

SAVINGS SENTIMENT AND INVESTMENT OUTLOOK OF INDIVIDUAL HOUSEHOLDS – A STATISTICAL ANALYSIS OF CUTTACK DISTRICT OF ODISHA

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ABSTRACT

People are different from each other because of a number of factors, like age, race, gender, education and economic and social backgrounds. The biggest challenge they are confronted with is creating investment choices; when they make such decisions, they act sensibly and normally follow their instincts and personal prejudices. The present study's main goal is to better understand the different factors that influence customers' investment behaviour. A wide range of published research works in the field has been analysed to determine the factors that influence investor behaviour. Several psychological factors are playing important role as revealed by previous researchers in case of investment decisions. Considering the issue, a study was conducted that used primary data collected through a survey of 150 consumers in the region of Cuttack District, Odisha. Overall, the results show that an investor's behaviour is influenced by their demographic characteristics, investment goals, and risk tolerance when decisions are taken, are affecting the pattern of investment decisions of the investor's.

Keywords: Investment decisions, Investment pattern, Investment behaviour

1. INTRODUCTION

An investment is alluded to as the distribution of financial means to purchase financial products or other securities in a beneficial way, mostly in context of interest, dividends and an appreciation in the price of the instrument. Investment is also related to saving and forgoing the spending. An investment is the decision made by a person or an institution, such as a pension fund, to invest or lend money in a vehicle, instrument, or asset, such as a property, commodity, stock, bond, financial derivatives (e.g., futures or options), or a foreign asset dominated in a foreign currency, that has a certain degree of risk and the potential for profit for a period of time. The behaviour of investment reveals why they would like to invest, why so much of the earnings they like to make, for how many months they want to invest and, above all, when do they want to invest? "In various empirical studies, it has been found that availability of data to be an important factor in making investment decisions, influencing their choice of investment and later on how they behave after the investment in various empirical studies (Kasilingam & Jayabal, 2008)".

It is important to comprehend the various factors that influence investors' investment decisions. Many economic and financial theories assume rational behaviour on the part of investors. In the Capital Asset Pricing Model, for example, investors hold well-diversified portfolios that include both market and risk-free investments.

"Rational expectations model reveals that some investors choose to acquire costly information and others choose to invest passively. Informed, active, investors earn higher pre-cost returns, but, in equilibrium, all investors have the same expected utility (Grossman and Stiglitz's, 1980)". Some investors prefer to obtain informed knowledge while others choose to invest passively, according to Grossman and Stiglitz's (1980) reasonable expectations model. "Educated and active investor's pick higher pre-cost returns, but all investors have the same expected utility in equilibrium Kyle's (1985)". However, we see that people act according to market sentiments and some even follow their gut feeling when making financial decisions.

2. REVIEW OF LITERATURE

Earlier studies have been carried out to determine the pattern of Institutional investors. But Studies dealing with Investment pattern of individual investors are very few. The summarized findings of various studies are given below-

Securities and Exchange Board of India (SEBI) and NCEAR (2010) 'Survey of Indian Investors' had reported that Safety and Liquidity were the primary considerations which determined the choice of an asset.

Karthikeyan (2001) Studied the perception towards saving schemes of the post office of small investors and found level of awareness as per the age groups are significantly

different towards various schemes like NSS, KVP and DSRE. They found that old age groups are more aware than young age groups and in case of gender issue, they found significant difference between male and female in DSRE scheme only.

Kaleem, Wajid and Hussain (2009), in a study of factors affecting financial advisors' perception in portfolio management in Pakistan, found that age, income, language and orientation of education have a significant role in determining the investment style of an investor.

Shaikh and Kalkundrikar (2011) Found that several demographic aspects such as age, gender, marital status, level of income, level of market knowledge, educational qualification and the number of dependents is influencing the decisions of the investor.

Geetha and Ramesh (2012) found in their study which was conducted in Tamilnadu to see the importance of demographic factors in investment that some have significantly influencing the decisions of investment while others are remain insignificant.

Jain and Mandot (2012) conducted a study in Rajasthan found to see the impact of demographic variables on investment concluded that investment decisions are highly influenced by the demographic factors such as age, gender, income, social status, etc.

