

Saving Pattern and Investment Preference of the Individual Household

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ABSTRACT

The objective of the study was to determine the relationship between the savings and investments pattern among the Individual investor in District Kurukshetra (India). The data was collected through structured questionnaire distributed to 100 peoples working in different sectors at Kurukshetra. It was found from the analysis there is relationship between Annual Savings and Age, Income, occupation, Education of people . It was propounded here that the bank deposits remain the most popular instrument of investment followed by fixed deposit and real estate scheme with maximum number of respondents investing in these fixed income bearing option. The individual investor prefers to invest in financial products which give risk free returns.

Keywords: Annual income, Annual savings, Investment

INTRODUCTION

The new economic policy was introduced in July 1991 with the objective of bringing about structural reforms for improving productivity and efficiency in the Indian economy. The major development objective of the policy has been the building up of the financial infrastructure. The prime focus has been to bring about operational change in the financial markets by modernising productive process for an efficient financial system. It is expected that financial liberalisation through money market and capital market reforms would mobilise saving and ensure credit flow bringing about efficiency in the allocation process through intermediation between instruments of investment and process of savings.

Concept of Investment

Financial dictionaries like www.investorworld.com define investment as the purchase of the financial product or other item of value with an expectation of favorable future returns. In general term, investment means the use of money in the hope of making more money. Saving is the left over the disposable income whereas when these savings are used to generate further return it is known as investment. Investing wisely not only generates returns for the individual investor but is mobilized to the economy by entering into the chain of capital formation. Investment and speculation are somewhat different and yet similar because speculation require an investment and investment are at least somewhat speculation. Speculations are usually based on the expectation that some change will occur and expected change is a basis for speculation but not for an investment. Speculation involves higher risk and a more uncertain expectation of return. Speculation is usually a shorter scene phenomenon. Investment is not gaming. Gaming is putting money at risk by batting on an uncertain outcome with the hope that you might win money. Investment is an attempt to carefully plan, evaluate and allocate funds in various investable avenues which offer safety of principal, moderate and continuous return and long term commitment.

OBJECTIVE OF THE STUDY

- To find out the investor's objectives of making investment.
- To find out the investor's knowledge and preference for various investment options.

Sampling Design

This is a descriptive research where convenience sampling method is adopted to collect primary information from the investors. In the present study, the universe or population consist individual households in the District Kurukshetra.

Keeping in mind the constraints of time and efforts, it is decided to take a sample of 100 persons out of total individual household from the universe.

REVIEW OF LITERATURE

Avadhani V.A.,(1968) studied the preference of investment of middle class household whose income fall in the range of Rs.5000-15000 per annum and lived in either rural or urban areas. Secondary data was used for the study. According to NCAER(1965) survey the bulk of household saving were diverted to investment in business and houses followed by claim on government, currency and bank deposits(25-30) per cent. A certain proportion of middle class saving is made in provident fund and insurance and claim on government in the form of saving deposit and saving certificates etc. The analysis showed that there was rise in the middle class income due to dividend and interest. The number of assesses having dividend income has rise substantially while the number of those having interest income has declined. There is rise in the income of dividend receiver due to exemption of tax. The study concluded that middle class investor preference for the assets other than corporate share and securities was for gold, silver and land.

J. Dennis Rajakumar,(2005) made a study with the objective of examine the relationship between the choice of source and investment by considering equity and debt as two major source of fund. The study found that the corporate financing pattern shifted toward great equity financing. There exists a relationship between the choice of source and investment by equity and debt financing as two major sources of fund. Data have been collected through RBI (Reserve Bank of India) study of public limited companies. The analysis revealed that corporate structure is divided into internal and external sources of fund. Equity financing is more important than debt financing. There exist a strong relationship between corporate financing and investment behaviour. The correlation between debt equity ratio and investment has found to be significant suggesting that higher the debt equity ratio, the greater the investment. The study concluded that after 1990 there is a shift toward equity financing.

Chakrabarty Suman(2011) studied the investment pattern and saving objectives followed preference of individual investor for various investment options available in India. Data have been collected through questionnaire of 200 respondents. The analysis revealed that bank and real estate was the most popular saving and investment avenues. Majority of respondents gave preference for purchase of assets as objective of saving. Investors prefer more liquid assets. PPF, NSC, Indian post office saving schemes got wider acceptance. The study concluded that the behaviour of individual investor has a connection with the various available investment options.

