

# A CHANGING FINANCIAL INVESTMENT BEHAVIOR OF HOUSEHOLDS

## (A CASE STUDY OF BARAMULLA TOWN)

Mohammad Altaf\*

### ABSTRACT

Indian capital markets have been highly hectic to receive large volume of funds both from the domestic as well as oversea front. During this time, traditional investment like, banking has seen quite a good amount of dilution as returns provided by the security markets outplacated the return offers of those conventional bankers. Another reason being that security markets during the past many years were developing and were seen trying to become more efficient facilitating flow of information with much ease and at almost free of cost enabling investors to take independent decisions and evaluate their returns and the performance of investments in these markets. All these factors led to a shift in their allegiance towards banking to security markets involvement which provided comparatively better investment appreciation and returns. Therefore this paper is an attempt to undertake the analysis of saving and investment pattern of Households in a semi-urban set-up and to identify the factors influencing common investor's attitude and behavior. This paper is divided into three parts. Part one represents introduction, research methodology and objectives of the study. Part two review the analysis of saving and investment pattern of Households in a semi-urban set-up and identify the factors influencing common investors' attitude and behavior. The analysis in this paper is qualitative as well as quantitative. This study is based on information obtained from primary sources. Final and third part includes conclusion and findings of the study.

**KEYWORDS:** *Investment, Preferences, Capital Market, Savings, Income.*

---

**\*Faculty Member, Department of Commerce and Management Studies, Govt.Degree College Sopore, Kashmir-193201**

## INTRODUCTION

The recent turmoil in the US financial markets marked by a contagion effect upon global markets has greatly influenced the behavior and outlook of common masses towards investment of their savings into financial assets. Every investor is trying to review his decision as to what makes a safe place to store his savings and wealth. India is no exclusion to these happenings. Like other emerging markets, Indian markets also witnessed large shifts in investors' preferences, choices, disposition towards various investment opportunities during the last two decades.

In past many years, Indian capital markets have been highly hectic to receive large volume of funds both from the domestic as well as oversea front. During this time, traditional investment like, banking has seen quite a good amount of dilution as returns provided by the security markets outplaced the return offers of those conventional bankers. Another reason being that security markets during the past many years were developing and were seen trying to become more efficient facilitating flow of information with much ease and at almost free of cost enabling investors to take independent decisions and evaluate their returns and the performance of investments in these markets. All these factors led to a shift in their allegiance towards banking to security markets involvement which provided comparatively better investment appreciation and returns.

Until early 2007, security markets were progressing and revealed no signs of any weakness or problem. However, mid 2007 patent no signs of weakness as sub-prime mortgage crises hit American markets and thereafter security markets across all emerging economies. This also led to large shocks and crashes in Indian markets resulting in devaluation of common investors wealth held by these markets. All these events led to shocking experiments for investors who almost burnt their fingers to save their stakes. These happenings have once again largely influenced the common investors to review their investment preferences. An analysis of the trends in bank deposits and investment in capital market securities reveals how shifts in investors preferences marked by the change in financial markets resulted in shifts of funds from credit markets (dominated by banks) to securities markets (dominated by corporates) from time to time. Similar to every financial market, savings in India are contributed by households, corporates and

Govt. Among all these, household represents a major segment of investible funds. The recent developments in financial markets characterized by financial reforms, extensive use of technology, introduction of sophisticated financial instruments has made them more dynamic and capable to deliver financial information to the common masses at much faster speed and convenience. As a result of this, investor's preferences, habits, perceptions are spontaneously under the influence of happenings in financial markets and the spontaneously flowing information turning them into a highly sensitive trading point for money and savings.

### **OBJECTIVES OF THE STUDY**

To undertake the analysis of saving and investment pattern of Households in a semi-urban set-up.

To identify the factors influencing common investors attitude and behavior.

