A Study on Investment behaviour of Home-makers.

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Abstract

Even though finance has been studied for a number of decades, behavioral finance which considers the human behaviors in finance is quite a new area. Investment is a component of aggregate demand. There are a large number of investment instruments available today. Some of them are marketable and liquid while others are non-marketable and illiquid. There are instruments which are highly risky while others are almost riskless. The investors choose avenues, depending upon their specific need, risk appetite, and return expected. Not all investments will be profitable, as investors' whims not always result in fruitful returns. Some parts of the country have remained grossly out of investment domain because of lack of financial awareness among the subjects of these parts. North-eastern states and Jammu and Kashmir states are stark examples of such a scenario. In order to check the investment awareness, obstacles and preferences, an empirical study is proposed with special reference to home makers in Srinagar district. Women who usually remain shy of dealing in finances have to be motivated to break this shackle and come forward to put their savings into capital market instruments. The study has been conducted to analyse the investment behaviour of home makers in Srinagar according to their age, income, education, etc. It is concluded that Investments are useful saving resources. Thus investors are always eager to invest in investments which are yielding high return with low fluctuation. Rising prices affect the standard of living. More incomes and more avenues of investment have led to the ability and willingness of working people to save and invest their funds.

Keywords: Investment behavior, Risk Tolerance, Stocks, Women.

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Introduction:

Finance is an allocation of assets and liabilities over time under conditions of certainty and uncertainty. A key point in finance is the time value of money which states that a unit of currency today is worth more than the same unit of currency tomorrow. Finance can be broken into different subcategories public finance, corporate finance and personal finance. In investment finance plays an important role. Investment process is possible when we have favourable financial conditions. Investment means employment of funds or savings in certain activities with the aim of achieving future benefits. It plays an important role in economic growth. Like interest income, future needs, growth in future wealth, leading to rise in the standard of living etc. It is the flow of funds from surplus units to deficient units. The savings in the households are directly used in the form of units trust, premium to LIC provident funds. Banks are direct voluntary savings in financial forms.

Investment area of finance has attracted close attention since last two decades. As a result of which capital markets of developing countries have been surging upward. Investment can be categorised into two viz., Institutional and Individual

Institutional investment is done by investment companies' at large scale and through the globe. While as individual investors, because of many constraints, keep their money parked in local avenues. In India too, the individual investor's investment have become broad based to every geographical area of country. Some parts of the country have remained grossly out of investment domain because of lack of financial awareness among the subjects of these parts. North-eastern states and Jammu and Kashmir states are stark examples of such a scenario.

Statement of the problem:

Situated to the extreme north to the country Jammu and Kashmir has remained particularly backward in economic development. Many reasons are ascribed for this appalling state of affairs like lack of industrial milieu, geographical terrain, single crop state etc. Investment stimulates growth but a genuine investment culture is all together missing in Jammu and Kashmir State particularly in Kashmir. Financial inclusion initiated by banks in the valley does not suffice the full requirements and the inclusion by banks is limited only to financial products offered by banks. Financial inclusion should also entail capital market inclusion where by people of the state should be brought into the capital market fold. Lot of ideal money (savings) is available with the people of Kashmir and unfortunately this money has largely remained untapped towards investment. Women of Kashmir have hard-earned money and this money is not finding investment avenues in capital market. More important this money even remains un-invested in bank instruments because Muslims are interest shy people and thus this hard earned money does not earn any increment. In order to attract these savings lot of financial education has to be disseminated. All financial apex institutions have a role to fulfil. This phenomenon has also instigated us to the extent that we were motivated to making investigation ourselves. In order to check the investment awareness, obstacles and preferences, an empirical study is proposed. Women who usually remain shy of dealing in finances have to be motivated to break this shackle and come forward to put their savings into capital market instruments. Thus the study on the investment panorama of Kashmiri home makers will be carried out keeping in view the following objectives.

