A STUDY ON RETAIL INVESTORS PREFERENCES ON DIFFERENT INVESTMENT ALTERNATIVES

S. Jyotheeswar Reddy Student, Department of Management Studies, Madanapalle Institute of Technology and Science, Madanapalle (Affiliated to JNTU-A)
Dr. K.V. Geetha Devi Assistant professor in Department of Management Studies at Madanapalle Institute of Technology and Science, Madanapalle (Affiliated to JNTU-A)

Abstract

Investment helps to increase the economic growth of a country. Many people in India are Middle class families and they invest their money in different investment alternatives. These alternatives are chosen as per their needs and preferences. The objective of this study to analyze the retail investors preferences on different investment alternatives and to explore their selection criteria adopted by retail investors, and to analyze the risk and return perception and suggestions for developing new avenues. In this study, data collected through structured questionnaire and 240 responses were received. And the study reveals that, many are invested for steady return and some investors choose risky investment alternatives for wealth appreciation. Most of the Retail Investors prefer steady return and there is scope for developing avenues which give steady and high return.
Key words: Retail investors, Investment alternatives, Return, Risk

CONCEPTS AND RELATED ISSUES:

Efficient capital allocation is the most important financial function of modern items. It includes the decision on the long-term allocation of the company's funds. Capital budgeting decisions are very important to a firm because they tend to determine its value by affecting its growth, profitability and risk. A firm's capital budgeting decisions are commonly known as investment estimates or capital expenditure decisions. A capital budgeting decision can be defined as a firm's decision to invest its current funds most efficiently in long-term assets in anticipation of the expected flow of benefits over a number of years.

INVESTOR'S BEHAVIOR:

Investor behaviour refers to the selection, purchase and consumption of goods and services to satisfy their wants. Various processes are involved in investor behaviour. The investor first tries to find what securities he would like to consume, then selects only those securities that promise a greater benefit. After choosing a security, the investor makes an estimate of the available money that he can spend. Finally, the investor analyses the prevailing prices of the security and decides which security he should consume.

INVESTOR PERCEPTIONS:

Perception is the process of achieving awareness or understanding of the environment by organizing and interpreting sensory information. All perception involves signals in the nervous system, which in turn result from physical stimulation of the sense organs. An investor's perception of an investment would mean how the investor imagines or sees different investment avenues. Knowing the perception of the investor is important because the perception of the investors can affect the investment pattern and their investment behaviour such as risk tolerance level, investment preference based on occupation, marital status etc. so to know the perception of individual investors we need to know the behaviour of individual investor and what is risk and factors affecting investment decisions.

Although the basic investment rules and principles remain the same, the investment climate and investor behaviour change from time to time. The behaviour of individual investors in the capital market is influenced by their income, education, reading habits, level of knowledge, etc. Investor preferences differ with respect to alternative investment avenues, assets and market segments in the securities market. The records of companies and organizers have a significant influence on investment

 Copyright @ 2022 Authors

decisions. Investment motives also vary according to capital gains, dividends, bonuses, rights, tax benefits and other relevant factors.

FACTORS AFFECTING INVESTMENT DECISIONS:
An investor has various alternative ways of investing to keep his savings flowing, according to his preferences. Savings are invested in assets depending primarily on their profitability, liquidity, and riskiness. The main goal of the investor is to minimize the risk associated with the investment and maximize the return. The stock market exists to provide a marketplace facility where potential investors can put their money to work, buy securities, and those who already own securities can just as freely and quickly convert them into cash. An efficient securities market requires characteristics such as selection, efficiency, and regulation to attract

1. FACTOR OF RETURN:
True investors are those who always try to find a balance between risk and return. How do investors evaluate the return on securities? What return is expected on average. It is the expected value of the return, which is the sum of each possible return multiplied by the probability of its occurrence.

2. LIQUIDITY RISK:
A security must have the attribute of liquidity to be attractive as an investment to ordinary investors. Liquidity means easy exchangeability without loss. The liquidity of an investment is measured by the speed and ease with which the investment can be converted into cash whenever the investor wishes. Liquid investments give the investor a sense of security because they allow them to change their minds and correct their mistakes.

