

A study on investment in various avenues and its corresponding risks in mixed age groups

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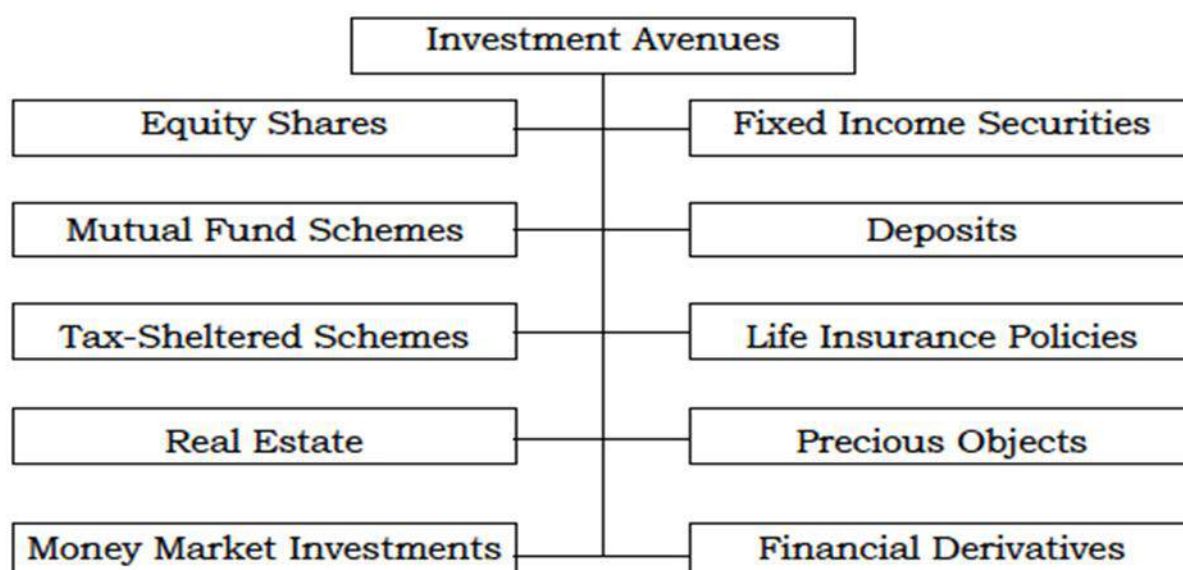
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ABSTRACT

Investment is an activity as well as a process emerged in people who have habits of savings with the anticipation of positive rate of return in near future. A variety of investment options are available such as bank, Gold, Real estate, post services, mutual funds & so on. Investors are investing their money with the different objectives such as profit, security, appreciation, Income stability etc. With such wide spectrum of investment avenues, the risk factor arises. With the fluctuation in the economy people's audacity to take risks changes according to the age and responsibilities. The study is based on the questionnaire and the personal interview of 50 people with different age groups and their willingness to invest and taking risk in the avenues. The data has been analyzed using pie charts, bar graphs, percentages and statistical charts. The researcher has analyzed that young generation has shown keen interest in new investment patterns, exploration in investment instruments, and high probability of accepting the risk factor in the investment compared to elder crowd. The awareness and trust have been highly varied in the age groups. Respondents are aware about the investment avenues available in India except people above 50 years of age and neither has shown any interest to know it.

Keywords: Investments, profit, saving, peer groups, risk, Avenues.

INTRODUCTION



The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment was considered the crucial determinant and capital formation had to be supported by appropriate volume of saving. Investment is the sacrifice of certain present value for the uncertain future reward. Investments are always interesting, challenging and rewarding. Generally, where there is a high risk, more rate of return is assured. Risk and reward go together. The major features of an investment are safety of principal amount, liquidity, income stability, appreciation and easy transferability. A variety of investment avenues are available such as shares, bank, companies, gold and silver, real estate, life insurance, postal savings and so on. All the investors invest their surplus money in the above-mentioned avenues based on their risk-taking attitude. Research observed that this risk taking attitude has been changing with every age groups. Every type of risk has been affecting people in various age sectors. Certain types of investment have been identified in the investment avenues.

Market risk: The risk of investments declining in value because of economic developments or other events that affect the entire market. The main types of market risk are equity risk, interest rate risk and currency risk.

- **Equity risk** – applies to an investment in shares. The market price of shares varies all the time depending on demand and supply. Equity risk is the risk of loss because of a drop in the market price of shares.
- **Interest rate risk** – applies to debt investments such as bonds. It is the risk of losing money because of a change in the interest rate. For example, if the interest rate goes up, the market value of bonds will drop.
- **Currency risk** – applies when you own foreign investments. It is the risk of losing money because of a movement in the exchange rate. For example, if the U.S. dollar becomes less valuable relative to the Canadian dollar, your U.S. stocks will be worth less in Canadian dollars

Liquidity risk: The risk of being unable to sell your investment at a fair price and get your money out when you want to. To sell the investment, you may need to accept a lower price. In some cases, such as exempt market investments, it may not be possible to sell the investment at all

Concentration risk: The risk of loss because your money is concentrated in 1 investment or type of investment. When you diversify your investments, you spread the risk over different types of investments, industries, and geographic locations

Credit risk: The risk that the government entity or company that issued the bond will run into financial difficulties and won't be able to pay the interest or repay the principal at maturity.

