- ➢ Investors should carry out the periodical review of investment made by them and make changes accordingly with a view to increase their portfolio return.
- ➢ The investors have to identify the market situations and price fluctuations to invest in capital markets, they may use models like CAPM, APT, Single index model etc.,
- ➢ The investors who are risk averse may invest their income in hybrid investment avenues like mutual funds and ETFs which are less risky compare to derivatives.
- ➢ The investors should invest a reasonable part into liquid security so they can meet any future contingency.
- ➢ The findings show that the majority respondent's portfolio consists of higher portion of income invested deposits which show risk averse character of the respondents.
- ➢ Investors may start to diversify their portfolio by taking moderate risk as taking more risk may compensate by increasing their portfolio income.
- ➢ The absence of investment in higher income securities because of the lack of proper information and awareness of instruments like equity shares and derivatives, Investor Education and Protection Fund (IEPF) can prepare awareness material and can develop awareness campaigns for reducing illiteracy of modern investment avenues among investors. The factors that influence the investment can be considered while developing the design of the campaigns. According to the results of this study, there is more irrationality among rural investors and thus it calls for the requirement of more awareness campaigns among rural investors.

Looking the Findings, regulatory authorities like SEBI, IRDA and Ministry of Finance needs to organise training and awareness campaigns/programme for improving the financial knowledge.

## CONCLUSION:

The inferences drawn and evidences obtained from the present study endeavour when examined against the objectives of the study brings out to the fore certain interesting as well as useful conclusions. Every study necessarily serves two basic purposes. Firstly, it helps expansion of the existing knowledge about the phenomenon. Secondly, the new knowledge derived is put into practical applications by some segments of society. Viewing from these two perspectives, this study is also no exception.

The various demographic factors influence to savings and investment of the individual investors. Investors' psychology affects the risk taking decision, if they are taking higher risk than they are compensated with high returns. Among that age, geographical background, educational qualifications, and occupations have significant association in saving and investment. So aged people tend to invest in safe compare to youngsters and middle age class. Urban respondents save comparatively high than that of rural. The other factors which also frame the investor's behaviour are investor's psychology, understanding about the financial markets and risk taking ability.
Thus, the study gives the positive outcome about the investors of Rajkot city and shows the immense character of risk averse of the respondents.

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