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FACTORS INFLUENCING INVESTMENT DECISIONS- AN ANALYSES

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Abstract
The global investment landscape has changed dramatically with the rapid strides in the investment sector. Investor's vigilance is regarded as the essential milestone for long-term sustainability. Every investor runs the investment marathon, dreaming to beat the market and being super investors. Investors spend an inordinate amount of time and resources in this endeavor. Fluctuations have become the 'Hallmark of the Investment Market'. Consequently, many fall an easy prey to the magic bullets (returns promised) and the secret formulae offered by financial agents pushing their products. Investors constantly seek the key to their portfolio asset-picking abilities, so that they can become wealthy quickly.

Key Words: Investment, Decision, Mutual Funds.

INTRODUCTION

In this search, investors are whipsawed by contradictions and anomalies. In one corner of the investment town square, stands one advisor, yelling to buy businesses with solid cash flows and liquid assets. In another corner, another investment expert cautions the investors that this approach worked only in the old world and not in the new world of technology. In yet another corner stands a silver tongued salesperson with vivid charts and presents evidence of his capacity to get the investors in and out of markets at exactly the right time (**Stern NYU, 2003**). It is not surprising that facing this dissonance of claims and counterclaims, investors end up more confused than ever. Moreover the economy is also fuelled by knowledge and ideas which relentlessly marches on with globalization, expanding the horizons of investment avenues. The expanded horizon has certainly created anxieties and uncertainties among investors who have to make decision about the right investment avenue. Thus, in this incessant and persistent race, the availability of various investment assets induces the investors to trump the marketplace by a wide margin. In the upshot, investors try to invest sensibly to ensure stability. In such a relentless marathon, where market swings are erratic – investors can remain stable only by effective management of the assets. Although bargains galore exist, investors try to snap up financial assets at fire sales price. In order to ride out the period of uncertainty, an all-weather diversified mix of financial assets is preferred by investors. This is recognized as Investment Portfolio Management.

Investment Portfolio Management has become an established means for managing investments. It is gaining strength as a way for savers to invest over the next decade. It provides a better understanding of markets and greater technological capacity for sophisticated investing. Thus Portfolio management becomes the order of the day to every investor. The concept of investment portfolio management is rapidly climbing domestic as well as global political agendas. In an environment of escalating competitive pressures, investors have identified that only a structured well diversified portfolio would offer stability in the market. Thus even in the absence of any legal binding the concept is catching on worldwide. The template argument is that to be successful, an investor has to begin with an investment philosophy. The Investment philosophy should therefore be consistent at its core. It should also match both the market and investors' individual characteristics.

REVIEW OF THE LITERATURE

Many studies have been conducted to nail down the factors that influence Investment decision. **Cao.M and Shi.S (2000**) concluded that some of the strategic issues affecting individual investor's investment portfolio includes: the timing and magnitude of intergenerational income requirements, the ability to measure and withstand losses. Other related issues portrayed are to be adequately compensated for bearing risk or loss, absolute and relative performance goals and benchmarks for measuring returns. Empirical evidence does not corroborate the ability of variables like interest rates, inflation and tax rates (**Jappelli and Pistaferri,** 2000) to influence investment decision. Major research in the area of investors' behaviour has been done by behavioral scientists such as **Shiller (2000) and Shefrin (2000).** They strongly advocated that investments are governed by the market information which directly affects the behaviour of the investors. **Douglas D. Evanoff, Evren Ors (2002)** concluded that financial liberalization and reforms in the form of deregulation, easy entry, and developments in information technology lead to major changes in the portfolio allocation of investors.

Several studies have brought out the relationship between the demographics such as Gender, Age and risk tolerance level of individuals. Of this the relationship between Age and risk tolerance level has attracted much attention. **Lundberg, Startz, and Stillman (2003)** provide empirical support for this argument, showing that household consumption falls after the

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husband retires (and presumably loses bargaining power). **Browning (2000)** uses a non co-operative bargaining model to show that the share of investments in the household portfolio depends on the distribution of income between spouses. **Friedberg and Webb (2006),** in addition to examining the sources of bargaining power, investigate the consequences of bargaining power on household portfolio choice. They find that households tend to invest more heavily in stocks as the husband's bargaining power increases. Investment decisions are driven by several motives, including the need to build up assets to finance consumption after retirement and precautionary saving related to the uncertainty about the future. Various other motives are the desire to leave bequests to a subsequent generation and saving for the acquisition of tangible assets or for large current expenditures. Saving for retirement is generally considered quantitatively the most important saving motive. **Urvi Neelakantan, Angela Lyons, and Carl Nelson, (2008)** provides a model of household portfolio choice that is consistent with this evidence. The model illustrates how intra-household differences in risk aversion and bargaining power interact with wealth to determine Investment portfolio choice. The model predicts that the risk aversion of the spouse with more bargaining power determines investment portfolio allocation. The model also predicts that the share of risky assets in the investment portfolio increases with wealth of the individual. Most previous research on bargaining power and household financial decisions has focused on the consumption-investments choice (Browning, 2000, Lund-berg, Startz, and Stillman, 2003). The problem arises because wives, who are on an average are young are expected to live longer than their husbands. They prefer to save more than their husbands.

