Determinants of Investment Behaviour of Individual Investors in Bihar

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Abstract

The development of any economy depends on healthy savings and proper allocation of capital for the developmental activities of any country. The reduction of disposable income increases the saving potential of individuals. The avenues of investment and the investor's opinion based on their preferences vary from person to person. Liquidity and safety play a major role in the investment decision. Now related studies related to household investments are emerging and their investment behaviours are considered important to enhance the savings of the economy. So, it is essential to understand the investment behaviour of individuals as it forms the base for the development of the economy. If the savings and investment behaviour among the people is good, it is a symptom for the development of both the capital market and money market and the economy. The main aim of every individual is to get a higher return with minimum risk. Based on the factors like, risk appetite, investment diversification, and demographic profiles of the investor, this study seeks to discover differences in investor perspectives toward the factors impacting investment decisions. This study aims to identify and analyze the factors that influence the investment decisions of individual investors in in Bihar.

***Key words**: Aggressive Investors, Conservative Investors, Individual Investors, Investment Decisions, Moderate Investors.*

Introduction

In the capital market "investors" are the backbone. India is developing economy; it is essential for emergent amount of saving movements to corporate enterprises. India has gradually increased equity market participation of the retail investors over the past few decades.

Investment is used for productive purposes, and it has a great prominence for being the crucial instrument for economic growth and development of a country. There are many investment avenues are opened today, some of them are direct equity, commodity and derivatives, debt, mutual fund, real estate and gold. Some of the investment instruments are highly risky whereas others are riskless. The investors select the investment avenues depending upon their particular need, return expected and risk appetite. The Behaviour of investors are influenced by many factors during the rational selection of investment such as attitudes, awareness, perception and willingness. An investor is a person who sacrifices the present in order to earn the benefit for the future. The benefits in the form of dividends, capital appreciation, retirement benefits, bonus and other benefits. Sometimes individual investors choose irrational decisions about their investment.

Investment Behaviour

Investment behaviour refers to the attitudes, perception and willingness of the individuals and institutions in placing their savings in various types of financial asset. An investor is a person who sacrifices the present in order to reap the benefits for the future. The benefits may be in the form of capital appreciation, income in the form of dividends, bonus, retirement benefits & many other benefits.

Generally, investor’s objectives may be one of the following:

- **To maximize of return**
  Investors always expect a higher rate of return from their investments. Rate of return could be defined as the total income the investor receives during the holding period expressed as a percentage of the purchasing price at the beginning of the holding period. To maximization of returns.
- **To minimize the risk**
  Risk of holding securities is related with the probability where actual return is less than expected return. Investment’s risk is as important as measuring its expected rate of return because minimizing risk and maximizing the rate of return are interrelated objectives in the investment management. An investment whose rate of return varies widely from period to period is riskier than whose return that does not fluctuate much. Every investor likes to reduce the risk of his investment by proper portfolio of different securities.

- **To hedge against inflation**

  Since there is inflation in almost all the economy, the rate of return should ensure coverage against the inflation. The rate of return rate should be higher than the rate of inflation; otherwise, the investor will have loss in real terms on their investment. The return thus earned should assure the safety of the principal amount, regular flow of income and be a hedge against inflation.
- **Liquidity**

  Marketability of the investment provides liquidity to the investment. The liquidity depends upon the marketing and trading facility of investments. If a part of the investment could be converted into cash without much loss of time, it would help the investor meet the emergencies which arises. Stocks are liquid only if they pose good market by providing adequate return through dividends and capital appreciation.

