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CHAPTER-3

CONCEPTUAL BACKGROUND

3.1. Introduction

Finance is a wider concept. It differs from individual to individual but it holds key to all human activities. The financial sector plays a decisive role in the functioning of the economy as it facilitates the transfer of funds from savers to investors and gives boost economic growth.

Since finance is the life blood of all economic activities it has to be effectively controlled and regulated to ensure its optimum utilization in all spheres of business administration. Many a times these financial decisions are wrong due various reasons which leads to the losing in the value of assets. The major reasons are the various factors involved in decision making process of the investors which make him to commit errors in the following chapter the core concepts related to the topic has been covered.

3.2. Meaning of Investment

Investment refers to acquisition of some assets. It also means the conversion of money into claims on money and use funds for productive and income earning assets. Some portions of savings are utilized for acquisition of assets with objective of securing profits is referred as investment.

The two key aspects of any investment are time and risk. The sacrifice takes place now and certain. The benefit is expected in the future and tends to be uncertain. In some investments the time element is the dominant attribute. In other investments the risk element is dominant attribute. In yet other investment both time and risk are important.

Almost everyone owns a portfolio of investments. The portfolio is likely to compromise financial assets (bank deposits, bonds, stocks and so on) and real assets (motorcycle, house and so on). The portfolio may be the result of a series of haphazard decisions or may be the result of deliberate and careful planning.[1]

[1] Prasanna Chandra,'Investment Analysis and Portfolio Management' Tata Macgraw Hill, Second edition, 2005, PP-.3

3.3. Definition of Investment

1. Investment may be defined as 'a commitment of funds made in the expectation of some positive rate of return.'[2]

2. An investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price.[3]

3.4. Various Investment Avenues

There is range of investment alternatives available in India for investment activity. They fall under two broad categories, viz. Financial assets and Real assets. Financial assets are paper or electronic claim on some issues such as government or corporate body. The financial are equity shares, corporate debentures, government securities, insurance policies, mutual funds, derivatives etc. and real assets are represented by tangible aasets like residential house, commercial property, agricultural farm, gold, precious stones and art objects. Both the assets are not competitive but complementary to each other. Investment alternnatives are discussed below in brief

3.4.1. Bank Deposits

1. The simplest form of Investment Avenue is bank deposits by opening a bank account and depositing money in it, one can make bank deposit.
2. There are various kinds of bank accounts such as current, savings, fixed and recurring deposits.
3. Deposits in bank accounts earn an interest which is decided by bank as the provisions of RBI.
4. A bank deposit has exceptionally high liquidity. They can be encash prematurely by incurring a small penalty.
5. Loan can be raised against bank deposits.

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[2] Donald E. Fischer,'Security Analysis and Portfolio Management', Pearson, Sixth Edition, 2006, PP-14
[3] www.investopedia.com 20.05.2012 2235 hrs

3.4.2. Post Office Schemes

1. Post office Schemes can be made in multiples of Rs.50 without any limit.
2. The interest rate on schemes given is generally higher than bank.
3. The interest is calculated half yearly and paid annually
4. No withdrawal is permitted up to six months.
5. Withdrawal made within six months and one year no interest is payable. One withdrawals after one year penalty of 2 percent deduction from interest is made.
6. There are two types of Post office schemes namely Post Office Monthly Deposits scheme and Post Office Time Deposits Scheme

3.4.3. National Saving Certificate

1. NSC comes in denomination of Rs.100, Rs.500, Rs.1000, Rs.5000 and Rs.10000.
2. It has a term of 6 years and compound interest is calculated.
3. It can be deducted before computing the taxable income under section 80C.
4. It can be pledged as collateral for raising loans.

3.4.4. Employee Provident Fund Scheme

1. Each employee has a separate provident fund account in which both the employer and the employee are required to contribute a certain minimum amount on monthly basis.
2. While the contribution made by the employer is fully tax exempt ,the contribution made by the employee can be deducted under section 80 C.
3. PF contributions currently earn a compound interest of 9.5 percent per annum. Interest is accumulated in PF account and not paid annually.
4. Within a certain limit, the employee is eligible to take a loan against the PF balance.

