

AN EVALUATION ON THE PERCEPTION OF INVESTORS IN VARIOUS INVESTMENT AVENUES: AN EMPIRICAL STUDY.

*YEDHU HARIKUMAR (*FIRST YEAR MCOM STUDENT, CENTRAL UNIVERSITY OF PONDICHERRY.*)

*RENI SUSAN PHILIP (*SECOND YEAR MCOM STUDENT, KARIAVATTOM CAMPUS, UNIVERSITY OF KERALA.*)

Abstract

There are various financial institutions and professionals who provide advice to individuals for selecting a particular investment avenue. Few of the investors may rely on family, friends, media etc for selecting a best investment decision. Before taking a particular investment decision, an investor should consider various factors such as return, risk, capital appreciation etc. The investment avenues include various financial assets such as shares, debentures, derivatives to gold, real estate, bank deposits, postal deposits, NIC, PPF etc. It is very important to conduct a study for evaluating the investment avenues and to ascertain which one is best.

Introduction

The excess of income over the investments can be said to be savings. When these savings are invested, with an intention for increasing the income or value of money invested can be called as investment. No investments are risk free. An investor should evaluate the risk and return involved in the investment.

Individuals find investments as a magical process where they get income in an easy way. But in fact, not all investments are profitable. Its profitability mainly depends upon investor's decision. However, investment is not just a game or gambling. It has serious importance in an investor's wellbeing. The investor should have investment goals. Once these goals are accomplished, he will be well known about the investment environment and mechanics. As the field of investment is highly dynamic, one should invest the part of his savings very intelligently. Each of the investment avenues are different and complex. So a good investor should possess the quality of selecting the best avenue from the group by considering various factors such as risk, return, interest etc.

Need for the study

The investment activity of an individual is mainly depends upon his savings and income at dispose. The other factors affecting the investment are age, sex, marital status, occupation, size of family etc.

There are various financial institutions and professionals who provide advice to individuals for selecting a particular investment avenue. Few of the investors may rely on family, friends, media etc for selecting a best investment decision. Before taking a particular investment decision, an investor should consider various factors such as return, risk, capital appreciation etc. The investment avenues include various financial assets such as shares, debentures, derivatives to gold, real estate, bank deposits, postal deposits, NIC, PPF etc. So it is very important to conduct a study for evaluating the investment avenues and to ascertain which one is best.

Objectives of the study

- To identify various investment avenue and preferred investment avenue.
- To evaluate the investment avenue and to find the best one.

Literature review

- Heena Kothari (2013)²² studied the investment behavior of investors towards investment avenue in Indore city. A sample of 100 respondents was chosen using convenient judgmental sampling. Mean and standard deviation was applied through statistical software. Cronbach alpha was applied to test the reliability of the data. It was revealed that age of the investor affects the investment decision and preference of investors.
- Hisashi Kaneko (2004)²³ analyzed the individual investor behaviour in Japan. It focused on the buying and selling of investment trusts by individual investors and 14 examined such behaviour from a behavioural finance perspective. 291 funds were analysed. The study concluded that investors have a strong preoccupation with purchase price and tend to sell rapidly when unit price exceeds purchase price. It was proposed to adopt dollar cost averaging method as one method of reducing such impulsive behaviour.
- Janice Burns and Maire Dwyer (2007)²⁴ conducted a study on the attitudes towards savings, investments and wealth, in New Zealand. An in depth interview was conducted of eight consumers aged between 30-50 years. The study revealed that investments involve risks that can be reduced but not eradicated.
- Jasin Y. Al-Ajmi (2008)²⁵ studied the risk tolerance of individual investors in Bahrain. Of the 2700 questionnaires distributed randomly, 1546 were returned of which 1484 questionnaires were valid and complete. Internal consistencies of the responses were tested using Cronbach Alpha. Data was analysed using Univariate analysis and Analysis of Covariance. The findings indicate that as investors, men have high propensity towards risk tolerance than women. Investors with better level of education and wealth are more likely to seek risk than less educate and less wealthy ones. The study suggested that investors should not be treated as homogeneous groups, but should be treated as a separate niche markets.

