

A Study on Factors Determining Investment Decision of Households in Bangalore City

Mr. Rajesh.G¹ & Dr.S.Rajendran²

¹Research scholar, PRIST UNIVERSITY (Deemed to be university), Thanjavur, Tamilnadu, India.

²Associate Professor-Head School of Commerce and Management, PRIST UNIVERSITY (Deemed to be university), Thanjavur, Tamilnadu, India.

Abstract

Investors behave rationally with the proper use of all available information from different sources, but most time they behave irrationally with the panic of loss in the future. The results reveal that explicates that financial betterment, familiarity, risk bearing capacity and peer suggestion are factors determining investment decision of households. Significant difference is there amid factors determining investment decision of households and their demographics. Financial betterment, risk bearing capacity, familiarity and peer suggestion are positively and significantly influencing annual investments of households. Thus, households should invest based on profitability, rate of return and security of their investments and they must take investment decision in order to meet their family and emergency needs. Further, households should attain information and knowledge on various investment option and availability of credit before making investment decision. Besides, households must analyze fluctuations in market, risk level and marketability of their investments and they should consider recommendations of friends, family members and colleagues before making investment decision.

Keywords: Factors, Household, Investment Decision

1. Introduction

India is one of the largest savings nations across the globe which reveals that Indians have higher level of propensity to save and invest (Bisen and Pandey, 2013). At the same time, majority of savings done by Indian households are highly secured. Indians who invest their money in low return investments(Choudhary, 2013) and conventional financial products are unable to enjoy advantage of modern age financial instruments which have greater capacity to create higher rate of returns (Bhushan and Medury, 2013). In the conventional investment idea, investors believe that they can reduce risk through increasing number of investment avenues without consideration of association among the returns of investment avenues. Investors are suggested to invest in various investment alternatives with the expectation of higher returns, but, they are not communicated about how the risk will be assessed (Jagongo and Mutswenje, 2014).

Investment decisions are taken by investors on their own and also by investment managers on behalf of investors. Investors usually use basic analysis, technical analysis and financial analysis and based on these analyses, they can judge and take investment decisions (Masomi and Ghayekhloo, 2011). The structure and quality of information and market related factors are influencing investment decision of individual investors and also outcomes of market (Lodhi, 2014). Investment behaviour is derived from psychological principles of decision making (Davara and Gill, 2009).

The investment decision of individuals is related with options about buying and selling of small quantum of securities for their own account (Kabra et al 2010). Generally, it is believed that investors behave rationally with the proper use of all available information from different sources, but most time they behave irrationally with the panic of loss in the future (Rani, 2014). The different investment behaviour of individual investors is exhibited because of different factors which compromise investors' rationality. The investment decision is a function of various factors namely market conditions, risk profiles of individual, accounting information and so on. With this back ground, it is important to study factors determining investment decision of households.

2. Review of Literature

Rana et al (2009) found that degree of risk, knowledge, anticipated return and psychological aspects were influencing significantly investment decision of investors.

Syed (2010) concluded that income, safety, education, low level of risk and higher degree of return determined investment decision among investors.

Mohanta and Debasish (2011) revealed that high degree of return, safety, regular return, easy marketability and benefits for tax were affecting investment decision of investors significantly.

Sultana and Pardhasaradhi (2012) indicated that improvement in financial condition, information, recommendation of friends, reputation of companies and market information influenced investment decision among investors.

Prakash and Sunder (2013) showed that tax benefits, degree of liquidity, consistent return, security, low risk and affordability were significantly affecting investment decision of investors.

Phan and Zhou (2014) found that subject norms, knowledge, market information and behavioral features were influencing significantly investment decision among investors.

Velmurugan et al (2015) concluded that level of risk, anticipated returns, rate of appreciation, income level, and knowledge and market trends affected investment decision of investors.

Shukla (2016) revealed that income, age, anticipated return, degree of risk and advices of friends and relatives were significantly influencing investment decision among investors.

