

**TO ANALYSE VARIOUS FACTORS THAT IMPACT FINANCIAL INVESTMENT  
DECISIONS OF AN INDIVIDUAL**

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## Preface

In today's world where money is indispensable and integral part of life. People always have an inclination to multiply their money. Some individuals indulge in illegal activities like gambling but many prefer to invest their money in assets that would reap benefits over the years and in turn would help them maximize their wealth. There are many investment options available where individual can invest their money, some like to buy real estate, gold while others would prefer to buy shares etc. Investment choice differs from person to person and the investment decision they undertake is influenced by both psychological and behavioral factors. Demographic factors shape up behavior and thus have deep impact on decision making whether its related to investment or brand preference. This paper aims to analyze various demographic factors that play role in choosing an investment class whether its shares, bank deposits etc. i.e. risk one is willing to take.

Subject to limitations of time efforts and resources every possible attempt has been made to study the problem deeply. Efforts are being made to minimize the errors and give due credit to every author from whose research ideas /reference is being taken.

The whole book is divided into 4 chapters: -

- Chapter 1 - Introduction and Literature review
- Chapter 2 - Objectives and Hypothesis
- Chapter 3 - Research Methodology
- Chapter 4 - The Study and Conclusion

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## Chapter 1

### 1.1 Introduction

Decision making is complex. Various factors play role in making decisions whether they are external in nature or internal in nature like gender. It has been observed that demographic factors like age, income, occupation etc. have an impact on how individuals make investment choices Government agencies and marketers can benefit if they give proper focus to consumer preferences, behavior and factors that influence them. One's ability to absorb risk and expectations from their Investments differs as per individual characteristics like age, gender, knowledge etc.

This study examines the concept of these factors on investment decisions made by retail investors. To help readers get an idea about the topic a brief review of literature is provided

### 1.2 Literature review

A brief overview of various factors that governing investment decision with evidence from previous researches is given below.

1. Gender - Gender is basic and foremost differentiating factor (Bernasek et al. 1996). Males display more confidence while making investment decisions, have more wealth, knowledge and ability to take risks (Bruce, 1995) (Barber and Odean 2001: 261) whereas Females are risk averse. (Stendardi et al. 2002). In 1998 Sundén & Surette did research on how gender and investment decision are connected on individual who had option to choose their own retirement plan. The study highlighted role of gender in resource allocation in pension. Their final observation was that females show relative risk aversion when choosing the

allocation plan in their retirement account. Various other studies have also shown that females are more risk averse than males while making decisions (Hintz, McCarthy and Turner, 1997; Jianakoplos and Bernasek, 1998; Bajtelsmit and Bernasek, 1996). Other factor that comes into play and related to gender is overconfidence. Both sexes display over confidence but to varying degrees. Overconfidence makes people believe they are having control and overestimate. Women tends to show less overconfidence related to financial judgment as compared to men (Bengtsson, Persson and Willenhag 2004; Beyer and Bowden 1997; Ricciardi and Simon 2000; Barber and Odean 2001; Powell and Ansic 1997).We can conclude that researchers over time have indicated that significant differences occur in decision making depending on the gender of the individual.

2. Age – As people grow old they are able to tolerate more risk (Grable and Lytton, 1999b:7)

As people age they gain more knowledge via experience and make prudent and wise investment decisions (Kumar, and Korniotis, 2011).Finucane et al. established a significant difference in decision making across age, as cognitive functions decline as a result of age, decision making performance may decline as well. further, geriatrics may be more overconfident on their ability to make decisions, which inhibits their ability to apply strategies (de Bruin et al., 2007). Lastly, with respect to age, there is evidence to support the notion that older adults prefer fewer choices than younger adults (Reed, Mikels, & Simon, 2008).