Research methodology

Both primary and secondary data are used for the study. Primary data is collected through a structured questionnaire and circulated among friends. The data analysed through a computer package and correlation is estimated. Secondary data is collected through books, journals, internet etc.

Investment avenues

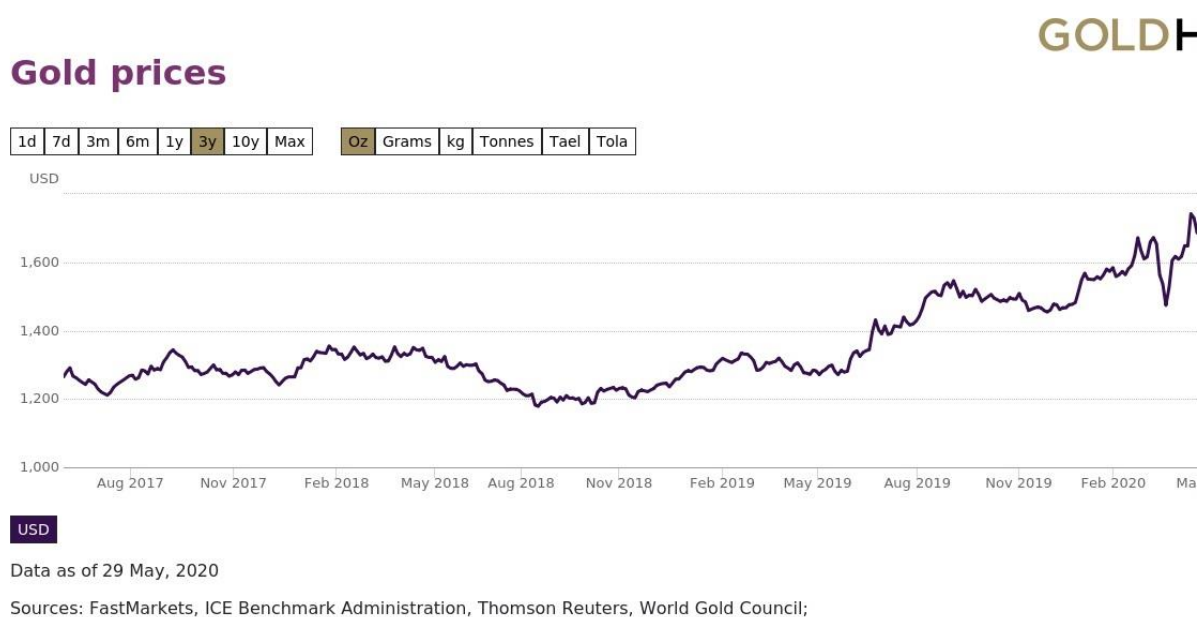
Numbers of investment opportunities are available to an investor. But the risk-return ratio associated with each is different. Investment avenues available to investors are bank deposit, postal deposit, Govt. securities, provident funds, pension plans, health plans, life insurance, mutual fund, corporate securities, derivatives, commodities to investing in gold, silver, precious stones, etc.

Some of the important investment avenues

- Gold: Gold is one of the important physical assets. It is very precious one and also dear to women. Owning gold is also associated with culture, and Hindu myths. Some peoples are not even ready to sell gold based on there myths. People invest their surplus money in gold. It may be in the form of gold coins, jewellery etc. it is used as a hedge against inflation.
- Real estate: Investment in real estate is made by financially sound investors. It may be in the form of buying house, flats, land and building. The demand for real estate is also high as the population of the country is increasing.
- Post office savings: It is one of the oldest investment avenues in our country. It offers high interest rate and a large number of schemes named fixed deposits, recurring deposits, saving deposits, senior citizen deposits scheme etc.

- Bank deposits: Commercial banks also providing various deposits schemes such as fixed, recurring and savings deposits schemes. The main intention is to promote the saving habits of the people. The interest rate is fixed by RBI.
- Shares: Corporate mainly issues two types of shares namely equity shares and preference shares.
 - i. Equity shares: It defines the ownership of the holders in the company. Equity shareholders enjoy voting rights in the company.
 - ii. Preference shares: it is the mixture of equity shares and debentures. Preference shareholders do not enjoy voting rights, but have the privilege of receiving the dividend before the equity shareholders and the also repayment of capital is made first to the preference shareholders in case of winding off of company.