### **RESEARCH METHODOLOGY**

The current study shall be restricted to the households only. To achieve this objective, data has been collected from primary sources with the help of structured questionnaire (Annexure A). Accordingly 100 questionnaires were distributed randomly in some selected areas of Town Baramulla like Jadeed Mohalla and KanliBagh in the Month of March 2014. Care has been taken that the respondents are from a cross section of the society and they vary in terms of age, education, gender, occupation, status and income as these demographic characteristics have considerable influence on investment decisions of the households.

### **DATA ANALYSIS**

<i>Age Group</i>	<i>20-30</i>	<i>31-45</i>	<i>46-55</i>	<i>55 Above</i>
<i>Analysis</i>	<i>5%</i>	<i>30%</i>	<i>50%</i>	<i>15%</i>

The survey has been target mostly at family heads generally responsible for influencing the saving and investment activity in their individual families. Majority of the respondents fall beyond the age group of 30 years. However a low share about 5% falls between 20-30 years category. Households aging more than 45 years rank for highest among sub category. As, such survey represents a balanced mix of respondents in various age categories.

<i>Occupation Class</i>	<i>Service Class</i>	<i>Professionals</i>	<i>Self-employed</i>	<i>Retired</i>
<i>Analysis</i>	48%	20%	20%	12%

The occupation structure of the sample households emerged as a result of the given survey is depicted through above chat. Almost, half of the respondents represent service class engaged in salaries employment. An equal portion is shares by professionals and self-employed leaving half a quarter share to retired households. Majority of the respondents representing salaried class generally are familiar to the nuisances of investment.

<i>Investment Savvy</i>	<b>Yes</b>	<b>No</b>
<i>Analysis</i>	86%	14%

It is evident from the survey response that majority of the population is well aware about financial investment choices offered to them. The main reason appears to be fast expanding technology and the sufficiency of markets participants to process and make available financial information at a cheaper cost than ever before.

<i>Investment Decision Guide</i>	<i>Market Financial Information</i>	<i>Expert Advice</i>	<i>Market Rumors</i>	<i>Speculative Behavior</i>

<i>Analysis</i>	35%	30%	16%	19%
-----------------	-----	-----	-----	-----

An in depth analysis was carried out to understand how various sources of information influence attitude of investors to frame their financial investment decisions. It was observed that market information and expert advice play a greater role in influencing investors attitude towards investment and rumors and speculative behavior driven motivate are attracting less investors. One of the reasons, why rumors and speculating seem to have given its way to decisions based on information and expert advice could be the recent collapse of equity market. People seem to be now much more cautious than to take impulsive decision as far as their safety and security of savings is concerned. It will be tried to analyses in the forthcoming paras that whether there are any considerable shifts in investors' funds from equity markets to traditional bank markets where investors need less monitoring of risk.

<i>Sources Influencing Investment decision</i>	<i>Televisions</i>	<i>Newspapers</i>	<i>Internet</i>	<i>Broking Advice</i>
<i>Analysis</i>	36%	28%	15%	21%

Growing penetration of Cable TV services aided by equal increase in number of channels transmitting business/financial information/ news is playing a great deal of influences in shaping investors preferences and follow on decision. Print media is the second force influencing on investors thinking followed by internet and brokers advice. Internet seems to replace the print media in the coming times in view of its increasing outreach through mobile phones and Television satellites.

<i>Factors influencing</i>	<i>Tax Saving</i>	<i>Capital Appreciation</i>	<i>Liquidity &amp; Current Income</i>	<i>Growth</i>
----------------------------	-------------------	-----------------------------	---------------------------------------	---------------

<i>investment decision</i>				
<i>Analysis</i>	29%	34%	17%	20%

Tax saving and long term perspective show a maximum response, it could be because of the fact that major population of the respondents fall in employment category whose investments are mostly driven by the objective of maintaining their incomes in a tax exemptions. Since almost half of the sample forms self-employed/professionals and is observed that almost an equivalent number of respondents carrying liquidity and as well as growth their criteria.

