

A Study on Forms of Investment Strategy and Behavior Among Individual Investors

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ABSTRACT - The study aimed to evaluate different investment strategies and the different investment behaviors of individual investors. With the increase in awareness about the importance of investment, there is increase in the investment opportunities available to the investors. Previous researches showed that there are different types of investment strategies available including stocks, bonds as well as bank deposits. The investment decisions are made based on the expected return, and the risks involved. It was also evaluated that the behaviors of the investors were dependent majorly on the demographic, sociological and the psychological factors. For this study, the data was collected through both primary and secondary data. The primary data was collected through questionnaires based on 5 point Likert scale and the secondary data was collected from authentic websites. It was a closed ended questionnaire and there were 50 participants selected for the study based on convenient sampling in this research. The results showed that there were mixed reviews based on the ages of the participant. It was observed that younger generation preferred higher risks due to the chances of higher returns while the elderly people were more concerned about the safety of their money and their liquidity. Also, it was found that they were more concerned about investing in risk free areas while the younger people aimed to invest in higher returns areas to start saving more. This study is important for future investors and organizations to change their policies and assist people in investing.

Keywords: *Expected return, Investment behaviors, Investment strategies, Investment decisions, Higher risks, Liquidity.*

I. INTRODUCTION

Investment in this era plays a very major role in the lives of the individuals. It is basically the purchase of the financial product or any other item having a value with the expectation that it will give favorable returns in future. It plays a significant role in the future well-being of the investor (Mogues, Fan & Benin, 2015)^[1]. The facts and information regarding the investments cannot be ignored. There is a need to develop a good understanding of all the financial options that are available to the individual investor in order to make a sound investment decision (Cholakova & Clarysse, 2015)^[2]. These depend on the types of risks such as low, moderate or high.

II. RESEARCH AIM

The aim of the research is to develop a good understanding of the investment strategies that are available to the individual investors and their investment behaviors.

RESEARCH OBJECTIVES

The research is dependent on the achievement of the following objectives:

1. To discuss the types of investment strategies available to the individual investors
2. To evaluate different behaviors when making investment decisions

3. To emphasize on the strategies that would be beneficial for the investors.

SIGNIFICANCE OF THE STUDY

Since the financial industry plays a significant role in the lives of the individuals, there has been an increasing academic interest in this field. It has been observed that the individual investors have become highly cautious with regards to the financial investments affecting the investment behaviors of the individual (Pilbeam, 2018)^[3]. This study is important as it would evaluate different investment types that would benefit the investors and would identify different factors that would affect the behaviors of the individuals. The study will be beneficial for the future investors along with the organizations in order to formulate their marketing strategies and make their strategic decisions such as customization of their financial investment portfolio.

III. LITERATURE REVIEW

There have been several academic researches that have identified the investment objectives that an investor pursues defining their goals. Past researches have shown that there are basically four investment objectives for an investor. These include growth, income, income and growth combined, and speculations/complex strategies (Lee & Shin, 2018)^[4].

The core concern of the investors with regards to the investment strategies include their long-term capital appreciation through dividends, the medium term gains through running finance while the short term gains are being listed on the last (Bruton, Khavul, Siegel & Wright, 2015)^[5].

In the US, there have been different studies about the patterns of investment strategies and behaviors amongst the individuals. It reflects that the younger investors most commonly prefer short term gains while the older investors were in favor of long term gains (Farrell, Fry & Risse, 2016)^[6]. The portfolio holdings of the older people who were a part of the low income bracket and were the retail investors were those who clearly preferred stocks that paid dividends. Another study showed that people in the developing nations have a mindset to invest in those stocks that would help them earn a regular income. This regular income becomes a core reason for their investment. This is then followed by the capital gains, capital safety and the security once the individual retires (Gitman, Juchau & Flanagan, 2015)^[7].

An individual investor is defined as a person who makes purchases in small amounts against securities for personal gains compared to the institutional investor. They are known as small investor or retail investor (Ryu, Kim & Yang, 2017)^[8].