NEED FOR THE STUDY

Investment portfolio management services' include elements of financial statement analysis, asset selection, stock selection, plan implementation and monitoring of investments (**Richard Adams (2005))**. Investment portfolio management comes under the remit of financial services and creates billions of revenue. To achieve the desired return within the specified period, it is very essential for investors to have a management of their portfolios. This is the prime need of the hour. Traditional finance theory is basically based on two assumptions. Firstly, investors' make rational decisions; and secondly investors are unbiased in their predictions about future returns of the stock. However financial economist have now realized that the long held assumptions of traditional finance theory are wrong and found that investors can be irrational and make predictable errors about the return on investment in their financial savings. This study is thus an attempt to know the profile of the investor, the characteristics of the investors so as to know their preference with respect to their investments. The study also tries to unravel the influence of demographic factors like gender, age, education, income levels and occupation on risk tolerance level of the investor. With the range of products available in the market and the efforts being taken by investment firms to market their products, investors are often perplexed about the investment options. Not much attention is paid to understand the awareness level of each of the investment products and the associated services among investors. This study is intended to analyze investor's awareness and satisfaction towards select investment products viz. Public Provident Fund, Mutual Fund, Fixed Deposits, Life Insurance and National Savings Certificate.

STATEMENT OF THE PROBLEM

In India, financial markets provide a variety of assets to investors. Moreover, the complexity of the size of the financial markets by and large demands the employment of professional fund managers. Their role is required to deal with the variety of individual assets or asset classes to reap maximum returns out of their investments. In this scenario, the role of watchful investors assumes a special significance. Investors are thus called upon to devise well defined plans and goals, otherwise termed as Investment Portfolio Management. This would assist the investors to manage their portfolios in such a way that they are able to achieve their financial goals easily. Investment Portfolio Management should therefore be directed at crafting and honing investment markets so that investors are assured of their expected returns. Such management of investments would provide an embarking platform to investors in the financial world.

OBJECTIVES OF THE STUDY

- To analyze the investors' awareness and selection of portfolio of investments.
- To offer suggestions to estimate the investment portfolio to the prospective investors.

RESEARCH METHODOLOGY

Primary data was collected through a formal questionnaire administered to the respondents to identify the awareness, involvement, and evaluation of the investment portfolios. Reliance was also placed on the secondary data made available on the subject and also the research of similar studies conducted in the same area. The references of secondary data were also made from published works like books, journals, reports, magazines, dailies and also through various websites. The data collected from both the sources were scrutinized, edited and tabulated. The data is analyzed using statistical package for social sciences (SPSS) and other computer packages. The statistical tools that were used in this study are Parametric t-test, One-way analysis of variance, Factor analysis, K-means cluster analysis, Multiple discriminant analysis and Non-parametric chi-square analysis.

DISCUSSIONS AND RESULTS

INVESTMENT DECISION PROCESS

Investment refers to exchange of money wealth into some tangible wealth. It is buying and selling or trading or exchange of money or cash for future claims on money. By investing, an investor commits the present funds to one or more assets to be held for sometime in expectation of some future returns. Thus, investment is a commitment of present funds accepting some risks in return of future funds. The various stages involved in the investment decision process are:

- Setting investors' objective and the amount of investable wealth. The objectives may be income enhancement, appreciation of capital, safety, liquidity and hedge against inflation.
- Setting short term or long term objectives; with the short term being, trading gains or capital appreciation (upto 1 year) and long term objectives being, investment in assets like gold, silver, real assets and other appreciable assets. These long term investments are guided by the individual preferences for investments, whether it is for transactional purposes, precautionary purposes or speculative purposes.
- Analysis of different assets or securities to identify the most suitable form of investment.
- Construction of a portfolio for investment and determining the proportion of wealth to be invested in each one.
- Periodic repetition of the above steps to revise and improve the portfolio in view of changing situations. This would include evaluation of performance of the portfolio in terms of risk and return.

FACTORS INFLUENCING INVESTMENT DECISIONS

The following are the prime factors that influence investment decisions taken by investors.

Risk appetite

The ability to tolerate risk differs from person to person. It depends on factors such as financial responsibilities, the environment, and investor's basic personality. Therefore, understanding the capacity to take risk becomes a crucial factor in investment decision making. Thus investors should analyze this factor before investing.

Investment horizon

The ability to determine the time horizon for investment is a question of fact. The longer the time-horizon, the greater are the returns that investors can expect. Further, the risk element reduces with time.

Investible surplus

The amount of money that can be set aside for investments should be determined. The investible surplus plays a vital role in selecting the various asset classes as the minimum investment amount differs and also the risks and their returns.

