FACTORS AFFECTING INVESTMENT BEHAVIOUR AMONG YOUNG PROFESSIONALS

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Abstract— Investors have different mindset when they decide about investing in a particular avenue. Every individual wants his saving to be invested in most secure and liquid way. However, the decision varies for every individual depending upon their risk aptitude. Investment behaviour is related to activities of individual investors regarding searching, evaluating, acquiring, reviewing the investment products and if necessary, disposing such investment products. Investment behaviour reveals how the individual investor allocates the surplus financial resources to various instruments available. This paper analyzes the trading or investing behaviour of professionals who are in the age bracket of 25 years to 35 years. These young investors generally take trading decisions based on their self-perceived competence but sometimes with the help of professional advisors too. Their investment objective also differs from financial stability to additional income and so on. This paper attempts to find out the factors responsible for increased investing activities among young professionals. The present has examined the trading behaviour of young investors by using a structured questionnaire. A survey of 200 young investors in the age bracket of 25 years to 35 years across Lucknow region was undertaken to collect primary data. Based on the findings of the survey, the study examines the factor affecting the investment behaviour in the stock market. On the basis of age, income and gender it can be concluded that for young investors’ investment is independent of age, income and gender.

Index Terms— Investors’ behaviour, investment, young individual investor, saving objectives (key words)

I. INTRODUCTION

A traditional tenet of investment theory is that investors are rational beings who always attempt to maximize expected utility based on their expectations of future returns. Economic utility theory views the individual’s investment decision as a tradeoff between immediate consumption and deferred consumption. The individual investor weighs the benefits of consuming today against the benefits that may be gained by investing unconsumed funds in order to enjoy greater consumption at some point in the future. If the individual chooses to defer consumption, he will, according to theory, select the Portfolio that maximizes long-term satisfaction. The axiom of utility theory, developed by Von Neumann and Morgenstern, argue that investors are (1) completely rational, (2) able to deal with complex choices, (3) risk-averse and (4) wealth-maximizing. Utility theory further assumes that investors maximize expected utility measured in terms of anticipated returns and variances from these expectations (the mean/variance approach). That is, each investor selects the portfolio that maximizes expected return while minimizing risk.

Investment behaviour is critical to an individual’s future and that decision may be contingent on many factors. It has been argued that attitudes among other variables can predict the investment decision process (East, 1993). Prior research has suggested that the improvement of education in financial management significantly correlates with decision-making on critical investment issues (Chen and Volpe, 1998).

To get the best out of investment, an understanding of human nature in financing perspective is required. In addition, investors’ need to develop a positive vision, foresight, patience and drive. The point of distinction between investors’ investing behaviour includes factors like demographic factors which includes socio-economic background, educational attainment level, age, race and sex. The most crucial challenge faced by the investors is in the area of investment decisions. In designing the investment portfolio, the investors consider their financial goals, risk tolerance level, and other constraints. In addition to that, they predict the output mean- variance optimization. However this process is better suited for institutional investors; and not for individual investors who are susceptible to behavioural biases.

Reducing financial insecurity, feeling of financial independence, tendency of having own’s assets like home, car etc. at an early age could be few of the numerous reasons which creates an urge in the young professionals who are in the early stage of their profession to invest their hard earned money in various available financial alternatives like shares, debentures, bonds, mutual funds, derivatives and so on.

The majority of the market is governed by non-tangible and non-quantifiable factor known as market sentiments. Because of this reason in the present scenario, behavioural finance has
become an indispensable part of investor’s. Decision making process that guides them in deciding the best portfolio for investing which can give them the advantage of diversification. Proper understanding of behavioral finance will help the investors in choosing the portfolio matching their requirements.

II. LITERATURE REVIEW

A number of psychological biases, that affect investors’ behavior and subsequently their decisions, have been dealt with in several previous studies across the world. Such biases include: overconfidence, home bias, sensation seeking attitude, competence effect, herding, anchoring, heuristics, etc. This study attempts to address the issue of competence effect. Odean (1998) attributes the high volume of trading to investors’ overconfidence. Overconfidence can be termed as the tendency of investors to perceive themselves as skillful. In the process, they may forget the concept of “a rising tide lifts all the boats” at the time when their investment decisions prove to be sound. Glaser and Weber (2003) argued that there are three aspects of overconfidence, viz., miscalibration, the ‘better-than-average’ effect (i.e., people tend to think that they have higher than average skills), and illusion-of-control (i.e., the tendency to believe that one’s personal probability of success is higher than what objective probability would warrant). They establish that all but miscalibration lead to higher trading activities.

Barber and Odean (2001) argued that the relationship between gender and trading activity is due to the greater overconfidence of men. The evidence from their study suggests that single, young male investors tend to trade most frequently. They also found that the turnover of males exceeded that of females, which they attributed to the greater overconfidence of males.

