A Study on Investment Preferences of High-Income People

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Abstract-The art of investment is to see that the return is maximized with the minimum of risk, which is inherent in investments. Therefore investment involves employment of funds with the aim of achieving additional income or growth in values (Mishra, 2010). Every individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, gold etc. Purpose of investment can be related with saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals.

This paper aims to study the pattern of investment preferences of high income people. The study helps to find the asset which is having highest level of investment. It also observes the investment preference of people and tries to understand the most preferred asset and thus checks whether there is a chance of shifting from one asset to another. This paper also studies the relationship between the age of investor and investment objective. It checks how the investment objective changes with the change in age.

Keywords: Risk, Return, Investment avenue, Investment preference

I. INTRODUCTION

In India, numbers of investment avenues are available for the investors. Some of them are marketable and liquid while others are non-marketable and some of them also highly risky while others are almost less risky. The investors have to choose Proper Avenue among them, depending upon his specific need, risk preference, and return expected on investment (Geeta and Ramesh, 2011). Every individual desires his hard earned money to be invested in most secure and liquid avenue. The investment behaviour consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and most importantly the timing of such investment.

The individual investment function depends upon the age, income, occupation, marital status, investment options and awareness of the investors. Today, a large number of investment options are available in market offerings different returns and risks. Different investment options represent a different risk reward trade off. Low risk investments are those that offer assured but lower returns. An investor's risk tolerance plays a vital role in choosing the most suitable investment option. Markets today provide a range of investment options, including international investment, investment in commodities, stocks, bonds, precious metals and investment funds. Other options for investment include certificates of deposits, futures etc.

In 2016, 2.4 million new demat accounts were opened by Indians, the highest number of account openings since 2008, led by higher number of initial public offerings (IPOs) and greater interest in mutual fund investments. Investments in market-linked products like mutual funds went up from 0.4% in FY2013-14 and 2014-15 to 0.7% in FY2015-16. This suggests that Indian households are warming up to financial products but still the amount of investment in financial assets are lower compared to that of traditional assets like fixed deposit, real estate, gold etc.

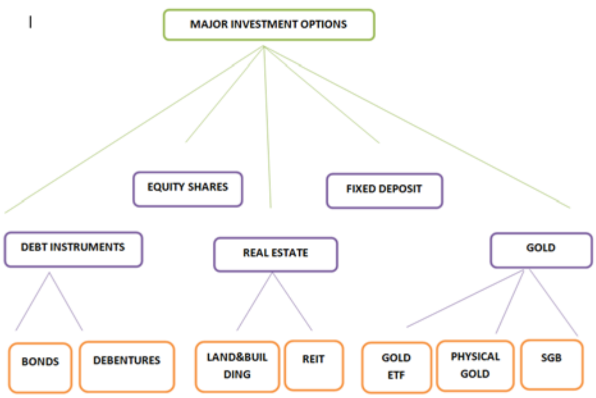

Figure 1: Major Investment Options

II. LITERATURE REVIEW

Nagpal and Bodla (2007) attempted to understand the individual investor's pattern of investments and analyzed the investor's preferences for various investment alternatives across the demographic and psychographic dimensions. The survey was limited to the urban areas of Haryana, Delhi and Chandigarh. The study brought out that the highest percentage of investors i.e. 86.29% invested in insurance policies followed by investments in fixed deposits with banks or post offices and then EPF / PPF and NSC. The authors found three segments of investors i.e. aggressive, moderate and conservative investors on the basis of their lifestyles.

Kumar (2008) studied the financial product preferences of Tiruchipalli investors to rank their product preferences among investment choices i.e. post office savings, bank deposits, gold, real estate, equity investment, mutual fund. The preferences of the respondents were known according to their attributes i.e. safety of principal, liquidity, stability of income, capital growth, tax benefit, inflation resistance and Concealability. The authors studied this concept as they found that the investors are unlikely to determine the financial product preference i.e. which is better on each attribute. So, the investor needed to make choices depending on what is available and what are his own priority ratings of attribute he wants in his product. The rank preferences of investors were post office, bank deposits, gold, real estate, equity investment and mutual fund.

Awais (2000) explored that the factors which influence the decision-making process of investors. According to their research, the decisions of the investors depend upon the degree of the risk factors. Finally, they found that the increased level of knowledge about financial information and the increased ability of analyzing that information, investor could improve the capacity to jump into risky investments for earning high returns by managing investment efficiently.

Shukla (2016) attempted this research paper, about investor's preference towards investment avenues and the study focused on the salaried person only. The author concluded that majority of the respondents invested their money based on education background and they invested in purchasing home and long-term investment. Respondents have the criteria of investment as safety and low risk.

III. OBJECTIVES

To study the investment pattern of people with high disposable income.

