

A Study on Factors Influencing Investment Decision Regarding Various Financial Products

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ABSTRACT

In the current era of financial inclusion, digitalization and economy driving towards a faster pace, the investors are very much concerned about their savings which can be transferred into investments. The main purpose of investment is to maximize the returns out of it with minimum expenses and risk. There are various factors which affect the investment decision like demographic factors and behavioural biases which decides the type, tenure, amount of the investment. This paper explores that return, advice, tax benefit, liquidity risk appetite of the investors altogether plays a significant part in influencing the investors. Is there any impact of demographic factors like age, gender and income on factors influencing investment decision tried to find out. The results show that factors influencing the investment decision are influenced by income level not by age and gender.

KEYWORDS: Financial Inclusion, Digitalization, Behavioural biases, Investment decision

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INTRODUCTION

Investments are a vital part of everyone's life. It is bound that for the smooth flow of economic investments in various categories is very important. In the current scenario, there is a varied range of assets and financial products which are available for the financial purpose. There are two types in which the investment products fall into financial and non-financial assets. Financial assets can be divided into market-linked products like stocks, bonds and mutual funds and fixed income product like bank fixed deposits. There are non-financial assets in which most Indians invest via Gold and Real Estate. Also, investments in pension plan, life insurance, employee savings programme, post office saving schemes, etc. are done as a plethora of products are available in the market which serves the masses and niche market also.

Not all investment decisions are profitable as the decisions taken by the investors not always tend to be right. The results of the choice of investors are the driving force to make them invest. The basis of the investment is the knowledge of the available products and their risks and returns. With the available funds to invest there also arises the need to diversify the funds and make a portfolio. The choice of the portfolio of the investments is influenced by the various factors depending upon the investor. The demographic, psychological, behavioural and the other various features are responsible which affect the investment decisions.

As in today's fast-moving life, most of the investors want to make investments in such a way that they get sky-high returns as fast as possible without the risk of losing the principal money. This is the reason why many of the investors are always on the lookout for top-notch investment plans where they can double their money in fewer months or years with little or no risk. Also, it is a fact that investment products that give high returns with low risk do not exist.

So during selecting an investment avenue, the proper match of the investors' risk profile with the risks associated with the product is done before investing. Some investments carry high risk but have the potential to generate high inflation-adjusted returns than other asset class in the long term while some investments come with low-risk and therefore lower returns.

Literature Review

Eva Hofmann, Erik Hoelzl, Erich Kirchler (2008) describes how the moral decision making the financial markets incorporates the moral considerations into investment decisions as some of the rational decision theorists argue that the moral considerations would introduce inefficiency to investment decisions. Also there, is an increase in the market demand for socially responsible investment and also it suggests that investment decisions influence both financial and moral considerations.

N Geetha, M Ramesh (2012) explained the importance of various demographic factors such as gender, family size, savings, occupation and income over various factors of investment decisions like period of investment, priorities based on characteristics of investments, frequency of investment, reach of common source and analytical abilities. A study was conducted in Nagapattinam of Tamil Nadu and the results were deduced using statistical tools. It reveals that the demographic characteristics have a very prime influence over some of the investment decision elements and insignificant in other elements too.

Jain & Agrawal (2013) explained that the major impetus for financial innovation has been globalization of financial systems, deregulation, and great advances in technologies. In increasingly integrated financial systems facing higher volatilities, more competition and wide varieties of risks, financial innovation has become an essence to provide new products and strategies to better suit different circumstances of time and market and to meet different requirements of participants in financial system. This paper studies about financial innovation in banking in India. It also highlights the benefits and challenges of innovative banking trends.

Arathy B, Aswathy A Nair, Anju Sai P, Pravitha N R (2015) conducted research aims to find out the various factors which affect the investment decision on mutual funds and its preference towards retails investors. The major factors which influence the investment decisions include tax benefits, price, high return and capital appreciation. It states that equity-based schemes are preferred the most. The bitter past experiences are the major hindrance which people consider before taking investing decisions. Also, the investors' satisfaction regarding mutual fund is rated to average.

Mrunal Joshi (2017) found that factors like price earning ratio and earning per share are given prime importance as compared to liquidity, the company's prestige, and market share. As taking into considerations, the macroeconomic environment global economic condition and FII flow are crucial for the investors while investing in the market.

Mahalakshmi T. N, Anuradha N (2018) explained that irrational behaviour of the individuals causes the existence of Behavioural Finance which focuses on finding out the reasons for the irrational behaviour. Behavioural factors include familiarity, overconfidence and Anchoring bias influences the decision making of an individual. Along with these, an individual is also influenced by external factors such as the level of engagement and spouse effect, which has not been explored earlier.