3.4.5. Public Provident Fund Scheme

1. One of the most attractive investment avenues available in India, the PPF schemes
2. Individuals and participate in these schemes. A PPF account may be opened at any branch of State Bank of India or its subsidiaries.

3. The period of PPF account specifies for 15years.
4. The subscriber to PPF required to make a minimum deposit of Rs 100 per year and maximum of Rs. 1 lacs.
5. Deposits in PPF can be deducted before computing the taxable income under section 80 C.
6. PPF deposits currently earn a compound interest of 8 percent per annum which is totally exempt from taxes.

3.4.6. Debentures/Bonds

1. Bonds or debentures represent long-term debt instruments.
2. The issuer of a bond promises to pay stipulated stream of cash flows.
3. This generally comprises periodic interest periods over the life of the instrument and principal payment at the time of redemptions
4. The fixed income securities include RBI savings bonds, private sector debentures, PSU bonds etc.

3.4.7. Government Securities

1. Debt securities issued by the central government, state government and quasi-government agencies are referred to as government securities.
2. Government securities have maturities ranging from 3-20years.
3. And carry interest rates that usually vary between 8 and 10 percent.

3.4.8. Equity Shares

1. Equity capital represents ownership capital. Equity shareholders collectively own the company.
2. The holders of these shares are referred as Equity shareholders.
3. They bear the risk and enjoy the rewards of ownership
4. They have voting right in management and elect the board of directors
5. Equity shareholders have a residual claim over the assets.
6. Income from equity shares is in the form of dividend on retention or Capital Gains in case of sales.

3.4.9. Mutual Fund[4]

1. A mutual fund represents a vehicle for collective investment.
2. When one participates in a scheme of mutual fund, one becomes part owner of the investments held under the scheme.
3. Mutual fund schemes invest in three broad categories of financial assets, viz. stocks, bonds, and cash.
4. Stocks refer to equity and equity related instruments. Bonds are debt instruments that have a maturity of more than one year. Cash represents bank deposits and debt instruments that have a maturity less than one year.
5. According to asset mix, mutual fund schemes are classified into three types, viz. equity schemes, hybrid schemes, and debt schemes

3.4.10. Derivatives

1. A derivative is an instrument whose value depends on the value of some underlying asset.
2. There are two financial derivatives in India which are traded namely Futures and Options.
3. A futures contract is an agreement between two parties to exchange an asset for cash at a predetermined future date for a price that is specified today.
4. An option gives its owner the right to buy or sell an underlying asset on or before a given date at a predetermined price but has no obligation to do something.
5. There are two basic types of options: call option and put option. A call option gives the option holder the right to buy a fixed number of shares of a certain stock, at a given exercise price on or before expiration date.
6. A put option gives the option holder the right to sell a fixed number of shares of a certain stock at a given exercise price on or before the expiration date.

[4]. Prasanna Chandra,' Investment Analysis and Portfolio Management' Tata Macgraw Hill, Second edition, 2005, PP-42, 43.

3.4.11. Life Insurance

1. The basic customer needs met by life insurance policies are protection and savings.
2. Policies that provide protection benefits are designed to protect the policyholder from the financial consequence of unwelcome events such as death or long-term sickness/disability.
3. Policies that are designed as savings contracts allow the policyholder to build up funds to meet specific investment objectives such as income in retirement or repayment of a loan.
4. In practice, many policies provide a mixture of savings and protection benefits such as endowment policy, Money back plan, Whole life Assurance, Unit linked plan, Term Assurance, Immediate Annuity, Deferred annuity etc.

3.4.12. Real Estate

1. Real estate is 'A property consisting of land and the buildings on it, along with its natural resources such as crops, minerals, or water; immovable property of this nature; an interest vested in this; (also) an item of real property; (more generally) buildings or housing in general. Also: the business of real estate; the profession of buying, selling, or renting land, buildings or housing.'[5]
2. The most important asset for individual investors is generally a residential house. In addition to this, the more affluent investors are likely to be interested in other types of real estate, like commercial property, agricultural land, semi-urban land etc.

3.4.13. Gold/Silver

1. According to Jack Clark Francis ' A substance possesses moneyness when it is a store of value, b. durable, c. easy to own, easy to subdivide into pieces that are also valuable, d. easy to authenticate, and e. interchangeable.[6]
2. Gold and silver, the two most widely held precious metals, appeal to almost all kinds of investors for many reasons such as they have been good hedges against inflation.
3. They are highly liquid with very low trading commission and possess a high degree of moneyness.