Evaluation of investment in gold



The above figure is revealing the trend in the prices of gold from the year 2017 to 2020. It is very well clear from the above figure, the prices are increasing in good manner. Though there are some phases witnessing fall in prices, it will not last long. It is always make a strong come back. So it is very clear that investing in gold is a good investment.

Table showing return on investment in gold

Yearly gold prices						
	2014	2015	2016	2017	2018	2019
	28,006.50	26,343.50	28,623.50	29,667.50	31,438.00	35,220.00
ROI		-0.059379	0.0220306	0.0593077	0.122525	0.257565

The data in the above table is showing the return on investment earned while investing in gold. Even though in the year of 2015, it suffered a loss, it makes a strong return in the following years. An investor who invests in gold can make a return of 25.76% after 5 years.

Evaluation of investing in real estate

Real estate properties include land, building, rental houses etc. these are purchased with the intend to make money through rental income. Some of the investors purchase land and sell it for a higher price in future.

Calculation of return on investment in real estate

Return on investment = $\frac{\text{gain on investment} - \text{cost of investment}}{\text{cost of investment}}$

Consider an example,

- You paid \$100,000 in cash for the rental property.
- The closing costs were \$1,000 and remodelling costs totalled \$9,000, bringing your total investment to \$110,000 for the property.
- You collected \$1,000 in rent every month.

A year later:

- You earned \$12,000 in rental income for those 12 months.
- Expenses including the water bill, property taxes, and insurance, totalled \$2,400 for the year or \$200 per month.
- Your annual return was \$9,600 (\$12,000 – \$2,400).

To calculate the property's ROI:

- Divide the annual return (\$9,600) by the amount of the total investment or \$110,000.
- $\text{ROI} = \$9,600 \div \$110,000 = 0.087$ or 8.7%.
- Your ROI was 8.7%.

Investing in real estate is a profitable business. But it is highly influenced by locality. An investor will get high return for a property in urban area while comparing to rural. So investor should beware of that kind of things.

Return on investment in post office savings

Latest Post Office Small Saving Schemes Interest rates Oct-Dec 2018 (www.basunivesh.com)					
Sl No.	Scheme Name	Current Interest Rate	Revised Interest Rate	Frequency of Compounding	Effective Return
1	Savings Deposit	4%	4%	NA	0.04
2	Term Deposit 1 Yr	6.60%	6.90%	Qly	7.08%
3	Term Deposit 2 Yrs	6.70%	7.00%	Qly	7.18%
4	Term Deposit 3 Yrs	6.90%	7.20%	Qly	7.39%
5	Term Deposit 5 Yrs	7.40%	7.80%	Qly	8.03%
6	RD-5 Yrs	6.90%	7.30%	Qly	7.50%
7	NSC-5 Yrs	7.60%	8.00%	Yearly	8.00%
8	Post Office Monthly Income Scheme (MIS)	7.30%	7.70%	NA	7.70%
9	Public Provident Fund (PPF)	7.60%	8.00%	Yearly	8.00%
10	Senior Citizen Savings Scheme (SCSS)	8.30%	8.70%	NA	8.70%
11	Kisan Vikas Patra (KVP)	7.30%	7.70%	Yearly	7.70%
12	Sukanya Samridhi Scheme	8.10%	8.50%	Yearly	8.50%

Note:-KVP will now double in 112 months.

The above table is showing the various interest rates offered by post office on various deposits. While comparing to banks, post office is providing good schemes and that is the reason for increasing the customers in post office savings.

Return on investments in bank deposits

Commercial banks, Co-operative banks and Regional banks offer different types of accounts and deposits to its customers such as Current account, Savings account, recurring deposits and fixed deposit etc.

- a) Current account is maintained by the businessmen and entrepreneurs for regular banking transaction on which no interest is earned
- b) Savings accounts are accounts maintained individuals as well as institutions. The investors can invest any amount of money at any point of time. Currently an interest of 4% is provided on the saving bank accounts.
- c) Recurring deposits are wherein; amount of investment is deposited at a regular interval.

