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A Study on Investment Preferences and Risk Perception of Individual Investors

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ABSTRACTS

In the environment, every individual tries to save his income and tries to invest it to get a regular or higher value from that investment over a longer period. The investment objective of every individual changes due to many factors like education, knowledge and awareness, responsibilities, etc. The main motive of this study is to evaluate how decisions relating to investment and preference of risk to be carried on the investment differ due to various factors and how it changes according to that investing person.

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1. INTRODUCTION

In this new era, trying to save and invest money is a general tendency of an individual. Each person whether he is in a high-income group or low-income group, from any profession, of any gender and age, investing is done every person. And there are various options of investments, like old and traditional options like investments in land, precious metals like gold and silver, Bank deposits, LIC, and Post Office schemes. And there are some modern modes of investment like Mutual Funds, equity markets, derivative markets, etc. are getting popular due to changes in technology and knowledge provided by institutions, individuals, new age entrepreneurs, etc. (Capon *et al*., 1996).

Due to the increasing cost of living, inflation, and decrease in the returns provided by these traditional modes of investment, the popularity of Bank FDs, LIC, and Post Office schemes, investment in gold is decreasing and investors are getting attracted to riskier options like stocks, bonds, cryptocurrencies, etc. With the proper knowledge, and experience of these markets individual investors can get higher returns than the current inflation rate and can make their money grow in a significant way.

In this study, we were going to test the factors/variables. we have taken to study whether does impact the investment decisions of an individual or not. In this, we were going to collect information from the people living in the singly district and going to analyze the data from then to conclude whether our hypothesis of investment preference and risk perception is getting affected with the factors to be considered in this study or not.

There are various opportunities for individual investors to manage their investments according to their risk preferences and to get the desired rate of returns. It differs from the literacy, psychological, demographic, social, and economic factors of the investor. Indian economy is consisting of safe to risky investments and also low returns to high returns investments. Several studies are:

(i) Anderson and Zeithaml (1884) attempted to study the relationship between different life cycle stages and preferred modes of investments of the investors. They have found that according to age, the preference of the investment changes due to changes in the life.

(ii) cycle of that particular investor. In the early stage, with fewer responsibilities, tends to invest in riskier options, with an increase in the responsibilities of that person, his ability to take risks decreases.

(iii) Dash (2010) attempted to study the investment pattern of the young generation of Raipur city. They found young generation is more attracted to higher returns to maximizing capital. But still, some people like to invest in safer and less risky options like bank deposits and post office deposits.

(iv) Bursztyn *et al*. (2017) concluded that there is no difference in the pattern of investment of females who are unmarried, but after marriage, the pattern changes due to the responsibilities increased for those people. They try to invest in long-term investment after marriage and adapt the future-oriented approach to investment, instead of investing in the short term.

(v) Sendilvelu and Shah (2021) in their comparative study on investment patterns of self-employed and start-up entrepreneurs, mentioned that investment patterns of start-up entrepreneurs and self-employed in terms of a financial decisions may not stand similar. A comparative study between them will help the financial advisors, fund managers and other people involved in market analysis understand their investment patterns since these are going to be the major occupations for future generations to come.

(vi) Vanitha and Saravanakumar (2019) in their study relates to the usage of gold and investment analysis based on the gold rate in India. In their studies, they have found that since the earliest time, gold is used as an investment and also a medium of showing wealth. A gold ornament consists of 70 to 95% gold and the remaining silver and copper. But for investment purposes, ornaments are not useful because of their wear and tear of it. And gold is not a great return-giving mode to invest. It is favorable only when it is passed from generation to generation only.

The objectives of this study are:

(i) To study the favorite mode of investment of individual investors.
(ii) To study investors' risk managing techniques used by them.
(iii) To study new techniques of decision-making for investment used by the investors.
(iv) To study the relation of the variables and the investment decisions of the individual investors.
(v) To study which factor attracts most the investors towards a particular mode of investment.