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[5] http://en.wikipedia.org/wiki/Real_estate 21.05.2012 2105 hrs

[6]. Prasanna Chandra,' Investment Analysis and Portfolio Management' Tata Macgraw Hill, Second edition, 2005, PP- 53

3.5. Characteristics of Investment

The investor has various alternative avenues of investment for his savings to flow in accordance with his preferences. All investments involve some risk or uncertainty. The objective of investor is to minimize risk and maximize the return. Thus following attributes of investment are considered to be important before investing.

3.5.1. Risk

Risk depends on the maturity period, creditworthiness of the borrower, nature of instrument, variability of returns and nature of tax liability. Longer the maturity period higher is the risk similarly more the creditworthiness of borrower and issuing securities the less is the risk associate with it. Also it differs on the basis of nature of instrument there is more risk associated with equity shares than debentures and bonds. In case of returns higher the return higher is the risk attached to it.

3.5.2. Return

A major factor influencing the pattern of is its return, which is the income plus capital appreciation, if any. The difference between the purchase price and the sale price is capital appreciation and the yield is the interest or dividend divided by its purchase price.

3.5.3. Safety

The safety of capital is the certainty of return on capital without loss of money or time involved. In all cases of money lent, some transaction costs and time are involved in getting the funds back. But leaving aside such general costs like stamp duty, postal charges, etc, the time involved is also an important factor. Thus, if safety of capital is to be assured, then riskless return as in case of Government bonds is to be chosen. If the return is higher, as in the case of private securities, then the degree of safety is less.

3.5.4. Liquidity

If a capital asset is realizable, saleable or marketable, then it is said to be liquid. If an investment can be encashed with a time lag as in the case of equity shares or with loss of money as in the case of corporate deposits, then they are less liquid. If, on the other hand, there is a good market for the capital asset and no risk of loss of money or capital and no uncertainty of time involved, then the liquidity of the asset is good.

3.5.5. Marketability

This refers to transferability or salability of an asset. Those listed on a stock market are more easily marketable than those that are not listed. Public limited companies will have their shares more easily transferable than those of private limited companies.

3.6. Scenario of Financial Service Industry in India

The Indian financial services industry has a lot of scope for further penetration, and thus has immense scope and potential to grow exponentially. The online genre, mobile explosion, emergence of social media platforms, technologies like cloud computing and increasing pace of convergence and interconnectivity of devices are intensely driving the growth of this industry. These are playing pivotal roles in transforming the way financial services are delivered to the end-consumer. Further, financial institutions are revamping their operational infrastructure and business delivery models. Financial services industry mainly comprises the BFSI industry, that is, banking, financial services (such as mutual funds) and insurance. Key developments and performance pointers pertaining to each of these sub-segments are discussed in this overview.

3.6.1. Insurance Sector

There are 24 life insurers in India with about Rs 15 trillion (US$ 292.5 billion) in assets.

According to data released by the Insurance Regulatory and Development Authority (IRDA), the life insurance industry collected Rs 89,655.83 crore (US$ 17.5 billion) during April 2011-February 2012 by writing new policies while the insurers sold about 35.12 million policies collectively. Private players sold seven million policies, The general insurance industry continued with its growth trajectory as the gross written premium grew 24.03 per cent during 2011-12 against the year-ago period.

3.6.2. Banking Services

According to the world's largest rating agency, Standard & Poor (S&P)'s Ratings Services, India's banking system has a high level of stable, core customer deposits supported by the system's good franchise, extensive branch networks, and large, yet growing, domestic savings.

1. According to the Reserve Bank of India (RBI)'s 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks', September 2011, Nationalised Banks, as a group, accounted for 52.2 per cent of the aggregate deposits, while State Bank of India (SBI) and its associates accounted for 21.8 per cent. The share of New private sector banks, Old private sector banks, Foreign banks and Regional Rural banks in aggregate deposits was 13.7 per cent, 4.8 per cent, 4.6 percent and 2.9 percent respectively. With respect to gross bank credit also, nationalised banks hold the highest share of 51.6 per cent in the total bank credit, with SBI and its associates at 22.1 per cent and New Private sector banks at 13.8 per cent. Foreign banks, Old private sector banks and Regional Rural banks held relatively lower shares in the total bank credit with 5.2 per cent, 4.8 per cent and 2.5 per cent, respectively.