Shanmuga sundaram and Balakrishnan (2010), studied the relationship of demographic variables on investment decision in capital market concluded a significant and positive relationship between the two.

Murithi Suriya, Narayanan and Arivazhagan (2012), found in India investment market is dominated by the female investors. As per them they are following more than two sources for getting investment information as well as consider the family members view for taking any decision regarding investment.

It is derived from above literature that most of the studies consider the financial factors but for making investment decision it is also important to consider social factors. However, as per the review of literature it is clear that investors are irrational in nature and largely depends on their capacity to access information. This study considers the socio-economic factors in order to find their relationship with the investment decision.

1. The factors which affect the investment decisions, identified on the basis of literature review are:
2. Risk Tolerance: Risk refers to the volatility of portfolio's value. The amount of risk the investor is willing to take on is an extremely important factor.
3. Return Needs: This refers to whether the investor needs to emphasize growth or income.
4. Tax Exposure: Investors in higher tax brackets prefer such investments where the return is tax exempt, others will have no such preference.
5. Investment Horizon: The time horizon starts when the investment portfolio is implemented

and ends when the investor will need to take the money out.

6. Market Trends: You need to understand how various asset classes have performed in the past before planning your finances.
7. Dependents: People who rely on another person, especially a family member, for financial support.
8. Risk Coverage: A type of insurance coverage that can exclude only risks that have been specifically outlined in the contract.
9. Investment Needs: How much money do you need at the time of maturity?

3. OBJECTIVES OF THE STUDY

1. Identifying the factors which affect the individual investment decision.
2. Analysing the difference in perception of investors in the decision of investing on the basis of Age.
3. Analysing the difference in perception of investors in the decision of investing on the basis of Gender.

Based on the literature review, the following hypotheses were formulated:

- Individual investment objective is independent of their age.
- Individual investment objective is independent of their gender.

4. RESEARCH METHODOLOGY

The current study focuses on observational monitoring and systematic survey both descriptive and quantitative methodology. A study on consumers living in Cuttack district using a 'structured questionnaire was conducted to examine the above posed hypotheses. A pilot analysis on a group of 30 participants was also carried out. As per the pilot study and recommendations of the experts, changes, additions and deletions are made. Then the final analysis on a group of 150 participants was carried out in Cuttack district. The sample was obtained by following the convenience sampling method.

5. DATA ANALYSIS AND INTERPRETATION

Following graphs shows the summary of responses given by respondents:

A. Age Group of respondents

Out of 150 respondents, 10 were below 25 of the age group, 55 were between 36 to 45 of the age group and 37 is the above the age group of 45. The majority of the respondents belonged to 25- 35 years age group.

B. Gender

Out of 150 respondents, 90 were male respondents while 60 were female respondents.

C. Qualifications

73 respondents were Post Graduate, 50 were Graduate, 25 were Under Graduate and only 2 were in others category and specified as Doctoral.

D. Occupations

Out of 150 respondents, 21 were Private co. employed, 11 were Govt. employee, 51 were doing Business, 13 were Housewives, 32 were Students, 20 were Professionals while only 2 were retired.

E. Annual income

Out of 150 respondents, 60 were having Income Below 2lakhs, 46 were having income between 2-4lakhs, 24 were having income between 4-6 lakhs and 20 were having income above 6lakhs.

