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Investment Behaviour of Businessmen- A study with Special Reference to Gwalior (M.P.)

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Abstract

The specific objectives of this research effort are to find out the investment behaviour of the investors, preferred sources of information influencing investment decision and to know the preferred avenues of investment to investors (Businessmen). The relevant population for this study is businessmen at Gwalior. Data were collected from 50 respondents. While selecting sample, considerations such as class of service, age, salary, educational background, investment experience, and income of the respondents were taken into account.

Behaviour of the investors towards investment has been tested by various authors and it is found that it varies from case to case. In our study we found that most of the respondents wanted to invest in life insurance and gave preference to tax benefit. They get information about investment from their peers and newspapers. Safety and security of amount invested is the main factor before the respondents and income (salary) plays an important role in influencing the investment behaviour of the investors.

Keywords: *Investment, Investment Behaviour, Income, Businessmen.*

Introduction

Investment refers to the concept of deferred consumption, which involves purchasing an asset, giving a loan or keeping funds in a bank account with the aim of generating future returns. Various investment options are available, offering different risk-reward trade offs. An understanding of the core concepts and a thorough analysis of the options can help an investor create a portfolio that maximizes returns while minimizing risk exposure. The term "investment" is used differently in economics and in finance. Economists refer to a real investment (such as a machine or a house), while financial economists refer to a financial asset, such as money that is put into a bank or the market, which may then be used to buy a real asset. In finance, investment is the commitment of funds by buying securities or other monetary or paper (financial) assets in the money markets or capital markets, or in fairly liquid real assets, such as gold or collectibles. Valuation is the method for assessing whether a potential investment is worth its price. Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. It is related to savings or deferring consumption. It is involved in many areas of the economy, such as business management and finance no matter for households,

firms, or governments. An investment involves the choice by an individual or an organization such as a pension fund, after some analysis or thought, to place or lend money in a vehicle, instrument or asset, such as property, commodity, stock, bond, financial derivatives (e.g. futures or options), or the foreign asset denominated in foreign currency, that has certain level of risk and provides the possibility of generating returns over a period of time.

Review of Literature

For a number of years, *Harvard Professor Richard Geist* has been researching the psychology that drives individual investment decisions. One dominant theme has emerged from all his research: Success in the market does not depend solely on how smart we are, what information we possess, what academic degrees we've earned, how much experience we've gained, or what technical or fundamental systems we use. Rather, investors must have the ability to identify, understand and act upon their investment psychology. Many investors today believe that the way to succeed in the market is to understand and predict its behaviour perfectly or to find the perfect trading system. Dr. Geist's research points out the need for investors to learn and understand their investment psychology first. When investors become aware of their own unique psychology, they can adapt it to market conditions. High income investors can tolerate some loss better than the low income investors. This is primarily because high income investors can easily contribute additional investment capital even if they sustain any losses. Investment managers assume that self-employment status automatically leads to higher levels of risk-taking. Self-employed individuals are likely to choose riskier investments and accept increased investment volatility as compared to people who work for others for a straight salary *(Meyer H H, Walker W B and Litwin G H, 1961; Grey and Gordon, 1978; and MacCrimmon and Wehrung, 1986).* Occupation refers to the principal activity in which someone engages for pay. Individuals who take less risk typically choose occupations with relatively small economic and political risks. Research has found that investment managers have assumed that self-employment status automatically leads to higher levels of risk-taking. Self-employed individuals are thus likely to choose riskier investments and accept increased investment volatility as compared to people who work for others for a straight salary *(Meyer et al., 1961; Grey and Gordon, 1978; and MacCrimmon and Wehrung, 1986). Riley & Chow (1992)* tried to find out whether the variables like gender, age, marital status, occupation, self-employment, income, race and education could be used individually or in combination to both differentiate among levels of investor risk tolerance and classify individuals into risk tolerance categories. They used 1992 Survey of Consumer Finances as the dataset for study, having a sample size of 2,626 respondents. Discriminant analysis was used to separate, discriminate, estimate, and classify individuals into risk tolerance categories using respondents' demographic factors. They found gender, employment status, education level and income to be effective in discriminating among levels of risk tolerance. According to *Roszkowski et al. (1993),* other things being equal, different occupations can be used to differentiate between levels of financial risk tolerance. For example, it has long been believed that self-employed individuals, salespersons, and people employed by private firms rather

than public employers tend to be more risk tolerant (both generally and in relation to personal finance issues). There is also a general consensus among researchers and practitioners that individuals employed professionally are more likely to have higher levels of risk tolerance than those employed in non-professional *occupations (Grey and Gordon, 1978; Quattlebaum, 1988; Masters, 1989; Haliassos and Bertaut, 1995).*