(US$ 1.18 trillion) in the fiscal 2011-12 (the year to March 23, 2011) while loans and advances grew 17.08 percent to Rs 47.54 trillion (US$ 927.16 billion)

3.6.3. Mutual Funds Industry in India

The Rs 6.70 trillion (US$ 130.66 billion) Indian mutual funds (MF) industry has 44 asset management companies (AMCs). Recent data released by the Association of Mutual Funds in India (AMFI) indicated that average assets under management (AUM) reported by these fund houses amounted to Rs 6,68,824 crore (US$ 130.33 billion) in 2011-12.

HDFC Mutual Fund maintained its top position as the country's biggest MF with an average AUM of Rs 89,879 crore (US$ 17.51 billion), followed by Reliance MF (Rs 78,112 crore

[US$ 15.22 billion]), ICICI Prudential MF (Rs 68,718 crore [US$ 13.39 billion]), Birla Sunlife MF (Rs 61,143 crore [US$ 11.92 billion] and UTI MF (Rs 58,922 crore [US$ 11.48 billion]).

3.6.4. Private Equity (PE) and Mergers & Acquisitions (M&A) in India

India Inc witnessed 202 merger and acquisition (M&A) deals worth US$ 9.4 billion during the first quarter of 2012. According to Ernst & Young (E&Y)'s latest transactions quarterly report, deals in January-March 2012 were 22 per cent higher than those of October-December 2011 quarter in terms of volume and 4.5 times higher in terms of value. Domestic deals dominated the M&A space as they accounted for 63 per cent of the total number of deals and contributed 88.4 per cent of the total disclosed deal value for the quarter.

According to experts, M&A landscape is likely to experience intense activity in the coming months, owing to improving stock markets and better availability of finance options.

Private equity (PE) and venture capital (VC) investors infused a capital of US$ 1.88 billion across 90 deals during the reported period.

3.6.5. Foreign Institutional Investors in India

According to the data released by Securities and Exchange Board of India (SEBI), net investment in equities made by foreign institutional investors (FIIs) stood at Rs 47,935 crore (US$ 9.34 billion) during the financial year ended March 31, 2012. During the reported fiscal, foreign fund houses injected Rs 49,053 crore (US$ 9.56 billion) in the debt market taking the collective net investments by FIIs in stocks and bonds to Rs 93,725 crore (US$ 18.26 billion).

3.6.6. Recent Developments

1. India has launched the country's first domestic payment card network, RuPay, to compete with multinational Visa Inc. and MasterCard Inc. The new development will not only help banks reduce cost of issuing a debit card but will also lead to expansion of payment network in rural areas. National Payments Corp of India Ltd (NPCI), the

nodal agency to manage and promote RuPay, has stated that 200,000 RuPay cards have already been issued and the target is to have 10 million debit cards under the brand by March 2013.

2. Stating India as 'extraordinarily attractive investment destination', PE firm Bain Capital LLC has announced that it will infuse about US$ 800 million in appropriate proposals across four investment deals during 2012-16.

3. L&T Finance has decided to buy Fidelity Worldwide Investment's Indian mutual fund business. The deal would boost L&T's assets to Rs 13,500 crore (US$ 2.63 billion), making it the 13th biggest fund house and the 10th largest on the basis of equity.

4. In a recent announcement, the RBI has granted FIIs to invest in primary issuances of companies' non-convertible debentures (NCDs), provided these papers are scheduled to be listed on the stock exchanges within 15 days of being issued. If the instrument, that is the NCD, does not get listed within 15 days, the foreign investor concerned would have to sell the securities to a domestic investor.[7]

3.7. Meaning of Behavioral Finance

A field of finance that proposes psychology-based theories to explain stock market anomalies. 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 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.

There have been many studies that have documented long-term historical phenomena in securities markets that contradict the efficient market hypothesis and cannot be captured plausibly in models based on perfect investor rationality. Behavioral finance attempts to fill the void.