Kumarasinghe and Jayasinghe (2017) indicated that income, social and economic factors significantly determined savings and investments of households

Mahalakshmi and Anuradha (2018) showed that spouse, level of engagement, familiarity, over confidence and anchoring were influencing investment decision among investors.

Hemalatha (2019) found that appreciation of capital, tax benefits, security, anticipated return, liquidity and minimum risk affected investment decision among individual investors.

3. Objectives of the Study

1. To discover factors determining investment decision of households.
2. To find difference amid factors determining investment decision of households and their demographics.
3. To examine influence of factors determining investment decision of households on their annual investment.

4. Hypotheses of the Study

1. There is no significant difference amid factors determining investment decision of households and their demographics.
2. There is no significant influence of factors determining investment decision of households on their annual investment.

5. Methodology

The current study is conducted in Bengaluru city. Households are chosen randomly and data are collected from 325 households by using questionnaire. Demographics of households are examined through percentages and factors determining investment decision of households is discovered by employing exploratory factor analysis. Difference amid factors determining investment decision of households and their demographics is found by carrying out ANOVA and t-tests. Influence of factors determining investment decision of households on their annual investment is examined by applying multiple regression analysis.

6. Results

6.1 Demographics of Households

The demographics of households are shown in Table-1. Larger than half of households are male (55.08 per cent) and higher than one fourth of households are in age amid 41 and 50 years (29.23 per cent). Almost one third of households are undergraduates (32.00 per cent) and nearly one third of households in annual income group of Rs.5,00,001 – Rs.7,00,000 (31.08 per cent) and just greater than one third of households are in annual investment of Rs.1,00,001 – Rs.1,50,000 (34.15 per cent).

Table 1. *Demographics of Households*

Demographics	Number	%
Gender		
Male	179	55.08
Female	146	44.92
Age		
Below 30 years	61	18.77
31 – 40 years	89	27.38
41 – 50 years	95	29.23
Above 50 years	80	24.62
Education		
Higher Secondary	53	16.31
Diploma	70	21.54
Under Graduation	104	32.00
Post Graduation	98	30.15
Annual Income		
Less than Rs.5,00,000	76	23.38
Rs.5,00,001 – Rs.7,00,000	101	31.08
Rs.7,00,001 – Rs.9,00,000	84	25.85
More than Rs.9,00,000	64	19.69
Annual Investment		
Below Rs.1,00,000	92	28.31
Rs.1,00,001 – Rs.1,50,000	111	34.15

Rs.1,50,001 – Rs.2,00,000	74	22.77
Above Rs.2,00,000	48	14.77

6.2. Factors determining investment decision of households

Exploratory factor analysis is applied to discover factors determining investment decision of households and outcome is shown in Table-2. Kaiser-Meyer-Olkin test value to assess adequacy of sampling is 0.892. Bartlett test of Sphericity's Chi-Square value is 0.0048 which is significant at one per cent level. These values clarify that method of factor analysis is apt. Principal Component Analysis method is used to obtain factors by applying varimax kind of rotation and it is converged in 9th iterations. Cronbach's Alpha value is 0.88 displaying that the level of internal consistency is very much acceptable. Four factors are attained and they share 81.93 per cent of variation.

Table 2. Factors Determining Investment Decision of Households

Factor	Variables	Factor Loadings (Rotated)	Eigen Value	Variation (%)	Name
I	Profitability	0.69	3.27	23.80	Financial Betterment
	Security	0.65			
	Financial improvement	0.67			
	Rate of return	0.64			
	Emergency needs	0.66			
	Family requirements	0.62			
II	Investment options	0.66	2.38	21.42	Familiarity
	Knowledge	0.63			
	Information accessibility	0.67			
	Availability of credit	0.64			
	Previous experience	0.61			
III	Level of risk	0.68	1.14	19.76	Risk Bearing Capacity
	Market fluctuation	0.62			
	Coverage of risk	0.65			
	Marketability	0.63			
IV	Recommendation of friends	0.65	1.03	16.95	Peer Suggestion
	Recommendation of family	0.67			
	Recommendation of Colleagues	0.64			
	Total	-	-	81.93	-

Factor-I includes profitability, security, financial improvement, rate of return, emergency need and family requirements. Therefore, first factor is denoted as **Financial Betterment** and it shares 23.80 per cent of variation.

