

A Study of the Effect of Income of Investors on Preferred Investment Avenues

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ABSTRACT

Income of investors can be considered as one of the most important factors that has influence on investment decision. In economics, the fluctuations in income can affect demand in the market as it directly influence purchasing power and investible surplus of investors. The study was undertaken to understand the possible effect of income of investors on various investment avenues. A sample of 974 individual investors was surveyed through a self designed questionnaire having six investment avenues i.e., variable income, fixed income securities, deposits, tax sheltered, mutual fund, insurance and real asset. One-way Anova was applied to check statistical differences among various income levels regarding investment avenues. The result found that income levels differed with respect to variable income securities, fixed income securities, deposits, tax sheltered investment alternatives, insurance and real asset. Only mutual fund was not found significant with respect to income levels because investors were found almost similar their views as far as mutual fund is concerned. Hence, it can be concluded that, at different level income investors have different choices of investment alternatives.

1. Introduction

Indian economy is continuously growing after liberalization and privatization in 1991 and since then the Indian Financial Market has shown a rapid growth because of foreign participants in the market in form of FDI and FII. The Indian Financial Market plays an important role in channelizing saving into investment through various financial instruments. Under the surveillance of financial regulators, these financial instruments are traded and exchanged between investors in the market. There are varieties of financial instruments available in India for investors to invest their investible surpluses and take part in capital formation of economy. These financial instrument ranges from financial securities to non financial securities having many classification according their nature and characteristics. The financial avenues may be classified into negotiable and non-negotiable instruments.

Negotiable Instruments are transferable and freely tradable in the market between buyer and sellers. These instrument may provide variable income as well as fixed income to the investors. Securities like equity share, mutual funds etc. comes under variable income security while fixed income securities includes Bonds, Debenture, Government securities etc. The non-negotiable instruments are non transferable and non securitized financial investment like Deposit Schemes, Post office Savings etc. Recently tax sheltered schemes are also popular among investors which are used as tool to get tax redemption and reduce tax liability. Investors get dual benefit in case of insurance policy as they get return with benefit as well as they provide risk cover to safeguard investors life from financial losses in case of any uncertainty in future. Real assets also have significant place among investment avenues as they are considered as safe because of their physical presence like Gold, Silver and Real estate etc (Pandian, 2012).

Negotiable securities are classified into variable income generating security and fixed income generating securities.

Variable Income Securities like Equity Shares provide a return which is determined by market forces. These securities are available in market and their price can be determined by markets forces. They are tradable in the market and their value changes with respect to time because of supply and demand of investors. These securities possess both higher risk as well as higher return as compared to fixed income securities and it is even possible that investor may get negative return. The return in variable securities are fluctuating there are number of factors which influence returns like growth, economic situations, investors' sentiments and behaviour (Avadhani, 2016 and Pandian, 2012).

Investors attitude towards various investment avenues varies according to different income level as capacity to take risk is less of low income group and vice versa. Investor's income also determines the confidence level of investors as it has been observed that high income group investors mostly in risky securities while low income group investors are usually risk averse in nature. It has been also found that, when age of investors increases the risk taking capacity decreases because investors set their goal according to age and income level in light of their risk taking capacity. Hence, income can be taken as one of the most important factor which affects investment decision of individual investors. Although, every investor have different mode of earning, this signifies different income level to different individuals. This can be resulted into different investible surpluses and different risk bearing capacity. This uneven nature of income to different individuals results into various choices of investment avenues as per the objectives and demand of money in future. Income of investors also signifies the risk bearing capacity of investors as income of an individual is positively related to quantum of money which is invested in various securities. High income group investors invest more in risky assets such as equity etc. while low income group investor's exhibit risk averse nature and invest in bond, debenture etc. Therefore, the study was conducted to study the effect of income on preferred investment avenues.

