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A Study on Recognizing Investors Group Segments Based on Demographic and Psychographic Characteristics

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ABSTRACT

The household sector represented by individuals occupies a strategic place among various economic units in a country as it contributes substantially to the domestic savings efforts. An understanding of the savings behavior of this sector is of crucial importance in devising appropriate savings policies. The word savings here implies the residual amount that is available for a person for investment after meeting all his consumption expenses and repayment of loans. The economic system depends on an adequate supply of capital from private investors. The savings of individual investors are the main source of capital investment for business expansion. The future of the free enterprise system depends mainly, and almost exclusively on the continued ability and willingness of individuals with larger incomes to provide the capital and funds needed to finance the growth.

1. INTRODUCTION

The capital market is used as the main tool to activate funds for the economic growth of the country. The renovation of saving for the household, investing on institutions, formation of financial assets and growth of asset-related products are the essential function of the capital market. For the constant growth of economy in any country, well-functioning of security market is needed; the security market provides a bridge between critical savers and ultimate investors, the chance to position the investments of the careful at the disposal of the original, thus hopeful to raise the total level of investment and growth. It allocates scarce savings to the enterprises and forces them to focus on their performance, which is continuously evaluated through share prices in the market. It thus converts a given stock of invested funds to a large flow of goods and services

2. IMPORTANCE OF THE STUDY

Indian Capital market is one of the longest upward markets in the world. It has developed memorably during the recent years in tune with the global financial markets. The Indian Capital Market comprises of two segments namely, the Primary and the Secondary market. The new number of securities takes place in primary market and trading among investors takes place in secondary market. The primary market is the major channel during which the savings of the households are mobilized by the companies honestly for investment purposes. It is the Centre stage of the capital market that really boosts industrial and financial activities by providing long term funds to the corporate and the government. It infuses new securities, addition volume and wider base of securities in the secondary market. The secondary market affords liquidity to the investment in securities and reflects the general health of the economy.

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3. STATEMENT OF THE PROBLEM

The Indian Capital Market players are namely Individual investors, mutual funds and Foreign Institutional Investors. Individual investing activity takes place in the draw round of institutional investing activity. Indian capital market is dominated by Institutional Investors both at the domestic and foreign level. There is chance for the individual's to lose their interest and their strength being affected because of the smaller size of their investment and the consequential exposure. So, therefore it is necessary to study the problem of the small investor. The stock market witnesses volatility due to the entry and unexpected exit of Institutional Investors. The background of the study is motivated to study the investing strategies, preferences and perceptions of the individual investors in the capital market. Further there is study helps to analyze the various demographic factors and psychological factors which influence the decision making process of different institutional investors and individual investors. The investor's psychological approach for investing is based on the hypothesis, that stock prices are guided by feeling rather than reason. The study covers the savings and investment behavior of the respondents with respect to Equity investments.

4. OBJECTIVES OF THE STUDY

- To sketch the investor's profile based on their personal, social economic and the pattern of their investments.
- To identify the factors that influences the choice of investment of the individual investors
- To identify the risk and return on investments by individual investors.

5. HYPOTHESES OF THE STUDY

- There is a significant relationship between investment behavior and the gender of individual investors.
- Group behaviour varies significantly among the age groups of investors
- Risk tolerance varies considerably with the age of the investors
- There exists a relationship between risk tolerances and the gender groups of the investors.

6. SCOPE OF THE STUDY

Traditionally, finance theory based on investor's decision through a lens of risk and return and the decision should be reasonable and independent one. Behavioral finance recognizes and evidences that emotions and herd instincts play an important role in influencing decision making. Various institutional investors and individual investors are aware about such psychological behavior while making investment decision. This psychological behavior helps us to know the impoverishment of the financial literacy level which creates uncertainty in the game of investment. As a result the traditional financial theory relating to the efficiency of the stock market is demonstrated incorrect.

The state of Tamil Nadu is one of the developed states in India with a huge potential for participation in the capital market. Investor studies relating to state of Tamil Nadu is very limited. Hence this study is undertaken to gain an insight to the investor behavior.

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7. RESEARCH METHODOLOGY

This study based on the Individual Investors Behavior in Capital Market, both in analytical and descriptive nature. It depends upon both primary and secondary data. The methodology is the explanation segment which governs the outcome of the research. It encompasses and directs the researcher to carry out the research in a methodical process which ensures and facilitates the truthfulness of the outcomes. It deals with the data collected for the study, sources of data, sampling plan the population of the study, location of the research, instrument used to collect data, method of collecting data, analysis and interpretation of the collected data with different statistical tools in order to find out the strength of the collected data and limitations of the study.

