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## CHAPTER 1

### INTRODUCTION TO THE STUDY

#### 1.1 Introduction

In India the financial system has been developing rapidly in the last two decades and the proportion of financial investment has been growing. Thus, savings in financial form of the household sector has increased from around 30% in fifties to 45% to 55% in recent years. As proportion of GDP total savings of household sector in financial form is about 12% of GDP during 2001 to 2006. The economic development process involves a larger role of financial intermediation and shifting of savings away from investment in physical assets to investment in financial assets. In recent years variety of financial instruments available for investment and trading. Thus the investors can deposit their surplus amount in a bank account to earn a fixed rate of interest or purchase a speculative shares on the stock market or buy gold or contribute to a provident fund account or buy a piece of land or invest in some other form. Whatever their decision, investors are making a sacrifice in present in the hope of getting benefits in future. Every investment decision has two key aspects time and risk. While the sacrifice occurs in the present and is certain, the benefits come in future may be uncertain. While the life expectancy of the average human being has increased, they are productive only between ages of 20 and 60 years. Hence the short time span that they are able to earn money need to provide for their future when they may not be capable of earning.

Thus all investments lose its value due to inflation or rise in prices leading to depreciation of the rupee. When the average rate of inflation is about 10%, the real value of money is lost by 10% every year. The investors have therefore to protect themselves from this loss of real values of their assets by proper investment planning and by securing returns, higher than the inflation rate. Some investments give only income like bank deposits, P.O. certificates, company deposits etc. Some assets show capital appreciation if they are in shares in companies or bullion, land and buildings.<sup>1</sup> Some are safe and liquid like the investment in government securities, bonds of P.S.U. etc. A few investments like Indira Vikas Patra, Kisan Vikas Patra are easily transferable and marketable. But all investment options do not satisfy

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<sup>1</sup> . Dr. Avadhani V. A., Investment Management, Himalaya Publishing House, 5<sup>th</sup> Edition, p. 16

all the needs and objectives of investors, including securing a hedge against inflation. Hence the investors need to preserve the purchasing power of what they save. The only way to hedge inflation is to invest in shares, debentures, bonds, mutual funds, insurance and gold to earn returns from these assets that compensate for the decline in the purchasing power.

Since last decade there was drastic change in employment opportunities in the satara city. Individuals get good salary due to better employment opportunities and it helps to raise their standard of living as well as investment habits. Thus investors become well aware about various investment avenues and they are carefully investing their money. Thus present study focuses on the recent trends in investment avenues i.e. investment preferences of the individual investors in satara city as well as study the relationship between the life cycle stages of individual investors and investment pattern.

## **1.2 Research Problem**

The Indian Economy has undergone vast changes since planned development was initiated in 1951. Early in the Fifties total Domestic Savings as a percentage of GDP was hardly 5% and rate of growth of GDP was around 3%. The Household Sector Savings rate was 15.7% during the 1980's and increased to 19.1% during 1992-93 and stood at 19% in 1997-98 and at 24.3% in 2003-04. The rise on this account was mainly due to a large increase in the Household Sector Savings in financial form in the form of Bank deposits, PF, small savings due to financial reforms. The pattern of distribution of financial assets of the Household sector is seen as follows. The precautionary investment is in contractual form of savings in Life Insurance, P.F., and Pension which account for about 26% of total in financial form. The motive in transactions is seen in the currency and bank deposits, held by households at around 48%. These two forms of investment for transactions and precautionary purposes account for about 75% of the total financial savings. The most risky forms of investment indicating the risk taking by households are in shares, mutual funds, debentures and non-banking deposits with companies, which account for only about 2% of financial savings of household sector in India in 2005. This indicates the degree of risk aversion of average Indian households.

As per RBI data, for recent years the net investment in financial assets and physical assets are 45% and 55% respectively. The structure of financial assets presents the data on the

proportion of investment in various forms by the public. As the Indian publics are risk averse, bulk of their investment is in LIC/PO/bank deposits. In recent years Indian peoples are well paid when compared to last few decades, the reason behind it was development in the sector of Information Technology, service industry and overall strong economy. So people are able to save more money. Selecting a proper investment option is very difficult because it is essential to balance the risks and returns.<sup>2</sup> Majority of Indians choose Fixed Deposits, Real Estate and Life Insurance as their primary investment method. Also many prefers for NSC, PPF and other safe investment methods to invest their hard earned money. Postal Saving Schemes also popular in retired people and senior citizens.<sup>3</sup> Therefore it needs for Financial Service Industry to know about investment pattern of the investors for formulating the suitable marketing strategies and accordingly segment the market for their product positioning. By understanding the investment pattern of individual investors as per Life Cycle Stage, it helps to classify the investors and accordingly offers the financial products for satisfying their investment needs.

