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IMPACT OF THE PERSONALIZED FACTORS ON THE INVESTMENT BEHAVIOR OF INVESTORS – A CASE STUDY OF LUDHIANA

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Abstract

The investment behavior of investors is the function various personalized factors. Investment behavior is affected by many factors which are peculiar to the investors. This study was conductedto examine the impact of various personalized factors on the investment behavior of the investors.The sample size was 500 investors from Ludhiana city. To explore the relationship between various personalizedfactors and the investment behavior of the investors, the chi-square test was applied. Results of the study showed that sector preferences had an important effect on the behavior of the investors.The objectives of investment, too, affected the investment behavior of investors. Sector preferences had an important effect on the behavior of the investors. Factors of investment did not have severe effects on the investor's investment behavior. It was also found that investment experience brought changes in the behavior of the investors while investing. The percentage of income invested by investors again had a crucial role to play in the investment behavior of investors. This study showed that even the time horizon had a large effect on investment behavior. Constraints of investment did not have severe effects on the investor's investment behavior.

Keywords: Personalized factors, investment behavior, chi-square test, investors, Ludhiana.

1. Introduction

After 1991 LPG made the Indian economy strongest but facing the lack of capital formation, it seeks positive grounds to improve the same. Most of the developing countries have a vicious circle of poverty, which is difficult to get rid of. But a high level of capital formation leads to a high rate of investment that will improve the level of growth and development as well as the system of low income- no saving- low investment- low employment. This will aid to get the desired results of economic welfare, which includes production as per target, employment generation, and capital adequacy norms. Investment is a crucial determinant and is supported by an appropriate volume of savings [1].

Investment is the employment of the funds to add further income or growth in value. It is important for channelizing the savings in the development of the economy. Investment refers to the commitment of funds to financial products with an expectation of value growth[2].Investment behavior means how individuals allocate their surplus money to

various financial instruments to increase wealth[3].

II. REVIEW OF LITERATURE

Harless et al. [4]hadresearched mutual fund investors and revealed that the majority of the investors considered only the return factor and systematic risk and ignored the other expenses while making investments.

Furnham [5] had done a study on young people's saving habits and focused on bank accounts. It was concluded that male children showed more interest than female children, as did the older children more than younger children for saving money in the bank accounts.

Agrawal [6] analyzed the investment and growth relation of Asia and found that there was a high investment rate due to the high growth rate of Asia. It was also found that interest rates had little impact on the investment rate.

Kaneko [7] surveyed individual investors'behavior and concluded that investors remained worried about the purchase price of the stock at the time of the purchase of the stock and sold stock rapidly when the price rose. It was also concluded that the behavior of several investors was irrational and further found that investor education was necessary for making proper investments.

Jain [8] studied the individual and institutional investor'sinvestmentbehavior and found that the institutions that were endowed with less tax burden preferred to invest in low dividend stocks, while those with a high tax burden preferred to invest in high dividend stocks.

Sen [9] surveyed the sophisticated investor preferences in India. It was concluded that sophisticated investors preferred to make profitable investment strategies with low risk. They did not want to take a risk and wished to have a safe future.

Shaikh et al. [10] examined the Belgium investor'sbehavior and found that the investment knowledge affected the returns on the investment. The hypothesis analysis showed that more investment knowledge led to more returns on investment. Occupation and risk were found to be negatively correlated with each other.

Gill et al. [11] had done a study on the investor's behavior and found that investors' knowledge, experience, and motivation had a positive effect on the investment behavior of the investors.

Kaur et al. [12] conducted a study on investors' behaviorand found that investment decision-making was influenced by the number of benefits that were received from the investment avenue. More benefits lead to more investments.

Obamuyi [13] studied the factors affecting the investor's behavior, and it was found that the policy of dividend, loyalty towards the company, policy of bonus and earnings of the company, etc., were the most influential factors. It was shown that the demographic characteristics of respondents had a significant impact on the investment behavior of investors.