Type of Investors

Based on the risk tolerance level, investors can be classified into:

- **Conservative investors**: Conservative investors shall take lower risks and is basically risk adverse investors. The conservative investor's basic motto is safety of the capital. He accepts minimal risks and i hence, prepare to receive minimum or low returns on the capital. Investors with such profile should allocate most of their money into fixed-income and money-market products.
- **Moderate investors**: Moderate investors are willing to take slightly higher risks as compared to conservative investors for a moderate level of return. Investors with this profile can allocate their money in debt as well as hybrid products like mutual funds, ULIPs etc. so that they can earn a moderate level of income by taking moderate risks.
- **Aggressive investors:** Aggressive investors are prepared to assume a high level of risk with the expectation of getting higher rate of return for over a period of 3- 5 years. Such investors can make their savings in risky assets like equity, real estate etc. These instruments yield a high rate of return with a high degree of risk attached there within.

Review of Literature

In the capital market "investors" are the backbone. India is developing economy, it is essential for emergent amount of saving movements to corporate enterprises. India has gradually increased equity market participation of the retail investors over the past few decades. Investment is used for productive purposes, and it has a great prominence for being the crucial instrument for economic growth and development of a country. **Anuradha and Anju (2015)** found that the proper behavioural strategies investors can increase personal wealth which will contribute to higher economic growth. There are many investment avenues are opened today, some of them are direct equity, commodity and derivatives, debt, mutual fund, real estate and gold. Some of the investment instruments are highly risky whereas others are riskless. The investors select the investment avenues depending upon their particular need, return expected and risk appetite. **Lubna and Moid (2013)** found the investor's mindset not the same when they choose to be investing in a specific investment instrument.

The Behaviour of investors are influenced by many factors during the rational selection of investment **Von Neumann, and Morgenstern (1953)**, such as attitudes, awareness, perception and willingness. An investor is a person who sacrifices the present in order to earn the benefit for the future. The benefits in the form of dividends, capital appreciation, retirement benefits, bonus and other benefits. Sometimes individual investors choose irrational decisions about their investment **Barberis & Thaler (2003)**. **Kim & Nofsinger (2003)** examine the individual investors in the Japanese markets, found that overall, the poor performance by individual investors can largely be explained by this tendency to hold value stocks during advancing markets and high-risk stocks during a declining market. **Lim (2004)** found that a psychological error called mental accounting is likely to play a significant role in investors trading decisions.

Gupta (2001) found that investors' perception changed from shares to risk-less bond. Investors believe that investing in shares safer than investing in bonds. The bondholder earning a higher income than the shareholder. The researcher suggests that investors' confidence are weakness due to corporate governance levels and volatility of secondary market operation.

Singh (2006) examined 400 investors to identify the level of preference of various investment avenues. The researcher identified mutual funds seems the lowest preference by most of the investors.

Sahni (2010) applied behavioural finance theories on Indian investors. The study found that the past performance of a stock market operation for three consecutive days is more influenced by market volatility, indicates that the Anchoring theory is appropriate for India investors. It also found investors perception is various in time to time, based on profit/loss. **Sharma et al. (2013)** studied gender effects on risk aversion and overconfidence in investment decision making. The authors have found female are more conservative than their male counterparts in terms of risk aversion. In terms of overconfidence, they could not reach to any conclusion with certainty because research has shown mixed results.

Priyanka Zanvar (2016) had carried research to put up light and focus on Investment patterns and savings. The main concept of investment strategies has been focused and explained in this paper. The sample of the study is limited to the Age group of 18 to 25 years youths which must be and which are interested in investing. The Area of research has been selected from Pune. The data has been collected through a structured questionnaire distributed to 770 youths from different socio-economic classes in Pune. This data analysis has been done through one way ANOVA. The paper has been concluded that the Analysis done showed that there is a significant difference in safer investment and risky investment avenue.

Bhayani and Patankar (2016) had studied and had carried out research on a comparative analysis of investment behaviour of urban and rural investors. The main concept of comparison of investors behaviour with respect to currently available investment alternative factors such as returns, Risk, etc. was explained in this paper. The sample is been selected from urban and rural investors. The area of research has been selected from Nashik. The data has been collected by doing a primary survey of urban and rural area investors. The paper Revealed that there was a difference in investment behaviour of urban and rural investors in terms of risk-taking level and choosing investment avenues.