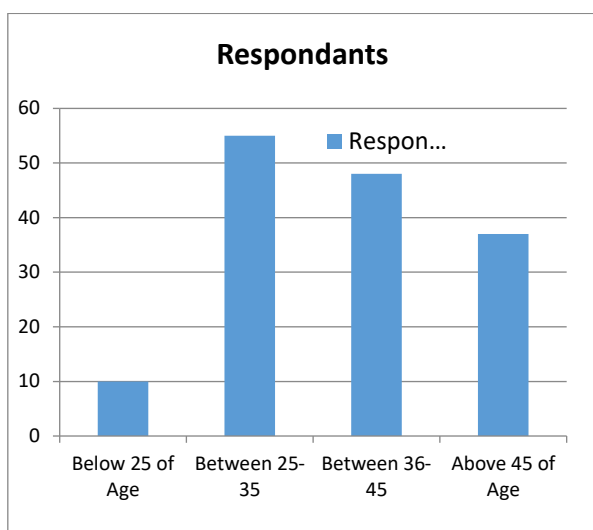


Figure 1 The Grouped Phenomena Layout

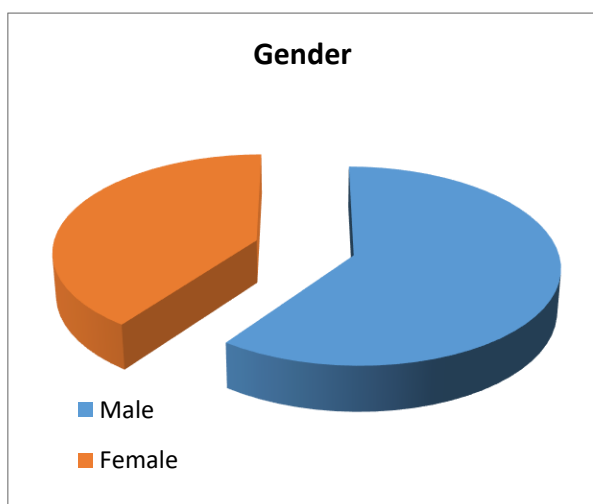


Figure 2 Gender of the Respondents

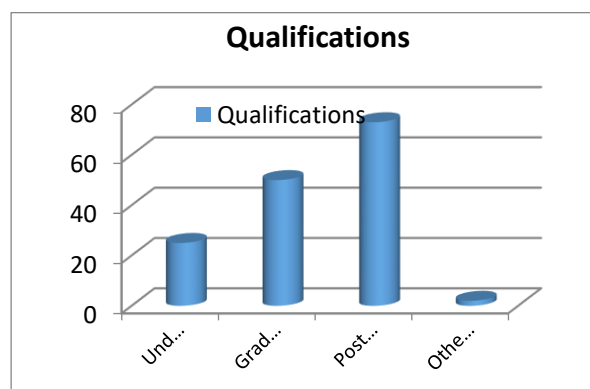


Figure 3 Respondents by Qualification

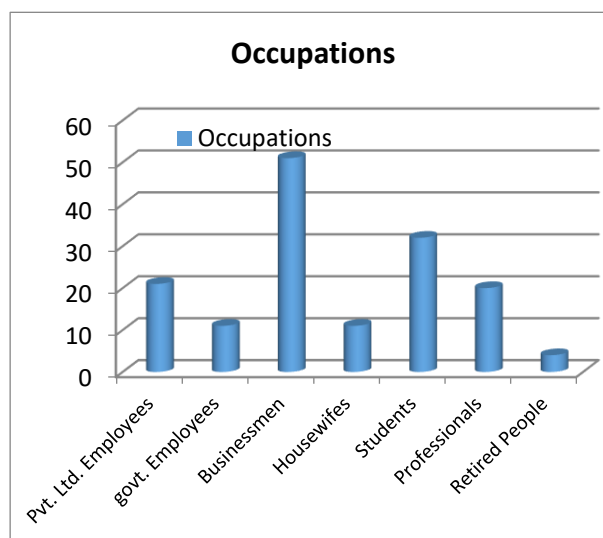


Figure 4 Respondents by occupation

F. Help from Financial Advisor

Only 48 out of 150 respondents have a Financial Advisor while 122 do not have any Financial Advisor.

G. Past experience of investment

Out of 150 respondents, 43 were the beginners who had no Experience in doing investment, 51 had Moderate experience as they have invested in FDs and post office savings, 30 were knowledgeable as they invested in shares or bonds while 26 respondents were really experienced as they frequently trade in stocks and shares.

H. Investment Objective

Out of 150 Respondents, mostly respondents want to purchase home as 42 respondents were there in that category, 30 have an objective of doing investment for their Retirement, 25 each for Children's Education and Children's Marriage, 20 were doing investment in Health Care while 08 have other objectives of doing Investment.

I. Annually targeted investment amount

Out of 150 respondents, only 47 have the target amount for doing Savings and Investment while 103 do not have any target amount for doing Savings and Investments for each year.