ATTRIBUTES INFLUENCING THE ATTRIBUTED DECISIONS

In the previous researches, it has been found that the individual investors fail to behave in a rational manner across the financial markets due to several factors that influence their decision making in investment. These factors are the demographic, sociological and the psychological factors impacting the decision making (Li, Rhee & Wang, 2017)^[9]. With respect to the demographic factors, age and gender play a major role in making an investment decision. Age and investment are said to have a significant positive relationship while gender defines the mindsets of the people. The psychological factors include the experiences of the individuals which defines their risk perceptions with respect to their risk tolerance ability and the attitude to risks (Guenther, Johan & Schweizer, 2018)^[10]. The investment experience and the risk tolerance are also seen to have a positive correlation between them. The level of confidence is also an important psychological attribute. The sociological attributes refers to the level of education, income level and the marital status of the individuals. These factors are said to be the prime sociological attributes while determining the investor's behavior and influencing their investment decision. All these three sociological factors are identified to have a positive correlation with the investment (Tokar, 2015)^[11].

TYPES OF INVESTMENTS

The investors have all the leverage to invest in more than one option depending on their needs. The investors are primarily concerned about the safety of their money, their liquidity and the reasonable return on the funds that is invested by them (Entrop, McKenzie, Wilkens & Winkler, 2016)^[12]. With the development in the financial market, there are different types of investments that are available to the investors (Levy, 2015)^[13]. The investors after studying the merits and the demerits can invest in the following:

1. Shares
2. Commodity market
3. Gold-silver
4. Bank deposits
5. Debentures and bonds
6. Money market instrument
7. Life insurance
8. Real estates
9. Mutual fund schemes
10. Public deposits (Chau, Deesomsak & Koutmos, 2016)^[14]

Investors should familiarize with all the characteristics and the features of investment alternatives. The most common type of investment strategy includes shares. They are also known as stocks. It is a paperless security since it is not available in the physical form but the prices and the demand of the stock determine the range of prices and hence profits (Sarwar & Afaf, 2016)^[15]. It is a risky investment since the prices fluctuate every day. A highly volatile market means greater fluctuations and higher risks. However, the benefits also include the return on investment in the form of yearly dividends, bonuses, right shares and capital appreciation (Das, Freybote & Marcato, 2015)^[16].

A bond is another type of investment which is basically a loan that is made by the investor to an organization in order to get regular interest payments over a period of time along with the repayment of the principle amount at the date when the bond matures (Slovic, 2016)^[17]. The bonds have different varieties including corporate bonds, treasuries, municipal bonds, corporate bonds and so on. Similarly, mutual funds also have different aspects. There is a risk involved about losing the money especially if the bond is purchased and sold before the maturity date. The prices of bond mutual funds can also fluctuate significantly similar to that of the stock mutual funds. The risk depends on the type of bond owned by the individual (De Freitas, Euler de Morais & Manuel Baigorri, 2017)^[18].

The literature discussions featured that financial behavior is ordinarily affected by demographic, psychological and sociological elements and the significant properties that clarify investment behavior are age, gender, income, marital status and investor attitudes. However few research has been dedicated to the behavior of individual investors.

Hence this study makes an attempt to better understand the attributes related to investors and their investment preferences

IV. RESEARCH DESIGN

For this study, the sample size was 50 participants through convenient sampling method.

DATA COLLECTION

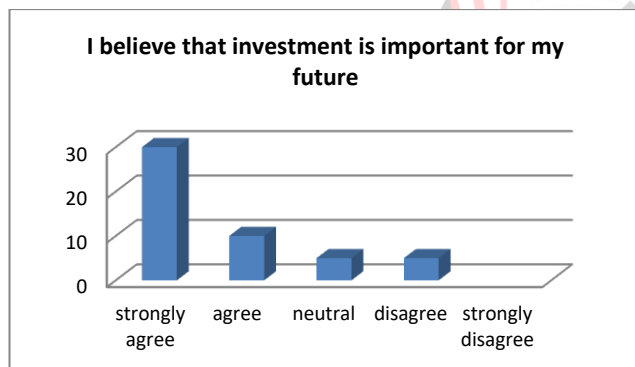
This study incorporated the use of primary data through questionnaire in order to assess the investment behavior of individual investors as well as the different investment strategies they applied. It was a closed ended questionnaire based on five-point Likert scale with a total of 10 questions. The relative importance of each statement was analyzed through the likert scale. On the other hand, there was secondary data also used in the paper which was collected through several authentic websites and journals (Johnston, 2017).

TOOLS USED

This study was based on the graphs and charts and these tools were applied by using Microsoft Excel which helped in revealing the relationship between different variables of the study.

