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IMPACT OF BEHAVIOR ON INVESTMENT DECISIONS:AN EMPIRICAL STUDY OF JAMMU AND KASHMIR

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Abstract

Investment is the employment of funds that have been saved from current consumption with the hope that some benefits in future will be received. The sacrifice that has to be borne is certain but the return in the future may be uncertain. This attribute of investment indicates the risk factor. The risk is undertaken with a view to reap some return from the investment. A variety of factors influence investors behavior such as returns, safety of principal amount, progressive amount, tax savings along with other factor like family, friends and expert opinion and motives behind savings and last but not least discomforts they face while investing, all directs investor's behavior. The risk and returns involved in each of these investment avenues differ from one to another. The investors are ready to invest after evaluating the main features of investments such as security of principal amount, liquidity, income stability, easy transferability, etc. At the same time the choice among the variety of these factors depends upon the preferences and behavior of individual investor. The present study is based on the comparative analysis of investment patterns and behavior of individual investors. This study is much helpful to the operation of investment behavior. A study of behavior analysis of investor's attitude is an attempt to know the profile of the investor and also the characteristics of the investors, their preference with respect to their investment. This study can facilitate the potential investors to analyse the influence of behavior patterns. This study will also help investor to earn better profits from the investment option.

Keywords: Investment, Investment Behavior, Investment Patterns, Investment Avenues.

Introduction

All the individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, bullion etc. In each life cycle stage, every individual desires his hard earned money to be invested in most secure and liquid avenue. However, the decision varies for every individual depending on their risk taking ability and the purpose for which such investment is to be done. Purpose of investment can be related with saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals. Investment behavior of an individual investor reveals how he/she wants to allocate the surplus financial resources to various instruments for investment available.

A financial market is the vertebrae of an economy. People start investing to secure their life from uncertainties Investors have a wide variety of avenues to park their hard earned money. Choice or selection of investor depends upon the risk and return profile while patterns depend upon the behavior. Within behavioral finance, it is supposed that information configuration and the features of capital market participants scientifically influence individuals' decisions regarding investments as well as market results. Investment behaviour of an individual investor reveals how he/she wants to allocate the surplus financial resources to various instruments for investment available. The investment behaviour consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and most importantly the timing of such investment.

Behavioral finance is a relatively new school of thought that deals with the influence of psychology on the behavior of financial practitioners and its subsequent impact on stock markets (Sewell, 2007).

We can divide knowledge in the context of finance into two kinds: financial facts knowledge and human-behavior knowledge. Financial-facts knowledge includes facts about financial products and services and about financial markets. It includes facts about differences between taxable and tax-deferred accounts, facts about compounding interest rates, and facts about mutual fund fees.

Human-behavior knowledge is about normal people, their wants, cognitive and emotional shortcuts, and cognitive and emotional errors. Human behavior knowledge includes knowledge of wants for financial security and nurturing children and families. It also includes knowledge of cognitive shortcuts and errors, such as in framing, availability, and representativeness, and emotional shortcuts and errors, such as in pride, regret, sadness, and disgust.

Development of Behavioral Finance Theory

The behavioral finance is emerged as a new field of research of finance studies after 1990s (Helen and Simon, 2000).Researchers note that the discipline of financial studies developed from an efficient market hypothesis to behavioural finance theory via the supremacy of the theory of rational expectations in the 1970s and a near correlation between the theoretical patterns of

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that time and the available information implemented by changes in resources and stock systems. (Robert Merton, 1973). Individuals are key parties in behavioural studies in psychology studies; same is the case with behavioural finance. Charles Mackay (1841) explains about crowd mentality and their psychology and behaviour in financial markets in his book "Memoirs of Extraordinary Popular Delusions and the Madness of Crowds". This shows relevancy of divergent studies and their inter connectivity influence on modern day finance over centuries and decades.

Literature Review

The researchers want to understand the behaviour of an investor investing in a market which is not developed but developing by considering all important relevant factors and important aspects through the lens of Behavioural Portfolio Theory (Shefrin and Statman, Ahamed Ibrahim and Tuyon, 2017).

In various empirical studies, it has been found that information being an important factor on taking decision to invest, which influences them on choice of investment and later on how they act after investment (Kasilingam&Jayabal, 2008).

Phillip (1995) reported changes in financial decision-making and investor behavior as a result of participating in investor education programs sponsored by employees. In India, SEBI started such awareness program for small investors, which has started giving benefits, in terms of value investing and informed investing from retail investors.