J. Expected Growth rate for investment

Only 3 respondents want their investments to grow steadily, 61 want their investment to grow at an Average Rate while 82 respondents want their investments to grow at Faster Rate.

K. Factors considered before investment

Factor that was considered most important for investing is the Dividend Expected by them from the investment accompanying by Risk Cover they get from the investment and the Tax on Profit which they save from doing investment while Firm's Reputation and Tax Benefit were also considered while doing investment.

L. Investment in stock market

Out of 150 respondents, only 47 do the investment in Share Market while 103 Respondents do not invest in Share Market.

M. Monitoring of investment

80 respondents occasionally monitor the investment while 55 monitor their investment on monthly basis. Daily monitoring persons are only 15.

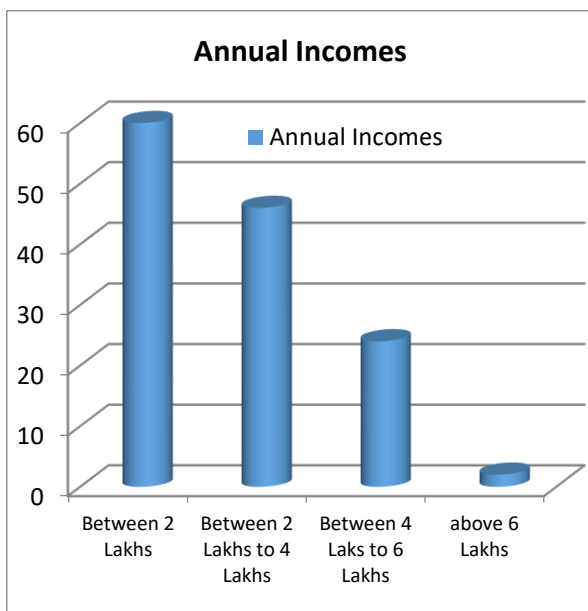


Figure 5 Respondents by annual Income

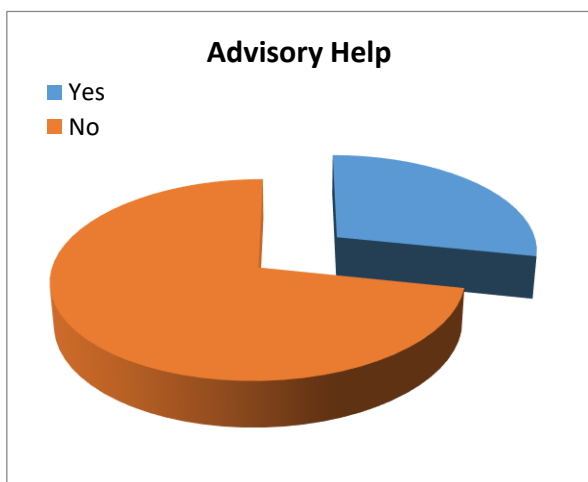