Researchers Lee and Hanna, (1991); Riley and Chow, (1992); and Schooley and Worden, (1996) have found out a positive pattern between income and financial risk tolerance. Both the absolute income level and return requirements may influence one's investment decisions. High levels of wealth and income should encourage risk tolerance because wealthy investors can tolerate some loss better than the less wealthy. *According to MacCrimmon and Wehrung (1986),* upper income persons (i.e., individuals with incomes greater than $70,000 per year) and millionaires (i.e., individuals who derive a portion of their income from assets valued at more than $1 mn) tend to take greater risks than individuals with lower incomes. Investment managers have concluded that increasing income levels are associated with access to more immediate resources, leading some to conclude that increased levels of income lead to increased levels of risk tolerance (Blume, 1978; Cicchetti and Dubin, 1994; Hawley and Fujii, 1993-1994; Xiao and Noring, 1994; Shaw, 1996; and Goodfellow and Schieber, 1997). *Bajlelsmit and VanDerhai (1997)* used 1993 data provided by a large pension plan sponsor to examine the proportion of household wealth, which was invested in risky pension assets. A sample of 20,000 management-level employees was collected. The respondents in the sample had the choice of directing their pension contributions to employer stock, a diversified equity portfolio, a government bond portfolio, a social choice equity fund, or a guaranteed interest fund. They found that employees with high income invested their money in diversified equity portfolio and as such were willing to take more risk as compared to the employees with low income who preferred to invest their money in government bond portfolio. *Grable and Lytton (1999),* in a study involving more than 1000 employees from a southeastern research university in 1997, determined if demographic, socioeconomic, and attitudinal factors can be used to predict financial risk tolerance. The survey included questions about each respondent's gender, age, marital status, occupation, income, education, financial knowledge, and economic expectations. These variables were used as predictor variables in the analysis because they encompass the characteristics that practitioners and researchers have identified as effective in differentiating between levels of financial risk tolerance. Risk tolerance, as determined by each respondent's score on the risk assessment measure, was used as the dependent variable. Discriminant analysis was used to classify individuals into risk tolerance categories using respondent's demographic, socioeconomic, and attitudinal factors. In this study, they assumed that a person's financial risk tolerance can be classified as either above or below average. They concluded that an above-average level of risk tolerance was associated with increased levels of attained education, an increased knowledge of personal finance, higher levels of income, and being employed in a professional occupation. A number of studies have been conducted to study how risk tolerance varies with the individual demographics, such as gender, age, education and income *(Xiao and*

Noring, 1994; Schooley & Worden, 1996; Shaw, 1996; and Watson and Naughton, 2007). Most of these studies have, however, concentrated on exploring the gender differences in investment choice. The impact of other demographic factors, such as age, education, income, occupation and dependants on investment choice, has not been investigated by many researchers. But whatever studies have been done suggest that they (other demographic factors) affect individual's investment decisions. The study of *Saptarshi Purkayastha (2008)* reveals that risk tolerance, a person's attitude towards accepting risk, is an important concept that has implications for both financial service providers and consumers. He found some opportunities for purveyors of financial services to be selective in their approach to various groups of individual investors.

Need for the Study

Many studies have been conducted on investment behaviour. As we know businessmen have more money and more savings in their hands and desire to invest funds in long term and in short term securities. Now a days many modern financial products are available for investment which provide high growth with high return. However, financial economists have now realized that the long held assumptions of traditional finance theory are wrong and have found that investors can be irrational and make predictable errors about the returns on their investments. This empirical study on Individual Investors' Behaviour is an attempt to know the profile of businessmen at Gwalior and also to know the characteristics of the investors so as to know their preference with respect to their investments. The study also tries to unravel the influence of demographic factors like gender, age, income and educational qualifications level of the investors (Businessmen).

Objectives

The following are the important objectives of the study:

(1) To develop a profile sample of individual investors (businessmen) at Gwalior in terms of their demographics.

(2) To know the preferred investment avenues before the businessmen.

(3) To identify the purpose of investment.

