CHAPTER VII

FINDINGS, THEORITICAL LINKAGE, TESTING OF HYPOTHESIS, AND SUGGESTIONS

7.1 Introduction:

Modern economy is monetary economy. Money has medium of exchange to deal with household and firm is called two sector model of circular flow of income. Some economists argued that saving is a leakage in two sector circular flow of income. Because household and firms save their money, it cannot be used in economy. Economy may not be always on steady position. Economists have proved that saving and investment is brought in the economy through financial system. Financial system consists of financial institutions, financial markets, financial instruments and financial services. Indian financial system plays a vital role for how savings of the household are utilized to run the economy properly. Therefore, savings is not a leakage but stimulate to economy going path on prosperity. India’s Gross Domestic Savings rates have been continuously increased since 1990. In 2009, India’s savings rate was 33.8 percent of GDP which is higher than United States (11.4 percent), United Kingdom (11.2 percent), France (17 percent), Germany (21.4 percent), and Japan (20.7 percent) and lower than China (52.1 percent), Malaysia (36 percent) and Singapore (47 percent). All over the world, one thing should be noted that the savings rates of India and China have been consistently raised during 2000 to 2007. China’s savings rate has been increased by virtue of corporate improvement, migration of labour, youth dependency and savings habit of households.

Therefore, savings habit of household is crucial factor which helps to increase country’s savings rate. The savings habit of households may be different country-wise or state-wise. In this connection, India’s savings is determined by household, public and private sector. India’s household sector has been contributing more in GDS (Gross Domestic Savings) than public and private sector from beginning to current. The public sector savings rate declined by 5 percent in 1980 and it became negative in 1990. After long time, it became positive in 2004 and augmented to 5 percent in
2007-08. It is observed that total household savings rate increased consistently during 1970 to 2000.

The savings of the household are done in the savings accounts, fixed deposits in bank, provident fund, post office, share market, government bonds, mutual funds, life insurance and real estate. It is also called financial assets of the household. If we look at the current position of the financial assets of household, the bank deposits are important instruments of savings which indicates largest proportion in financial assets than other since long time. The share of life Insurance fund is also increased from 9 percent to 17.4 percent during 1970 to 2000. Initially, the provident and pension fund was increased but later it has decreased consistently in every decade and finally it was recorded 10.3 percent during 2005 to 2011. After the development of capital market and adoption of latest IT based technology, the investments in shares and debentures increased largely during 2005 to 2008.

The study has used the univariate time series data of financial savings for the period of 1951 to 2007. The data is tested for stationary. And result showed that there is no unit root i.e. there is no autocorrelation, with first difference or de-trend would generate the stationarity.

7.2 Preferences to Financial Investment by Salaried and Self-employed Investors

1. The salaried investors gave preference to low risk investment avenues by (47.85 percent), high risk investment avenues (6.42 percent), moderate risk investment avenues (33.57 percent) and traditional risk investment avenues (12.14 percent).

2. The self-employed investors revealed preference to low risk investment avenues by (4.2 percent), high risk investment avenues (17.64 percent), moderate risk investment avenues (14.7 percent) and traditional risk investment avenues (63.45 percent).

3. The salaried investors gave preference to saving account and bank deposits by (63.57 percent), equity share market (91.42 percent), life insurance plus bond (37.14 percent) and gold (40.71 percent).
4. The self-employed investors gave preference to saving account and bank deposits (94.54 percent), equity share and commodity market (49.16 percent), life insurance (82.77 percent) and real estate (43.7 percent).

5. It is observed that preference to low risk investment avenues are given by the (56.66 percent) employees of Zilla Parishad from salaried investors and (6 percent) engineers in the categories of self-employed investors. These respondents do not want to take risk for investment, instead of that, they preferred investment in securities.

6. 38 percent of professor investors in the category of salaried investors and 2.82 percent of commercial respondents from self-employed investors invest very less amount of money in low risk investment avenues. These investors prefer other investment avenues.

7. The preference to high risk investment avenues is given by (14 percent) professor investors in the categories of salaried investors and (19.72 percent) commercial respondents from self-employed investors. These investors accept more risk and they are aware about the risky investment avenues available in the economy.

8. The commercial investors invest mostly in commodity market. The professors are highly educated respondents among the salaried investors so, they are aware about the risky investment avenues.