3. RISK FACTOR:
The words risk and uncertainty are used interchangeably. But technically their meanings are different. Risk indicates that the decision maker knows the possible consequences of the decision and their probability at the time the decision is made. On the other hand, it is undoubtedly a situation where the probability of possible outcomes is unknown. Based on the degree of risk perception, investors can be divided into risk takers, risk averse and risk neutral.

4. INVESTMENT HORIZON:
A speculation skyline is the all-out time span a financial backer hopes to hold a security or portfolio. The venture skyline is utilized to decide a financial backer's pay needs and wanted risk openness, which is then used to aid security determination.

5. TAX EXPOSURE:
Investors in higher tax brackets prefer investments where the return is tax-free. Others will not have such preferences.

6. TRENDS:
Before you start planning your finances, you need to understand how different asset classes have performed in the past.

7. INVESTMENT NEEDS:
How much money do you need at maturity? The purpose of the investment also affects the investment and the investment decision of the investor. Some people invest their funds in ways where they can get tax benefits.

INVESTMENT AVENUES IN INDIA:
Saving means not spending all your current income on consumption. Investing, on the other hand, means choosing which assets to hold. We may choose to invest in safe assets, risky assets or a combination of both. However, in common usage, the term savings often refers to investing in a safe asset such as an insured bank account. It's easy to confuse saving with sage investing. An investor's portfolio is simply his collection of investment assets. Once a portfolio is simply his collection of investment assets. Once a portfolio is simply his collection of investment assets. Once established, a portfolio is updated or rebalanced by selling existing securities and using the proceeds to purchase new securities, investing additional funds to increase the overall size of the portfolio, or selling securities to reduce the size of the portfolio.

 Copyright @ 2022 Authors

Investment is the sacrifice of some present value for an uncertain future reward. It means arriving at many decisions like type, mix, quantity, timing, degree etc. of investment and disinvestment. Moreover, such decision-making must not only be continuous, but also rational. An investment decision is a trade-off between risk and return. All investment decisions are made in moments in accordance with personal investment goals and with an uncertain future in mind. Because investments in securities are revocable, investment ends are transitory, and the investment environment is fluid, reliable bases for reasonable expectations become more obscure as one imagines the distant future. Uncertainty investors therefore reassess and reassess their various investment commitments from time to time considering new information, changed expectations and endings.

- Savings Account
- Bank Fixed Deposits
- Public Provident Fund
- National Savings Certificate
- Post Office savings
- Government Securities
- Mutual Funds
- Equity share market
- Commodity market
- Forex market
- Real Estate
- Gold/Silver
- Chit funds

PROBLEM STATEMENT:

This project attempts to know the preferences and analyse the importance of demographic factors that influence the investor's decision to invest. This study attempts to find our significance of population demographic factors such as gender, age, education, occupation, income, savings and family size in several elements of investment decision making such as priorities based on characteristics of investment period of investment, reach of information source. , investment frequency and analytical skills. Hypotheses were developed considering their relevance to the research objectives. Investment decision-making behaviour in a risky situation was taken as a dependent variable. Demographic factors (age and gender) are considered as independent variables. Risk perception considered as a mediator. Individuals' risk preferences are taken as an intervening variable between demographic factors and risk perception. The data were classified; tabulated and tested statistical conclusions were drawn using hypothesis, Pearson's Chi-squared technique and Garrett's classification test for evaluating investment options.

NEED FOR THE STUDY

The development of any economy depends on healthy savings and proper allocation of capital for the development activities of any country. A reduction in disposable income or an increase in per capita income will contribute to savings. Ways of investing and opinions of investors based on their preferences differ from person to person. Liquidity and security play a major role in investment decisions; tax exemptions and other factors are also considered. In addition to the above factors, demographic factors also influence investment decisions. This article discusses the factors that influence the investment behaviour of individuals.

OBJECTIVES OF THE STUDY:

The purpose of the analysis is to determine the investment behavior of investors and investment preferences.