Investment need

Investors analyze the money requirement at the time of maturity. This helps them to determine the amount of money they can invest every month or year to reach the magic figure.

Expected returns

The expected rate of return is a crucial factor as it will guide the choice of investments. Based on their expectations, investors can decide if they should invest heavily into equities or debt or balance their portfolio.

THE BIG PICTURE OF INVESTING

The focus of every investor is first laid on the process of creating an investment portfolio. This is a process that is followed by amateurs as well as professional investors. Though the objective varies from one investor to another the process remains the same. The process is as follows:

Understanding the Client

The process always starts with the investor by understanding his needs and preferences. For a portfolio manager, the investor is a client. The first and often most significant part of the investment process lies in understanding the client's needs, the client's tax status and his risk preferences.

Portfolio Construction

The next part of the process is the actual construction of the portfolio, which is divided into three sub-parts:

- The first of these is the decision on how to allocate the portfolio across different asset classes defined broadly as Mutual funds, Life insurance, NSC, PPF, fixed deposits and other assets.

- The second component is the asset selection decision, where individual assets are picked within each asset class to make up the portfolio. In practical terms, this is the step where the different financial assets that yield different types of income component are selected.
- The final component is execution, where the portfolio is actually put together. Here investors must weigh the costs of trading against their perceived needs to trade quickly.

Evaluate Portfolio Performance

The final part of the process is performance evaluation. Investing is normally focused on earning maximum returns within a risk focused environment. Investors are not willing to accept losses under any circumstances. Thus performance evaluation of the asset becomes important to the individual investor who constructs his own portfolio. Based on the feedback of performance, investors determine investing approaches.

FINDINGS OF THE STUDY

- Life insurance investors possess moderate awareness on the online technicality.
- Awareness aspect is moderate for Fixed deposit investors on variables like TDS, loan facilities and interest taxability.
- Life insurance investors possess moderate awareness on the online technicality. The heterogeneous group of Life insurance investors were named as **Benefit Oriented Investors,** Dynamic Investors and Mechanical Investors**.** The survey brings the fact that the technological issue requires more campaigning among these investors.
- Discriminant analysis estimates the awareness limits as $Z_{1} = 6.179$ and $Z_{2} = 8.922$. Thus cluster justification table is well substantiated.
- The results also reveal that investors of National Savings Certificate view it only as a Tax saving instrument. Segmented sample unit of National Savings certificate identifies investors under the tag name Tax-Oriented Investors, Participative Investors and Analytical Minded Investors. The booming interest rates and tax benefits of NSC has induced investors to hold awareness on all variables of the scheme.
- Awareness aspect is moderate for Fixed deposit investors on variables like TDS, loan facilities and interest taxability. The heterogeneous grouping of fixed deposit investors are identified as Credit Motivated Investors, Disciplined Investors and Laid Back Investors. But majority of the investors are of the opinion that these deposits help in credit availing process. Thus the awareness on the liquid nature of fixed deposits has reached a large percentage of investors.

SUGGESTIONS OF THE STUDY

1. Company reputation was found to be one of the factors that significantly influence investment decision. Hence, the investors should spend some time to understand about the company’s reputation before betting on them. This is more important in the case of Mutual funds, where the profile of the fund manager and the background of the company can have significant impact on the returns.
2. Investors should subscribe to different alerts to ensure that they track their investments better. With the advent of technology and proliferation of channels, investors are presented with a wide variety of options to subscribe to alerts. E-mail has been found to be the most preferred form of alert, as they are more reliable and fast thereby helping investors to achieve their investment goals. Investors should subscribe to e-mail alerts to keep better track on the investments and their schedule.
3. Out of all the various avenues in the investment arena, Fixed deposits occupies the prime place in all the investors’ portfolio. Considering the competitive rates offered by Banks, investors should consider fixed deposits as part of their portfolio. Fixed deposits are a good avenue for anyone planning to park their funds in safety for a period of time.
4. Technology has transitioned the financial industry and the Life Insurance industry is no exception. But it is found that investors of life insurance possess moderate awareness on the online technicality of life insurance products. Life insurance companies offer various value-ads including Online premium payments, Online Branch locator, Online Chat with advisors and Online portfolio tracking. Investors should attempt to capitalize on the opportunities and options made available to them by the life insurance companies.

CONCLUSION

To conclude, building an optimal investment portfolio is indeed rewarding and exciting, but involves a great deal of risk and calls for scientific knowledge as well artistic skill. An investor considering investment in any financial assets is faced with

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the dilemma of choosing from among a large number of securities. They are utterly left baffled on the process of allocating funds over group of securities. Again investors are faced with problems of deciding which securities to hold and how much to invest in each, as the risk return characteristics of individual securities change. Periodic review and revision of investment portfolios would surely help investors to stay abreast and face the associated challenges. This study would help investors to understand the risk-reward profile of major investment products and step into the magical maze of investment world with courage and confidence.

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