NCAER (2011) made a study of how household save and invest: evidence from NCAER household survey with the objective of to make a comprehensive profile of saving and investment behaviour, preference of investors and risk discovered that the percentage of investor was nearly 20 per cent in urban area and 6 per cent in rural area India. The estimated number of investor household in India is 11 per cent of total household. The strong preference of investor is toward mutual fund. There was a significant magnitude of small saving savers. 11 per cent to 25 per cent household saves in post office saving schemes. More than 16 per cent of educated people were non participants.

Analysis and interpretation

Table 1(a): Respondent's frequency regarding objective of investment

Rank	Objectives on investment					
	Child education	Emergency situation	Medical expenses	Saving for old	Tax benefit	Capital appreciation
1	42	15	18	8	13	4
2	17	32	22	17	3	9
3	19	27	22	15	10	7
4	10	20	15	30	13	12
5	7	5	17	14	24	33
6	5	1	6	16	37	35

Table1(a) represent the frequency regarding objective of investment.

Table1(b): Respondents classification regarding objective of investment

Rank	Weighted score Objective Of investment					
	Child education	Emergency situation	Medical expenses	Saving for old age	Tax benefit	Capital appreciation
1	252=42*6	90=15*6	108=18*6	48=8*6	78=13*6	24=4*6
2	85=17*5	160=32*5	110=22*5	85=17*5	15=3*5	45=9*5
3	76=19*4	108=27*4	88=22*4	60=15*4	40=10*4	28=7*4
4	30=10*3	60=20*3	45=15*3	90=30*3	39=13*3	36=12*3
5	14=7*2	10=5*2	34=17*2	28=14*2	48=24*2	66=33*2
6	5=5*1	1=1*1	6=6*1	16=16*1	37=37*1	35=35*1
Total weighted score	462	429	391	327	257	234
Objective	1	2	3	4	5	6

(Figures in parenthesis exhibit percentage)

(Source: Primary data)

Table1 (b) represent the classification of the respondents regarding objective of investment option. It has been done by calculating weighted score in various investment objectives. For this purpose, frequency of a specific rank for a particular investment option has been multiplied with the weight assigned to the rank. Weight 6 has been assigned to rank 1, 5 to rank 2 and in the like manner 1 to rank 6. Child education with highest weighted score of 462 points stood in first place. Emergency situation with 429 points stood in second place of objective. Medical expenses, saving for old stood in third and fourth place with 391, 327 points respectively. At last tax benefit and capital appreciation stood fifth and sixth place with 257, 234 points respectively. Overall it is seen that the main objective of investment in the case of the most of the respondents is child education followed by emergency situation, medical expenses, saving for old age, tax benefit and capital appreciation

Table 2: Extent of knowledge about various investment options

	Low	Medium	High	Total
Shares	83 (83.0)	12 (12.0)	5 (5.0)	100 (100.0)
Debentures	89 (89.0)	10 (10.0)	1 (1.0)	100 (100.0)
Mutual funds	78 (78.0)	15 (15.0)	7 (7.0)	100 (100.0)
Bonds	87 (87.0)	12 (12.0)	1 (1.0)	100 (100.0)
Bank deposit	2 (2.0)	17 (17.0)	81 (81.0)	100 (100.0)
Fixed deposit	2 (2.0)	20 (20.0)	78 (78.0)	100 (100.0)
NSC	74 (74.0)	13 (13.0)	13 (13.0)	100 (100.0)
PPF	55 (55.0)	20 (20.0)	25 (25.0)	100 (100.0)

Bullions	51 (51.0)	32 (32.0)	17 (17.0)	100 (100.0)
Real estate	40 (40.0)	32 (32.0)	28 (28.0)	100 (100.0)

(Figures in parenthesis exhibit percentage)

(Source: Primary data)

Table 2 represents the extent of respondent's knowledge about various investment options. Overall 80% of respondent have low knowledge of shares, debentures, mutual funds, bonds and NSC. It shows that a vast majority of respondents have low knowledge about shares (83%), debentures (89%), mutual funds (78%), bonds (87%) and NSC (74%). However a large percentage of respondents have high knowledge of bank deposit (81%) and fixed deposit (78%). Also around half of the respondents have low knowledge of PPF (55%), bullions (51%) and real estate (40%).

