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CHAPTER 1

RESEARCH METHODOLOGY

1.1. Introduction

There are many factors which hinders the investment process of an investor. Actually these factors depend on the type of avenue, type of investor and on prevailing circumstances. These factors are broadly classified as cultural, structural and psychological factors. Due to which investment choice can be influenced.

The demographic factors which influence the decision are age, income, martial status, no of dependants etc. and psychological factors are Anchoring, Mental accounting, Confirmation bias, Herd behavior etc which do affect the psychology of the investors. Both the factors may be dependent on each other but the psychographic factor is most important as it ultimately impacts on investment decisions.

According to conventional financial theory, the market and its participants are, for the most part are, rational 'wealth maximizes'. However, there are many instances where emotion and psychology influence our decisions, causing us to behave in unpredictable or irrational ways.

Thus behavioral finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.

It is also a field of finance that proposes psychology-based theories to explain stock market Anomalies (irregularities). Within behavioral finance, it is assumed that the information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes.

Behavioral finance helps in identifying some of the biases that investor would come across in his investment process. Thus it helps investors to take corrective actions for future financial decisions.

1.2. Research Problem

It has been seen that demographics have been given due importance while studying the investment pattern of investors such as gender differences, age, education etc. Many times psychographic factors are neglected which do play an important role in the investment pattern because of which investors do commit errors and even intermediaries and financial institutions fall prey to these factors and create a losing portfolio for the investors. Thus researcher has made an effort to focus on the psychological factors which influence choice of investment.

1.3. Statement of Research Problem

As the study focuses on investment pattern of samples on the basis of Psychological factors thus the title of the study is 'Impact of Psychography on Investment: A Study of Investors in Satara',

1.4. Hypotheses

Researcher has set following hypotheses

1. Psychological factors do not influence choice of Investment Avenue.
2. Demographic factors and individual investment choice is independent.

1.5. Objectives of the study

Research has been carried out to suffice following objectives

1. To study the various psychological factors influencing investment decisions.
2. To identify the investors segments using demographic and psychographic factors.
3. To find out relationship between psychological factors and choice of investment avenue.

1.6. Scope of the study

The study has been conducted in Satara city. Study has focused on various Psychological variables that affect the investment decisions of investors and also further has divided those investors in various segments through their personality traits. Even demographic factors such as age, gender, education, occupation etc have been considered for study. Further various types of Investment Avenues which are available in market are also considered.

Data has been collected through Schedule and has been analyzed with the help of statistical tools like percentage, mean, standard deviation and correlation.

PIP test has been used to determine the personality of investors. PIP test is Psychonomic Investor Profiler which is based on the reflection of inner attitude and character of the investor. The test states major six investment personality types such as Cautious, Emotional, Technical, Busy, Casual, Informed Investors.

1.7. Importance of the study

Researcher has conducted study on psychological factors so that the investors are able to recognize the psychological factors and would able to eliminate the errors which may occur while investing in investment avenues. And further types of investors are determined on the basis of personality test which would be advantageous to the Financial Institutions as well as Intermediaries for marketing their product, targeting their customers and also understanding the needs and wants of the investors on the basis of their attitudes and beliefs.

1.8. Research Methodology

Research design of the study deals with segmenting the investors on the basis of personality traits and psychographic variables. For this study researcher has used diagnostic research design and data required is collected using inferential approach.

1.8.1. Data Required

Data related to demographic information of investors, preferred investments, objectives behind investments, time horizon of investments, psychographic factors affecting investment choice etc and also core concepts related to behavioral finance, personality tests etc were required.

1.8.2. Data Sources

The data have been collected using Primary Sources and Secondary Sources

a. Primary Data Source-Primary data have been collected from respondents with the help of structured schedule. Researcher has collected Demographic profile of Investors, Investment Preference, Objectives behind investments, Proportion of Investment, Psychological factors affecting investment choice and personalities determined through Psychonomic Investor Profiler (PIP) Test.

b. Secondary Data Source-Secondary data have been gathered from journals, books, periodicals, reports and websites. From this source researcher has collected concepts related to Investment, Characteristics of Investment, and Investment Avenues, Scenario of Financial Industry in India, Various Psychological factors, Other Behavioural Tests and Psychonomic Investor Profiler (PIP) Test

1.8.3. Instrument

Structured Schedule was used to collect primary data. The schedule has six structures which deal with the Demographic Profile, Preferred Investments, Investment Objectives, Time Horizon, Psychographic Variables and Personality Test. The schedule was close ended and mostly the opinions are collected using five point scale.

1.8.4. Pilot testing

Pilot testing has been conducted in Satara city. For that study small sample size 30 has been taken with the help of stratification on the basis of occupation; businessmen, salaried person, professionals.10 samples each from each occupation were collected. Data has been collected with the help of structured schedule. The schedule consisted of seven structures. The structures consist of following variables.