Factor-II comprises investment options, knowledge, information accessibility, availability of credit and previous experience. So, second factor is named as **Familiarity** and it shares 21.42 per cent of variation.

Factor-III contains level of risk, market fluctuation, coverage of risk and marketability. Thus, third factor is stated as **Risk Bearing Capacity** and it shares 19.76 per cent of variation.

Factor-IV encompasses recommendation of friends, recommendation of family and recommendation of colleagues. Hence fourth factor is described as **Peer Suggestion** and it shares 16.95 per cent of variation.

Financial betterment, familiarity, risk bearing capacity and peer suggestion are factors determining investment decision of households.

6.3. Factors determining investment decision of households and their demographics

ANOVA and t-tests are applied to find difference amid factors determining investment decision of households and their demographics and the results are shown in Table-3.

Table3. *Factors Determining Investment Decision of Households and their Demographics*

Particulars	F-Value / t-Value	Significance
Factors Determining Investment Decision of Households and Gender	4.462** (t-Value)	.000
Factors Determining Investment Decision of Households and Age	7.549** (F-Value)	.000
Factors Determining Investment Decision of Households and Education	8.326** (F-Value)	.000
Factors Determining Investment Decision of Households and Annual Income	6.804** (F-value)	.000
Factors Determining Investment Decision of Households and Annual Investment	7.981** (F-value)	.000

** Significant in 1 % level

The F-values and t-value are significant and they are elucidating that significant difference is there amid factors determining investment decision of households and their demographics.

6.4. Influence of factors determining investment decision of households on their annual investment

Multiple regression analysis is employed to examine influence of factors determining investment decision of households on their annual investment and the result is shown in Table-4. R^2 and Adjusted R^2 are 0.59 and 0.57 in the sequence implying the regression model is in good fit and F-value is 23.725 illustrating the model is significant in one per cent level.

Table4. Influence of Factors Determining Investment Decision of Households on their Annual Investment

Factors Determining Investment Decision	Partial Regression Coefficients	t-Value	Sig.
Constant	1.018**	11.862	.000
Financial Betterment (X ₁)	.475**	7.238	.000
Familiarity (X ₂)	.429**	6.543	.000
Risk Bearing Capacity (X ₃)	.452**	6.975	.000
Peer Suggestion (X ₄)	.384**	6.016	.000
R ²	0.59	-	-
Adjusted R ²	0.57	-	-
F	23.725**	-	.000

** Significant in 1 % level

Financial betterment, risk bearing capacity, familiarity and peer suggestion are positively and significantly influencing annual investments of households. Keeping other things constant, one per cent increase in financial betterment, there will be 0.48 per cent increase in annual investment, one per cent increase in familiarity, there will be 0.43 per cent increase in annual investment, one per cent increase in risk bearing capacity, there will be 0.45 per cent increase in annual investment and one per cent increase in peer suggestion, there will be 0.38 per cent increase in annual investment of households.

7. Conclusion

The above study explicates that financial betterment, familiarity, risk bearing capacity and peer suggestion are factors determining investment decision of households. Significant difference is there amid factors determining investment decision of households and their demographics. Financial betterment, risk bearing capacity, familiarity and peer suggestion are positively and significantly influencing annual investments of households. Thus, households should invest based on profitability, rate of return and security of their investments and they must take investment decision in order to meet their family and emergency needs. Further, households should attain information and knowledge on various investment option and availability of credit before making investment decision. Besides, households must analyze fluctuations in market, risk level and marketability of their investments and they should consider recommendations of friends, family members and colleagues before making investment decision.