3. Income – More a person earns more comfortably he can live and in turn would have greater financial stability. A person with high income /wealth takes high risk (Terry, and Parker, 2002). Some research in contrast show that income has no effect at all with respect to risk taking ability (Strydom et al (2009: 18).Investors with high income have access to a wider range of investment options, while those with lower income have a limited selection

4. Occupation – Economic activity or any activity in which people engage to earn living is occupation. High occupational status holder are more risk seekers ((Roszkowski et al., 1993).

Other institutional factors, such as liquidity in the market, regulatory environment, and overall economic and social condition etc. may also affect but in this we will be focusing on the above parameters primarily because of constraints like time.

## Chapter 2

### 2.1 Objective of the study

From the above study the following objective was framed for the study

To analyze the impact of demographic factors on investors' investment decision

*The aim here is to see whether the demographic factors have any impact on investment decisions or not.*

### 2.2 Hypothesis of the study

H0: Demographic factors have no impact on investors' investment decisions.

H1: Demographic factors have impact on investors' investment decisions.

If demographic factor is



1. Gender, then hypothesis is

H0: Gender has no impact (relationship) on investors' investment decisions.

H1: Gender has impact on investors' investment decisions.

2. Age, then hypothesis is

H0: Age has no impact (relationship) on investors' investment decisions.

H1: Age has impact on investors' investment decisions.

3. Income, then hypothesis is

H0: Income has no impact (relationship) on investors' investment decisions.

H1: Income has impact on investors' investment decisions.

4. Occupation, then hypothesis is

H0: Occupation has no impact (relationship) on investors' investment decisions.

H1: Occupation has impact on investors' investment decisions.

### Chapter 3

#### 3.1 Research Methodology

The following methodology was adopted for the research

The research is taken up to analyze the impact of various factors on the investment decisions.

Questionnaire was used to gather the primary data.

Data is collected from 100 people for the purpose of the study.

The methodology used is DESCRIPTIVE METHODOLOGY

Descriptive research can be explained as a statement of affairs as they are at present with the researcher having no control over variable.

Descriptive research is “aimed at casting light on current issues or problems through a process of data collection that enables them to describe the situation more completely than was possible without employing this method”.

The majority of descriptive studies are not ‘repeatable’ due to their observational nature.

Descriptive research gives an opportunity to integrate the qualitative and quantitative methods of data collection.

## **Chapter 4**

### **4.1 The Study – Data analysis**

The below table gives the demographic details of the respondents that were selected as a part of the study

The demographic profile of the respondents is analyzed on the basis of age, monthly income, gender and occupation. The distribution of sample respondents is shown in table no. 1

**TABLE 1: DEMOGRAPHIC CHARACTERISTICS OF THE RESPONDENTS**

Characteristic		Respondent	Percentage
Gender	Male	50	50
	Female	50	50
	Total	100	100
Age group	Up to 30 Years	23	23
	30-40 Years	26	26
	40-50 Years	31	31
	50 Years and Above	20	20
	Total	100	100
Income	Below Rs 1,50,000	24	24
	Rs 1,50,000 - Rs 3,00,000	41	41
	Rs 3,00,000 - Rs 4,50,000	17	17
	Rs 4,50,000 - Rs 6,00,000	9	9
	Rs 6,00,000 and Above	9	9
	Total	100	100

Occupation	Business	32	32
	Professional	10	10
	Government service	39	39
	Others	19	19
	Total	100	100

Source: Primary Data from the questionnaire

Here, for the purpose of calculation sub categories of the various demographic factors have been called as Group 1, Group 2.... etc.

And the conditions namely Cond1, Cond 2, Cond 3 and Cond 4 used below represents investment classes Bank deposits, Gold etc. (Low risk class), Mutual funds (Moderate risk class), Shares (High risk class) and (Very high risk class).

#### CHI - SQUARE TEST:

It is a statistical test which is commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis framed earlier. The impact of various demographic factors on an investors' risk taking ability has been studied and analyzed separately, the results of which are as under.

#### Extent of Relationship between Investors' Gender and Investment choice.

(Table 2)

H0: Gender has no impact (relationship) on investors' investment decisions.