Objectives:

1. To examine the financial education of home makers in Srinagar.
2. To probe and gauge the investment behaviour of home makers in the city.
3. To examine the factors affecting the investment pattern of these home makers investors.

Literature Review:

Investment is a risky activity where "investors have to predict the unknown realization of market outcomes at the time of purchase" (Lin and Lee, 2004). Professional and investors can depend on information sources such as industry newsletters, company's financial statements, auditor's reports and financial analyst's or brokerage firm's report for in depth information and analysis. However, many individual domestic investors consider these investment information sources to be too detail, difficult to understand or expensive. Individual domestic investors often get information from mass media such as newspaper, television and the internet .They can also rely on offline (real) social networks or online (virtual) communities for investment information. According to Grable (2000) females have a lower preference for risk than males. In other studies, individuals with higher education are believed to exhibit higher risk tolerance (Grable and Lytton, 1999). Zuckerman and Kuhlman (2000) found in their study that "men engage in more overall risky behavior than women" (pg1024) and within financial matters Prince (1993) found that men perceive themselves as more competent.

Powell and Ansic (1997) found that gender was the most important explanatory factor affecting confidence in investment decisions. Females were less confident about their decisions after controlling for factors such as age, experience, education, knowledge, and asset holdings. In such a study of financially orientated savers, Steinerock (1991) found that women had a lower risk preference and a higher degree of anxiety in financial decisions than men, plus a stronger desire to use financial advisors". This demonstrates through the research that given most circumstances regarding financial matters, women seek less risk than men. Powell and Ansic (1997) argue, could be because of different investment strategies as men and women are motivated by different "needs". They put forward the idea that these different "needs" and therefore strategies, may be that women are looking more for security whereas men are looking for returns.

There have been many more research papers supporting the idea that women have a lower level of confidence than men in their ability to make decisions and also in the outcome of the decisions that they have made (Estes and Hosseini (1998), Stinerock (1991), Masters (1989) as cited in Powell and Ansic (1997)). Shiller

R. states, "People often show, in experimental settings, excessive overconfidence about their own judgements" ("Human Behaviour and the Efficiency of the Financial System" pg12). Overconfidence it is felt (Langer and Roth (1975), Miler and Ross (1975) and Taylor and Brown (1988) cited in Daniel, Hirshleifer and Subrahmanyam (1998) is due to the misguided belief that one knows more than one does and that people give them more credit than is due when investment decisions turn out the way that was expected.

However, when decisions don't turn out the way that they were intended, this is put down to external factors beyond the individual's control.

Hypothesis:

H0: Investment behaviour of home makers in Srinagar is based on rationality.

H1: The individual behaviour of home makers in Srinagar is based on irrationality.

Scope:

- Scope of the study is restricted to Srinagar city. Srinagar is purposely chosen for study as city has higher income group households as salary and business class.

- Further, Srinagar has higher record in terms of education and life as these demographic characteristics have considerable influence on investment behaviour of home makers in Srinagar.

Methodology:

The study will be carried out on the primary data and secondary data. The primary data will be collected from a sample around 157 home makers in Srinagar. A standard sample size will be determined on the basis of age, income, profession, education status. The factors which affect the investment behaviour of home makers in Srinagar such as their awareness level, duration of investment etc. will be determined. Secondary data will also be used.

Data Analysis and Interpretation:

In this survey, a sample was taken of 157 home makers from all places of Srinagar including all demographic features. A questionnaire consisting of 10 questions has been used for the survey.

We categorized the investors into different age groups and it was found as exhibited in figure 1 that around 30% respondents belong to the age group of 20 – 30. More than 17%

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respondents belong to the age group of 31 – 40. More than 30% respondents belong to the age group of 41 – 50 and around 4% respondents belong the age group of 51 and above. Thus we can say that the home makers after the age of 51 and above do not invest much part of their incomes.