[7] www.ibef.org 01.06.2012 1520 hrs

3.8.Meaning of Psychographics

In the fields of marketing, demographics, opinion research, and social research in general, psychographic variables are any attributes relating to personality, values, attitudes, interests, or lifestyles. They are also called IAO variables (for Interests, Activities, and Opinions). They can be contrasted with demographic variables (such as age and gender), behavioral variables (such as usage rate or loyalty), and firm graphic variables (such as industry, seniority and functional area).

Psychographics should not be confused with demographics. For example, historical generations are defined by psychographic variables like attitudes, personality formation, and cultural touchstones. The traditional definition of the 'Baby Boom Generation' has been the subject of much criticism because it is based on demographic variables where it should be based on psychographic variables. While all other generations are defined by psychographic variables, the Boomer definition is based on a demographic variable: the fertility rates of its members' parents.

When a relatively complete profile of a person or group's psychographic make-up is constructed, this is called a'psychographic profile'. Psychographic profiles are used in market segmentation as well as in advertising. It is possible to find other definitions of the field in academic literature and even online blogs. Some categories of psychographic factors used in market segmentation include: Attitudes, Values and Opinions (A, V, O)

Psychographics can also be seen as an equivalent of the concept of 'culture' as used most commonly in national segmentation. 'Psychographics is the study of personality, values, attitudes, interests, and lifestyles'[8].

3.8.1 Various Psychological factors influencing choice of Investment

There are many factors which influence the investment choice and out of that the important factor is psychological factors which affect the choice of investment. Due to these factors investors do commit errors. Thus in this point key psychological factors have been explained

[8] http://en.wikipedia.org/wiki/Psychographic 21.05.2012 2130 hrs

3.8.1.1. Representativeness Bias

The brain makes the assumption that things sharing similar qualities are alike. Representativeness is judgment based on stereotypes. The representativeness bias causes investors to buy stocks that represent desirable qualities. For example, investors confuse a good company with a good investment i.e.firms that generate strong earnings, have high sales growth and quality management represent good companies. Good investments are stocks that increase in price more than other stocks.

3.8.1.2. Familiarity Bias

People often prefer things that have some familiarity to them. Consequently, investors tend to put too much faith in familiar investments. Because those investments are familiar, investors tend to believe that they are less risky than other companies or even safer than a diversified portfolio.

3.8.1.3. Mood and Optimism

Moods affect the way investors analyze and make judgments. People in a good mood make more optimistic judgments than people in a bad. Being in a bad mood makes investors more critical. This, in turn, helps them to engage in more detailed analytical activity. This mood–effect particularly affects relatively abstract judgments where people lack full or accurate information.

3.8.1.4. Overconfidence

Closely related to mood and optimism is overconfidence. Investors are usually overconfident about their abilities to complete difficult tasks successfully, such as picking good valued investments, they believe their knowledge is more precise than their experience should validate. There are two factors which contribute to the overconfidence illusion of knowledge and illusion of control.

3.8.1.5. Mental Accounting

Mental accounting is a process by which the brain keeps goals and moves towards those goals separately from each other. For example, a person may keep investments for retirement in one mental account and investments for down payment on a house in another mental account. This is a mechanism that helps with self-control. Keeping things separate allows for easy measurement of the progress of each goal.

3.8.1.6. Disposition Effect

People want to feel good about them. Two strong emotions pride and regret plays a role. People seek actions that will give them pride and avoid taking actions that will make them feel regret. This shows that avoiding regret and seeking pride also have an effect on investors decisions. They show that fearing regret and seeking pride cause investors to be predisposed to selling winners too early riding looser too long.

3.8.1.7. Attachment Bias

Another psychological bias, attachment bias, causes investors to become emotionally attached to a security. People get emotionally attached to their parents, siblings, children, and close friends. This attachment causes them to focus on good traits and deeds and to discount or ignore bad traits or deeds. Investors frequently get attached to a investment.

3.9. Psychonomic Tests

To segment the investors according to their psychology various psychonomic tests are determined which are explained below

3.9.1. Barnwell Two-Way Model

The Barnwell Two-Way Model is a deceptively simple model that classifies investors as either 'passive' or 'active'. Marilyn MacGruder Barnwell of the MacGruder Agency, Inc. developed it in 1987.