(4) To know the time period of monitoring.

Research Methodology

The present study is mainly based on primary data and is behavioural in nature. However, the secondary data are also made use of at places wherever necessary. The primary data have been collected through structured questionnaire. The questionnaire is designed in view the objectives of present research work. The questionnaire consists of 19 questions of which the first 7 focused on the demographic characteristics and the next 12 on the behaviour of the investors The relevant secondary data have been collected from reports, books, journals, periodicals, dailies, magazines and websites.

The data and information collected with the help of questionnaire and other sources are interpreted and analyzed using tables and graphs. As the universe of the study

is entire Gwalior (Madhya Pradesh) an attempt is made to stratify the region into strata. For the purpose of this study we have selected 50 businessmen from various classes of business. While selecting sample, considerations such as class of service, age, salary, educational background, investment experience and income of the respondents were taken into account.

Demographical Classification of Investors
Results & Analysis
Table-1

Parameter	*Number of Investors*	*Percentage*
Gender		
Male	50	100
Female	0	0
Total	**50**	**100**
Age (in years)		
Below 30 years	5	10
Between 30 and 40 years	15	30
Between 41 and 50 years	18	36
Between 51 and 60 years	8	16
Above 60 years	4	8
Total	**50**	**100**
Educational Qualification		
Under Graduate	5	10
Graduate	30	60
Post Graduate	13	26
Professional	2	4
Total	**50**	**100**
Income		
Less than Rs. 1,00,000 p.m.	18	36
Between Rs. 1,00,000 and 5,00,000 p.m.	29	58
More than Rs. 5,00,000 p.m.	3	6
Total	**50**	**100**

Table 1 shows gender-wise classification and we find that all the 50 respondents are male, there is no female businesswomen. It shows that majority of the respondents i.e. 18 (36%) belong to the age group of 41-50 yrs, the number below 30 yrs is 5 (10%) between, 30-40 yrs it is 15 (30%) between, 51-60 yrs it is 8 (16%) and above 60 yrs it is 4 (8%). When it comes to educational qualifications, majority of

respondents i.e. 30 (60%) were graduates, 5 (10%) were undergraduates, 13 (26%) were postgraduates and 2 (4%) were professionals. Income classification shows that majority of respondents i.e. 29 (58%) belong to Rs. 1,00,000 to 5,00,000 income group, 18 (36%) had less than Rs.1,00,000 income and 3 (6%) had more than Rs.5,00,000 income.

Table 2– Investment Experience

Parameter	*Number of Investors*	*Percentage*
Less than 1 year	2	4
1-5 years	14	28
6-10 years	8	16
More than 10 years	26	52
Total	50	100

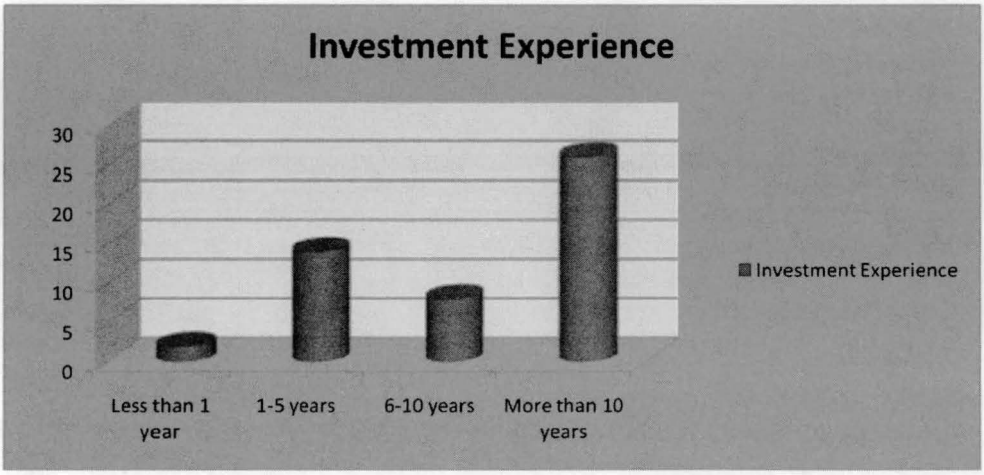
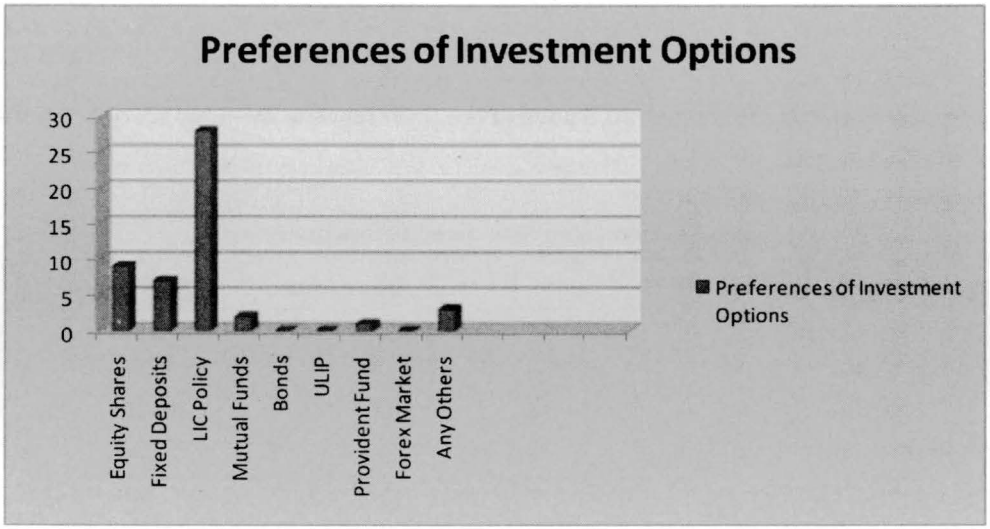