References

1. Ambrose Jagongo, & Vincent S Mutswenje.(2014). A survey of the factors influencing investment decisions: The case of individual investors at the NSE. *International Journal of Humanities and Social Science*, 4(4), 92-102.
2. Bhushan, P., & Medury, Y. (2013). Gender differences in investment behaviour among employees. *Asian Journal of Research in Business Economics and Management*, 3(2),147-157.
3. Bisen, V., & Pandey. M.(2013). Applying behavioural finance by analyzing investor behaviour in Lucknow city. *Indian Journal of Applied Research*, 3(6), 353-355.

4. Choudhary, A., K. (2013). Impact of behavioural finance in investment decisions and strategies - a fresh approach, *International Journal of Management Research and Business Strategy*, 2(2), 85-92
5. Davar, Y. P., & Gill, S.(2009). Antecedents of households' investment decision-making process: A study of the Indian households. *South Asian Journal of Management*, 16(4), 44-75.
6. Gaurav Kabra, Prashant Kumar Mishra, & Manoj Kumar Dash.(2010). Factors influencing investment decision of generations in India: An econometric study. *Asian Journal of Management Research*, 3(2), 308-326.
7. Hemalatha, S. (2019). Factors influencing investment decision of the individual related to selected individual investors in Chennai city. *International Journal of Innovative Technology and Exploring Engineering*, 8(6S4), 457-461.
8. Khoa Cuong Phan, & Jian Zhou.(2014). Factors influencing individual investor behaviour: An empirical study of the Vietnamese stock market. *American Journal of Business and Management*, 3(2),77-94.
9. Kumarasinghe, P.J., & Jayasinghe, C.P.A.(2017). *A comparative study on the determinants of household savings in the Colombo district*. Paper Presented in 13th International Conference on Business Management, Colombo, Sri Lanka.
10. Lodhi, S.(2014). Factors influencing individual investor behaviour: An empirical study of city Karachi. *Journal of Business and Management*, 16(2), 68-76.
11. Mahalakshmi, T.N., & Anuradha, N. (2018). Factors affecting investment decision making & investment performance among individual investors in India. *International Journal of Pure and Applied Mathematics*, 118(18), 1667-1675.
12. Masomi, S. R., & Ghayekhloo, S.(2011). Consequences of human behaviors' in economic: the effects of behavioral factors in investment decision making at Tehran stock exchange. *International Journal on Business and Economics Research*, 1, 234-237.
13. Mohanta, G., & Debasish, S.(2011). A study on investment preferences among urban investors in Orissa. *Prerna Journal of Management Thought and Practice*, 3(1),1-9.
14. Neha S Shukla.(2016). Investors' preference towards investment avenues with special reference to salaried personnel in north Gujarat region. *IJSART*, 2(1), 43-49.
15. Prakash, S., & Sunder, C.(2013). Analysis of investor perception and preferences: Investment avenue. *International Journal of Applied Financial Management Perspectives*, 2(3),V599-604.
16. Rana, H.M., Murtaza, S., Noor, F., Inam-U-Din, & Rehman, K.(2009). Effects of demographic factors on risky decision-making behaviour. *European Journal of Social Sciences*, 25(3), 69-76.
17. Reena Rani.(2014). Factors affecting investors' decision making behaviour in the stock market: An analytical review. *Indian Journal of Applied Research*, 4(9),118- 120.
18. Syed, S.T.(2010). An empirical study of Indian individual investors behaviour. *Global Journal of Finance and Management*, 2(1), 19-33.

19. Tabassum Sultana, S., & Pardhasaradhi, S.(2012). An empirical analysis of factors influencing indian individual equity investors' decision making and behaviour. *European Journal of Business and Management*, 4(18), 50-61.
20. Velmurugan, G., Selvam, V., & Abdul Nazar, N.(2015).An empirical analysis on perception of investors' towards various investment avenues.*Mediterranean Journal of Social Sciences*, 6(4), 427-435.