Popat (2018) has main focus on the rural and urban investor's. The concept of financial knowledge and sensibility of urban and rural investors towards risk and returns of different investment avenues is been explained in this paper.

The sample size of the study is urban and rural youth investors. The area of research is selected from Gandhinagar. A questionnaire was prepared administered to 100 rural and 100 urban investors. They concluded that perception of rural investors is faced towards less risky and moderate return avenues and urban investors are towards high risk and high return options.

Saikia (2018) has main focus on the savings and investment pattern of college going students who have just begun to earn. The main concept of awareness of Investment among the youths and risk-taking capacity was explained in this paper. The sample size of the study is limited to the students belonging to the age-group of 18-25 years. The area of research is selected from colleges of Mumbai. A questionnaire was prepared to collect primary data for data analysis of college going students. This paper concluded that most of the young investors were aware about the investment options but were not sure about how to go about it in newer ways , Returns on investment was the most considered factor followed by risk and also that the safety and security are still influential in determining the direction of investment.

Kumar (2018) had carried out research on the pattern of individual investor's investment. Their strategies while investing and their expectations from the investment made by them. The main concept of investing strategies and expectations from investment done by them is been explained in this paper. The sample is been limited to certain age group and individuals of different occupations. The area of research has been selected from Hyderabad. The data has been collected by doing a primary survey of 250 individual of different age group and different occupations. The paper concluded that the age difference and different occupations of individual effects their strategies and expectations towards investments.

Kaur (2019) had flashed light on the investment behaviour and choice of investors on various alternatives and the risk taking level of involvement of each investors. The main focus area ofthis concept was on choice of an individual investors and that was explained in this paper. The samplesize of study is limited to age group. The area of research has been selected from Delhi and Noida. This study was based on primary survey of 300 individual response of ICR, Delhi and Noida.

Ansari (2020) has main focus on relating Investment and savings. The concept of reason of investment is been explained in this paper. The sample size of the study is salaried employees.

The area of research is selected from Pune. A questionnaire was prepared for data analysis of a salaried people. This paper concluded that the respondent's investment in different investment Avenues to get good returns and mostly use it for their future safety and also concluded that the Investment and savings should go hand in hand as an investment can be done only if one has savings and savings can be done with the returns we get on Investment.

A significant amount of research has been carried out both within and outside the country on investment behaviour. It has been observed from the review of literature that most research works are carried out to find saving habits, risk tolerance and the factors influencing investment decisions. However, there are hardly studies to find the knowledge of investors on investment avenues. Thus, this study is designed as an extension to the existing body of knowledge and fills the gap for analyzing the individual investment behaviour.

Determents of Investment Decision

Several factors can significantly influence an individual's investment decisions. These factors can be broadly categorized into economic, financial, psychological, regulatory, and demographic factors. Let's explore each of these factors in detail:

1. **Economic Factors:**

(a) *Market Conditions:* The overall state of the stock market, bond market, and other investment markets can impact investment decisions. Bullish or bearish market trends, volatility, and market cycles can influence investor sentiment and risk appetite.

(b) *Interest Rates:* Changes in interest rates can affect investment decisions, particularly for fixed-income investments. Higher interest rates can make bonds more attractive compared to stocks and vice versa.

(c) *Inflation:* The rate of inflation erodes the purchasing power of money. Investors need to consider inflation when making investment decisions to ensure their investments can outpace inflation and generate real returns.

(d) *GDP Growth:* Economic growth indicators, such as GDP growth rates, can influence investment decisions. Higher GDP growth often correlates with increased business activity and potential investment opportunities.

(e) *Industry Performance:* The performance of specific industries or sectors can impact investment decisions. Investors may choose to allocate their investments based on the growth prospects and profitability of different industries.

2. Financial Factors:

(a) *Risk and Return:* Investors evaluate the risk and potential return of different investment options. The risk-return trade-off influences their asset allocation decisions and risk tolerance levels.

