

# Investor Preferences over Risk-mapped Investment Avenues

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## ABSTRACT

*The emerging financial services sector has provided a plethora of investment opportunities to individual investors with a variety of combination of risk and return. The question lies in the awareness about the alternatives available. It is generally evident that the most common forms of investment are bank deposits and insurance though there are a -plenty of other avenues in the market. This study was undertaken to assess the preferences of investors' in the various alternatives available classified based on the risk associated with each of such alternative. The objective of the study was to assess and understand their behaviour in terms of their investment preferences among the investors in Tamil Nadu. The data was collected through structured questionnaire distributed to 204 respondents from different socio economic classes. The results of this survey would help the financial institutions in creating an awareness on the lesser preferred investment alternatives among the public.*

**Keywords:** investment, risk, return, investor, preference, avenues.

## Introduction

Money either grows or diminishes. If money is kept idle, its value diminishes. It grows only when it is invested and earns some interest. Investment is the employment of funds with an aim to achieve additional income. Return is expected when an investment is made. In other words, investment is an item that is purchased for future appreciation or income. In financial sense, investment is a monetary asset if purchased will provide income in the future or will be sold at a higher price for profit. In simple words, investment is the use of money for earning money.

Investment involves an investor who saves his money and invests in some avenues. An investor is a person who allocates money with an expectation an additional income in the future. In other words, a person who invests money is called an investor. They generally prefer to minimize risk while maximizing returns. There are some investors who are not ready to take risk and so they prefer low-risk investment avenues. There are several types of investors in India where few are only savers, some are regular investors, window shoppers, seasonal traders and so on.

Technology has a great impact on every aspect of our lives. Today investors can search through the web and choose the right investment by just clicking on it. There are applications provided by certain companies for the investors to track their investments. Government has given some tax benefits to people who put their money in retirement accounts i.e. one can escape from paying taxes when the money is taken out. But there is a limit in the amount of money that can be put in the retirement account.

In the competitive environment, banks and other financial institutions offer a wide variety of financial products for investments. The present study is an attempt to assess the investors' preferred investment avenues classified based on risk and to analyse their differences across different socio-economic groups.

## Objectives of the Study

The study was undertaken in order to study the investors' preferences with the following objectives:

1. To assess the investors' preferred investment avenues with regard to the various risk based investment avenues.
2. To analyse the differences in their investment preferences across different socio-economic groups.
3. To offer suitable suggestions based on this study.

## Hypothesis of the Study

The following hypothesis were framed in order to analyse the differences in the investment preferences of the investors:

$H_{01}$ : There is no significant difference in the investment preferences with the risk based investment avenues across the socio-economic groups of respondents.

### Scope of the Study

This study is undertaken only with individual investors in Tamil Nadu from whom data was collected through an online survey.

### Limitations of the Study

The area of this study is confined to the state of Tamil Nadu and hence a pan India reference may not be applicable. This study is based on the views of 204 respondents only and hence the results may not be universally applicable. The study is said to be period-specific.

### Research Methodology

The research methodology includes the design, sources of data, sampling design and statistical tools. The design used in the study is descriptive type of research where the researcher has no control over the variables and can only report what has happened and what is going on. In this study, the primary data was collected by means of a structured questionnaire from a sample of 204 respondents consisting of different categories of respondents like employees, professionals, etc. For the purpose of this study, the data was collected from 204 respondents by using convenience sampling technique. The data that is collected have been analysed with the help of the statistical tools such as Percentage Analysis, Mean Score and ANOVA.

### Literature Review

A literature review was done in order to study the previous research works done in this area and the articles that were collected and presented under:

Neha S Shukla (2016) in her research article found out that the respondents with any education background invest in the investment avenues and both males and females have the investment tendency. Majority of the investors invest for a specific purpose i.e., long term growth. Apparao. E & Kishore Babu. N (2015) in their article observed that during 80's - 90's investors shifted their interest and started investing in different avenues. It was suggested that awareness programs must be given to the senior citizens as they are not aware of the various investment schemes. Parimalakanthi. K & Ashok Kumar. M (2015) in their article found out that most of the investors choose bank deposits and investment in gold and silver than the other investment alternatives. Education plays an important role for the present day investors to know about the various investment schemes. Based on the reviews collected it was found that there were numerous studies relating to the investors' preference, perception, behaviour and satisfaction on various investment avenues. After identifying the research gap, this study is taken up by the researcher to study the investor behaviour towards various investment avenues on a risk based classification - safe avenues, moderate risk avenues and high risk avenues.