### **1.3 Statement of Research Problem**

Statement of research problem is "A Study of Recent Trends in Investment Avenues in Satara City." The title signifies the study of understanding the recent trends in investment avenues i.e. recent trends in investor's preferences about various investment avenues as well as to study the relationship between Life Cycle Stages of individual investors and investment preferences.

### **1.4 Hypothesis of the Study**

The growth of economy leads to the development of urban area and literacy, both were helps to create an awareness regarding investment. This was a new era of the investment which results from adoption of liberalization, privatization and globalization. Investors possess an important place in the economic development of a country. Thus all investors have passes through various stages in life cycle and it is an important factor for determining the pattern of investment. There are only a few studies conducted on the issues of the relationship

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<sup>2</sup>. [www.tamilnow.com/articles/india-investment-trends.htm](http://www.tamilnow.com/articles/india-investment-trends.htm) 10.9.2011 1505 hrs

<sup>3</sup>. <http://toostep.com/trends/investment-trends-in-india> 10.9.2011 1505 hrs

between the stages in life cycle of individual investors and investment pattern. Many researchers have attempted theoretically explain the relationship between the stage in life cycle and risk taking by individuals and a few have also experimented on the same. However the relationship between the stage in life cycle and investment pattern of Indian investors has not been examined adequately.<sup>4</sup> Researcher had few unanswered questions and for findings answers for those questions, following hypotheses is set.

Thus, Present study put forth following hypothesis to test:

$H_0$  Investment Pattern of the Individual Investors does not change over various Stages in Life Cycle

$H_1$  Investment Pattern of the Individual Investor changes over various Stages in Life Cycle

### **1.5 Objectives of the Study**

Present study is based on the following objectives:

1. To study the awareness of individual investors towards different investment avenues.
2. To study the motives of investment of individual investors.
3. To study the factors influencing investment pattern of individual investors.
4. To find out whether any relationship exists between the stage in life cycle of individual investors and their investment pattern.

### **1.6 Scope of the Study**

The study was conducted in Satara city, Maharashtra State, India. Samples of the Satara city were focused for the present study. Thus geographical scope of the study is limited to Satara city. The study focuses on the individual investors of the Satara city who have investing their money in various investment options. Investors are selected on the basis of life cycle stages as well as demographic factors like age, income, education, occupation, gender. This study focuses on the recent trends in investment avenues i.e. investment preferences/choice and various investment avenues available like Bank Fixed Deposits, Post Office Schemes, National Savings Schemes, Provident Fund, Life Insurance, Mutual Funds, Precious

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<sup>4</sup>. Rajarajan, V. (June 1999 ). Stage in Life Cycle and Investment Pattern. Finance India , 477-485.

Stones/Metals, Currency and Shares and factors influencing investment pattern, motives of the investment. The study also focuses on the various concepts like savings, investment, risk-return relationship, regulatory authorities etc. For the study, data was collected through Structured Schedule and analyzed with the help of various statistical tools like tabulation, percentage, ranking method, mean, correlation, weighted average method. MS Excel was used for the presentation and for testing of hypotheses SPSS was used.

### **1.7 Importance of the Study**

The growth of urbanization and literacy has activated the new edge of investment. More recently, since the 1990's the investment activity has become more popular with the change in government policies towards liberalization and privatization. Thus varieties of financial instruments are available for investment. The study helps to understand the objectives of investment of the individual investors and also likings of the investors regarding different investment instruments. There has been change in the investment habits of the investors in recent years. Therefore the study is helpful for financial service industry to understand the investment pattern of the investors and accordingly offer the products for satisfying their needs and also suggests to the individual investors for better investments. The study will be helpful for the financial companies who are involved in investment banking as well as financial service provider to adopt a proper marketing strategy. The study helps to researcher to become familiar with various concepts as well as to understand the investment behaviour and investment pattern of the individual investors of the satara city. Identification of customer preferences with the survey on investment pattern, researcher can identify customer preferences towards investment in different options.

### **1.8 Research Methodology**

#### **1.8.1 Introduction**

Present study was based on the diagnostic type of research and inferential approach was adopted. The title signifies the study of understanding the recent trends in investment avenues i.e. recent trends in investor's preferences about various investment avenues as well as to study the relationship between Life Cycle Stages of individual investors and investment pattern. Research design of study deals with classifying the investors on the basis

of Life Cycle Stages and to understand investment pattern accordingly. Hence the present investigation is an attempt in that direction. The topic which is selected for M. Phil. dissertation is: “A Study of Recent Trends in Investment Avenues in Satara City”

### **1.8.2 Data Required**

Present study was conducted in satara city and data required for the study like various investment avenues available to investors, various factors considered by investors while making investment decision, motives of their investment, preferences for various investment avenues and demographic factors like investors age, income, gender, family income, size of family, number of earning adults in family, stage in life cycle, educational qualification, occupation etc.