9. There is no preference to High risk investment avenues by the Zilla Parishad respondents and engineers from self-employed investors. 36.66 percent of the respondents from Zilla Parishad and (25.81 percent) lawyers gave more preference to moderate risk investment avenues in which comprises life insurance, debentures, bond and Mutual Funds.

10. It is observed that these respondents’ risk level is fairly about to investment. The professor investors (32 percent) and commercial respondents (2.82 percent) gave low preference to moderate risk investment avenues.

11. The professor investors (16 percent) and commercial respondents (74.65 percent) gave high preference to traditional risk investment avenues. Most of the commercial investors found in the business of real estate, also involved in
gold/silver business. The real estate, chit fund and gold/silver are considered in the traditional risk investment avenues.

7.3 Age and Income-wise preference to financial Investment Avenues:

1) It is observed from the data, the preference to moderate risk investment avenues is given by the respondents of Collector Office, Zilla Parishad and Municipal Corporation belong to the age group of (between 41 to 45) and in the income group of 600001 to 800000.

2) The preference to high risk investment avenues is given by the professor respondents in the category of salaried group belong to the age group (between 36-40). The professors are risk taker investors among in the salaried investors.

3) The preference to low risk investment is given by all salaried investors belong to the age group of (46-50) and above 50. It is also concluded that higher income salaried investors give preference to low risk investment avenues.

4) The self-employed investors give preference to high risk investment avenues that are belong to the age group of (36 to 40). The preference to traditional investment avenues is given by the self-employed investors belong to the age group of (46 to 50) and above 50. Hence, it must be noted that low income self-employed investors have invested their money in high risk investment avenues. But, high income self-employed investors invest their money in traditional investment avenues.

7.4 Sector-wise Investment Preference:

1) The preference to public sector for investment is given by the (53.33 percent) respondents of Municipal Corporation. The preference to private sector for investment is given by the (30 percent) respondents of Collector Office and (30 percent) professor investors in the category of salaried investors.

2) The investment in private sector is done by doctors (29.09 percent). There is no investment in foreign sectors by doctors, engineers and commercial except, lawyer respondents in the category of self-employed investors.
The percentage of preference to private and co-operative sector is the highest (61.97 percent) by the employees of commercial respondents and the lowest (42 percent) by the employees of engineer respondents.

7.5 Saving, Investment Objectives and Purpose behind Investment:

1) The purpose behind investment of salaried people is highest for tax saving and earn return. The employees of Municipal Corporation (53.33 percent) and Zilla Parishad (56.66 percent) give preference to wealth creation as a purpose for investment.

2) The self-employed investors give preference to wealth creation, future expenses and earn return as a purpose behind investment.

3) 32.86 percent of the salaried investors’ have home purchase, children’s education and their marriage and healthcare as objectives for savings. Most of the respondents were from employees of Collector Office and Zilla Parishad.

4) It must be noted that saving objectives of self-employed investors were similar to salaried investors. The income and capital preservation, short term and long term growth are investment objectives of respondents from Collector Office in the salaried category.

5) The long term growth and income is investment objective of the respondents from doctors and lawyers in the self-employed category.

6) Almost 75 percent investors in the salaried category take the investment decision with the help of advisers, family and friends, some of them get the knowledge from newspaper and financial planners. The news channels, financial planners and magazines, newspaper are the source of investment advice for self-employed investors.

7.6 Behavioural Approach of Investors:

The new emerging term of behavioural finance has proved that some social and psychological factors influence the investors while taking decision on financial investment avenues by investors. Some important psychological factors like risk attitude, risk tolerance level, saving and investment objectives and heuritsts are analysed in the study that brought out by primary data. Some personal factors such as investment alternatives, recommendations from family and peers, recommendations
of brokers and financial advisers and sources of information are investigated in this research taking samples from scattered investors. The Behavioural approach is not only concerned with behavioural bias but also there may be social and psychological factors which mostly affect the preferences of investors for investment avenues. The behavioural approach is determined based on the choices, preference to investment avenue by investors, what type of risk they would like to take (Low, High, Moderate and Traditional), In which sector investors give preference, investors’ saving objectives, investment objectives, age and income wise risk level.