1. To find the relationship between awareness level and investment pattern.
2. To find the most preferred asset among investors
3. To find the relation between age and investment objective

IV. METHODOLOGY

Research design

Explanatory research- This study focuses on analyzing the investment pattern of people with high income and study about the most preferred asset. The study also tries to find the reason for lower investment in assets such as Equity, Debt Instrument and Mutual Fund.

Sampling technique

Stratified Random Sampling- The entire population under study was divided into different strata based on the field they work. Equal numbers of samples were selected from different fields of profession like Law, Medicine, Finance, IT, Media, Manufacturing etc. who have annual income above 10 lakhs.

Snowball Sampling- From the sample collected through stratifiedrandom sampling more samples were added using the references given by them.

Sources of data

Primary data- Primary data was collected through direct interview method using a structured questionnaire from samples having income above 10 lakh per year. Close ended questions were used in the questionnaire.

Sample size

The sample size selected for the survey in this research is 60 based on Stratified Random Sampling method and Snowball method.

DATA ANALYSIS & INTERPRETATION

Age of Respondents

Age Group	Frequency	Percentage
20-30	22	36.7
30-40	26	43.3
40-50	6	10
50-60	6	10

Table 1: Age of respondents

Percentage of income of the respondents invested in various investments

Response	Less than 20%	20-30%	30-40%	40-50%	More than 50%
Respondents	24	22	8	2	4

Table 2: Percentage of income invested

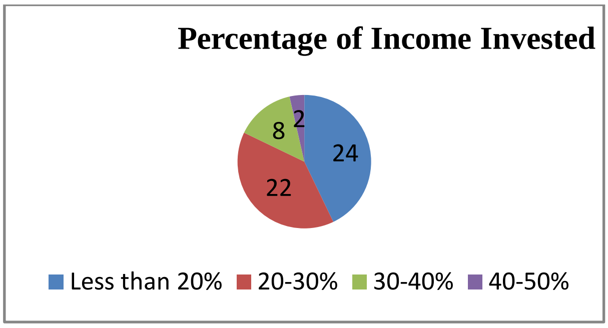

Chart1: Percentage of income invested

From this chart it is clear that there is a huge difference among the investors in investing into various investment options. Majority of the respondents are investing less than 20% of their total income for investment purpose. Out of 60 responses, 40% of them invest only less than 20% of their total income, 36.7% have investment between 20 and 30%, 13.3% have investment between 30 and 40%, 3.33% have investment between 40 and 50% and 6.67% have investment more than 50%.

The **factor the investors consider most before investing**

Response	Return	Low Risk	Liquidity	Safety
Respondents	32	14	8	6

Table3: Investment Objectives of investors

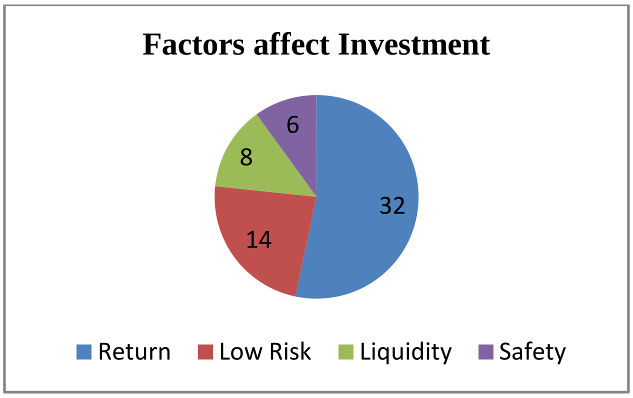

Chart. 2 Factors affect investment

The chart clearly shows that more than half of the respondents have given more priority to the return factor. They need to get maximum return from their investment with low risk.Out of 60 respondents, 53.3% consider return as the major factor before investing, 23.3% consider lower risk, 13.3% consider liquidity and 10% consider safety before investing.

Relationship between age group and investment objective

		Investment Objective				
		Return	Low Risk	Liquidity	Safety	Total
Age Group	20-30	12	8	0	2	22
	30-40	12	4	8	2	26
	40-50	2	2	0	2	6
	50-60	6	0	0	0	6
Total		32	14	8	6	60

Table4: Relationship between investor's age and investment objective

54.54% respondents who belong to the age group between 20 and 30 consider return as their investment objective followed by Low risk and Safety respectively. 46.15% respondents belonging to the age group between 30 and 40 consider Return as the investment objective followed by Liquidity, Low risk and Safety respectively. Equal number of respondents belonging to the age group between 40 and 50 prefer Return, Low risk and Safety as the investment objective. All respondents who belong to the age group between 50 and 60 consider return as their investment objective.