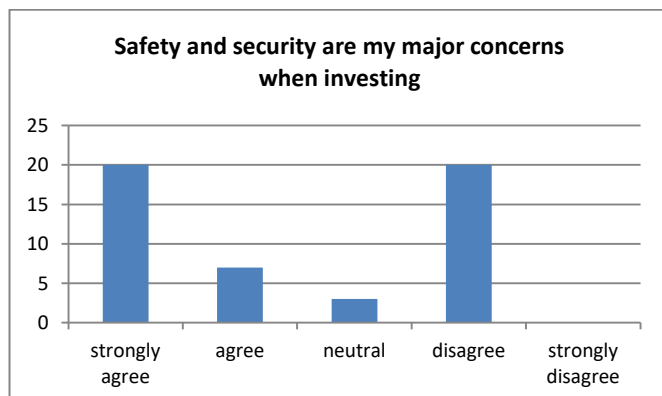
V. DATA ANALYSIS

Fig 1: Importance of investment



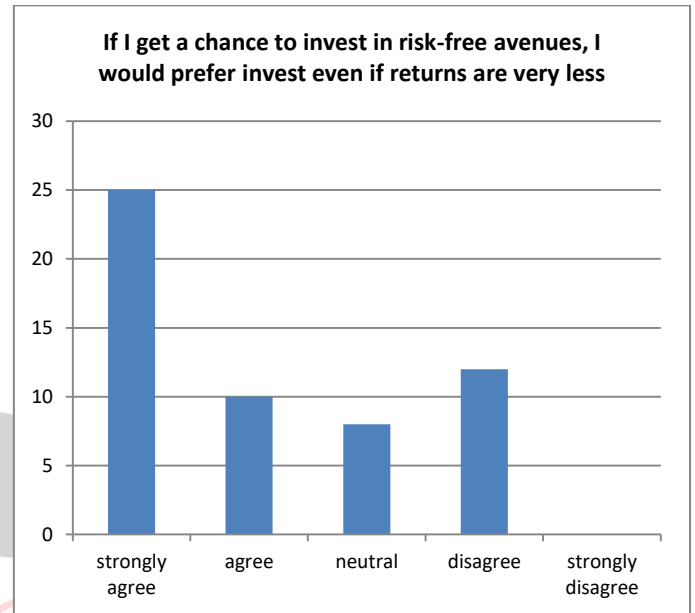
Inference: The first question aimed to find the relationship between investment and future. The result showed that 30 out of 50 participants strongly agreed while 10 of them just agreed, 5 of them showed neutrality and the remaining 5 showed disagreement. There was a strong association noticed between age and decision.

Fig 2: Safety and Security Concerns in investments



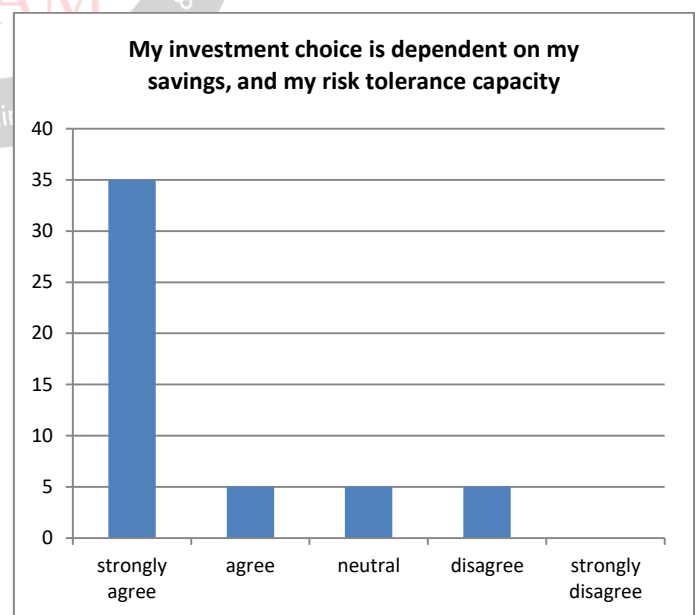
Inference: Since the prime objective of investment is to gain benefit, the investor is normally concerned about the safety and security of their money. The results showed that there were a total of 27 participants who were affirmative while there were 20 participants who even disagreed to this statement. The remaining 3 were neutral about the situation.

