A Study on Investment Determinants among Non-institutional Investors

Mukesh Kumar Jakhar, Assistant Professor
Department of Management Studies,
Shekhawati Institute of Technology, Sikar.
Rajasthan, India
Mukeshjakhar26@gmail.com

Abstract

In the economic world income plays a vital role in every one's life. Investment is one of the major issues of the Non-institutional investors as their small savings of today are meeting the expenses of tomorrow. The risk and returns accessible from each of these investment patterns different from one investment pattern to another. Investor's behavior play an important role to investment decision making, and investor's behavior is affected by many factors during investment decision making. Today, investors have many avenues of investment with different features comparable their needs. Investors see in the market that the return is maximized with minimum risk, which is inherent in all investments.This study will be an attempt to find how the non-institutional, who are small, less informed and infrequent investors by nature, consider the different fundamental determinants while making equity investment decisions. Investors have different ideas when they decide about investing in a particular avenue every individual wants his saving to be invested in most secured and liquid way.

Key words: *Non-institutional investor, Investor's behavior, Investment patterns, Investment decisions, Investment avenues.*

1. INVESTMENT

1.1 Introduction:

Investment means the employment of funds in the hope of receiving future benefits. The essential quality of an investment is that it involves waiting for a reward. An investment is the current guarantee of money and the hope of securing future benefits.It also involves the diversion of resources from current consumption. Investment in equity needs a detailed study of various factors of a company before investing in it. The institutional investors analyse the various factors which are to be studied before investing in equities but the non-institutional investors traditionally, with their several limitations, do not appraise the company before investing in shares. However, with rising degree of awareness and several investor awareness programmes conducted by different broking houses as a part of their investor friendly image building strategy and sometimes to comply with the mandatory provisions of regulatory bodies, even small scale and infrequent investors have started considering different factors those influence the likely performance of the company they are investing in.

1.2 Investment Objectives:

The study is proposed to attain the following objectives:

a) **Risk &Return:** The word risk is the variability of return. Every investor likes to reduce the risk of his investment and maximum return. Investors always hope for a good rate of return from their investments. The risk/return trade-off is the balance between the desires for the lowest possible return and the highest possible return.

b) Liquidity: Liquidity means how quickly an investment can be converted into cash. Liquidity means how quickly you can get your cash in hands. In simple terms, liquidity is to get your money whenever you need it.

c) Safety: An investor has to study possibility of company and stability of market before invest his money. Every investment provides different degree of safety. The law rules add a security of safety.

d) Hedge against Inflation: Inflation hedge is an investment that is considered to provide protection against the decreased value of a currency. The return rate should be higher than the rate of inflation; other-wise the investor will have loss in real terms.

e) Tax Benefits: The Non-institutional investors invest their money in various financial products solely for reducing their tax liability. Some products offer tax exemptions while many offer tax benefits on long-term profits.

1.3 Reasons behind Investment:

Though investors tend to invest for numerous reasons, different agencies in their surveys have found three major reasons behind investments, which are:

(i) Securing post retirement life

(ii) Education of children and marriage and

(iii) Creation of wealth.

1.4 Investment Avenues:

The following are the important avenues where the public is interested to invest their savings:

a) Land: According to Ferguson. N (2010): When human being started investing for his future, he was looking for an asset which he was able to use for productive purpose and the one that gives him safety, so he started investing on land.

b) House: Every person has a dream to live in his or her own house. As a result, without looking for much return, everybody considers investing on housing. Generally while making investment on assets, people tend to give the highest ranking to return on the investment while selecting an asset. But, in the case of housing many feel the return on investment is secondary to social security and comfort.

c) Precious Metals: No researcher was able to trace the date since when people have been making investments on precious metals like gold and others. But, everybody knows the reasons for which large numbers of investors are investing in gold.

d) Fixed Deposits/Bank Deposits: Bank deposits are very popular investment avenue. Commercial banks have introduced different types of deposit accounts to attract the investing public. Different types of bank deposits are maintained by commercial banks are; (a) Current Account; (b) Savings Deposits Account; (c) Fixed Deposit Account.

e) Company Deposits: Generally public limited companies in the private sector invite deposits. Deposits may be cumulative or non-cumulative. Companies irrespective of their size are inviting fixed deposits from the general public. The rates of interest offered on company deposits are higher when compared to bank deposits. These deposits are governed by the Reserve bank of India.

f) **Post Office SmallSavings Schemes**: Post office small savings schemes are also like the commercial bank schemes. These schemes are operated through post offices. The term post office savings schemes include Post Office Monthly Income Scheme (POMIS), Kisan Vikas Patra (KVP), National Savings Certificate (NSE), Public Provident Fund (PPF) etc.

g) **Life Insurance**: Life insurance is viewed as an investment. Generally Life insurance policy is purchased to cover risk. The assesses who would like to avail Income-Tax benefits also purchase life insurance policies. The important types of insurance policies in India are: (a) Term life insurance (b) Whole life policy (c) Endowment Plans (d) Unit Linked Insurance Plans (e) Money back Policy.

h) **Mutual Funds**: An Investment Programme funded by shareholders that trade in diversified holdings and is professionally managed. "Don't put all eggs in one basket; if the basket is dropped all eggs will smash" is the mantra preached by the investment consultants. Three are four broad types of mutual fund schemes. They are; (a) Income Schemes (b) Growth Schemes (c) balanced schemes (d) Money Market Schemes.