2. Literature Review

Many researches held in the past to study the effect of demographic characteristics of investors on investment decisions found that age, income, gender, occupation and education has significant effect on investment decisions of investors (Kliber (2016). Income is positively and significantly related with investment decisions and many studies proved that investment increases with increase in income level. Higher income investors have high propensity to invest because they have more investible surplus as compared to others (Talha et. al., 2015). Some studies have shown that investment decision of investors is affected by investors' income level, education level and workplace activity (Tamimi and Kalli, 2009). Demographic characteristics of investors such as education, income, number of dependents; knowledge level and ethical behaviour of investors were important predictors of financial risk tolerance. Among these demographic characteristics Income, Education, Financial Knowledge was the most significant factors and had a deep impact on financial risk tolerance and investment behaviour (Grable and Joo, 1999, 2000, 2004).

Grable and Lytton (1998) investigated the risk taking capacity with eight demographic characteristics such as income, gender, occupation, age, marital status, self-employment, race and education. Their study revealed that income, gender, occupation, age, marital status, self-employment, education and race significantly differentiated risk tolerance levels. Jain and Mandot (2012) studied the impact of demographic factors on investment decision of investors. They explored the relationship between level of risk taken by investors and demographic factor affecting investment decision. They found that there was negative correlation between marital status, gender, age, education, occupation and risk taking capacity while there was positive correlation between income, knowledge and risk tolerance level. They also found that all the demographic variables like age, marital status, income, knowledge etc have impact on investors' decision while there was no impact of gender and places of residence on investment decision making of investors.

Sireesha and Laxmi (2013) investigated the impact of demographics on select investment avenues. They found that income with saving had more significant effect on purpose of investment while age, occupation and consultant's advice had a significant effect on income. They also found that most of the investors followed their investment consultants and their preferred investment alternatives were those having less risk like Mutual fund, gold, FDs and bank deposits etc. They concluded that all the demographic variables considered in the study have an impact on investors' choices of alternatives.

3. Research Methodology

The Study: The study is descriptive in nature to understand the effect of various income levels of individual investors regarding investment avenues.

The Sample: The sample for the study was 974 individual investors from different parts of the world. Convenient sampling techniques have been used for the data collection.

Data Collection Tool: The primary data have been collected through self designed close ended questionnaire for the purpose of data collection. The questionnaire was targeted to be administered on individual investors to identify the factors influencing their investment decisions, identification of preferred investment avenues and assessment of financial risk tolerance. The questionnaire consisted of two sections A and B. Section 'A' consisted of questions related to various demographic characteristics of investors Section B consisted of Preferred Investment avenues which were taken according to two categories i.e., negotiable investment alternatives and non negotiable investment alternatives. Further negotiable securities were sub divided as variable income securities like equity shares etc., fixed income securities like bonds and debentures. Non negotiable securities include deposits, tax sheltered saving schemes, life insurance, mutual fund and the last category contains traditional investment alternative like real asset which includes real estate, gold and silver etc (Punithavathi Pandian, 2012). Respondents were asked to rate investment alternatives in five categories viz. Highest Preferred, High Preferred, Average Investment, Low Investment, and Lowest Investment.

Data Analysis Tool: One-way ANOVA was used to analyze whether there is statistical significant differences between various income levels of individual investors with respect to investment avenues.

4. Objectives

- To study the effect of different Income levels of investors regarding Variable Income Securities as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Fixed Income Securities as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Deposits as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Tax Sheltered Alternatives as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Mutual Fund as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Insurance as an Investment Avenues.
- To study the effect of different Income levels of investors regarding Real Assets as an Investment Avenues.

5. Hypothesis

For statistical analysis, the significant effects of all the demographics characteristics of Investors on Preferred

Investment were tested. Income of investors have been taken as independent variable and seven preferred investment avenues (Variable Income securities, Fixed Income Securities, Deposit, Tax Sheltered Schemes, Mutual Funds, Insurance and Real Assets) have been taken as dependent variable. Total thirty five hypotheses were framed to check how demographics characteristics of investors significantly different with investment avenues. Investors were asked to rate the preference on five point scale ranging from highest preferred to lowest preferred investment avenues.