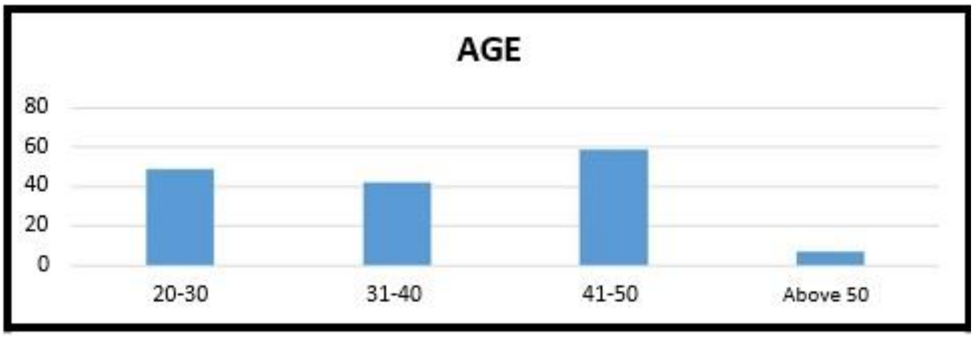

Figure 1

As shown in figure 2 below the categories related to the monthly incomes started from Rs.5000. Normally, we should not have taken Rs. 5000 as the initial income level because the home makers are usually having low income levels who earn their incomes by doing part-time jobs like teaching, weaving, knitting, yarning, making candles, tailoring etc. some of them also get family support. It may be by their parents, spouse, children and other relatives. While analyzing income groups, we found that nearly 16% respondents belong to the income groups below 5000. Around 18% respondents belong to the income group of 10001 – 20000. More than 28% respondents belong to the income group of 20001 – 30000. Only 8% respondents belong to the income group of 30000 – above. According to the respondents the income group with income less than Rs. 5000 invest less in stock markets than high income group home makers.

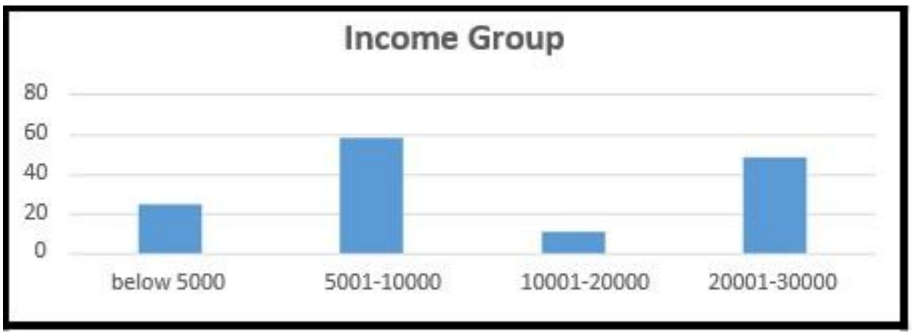

Figure 2

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Out of 157 respondents more than 35% were short term investors. More than 43% were mid-term investor and only 21% were long-term investors as presented in figure 3. Simply, we can say that homemakers prefer to invest only for 2 – 6 years. They do not want to invest their money for long-term periods.

Figure 3

The figure 4 below indicates that while investigating the sources of funds, most of the women get money from their family members. Out of 157 respondents, 72 respondents get income from their part-time jobs and 85 respondents get their savings from their family support.