### **1.8.3 Sources of Data Collection**

The data for the study is collected from two sources viz. Secondary sources and Primary source.

#### **a. Secondary Data Sources**

The required concepts for study such as savings, investment, investment activity, macro household savings & investment, impact of inflation & risk-return relationship, various investment avenues available, regulatory authorities etc. and other such information was collected with the help of books, websites, journals, and newspapers etc.

#### **b. Primary Data Sources**

Primary source of data collection is the data which is collected as fresh and first hand. The required data for the research such as income, occupation, age, education, number of dependants, motives of investment, factors consider, source of information etc. has been collected with the help of Structured Schedule, Personal Interview & Observation etc.

### **1.8.4 Instruments**

Structured schedule was prepared for getting proper and possible answers from the investors, which includes a set of questions such as demographic factors, preferences for investment avenues, motive of investment, factors influencing investment, awareness of investors about various investment avenues etc. Personal discussion was conducted with the investors for collecting the required information accurately.

### 1.8.5 Sampling

a. Type of Universe: Infinite

b. Sample Size: Respondents of the satara city only was focused for the study. So for calculation of sample size following formula is used

$$n = \{Z*S/e\}^2$$

Where, Z = Value of Z from normal distribution curve.

S = Standard Deviation of Population.

e = level of significance. (Errors to be tolerated)

$$n = \{1.64*0.66/0.10\}^2 = 117 \text{ samples}$$

Z = 10% i.e. 1.64 (value of z)

S = 0.66 i.e. (5-1/6) (researcher has used 5 point scale)

e = 0.10

c. Sampling Method: Non-Probability Convenient Sampling Method.

Population of the satara is scattered over different areas of satara city and also divided into different income groups. So the sampling procedure had to take into consideration the problem of non disclosure of financial information and in view of the object of the survey relevant population segment for sampling purpose is taken to be only those households which are capable of financial investment. As population is infinite, 120 individual investors were selected from the population on the basis of Non-Probability Convenient Sampling Method.

### 1.8.6 Data Analysis

The data after collection has to be processed and analyzed in accordance with the outline laid down for the purpose at the time of developing the research plan. Data was analyzed with the help of tools like ranking, weighted average, percentage, tables etc. For the purpose of finding an association between the stage in life cycle of investor and investment pattern, Spearman's Rank Correlation Coefficient was employed with the help of SPSS.

### 1.8.7 Pilot Testing

Pilot testing was conducted in Satara City, Maharashtra State. For the study, 30 samples were selected on the basis of convenient sampling method. With the help of Schedule, required data was collected. For the data analysis MS Excel was used. After the Pilot testing, Schedule was revised. In present study, researcher has added study regarding investment



preferences of individual investors based on Life Cycle Stages. In present study additional information is collected such as awareness of investors, their investment preferences, source of information, factors consider for investment, motives of the investment and satisfaction level.

### **1.9 Chapterization**

This dissertation consists the following six chapters:

CHAPTER 1: 'INTRODUCTION TO THE STUDY', which deals with the introduction to the Study, research problem, hypothesis, objectives of the study, scope, importance of the study and research methodology.

CHAPTER 2: 'REVIEW OF LITERATURE', which consists of previous search conducted by the researchers in the field of investment behaviour, investment pattern, investment choice.

CHAPTER 3: 'CONCEPTUAL FRAMEWORK' which includes the concept of savings, investment and various investment avenues available for the individual investors, life cycle of the individual investors, investment behaviour.

CHAPTER 4: 'OVERVIEW OF INDIAN FINANCIAL SERVICE INDUSTRY' which includes investment trend in India, regulatory authorities in India, Financial Products available to the Indian Investors.

CHAPTER 5: 'DATA ANALYSIS AND INTERPRETATION' which consists of data collected has been analyzed and interpretation has been made on certain facts by researcher.

CHAPTER 6: 'FINDINGS AND CONCLUSION' based on the analysis of data.

The dissertation has also been appended with annexure and selected bibliography.

### **1.10 Conclusion**

This chapter contains the Introduction, research problem, objectives, hypothesis, and research methodology. In recent years Indian peoples are well paid when compared to last few decades, so people are able to save more money & this leads to change in investment behaviour of the investors. This study based on the recent trends in investment avenues i.e. preferences of the individual investors & researcher has focused on the investment preferences of the individual investors as per their life cycle stages.