Time duration preferred by the respondents for the investment

Response	Less than 1 year	1-3 years	3-5 years	More than 5
Respondents	6	28	14	12

Table 5: Preferred time period of investment

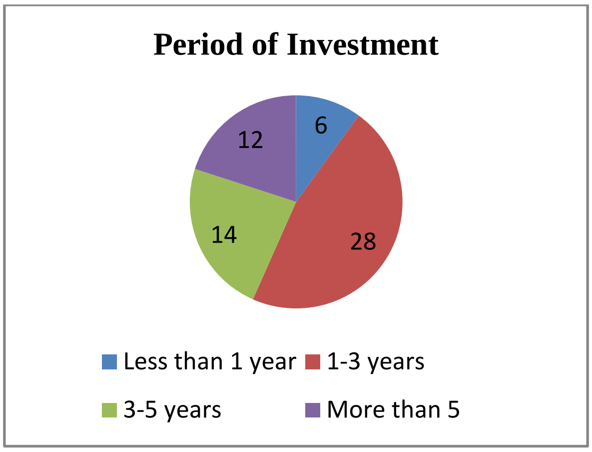

Chart.3: Preferred time period of investment

The most of the respondents prefer to invest their fund for one to three years. Out of 60 respondents, 46.7% prefer to invest for a period of 1 to 3 years, whereas 23.3% respondents prefer 3 to 5 years, 20% respondents prefer more than 5 years and 10% prefer to invest for less than 1 year.

Rate of return on investment expected by the respondents

Response	Less than 10%	10%-20%	20%-30%	More than 30%
Respondents	6	40	10	4

Table 6: Investor's expected rate of return

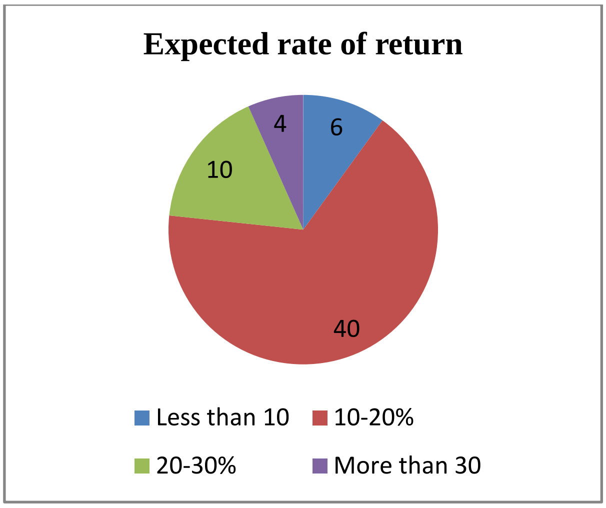

Chart 4: Investor's expected rate of return

As per this study, the respondents have given more priority to the return from the investment. The expected rates of return from the investment of the respondents aredifferent. Most of the respondents expected to get minimum return from 10percentages to 20percentages. Out of the 60 respondents, 66.7% invest with an expectation of getting return between 10 and 20%. 16.7 expects return between 20 and 30%, 10% expects return less than 10% and 6.7% expect more than 30% return.

Whether the respondents are willing to take risk for higher return

Response	Yes	No
Respondents	32	28

Table 7: Interest to take higher risk

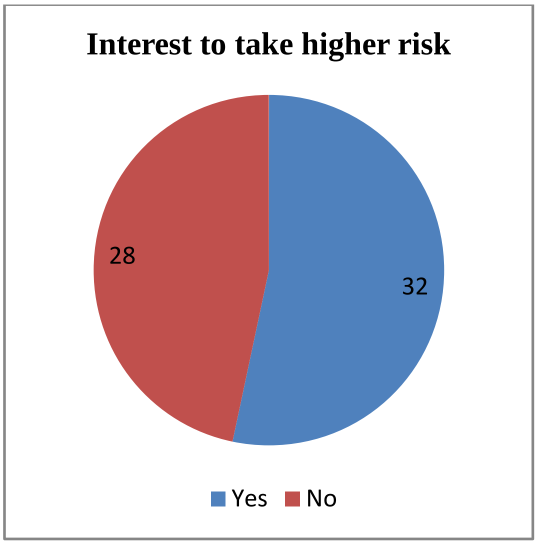

Chart 5: Interest to take higher risk

This chart clearly shows that more than half of the respondents are willing to take risk for getting higher return. They are ready to invest in risky projects or investments if it offers higher return, whereas some respondents not ready to take high risk for the higher return. They prefer low or moderate risk. Out of 60 respondents, 53.6% respondents are ready to take high risk for higher return. They are ready to invest in high risky assets. Remaining 46.4% respondents don't wish to take high risk for higher return.