Gaurav Kabra et.al (2010) carry out a study "Factors Influencing Investment Decision of Generations in India: An Econometric Study" the present study aims to gain knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision making process among men and women and among different age groups. It is to find out Factors which affects individual investment decision, Difference in perception of Investors in the decision of investing on the basis of Age and gender. The data were analyzed using standard techniques of factor analysis, Regression analysis and other basic techniques. The study concludes that investors„ age and gender predominantly decide the risk taking capacity of investors.

Fama (1972) in the study titled "Components of Investment Performance" analysed the Investment and introduced two terms ―Selecting and ―Timing which were more important compared to risk and return. Further, he suggest methods for measuring the efforts of foregone diversification when an investment manager decides to concentrate his holdings in which he thinks that there are only a few winners. Eventually he was successful in presenting a multi period model that allowed evaluation both on period by period and on a cumulative basis.

Awais et al. (2016) explored that the factors which influence the decision-making process of investors. The decisions of the investors depend upon the degree of the risk factors, the increased level of knowledge about financial information and the increased ability of analyzing that information, investor could improve the capacity jump into risky investments for earning high returns by managing investment efficiently.

Dr.G. Jeyabal and G. Prabakaran (2009) in their article titled "Investors Risk Tolerance Towards Mutual Fund Investments" stated that the mutual fund investors are from low and moderate risk tolerant groups and the socio economic variables alter the risk tolerance of individual investors. The mutual fund organisations must consider these socio-economic variables of the investors that have an important influence on investment decision making. In addition to that, mutual fund organisation must concentrate on creating awareness among retail investors, controlling the operational costs, penetrating in the rural areas, curbing the unethical practices, spreading the mutual fund culture, maintaining transparency and flexibility, introducing innovating products, creating a good rapport with the investors which will enable the mutual fund investors to have a high level of risk tolerance.

Kumar (2015) carried out a research to find what plays a vital role in the minds of the investors before decided on investment. The nine factors namely security, risk tolerance, lucrative return, investment duration, periodic return, share preference, long-term investment, futuristic return and investment dynamics influenced the investor's perception the author conclude that investors compared their returns and calculate the inverse proportionality between time and the return. Among these factors, the futuristic goals of equity investors are very considered as a factor important for estimating their level of satisfaction.
Individuals make decisions based on the potential value of losses and gains rather than the final outcome, and people evaluate these losses and gains using interesting heuristics. Kahneman and Tversky (1979).

Shanmugasundaram and Balakrishnan (2011), concluded that demographic factors influence the investors' investment decisions.

Manish Mittal and R. K. Vyas (2007) study on "Demographics and Investment Choice among Indian Investor" shows that based on gender, men prefer Equities as their first choice and women prefer post office deposits as their first choice. The investor of age group 18-25 first choice is Equities and above 45 years first choice is Derivatives. Less income group prefers post office deposit and high income group prefers Derivatives as their first choice. Post graduates prefer Mutual Fund and Professionals prefer Equity. Service as occupation people prefers Equity whereas housewife prefers Real estates and Bullions.

Joseph et al. (2015) Investors' perception is dependent on the demographic profile, investor's age, and annual savings that has direct impact on the investors' choice of investment and mostly the small investors have positive approach towards investing in mutual funds.

Verma (2008) studied the effect of demographics and personality on investment choice among Indian investors and found that mutual funds were popular amongst professionals, students and the self-employed. Retirees displayed their risk aversion by not

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investing in mutual funds and equity shares. It was also found that higher the education, higher was the level of understanding of investment complexities. Graduates and above in qualification preferred to invest in equity shares as well as mutual funds.

Kabra, Mishra and Dash (2010) studied the factors which affect individual investment decisions and differences in the perception of investors in the decision of investing on the basis of age and gender and found that investors' age and gender predominantly decides the risk taking capacity of investors.

Raza (2014) The researcher used behavioural portfolio theory method to understand the perception of investors has a strong and significant impact on financial decision making by using case study and descriptive analysis method.

Anil nagtilak et al. (2015) accessed behaviour of saving and investment in first public offering this to used convinces sampling method and evaluated the complex IPO process and included to the legal requirements of an IPO, SEBI rule and plan, to find out the investors' confidence level and their favorite while investing money. Conclude that IPO is no more risky investment as SEBI is playing very important role in regulating the risk and financial aspects of the investors.

Virani (2013) determined that income of the respondents was the major factor that influences their investment decisions. Bank deposits were found to be the imperative segment of investment to fulfill the several needs like education and marriage of their children as well as safety and security after retirement.

Moorthy S, Murthy K (2015) the respondents are saving money as bank deposits for the safety of an irregular future. The main avenues of investment are the bank deposits and the main purpose of investment is for children education, marriage, and security after retirement.