- To study the retail investors preference on different investment alternatives
- To explore the selection criteria adopted by the retail investors through Demographic profile

 Copyright @ 2022 Authors

- To analyse the risk, return perception of retail investors in Rayalaseema region
- To recognize the needs and suggest the guidelines for developing new investment avenues

SCOPE OF THE STUDY:

The present study is a beginning towards this objective and in this study an attempt has been made to find out the level of awareness and attitude of the individual towards investing in various financial instruments apart from ascertaining their opinion on the features of various saving instruments. Furthermore, an attempt was made to propose to the government an effective mechanism for more effective implementation of these schemes and for the full satisfaction of individual savings in the financial instrument.

The study is derived from an assortment of attributes that investors consider when investing in the stocks of various companies. Age categories of investors, education of investors. Investor employment, investor income, and investment frequency were studied to examine the relationship between them. In addition, the opinion of investors on the risks and returns of investments in shares is also examined. The study area is limited to Rayalaseema region only.

DATA COLLECTION:

Data

The data required for the study are primary in nature. The primary data have been collected by making use of a structured questionnaire. Which includes demographic factors and investment preferences.

Area of Study

The present study is confined to the investors of Rayalaseema Region (i.e., Anantapur, Annamaya, Chittoor and Kadapa Districts)

Research and Sample Design

This study follows descriptive research method. By adopting convenient sampling, 240 responses were collected.

TOOLS USED FOR RESEARCH ANALYSIS

Garrett's Ranking Technique

Garrett's ranking technique was used to rank the preference indicated by the respondents on different factors. As per this method, respondents have been asked to assign the rank for all factors and the outcomes of such ranking have been converted into score value with the help of the following formula.

$$\text{Percent Position} = \frac{100(Rij - 0.5)}{Nj}$$

Where

Rij = Rank given for the ith variable by its ith respondents

Nj = Number of variable ranked by jth respondents

With the help of Garrett's Table, the percent position estimated is converted into scores. Then for each factor, the scores of each individual are added and then total value of scores and mean values of score is calculated. The factors having highest mean value is considered to be the most important factor.

Confirmatory Factor Analysis

Confirmatory factor analysis is a multivariate statistical procedure that is used to test how well the measured variables represent the number of constructs. Confirmatory factor analysis (CFA) and Exploratory Factor Analysis (EFA) are similar techniques, but in exploratory factor analysis data is simply explored and provides information about the number of factors required to represent the data. In exploratory factor analysis, all measured variables are related to every latent variable. But in confirmatory factor analysis (CFA), researchers can specify the number of factors required in the data which measured variable is related to which latent variable. Confirmatory factor analysis is a tool that used to confirm or reject the measurement theory.

 Copyright @ 2022 Authors

Chi-Square Test

Pearson's Chi-square tests, often referred to simply as Chi-square tests, are among the most common nonparametric tests. Nonparametric tests are used for data that don't follow the assumptions of parametric tests, especially the assumption of a normal distribution.

If you want to test a hypothesis about the distribution of a categorial variable you'll need to use a chi-square test or another nonparametric test. Categorical variables can be nominal or ordinal and represent groupings such as species or nationalities. Because they can only have a few specific values, they can't have a normal distribution.

Limitations of the study:

- The scope of the study was confined to retail investors only.
- The data collected for the study is more focused on rural areas of Rayalaseema only.
- Data collected for the analysis during the period of 01/ 02/2021 to 05/05/2022 so preferences may of retail investors may change over a period of time.

Despite of these limitations the current study makes a first attempt towards examining the retail investors.