Table 2 shows that majority of respondents i.e.26 (52%) have more than 10 years' of investment experience, 2 (4%) have less than 1 year's experience, 14 (28%) have 1-5yrs, experience and 8 (16%) have 6-10 yrs' investment experience.

Table 3 Preferences of Investment Options

Parameters	*No. of Respondents*	*Percentage*
Equity Shares	9	18
Fixed Deposits	7	14
LIC Policy	28	56
Mutual Funds	2	4
Bonds	-	-
ULIP	-	-
Provident Fund	1	2
Forex Market	0	-
Any Others	3	6
Total	50	100



Respondents were asked regarding preferences of investment options and table 3 reveals that 28 (56%) respondents preferred LIC policy, 9 preferred equity shares, while 7 respondents chose fixed deposits.

Table 4 Purpose of Investment

Parameters	*No. of Respondents*	*Percentage*
Liquidity and Safety of Funds	20	40
Higher Returns	10	20
Regular Flow of Income	12	24
Availing Tax Benefits	8	16
Speculative Motive	-	-
Total	50	100

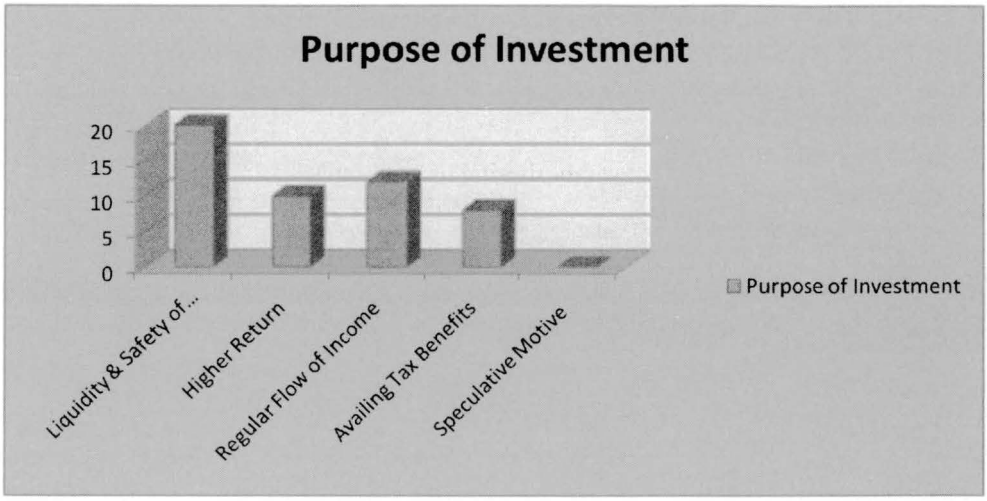
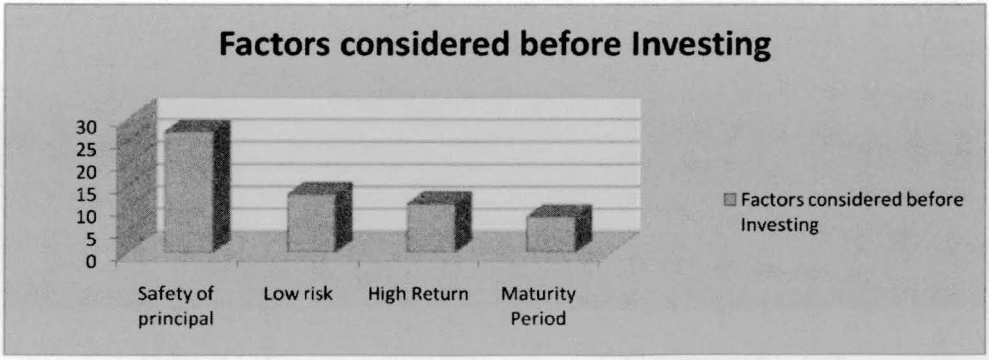