### Analysis and Interpretation

This section deals with the analysis and interpretation of the investors' preferences over the different investment avenues classified on the basis of the risk associated with them. The collected data has been systematically scrutinised and tabulated on which statistical tools were applied and following is the result of the same:

#### Investors' Preferences over Investment Avenues

This section is about the investment preferences of the investors. Based on the level of risk and returns, investors choose various financial products. Some investors prefer to invest in those avenues which are free from risk and some are ready to take risky avenues.

As this study is based on risk, the avenues were broadly classified into three categories namely safe, moderate and risky avenues based on the degree of risk. The **safe avenues** were identified to be savings account deposits, fixed deposits, post office savings, government securities, real estate, public provident fund and gold. Some of the **moderate risk avenues** were identified to be chit funds, debentures, bonds, mutual funds and life insurance. Equity share market, commodity market and foreign exchange market were considered **risky**. The respondents were asked to record their preference in these avenues on a four point scale as always, mostly, rarely and never. Scores were assigned to these four points as 3, 2, 1 and 0. Mean scores were calculated to assess the average preference of investors in these avenues and presented in the following tables:

**Table 1**  
**Investors' Preferences on Safe Avenues**

Safe Investment Avenues	Mean Score
Savings Account Deposits	2.48

Fixed Deposits	2.02
Post Office Savings	1.10
Government Securities	0.30
Real Estate	1.28
Public Provident Fund	1.35
Gold	1.64
Life Insurance	2.13

The above table shows the investors' preference on safe investment avenues. It was observed that the respondents preference on savings account deposits, fixed deposits and gold were more when compared to the other safe avenues like public provident fund, real estate, post office savings and government securities. After savings account deposits, fixed deposits and gold the respondents prefer to invest in public provident fund and Real Estate. It was also found that the respondents have low preference towards post office savings and government securities.

The following table shows the investors' preference on various moderate risk avenues like chit funds, debentures, bonds, mutual funds and life insurance are presented in terms of mean score:

**Table 2**  
**Investors' Preferences on Moderate Risk Avenues**

Moderate Risk Avenues	Mean Score
Chit Funds	0.72
Debentures	0.38
Bonds	0.48
Mutual Funds	0.72

The table shows the results of the mean score test performed to find out the investors' preference on moderate avenues and it was observed that most of the respondents prefer to invest in chit funds and mutual funds. It was also found that the respondents possess least preference towards bonds and debentures.

The table given below shows the preference of investors on high risk investment avenues. Equity share market, commodity market, foreign exchange markets are considered risky. The preference on these avenues is presented in terms of mean score:

**Table 3**  
**Investors' Preferences on High Risk Avenues**

High Risk Avenues	Mean Score
Equity Share Market	0.81
Commodity Market	0.11
Foreign Exchange Market	0.21

The above table shows the investors' preference on various investment avenues. It was observed that among the three high risk avenues, preference on equity share market seems to be higher when compared to commodity and foreign exchange market. But on an overall score basis, the preference on equity share market is low and the other two is very low.

The overall preferences on all the above avenues are explained in the form of table by using mean score analysis:

**Table 4**  
**Overall Investment Preferences**

Investment Avenues	Mean Score
Safe Avenues	1.7938
Moderate Avenues	0.5723
High Risk Avenues	0.3775

The above table shows the safe, moderate and high risk avenues. It can be observed that investors prefer to invest in the safe ones with the mean score (1.4552). The second preference was given to the moderate avenues with a mean score (0.8843) and the respondents have the least preference on the high risk avenues with a mean score (0.3775).

The overall preferences on the safe avenues were more when compared to the moderate risk and high risk avenues.

**Differences in Investment Preferences across Socio-economic Groups**

Investors’ behaviour is subject to a lot of differences when it comes to their actual investment preferences. This analysis will provide useful insights to the marketers in understanding the customer profiles and creating customised and targeted awareness campaigns on various categories of investment avenues based on risk.

In order to study the differences in their actual investment behaviour with the risk based investment avenues across the socio-economic groups, the following hypothesis was framed and analysis of variance was done and the results are presented in table 4:

Ho<sub>1</sub>: There is no significant difference in the investment preferences with the risk based investment avenues across the socio-economic groups of respondents.

