Chapter: 2:

Objectives, Hypothesis and Research Methodology

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2.1: Brief Review:

The inter-linkages and implications of savings on capital formation and on national development are well established. However, the middle class investor's savings behaviour, motives and portfolio preferences, are still little understood. Why some middle class investors are able to save more than others and what determines the nature and composition of an investor's portfolio have remained unanswered and unsettled. There are indications that the per capita growth in income is one of the most important determinants of private and public savings. Similarly, the degree of financial development of a nation is also an important factor in determining the willingness and magnitude of private savings at the macro level. Some studies have indicated that the motivation for savings depends on which stage in life the individual middle class investor stands and each motivation is realized through a special form of savings. There are also studies that have demonstrated that the saving behaviour of the rich households cannot be understood satisfactorily. Thus they indicate that there are other dominant factors which moderate the middle class investors desire and propensity to save and invest. This has prompted many to suggest that the saving behaviour and investment needs, are a cultural phenomenon.

Rapid and radical changes are taking place in the Indian, economic, social and family environments. These changes place additional unforeseen pressures on very individual and family. The
changes in lifestyle call for different and innovative approaches to cater to the dynamics of modern life.

Some have promoted the idea that the saving behaviour and investment needs are a function of psychological factors. Individuals and societies faced with uncertainties are likely to be saving a greater proportion of their disposable income, than those who reside in a more stable socio-economic environment. Thus a number of studies have been undertaken to study the impact of the uncertainties faced by the middle class on their saving behaviour. The savings led by uncertainties are called as precautionary savings. There has been evidence that middle class investors engage on precautionary savings. In the Indian context, it is well established that the household savings are a dominant factor of the total savings of the country. The bank deposits have declined over time, they still continue to be the largest proportion. It is also evident that there has been an increase in the investment in risky securities. A Securities Exchange Board of India (SEBI) sponsored survey conducted by the National Council of Applied Economic Research, has established that the demographics of household influence their investment preferences and that the income is a major determinant of savings in India (NCAER, 2000).

The Investors should determine the objectives and considerations associated with the Investing activity before making investments. “Desire to accumulate Wealth” is the primary objective of all persons who make investments. However the objectives in
investing differs from person to person, depending on the size of population income and age group. Some investors expect income from amount invested in the form of cash returns on a regular basis, while the others may desire an increase in the capital invested i.e. capital gains, which is achieved whenever an investment is sold above its purchase price. Income received on the amount invested and capital gains become very important for investors while determining their investment goals. While income received provides funds for current consumption, capital gains are used to acquire and purchase wealth for the future. This requires maintaining a trade-off situation between the objectives of income and capital gains.

If an investor depends for his livelihood on income received on investment then it satisfies the current needs. A newly married couple may be interested in making capital gains for meeting future needs. Thus the investor has to take a decision whether to go for regular returns of income or capital gains.

Investment is the sacrifice of a certain present value, for an uncertain future reward. It entails arriving at numerous decisions like amount, type, grade and mix of investment and disinvestments. Such decision-making is continuous and rational and hence, an investment decision is a trade off between risk and return.

The time span, risk and reward considerations are the characteristics, which make investing very much different from speculating and gambling. Generally investors are not excited by
quick profit, nor are they frustrated by a sharp decline in share prices. Patience is a necessary quality for investors. Investing is balancing of potential risks and rewards at a moderate level.

2.2: Objectives of the study:

The overall objective of the study is to understand the saving habits and the saving growth rate among the middle classes in Pune district.

The main objectives of the study are to know about the safety, profitability and liquidity aspect of investment. In addition to the above, the objectives of the study are as follows:

a) To know how much money the investor can afford to invest.
b) To find out how long a period of time the investment is to be made.
c) To observe how much risk the investor is prepared to take, if the investment makes a loss.
d) To assess whether the investor is looking primarily for income or for growth in the capital values.
e) To find out the investors personal tax position.
f) To examine how much responsibility the investor wants to take for the day-to-day decisions concerning the selection of investments, the reinvestment of income and the switching between different investments.