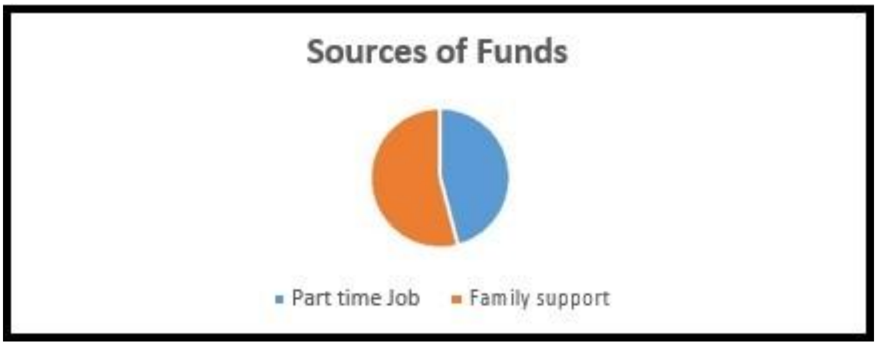

Figure 4

While investigating the kind of investment the respondents are take into, most of the respondents invest their incomes in banks and in gold as shown in figure 5. Very low percent of home makers invest in shares. Out of the 157 respondents only 7% respondents are involved in shares. More than 42% of home makers are investing in gold. Around 44% is involved in banks and only 6% respondents are involved in other kinds of stocks provided by various kinds of institutions.

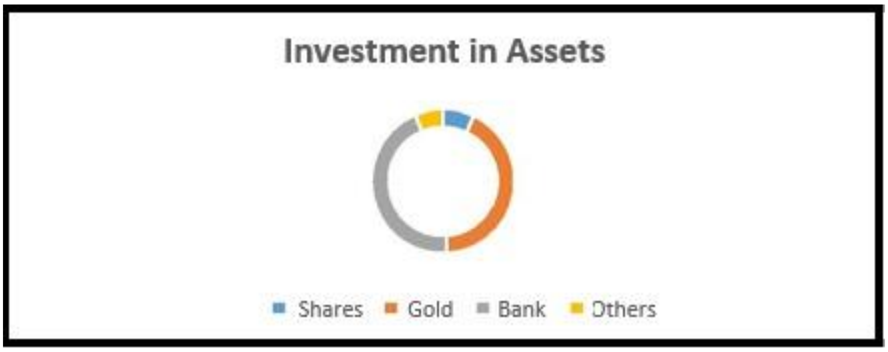

Figure 5

The next question asked was related to the type of risk appetite of home makers in Srinagar. Risk was categorised into five options - low, moderate, high, very-high and no risk. Around 32% respondents are interested in low-risk. More than 17% investors are interested in moderate-risk. Nearly14% are interested in high-risk. Only 1% of the home makers are interested in very-high risk and the great number of women invests in safe investments. The results are exhibited in figure 6 below. They take or prefer risk free investments and want to be away from risk. In short we can say that women are less risk takers. They are risk averse.

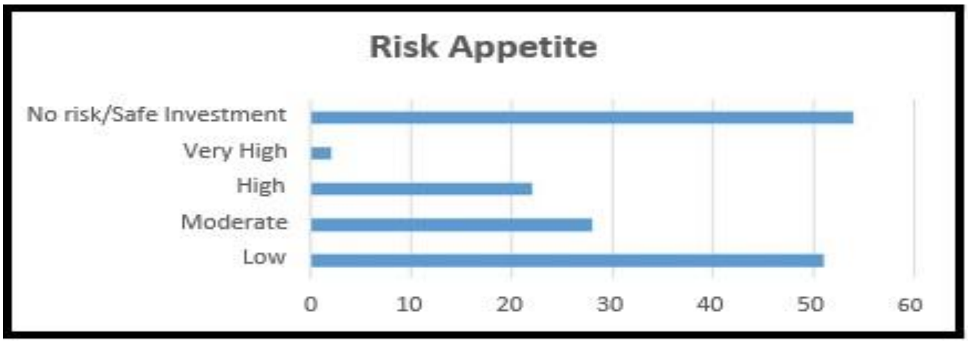

Figure 6

Further, a question was framed about the things that induced the investors to invest in a particular stock and the responses for the same are displayed in figure 7. More than 17% of the investors belong to the first option that is tips. Around 16% of the investors belong to the second group that is news. Only 7% of the investors belong to the third group that is research report and a huge number of investors that is around 60% belong to the fourth group, which is personal homework. Taking respondents into consideration we can include that the home makers in Srinagar do not believe in tips, news, research reports, etc. than personal experiences. The respondents only believe in personal homework.