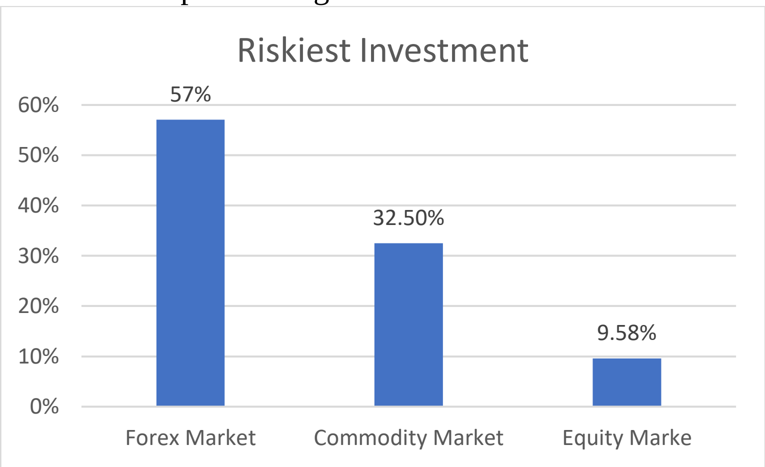
RESULTS AND DISCUSSION

Riskiest investment

Table showing the Riskiest investment

Riskiest Investment	No. of Respondents	Percentage of Respondents
Forex Market	137	57%
Commodity Market	78	32.50%
Equity Market	23	9.58%
Total	240	100%

Graph showing the Riskiest investment



Source: Primary data

Interpretation:

The above table and chart shows that majority of investors think forex market is the most riskiest investment option(57%) followed by commodity market(32.5%)

Least Risky Investment

Table showing the Least Risky Investments

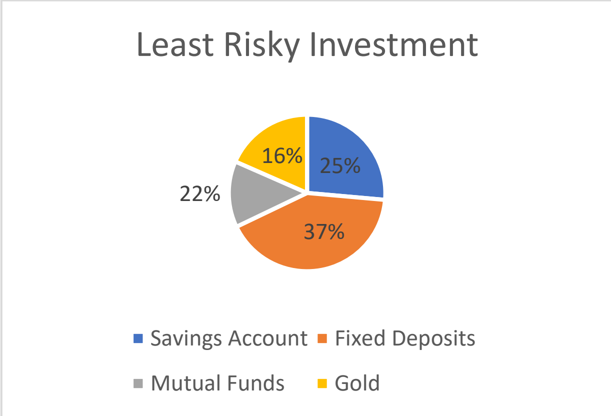
Least Risky Investment	No. of Respondents	Percentage of Respondents
Savings Account	56	25
Fixed Deposits	88	37

Copyright @ 2022 Authors

ISSN : 2347-7180
Vol-12 Issue-08 No. 06 August 2022

Mutual Funds	29	22
Gold	39	16
Total	240	100

Chart showing the least risky Investment



Source: Primary data

Interpretation:

The above table and chart show that majority of investors feel fixed deposits (37%) are least risky followed by savings account (25%) and mutual funds (22%) and gold (16%)

Factor Analysis

Communalities		
	Initial	Extraction
Age	1.000	.785
Marital status	1.000	.775
Residence	1.000	.591
Domicile	1.000	.693
Wealth	1.000	.330
Extraction Method: Principal Component Analysis.		

The extraction of age is .785 and the extraction of marital status is .775, residence extraction is .591, domicile extraction is .693 and wealth extraction is .330. which indicates the level of impact.

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.107	42.144	42.144	2.107	42.144	42.144	1.733	34.659	34.659
2	1.066	21.321	63.465	1.066	21.321	63.465	1.440	28.806	63.465
3	.823	16.466	79.931						
4	.639	12.788	92.719						
5	.364	7.281	100.000						
Extraction Method: Principal Component Analysis.									

The 1st component's percentage of variance is 42.144, 2nd components of variance is 21.321, the 3rd component of variance is 16.466, 4th component of variance is 12.788, 5th component percentage of variance is 7.281

Copyright @ 2022 Authors

Rotated Component Matrix[a]		
	Component	
	1	2
Age	.886	
Marital status	.850	
Residence		.829
Domicile		.718
Wealth		
Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization.		
a. Rotation converged in 3 iterations.		

The factor loading of more than .70 will have a high impact on the variables. Age factor loading is .886 which indicates high impact on variables. Marital status factor loading is .850 which indicates high impact on variables, residence factor loading is .829 indicates high impact on variables and domicile factor load is .718 it indicates high impact on the variable. Wealth factor load is less than .5 which shows moderate or low impact on variables.