Let us now consider why these objectives are important.
2.2.1: Safety:

The first, main objective of the study is to know about the safety of investment. Safety of investment is a vital factor, especially for low and fixed income persons, pensioners and other retired employees. Safety depends on the nature of securities and investment taking institutions. For instance, investment in government securities, bank deposits, post office schemes and life insurance schemes are generally very safe. The safety factor in case of investment in units is relative and depends on the stock market fluctuations, whereas the safety in shares of listed companies is comparatively less.

2.2.2: Liquidity:

The second, main objective of the study is to assess the liquidity of investment. The objective of the study is to find out which type of investment is more liquid or less. A liquid investment means, which is convertible into cash without difficulty, delay and entails no financial loss. The object of the study is to find out whether deposits in banks or post office deposits are more liquid. Investments in property, fixed long-term investments are liquid or not liquid, investments in company shares are liquid or not. It is also necessary to assess the timing of encashment of investments.
2.2.3: Profitability:

The third, main objective of the study is to know about the profitability of investment. The object of the study is to know about the regularity or periodicity of the expected returns, whether the return is gross return or return after tax? The object of the study is also to determine the technique of calculation of returns. Whether the returns are calculated on the lines of simple interest, compound interest or discounted cash flow technique.

2.2.4: Risk:

Another objective of investing is to know about the risk involved in the investment schemes. The object of the study is to know whether the investors are ready to take the risk or not. Risk is the measure of uncertainty present in all types of investment. If returns on securities are highly variable they can attract investors motivating them. All investors should try to avoid risk, as risk avoidance is a useful principal in all investment decisions.

2.2.5: Protection against inflation:

To know the protection against inflation is another objective of the study. Rising inflation has greatly influenced the thinking of investors. Persons with fixed incomes suffer a lot due to escalating prices as the cost of living increases with it. The object of the study is
to observe the changes or fluctuations in the face value of investment due to the inflation.

2.2.6: Other objectives and reasons of the study:

There are different objectives other than the above that should be carefully considered while making an investment.

a) Ready marketability of investment provides the much needed liquidity dimension of investments. If you cannot find the buyers readily, you will not be able to realize your money back as and when you want it.

b) In certain kinds of investment, the investors have to put the entire money in lump sum at the very first stage. While in it other investments investors can invest in installments. Hence the quantum of initial amount is a very important factor to be considered.

c) Some investments are entitled to tax benefits. The total amount of investments may be deductible from taxable income or the interest and dividend may be tax –free. Some investments are exempt from wealth tax, gift tax and estate duty. These tax benefits should be carefully examined in depth.

d) Certain types of investments can be pledged to raise loans whenever money is needed. This factor acquires importance especially in times of financial emergency.
e) Savings are very essential and useful at the later stages of life. If you are relatively young you can afford to experiment. Even if you lose money it will not affect you in the long run. A person nearing his retirement age has to plan for a peaceful and comfortable life after retirement. He wants more safety and liquidity with modest returns. Proper saving in investment schemes gives a regular monthly income after retirement.

f) One of the reasons for saving is to provide funds for children education and advanced studies. Similarly to provide funds at the time of the marriages of the children.

g) Your past experience if any, can be an excellent source while investing. Many people learn bitter lessons in share speculation, in chit funds etc. One should never ignore the past, otherwise history could repeat itself. The investors should be extra-careful while investing.

h) At one stage of time, agricultural land was a good investment and urban real estate was also good. But today with land ceilings and other legislation social conditions have changed. Jewellery has become rather out of fashion and further it has become a risk for ladies to wear jewellery and go out. Now days, in villages there are many rural banks operating. Thus with these changing social conditions the investment patterns are also constantly changing.
2.3: Hypothesis of the study:

The researcher has formulated the following hypothesis for the purpose of the study undertaken:

"The savings habits among the middle classes and the saving growth rates are highly progressive on account of different encouraging investment proposals and various schemes of the Government."

The main purpose of the study is bringing to light the aggregate estimates of savings and investment of Pune district. The coverage of the study is to know which are the different savings schemes that are adopted by the individuals in Pune District.