SAMPLING PLAN

Since the population of the selected locations for the research is very large and all the respondents could not be interviewed due to practical difficulties, only selected samples have been taken up for the study. Many investors were unwilling to disclose their financial details especially amount of money invested in different investment avenues. Hence the data were collected from the respondents who were willing to disclose the information. Simple random sampling method is used for the study. When the target population is finely distributed across an immeasurable are this method of simple random sampling is suitable for data collection. In order to have illustration from different demographic groups cluster sampling is done to select the respondents.

LOCATION OF THE STUDY

The research adopted simple random sampling method. The respondents chosen from an age group residing in Chennai in age group of 20-65 years including the different strata of investors like student, Investment & Fund Managers, Retired salaried class, businessmen, Stock Brokers, and Investment Advisors. 720 questionnaires were distributed to the investors spread over in Chennai city. Among them 615 questionnaires were collected. In which 15 questionnaires were found usable. Hence, the accurate sample of the study is 600.

PILOT STUDY

The survey was conducted with 50 respondents to check whether the questions were relating to the objectives. The researcher known difficulties in getting the responsive information like income and investments and savings in absolute terms and consequently the questions were adapted thereby the respondents were asked to identify their income groups and other details. Some of the respondents opined that the questionnaire was very lengthy. Then questionnaire was incompletely changed by adding, deleting, reforming few questions and again retested and data collection was continuous after compliant to the objectivity of the result got from adapted questionnaire

FRAMEWORK ANALYSIS

This research is based on primary data which were collected from the investors' through questionnaire. Secondary data is also utilized, which were collected from published source like books, journals, magazines, annual report. The data collected from both the sources is scrutinized, edited and tabulated. The data were analyzed using statistical package for social sciences (SPSS). The following statistical tools are used in the study.

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8. LIMITATIONS OF THE STUDY

The study is confined to Chennai city and therefore the conclusion cannot be comprehensive to the entire universe. The Findings, Suggestions and the conclusion may be applicable only to the retail equity investors and not for other Institutional investors. Reliability and Validity of the statistical data are obtained from the opinion given by investors which may differ from time to timebecause of their psychological temperament.

ONE-WAY ANALYSIS OF VARIANCE AMONG ACADEMIC QUALIFICATION WITH REGARD TO INVESTMENT BEHAVIOR

		SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Hear behavior	Between Groups	2.133	3	.711	1.426	.234
	Within Groups	297.265	596	.499		
	Total	299.398	599			
Preference of short team	Between Groups	3.306	3	1.102	2.192	.088
	Within Groups	299.652	596	.503		
	Total	302.958	599			
Risk tolerance	Between Groups	3.568	3	1.189	2.681	.046
	Within Groups	264.372	596	.444		
	Total	267.940	599			
Perception	Between Groups	1.650	3	.550	2.268	.080
	Within Groups	144.510	596	.242		
	Total	146.160	599			
Investors awareness	Between Groups	.844	3	.281	.663	.575
	Within Groups	252.954	596	.424		
	Total	253.798	599			

TABLE NO 1

G1 = Self Employed G2 = Employed in Government G3 = Employed in private G4 = Retired
The group behaviour varies significantly among the respondents belonging to different academic qualifications. The mean scores of the different groups as specified above signify a significant difference among the group. Her instincts based on the mean scores are highest for G2 for graduates and lowest for Professionals. The preference for short term gain varies significantly among the respondents belonging to different academic qualifications. The mean score is the highest for respondents belonging to the group G1 - High School qualifications. The table 4.34 reveals a significant difference among the respondents with respect to the level of risk tolerance.

The F Test above reveals that there is significant difference among respondents with respect to perception of capital market as indicated by the mean scores for the different groups. The perception of the respondents with respect to corporate governance does not vary significantly among the different academic levels of the respondents. The level of investor awareness does not vary significantly among the respondents belonging to different educational levels.

ONE-WAY ANALYSIS OF VARIANCE AMONG OCCUPATION WITH REGARD TO INVESTMENT BEHAVIOR

		SUM OF SQUARES	DF	MEAN SQUARE	F	SIG.
Hear behavior	Between Groups	.517	3	.172	.344	.794
	Within Groups	298.881	596	.501		
	Total	299.398	599			
Preference of short team	Between Groups	1.028	3	.343	.676	.567
	Within Groups	301.930	596	.507		
	Total	302.958	599			
Risk tolerance	Between Groups	1.102	3	.367	.820	.483
	Within Groups	266.838	596	.448		
	Total	267.940	599			
Perception	Between Groups	.133	3	.044	.181	.909
	Within Groups	146.027	596	.245		
	Total	146.160	599			
Investors awareness	Between Groups	.771	3	.257	.606	.612
	Within Groups	253.027	596	.425		
	Total	253.798	599			