**Herding:** Herding, an important factor, is found in the behavior of investors while taking decisions of investment. Generally, it is said that this type of behavior is done by animals. The investors do not have self-confidence, own thoughts and knowledge while choosing investment avenues. Man is the social animal. Whatever happens in the society, man tries to behave like how others behave in the society. Similarly, in this connection, investors also copy other investors’ behavior before investing their money in financial avenues. In this study it is found that salaried and self-employed investors are influenced by herding.

**Imitations:** This is also a social factor which affects investor’s decision making. Herding and Imitation are almost same concept but in imitations, other investors contained information is taken from friends, family members and peer groups. Impact of imitation is appeared in the behavior of salaried and self-employed investors.

**Heuristics:** It is the method for solving the question on the basis of previous knowledge. Investor has number of investment avenues that are available to choose and invest his money in it but it is not possible to decide which one is better. In such a situation investor’s decision is based on heuristics for solving the complex investment avenues. Such type of bias found in salaried and self-employed investors in present study.

**Representativeness:** If investor is very familiar with a particular investment avenue. Certainly, he believes insuch investment and does not invest in unknown investment avenues. Investors choose those investment avenues that always got high growth while taking decision of investment avenues.
7.7 Hypothesis Testing:

1) The person who gets high income salary, always give preference to risky investment avenues.

**Result:** This hypothesis is rejected, high income salaried group give preference to investments with low risk avenues and self-employed group give preference to traditional investment instruments but not to highly risky investment instruments.

2) The importance of traditional investment is getting reduced.

**Result:** This hypothesis is rejected, traditional investment is observed to be increasing, especially, the investment in real sector is very popular among other investment avenues.

3) The investment instruments with high risk give more gains but it involves risk.

**Result:** This hypothesis is accepted, lots of profits are being taken from high risk investment avenues but risk is unavoidable.

4) The young investors give more preference to investment instruments with high risk compare to senior citizens; who prefer secure investments.

**Result:** This hypothesis is accepted, it is observed that young generation (Age group 30 to 45) give more preference to investment instruments with high risk compare to senior citizen.

**Results of Testing:**

- It is found that there is no association between salaried and their preference to financial investment. The null hypothesis is accepted, alternative hypothesis is rejected, and P-value is (0.2330) which is insignificant with 5 percent level.

- It is found that there is association between self-employed employees and their preference to financial investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.06) which is significant at 10 percent level.
• It is inferred that there is association between salaried people and their preference to low risk investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is found that there is no association between salaried and their preference to high risk investment avenues. The null hypothesis is accepted, alternative hypothesis is rejected, P-value is (0.1230) which is insignificant with 5 percent level.

• It is inferred that there is association between salaried people and their preference to moderate risk investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is inferred that there is association between salaried people and their preference to Traditional risk investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is inferred that there is association between salaried people and sectorwise preference to investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.02) which is significant at 5 percent level.

• It is inferred that there is association between salaried people and their investment decision. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is found that the association between self-employed employees and their sector-wise preference to financial investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.03) which is significant at 5 percent level. There is association between self-employed employees and their sector wise preference to financial investment avenues.
• It is found that the association between self-employed and investment decision. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.02) which is significant at 5 percent level.

• It is inferred that there is association between salaried people and before investment factors. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is found that there is no association between self-employed investors and their investment decision. The null hypothesis is accepted, alternative hypothesis is rejected, P-value is (0.405) which is insignificant with 5 percent level.

• It is inferred that there is association between salaried people and purpose behind investment. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.005) which is significant at 5 percent level.

• It is analysed that there is no association between self-employment and purpose behind investment. The null hypothesis is accepted and alternative hypothesis is rejected. Therefore, P-value is (0.81) which is insignificant with 5 percent level.

• It is inferred that there is association between salaried people and Source wise preference to investment avenues. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

• It is noticed that there is association between self-employed and source of investment advice. The null hypothesis is rejected, alternative hypothesis is accepted, The p-value is (0.004) which is significant with 5 percent level.

• It is noticed that there is association between salaried investors and Invested percentage in each year. The null hypothesis is rejected, alternative hypothesis is accepted, The p-value is (0.04) which is significant with 5 percent level.

• It is found that there is no association between self-employed and their monitoring on investment. The null hypothesis is accepted, alternative
hypothesis is rejected, P-value is (0.730) which is insignificant with 5 percent level.