Malmendier and Shanthikumar (2003), in their study of small investors, found that, while large investors adjust their reaction to hold and buy recommendations downward, small investors take recommendations literally. Small investors also fail to account for the additional distortion due to underwriter affiliation. Potential reasons for their trading behavior are: (1) higher costs of information; and (2) naivete about analysts’ distortions. Small investors may be naive about the distortions and trust analysts too much.

Graham et al. (2004) found that home bias, coupled with the competence effect, play a major role in high trading frequency. They came up with the idea that investors who feel more competent tend to trade more frequently than those who feel less competent. The competent effect also contributes to home bias. When an investor feels more competent about investing in foreign assets, he is more willing to shift a portion of his assets overseas. Their study indicated that investors with higher competence are more likely to invest in international assets.

The role of two psychological attributes in the trading tendency of investors has been studied by Grinblatt and Keloharju (2006). They analyzed the role played by sensation seeking and overconfidence in the tendency of investors to trade stocks. They found that overconfident investors and those investors more prone to sensation seeking, trade more frequently. Thus, for most investors, trading is driven by behavioral attributes. Individual Investors’ Trading Behavior and the Competence Effect 59 Cohn-Urbach and Westerholm (2006) attempted to determine whether the frequency of trading on the part of household and institutional investors had an effect on the returns they achieved. They found strong evidence that investors with high trading frequency earned substantially lower returns than those investors in the same demographic group who traded less frequently. It was shown that investors with larger portfolios tended to trade more frequently than those with smaller portfolios. Further, it was demonstrated that those investors with larger portfolios tended to trade actively for a longer period of time than those who held smaller portfolios. They also found that a similar relation exists for institutional investors. This indicates that institutional investors are prone to some biases which are also apparent in household investors. Trading is, however, not as hazardous for institutional investors as it is for household investors; institutional investors earn superior returns even if they trade more frequently than household investors.

Previous studies have shown that an individual’s investment behaviour has been linked to specific areas such as attitudes to risk (for example, Wood and Zaichkowsky, 2004; Funfgeld and Wang, 2009), savings (Thaler and Benartzi, 2004), investment in different financial instruments (East, 1993; Brennan, 1995; Keller and Siegrist, 2006) and orientation towards finances (Loix et al., 2005). Funfgeld and Wang (2009) argued that any focus on particular financial issues may not be a good indicator of one’s attitudes and behaviour to financial matters. However, attitudes can be quite influential in explaining an individual’s investment behaviour. Thus, we seek to measure the attitudes and behavioural intentions toward investing as one of the focal points in this paper.

Prior studies have also used attitudes and other behavioural factors to study investment behaviour (for example, Keller and Siegrist, 2006). In particular, several researchers have used social psychology theories (for example, Ajzen, 1991) to explain behavioural intentions in the investment context. This current study seeks to explore the influence of potential investors’ attitudes, social influence, control beliefs and other factors on their intentions to invest in different ventures or business opportunities. Ajzen (1991, p. 202) stated that “past behaviour is the best predictor of future behaviour”, and thus, he further argued that attitudes may influence one’s behaviour.

A. OBJECTIVES

1. To find the important factors that affect investment behavior of young investors.
2. To find the degree of correlation between age and investing activities.
3. To examine the saving objective among young individual investors.
4. To recognize the preferred savings avenue among young individual investors.
5. To assess the influence of demographic variables on conceptual awareness level of young individual investors.

B. HYPOTHESIS

H1: Investment is Independent of age
H2: Investment is Independent of gender
H3: Investment is Independent of income

III. RESEARCH METHODOLOGY

Preliminary Study
In the preliminary stage, we gathered a database of young investors from different workplaces and fixed appointments with them. One hundred investors accepted an appointment for personal interview.

Sampling Design
The target respondents include all such individual investors who have invested in different options available for investments and have some knowledge about the basic terminologies of the market.

However, the sampling has turned out to be a convenient sampling systematically chosen from blocks of the area conveniently located for the enumerators. The sample size is 100 investors.

Data Collection
The enumerators visited the investors according to the appointment fixed with them. They filled up the interviewer administered questionnaire with feedback from the respondents. The data collection went on for 30 days during November 2012 and December 2012.

A. ANALYSIS

The responses to the different questions have been represented using a pie chart. Ranks have been provided by the respondents for the different (1) savings instrument preference among individual investors; (2) current attitude of individual investors towards the different financial instruments, in the Indian capital market; (3) Preferred investment tool among young individual investors; and (4) preferential feature in financial instrument among young individual investors. Weights have been assigned to the ranks in increasing order, with the lowest rank number (signifying high importance) given the highest weight and the highest rank number (signifying low importance) assigned the lowest weight.

A chi-square test has been done to examine whether there exists any dependency between investment and each demographic factor such as age, income and gender separately.

Data Analysis
1) Age profile of the investors.

Graph – 1
80% of the total population falls in the age group of 25 years to 34 years while remaining 20% population falls in the age group of 35 years to 44 years.

2) Gender profile of the investors.

Graph – 2
60% of the total investors’ population is male while remaining 40% investors are female.