Fig 3: Risk and Return Choices



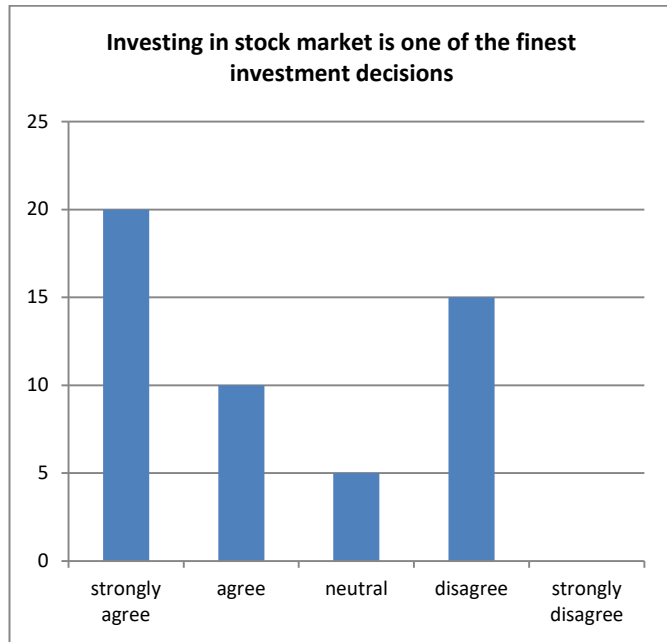
Inference: As it has been observed that the older people tend to invest in risk free avenues, this question aimed to figure out the same. The result showed that there were 25 participants strongly agreeing while 10 of them just agreed. 8 of them were neutral while 12 participants disagreed.

Fig 4: Investment choice



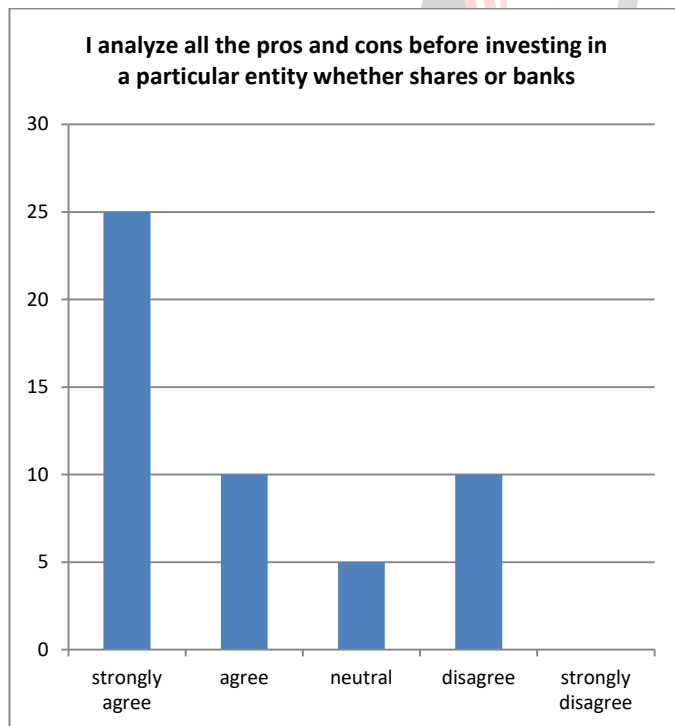
Inference: This question aimed to evaluate the investment choice which is normally dependent on the extent of savings and the risk tolerance capacity. The result showed 35 of them strongly agreed, 5 of them just agreed, 5 of them were neutral while only 5 of them disagreed.

Fig 5: Investment decisions



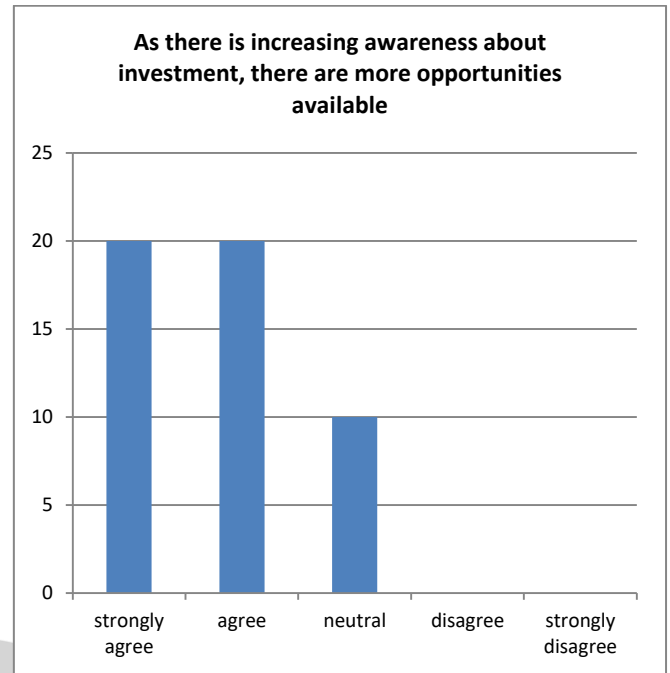
Inference: Since stocks is one of the most commonly used investment, this question aimed to find out the extent to which people prefer stock markets over other investment options. The results showed that 30 out of 50 participants were affirmative while 5 of them were neutral and remaining 15 disagreed.