Table 3(a): Investor's frequency regarding preference for various investment options

Rank	Frequency of Investors preference for various investment options									
	Bank deposit	Fixed deposit	Real estate	Bullions	PPF	NSC	Mutual funds	Shares	Debentures	Bonds
1	47	21	17	1	8	1	1	2	2	1
2	26	48	8	5	6	1	1	2	2	1
3	11	14	21	25	9	5	6	6	2	1
4	6	6	25	26	6	12	4	6	5	3
5	3	3	8	10	19	26	9	11	5	5
6	1	2	11	9	21	26	7	3	11	9
7	1	1	1	4	8	12	13	20	12	29
8	1	1	2	3	8	5	29	9	25	17
9	3	3	1	7	6	8	25	8	29	10
10	1	1	6	10	9	4	5	33	7	24

Table 3(a) represents the frequency of respondents preference regarding various investment options.

Table 3(b): Investors classification regarding preference for various investment options

Rank	Weighted score of Investors preference for various investment options									
	Bank deposit	Fixed deposit	Real estate	Bullions	PPF	NSC	Mutual funds	Shares	Debentures	Bonds
1	470	210	170	10	80	10	10	20	20	10
2	234	432	72	45	54	9	9	18	18	9
3	88	112	168	200	72	40	48	48	16	8
4	42	42	175	182	42	84	28	42	35	21
5	18	18	48	60	114	156	54	66	30	30
6	5	10	55	45	105	130	35	15	55	45
7	4	4	4	16	32	48	52	80	48	116
8	3	3	6	9	24	15	87	27	75	51
9	6	6	2	14	12	16	50	16	58	20
10	1	1	6	10	9	4	5	33	7	24
Total weighted score	861	838	706	591	544	512	378	365	362	334
Preference	1	2	3	4	5	6	7	8	9	10

(Figures in parenthesis exhibit percentage)

(Source: Primary data)

Table 3(b) represent the respondents preference regarding various investment options. It has been done by calculating weighted score of investor preference for various investment options. For this purpose, frequency of a specific rank for a particular investment option has been multiplied with the weight assigned to the rank. Weight 10 has been assigned to rank 1, 9 to rank 2 and in the like manner 1 to rank 10. It can be seen that bank deposit with a total score of 861 points, stood in first place. These are followed by fixed deposit with total score of 838 point in second place, and real estate 706 in third places. Next to these investment product bullions with 591 points is in the fourth place, PPF with 544 points in the fifth place, and NSC with 512 points in the sixth place. Mutual funds, shares, debentures with 378, 365, 362 point respectively stood in seventh, eighth and ninth place. At the same time bonds are placed at the end. It is observed that bank deposit is most preferred investment option followed by fixed deposit, real estate, bullions, PPF, and NSC. However mutual funds, shares, debentures and bonds are low on investor preference.

FINDINGS

- The objective of most of the respondents is child education followed by emergency situation, medical expenses, saving for old age and lastly tax benefit and capital appreciation.
- 80% of respondents have low knowledge of shares, debentures, mutual funds and NSC. 80% of respondents have high knowledge of bank deposit, fixed deposit. 50% of respondents have low education of PPF, bullions, real estate. The respondents have high knowledge of bank deposit, fixed deposit and low knowledge of share, debentures, mutual funds, bonds, NSC.
- The most of the respondents preference is bank deposit followed by fixed deposit, real estate, bullions, PPF, NSC and at the end mutual fund, shares, debentures and bonds.

SUGGESTIONS

The investor looks for child education and emergency situation rather than tax advantage. This clearly indicates that the tax concessions of the government on investment are less attractive as an investment objective. There is also a need for increasing the financial literacy of the middle class income households. It was found that the asset choice is bank deposits and fixed deposits as the preferred instruments of investment. It thus needs to be explained to the middle class households that the financial needs and objectives are different; therefore the asset choice should be made keeping in mind their objectives. The younger age group has the capacity to take more exposure in asset choice than the older age group. Such financial literacy would help in further improving the depth of the capital market in India, which would enable Corporate India to have access to larger pool of funds.

CONCLUSION

The objective of most of the respondents is child education followed by emergency situation, medical expenses, saving for old age and lastly tax benefit and capital appreciation. The saving and investment pattern of the individual household can be summarized that the bank deposits remain the most popular instrument of investment followed by fixed deposit and real estate scheme with maximum number of respondents investing in these fixed income bearing option. It is further observed that all marked highest preference towards bank deposits and fixed deposit investment so as to provide the benefit of safety and security of their investment.

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