Hypothesis Testing

H_0: There is no significant association between age and risk tolerance level

H_1: There is significant association between age and risk tolerance level

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	18.768[a]	6	.005
Likelihood Ratio	19.910	6	.003
Linear-by-Linear Association	2.461	1	.117
N of Valid Cases	240		
a. 1 cells (8.3%) have expected count less than 5. The minimum expected count is 4.13.			

Interpretation:

The above table shows that out of 240 samples 97 are preferred low risk, 98 are preferred moderate risk and 45 are preferred high risk. And we can observe the age group between 46-60, 61 and above are preferred low and moderate risk. Pearson's Chi-square significance value is .005 which is less than critical value then we accept the alternative hypothesis. Hence it is proved that there is association between age and risk tolerance level.

Hypothesis Testing

H_0: There is no association between wealth and risk tolerance level

H_1: There is an association between wealth and risk tolerance level

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	30.351[a]	4	.000
Likelihood Ratio	24.371	4	.000
Linear-by-Linear Association	9.583	1	.002
N of Valid Cases	240		
a. 1 cells (11.1%) have expected count less than 5. The minimum expected count is 4.50.			

Interpretation:

The above table shows that out of 240 samples 122 are belongs to middle class, 94 are upper middle class and 24 belongs to affluent. We can observe that affluent are preferred more risk compared to others. The Pearson Chi-Square significance value is .000 which is less than the critical value then we accept the alternative hypothesis. Hence it is proved that there is significant association between wealth and risk tolerance level.

Copyright @ 2022 Authors

Garrett Ranking Test

S. No	Investment Avenues	No. of Respondents	Garret Score	Mean Score	Rank
1	Savings Account	240	84	63.55	2
2	Bank Fixed Deposits	240	73	68.1	1
3	Public Provident Fund	240	67	59.02	4
4	National Savings Certificate	240	62	57.34	5
5	Post Office Savings	240	58	61.05	3
6	Government Securities	240	54	51.68	9
7	Mutual Funds	240	50	53.55	8
8	Equity Share Market	240	46	52.61	10
9	Commodity Market	240	42	48.34	12
10	Forex Market	240	76	35.86	13
11	Real Estate	240	33	51.77	11
12	Gold/Silver	240	26	57.12	6
13	Chit Funds	240	16	53.51	7

Interpretation

Garrett's ranking test is one of the important techniques used to study the preferences. The above table shows the retail investors preferences on different investment alternatives. Majority of investors are preferred bank fixed deposits and followed by savings account and post office savings. Employees are chosen provident fund, and some are preferred national savings certificate.

FINDINGS:

Following are the major findings that evolved from the study undertaken.

- The study reveals that out of 240 respondents, 40% are female investors and 60% are male investors. The age group between 21-35 are 52% and between the age group of 36-45 is 25%.
- The study reveals that most of the respondents undertake investment decision with a primary objective to 'Income preservation' (30.4%) followed by long term growth (23.3%) and short-term growth (19.6%).
- The study reveals that majority of the respondents prefer to invest in Fixed Deposits followed by savings account and Post office savings. Which indicates lack of knowledge about different investment alternatives.
- The study reveals that investors with different domicile (the place where they live) may prefer to investment in different investments. Investors from urban areas will prefer to invest in risky and high returned alternatives where the rural investors prefer to invest in low risky and steady returned investments.
- The study reveals that majority of investors are Employees (40.8%) which indicates occupation also influence the investment.