Rani [14] inspected the factors influencing stock market investors and found that there were a large number of factors that influenced them. The age, gender, income, education level, under or overconfidence, the performance of the company, rate of return, type of risk, friends and family opinion, capital structure, etc., all, had a significant effect on the investment behavior of investors.

III. OBJECTIVES OF STUDY

To study the impact of personalized factors on the investment decisions of the investors of the Ludhiana

IV. RESEARCH METHODOLOGY

Descriptive research was conducted in this study. The research design was also descriptive in nature research to facilitate the study in getting correct data relating to an idea or a state of affairs. Primary as well as secondary data were used for the current study. For the collection of secondary data books, financial Journals and magazines, newspapers, websites were used. The library conjointly with the internet was also used for the purpose. For

the collection of primary data, well-structured and pre-tested questionnaires were used. The questionnaires were filled up with the help of personal contact as well as via e-mail.A total of 500 respondents were selected for study from Ludhiana including salaried, traders, and industrialists.The stratified convenience sampling technique has been used for the identified state of the population.Being based on the stratified convenience sample; the sampling setup has been created to get in touch with the respondents easily from a different location. To confirm the representativeness, a wide range of socio-economic characteristics were included. Since the data collection was quite complicated, therefore, the stratified convenience sampling technique with proportion to the size of the category was employed in this research study. Table 1 shows the application of the stratified random sampling technique.

Table 1: Stratified convenience sampling

Category of respondents	Size of respondents	No. of respondents
Salaried	50,000	300
Traders'	15,000	120
Industrialists'	12,000	80
Total	77,000	500

Source: Economic Survey of Punjab (2012)

In this study to test the hypothesis 'Chi-square test' was performed.In the current study, the abbreviations used are enlisted in Table 2.

Table 2: Abbreviations used in the current study

Words	Abbreviations	Words	Abbreviations
Saving Account	SA	Debenture	DB
Fixed Deposit	FD	Bonds	BO
Public Provident Fund	PPF	Equity Share Market	ESM
Government Securities	GS	Commodity Market	CM
Mutual Fund	MF	Forex Market	FM
Life Insurance	LIC		

V. HYPOTHESIS OF THE STUDY

The following hypotheses were framed for the current study:

1. H0: Investors' preference of the investment sector has a significant effect on the type ofpreferred investment avenue.

2. H0: Investment factors have a significant effect onthetype of preferred investment avenue.

3. H0: Investors' investment purposes affectthetype of preferred investment avenue.

4. H0: Investors' investment experience has a significant effect on the type of preferredinvestment avenue.

5. H0: Percentage of income investing by investors affectsthetype of preferredinvestment avenue.

6. H0: Investors' time horizon of investment hasasignificant effect on the type of preferredinvestment avenue.

7. H0: Investment constraints have a significant effect on the type of preferred investment avenue.

VI. ANALYSIS AND INTERPRETATION

The following are the observations drawn during the analysis of the current study and the figures in the

parentheses in the tables indicate the percentages.

A. Degree of Relationship Between Investment Sector Preferences and Preferred Investment Avenues

Preference of the sector is also one of the variables that affect investment behavior. The investors select the sectors based on their convenience. An attempt has been made to establish the relationship between the preference of the sector and investment behavior in table 3.

The Chi-square test was applied as shown in table 3, to test the hypothesis between investors' preference of sector and type of investment avenue. The Chi-square value at 4 degrees of freedom was 4004.74, which was highly significant at 0.01 level of significance and showing that the preference of the investment sector has a significant effect onthetype of investment.