2. METHODS

We have used different variables to define the investment decision-making capabilities of individuals. For this, we have used the Sangli district area to get information about the investment preferences and variables of them used for the study. For this, a total of 120 sample sizes are taken by using the snowball sampling method through a questionnaire circulated through social media and internet messaging platforms to collect the data. A questionnaire includes questions related to variables in the study, current investment, the future interest of the investor, knowledge, and availability of the investment option in their surrounding area, and so on.

For the study of investment preferences and risk perception of individual investors, we were going to evaluate the following factors of the investors to analyze which factor affects the most in investment decisions. Several parameters are:

(i) Gender and Age: As per the literature review, change in age affects investment decisions. Here we are going to study the relationship between gender, age, and other variables.
(ii) Total Income: The income of that individual and the total income of the family is to be considered due to joint and participating decision-making in families. The proportion of income used for investing, and how much their expenses arebeing asked for analysis.
(iii) Size and structure of the family: Total sizeof family, number of earning members in the family, and number of depending members in the family which differentiated individual investors' decisions.
(iv) Knowledge of different modes of investment: Different modes require different knowledge, especially investment in mutual funds, equity, and derivative markets. It requires high knowledge of analyzing modes like fundamental and technical analysis.
(v) Education level: How the educational qualifications of an individual differ from his education is to be studied in this study
(vi) Risk-taking capacity: If more risk gives more return, what will be the preferred level of risk carried by different people and how will their preference will change in this condition is studied.

3. RESULTS AND DISCUSSION

Detailed results are shown in **Figures 1, 2, 3, 4,** and **5**. Data were taken, collected, and analyzed from respondents. Among a total of 120 respondents, 83 were male and the other 37 were female. The average income level of the respondents is around 25,000 to 50,000 range. The average expenses level of the respondents is around 15,000 And the average investment per month of all respondents is 5,000 to 10,000. Which gives them a 5 to 10% return per annum by investing in a long-term period.

Mostly Bank FD and gold is the main option used to invest and uses this mode because it is a safer investment and gives a decent amount of returns from investment and refers to their knowledge of investing.

But their satisfaction level from the investment is less than their current use, it’s because of the low returns received by them and they do not know other modes of investment like mutual funds, equity, and derivative market. Also, their future interest shows equity market, land, and new start-ups as a good source of investment because it gives higher returns compared to FDs and other schemes of LIC and Post.

The main motive behind switching to a new mode of investment is to get higher returns than the current. Here we can see, that the main reason behind not switching to another investment is because of knowledge. Investors lack knowledge about different investment modes like the equity market, forex investment, ULIP schemes, Mutual Funds, etc.

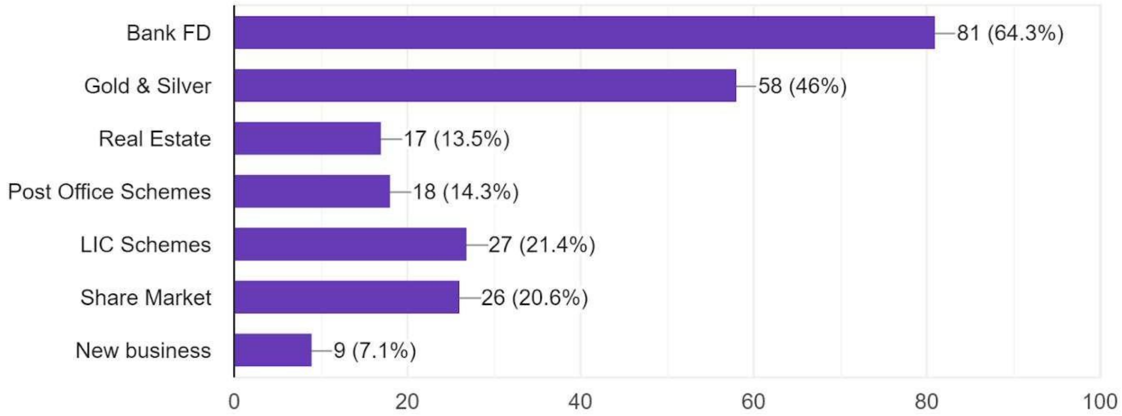

Figure 1. Data showing current investment options used by the investors.