Fig 6: Analysis of pros & Cons before investment



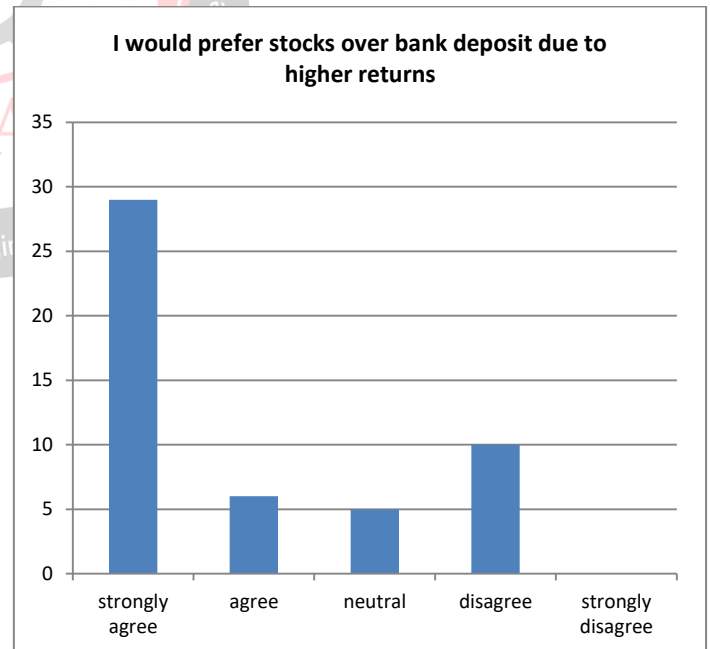
Inference: As investment is a strong decision, it is important to evaluate the pros and cons of investment. The results of this statement showed that there were 25 participants who strongly agreed, 10 of them just agreed, 5 of them were neutral while remaining 10 disagreed.

Fig 7: Awareness about investments



Inference: The statement was related to the increasing investment opportunities available to the people. The results showed that majority of them were on affirmative side as 40 of them agreed while the remaining 10 were neutral. There were no disagreements reflecting that investment opportunities are increasing.

Fig 8: Stocks over bank deposits



Inference: Since there are different types of investment, this question aimed to figure out people’s preferences that is stocks or bank deposits. The result showed that 35 participants agreed, 5 were neutral and 10 disagreed. This clearly reflected that stock markets are highly preferred over bank deposits and fixed returns.

Fig 9: Safety of money and liquidity

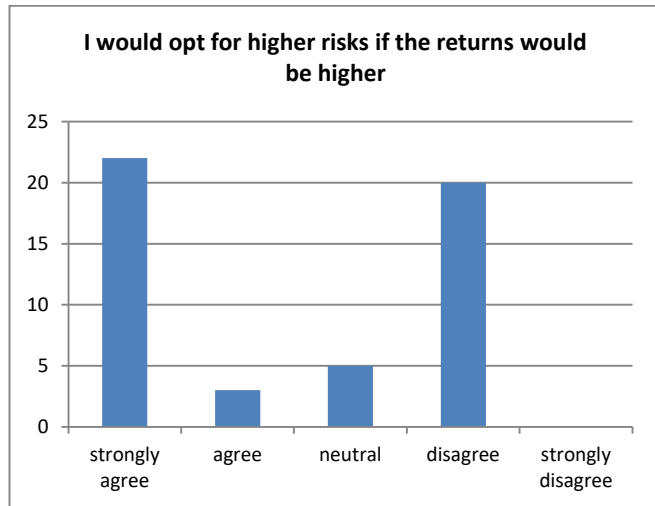
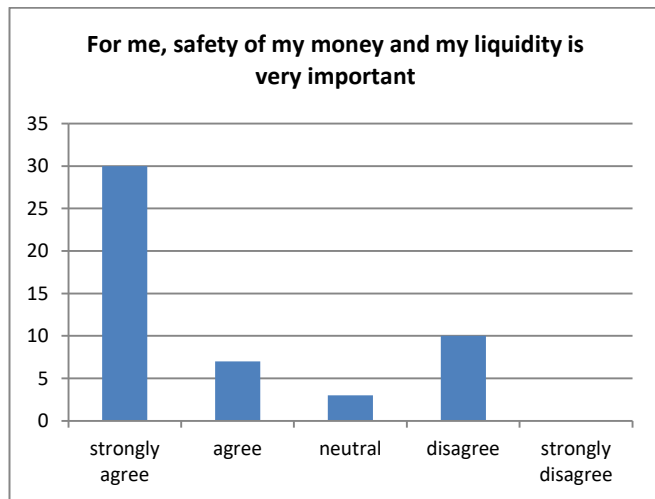