**Table 5**  
**Investment Preferences across Socio-economic Groups - ANOVA**

Socio-economic Groups	Investment Preferences on Risk-based Investment Avenues	Sum of Squares	df	Mean Square	F	Sig.
<b>Gender</b>	Safe Avenues	.005	1	.005	.015	.903
	Moderate Risk Avenues	.061	1	.061	.152	.697
	Risky Avenues	1.483	1	1.483	5.225	<b>.023*</b>
<b>Age</b>	Safe Avenues	5.699	4	1.425	4.827	<b>.001**</b>
	Moderate Risk Avenues	6.251	4	1.563	4.126	<b>.003**</b>
	Risky Avenues	3.426	4	.856	3.076	<b>.017*</b>
<b>Educational Qualification</b>	Safe Avenues	2.705	4	.676	2.180	.073
	Moderate Risk Avenues	9.254	4	2.314	6.362	<b>.000**</b>
	Risky Avenues	2.921	4	.730	2.599	<b>.037*</b>
	Safe Avenues	4.416	3	1.472	4.905	<b>.003**</b>

<b>Occupation</b>	Moderate Risk Avenues	23.873	3	7.958	27.560	<b>.000**</b>
	Risky Avenues	9.295	3	3.098	12.512	<b>.000**</b>
<b>Family Income</b>	Safe Avenues	3.973	3	1.324	4.380	<b>.005**</b>
	Moderate Risk Avenues	5.797	3	1.932	5.097	<b>.002**</b>
	Risky Avenues	2.400	3	.800	2.836	<b>.039*</b>

\*\* Significant at 1% level of confidence

\*Significant at 5% level of confidence

With regard to the differences in investment portfolio with respect to safe avenues, there is a significant difference in their investment behaviour among the groups of respondents classified according to age groups, occupation and income level. In moderate risk avenues, there is a significant difference in the investment behaviour among the groups of respondents classified according to their age, education, occupation and income. With regard to risky avenues, there exists a significant difference in the investment behaviour across all the five socio-economic groups of respondents.

### Findings

The following are the observations from the study regarding the preference over investment avenues mapped according to the magnitude of risk and the differences investment behaviour about the safe, moderate risk and risky avenues of investment are presented below:

- With regard to the preference on safe avenues, it was observed that the respondents preferred to invest in savings account deposits, life insurance and fixed deposits followed by gold and closely followed by public provident fund, real estate and post office savings. Investors' preference to invest in government securities is very low.
- In the case of moderate risk avenues, it was found that most of the respondents prefer to invest in chit funds and mutual funds. It was also found that the respondents possess least preference towards bonds and debentures.
- Considering the high risk avenues, it was observed that the preference on equity share market is high when compared to foreign exchange and commodity market.
- The overall preferences on the safe avenues were more when compared to the moderate risk and high risk avenues.
- In safe avenues, there is a significant difference in their investment behaviour among the groups of respondents classified according to age groups, occupation and income level.
- In moderate risk avenues, there is a significant difference in the investment behaviour among the groups of respondents classified according to their age, education, occupation and income.
- With regard to risky avenues, there exists a significant difference in the investment behaviour across all the five socio-economic groups of respondents.

### Suggestions

From the overall investment behaviour, it is evident that the investors prefer to invest in safe avenues compared to moderate risk and high risk avenues. It could be attributed to the lack of awareness on the return benefits on such avenues. Hence awareness could be created on these lines. Lesser preferred investment avenues such as government securities, bonds, debentures, foreign exchange and commodity market products could be popularised and information on these could be disseminated through popular channels. On account of the widespread differences in the investment behaviour across socio-economic groups, prospective investors could be targeted in a segmented and customised manner rather than giving one product that suits all investors.

### Conclusion

Investment plays a vital role in maintaining the equilibrium level in income of individuals and also to meet their future goals regarding expenditure. Investors' behaviour and preferences on various avenues depends upon the level of risk and the return benefits present in these investment avenues. Though there are disruptive developments in technology and other spheres, the results of the research reveal that most of

the investors are mostly following a conservative approach as far as investments are concerned and prefer to invest in the safe avenues which offer lowest risk though the returns are low. This approach needs to be addressed and they have to be educated on how they can diversify their investments thereby balancing between risk and return. In the context of moving towards an emerging financially developed economy, it is essential that the money in the hands of the public should flow into the capital and commodity market.

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