Table 3: Calculation of association between the preference of investment sector and preferred investment avenues (no. of respondents)

Preference of sectors and preferred investment avenues												
Sector	**Low risk avenue**				**Moderate risk avenues**				**High risk avenues**			**Others**
	SA	**FD**	**PPF**	**GS**	**MF**	**LIC**	**DB**	**BO**	**ESM**	**CM**	**FM**	**OTHERS**
Privatesector	201 (40.2)	110 (22.0)	52 (10.4)	18 (3.6)	100 (20.0)	144 (28.8)	7 (1.4)	19 (3.8)	47 (9.4)	32 (6.4)	2 (0.4)	1 (0.2)
Publicsector	379 (75.8)	225 (45.0)	120 (24.0)	36 (7.2)	129 (25.8)	266 (53.2)	6 (1.2)	21 (4.2)	64 (12.8)	71 (14.2)	5 (1.0)	12 (2.4)
Foreignsector	17 (3.4)	7 (1.4)	7 (1.4)	2 (0.4)	8 (1.6)	10 (2.0)	1 (0.2)	6 (1.2)	6 (1.2)	10 (2.0)	1 (0.2)	0 (0.0)
χ^2 Value												4004.74
Degree of freedom												4
Critical value (p value)												0.00001
Significance level												1%

B. Degree of Relationship Between Factors of Investment and Preferred Investment Avenue

Investors consider many factors before making investments. For this purpose, the factors have been divided into four categories viz. risk, higher return, maturity period, and safety. An attempt has been made to establish the relationship between factors and investment behavior in table 4.

To test the hypothesis between investors factors of investment and type of investment avenue non-parametric Chi-square test was applied at a 1% level of significance and at 6 degrees of freedom as shown in table 4. The value of Chi-square came out to be 12.71, which was not significant at a 1% level of significance. Therefore, null hypothesis 2 was selected.

Table 4: Calculation of association between factors of investment and preferred investment avenues (no. of respondents)

Factors of investment and preferred investment avenues												
Factors	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
Risk	226 (45.2)	134 (26.8)	62 (12.4)	22 (4.4)	93 (18.6)	186 (37.2)	5 (1.0)	16 (3.2)	46 (9.2)	41 (8.2)	0 (0.0)	3 (0.6)
Higher return	242 (48.4)	134 (26.8)	73 (14.6)	23 (4.6)	117 (23.4)	173 (34.6)	7 (1.4)	14 (2.8)	56 (11.2)	52 (10.4)	7 (1.4)	6 (1.2)
Maturity period	85 (17.0)	61 (12.2)	35 (7.0)	11 (2.2)	39 (7.8)	67 (13.4)	1 (0.2)	9 (1.8)	17 (3.4)	16 (3.2)	0 (0.0)	3 (0.6)
Safety	295 (59.0)	166 (33.2)	91 (18.2)	23 (4.6)	92 (18.4)	202 (40.4)	3 (0.6)	10 (2.0)	42 (8.4)	49 (9.8)	1 (0.2)	4 (0.8)
χ^2 Value												12.71
Degree of freedom												6
Critical value (p value)												0.047792
Significance level												1%

C. Degree of Relationship Between Purposes of Investment and Preferred Investment Avenue

The purposes of investment have a significant bearing on the investment behavior of the investors. To establish the relation between the purpose of investment and preferred investment avenues, an analysis has been made in table 5.

The calculated Chi-square value of 27.09 shown in table 5, indicates that investment purposes have a significant effect on the type of investment avenue. This value was significant at a 1% level of significance.

Table 5: Calculation of association between purposes of investment and preferred investment avenues (no. of respondents)