Fig 10: Higher risks and Returns



Inference: Since investors are aiming for higher return, this question tends to figure out if they would opt for higher risks due to higher returns or not. The result showed mixed views. 22 strongly agreed while 3 just agreed and 20 of them disagreed. There were 5 who were neutral about it.

Inference: The last statement was about the safety and liquidity. The result showed that 30 out of 50 participants strongly agreed, 7 just agreed, 3 were neutral while 10 disagreed. As there were both agreements and disagreements, it was observed that majority of them were more concerned about the safety of their money and their liquidity.

VI. FINDINGS

The major findings of the study are as follows:

1. The age and decision of the respondents is closely associated between each other for the future investments.
2. The respondents strongly agree that safety and security is a major concern while investing.
3. The pros and cons of different avenues has to be assessed before any investment choices.

4. The investment decision is dependent on the saving habits and the risk tolerance capacity of the respondents.
5. The respondents believe that greater the risk taken, greater will be the returns on the investments.
6. The respondents would prefer stocks over bank deposit due to the higher returns.
7. It is also found that safety and liquidity is very important in investments.

VII. RESULTS

There were 15 participants who aged between 18-25, 15 participants were 25 to 35 years, 15 were between 35 to 45 years of age while the remaining 5 were 45 years plus. The results showed that the younger population was more interested in investments that would give them higher return in comparison to the people with middle age or elderly. They were more prone towards taking risks due to the fact that higher risks would mean higher returns. In addition to that, the younger population preferred stocks over bank deposits since there were greater speculations.

On the other hand, the other age group was more concerned about their money safety, liquidity and they preferred to play safe rather than taking higher risks. This clearly reflected different perceptions, behaviors and strategies of investments of the investors. The preferences of the investors changed significantly based on their idea of investment and their priorities.

VIII. SUGGESTIONS

The individual investors behavior is dependent on large number of factors. The firms should have investor advisors so that they can give the adequate information to the investors. There also should be an awareness with regard to pricing of stocks, market efficiency and liquidity since safety and security is a major concern among investors. The firms should also focus on the constraints of non investors. The organization can also effectively formulate its policies and assist in investing.

IX. CONCLUSION

The main focus in this study was to understand the different patterns of investment and the behavior of investors. The major finding was that the respondents were much concerned about the safety and liquidity aspects of investments. Out of so many investment options, people preferred stocks in comparison to bank deposits followed by bonds. It can be concluded that there are different strategies of investments and people have different investment behaviors based on their ages, preferences and their risk taking abilities. This study laid emphasis on different investment strategies and behaviors of the individual investors. It can be concluded that there are different avenues preferred by the people depending on their age group. The elderly investor tries to invest in safer options while the younger generation invests in higher risks

due to higher returns and growth perspectives. The survey findings have significant managerial implications which could be applied by the investment companies and would assist them in restructuring their existing practices.

X. FUTURE RESEARCH

Investment decisions plays a vital role in the life of individual investors. Hence there is always a thrust to make right decisions. In the future, there could be a study conducted on evaluating particular relationships between factors and to evaluate the impact of other demographics on the investment priorities.

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APPENDIX

Questionnaire

Age:

- 18-25
- 25-35
- 35-45
- 45+

Gender:

- Male
- Female

Statements	Strongly Agree	Agree	Neutral	Disagree	Strongly disagree
I believe that investment is important for my future					
Safety and security are my major concerns when investing					
If I get a chance to invest in risk-free avenues, I would prefer invest even if returns are very less					
My investment choice is dependent on my savings, and my risk tolerance capacity					
Investing in stock market is one of the finest investment decisions					
I analyze all the pros and cons before investing in a particular entity whether shares or banks					
As there is increasing awareness about investment, there are more opportunities available					
I would prefer stocks over bank deposit due to higher returns					
I would opt for higher risks if the returns would be higher					
For me, safety of my money and my liquidity is very important					