Percentage of respondents' preference in investing in each of the following assets

	No Investment	Less than 20	20 - 30	30 - 40	40 - 50	50 +	Percentage of Investment
Equity	30	10	10	6	2	2	11.67
Debt	48	8	2	2	0	0	3.33
FD	14	10	12	2	14	8	21.67
Real Estate	10	6	14	8	12	10	26.17
Gold	12	14	8	12	8	6	20.67
MF	22	14	6	2	8	8	16.47

Table 8: Percentage of investment in each asset

The above table shows the investment preferences of high income people. Real Estate is the most preferred asset class among high income groups followed by Fixed Deposit, Gold, Mutual Fund, Equity and Debt Instruments respectively. The investment in Equity and Debt are very low compared to other assets. It is clear that, even if they are having high income and plenty of investment opportunities are available, still the people more prefer to invest in conventional assets like Real Estate, Fixed Deposit and Gold or in other words, people prefer to take low risk investment opportunities.

Percentage of Investment in Equity, Debt and Mutual Funds

Percentage of Investment	No. of responses	Percentage
Investment less than 50%	36	60
50% and above	24	40

Table 9: Percentage of investment in Equity, Debt & Mutual Fund

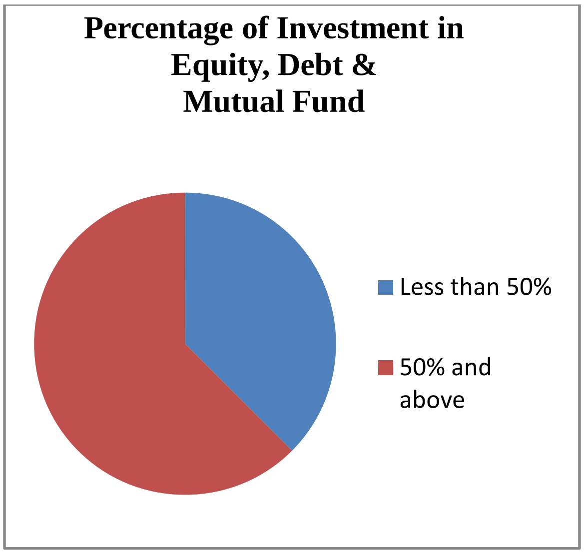

Chart 6: Percentage of investment in Equity, Debt & Mutual Fund

The investment of high income people in stock market is very less than their total investment in other assets. Even though, if they invest in market securities like in equity, debt and mutual fund, etc. out of 60 respondents, 60% respondents have less than 50% combined investment in equity, debt and mutual fund and only 40% respondents have investment in more than fifty percent of their total investment in secondary market.

V. CONCLUSION

Findings

- ϴ High income group has higher investment in traditional assets like Real Estate, FD and Gold compared to Equity, Debt and Mutual Fund. Highest investment is seen in Real Estate(26.17%) followed by Fixed Deposit (21.67%), Gold (20.67%), Mutual Fund (16.47%), Equity (11.67%) and Debt Instruments (3.33%) respectively.

- ϴ Combined Investment in Equity, Debt and Mutual Fund is 31.17%. Only 40% of respondents have investment of more than fifty percent of their total income in combined investment in Equity, Debt and Mutual Fund.

- ϴ Even though the investment in traditional assets are higher, it is also observed that the investment level of high income group in assets like Equity, Debt and Mutual Fund is higher compared to the national average. Therefore people with higher income group have more possibility to shift from traditional assets.

- ϴ 54.54% respondents who belong to the age group between 20 and 30 consider return as their investment objective followed by Low risk and Safety respectively. 46.15% respondents belonging to the age group between 30 and 40 consider Return as the investment objective followed by Liquidity, Low risk and Safety respectively. Equal number of respondents belonging to the age group between 40 and 50 prefer Return, Low risk and Safety as the investment objective. All respondents who belong to the age group between 50 and 60 consider return as their investment objective.

Recommendations

1) People with high income group show an increasing interest towards investing in Mutual Funds. It is advisable to either start a mutual fund division which has high potential or to focus more on the present portfolio by giving a wider reach.

2) It was found that the major reason for lower investment in assets like Equity, Debt and Mutual fund is lack of awareness. Company can help the investors to shift from traditional investment by giving them more awareness about the risk involved, methods of reducing risk, expected return of each asset etc.

3) Study shows that only 31.17% of total investment of high income group is in Equity, Debt and Mutual Fund. There is a big gap between investment in Traditional assets and Non-Traditional assets which is an opportunity for the company to explore and expand.

CONCLUSION

On the basis of report it is observed that people with high income also wish to invest in traditional assets like Fixed Deposit, Real Estate and Gold. But it can be noted that the average investment of high income people in Equity, Debt and Mutual Fund is higher than the country average. This can be considered as a moving trend from traditional assets to other financial assets.

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