3) Monthly Income

Graph – 6
45% of the total population belong to the income bracket of Rs. 25001-38000, followed by income bracket of above 38000 with 35 % of the population, 10 % of the population have income between 12001-25000 and the remaining 10% have their income less than 12000.

4) Sector wise investment.

Graph – 10
54% investors prefer private sector for investment, 36% prefer government sector while remaining 10% prefer to invest in foreign sector.

5) Preference for investment

35% prefer to invest in mutual fund and equity shares equally, 7% prefer to invest in derivatives, 1% prefers to invest in equity shares. 15 in art and passion while remaining 21% in other options.

6) Factors governing investment decision.

42% of total investors’ population consider safety of funds as the main factor guiding their investment decision, 30% consider diversification while remaining 28% consider other factors.

7) Reason for investment

45% prefer to invest for growth and income, 32% invest for financial stability, 20% invest for tax saving while remaining 3% invest for other reasons.

8) Trading frequency

38% investors trade fortnightly, 28% trade every week, 18% trade once a month and remaining 16% trade daily.

9) Proportion of monthly income invested

48% investors spend around 30% of their total income on investment, 22% population spend 15% of their income, 20% spend around 45% of their and remaining 10% uses around 45% of their total income for investment purpose.

10) Factors considered before investment.

45% investors consider risk factor before investment, 30% consider returns, 20% consider time perspective and remaining 5% consider maturity before investment.

11) Factors considered before investing in stock market
49% investors consider volatility of stock market before investing, 30% go for company’s image in the market while remaining 21% consider other factors before investing in stock market.

12) Reaction of customers in case of market crashes

Graph – 24

52% is of the belief that they will invest more in case the market crashes, 28% will wait for market to move up while remaining 20% will never invest again.

B. FINDINGS

H1: Investment is Independent of Age

| Table 1: Result Analysis of Chi Square Test for Hypothesis H1 |
|-------------|-------|-------|-------|-------|
| Investment  | Total |
| 0           | 1     |
| Age         |       |       |       |
| 1           | 54    | 89    | 143   |
|             | 13    | 44    | 57    |
| Total       | 26    | 74    | 200   |

Chi Square test

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Note: Different age group are 25-35(1) and 35-44(2)

From the table 1 it has been found that investment is dependent on age. Hence, it can be concluded that the frequency of investing varies according to age group.

H2: Investment is Independent of Gender

| Table 2: Result Analysis of Chi Square Test for Hypothesis H2 |
|-------------|-------|-------|-------|-------|
| Investment  | Total |
| 0           | 1     |
| Gender      |       |       |       |
| Female(1)   | 45    | 62    | 107   |
| Male(2)     | 33    | 60    | 93    |

Chi Square test

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Note: Different Gender group are Male(1) and Female(2)

From the above table 2 this can be concluded that young individual investors are interested in investment. Hence, investment is independent of Gender.

H3: Investment is Independent of Income

| Table 3: Result Analysis of Chi Square Test for Hypothesis H3 |
|-------------|-------|-------|-------|-------|
| Investment  | Total |
| 0           | 1     |
| Income      |       |       |       |
| 1           | 30    | 16    | 46    |
| 2           | 33    | 18    | 51    |
| 3           | 23    | 40    | 63    |
| 4           | 11    | 29    | 40    |
| Total       | 97    | 103   | 200   |

Chi Square test

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<tbody>
<tr>
<td>Pearson Chi Square</td>
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Note: Different Income groups are- less than 12000(1), 12000-25000(2), 25000-38000(3) and more than 38000(4)

From the above table 3 it can be concluded that young individual investors’ investment activity is dependent on Income. Hence, the income levels do affect their investment behavior.

After applying chi square test on all the hypothesis it has been observed that the first and the third hypothesis is rejected while the second hypothesis accepted and therefore, it can be concluded that
- Investment is dependent on Age
- Investment is independent of Gender
- Investment is dependent on Income

IV. LIMITATIONS

1) This study was conducted in Lucknow so the result obtained reflects the investing activity of this city only. The results cannot be generalized for other parts of the country.
2) Sample size is 200 which mean that there exists a chance of sampling error.
3) The reactions of the investors can be biased as they might be reluctant in disclosing the real response.
V. SCOPE FOR FUTURE RESEARCH

- Not much work is done on this age group of investors. Hence, it leaves scope for future research.
- The study has been conducted in Lucknow. So, the result cannot be generalized for other cities. This same study can be conducted for various other cities as well.
- As the study has been conducted by using structured questionnaire the response can be biased. Therefore, the same study can be conducted by using disguised questionnaire also.

VI. CONCLUSIONS

This study has helped in throwing light on factors that creates an impact on investing activity of young professionals. Also this study has revealed that investing activity of young professionals is independent of gender but dependent on Income and Age.

According to the study it can be inferred that majority of investors invest for growth and additional income and the major factor that guides their investment decision is risk factor which means that investors mostly are risk averse.

REFERENCES