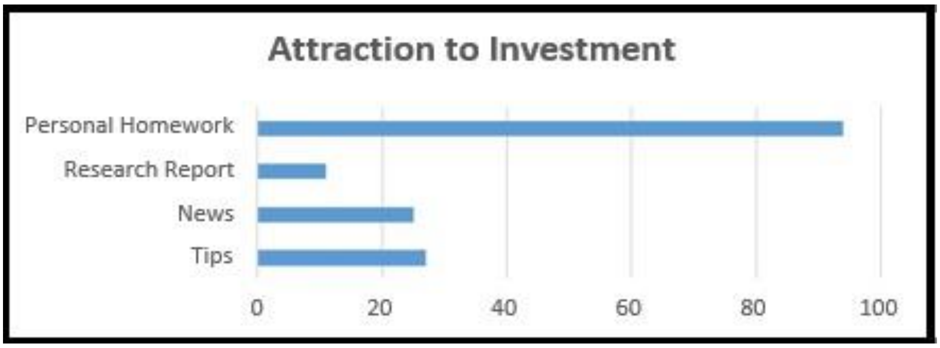

Figure 7

A question related to the pattern of investment of home makers which was included in the questionnaire also got the response as other questions as established in figure 8 below. The response identified, around 60% of the respondents invest or trade repeatedly in same set of stocks. Less than 14% respondents invest or trade in variety of stocks which are available in the markets. More than 28% respondent's pattern of investing depends on other factors. Taking this information into consideration we can say that most of the home makers in Srinagar trade or invest in same set of stocks. They are not involved in variety of stocks because they give most of their time to their homes and family members. They also have to perform their responsibilities towards their families. They have various tasks to perform like childcare, cooking, washing, elders care, etc. that is why they have less time for other things like gathering information regarding investment.

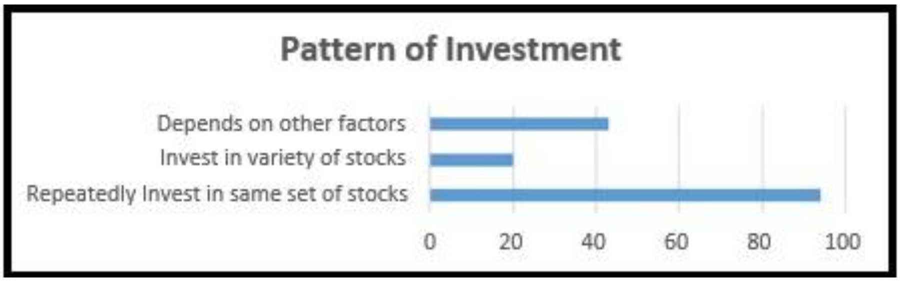

Figure 8

At last we investigated the facts that induced the respondents to stay invested in a particular stock. About 4% respondents stay invested for the dividend paid to them. 7.00% respondents remain stayed in a particular stock for their organic growth. Only 3% investors' stay invested for inorganic growth in a particular stock and the huge percent of investors that is around

86% stay invested in a particular stock in which they are investing for the purpose of future prospects. Summing up all the information, it is analysed that most of the respondents invest in the stock markets to save their futures. They invest with the view to cover any decrease due to inflation in futures. They invest for the ups and downs in coming future. They invest for future certainties or un-certainties. The respondents are taking care of their future in advance. They are caring for their futures in advance and want sorrow free futures for them and their families.