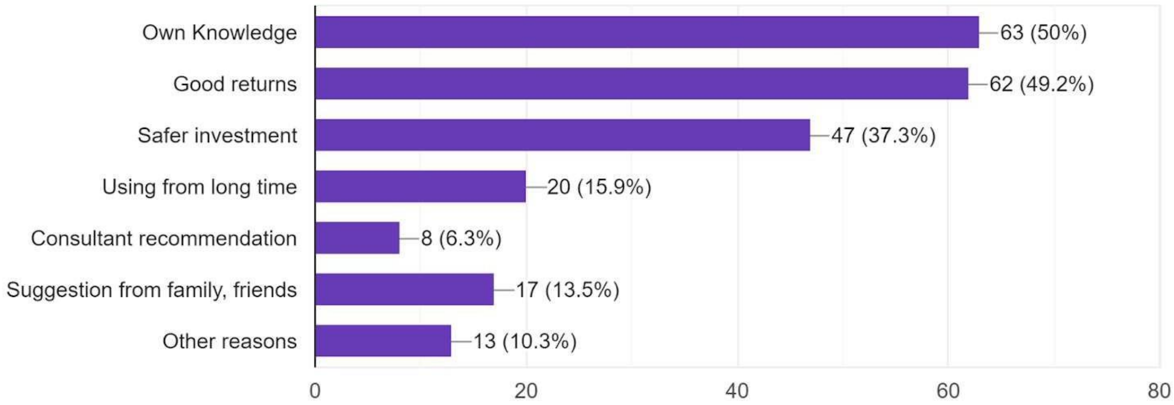

Figure 2. The reason behind using the investment option.

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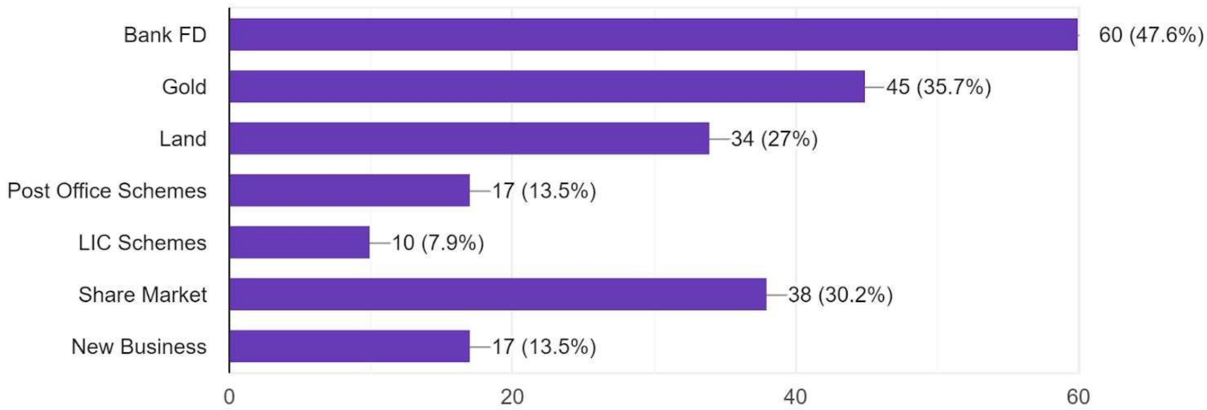

Figure 3. Attraction towards investment options compared to current investment preference.