Research Objectives

1. To find the preferences of different financial products which are available for investment.
2. To find out various factors which affect investment decisions.
3. To find out the influence of demographic profile like Age, Gender and Income level on factors influencing investment decision.

Research Methodology

The research is empirical, since it is empirical research, a survey was conducted in the area of Ahmedabad district. The data were collected through a structured questionnaire based on an individual survey with a sample of 166 respondents. The non-probability convenience sampling method has been used in the research. A questionnaire was designed according to the objectives and study variables. The questionnaire was prepared with questions that help to know the products in which the respondents prefer to invest and also the factors which influence the investment decisions. The questions were designed to know the preferred period of the investment and the frequency of investment which the respondents decide to lock in their funds. The statistical tools such as Chi-Square, Pie charts, Percentages are used to analyze the data. Based on the above objectives the following hypothesis was framed:

- H1: Age group influences the factor behind the investment decision of investors.
- H2: Gender influences the factor behind the investment decision of investors.
- H3: Income influences the factor behind the investment decision of investors.

Table no. 1 Profile of Respondents

Sr. No.	Demographic Parameter	Category	No. of respondents	% of respondents
1.	Age	Below 20 years	06	4
		21-35	86	52
		36-50	41	25
		51-65	29	17
		Above 65	04	2
2.	Gender	Male	92	55
		Female	74	45
3.	Qualification	Under Graduate	34	20
		Graduate	70	42
		Post Graduate	58	36
		Others	4	2
4.	Occupation	Student	36	22
		Professional	44	27
		Businessman	38	23
		Housewife	29	17
		Others	19	11
5.	Income	<2,50,000	59	36
		2,50,000 - 5,00,000	52	31
		5,00,000 - 10,00,000	41	25
		Above 10,00,000	14	8

Source: Survey

From the above table, it is analysed that the maximum number of respondents (81%) are from the age group between 21-35 years. Out of the total respondents, 45% of respondents are female and 55% of respondents are Male. According to qualifications 34 respondents are Under Graduate, 70 respondents have Graduated, 58 respondents possess Post Graduate and 4 respondents have done other courses. According to the level of income, 59 respondents have annual income which is less than 2,50,000, 52 respondents have an annual income between 2,50,000 to 5,00,000, 41 respondents have an annual income between 5,00,000 to 10,00,000 and 14 respondents have annual income which is more than 10,00,000.

Table 2: Preferences of Financial Products

Sr. No.	Financial Products	No. of responses
1.	Fixed Deposit	139
2.	Mutual Funds	60
3.	Life Insurance	62
4.	Shares and Bonds	41
5.	Post Office Deposits	37
6.	Other	3

Source: Survey

From the above table it is analysed that from the 166 respondents, majority of the respondents prefer to invest in Fixed Deposits. Investor prefers to choose traditional investment option irrespective of low return.

Table No.3 Factor Influencing Investment decisions

Factors influencing investment decisions	No. of respondents
Tax Benefit	28
Liquidity	34
Return	117
Advice/Recommendations of Consultancy, family and friends	89

Source: Survey

From the above table it is analyzed that from the 166 respondents, 117 respondents make their investment decisions based on the return yield by investment. The advice/recommendations of consultancy, family and friends also play an important role 89 respondents make their decisions based on it. The liquidity of the funds is also a factor which influences the investment pattern and 34 respondents invest due to this and 28 respondents consider investing their funds as to take tax benefits.

Response Analysis

This section analyses that factors influencing investment decisions associated with demographical factors like age, gender and income level or not. To know the effect of a demographic factor on identified factors, Pearson's chi-square test has been used, the result of which can be summarized as follows:

Table 4 Statistical Test Results

Demographic Parameter	P-Value	Result
Age and factor influencing investment decision	.114	(Null Hypothesis is accepted)
Gender and factor influencing investment decision	.127	(Null Hypothesis is accepted)
Income Level and factor influencing investment decision	.02	(Null Hypothesis is rejected)

Source: SPSS output

Here, the null hypothesis (H_0) is there is no effect on factor influencing on investment decision through demographical factors like age, gender, and income level and the alternative hypothesis (H_1) is there is an effect on factor influencing on investment decision through demographical factors like age, gender, and income level. If the level of significance i.e. $p < 0.05$, then we reject null hypothesis otherwise accept it.

Conclusion

The study concludes that investment decisions are influenced by certain identified factors like return, advice and recommendations, liquidity and tax benefit. These factors are significantly influenced by only income not by gender and age. The degree of risk taken by the investors is dependent on income. As the income increases the risk profile of investor should be more.

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