2. INVESTORS

2.1 Introduction:

An investor is any person who commits capital with the expectation of maximum returns. Investors utilize investments in order to increase their money and/or provide an income during retirement, such as with a benefit. Investors typically perform technical and fundamental analysis to determine good investment opportunities, and generally prefer to minimize risk while maximising returns.

2.2 Investors Classification:

Investors can be classified into three categories. They are;

a) **Risk Averters:** As the term indicates risk averters do not invest in risky assets. These investors prefer to invest in government securities, life insurance policies and Unit Trust Certificates.

b) **Risk Moderates:** Risk moderates are active to pay for making an investment provided they get return of an equal value. They invest in common stocks and life policies.

c) **Risk Takers:** Risk takers chief aim is getting higher return for their investments. They believe in high return for a greater risk. They prefer to invest in common bonds, convertible securities.

2.3 Behavioural Investor Types:

a) **A Preserver** is an investor who places a great deal of attention on financial security of investments and preserving wealth rather than taking risks to grow wealth. These investors are guardians of their assets and take losses very seriously.

b) **A Follower** is an investor who is passive and often lacks interest in and has little attitude for money or investing. Followers' investors typically do not have their own ideas about investing.

c) **An Independent** is investors who has authentic ideas about investing and likes to get involved in the investment process. They are willing to take risks and act decisively when called upon to do so.

d) **An Accumulator** is an investor who is interested in accumulating wealth and is confident he can do so. They have generally been successful in some business perusal and are assertive that they will be successful investors.

2.4 Demographic profile of Non-institutional Investors:

a) **Age:** Non-institutional investors have been divided into three categories based on their age as 'Youth (20-40 years), 'Middle aged' (40-60years), and 'Old' (60 years and above).

b) **Sex:** Non-institutional investors have been divided into two groups based on their gender as 'Male' and 'Female'.

c) **Marital Status:** Non-institutional investors have been divided into two groups based on their marital status as 'Married' and 'Unmarried'.

d) **Education:** Non-institutional investors have been classified into four categories based on their educational level as 'Basic Level Education', 'Medium Level Education', 'High Level Education' and 'Others'.

e) **Occupation:** Non-institutional investors have been divided into four groups based on their occupation as 'Private Service Employ', 'Government Service Employ', 'Businessman' and 'Others'.

f) **Family Size:** Non-institutional investors have been classified into three categories based on their family size as 'Small' (2-4 members), 'Medium' (4-6 members) and 'Large' (6 & above members).

g) **Family Income:**Non-institutional investors have been classified into three categories based on their monthly family income as 'Low' (Rs.50, 000), 'Medium' (Rs.50, 000-Rs.100000), and 'High' (Rs.10000 and above).

h) **Earning Members in the family:**Non-institutional investors have been divided into three categories based on the number of earning members in their family as '1', '2' and '3' & above.

i) **Type of Investor:** Investors have been classified into two types based on their nature as 'Traditional Investor' and 'New Generation Investor'.

3. DETERMINANTS OF INVESTMENT

3.1 General:

Economic and industrial conditions of the country affect the investment decisions of investors, in general, irrespective of the category of investor. Broadly, inflation rate, interest rates, taxation policies and export-import policies of the country are the major factors those influences the performance of industries and companies.

3.2 Non-institutional Investors:

The non-institutional investors are the investors who do not have access to detailed information about economy and other economic developments. This less privileged status of such type of investors kindles many other factors, which influences their decision regarding investments. Non-institutional investors face a lot of problems due to inadequate knowledge, lack of investment skills, non-availability of information, rural orientation, etc.

4. CONCLUSION

The findings conclude that the non-institutional investors do consider the fundamental determinants of a company before investment but their attention are limited to easily understandable financial performance of investment avenues. According to this study it can be accurate that larger parts of non-institutional investors invest for growth and extra income and the major factor that guides their investment decision is risk factor which means that non-institutional investors mostly are risk averse. This paper has examined published work relating non-institutional investor's behaviour, investment avenues, investment categories, demographic profile of investors etc. Knowledge about investment avenues, demographic profile, attitude of an investor's risk, personal circumstances of non-institutional investors play a very important role in the financial markets.

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