Source: Primary data

TABLE NO 2

ONE WAY ANALYSIS OF VARIANCE AMONG OCCUPATION WITH REGARD TO INVESTMENT BEHAVIOR REVEALS THE FOLLOWING

The herd behavior varies significantly among the respondents belonging to different occupation. It is evident from the mean scores as given in table 4.35 for the variable herd behavior. The preference for short term gain of the respondents varies significantly among the group. The mean scores given for the variable shows there is a difference in value among the group. The level of risk tolerance of the employees varies significantly between the groups as evident from table 5-30. The risk tolerance level of the retired investors is much different from others. The perception towards capital market does not differ significantly among the respondents belonging to different occupation levels. The mean scores for the variable do not differ significantly among the different groups. The perception of the respondents towards corporate governance does not differ significantly among the groups belonging to different occupation. The level of investor awareness varies significantly among the respondents belonging to different occupations. This is evident from the mean scores. On the basis of the results shown above, Duncan's Post Hoc Test is done for the variables where there is a significance level with $P<0.01$. The results are presented below

DUNCAN POST HOC TEST – PREFERENCE FOR SHORT TERM GAIN

	OCCUPATION	N	SUBSET	
			1	2
Duncan[a,b]	Government Employee	231	2.6190	
	Retired	127	2.8110	2.8110
	Self employed	116		2.9310
	Private Employee	126		2.9444
	Sig.		.152	.352

Source: Primary data

TABLE NO 3

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Table - 3 shows that the there is significant difference in the preference for short term gain between the retired investors and the rest of the investors as depicted above. Similarly the table above reveals there is no significant difference among the employed in private, self-employed and employed in government with respect to preference for short term gain.

DUNCAN POST HOC TEST – RISK TOLERANCE

	OCCUPATION	N	SUBSET FOR ALPHA = 0.05
			1
Duncan[a,b]	Government Employee	231	3.7446
	Private Employee	126	3.8254
	Self employed	116	3.8276
	Retired	127	3.8976
	Sig.		.344

Source: Primary data

TABLE NO 4

Table 4.35 reveals that there is difference between retired investors and others with respect to their risk tolerance. Respondents who are employed in private, employed in government and self employed do not differ significantly with respect to risk tolerance. The analysis of variance as done by the above table confirms that the retired respondents differ significantly from other groups of investors with respect to their preference for short term gain and risk tolerance.

SUMMARY

The investment behavior of the retired investors is very different from the other respondents. The level of risk taking by the retired investors is very high compared to others. This can be attributed to many factors like a higher level of financial security, a lower level of financial commitment and also the years of experience gained in investing.

ASSOCIATION BETWEEN GENDER AND VARIOUS BEHAVIORAL ISSUES

The relationship between demographic factors and various behavioral issues and perceptional issues such as herding tendency, preference for short term gain, risk tolerance and financial literacy are analyzed in this study.

HERD BEHAVIOR

Herd instincts are a psychological bias in investing. Instead of relying on any analysis or basic information people tend to herd together i.e. just follow other investors or market sentiments. This often results in irrational ups and downs in the market not supported by any technical or fundamental valuation. This may be due to over reaction to any market information. The behavior of the investors is analyzed based on the responses from the Rating scale used for the respondents. The following table V-38 is provided for the purpose of analysis.

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HARDING VS GENDER

		GENDER		TOTAL
		MALE	FEMALE	
Harding behavior	Low	171	6	177
	Medium	254	10	264
	High	141	18	159
Total		566	34	600

TABLE NO 5

As per the above table 5.32, 50 per cent of female investors have a high level of herding tendency, 22.7 per cent has medium level of herding tendency and 27.3 per cent of the respondents have a low level. Among the male, a high level of herding tendency is shown by 37.5 per cent of the respondents, medium level by 33.6 per cent and low level by 28.9 per cent. With a view to analyses the associations between the herd instincts and gender chi square test is applied. The findings are presented below.

CHI-SQUARE TESTS

	VALUE	DF	ASYMP. SIG. (2-SIDED)
Pearson Chi-Square	12.969[a]	2	.002

The results of the chi square tests revealed above prove that there is no significant relationship between herding and the gender.

PREFERENCE FOR SHORT TERM GAIN

The investment time frame of the investors is either short term or long term. Short term denotes the holding period of less than one year and long term is more than one year. Choosing between short term gain and long term gain is a very important decision taken by every investor. Each has its own risks and rewards associated with it. Many investment experts favour the idea of long term gain but in a developing economy like India where the stock markets have become very developed and exciting the tendency of the investors to invest for a short term gain and reap the benefits is a frequently observed phenomenon. Hence this tendency is analyzed in this study. The following table is provided for the purpose of analysis.