Return on investment in shares

As a shareholder, you own a part of company, which entitles you to a potential profit on your investment. Calculation of Return on Investment (ROI) is the basic part to be understood therefore the definition can be rewritten to suit the situation relying upon what you add as returns and costs.

Let's take an example:

A marketer takes the comparison of two products by dividing the gross financial gain that each product has made by its respective marketing expenses. On the other hand, a financial analyst would compare the same two products in an entirely different ROI calculation which can go by dividing the net income of an investment by the total worth of all resources that have been applied in the making and selling of the product.

Buy a stock, and when the price escalates, sell the stock for a profit, or hold onto it and hope that it rises even further over an extended period of time. The amount you make on the stock when you sell it is your "capital gain" for tax purposes. You can calculate your percentage ROI by taking the sale price and subtracting the purchase price out of it. You can now divide that total by the purchase price, and then multiply the amount you receive by 100. What you are getting now is the percentage return on investment. If the stock price drops, you can sell or hold onto the investment and that's your choice. But you will face a capital loss and a negative ROI.

Analysis of primary data

Table 1.1

Proportion of investment		
Post office	18	
Shares	10	
Real estate	7	
Bank deposits	13	
Gold	2	

The above shown table is based on the data collected from 50 investors. Most of the investors are interested to invest in post office and savings bank. The reason for their interest is safety, liquidity and convenience. It is also noted that 10 peoples invested in shares are gents. They are willing to take risk and they are able ton get sufficient return except sometimes. The two persons invest in gold are woman.

Table 1.2

Risk involve	
Post office	18
Shares	22
Real estate	6
Bank deposits	9
Gold	5

Out of 50 respondents, 22 are considering shares are the risky investment as it is subject to market fluctuations. Most of the peoples are willing to rely in post office, bank deposits, real estate and gold as it is less risky. Also most of the peoples are saying post office is the one which is less risky and giving good returns.

Table 1.3

Return	
Post office	18
Shares	8
Real estate	5
Bank deposits	12
Gold	2

From the above table, we can conclude the peoples who invest in post office savings are earning high return. Out of 10 people interested in shares 8 are getting return. Two of them are suffering loses from shares and also they are not recommending shares to others.

Table 1.3 (test of correlation between proportion of investment and return)

The value of r is 0.9873. this means there is a strong correlation between the data.

Findings

- The investment activity of an individual is mainly depends upon his savings and income at dispose. The other factors affecting the investment are age, sex, marital status, occupation, size of family etc
- . Investment avenues available to investors are bank deposit, postal deposit, Govt. securities, provident funds, pension plans, health plans, life insurance, mutual fund, corporate securities, derivatives, commodities to investing in gold, silver, precious stones, etc.
- From the evaluation of secondary data and primary data it is clear that post office is the preferred investment avenue. Even if gold have high return rate, it is expensive. So peoples choose post office savings, bank deposits.
- There is a strong positive correlation between proportion of investment and return and this means investor's decisions are correct.

Conclusions

Individuals find investments as a magical process where they get income in an easy way. But in fact, not all investments are profitable. Its profitability mainly depends upon investor's decision. However, investment is not just a game or gambling. It has serious importance in an investor's wellbeing. Before taking a particular investment decision, an investor should consider various factors such as return, risk, capital appreciation etc. The investment avenues include various financial assets such as shares, debentures, derivatives to gold, real estate, bank deposits, postal deposits, NIC, PPF etc. So it is very important to conduct a study for evaluating the investment avenues and to ascertain which one is best. Peoples are reluctant towards investing share market. So proper education on this should be provided.

Bibliography

Dr. Anil Suryavanshi, "Appraisal of Investment Avenues: An Empirical study of selected Investors in Kolhapur City", *Global Journal of Finance and Management*, Vol 3, No 1 2011, pp 137-149.

2. Ankita Rajdev, "The effect of demographic factors on investment choice of investors: A study on investors of Bhopal", *IRC's International Journal of Multidisciplinary Research in social and management science*, Vol 1, issue 3, July- September 2013

3. Babak Jamshidinaid et al, "The impact of demographic and psychological characteristics on the investment prejudice in Tehran stock", *European Journal of Business and Social Sciences*, Vol 1, No 5, August 2012, pp 41-53

Investment management "im pandey"

Wikipedia

investopedia