H1: Gender has impact on investors' investment decisions.

	Gp 1	Gp 2
Cond. 1:	10	15
Cond. 2:	15	15
Cond. 3:	15	10
Cond. 4:	10	10

  

Chi-square:	2
degrees of freedom:	3

Calculated value of Chi-square is 2. Chi-square value at 5% Significance Level and 3 Degree of Freedom is 7.815. As the calculated value of Chi-square is below the critical value, Null hypothesis is accepted and alternative hypothesis is rejected, revealing that there is no relation between the investors' gender and the investment decision (risk class) taken by him/her

Extent of Relationship between Investors' Age and Investment choice.

(Table 3)

H0: Age has no impact (relationship) on investors' investment decisions.

H1: Age has impact on investors' investment decisions.

	Gp 1	Gp 2	Gp 3	Gp 4
Cond. 1:	6	8	10	5
Cond. 2:	6	7	7	5
Cond. 3:	6	6	8	5
Cond. 4:	5	5	6	5

  

Chi-square:	0.736
degrees of freedom:	9

Calculated value of Chi-square is 0.736. Chi-square value at 5% Significance Level and 9 Degree of Freedom is 16.92. As the calculated value of Chi-square is below the critical value, Null hypothesis is accepted and alternative hypothesis is rejected, revealing that there is no relation between the investors' age and the investment decision (risk class) taken by him/her.

Extent of Relationship between Investors' Income and Investment choice.

(Table 4)

H0: Income has no impact (relationship) on investors' investment decisions.

H1: Income has impact on investors' investment decisions.

	Gp 1	Gp 2	Gp 3	Gp 4	Gp 5
Cond. 1:	9	8	2	4	3
Cond. 2:	6	24	12	3	2
Cond. 3:	5	9	3	0	2
Cond. 4:	4	0	0	2	2

Chi-square:	25.202
degrees of freedom:	12

Calculated value of Chi-square is 25.02. Chi-square value at 5% Significance Level and 12 Degree of Freedom is 21.026. As the calculated value of Chi-square is more than the critical value, Null hypothesis is rejected and alternative hypothesis is accepted.

Extent of Relationship between Occupation and Investment choice.

(Table 5)

H0: Occupation has no impact (relationship) on investors' investment decisions.

H1: Occupation has impact on investors' investment decisions.

	Gp 1	Gp 2	Gp 3	Gp 4
Cond. 1:	5	4	15	6
Cond. 2:	6	3	12	5
Cond. 3:	5	1	7	4
Cond. 4:	19	2	5	4

  

Chi-square:	18.264
degrees of freedom:	9

Calculated value of Chi-square is 18.264. Chi-square value at 5% Significance Level and 9 Degree of Freedom is 16.919. As the calculated value of Chi-square is more than the critical value, Null hypothesis is rejected and alternative hypothesis is accepted.

**4.2 Conclusion**

From the above calculation it is clear that there is no impact of Age and Gender on investment decisions.

From the above calculation it is clear that there is impact of Income and Occupation on investment decisions.

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## APPENDIX



## QUESTIONNAIRE

### DEMOGRAPHIC DETAILS OF RESPONDENT

NAME –

GENDER - MALE/FEMALE

AGE GROUP – Up to 30 Years/30-40 Years/40-50 Years/ 50 Years and Above

INCOME - Below Rs 1,50,000/Rs 1,50,000 - Rs 3,00,000

Rs 3,00,000 - Rs 4,50,000/Rs 4,50,000 - Rs6,00,000/Rs 6,00,000 and Above

OCCUPATION – Business/Professional/Government service/Others

**Q. Do you as an individual invest - Yes/NO**

If answer to the above question is YES,then only proceed with the question below.

*You can only select one option from the following choices provided*

**Q. As an investor where will you invest?**

Low risk class like bank deposits or gold

Moderate risk class investment options

High risk class investment options

Very high risk class investment options