The study also seeks to examine the relationship between saving and income and other related aggregates affecting the different saving schemes.

An attempt is also made to appraise the saving pattern in Pune District and indicate broadly the trend in the volume and composition of saving. It may be mentioned that an effort has been made to derive as reliable a series of saving and investment as possible from the available information.

At present, there are different investment proposals and schemes of the Government, available to the investors for saving. The purpose of the study is to find out whether the saving growth is progressive or not in the Pune District. Majority of the salary earners invest their savings in the different investment proposals with a view to save tax on
total income. However the other members of the society does not show their keen interest in savings. They are well known and aware about the different savings schemes. But due to lack of saving habit the overall saving growth will affect. Some of the reasons for low rate of savings in India are as follows:

a) The population of India has been rising at a rapid rate and consequently the larger portion of the income is spent on consumption and there is a very little left for saving and so the rate of saving is not progressive.

b) The unemployment in urban and rural sector of India has been rising at a rapid rate and due to less earning members in a family; the saving rate is not progressive.

c) Because of the failure of our five years plan, many shortfalls occur in different sectors of the economy-in agriculture, industry and services. The production and progress has been far behind the targets. As a result of this there has been a very low increase in the national income. Since savings depends on the level of income it was natural that the rate of investment was also low.
2.4: Methodology:

For the purpose of study, it was found that the data at hand was inadequate and hence, it became necessary to collect the data that was appropriate. Most people like to be asked what their opinions are about their expectations and preferences or about their past experiences on the different savings schemes, especially if they find a good and interested listener. This is not so in case of questions about amount earned and saved. A good number of people do not like to disclose such data. Therefore, it was found to better to intersperse questions about saving habit and attitude a questionnaire was framed.

The present research depends on primary and secondary data. Therefore for the purpose of proving the hypothesis, an exhaustive extension of primary data based on an effective questionnaire survey has been used. Further considerable secondary data that was relevant, up to date and authentic has been used.

2.4.1: Primary Data:

The researcher has collected the primary data through a survey of information and data, by preparing a questionnaire for the investors and depositors. This questionnaire contains in all thirty-five questions. The questionnaire was circulated among the different investors and depositors of Pune City, Haveli Taluka and other 12 Taluka of Pune District. All the respondents have shown keen interest in the topic taken for the study.
In rural areas, the data and information was collected through personal interviews. Interview schedule and questionnaire and participant observations are the main methods used for the collection of primary data. Similarly the primary data was collected from the Government officials and policy makers of the different savings schemes, through personal interviews and by the study of the different savings schemes available at present. The study is self-exploratory in nature and its findings may not be conclusive.

2.4.2: Secondary Data:

Along with the primary data the researcher has collected the data and information from the Government offices, LIC, UTI, Banks and other financial institutions. In Pune city, “Investors Forum” a private organization is working with a view of solving the problems and grievances of investors. The necessary data was also provided by the organization. The researcher has collected the secondary data and information through the various published magazines, journals and articles published in the newspapers, documents of the government and non-government institutions, books and references available in the library of BMCC, statistical data available in Gokhale Institute of Economics and Political Science and Office of Economic and Statistical Department of Government of Maharashtra. The following are the different sources from which the secondary data was collected:

i) Small Savings Department, Collector office, Pune District.
ii) LIC Regional Office, Pune Division

iii) UTI, Regional Office, Pune Division.

iv) HDFC, Pune Division.

v) Nationalized and Co-operative Sector Banks in Pune City.

vi) Other Financial Institutions in Pune City.

vii) Brokers, Private Moneylenders etc.

viii) R.B.I. Bulletins published by R.B.I.

ix) Data available in published government magazines, private magazines and journals.

x) Head office of Economic and statistical department, Government of Maharashtra, Pune District.

xi) Gokhale Institute of Economics and Political Sciences, Pune.

xii) Agricultural Banking College, R.B.I., Pune.

Summary: The more important points that were discussed in this chapter are the objectives of the study, the hypothesis of the study, the research methodology of study and the primary and secondary data related to the study.