Figure 6 Financial advisor help

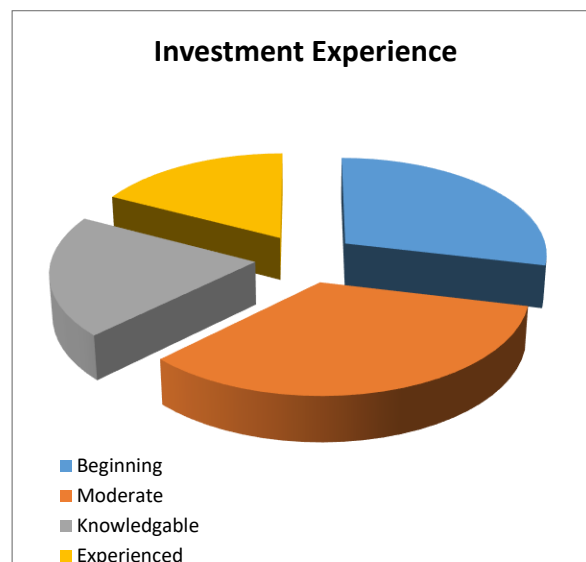


Figure 7 Investment Experience of Respondents

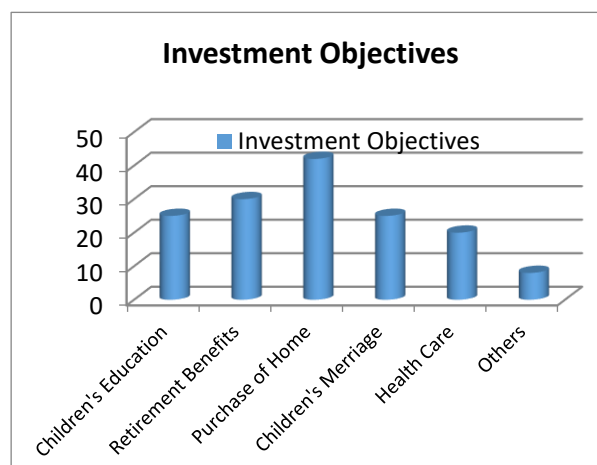


Figure 8 Investment objectives

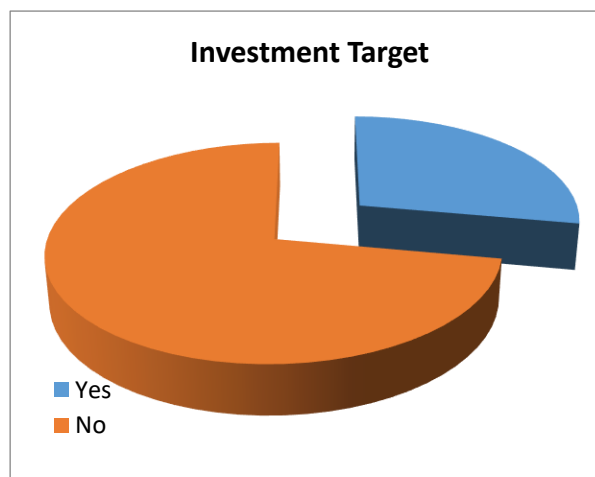


Figure 9 Annual target for investment

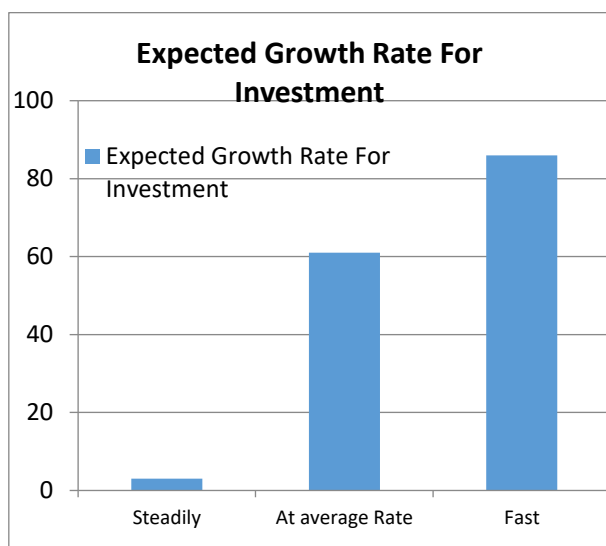


Figure 10 Expected growth of investment

N. % of income as investment

52 respondents do investment from 0-15% part of their Income; 66 people invest from 15-30% part of their Income while 32 respondents invest from 30-50% part of their Income.

O. Preferred time period to invest

76 respondents do the investment for Short Term means for less than 1 year, 54 do the investment for Medium Term means for 1-3 years while 20 respondents do the investment for Long Term means for more than 3 years.

P. Risk of losing principal investment amount.

Out of 150 respondents, only 35 were willing to take risk of losing their Principal Amount which they have invested while 115 did not want to take risk with their Principal Amount.