H₀₁ – There is no significant difference between perceptions of respondents of different Income levels regarding Variable Income Securities as an Investment Avenues.

H₀₂ – There is no significant difference between perceptions of respondents of different Income levels regarding Fixed Income Securities as an Investment Avenues.

H₀₃ – There is no significant difference between perceptions of respondents of different Income levels regarding Deposits as an Investment Avenues.

H₀₄ – There is no significant difference between perceptions of respondents of different Income levels regarding Tax Sheltered Alternatives as an Investment Avenues.

H₀₅ – There is no significant difference between perceptions of respondents of different Income levels regarding Mutual Fund as an Investment Avenues.

H₀₆ – There is no significant difference between perceptions of respondents of different Income levels regarding Insurance as an Investment Avenues.

H₀₇ – There is no significant difference between perceptions of respondents of different Income levels regarding Real Assets as an Investment Avenues.

6. Result and Discussions

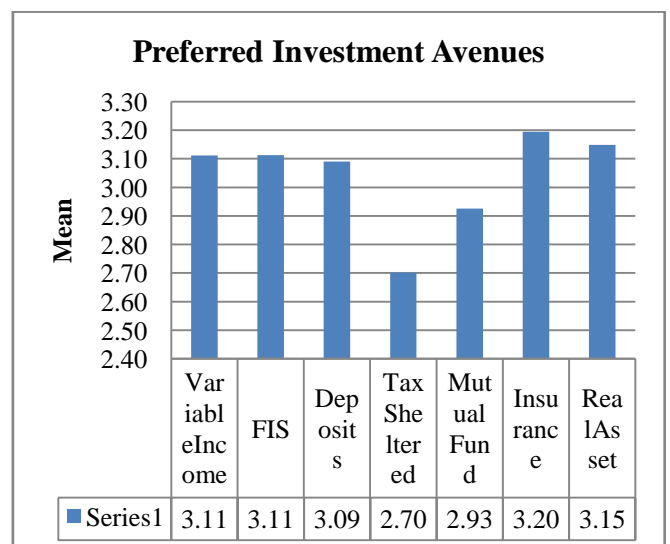
Table 01:
Respondents Profile

Demographic Characteristics		Frequency	Percent
Age	Up to 30 years	378	38.81
	30 years to 50 years	393	40.35
	Above 50 years	203	20.84
Income	Up to 2.5 Lakhs	145	14.88
	2.5 lakhs to 5 lakhs	309	31.72
	5 lakhs to 10 lakhs	318	32.65
	Above 10 Lakhs	202	21.46
Gender	Male	560	57.50
	Female	414	42.50
	long term (More than 10 years)	177	18.17

From the above table, out of total respondents (974) surveyed 57.5 percent were male and 42.5 percent were female. The table also indicated that 38.81 percent respondents belong to the age group up to 30 years and 40.35 percent respondents belong to age group of 30 to 50 years while 20.84 percent of investors belong to above 50 years of age. It was also found that out of total respondents 14.88 percent have annual income below Rs. 2,50,000; 31.72 percent of respondents lie between Rs. 2,50,001 to Rs. 5,00,000; 32.65 percent have annual income category of Rs. 5,00,001 to Rs. 10,00,000 and 21.46 percent respondents have above Rs. 10,00,000.

6.1 Preferred Investment Avenues

Figure 01:
Preferred investment Avenues



It has been observed from above table and graph that the mean of Insurance (Mean = 3.20) was highest among all the avenues. Hence, it can be inferred that the most preferred investment avenues was Insurance followed by Real Assets (Mean = 3.15) as the second most important preferred investment alternatives.