3.9.1.1.Passive investors are characterized as individuals who have become wealthy passively - by inheriting, by a professional career, or by risking the money of others rather than their own money. To these investors security is more important than risk In addition, certain classes of occupation are more likely to contain passive investors. For example, non-surgical doctors, corporate executives, lawyers and accountants who work in companies. Reasons for this are that these individuals are less likely to have high financial resources at an early stage in their careers, having had to delay earning good salaries in order to study or having to repay student loans. Once earning a decent wage, they are then more careful with their money, having a greater need for security. Anyone, therefore, with reduced financial recourses is likely to be more risk conscious and, hence, a passive investor. For these individuals it's important to hang on to their money.

Passive investors make good clients because they tend to trust their financial advisor and are more likely to delegate the running of their financial affairs. And because they are risk averse, they tend to like diversified portfolios of investments in quality companies or investment products. However, they can believe that an investment is more risky than it is, which may keep them out of potentially lucrative opportunities. Passive investors are also more likely to need the approval of others and are unlikely to take a first step into unknown investment territory by being a contrarian. Consequently, they are more likely to follow the investment herd when it comes to stock market investment and stick to following the trend.

3.9.1.2.Active investors, according to Barnwell, are those who have achieved significant wealth, or earned well, during their own lifetime. They are more likely to take risks in investing because they have previous experience of taking risks in their previous wealth creation. These individuals have a high-risk tolerance and less of a need for security. They also need to feel in control of their investments, often to the extent of becoming highly involved with the running of their investments, researching or becoming overly involved with technicalities. The need for control is related to the fact that they have a strong belief in themselves and their own abilities. Once they feel they are losing control of an investment situation, their risk tolerance reduces. By being actively involved and in control, these investors feel they are reducing risk. However such involvement may actually be detrimental as it is likely to be a source of irritation to their investment advisor who cannot get on with the business of running their clients affairs due to constant questioning and harassment. The classes of occupation that are likely to be active investors include: small business owners who have developed their own businesses rather than inherited, medical surgeons, independent professionals, such as lawyers or accountants, who work for themselves rather than a large firm, entrepreneurs, and self-employed consultants.

Active investors are more likely to get personally involved with the running of their financial affairs, and may believe they know more than their advisor does. They are less likely to delegate the maintenance of those parts of their investment portfolio in which they believe they have experience or have had personal success. However, these individuals are more likely to be contrarian in their stock picking habits and have less need to be completely diversified. Age tends to soften their need to be constantly in control, so that older clients may be more malleable and open to their advisors suggestions.

3.9.2. Bailard, Biehl and Kaiser Five-Way model

Probably one of the most sophisticated models in use, the BB&K approach stresses the level of confidence an investor has and their preferred method of action - the way they respond. Level of confidence is reflected in the emotional choices made based on how much an investor may worry about a certain course of action or decision. Investors may range from confident to anxious. Method of action is reflected in how methodical an investor is, as well as how analytical and intuitive they are. This can range from careful to impetuous

Within these ranges, the model defines five personalities:

3.9.2.1. Adventurers - confident 'go for it' types who are strong-willed and ready to take chances

3.9.2.2. Celebrities - those who need to be in the center of things and don't like to be left out, often constantly checking whether they should be in the latest fashionable investment but may not really have any clue as to how to take control of their finances

3.9.2.3. Individualists - confident individuals who make their own decisions but who are methodical, careful, balanced and analytical

3.9.2.4. Guardians - investors, often older ones, who are cautious and intent on safeguarding their wealth, shunning volatility or excitement

3.9.2.5. Straight arrows - Mr. or Mrs. Average who doesn't fall into any of the extremes of the above categories, who is somewhat balanced in their investment approach and willing to take on moderate risk

By understanding the personalities they're facing, the variations in characteristics according to confidence and response action, and how this is all modified under different conditions, the BB&K classification system provides investment advisors with a better way of dealing with clients, as well as choosing which clients to take on - ie who would make good long-term clients. It can be more clearly seen, for example, who is more likely to be a contrarian, who is more likely to have a tendency to leave the running of their financial affairs to their advisor, who is rash, and who is more likely to be a 'do it yourselfer'. It can also be more clearly seen which clients are not likely to be good clients at all, because they are predisposed to losing their money. Research shows that these were often impetuous celebrities, who were prone to follow a 'hot' stock tip on a crowd-fuelled, speculative bubble. In fact, it was found that this class of investor presented less frequently as they had either lost their money already or had accumulated few assets, and so had nothing to invest.