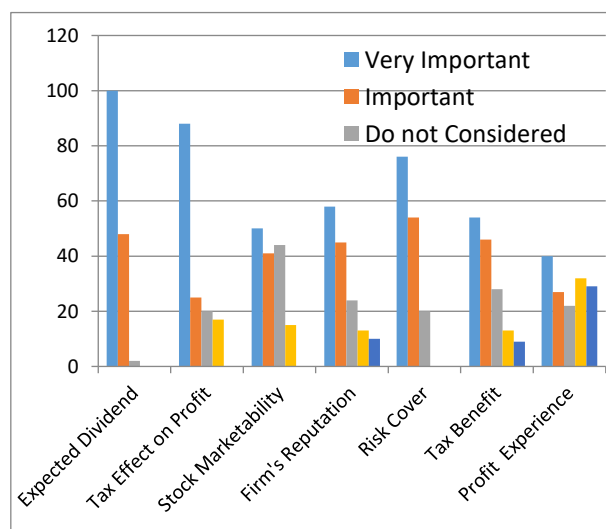


Figure 11 Factors considered before investment

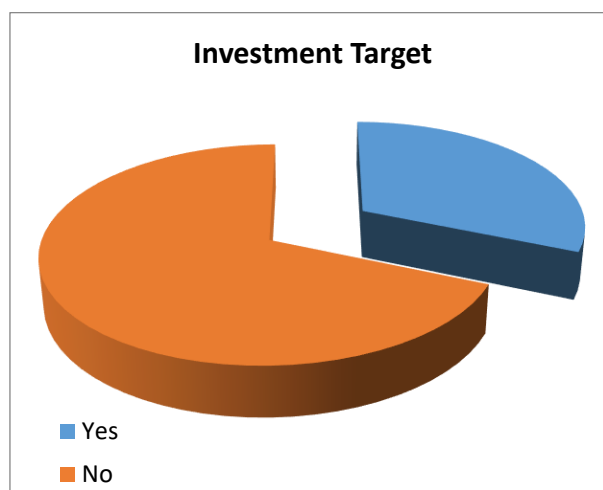


Figure 12 Investment in stock market

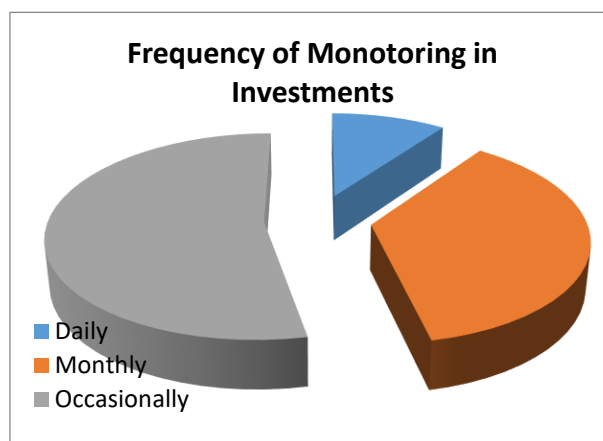


Figure 13 Monitoring of investment

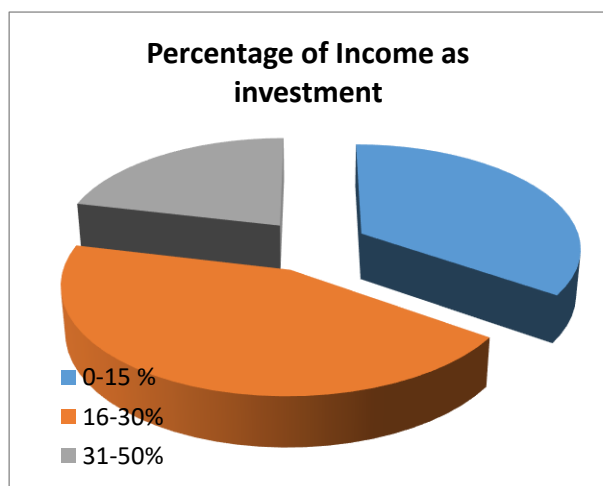


Figure 14 Percentage of Income as investment

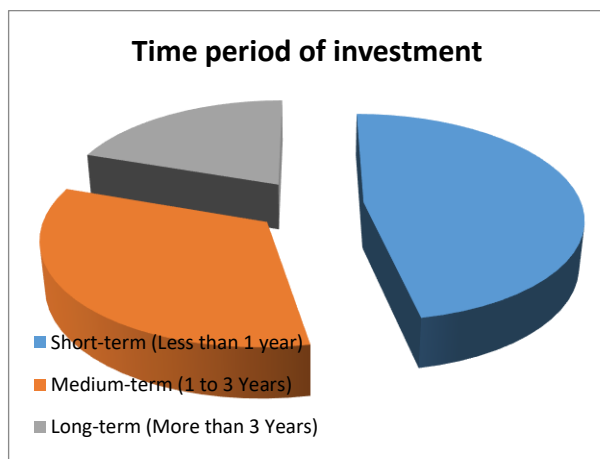


Figure 15 Time period of investment

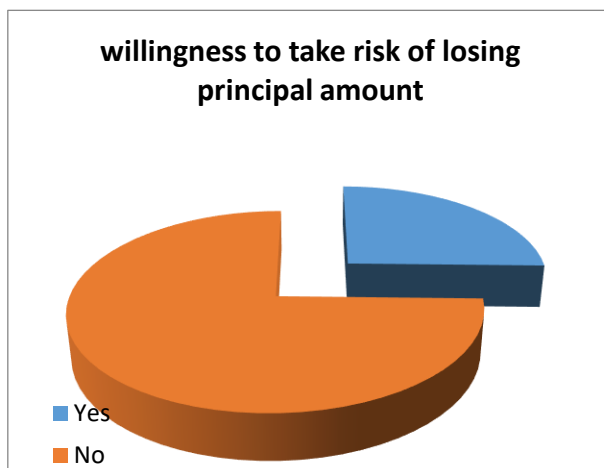


Figure 16 willingness to take risk of losing principal amount

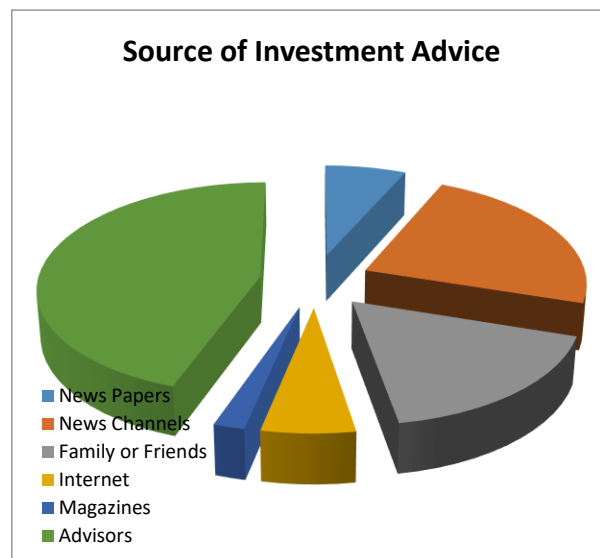


Figure 17 Source of Investment Advice

News Channel, 26 from Family or Friends, 09 from Internet, 03 from Magazines, 67 from their Financial Advisor out of while 26 take investment advice from Certified Market Professionals.

6. HYPOTHESIS TESTING

Age And Investment Objectives

Age and investment objectives of the investors are found to be related. Investment objectives of investors change with the increase in age. The data collected through

questionnaire is classified as per the age of respondents in following table-1.

The investment objective of the investors based on their age was tested using the two-way analysis of variance (Two-way ANOVA). The two null hypotheses framed for this purpose are as follows:

H01: there is no significant difference in the investment objectives of the investors. (Between rows)

H02: there is no significant difference in the investment objectives of the investors belonging to different age groups. (Between columns)

The two-way ANOVA table for testing these two hypotheses is given below:

a) The variance ratio for age groups is 8.13 and the critical value for F at 0.01 level of significance is 5.42. As the calculated value is more than critical value, it is significant. The null hypothesis is rejected. Therefore, there is a significant relationship between the age and investment objective.

b) The variance ratio for investment objectives is 4.83, the critical value of F at 0.01 level of significance is 4.56. As calculated value is more than the critical value, therefore it is significant. The null hypothesis is rejected. Therefore, there is a significant difference in the investment objectives of investors.

GENDER AND INVESTMENT OBJECTIVES OF INVESTORS

Previous studies have shown that gender is significantly related to the investment objectives. In order to test the hypothesis, the data collected through questionnaires is classified as per the gender of respondents in table-2.