6.2 Result of ANOVA

In order to assess the statistical difference between various income level of investors and investment avenues, One-way Anova at 5% level of significance was applied to check statistical significance of independent variable over dependent variables. The study found that there exists a statistical significant difference between perception of respondents of different Income levels regarding Variable Income Securities, Fixed Income Securities, Tax Sheltered Alternatives, Insurance, Deposits, Real Assets as an Investment Avenue except Mutual Fund. The findings were

supported by Sharma et. al. (2016) who studied the preference of investors with respect to Insurance sector and found that majority of investors invests in insurance to avail tax benefit. They also found in their study that age of investor significantly affect decision of investors while selecting insurance as an alternative. They concluded that middle age investor prefer insurance most followed by young investors as compared to old age investors. Das (2011) conducted a survey related to preferred investment avenue in Assam which revealed that insurance was preferred financial alternative among investors with an objective to avail tax benefit and hedge financial loss in future. They also found that Investors has positive attitude towards unit linked policy as compared to term plans. They concluded that income level is positively correlated with insurance investment i.e., higher income group investors have relatively higher preference towards investment in insurance sector.

Table 02:
Result of ANOVA

S.No.	Investment Avenue	F	Sig.	Null Hypothesis
1.	Variable Income	11.999	.000	Rejected
2.	Fixed Income Securities	4.581	.003	Rejected
3.	Deposits	59.902	.000	Rejected
4.	Tax Sheltered	43.725	.000	Rejected
5.	Mutual Fund	1.430	.232	Not Rejected
6.	Insurance	3.577	.014	Rejected
7.	Real Asset	54.102	.000	Rejected

7. Conclusion

The study found the significant effect of income regarding variable income securities as well fixed income securities and it can be concluded that higher income investors prefer to invest in variable income securities as they have higher risk taking capacity and low income group investors prefer to invest in fixed income securities. Significant effect of income was also found regarding deposits and it can be concluded that lower income group put their maximum savings in deposits as they

need higher liquidity while higher income group try to maximize their wealth and invest more. Significant impact of income was also found regarding tax sheltered alternatives and it can be concluded that higher income group try to save tax through investing in various tax saving alternatives as their tax liabilities is more than lower income group while lower income group do not prefer to invest any such securities.

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Appendix

Table 03
Result of Anova

		Sum of Squares	df	Mean Square	F	Sig.
Variable Income	Between Groups	90.103	3	30.034	11.999	.000
	Within Groups	2427.910	970	2.503		
	Total	2518.013	973			
Fixed Income Securities	Between Groups	22.233	3	7.411	4.581	.003
	Within Groups	1569.344	970	1.618		
	Total	1591.577	973			
Deposits	Between Groups	387.367	3	129.122	59.902	.000
	Within Groups	2090.884	970	2.156		
	Total	2478.252	973			
Tax Sheltered	Between Groups	229.722	3	76.574	43.725	.000
	Within Groups	1698.711	970	1.751		
	Total	1928.432	973			
Mutual Fund	Between Groups	7.419	3	2.473	1.430	.232
	Within Groups	1677.178	970	1.729		
	Total	1684.597	973			
Insurance	Between Groups	17.850	3	5.950	3.577	.014
	Within Groups	1613.645	970	1.664		
	Total	1631.496	973			
Real Asset	Between Groups	369.738	3	123.246	54.102	.000
	Within Groups	2209.676	970	2.278		
	Total	2579.414	973			

Table 04:
Preferred Investment Avenues

	N	Minimum	Maximum	Mean	Std. Deviation
Variable Income	974	1.00	5.00	3.11	1.57733
Fixed Income Securities	974	1.00	5.00	3.11	1.27896
Deposits	974	1.00	5.00	3.09	1.61253
Tax Sheltered	974	1.00	5.00	2.70	1.40695
Mutual Fund	974	1.00	5.00	2.93	1.32982
Insurance	974	1.00	5.00	3.20	1.23786
Real Asset	974	1.00	5.00	3.15	1.62819