(b) *Financial Goals:* Personal financial goals, such as retirement planning, education funding, or purchasing a house, influence investment decisions. Investors align their investments with their long-term financial objectives.

(c) *Time Horizon:* The investment time horizon affects the choice of investment vehicles. Short-term goals may require more conservative and liquid investments, while long-term goals may allow for higher-risk investments.

(d) *Diversification:* Investors consider diversification to manage risk. Diversifying across asset classes, industries, and geographies can help reduce exposure to specific risks and enhance portfolio stability.

(e) *Investment Costs:* The costs associated with investments, such as transaction fees, management fees, and taxes, can impact investment decisions. Investors assess the impact of costs on their overall returns.

3. Psychological Factors:

(a) *Risk Perception:* Investor's perception of risk influences their investment decisions. Some investors may have a higher tolerance for risk, while others may be more risk-averse. Understanding one's risk appetite and risk perception is crucial in making appropriate investment choices.

(b) *Cognitive Biases:* Cognitive biases, such as overconfidence, confirmation bias, and loss aversion, can affect investment decisions. These biases may lead investors to make irrational choices or deviate from their investment plans.

(c) *Emotional Factors:* Emotions, such as fear, greed, and herd mentality, can influence investment decisions. Investor sentiment and market psychology can impact the buying and selling behaviour of individuals.

4. Regulatory and Policy Factors:

(a) *Regulatory Frameworks:* Laws, regulations, and policies governing investments can impact investor behaviour. Regulations related to disclosure, investor protection, and taxation can influence investment decisions.

(b) *Tax Policies:* Tax considerations play a role in investment decisions. Investors evaluate the tax implications of their investments, such as capital gains taxes or tax-efficient investment vehicles.

(c) *Government Interventions:* Government interventions, such as fiscal policies, monetary policies, or economic stimulus measures, can have an impact on investment decisions. Changes in government policies can create opportunities or risks for investors.

5. Demographic Factors:

(a) *Age:* Different age groups have varying investment goals and risk tolerances. Younger individuals may have a longer time horizon and a higher risk tolerance, while older individuals may prioritize capital preservation.

(b) *Income:* Income levels influence investment decisions. Higher income individuals may have more funds available for investment and may have different investment preferences.

(c) *Education and Knowledge:* Financial literacy and investment knowledge affect investment decisions. Investors with higher education levels and knowledge about financial markets may make more informed choices.

(d) *Investment Experience:* Past investment experiences and knowledge gained from previous investments can impact decision-making. Positive or negative experiences can shape future investment decisions. Understanding and considering these factors can help individuals make informed and optimal investment decisions. It is important for investors to assess their own goals, risk tolerance, and circumstances while evaluating these factors and seeking professional advice if needed.

Conclusions

The study on factors affecting investment decisions has yielded valuable insights into the multitude of determinants that significantly influence investor behaviour and decision-making processes. By thoroughly examining economic, financial, psychological, market-related, regulatory, and demographic factors, this study has illuminated the intricate dynamics that shape investment choices.

The findings have underscored the importance of various factors in investment decision-making, including economic indicators, market conditions, psychological biases, regulatory frameworks, tax policies, government interventions, and demographic characteristics. Moreover, the study has highlighted the pivotal role of risk perception in investment decisions, demonstrating how factors such as market volatility and individual risk tolerance levels shape investors' assessment of risk. Furthermore, the research has shed light on the impact of investor behaviour, revealing the influence of cognitive biases, emotions, and heuristics on investment choices. The study has also emphasized the significance of financial literacy, indicating that a higher level of financial knowledge positively affects investment choices, risk management strategies, and portfolio diversification. Lastly, the research has examined the impact of market trends and macroeconomic factors on investment decisions, emphasizing the role of interest rates, inflation, GDP growth, industry performance, and market sentiment. The insights derived from this study can guide the development of strategies, tools, and educational initiatives aimed at enhancing investment decision-making, improving financial outcomes, and informing policymaking to foster a conducive investment environment.

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