The investment objectives of the investors based on their gender were tested using the two-way analysis of variance (Two-way ANOVA). The two null hypotheses framed for this purpose are as follows:

H0: there is no significant difference in the investment objectives of the investors. (Between rows)

H0: there is no significant difference in the investment objectives of the investors of different gender. (Between columns)

The two-way ANOVA table for testing these two hypotheses is given in 3

Table 1 Age and Investment Objectives

Objective	Below 25	25-35	35-45	Above 45	Total
Children's education	3	12	7	3	25
Retirement planning	2	12	12	4	30
Purchase of home	3	16	11	12	42
Children's marriage	1	10	12	2	25
Savings for Health care	2	2	10	6	20
Others	1	4	2	1	08
Total	12	56	54	28	150

Table 2 ANOVA Results

Sl. No	Source of Variance	Sum of Squares	Degrees of Freedom	Mean Square	F-ratio
1	Between Columns (AGE)	382.67	(c-1) 3	127.556	8.13
2	Between Rows (INVESTMENT OBJECTIVES)	379.33	(r-1) 5	75.866	4.83
3	Residual Errors	235.33	15	15.688	
	Total	997.33	23		

Table 3 Gender and Investment Objectives

Objective	Male	Female	Total
Children's education	15	10	25
Retirement planning	20	10	30
Purchase of home	29	13	42
Children's marriage	10	15	25
Savings for Health care	12	8	20
Others	4	4	08
Total	90	60	150

Table 4 ANOVA Results

Sl. No	Source of Variance	Sum of Squares	Degrees of Freedom	Mean Square	F-ratio
1	Between Columns (Gender)	1700	(c-1) 1	1700	9.38
2	Between Rows (INVESTMENT OBJECTIVES)	379.33	(r-1) 5	75.866	2.388
3	Residual Errors	906	5	181.2	
	Total	2985.33	11		

- The variance ratio for age groups is 9.38 and the critical value for F at 0.01 level of significance is 16.26. As the calculated value is less than critical value, and hence it is insignificant. The null hypothesis is accepted. Therefore, there is no significant difference in the objectives of investment on basis of the gender of investor.
- The variance ratio for investment objectives is 2.388, the critical value of F at 0.01 level of significance is 10.97. As calculated value is less than the critical value, and hence it is insignificant; the null hypothesis is accepted. Therefore, there is no significant difference in the investment objectives of investors of different gender.

7. RESULTS AND DISCUSSION

The study has found some relevant findings which are as follows-

- In Cuttack, mostly people do not take much help from Financial Advisor.
- Very less people are experienced in doing investment.
- People mostly have an objective of doing investment because they want to Purchase Home, some are doing investment for their Retirement while some are also doing for their Children' Education and Children's Marriage.
- People are mostly interested in Saving Tax by doing investment while they are least interested to do investment for Earning Returns.

- Most of the people do not have Formal Budget for their Family Expenditure and for their Target Investment.
- People want their investment to grow at fast rate and for them most important factor of doing investment is the dividend which they are expecting and also the tax on profit.
- People are less interested to invest in share market as they occasionally monitor their investment.
- People mostly do the investment from less than 30% part of their income and the investment period preferred is for less than 5years.
- People do not want to risk their principal amount while taking decision for the investment.
- Investment advice is mostly taken from the advisors and from news channels.

The results of Two- Way ANOVA show that there is no significant effect of gender on the investment objectives of the investors. However, Age significantly affects the investment objectives of investors. It means people of young age have different objectives for investment while both male and female investors invest for the same purposes.

8. CONCLUSIONS

Over all study helps in concluding that the investor's behavior depends on their investment objectives and how much they are prone to take risk while making decisions. The demographic characteristics of the investors like their age and gender also play a significant role.

9. IMPLICATIONS

Practical Implications for the companies who want to invite new investors to make investment in their companies are:

- Investment products could be designed in such a manner that it will be helpful for the investor to purchase home at some future date.
- Investment should be designed at such manner that it will grow at faster rate and should be tax saving.
- Investment should give good amount of dividends and also save tax on profit.

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