3.9.3. The Nine Money Personalities

A classification produced by Kathleen Gurney of the Financial Psychology Corporation that stresses money style and how individuals react emotionally to financial decisions. The nine distinct personality groups identified are developed from her research concerning why people earn, spend, save and invest the way they do. It is a general financial typography, therefore, but has particular relevance to investment.

The nine personalities defined are:

3.9.3.1. Safety Players - those who take the path of least resistance, looking primarily for security and safety in their investments and doing what has worked previously.

3.9.3.2. Entrepreneurs - a particularly male-dominated profile driven by a passion for excellence and commitment, and who are not motivated by money in itself. Financial success is a scorecard and stock investment is a method of implementing and demonstrating that success.

3.9.3.3. Optimists - non-risk orientated, often near retirement, seeking peace of mind, these are investors who don't like to become too involved with their own financial management as it would cause them stress and reduce their enjoyment of life.

3.9.3.4. Hunters - often educated, high-earning women with an impulsive streak, a 'live now attitude'. They have a strong work ethic, much like entrepreneurs, but lack the same confidence in themselves. They may attribute their success to luck rather than ability.

3.9.3.5. Achievers - conservative, risk-averse, these investors like to feel in control of their money, with security and protection of their assets a primary consideration. They are often, married, well educated, high-earners who feel that hard work and diligence is more likely to bring financial reward than investing.

3.9.3.6. Perfectionists - afraid of making financial mistakes, they tend to avoid investment decisions altogether. They lack confidence and self-esteem, and have low pride in handling financial matters, finding every conceivable excuse for not taking action. For them, no investment is without fault.

3.9.3.7. Producers - highly committed to their work, they may earn less due to a lack of self-confidence in money management. And with a lack of basic financial knowledge they may have less available funds to invest. They do not appreciate how to evaluate risk appropriately.

3.9.3.8. High Rollers - thrill seekers, power seekers, creative and extroverted, they work hard and play hard. They have to be involved in high risk investing with a large amount of their assets. Financial security bores them - even though their actions may have financially dangerous consequences.

3.9.3.9. Money Masters - tending to have a balanced financial outlook that gives contentment and security, these investors like to be involved with the management of their money and their choice of investments, although they will take onboard good, sound advice. They are determined individuals, not easily thrown of their chosen course, and who don't leave things to luck.

The way the system is used is to highlight a client's personality type through psychometric testing. The score achieved makes it clearer for clients to face up to the financial problems they're having or why their investment choices are not as they would wish. Appropriate advice is then given.[9]

3.10.1. Psychonomic Investor Profiler (PIP Test)

The PIP provides a simple method of assessing an investor's personality in terms of the type of investor they are according to six categories. These categories are then linked to how risk is handled for a comprehensive profile. The information provided by the PIP can be called upon by brokers and financial intermediaries in order to guide clients towards investment solutions tailored to their individual needs. Used as part of an overall assessment of a client's personal financial history and current situation the PIP is a powerful tool.

The PIP allows...

- Categorization of investors into 'types'
- An analysis of risk propensity
- A fast method of assessing Investors
- Linked investment vehicle strategies
- Better and regulatory compliant -investor outcomes

3.10.2. Investor types under PIP

Investors are classified as either: Cautious, Emotional, Technical, Busy, Casual or Informed. This is their dominant investor 'type'. No one type is necessarily better or worse than another, but simply a reflection of inner attitudes and character. In fact, investors often embody elements of all the types in combination; which makes for a complex individual with a unique investment personality. This is revealed by the PIP in a comprehensive profile. Furthermore, all types can be the basis of financial success when a degree of self-awareness is achieved.

Each investor type has particular characteristics:

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3.10.2.1. The Cautious Investor - Very conservative, this investor has a need for financial security. They will avoid high-risk ventures as well as listening to professional advice, preferring to conduct their own financial affairs. They don't like to lose even small amounts of money and never rush into investments, always giving financial opportunities a great deal of thought.