- 'A' Structure- **Demographic Information** Deals with the Demographic Profile of the Respondents.
- 'B' Structure -**Your Preferred Investments** States The Preferences of the Respondents towards Investments.
- **'C' Structure -Your Objectives behind Investment Decisions** denotes the Motive behind Investments.
- **'D' Structure- Your Proportion of Investment** *(% Of Total Investment)* **On Basis of Time Horizon states** the Percentage of Investment Distributed in Short Term, Medium Term And Long Term.
- 'E' Structure- **Factors You Consider while Choosing Investment Avenue** Deals with the Principles of Investment and Their Ranking.
- 'F' Structure- **Indicate Your Agreeableness on following Statements by Ticking the Relevant Column** the statements in this structure are based on the eight psychological factors and which states the behavioral pattern of the respondent .

- 'G' structure- **Specify influence of following Psychological factors while choosing Investment** this shows the relationship between the psychological factors and investment choice.

After pilot testing Structure E and G were omitted as there was no proper response also there was lack of understanding by respondent for it .From structure B and D, option of 'Any Other Investments' has been deleted as there were no responses. Further from structure F statement no 5 and 19 were rephrased for clarity of question. Psychonomic Investor Profiler (PIP) Test consisting two parts was added to the schedule to identify the personality type of the investors. First Part deals with the how personality affects in financial decisions and Second Part deals with personal attitude towards risk, together providing a comprehensive profile of investment style of respondent.

1.8.5. Sampling

Researcher has considered those individuals who invest their money in various investment avenues. Method of sampling adopted is stratified Convenient qouta sampling. Stratification has been done on the basis of occupation.

Table 1.8.5.1. Sample Size

Following table shows Sample Size with stratification proposed on the basis of occupation

Sr.	Stratum	Sample Size
1	Businessman	30
2	Salaried Person	36
3	Professionals	30
	Total	96

(Source: Compiled by Researcher)

1.8.6. Data Analysis

Data has been presented in tables further statistical tools such as percentage, mean, standard deviation and Spearman Rank Correlation have been used to analyze the data. Respondents are segmented with the help of PIP test.MS Excel has been used for data feeding and Data Analysis. SPSS software has been used for Hypotheses testing with the help of Chi-square Eta

1.8.7. Concepts used in Research

Following concepts have been used in the study

1.8.7.1. Psychonomic Investor Profiler (PIP) Test

PIP Test is Psychonomic Investor Profiler which reflects the inner attitudes and character of investors in which investors are classified into as either Cautious, Emotional, Technical, Busy, Casual or Informed which would be stated as dominant investor type. The test is conducted through online software. Thus this test is the linkage between personality and investment behavior and taking into consideration the several traits of investors. This approach is based on the Jonathan Myers work which can be seen in the best-selling book Profits without Panic: Investment Psychology for Personal Wealth.

1.8.7.2. Businessman

A businessman is someone involved in a particular undertaking of activities, commercial or industrial, for the purpose of generating revenue from combination of human, financial, and physical capital. A businessman is someone who organizes a business venture and assumes the risk for it. Also an individual who, rather than working as an employee, runs a small business and assumes all the risk and reward of a given business venture, idea, or good or service offered for sale. The businessman is commonly seen as a business leader and innovator of new ideas and business processes. Businessman play a key role in any economy. These are the people who have the skills and initiative necessary to take good new ideas to market and make the right decisions to make the idea profitable. The reward for the risks taken is the potential economic profits the businessman could earn.

1.8.7.3. Salaried Person

A salaried person earns a set amount of compensation pay and benefits over a given span of time, regardless of numbers of hours worked. A Salaried person is a person who works in the service of another person under an express or implied contract of hire, under which the employer has the right to control the details of work performance A salaried person is hired for a specific job or to provide labor and who works in the service of someone else (the employer). In general, anyone who performs services for an organization is an employee if the organization can control what will be done and how it will be done. The factors designating someone as a salaried person include: A specific wage or salary, an implied or written contract, Control of the person's work by the employer

1.8.7.4. Professionals

A professional is a person who is paid to undertake a specialized set of tasks and to complete them for a fee. The term is applied to architects, accountants, doctors, lawyers etc. The word professional means a person who has obtained a degree in a professional field. The term professional is used more generally to denote a white collar working person, or a person who performs commercially in a field typically reserved for hobbyists and amateurs. The professional owes a higher duty to a client, often a privilege of confidentiality, as well as a duty not to abandon the client just because he or she may not be able to pay or remunerate the professional. Often the professional is required to put the interest of the client ahead of his own interest. Having interest and desire to do a job well as holding positive attitude towards the profession are important elements in attaining a high level of professionalism.

1.9. Chapterization

The study has been organized in following chapters-

Chapter I-Research Methodology deals with the introduction, literature review, research problem, statement of research problem, objectives, hypotheses, scope, importance, data required, data analysis, pilot testing, sampling, and concepts used in research of the research followed for the study.

Chapter II-Review of Literature narrates research studies done earlier in the field of behavioral finance and financial industry.

Chapter III-Conceptual Background focuses on Meaning of Investment, Various Investment Avenues, Investment Characteristics, Scenario of Financial service industry in India, Meaning of Behavioral Finance, Meaning of Psychographics, Various Psychological factors influencing choice of Investment, Psychographic Tests, PIP test, Rationale behind PIP test.

Chapter IV-Data Analysis and Interpretation includes presentation of data in tabular form, interprets the data collected and analyses the data using various statistical tools.

Chapter V- Findings and Conclusion deals with findings and conclusion of the study based on data analyzed.

Also the dissertation is annexed with structured schedule and references.