Table 4 shows that out of 50 respondents, 20 (40%) have chosen liquidity and safety of funds, 12 have given weightage to regular flow of income, 10 have given preference to higher returns and 8 have given preference to availing tax benefit on income.

Table 5 Factors to be considered before investing

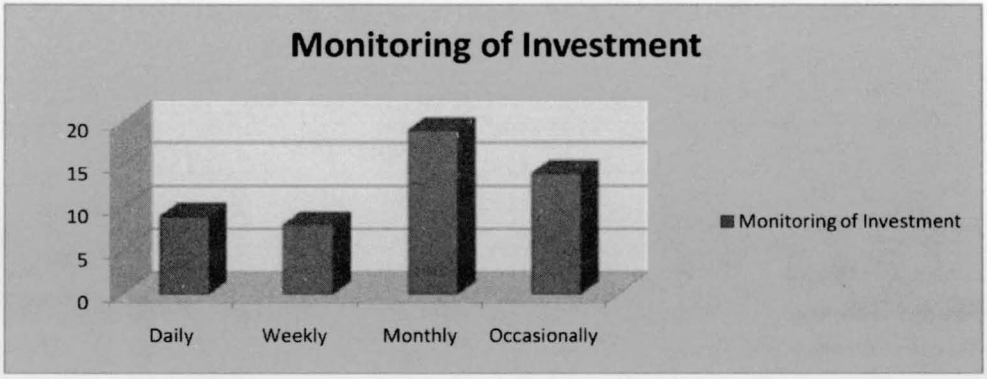
Factors	*No. of Respondents*	*Percentage*
Safety of Principal	27	54
Low Risk	13	26
High Return	11	22
Maturity Period	8	16
Total	50	100



The respondents were asked regarding factors considered before investing and table 5 reveals that 27 (54%) respondents want safety of their principal amount as a factor before investing and low risk is chosen only by 13 (26%) respondents.

Table 6 Monitoring of Investment

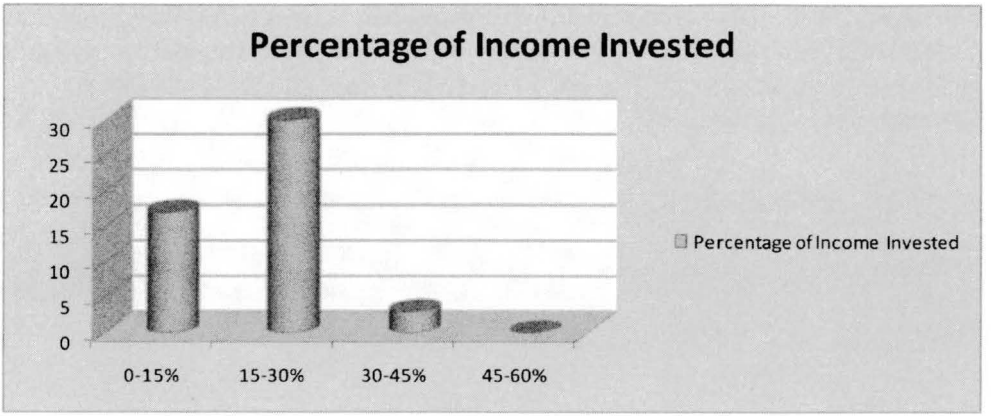
Monitor Investment	*No. of Respondents*	*Percentage*
Daily	9	18
Weekly	8	16
Monthly	19	38
Occasionally	14	28
Total	50	100



The respondents were asked regarding monitoring of investment and it was found that 19 (38%) respondents monitor their investment on a monthly basis followed by 14 (28%) who monitor their investments occasionally.