Purposes of investment and preferred investment avenues												
Purposes of investment	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
Wealth creation	152 (30.4)	91 (18.2)	52 (10.4)	13 (2.6)	61 (12.2)	98 (19.6)	3 (0.6)	14 (0.8)	34 (6.8)	26 (5.2)	2 (0.4)	6 (1.2)
Tax saving	242 (48.4)	152 (30.4)	99 (19.8)	29 (5.8)	117 (23.4)	202 (40.4)	8 (1.6)	20 (4.0)	59 (11.8)	52 (10.4)	1 (0.2)	5 (1.0)
Earn return	210 (42.0)	127 (25.4)	55 (11.0)	20 (4.0)	80 (16.0)	153 (30.6)	5 (1.0)	13 (2.6)	39 (7.8)	31 (6.2)	0 (0.0)	4 (0.8)
Children education/ marriage	214 (42.8)	127 (25.4)	55 (11.0)	14 (2.8)	87 (17.4)	172 (43.4)	0 (0.0)	81 (16.2)	32 (6.4)	42 (8.4)	3 (0.6)	3 (0.6)
For purchase car and home	42 (8.4)	21 (4.2)	11 (2.2)	1 (0.2)	17 (3.4)	27 (5.4)	0 (0.0)	1 (0.2)	6 (1.2)	9 (1.8)	1 (0.2)	1 (0.2)
For retirement and medical purposes	94 (18.8)	66 (13.2)	53 (10.6)	19 (3.8)	43 (8.6)	67 (13.4)	3 (0.6)	7 (1.4)	23 (4.6)	32 (6.4)	4 (0.8)	2 (0.4)
χ^2 Value									27.09			
Degree of freedom									10			
Critical value (p value)									0.002519			
Significance level									1%			

D. Degree of Relationship Between Investment Experience and Preferred Investment Avenue

Investment experience also affects the investment behavior of investors. With the increase in experience, investors gain more knowledge about investments and make more investments. An attempt has been made to show the relationship between investment experience and preferred investment avenues in table 6.

The value of chi-square came out 5.0588 at 4 degrees of freedom, indicating that an investor's investment experience has no significant effect on the type of investment.

Table 6: Calculation of association between investment experience and preferred investment avenues (no. of respondents)

Investment experience and preferred investment avenues												
Investment experience	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
Less than 1 year	59 (11.8)	20 (4.0)	11 (2.2)	1 (0.2)	11 (2.2)	28 (5.6)	1 (0.2)	4 (0.8)	5 (1.0)	9 (1.8)	1 (0.2)	1 (0.2)
1-5 years	207 (41.4)	115 (23.0)	51 (10.2)	16 (3.2)	65 (13.0)	123 (24.6)	2 (0.4)	7 (1.4)	26 (5.2)	35 (7.0)	3 (0.6)	6 (1.2)

More than 5 years	228 (45.6)	134 (26.8)	84 (16.8)	25 (5.0)	97 (19.4)	177 (35.4)	7 (1.4)	16 (3.2)	48 (9.6)	44 (8.8)	3 (0.6)	5 (1.0)
χ^2 Value									5.0588			
Degree of freedom									4			
Critical value (p value)									0.281317			
Significance level									1%			

E. Degree of Relationship Between Percentage of Income Investing by Investors and Preferred Investment Avenue

The percentage of income invested by the investors depends upon the income earned by the investors. More income leads to more investment of money. Here an attempt has been made to establish the relation between the percentage of income investing by investors and preferred

investment avenues. For this purpose, the percentage of income investing has been divided into four categories viz. 0-15%, 15-30%, 30-50% and more than 50%. In table 7, data has been presented regarding the percentage of income investing and investor's behavior.

The Chi-square test value at a 1% level of significance was 38.85 at 4 degrees of freedom, showing that the percentage of income investing by investors has a significant effect on the type of investment.

Table 7: Calculation of extent of association between the percentage of income investing and preferred investment avenues (no. of respondents)

Percentage of income investing and preferred investment avenues												
Percentage of income investing	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
0-15	284 (56.8)	152 (30.4)	61 (12.2)	22 (4.4)	92 (18.4)	191 (38.2)	5 (1.0)	8 (1.6)	33 (6.6)	38 (7.6)	2 (0.4)	6 (1.2)
15-30	70 (34.0)	90 (18.0)	70 (14.0)	15 (3.0)	73 (14.6)	118 (23.6)	3 (0.6)	17 (3.4)	35 (7.0)	43 (8.6)	5 (1.0)	4 (0.8)
30-50	32 (6.4)	22 (4.4)	14 (2.8)	5 (1.0)	7 (1.4)	17 (3.4)	2 (0.4)	2 (0.4)	5 (1.0)	6 (1.2)	0 (0.0)	2 (0.4)
More than 50	8 (1.6)	5 (1.0)	1 (0.2)	0 (0.0)	1 (0.2)	2 (0.4)	0 (0.0)	0 (0.0)	1 (0.2)	1 (0.2)	0 (0.0)	0 (0.0)
χ^2 Value									38.85			
Degree of freedom									6			
Critical value (p value)									0.00001			
Significance level									1%			