Parimalakanthi, Ashok kumar (2015) Security was also a leading preferred feature in fixed income and investment for safety. The capital approval was the prime favoured aspect in long-term investment. Extra income was the most chosen part on liquidity investments.

Vikram (2016) Return on investment is one of the most significant factors followed by lock-in-period which discriminates between investors and non-investors in mutual fund.

Objectives of the Study

- To analyze the investment patterns and behavior of individual investors
- To study the investment preferences of individual investors through demographic factors
- To study the factor influencing investors towards different investment plans
- To study the sources of information influencing the investors

Research Methodology

This study is much helpful to the operation of investment behavior. This study helps to build such investment portfolios to the investors which are in reach of his/her mindset and thinking. A study of behavior analysis of investor's attitude is an attempt to know the profile of the investor and also the characteristics of the investors, their preference with respect to their investment. This study can facilitate the potential investors to analyse the influence of behavior patterns. This study will also help investor to earn better profits from the investment option.

The research methodology depicts the flow of research process and serves as guidance for researcher to carry out the research smoothly. So that research is completed on time.

Research Design

The research design is the set of methods and procedures used in collection and analysis the data. The present research design is descriptive by nature. It is the simplest type of research and is more specific.

Scope of the study

The study is mainly planned to know about individual investor's preferences and behavior regarding various investment avenues.

Area of the study

The present study is conducted in Jammu and Kashmir.

Sampling size

The sampling size is restricted to total 100 respondents.

Sampling Technique

Convenient sampling technique is used by researcher.

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Data Analysis

Demographic Pattern of Individual Investors

Demographic Factor	Parameter	No. of Respondents	Percentage
Gender	Male	70	70
	Female	30	30
	Total	100	100
Age	18 to 28	15	15
	28 to 38	28	28
	38 to 48	43	43
	48 to 58	10	10
	Above 58	4	4
	Total	100	100
Occupations	Government Employee	33	33
	Non-Government Employee	38	38
	Self Employed	20	20
	Professional	6	6
	others	3	3
	Total	100	100
Annual Income	Below 3 lakhs	26	26
	3 to 5 lakhs	48	48
	5 to 8 lakhs	18	18
	8 to 11 lakhs	8	8
	Total	100	100

Factors Influencing Investor's Behavior

1. **Percentage of Income Invested**

Table 1

Percentage of income invested	No. of Respondents	Percentage
0 to 20	71	71
20 to 40	26	26
40 to 60	2	2
Above 60	1	1
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	25
Standard Error	16.38596961
Median	14
Standard Deviation	32.77193922
Confidence Level (95.0%)	52.14746844

2. **Factor Guide Investment Decision (Multiple Response Analysis)**

Table 2

Factors	No. of Respondents	Percentage
Tax saving	6	6
Safety of principal amount	52	52
Progressive value	5	5
Return	37	37
TOTAL	100	100

Source: Primary Data

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Descriptive Statistics

Mean	25
Standard Error	16.38597
Median	14
Standard Deviation	32.77194
Confidence Level (95.0%)	52.14746844

3. Risk While Investment

Table 3

Factors	No. of Respondents	Percentage
Uncertainty	32	32
Less awareness	39	39
Low return	15	15
Inconvenient to operate	8	8
Not applicable	6	6
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	18.46199
Standard Error	3.340778
Median	16.38597
Standard Deviation	5.786397
Confidence Level (95.0%)	14.37421

4. Factors Influence Investment Decision Behavior

Table 4

Factors	No. of Respondents	Percentage
Family member(s)	53	53
Friends/colleagues	15	15
Agents	12	12
Expert opinion	15	15
None	5	5
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	25
Standard Error	16.38597
Median	14
Standard Deviation	32.77194
Confidence Level (95.0%)	52.14747

5. Motives of Saving

Saving is income not spent, or deferred consumption. Saving is that tree which gives us fruits and shadow later. In other words, saving called as putting money aside in deposit account, a pension plan, an investment fund etc. Motive of saving is a subjective activity. Kashmiris are good savers they take care of their children and beloved ones. Researcher choose different types of motives as per priorities of investors like desire to meet gradually increasing expenditure in order to improve the standard of living, desire to save for children’s marriage sake, desire to meet anticipated future needs like old age, desire to enjoy a sense of independence and power to do things, desire to meet unforeseen contingencies.