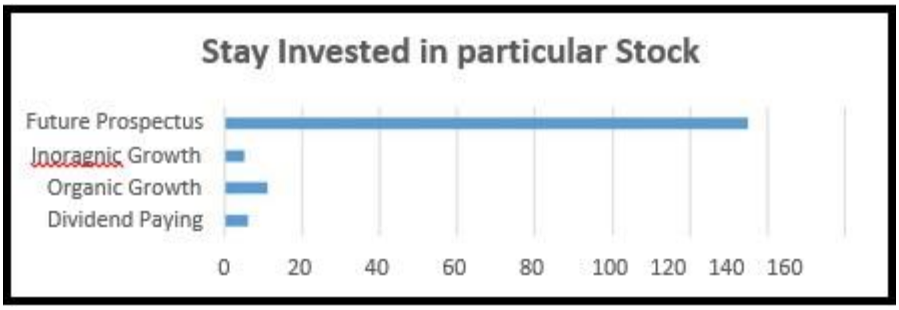

Figure 9

Conclusion:

While investigating the investment behaviour of home makers in Srinagar, our investigation went smoothly and had no problems except for the fact that the respondents did not want to disclose their incomes. Investment refers to the commitment of funds at present to anticipate some positive rate of return in future. Investment is a risky activity where investors have to predict the unknown situation of market outcomes at the time of the purchase of investment.

The study has been conducted to analyse the investment behaviour of home makers in Srinagar according to their age, income, education, etc. It is concluded that Investments are useful saving resources. Thus investors are always eager to invest in investments which are yielding high return with low fluctuation. Rising prices affect the standard of living. The investor will try and search an outlet which will give them a high rate of return in the form of interest to cover any decrease in future due to inflation. Increase in investments always helps to increase employment opportunities. More incomes and more avenues of investment have led to the ability and willingness of working people to save and invest their funds.

Analysing the response, it was found that around 39% investors invest their funds in stock market in the age group of 31-40. After the age group of 51 women are less interested in investments. Most of the women are mid-term investors. They invest their savings for 2 – 6 years. It was also found that more than 54% investors get their funds for investment from family support and around 46% of the house-wives earn through part-time jobs like teaching, weaving, yarning etc.

Further it was established that most of the home makers are investing in banks and in gold. Only 7% investors are investing in shares. In stock market women invest less than males because they have lower levels of wealth and earn less on average than men. Lower levels of income for women means fewer resources available for savings and investment. Around 35% home makers take safe investments and more than 32% are interested in low risk. Only 1% investors have very high risk appetite in investing. It was found that women are more lightly to take time out of the work force for family responsibilities which makes it difficult for them to take advantages of long term investment. Because of women's greatly biological responsibility, evolution has led women to be less willing to take risks than men.

It was also concluded that nearly 59% respondents believe on personal home work. Also around 59% home makers repeatedly invest or trade in same set of stocks while as around 14% investors' trade in variety of stocks. The most important factor that induced the women to stay invested in particular stock was future prospectus. Around 86% investors invest their saving for future prospectus.

Suggestions:

Investment culture in a state like Jammu & Kashmir is absent in all dimensions. As we have observed that the investment culture is more absent amongst the women folk particularly home makers. As a matter of fact, suggestions are put forth in the following paras. The suggestions are encompassing and are destined to bring in large changes in the investment culture:

1. Financial education programs of SEBI, NISM, and J&K Bank should be directed to home makers.
2. Seminars, workshops should be conducted by apex institutions including RBI to create

awareness.

3. Educational institutions have also a role to play in creating financial education. In this connection concern departments of University of Kashmir should take initiatives.
4. SEBI should create a door to door awareness about capital market instruments. It is unfortunate that SEBI does not have its office in Srinagar.
5. RBI should pass regulations to the state government insisting them that chit fund companies should be banned forth with. Further it should impress upon the Banks to motivate people to open Demat and trading account.
6. More and more industries should be developed by the government, in order to increase the economy in the valley which would help in creating an investment culture.
7. Investment culture needs to be developed in J&K by various public and private companies.
8. More awareness and avenues of investment should be provided to the people who led to the ability and willingness of working people to save and invest their funds.
9. Articles should be published in daily newspapers regarding the knowledge of investments.
10. The women and child development ministry of Kashmir should consider a proposal to make it mandatory for men to share a certain percentage of their incomes with their wives if they stay at home and do the household chores.

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