Credit risk applies to debt investments such as bonds. You can evaluate credit risk by looking at the credit rating of the bond.

Reinvestment risk: The risk of loss from reinvesting principal or income at a lower interest rate. Suppose you buy a bond paying 5%. Reinvestment risk will affect you if interest rates drop and you have to reinvest the regular interest payments at 4%. Reinvestment risk will also apply if the bond matures, and you have to reinvest the principal at less than 5%. Reinvestment risk will not apply if you intend to spend the regular interest payments or the principal at maturity.

Inflation risk: The risk of a loss in your purchasing power because the value of your investments does not keep up with inflation. Inflation erodes the purchasing power of money over time – the same amount of money will buy fewer goods and services. Inflation risk is particularly relevant if you own cash or debt investments like bonds. Shares offer some protection against inflation because most companies can increase the prices they charge to their customers. share prices should therefore rise in line with inflation.

Foreign investing risk: The risk of loss when investing in foreign countries. When you buy foreign investments, for example, the shares of companies in emerging markets, you face risks that do not exist in Canada, for example, the risk of nationalization.

Investment Option Available: In India there are lot many Investment avenues are available. The following figure is pretty self-explanatory regarding investment options. Investments are broadly classified into five categories i.e., Equity, Debt, Real Estate, Commodities and Miscellaneous.

OBJECTIVES

1. To study the investment design of investors
2. To study the avenues of investments
3. To study the investment decisions in age groups
4. To study the reason affecting the choice of investors
5. To know the factors influencing investment behaviour of people

REVIEW OF LITERATURE

Jalpa Thakkar, Sheenam Gogia & Vatsala Manjunathan (2013) has conducted an empirical study on gold investment rage among the professionals with a comparative analysis of e-Gold, gold ETF and gold funds with an objective to study the most preferred metal for investment from gold, silver and platinum, to know the attitude towards investment in gold and other gold options and also to know the information sources, risk associated and returns in making gold investment. The study was conducted with a sample of 100 investors through online questionnaire. The study concluded that physical gold is most preferred investment by the investors, market information has the first source of information for investment in gold. It was also found that family members and friend play an important role in investment decision and

Risk and return perspective of gold ETF is considered as moderate in the ratings as compared to E-Gold and Gold funds.

The Institute of company secretaries of India in its Investor Education series III entitled, “Investment Decision making by a Lay Investor” (1991) explained the preconditions for investment decision making, analysis and evaluating risks. SEBI (1998) survey revealed that Risk appetite, investment objective of the investor, income of the investor, funds available for investment, greatly influences the behavior of the investor in corporate securities at various levels. According to Brahma Bhatt, Raghu & Malekar of Aruna Manharlal Shah Institute of Management and Research, Mumbai University (2012), “the awareness of investment knowledge, investment opportunities is quite high. Financial portals, financial news channels, financial newspapers help these people; various markets related T.V. shows, Expert talks, magazines. For Indian public money is everything. Therefore, they are more sensitive about their money. They will think hundred times before investing in any market and will expect more than that. They feel that they are having enough money, time, resources and opportunities with them for investing. Though they are having sound knowledge of financial market and economic condition of India, yet they lack the edge above the others as this field is very unpredictable and vast hence, they must be backed up by a financial planner.

Manish Mittal and Vyas (2008) Investors have certain cognitive and emotional weaknesses which come in the way of their investment decisions. Over the past few years, behavioural finance researchers have scientifically shown that investors do not always act rationally. They have behavioural biases that lead to systematic errors in the way they process information for investment decision. Many researchers have tried to classify the investors on the basis of their relative risk-taking capacity and the type of investment they make. Empirical evidence also suggests that factors such as age, income, education and marital status affect an individual’s investment decision. This paper classifies Indian investors into different personality types and explores the relationship between various demographic factors and the investment personality exhibited by the investors.

Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc. of investment and disinvestments. Further such decisions making has not only to be continuous but rational too. Instead of keeping the savings idle you may like to use savings in order to get return on it in the future, which is known as ‘investment’. There are various investment avenues such as Equity, Bonds, Insurance, and Bank Deposit etc.

RESEARCH METHODOLOGY

A research design is basic plan, which guide the researcher in the collection and the analysis of data required for practicing the research. Research is limited to Mumbai city, and having both primary and secondary data.

Secondary data through books, magazines, website and certain research performed before.

Sample Size:

The sample size is 50 customers of different insurance companies, from various part of the Mumbai city. Respondents were the customers from different industries like real estates, insurance, financial services.