Copyright @ 2022 Authors

- The study reveals that savings of middle-class people are very less (4.50%).
- The study reveals that majority of investors are saving (33%) from their total income, and in that savings (36%-45%) are used to invest whereas other portion is used to meet their needs.
- The study shows that many investors prefer to invest for a period of 3-5 years (39.2%) followed by below 3 years (25.8%) and 6-10 years (24.2%).
- The study reveals that investors are preferring moderate risk (40.8%) followed by low risk (40.4%) and high risk (18.75%).
- The study shows that affluent and urban investors prefer to invest in risky investments like shares, mutual funds. Whereas semi-urban and rural investors prefer to invest in least risky investment avenues like fixed deposits, savings account, post office savings.
- The study shows that majority of investors are monitoring their investments every week (36.6%).
- The study reveals that the demographic factors like age (0.886), marital status (0.850), residence (0.829) and domicile (0.718) having a high impact on investment.
- The study reveals that majority of investors choose Bank fixed deposits, Savings account, Post office savings and other traditional investments.
- The study reveals that there is significant association between age and risk tolerance level (0.005) of the investors.
- The study shows that there is significant association between wealth and risk tolerance level (0.000) of investors
- The study reveals that there is no significant association between gender and risk tolerance level (0.126)

SUGGESTIONS:

This study aims to explore the investment path preferences of retail investors. The study has a direct impact on the market of financial products like Savings in banks, FD a/c in banks, Government securities, Corporate bonds, Insurance policies, Real estate, Commodities, Shares and Mutual funds and Gold & Silver.

- Investors must have complete knowledge about various investment alternatives before entering the investment
- Investors are advised to make their time horizon depend on their goals and types of investment paths instead of long- or short-term investment.
- It is advisable for investors to seek help from financial planners.
- Today, the return on various investments depends on the market situation; therefore, it is advisable for investors to keep themselves updated with new guidelines and changes in terms.
- As study reveals, many of rural investors choose less risky investments it is advisable to develop more less risky and steady return investments.
- Investors are advised to have at least the equity portion of their portfolio reviewed regularly so that necessary changes can be made if stocks are underperforming.
- Instead of rushing at the last minute, investors must plan their investments from the initial stage of investors.
- It is important to choose an investment path according to the requirements of investors. And it is better to invest over a long period of time for high returns.
- While demographic factors play a critical role in choosing investment paths and investment decisions, it is also important to consider risk and return factors.
- There is a need for financial literacy among retail investors, especially in rural areas.
- It is important to develop more occasional investment avenues for different investors.

CONCLUSION:

The study concludes that investments were made through various investment avenues with the expectation of maintaining income and long-term and short-term profits. The basic idea behind

 Copyright @ 2022 Authors

investing all government, private, self-employed and pensioners in this study is to use the surplus money in beneficial plans so that the money is returned and also gives high returns. When a common man thinks of investment, he never opts for any risky plan. In the current scenario, the stock and gold market is highly uncertain and unpredictable, so an investor should analyse the market carefully and then make an investment decision.

Considering risk propensity as an influential factor, it is reasonable to believe that a risk-averse individual is more likely to avoid risky decisions than a risk-seeking individual, who is more likely to take risky actions decision.

The individual investor still prefers to invest in financial products that provide risk-free returns. This confirms that Indian investors, even though they are high income, well educated, paid, independent, are conservative investors who prefer to play it safe. Investment product designers can design products that can satisfy investors who have a low tolerance for risk and use television as a marketing medium because they seem to spend a long-time watching television.

REFERENCES

Narayana, D. L. (1976), “Income, Saving and Investment of Household Sector in Chittor District”, S.Chand& Co. Ltd., New Delhi, Pp. 1-187

Suman and Dr. D. P. Warne (February 2012 - Volume 2, Issue 2), “Investment Behaviour of Individual Investor in Stock Market”.

Parimalakanthi, K. and Dr. M. Ashok kumar (December 2015 – vol.5, No.4), “A Study on Investment Preference and behaviour of Individual Investors in Coimbatore City”.

Haroon Bakari and Dr. Ahmed Imran Hunjra (July 2020), “Investment Options and Preferences of Small Investors”.

Bashir, T., Ahmed, H. R., Jahangir, S., Zaigam, S., Saeed, H., & Shafi, S. (2013). Investment preferences and risk level: Behaviour of salaried individuals. IOSR Journal of Business and management, 10(1), 68-78.

Ajaz Ahmad Bhat (2018 - DOI: 10.4172/2167-0234.1000336), “Behavior of Retail Investors towards financial Investments (with Special Reference to Bhopal) towards various Investment Alternatives

 Copyright @ 2022 Authors