3.10.2.2. The Emotional Investor - Easily attracted to fashionable investments or 'hot' tips, these investors act with their heart and not their head. A whim or a gut feeling leads their decisions, and they have great difficulty disengaging from poor investments or cutting losses. They have an unreasonable belief that things will come right in the end and often put their trust in luck or 'providence' to safeguard their financial assets.

3.10.2.3. The Technical Investor - Hard facts - numbers - lead this type of investor to active trading based on price movements. They are screen-watchers, sometimes obsession, but their diligence can be rewarded if they spot trends. They may also have a tendency to 'need' and buy the latest technology as they are always looking for some edge.

3.10.2.4. The Busy Investor - This investor needs to be involved with the markets, and it gives them a buzz when they check the latest price movements, which may be several times a day. They have to keep buying and selling - on rumors, on overheard gossip, from the mass of newspapers and magazines they collect. Any tidbit of information they can glean is imbued with significance and a cause to take financial action.

3.10.2.5. The Casual Investor - A laid-back attitude to investment, this investor is often hardworking and involved with work or family. They tend to believe that once an investment is made it will take care of itself, and that a good job or a profession is the way to make real money. They easily forget that they own investment assets and rarely check on their financial affairs. And, though they may leave the running of their investments to professional advisors, they haven't been in contact with them for years.

3.10.2.6. The Informed Investor - Uses information from a variety of sources and keeps an ongoing watch on their investments, the markets and the economy. This investor listens carefully to financial opinions and expert assessments, and will only go against market fashion, as a contrarian, after weighing up all the pros and cons. Though they may sometimes procrastinate and miss the best opportunities - due to the feeling that they must get ever-more information before deciding what to do - they are in general financially confident and have faith in their decisions once made, believing that knowledge and experience will always win out to give them long-term profits.[10]

3.11. Rationale behind the PIP test

The term 'Psychonomics' itself isn't simply a contraction of psychology and economics, but refers to a mass of disparate factors that need to be considered together or integrated for a solution. For this reason the term has particular relevance when considering the wide range of personality traits that feed into personal investment decisions, as well as how an individual deals with issues of financial security and risk .

Hence, there is a link between personality and investment behavior. And, taking several traits together, investors can be classified in a general way as either: Cautious, Emotional, Technical, Busy, Casual or InformedThis approach is based on work by Jonathan Myers, and more can be seen in the best-selling book Profits Without Panic: Investment Psychology For Personal Wealth.

An underlying assumption of the Psychonomic Investor Profiler is that individuals will treat different aspects of their life in the same way. For example, if people are cautious by nature, avoiding danger to themselves, they will also be cautious when it comes to investing their money. What changes their investment behavior, under variable risk conditions, is not only how they personally view that risk but also how they view money itself - that is, its gain or loss. Money is a very powerful agent of behavioral change. This stems from work in behavioral finance which shows that investors perceive gains and losses asymmetrically; which simply means that it hurts to lose a dollar far more than gaining a dollar gives pleasure. Additionally, their behavior is modified by personal bias as well as crowd pressure - together forming their internal market and the external market that then acts on their decision-making ability. In this way an investor's level of cautiousness also changes. The approach differs from other systems, therefore, in that it doesn't assume that people have totally different attributes depending on the circumstances they're faced with. In a

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psychonomic approach, investors have the same attributes but they are mitigated - or their balance changes - according to the situation and the way they deal with it.

Consequently, many typographies, have risk as a part of the classification itself - ie The 'Risk-Seeker' - which is problematic. Two investors with the same profile characteristics may make very different financial choices. What's different about them is their propensity for risk, not their innate characteristics. In the Psychonomic Investor Profiler, individuals are assessed according to whether they have a high, medium or low propensity for risk, within their particular balance of personal traits.[11]

3.12. Conclusion

In conceptual framework researcher has covered all the basic concepts and terminologies related to the psychographics of investment also various psychonomic tests related to the research have been discussed in this chapter. Further Indian Financial Scenario and its recent developments have also been covered and also various psychographic factors which are used in the research have been narrated.

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