Limitation:

Due to time constraints and social distancing the sample size is relatively small as it is conducted only in Mumbai city. It is difficult to know if all respondents gave accurate information and not feasible option to travel around the state.

FINDINGS

8. Would you like to explore investment opportunities?
57 responses

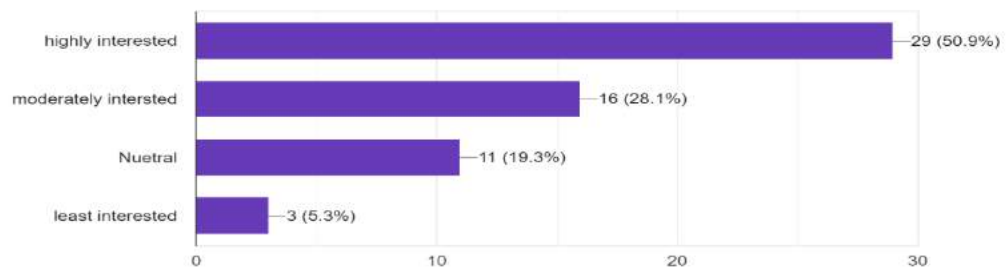


Chart 1: Would you like to explore investment opportunities?

It has been observed that 50.9% of people are highly interested in exploring new opportunities in the market. 3 people who are least interested in exploring new opportunities belong to 45+ age groups with 5.3%. 16 people out of sample size are interested to explore but won't make any possibilities to invest in the opportunities. And rest of the population in sample size are neutral about decision.

Perception	Percentage	No. of respondent
Highly interested	50.9	29
Moderately interested	28.1	16
Neutral	19.3	11
Least interested	5.3	3

For how long you're looking to invest your money?
57 responses

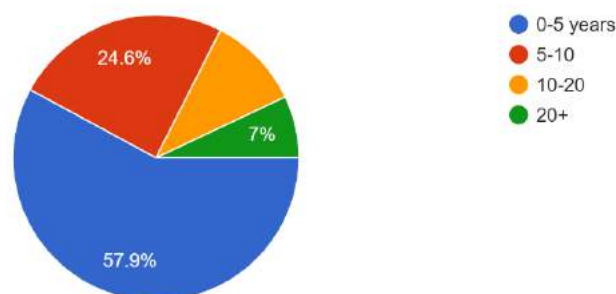


Chart 2: For how long you are looking to invest your money?

The pie chart above has mentioned that 57.9% of the people are willing to go for short term investment i.e., from 0-5 years and only 7 percentage of the sample size are willing to invest in the long-term scenarios rest 7% of the people are interested to invest for 5-10 years and 10.5% of the people have set mindset to invest for more than 10 years but less than 20 years.

Years	No. of respondents	Percentage
0-5	33	57.9
5-10	14	24.6
10-20	6	10.5
20+	4	7

SUGGESTIONS

1. If the investors want high returns, they take high risk but while they take these kinds of risk, they should also do proper research before investing and taking risk.
2. Before taking the risks, they can take advice from expert.
3. The funds can be managed with various strategies' the strategy should be told to the investor beforehand.
4. The strategy to overcome loss is through risk management the investors should know how to manage the risk.
5. There are various options in avenues through which they can Gain profits and have tax benefits.
6. People with higher age should not have prejudice mindset towards the market.
7. It is possible to diversify your investment to overcome the precious losses.
8. Better analysis tools should be uses to make better predictions.
9. It is recommended that investors decisions should be based on their broker advice.
10. Risk and return should be evaluated before making and investment decisions.
11. People with higher age group should be open ended about new schemes and investments.
12. Those investors who want avoid risk should invest in treasury notes or high-rated municipal bonds and debentures and so on.

CONCLUSION

The investment decision is driven by the economic indicators such as GDP, inflation rate, unemployment rate, NNP, GNP, government policies etc. The study shows how different factors and instruments have different risk, return and tax considerations while talking investment decision and are of diverse nature and significant decision making in different age

groups. It is very difficult to conclude how a particular market instrument is doing and how they will perform the future and the prejudice that elderly people have towards these instruments, but still the study concludes to an extent that the particular instrument or product like equity or government security has performed well in the past and supported with strong demands will perform well in the future.

Indian economy has grown from a position of 2 to 3% of growth rate to a position of 8.5% at present. The economy has done immensely well and so is the performance of the equity market, which has given a high return to the investors. The study of the random sample of fifty prospective with mixed age groups which limited to more accurate results, however the fact of prejudice towards certain instruments has been significantly shown in high age people. The population which are younger of the investing community is that the market will give high returns for the securities that are fundamentally strong.

The study also drawn an important conclusion from the study that the investors are keen to invest in short term and less risk products especially people with 45+ years of age. The risk appetite of 20-40 years of age group is significantly high compared with other groups. Investors are moderately aware about the factor affecting their short term as well as long term, investment plans and they do take advice from experts and self-analysis. The intensive study will somehow help investors and people with ignorant prejudices in deciding the correct investment for their savings.

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