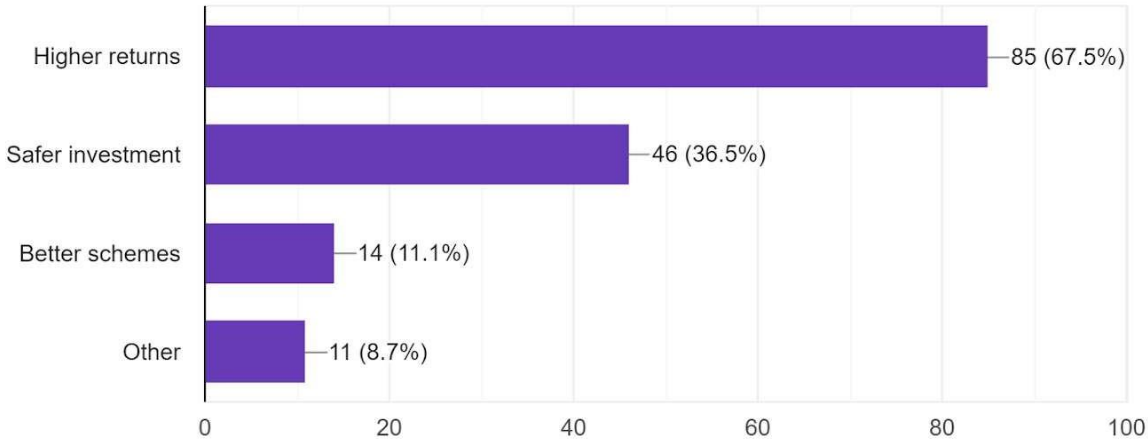

Figure 4. Motive behind changing the current investment preference.

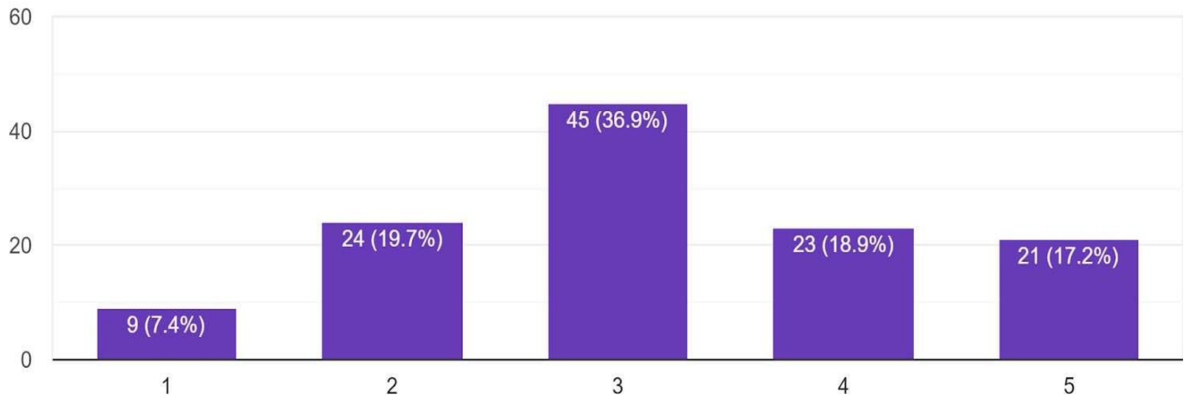

Figure 5. Awareness of Respondents on different investment preferences.

4. CONCLUSION

With the collected information, we can conclude that there is a correlation between knowledge of investment options and returns received by investors. Most people who have qualified only 10th or 12th standard is using Bank FD, gold & silver, LIC & Post Office schemes, etc. for a longer period, due to insufficient knowledge and getting 1 to 10% returns on their investment. And they are 87.8% of the total respondents. With some knowledge and educational qualification like graduates and postgraduates are getting more than 10% and up

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to 15% returns by investing in the equity market, real estate, etc. For the short-term period of investment period. But respondents who are having a professional degree, and high knowledge in the investment sector, prefer to bear high risk in their investment and get more than 15% of returns on their investments by investment for long period. We can conclude that there is a positive relationship between education, knowledge, risk-taking capacity, and returns generated from the investment made by the individuals.

5. ACKNOWLEDGMENTS

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6. AUTHORS' NOTE

The authors declare that there is no conflict of interest regarding the publication of this article. The authors confirmed that the paper was free of plagiarism.

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