Table 7 What percentage of your income do you invest?

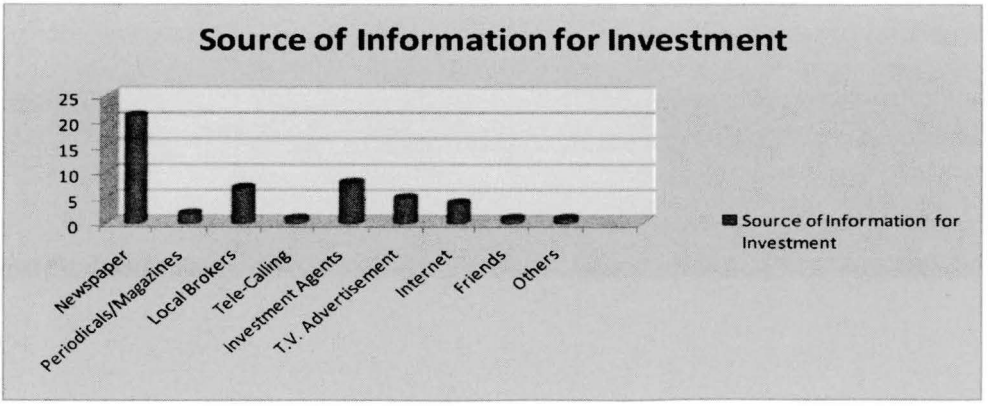
Income Invest	*No. of Respondents*	*Percentage*
0-15%	17	34
15-30%	30	60
30-45%	3	6
45-60%	-	-
Total	50	100



It is found from table 7 that majority of the respondents i.e. 30 (60%) invest 15-30% of their income followed by 17 (34%) who invest 0-15% of their income.

Table 8 Source of Information for Investment

Source of Information	*No. of Respondents*	*Percentage*
Newspapers	21	42
Periodicals/Magazines	2	4
Local Brokers	7	14
Tele-Calling	1	2
Investment Agents	8	16
T.V. Advertisements	5	10
Internet	4	8
Friends	1	2
Others	1	2
Total	50	100



The respondents were asked regarding sources of information for investments and table 8 reveals that 21 (42%) respondents have given preference to newspaper, 8 have given preference to consultation with investment agents while 7 respondents have relied on local brokers.

Findings

1. We found that all the respondents are male and there are no female business women.
2. Our study revealed that 30 out of 50 respondents were graduates.
3. We found that most of the respondents have an annual income between Rs.1,00,000 – Rs.5,00,000 p.m.
4. Respondents' experience of investment is more than 10 years.
5. We found that being businessmen they believe in traditional modes of investment like LIC policies and 28 respondents have given preference to invest their amount in LIC policies followed by investment in shares.
6. As far as the purpose of investment is concerned we found that liquidity and safety of funds is more important followed by regular flow of income.
7. Respondents monitor their investment position on monthly basis while 14 respondents did not bother to monitor their investment. They checked their investment position only occasionally.

Suggestions

1. Businessmen in that particular locality have less income so they must try to invest in the financial products which may provide them high rate of returns.
2. They must try to monitor their investment position on weekly basis rather than monthly or occasionally.
3. Besides investing in LIC policies they should try to make investment in modern financial products.
4. As newspapers don't provide much information about investment they should try to make themselves aware through internet or through investment agents.

Conclusion

It is rightly said "Income and wealth both are related" therefore, investment decision is affected by an individual's behviour. For businessmen investment is secondary and to have working capital to run the business is primary. Our study revealed that the behaviour of the investor (businessmen) was towards traditional sources of investment. A majority of respondents i.e. 28 out of 50 have invested their savings in life insurance policies. We also found that businessmen were not aware of modern financial products and had no idea about the returns earned on these products. Our study also revealed that businessmen either lacked funds for investment or had no interest in investing their savings. In the end, we can conclude that the behaviour of businessmen to invest was based on safety and security of funds rather than on speculation.

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