<i>Investment Currently Holding</i>	<i>Shares</i>	<i>Bank Deposits</i>	<i>Insurance</i>	<i>Others</i>
<i>Analysis</i>	2%	75%	18%	5%

The given data analysis clearly presents major segment of investments owned by Bank deposits followed by Insurance products. Bank deposits are the safest choice if equity market is gloomy or bearish prospect. A major shift is seen from equity market back to the traditional bank deposits due to recent crashes in the securities market fetching greater risk. Majority of the people are now seen taking insurance as an investment option in view of growing sophistication of insurance products.

## CONCLUSION AND FINDINGS

In present study, behavior of households towards various investment opportunities has been examined from different angles. The study has been conducted to analyses households from the perspective of their income groups, professional and non-professional status, gender and education its influence on their investment preferences. While analyzing thoroughly the response

of survey, it was found that assured yield and low risk are the predominating factors towards the investment choices. Banking sector has been dominating in attracting investors by offering investment which ensure reasonable safety and assured returns. A major shift in investors from traditional banking to equity markets also appear, despite poor and weakening performance by equity markets. These markets now present a better prospect in view of their fast adoption of reforms, better regulations and rapid inclusion of technology. All these factors have been responsible for their transparency. Above all, the ability of equity markets to cater to the information needs of its participants have developed at a wonderful pace. Many people now seem comfortable in interacting with these markets to benefit from supplementing their investment decisions with the financial information these markets serve.

Finally, some of the vital findings of the study are enumerated here;

1. Bank deposits received much attention because of assured yield, safety and risk free nature.
2. Household leadership is still dominated by males being heads of the families, although growing tendency of dual careerism and adoption of home based or micro type enterprises among female counterparts.
3. Majority of the population as per the survey falls under middle class income group category.
4. Growing trend of investment in equity markets, despite their abysmal performance in the wake of global slowdown and recession.
5. Visual media/ Television most common and ideal source of information provider to investors followed by print media. Internet a fast growing source likely to outpace other traditional mass media sources.
6. Large attraction of investors towards medium term horizon expecting current income and tax shield.

**REFERENCES**

1. Agnew, J., P. Balduzzi, and A. Sundén (2003), "Portfolio Choice and Trading in a Large 401(k) Plan." *The American Economic Review*. 93: 193-215.
2. Alpert, M. and H. Raiffa (1982), "A Progress Report on the Training of Probability Assessors," in D. Kahneman, P. Slovic, and A. Tversky, eds., *Judgment Under*
3. *Uncertainty: Heuristics and Biases* (Cambridge University Press), 294-305. Anderson, A. (2008), "Trading and Under-Diversification," working paper, Institute for
4. *Financial Research*, Stockholm. Andrade, S.C., C. Chang, and M.S. Seasholes (2008), "Trading Imbalances, Predictable
5. *Reversals, and Cross-Stock Price Pressure*," *Journal of Financial Economics* 88:406- 423.
6. Badrinath, S.G. and W.G. Lewellen (1991), "Evidence on Tax-Motivated Securities Trading Behavior," *Journal of Finance* 46:369-82.
7. Barber, B.M., Y. Lee, Y. Liu, and T. Odean (2007), "Is the Aggregate Investor Reluctant to Realize Losses? Evidence from Taiwan," *European Financial Management* 13:423-447.
8. Barber, B.M., Y. Lee, Y. Liu, and T. Odean (2009), "Just How Much Do Individual Investors Lose by Trading?" *Review of Financial Studies* 22:609-632.
9. Barber, B.M., Y. Lee, Y. Liu, and T. Odean (2011), "The Cross-Section of Speculator Skill: Evidence from Taiwan," Available at SSRN: <http://ssrn.com/abstract=529063>.
10. Barber, B.M. and T. Odean (2000), "Trading Is Hazardous to Your Wealth: The Common Stock Investment Performance of Individual Investors," *Journal of Finance* 55:773-806.
11. Barber, B.M. and T. Odean (2001), "Boys Will Be Boys: Gender, Overconfidence, and Common Stock Investment," *Quarterly Journal of Economics* 116:261-292.
12. Barber, B.M. and T. Odean (2004), "Are Individual Investors Tax Savvy? Evidence from Retail and Discount Brokerage Accounts," *Journal of Public Economics*, 88, 419-442.