PREFERENCE FOR SHORT TERM GAIN VS GENDER

		GENDER		TOTAL
		MALE	FEMALE	
Level	High	100	1	101
	Medium	211	12	223
	Low	255	21	276
Total		566	34	600

TABLE NO 6

Among the males 25 per cent show a high level of preference for short term gain. But among the females 40.9 per cent have shown a high level of preference. Female investors show a higher level of preference than the male investors. With a view to examine the association

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between preference for short term gain and gender chi square test is applied. The results are given below.

CHI-SQUARE TESTS

	VALUE	DF	ASYMP. SIG. (2-SIDED)
Pearson Chi-Square	6.113[a]	2	.047

RISK TOLERANCE

Risk tolerance is a very important attribute in investing which decides the choice of investment of an individual. It also determines the rate of return earned by the investor. There is a reward for risk taken

ASSOCIATION BETWEEN PREFERENCE FOR SMALL LOTS AND DEMOGRAPHIC FACTORS

S.NO.	DEMOGRAPHIC FACTORS	LEVEL				DF	STATISTICAL INFERENCE
		LOW	MEDIUM	HIGH	TOTAL		
1. Gender	Male	171	272	123	566	2	$X^2 = 4.414^a$ P<0.01 Significant
	Female	10	18	6	34		
	Total	181	290	129	600		
2. Age	Less than 30	40	44	21	105	6	$X^2 = 8.065^a$ P<0.01 Significant
	30-45	53	108	39	200		
	45-60	45	79	42	166		
	Above 60	43	59	27	129		
	Total	181	290	129	600		
3. Academic Qualification	School final	42	59	31	132	6	$X^2 = 6.246^a$ P<0.05 Significant
	Graduate	47	90	33	170		
	Post graduate	52	61	32	145		
	Professional	40	80	33	153		
	Total	181	290	129	600		
4.Occupation	Self employed	29	56	31	116	6	$X^2 = 7.551^a$ P<0.05 Significant
	Govt. employee	67	115	49	231		
	private	42	65	19	126		
	Retired	43	54	30	127		
	Total	181	290	129	600		
5. Annual Income	Below 2 lakhs	38	59	19	116	6	$X^2 = 8.645^a$ P<0.05 Significant
	2-4 lakhs	35	52	20	107		
	4-6 lakhs	55	68	42	165		
	6 lakhs and	53	111	48	212		
	Total	181	290	129	600		

Table - 7 reveals the following: There is no relationship between the gender of the respondents and the preference for small lots of shares. There is a significant relationship between the age of the respondents and the preference for small lots shares. The preference for small lots of shares does not vary significantly between respondents belonging to different academic levels the preference for small lots varies between different occupations. The preference for small lots varies significantly between different income levels of the respondents

SUMMARY

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The occupation of the investors significantly influences investment behaviour. The investors who are retired show a different behaviour than the remaining groups of the respondents. The retired investors show a high level of risk tolerance, preference for short term gain and herd behaviour. Risk tolerance and preference for short term gain are the two variables which have a significant relationship with the gender of the investor. From this it is inferred that men and women vary with respect to risk tolerance and their investment goals namely short term or long term goals. The study on investor behaviour in the capital market reveals the finding that the demographic variables namely gender; age, qualification, occupation and annual income of the respondents significantly influence the behaviour of the investors in the capital market .Among the different groups of the respondents, two groups of respondents stand apart from others in a significant way. They are the investors who are less than 30 years and the retired investors. Investors who are less than 30 show a high level of risk tolerance. Similarly the retired investors have high level risk tolerance. The investors are largely influenced by their brokers/ financial advisers. When it comes to preferences in investments, Blue chips are the most preferred shares and growth funds are the most preferred funds. A majority of them have a favourable opinion about capital market and corporate governance in India.

9. CONCLUSION

The study based on primary data of selected individual investors was done to gain a deeper understanding of the investment preferences, behaviour and perceptions of the investors. The study established the fact that the investment strategies of the investors are largely influenced by the social- economic factors of the investors. The main finding of the study is that majority of the investors have a short term perspective while investing in stock market. Nearly 20 per cent of them have incurred losses over the past five years but a majority of them evinced keen interest in the game of investing as evident by the time spent by them for investing activities. The current financial literacy levels are not adequate. The need of the hour is to promote financial literacy at a very early age in one's life and help the common man to make his financial plan profitable for himself as well as for the capital market in India.

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