5.1 Desire to Meet Gradually Increasing Expenditure in Oder to Improve the Standard of Living

Table 5.1

Scale	No. of Respondents	Percentage
Strongly Agree	59	59
Agree	31	31
Neither Agree nor Disagree	8	8
Disagree	2	2
Strongly Disagree	0	0
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	20
Standard Error	11.20268
Median	8
Standard Deviation	25.04995
Confidence Level (95.0%)	31.10362

5.2 Desire to Save for Children

Table 5.2

Scale	No. of Respondents	Percentage
Strongly Agree	38	38
Agree	56	56
Neither Agree nor Disagree	6	6
Disagree	0	0
Strongly Disagree	0	0
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	20
Standard Error	11.43678
Median	6
Standard Deviation	25.57342
Confidence Level (95.0%)	31.7536

5.3 Desire to Meet Anticipated Future Needs

Table 5.3

Scale	No. of Respondents	Percentage
Strongly Agree	35	35
Agree	53	53
Neither Agree nor Disagree	10	10
Disagree	2	2
Strongly Disagree	0	0
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	20
Standard Error	10.33925
Median	10
Standard Deviation	23.11926
Confidence Level (95.0%)	28.70635

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5.4 Desire to Enjoy A Sense of Independence and Power to Do Things

Table 5.4

Scale	No. of Respondents	Percentage
Strongly Agree	28	28
Agree	51	51
Neither Agree nor Disagree	16	16
Disagree	3	3
Strongly Disagree	2	2
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	20
Standard Error	9.093954
Median	16
Standard Deviation	20.3347
Confidence Level (95.0%)	25.24886

5.5 Desire to Meet Unforeseen Contingencies

Table 5.5

Scale	No. of Respondents	Percentage
Strongly Agree	30	30
Agree	53	53
Neither Agree nor Disagree	14	14
Disagree	2	2
Strongly Disagree	1	1
TOTAL	100	100

Source: Primary Data

Descriptive Statistics

Mean	20
Standard Error	9.994999
Median	17
Standard Deviation	22.3495
Confidence Level (95.0%)	27.75057

Findings

- The demography reveals majorly the respondents who made investments are males (70%) the table also shows that majority of them are above 30 years old and below 50 years old, who are employed and whose income is between 3 to 5 lakh rupees.
- Table 1 infers that the current status of percentage of income invested 20% in different investment avenues by 71% of the respondents. While as 40% of the income is being invested by the 25% of the respondents. It shows that there is a huge investment potential.
- Table 2 infers the four most influencing factors that guide investment decision of individual investor are return, progressive value, safety of principal and tax saving which influence investor. The investors (52%) are mostly concerned about the safety of the principal amount, that depicts the investors are risk avoiders. Return on investment is the second important factor that influences the decision.
- Risk is variability of returns and is associated with uncertainty. 32% of the respondents (table 3) feel fear of uncertainty while making investment decisions. 39% (table 3) agreed that they are not aware about the investment avenues and 8% (table 3) feels inconvenience while operating the investments.
- Table 4 reveals family member/s (53%) is/are most influencing factor of investment behavior, followed by friends and expert opinions 15% each. Only 5% of the responds shows nothing influence on their investment decisions.
- This study reveals that 59% of the respondents (table 5.1) strongly agree that they made investments to Meet Gradually Increasing Expenditure in Oder to Improve the Standard of Living. Only 2% respondents disagree with the statement.
- Table 5.2 shows that 56% agree and 38% strongly agree that investments are made to save for Children's marriage and education.

- Anticipated Future Needs is another motive for investment. Above 80% of the respondents agree and strongly agree (table 5.3). While as 10% of the respondents are neutral about the future anticipated needs.
- The above table 5.4 indicates that 51 percent investors of Jammu and Kashmir agreed on the statement that through saving one can enjoy a sense of independence and power to do things. Followed by 28% strongly agree on this statement. Only 2% strongly disagree and 3% disagree with this statement.
- Above table 5.4 has been infers that 53 percent respondents considered that to meet the unforeseen contingencies saving of money is necessary. 30 percent respondents also considered that to meet uncertainties of life one should save money. Further 14 percent respondents of have no view regarding this statement. Only 2 percent investors disagree with this statement and rest 1 percent respondents strongly disagree with this statement.

Conclusion

The financial behavior of individual investors has a connection with the various available investment options, preference and selection. Safety of principle would be most critical factor which is considered most before investment followed by low risk, high returns and maturity period. Returns is the main reason for investment, future expenditure, tax savings and wealth creation. Selection of a perfect investment avenue is a difficult task to any investor. An effort is made to identify the tastes and preferences of a sample of investors selected randomly out of a large population. Investment behavior of one class of people is different from another class of people, it may be in the form of risk perception level, awareness of various investment. There are lots of considerations while investing such as tax planning, future needs, safety of investments, recurring income, etc. So as per the requirement of individual investor, he or she should consider these variables. Knowledge is the key power to invest in, therefore by conducting several Investors' awareness programs can remove fear in the minds of potential investors.

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