F. Degree of Relationship Between Investment Time Horizon and Preferred Investment Avenue

The period for which investment is being made could be a crucial factor in deciding the avenues for investment. Thus, an analysis is made to determine how the time horizon influences the investment decision. Table 8shows the relationship between the time horizon and preferred investment avenue.

The calculated Chi-square value of 8.57at 4 degrees of freedomas shown in table 8 indicates that the investment time horizon did not affect the type of investment avenue.

Table 8: Calculation of extent of association between investment time horizon and preferred investment horizon (no. of respondents)

Investment time horizon and preferred investment avenues												
Investment horizon (in years)	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
Short term (0-1)	103 (20.6)	50 (10.0)	17 (3.4)	4 (0.8)	23 (4.6)	57 (11.4)	2 (0.4)	4 (0.8)	11 (2.2)	13 (2.6)	2 (0.4)	0 (0.0)
Medium	233	132	76	22	88	148	7	10	36	45	3	8

term (1-5)	(46.6)	(26.4)	(15.2)	(4.4)	(17.6)	(29.6)	(1.4)	(2.0)	(7.2)	(9.0)	(0.6)	(1.6)
Long term (more than 5)	175 (35.0)	102 (20.4)	62 (12.4)	22 (4.4)	73 (14.6)	136 (27.2)	3 (0.6)	14 (2.8)	6 (1.2)	35 (7.0)	2 (0.4)	4 (0.8)
χ^2 Value							8.57					
Degree of freedom							4					
Critical value (p value)							0.00001					
Significance level							1%					

G. Degree of Relationship Between Investment Constraints and Preferred Investment Avenue

Investment constraints also affect the investment behavior of investors. An attempt has been made to establish the relationship between the investment constraints faced by the investors and preferred investment avenues in table 9.

The calculated chi-square was 11.0809 was not significant at a 1% level of significance. Therefore, null hypothesis 7 was rejected.

Table 9: Calculation of extent of association between investment constraints and preferred investment avenues (no. of respondents)

Investment constraints and preferred investment avenues												
Investment constraints	Low risk avenue				Moderate risk avenues				High risk avenues			Others
	SA	FD	PPF	GS	MF	LIC	DB	BO	ESM	CM	FM	OTHERS
Low risk	85 (17.0)	45 (9.0)	22 (4.4)	8 (1.6)	47 (9.4)	71 (14.2)	6 (1.2)	9 (1.8)	28 (5.6)	20 (4.0)	1 (0.2)	2 (0.4)
Time consuming	97 (19.4)	55 (11.0)	27 (5.4)	8 (1.6)	43 (8.6)	67 (13.4)	0 (0.0)	8 (1.6)	19 (3.8)	25 (5.0)	2 (0.4)	2 (0.4)
Complicated procedure	76 (15.2)	49 (9.8)	23 (4.6)	7 (1.4)	34 (6.8)	65 (13.0)	1 (0.2)	4 (0.8)	15 (3.0)	16 (3.2)	3 (0.6)	4 (0.8)
χ^2 Value									11.0809			
Degree of freedom									4			
Critical value (p value)									0.025679			
Significance level									1%			

VII. FINDINGS AND CONCLUSION

Thus, from the above discussion, it can be concluded that sector preferences, objectives of investment, Investment experiencehad an important effect on the behavior of the investors.The percentage of income invested by investors again had a crucial role to play in the investment behavior of investors. This study also showed that even the time horizon had a large effect on the investment behavior. Factorsandconstraints of investment did not have severe effects on the investor's investment behavior.

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