- It is observed that the association between self-employed and their saving objectives. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.000) which is significant at 5 percent level.

- It is found that there so association between investment objective and self-employed. The null hypothesis is accepted and alternative hypothesis is rejected, therefore P-value is (0.66) which is insignificant in 5 percent level.

- It is inferred that there is association between salaried people and their investment decision. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level.

- It is inferred that there is association between salaried people and their investment objective. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.07) which is significant at 10 percent level.

- It is found that the association between age group and preference to financial investment avenues by respondents of Collector Office. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.00) which is significant at 5 percent level. So, there is association between age group and preference to financial investment by respondents of Collector Office.

- It is found that the association between income group and preference to financial investment avenues by respondents of Collector Office. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between income group and preference to financial investment avenues by respondents of Collector Office.

- It is understood that the association between age group and preference to financial investment avenues by respondents of Zilla Parishad. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.00) which is significant at 5 percent level.
- It is understood that the association between Income group and preference to financial investment avenues by respondents of Zilla Parishad. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.03) which is significant at 5 percent level.

- It is understood that the association between Income group and preference to financial investment avenues by respondents of Municipal Corporation. The null hypothesis is rejected and alternative hypothesis is accepted, therefore P-value is (0.00) which is significant at 5 percent level.

- It is found that the association between Income group and preference to financial investment avenues by respondents of Municipal Corporation. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between income group and preference to financial investment avenues by respondents of Collector Office.

- It is found that the association between Income group and preference to financial investment avenues by respondents of Collector Office. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between income group and preference to financial investment avenues by respondents of Collector Office.

- It is found that the association between Income group and preference to financial investment avenues by professor respondents. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between Income group and preference to financial investment avenues by professor respondent.

- It is found that the association between age group and preference to financial investment avenues by self-employed respondents. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between Age group and preference to financial investment avenues by self-employed respondents.
It is found that the association between income group and preference to financial investment avenues by self-employed respondents. The null hypothesis is rejected and alternative hypothesis is accepted. Therefore, P-value is (0.00) which is significant at 5 percent level. So, there is association between Income group and preference to financial investment avenues by self-employed respondents.

7.8 Theoretical Linkage:
James Tobin, modern economist, has written an article on “Liquidity Preference as Behaviour towards Risk” in the volume of Review Economic Studies on 25th Feb 1958. This theory is known as risk aversion theory or Tobin’s Portfolio Selection Model. According to Tobin, Everyone prefers excess wealth than less wealth. People do not consider expected rate of interest, they consider their attitude towards risk while taking decision of investment. Generally, three types of investors found in an economy. Firstly, investor who wishes to keep his money in risky investment avenues means, he is a risk taker and prefer to invest in share market, commodity market and forex market. Secondly, investor who is non-risky, does investment in provident fund, National Saving Certificates, fixed deposit and life insurance. Thirdly, such types of investors who sometimes invest in risky investment avenues or sometimes investment invest in non-risky investment avenues. According to Keynes, people invest their money on the basis of interest rate of avenues. But Modern economist highlighted that preference to investment by people is depending upon their attitude towards risk. It is called risk perception level. Previous studies of behavioural approaches have explained personal, demographic, social and psychological factors influencing decisions of investment. Therefore, this study also focused to keep together all these above factors in consideration.

7.9 Suggestions:
1) Looking at the data on India’s financial assets with households, it is observed that only bank deposits and life insurance are showing the highest contribution in it. Therefore, for increasing savings rate, households must have the knowledge of other investment avenues. All the groups in the society need to be motivated to invest their money in share market, commodity market and mutual funds.
2) There are many investment avenues available in India. The households must get the knowledge about it and also be able to verify the pros and cons of investment avenues. Then, considering our capacity to invest, we should choose investment avenues. Thus, households should be aware of frauds and scams in investment avenues.

3) There is need of financial literacy not only to illiterates but also for educated. The financial literacy must be part of school curriculum so as to spread the knowledge about financial investments. It is suggested that investors should make use of diversification strategy for investment. It means that investors must keep varying amount in all types of investment avenues so that one can overcome on risk.

4) The preference to investment avenues should be determined on the basis of saving and investment objectives of investors.

5) The investors should consider economic factors which might affect the returns from investment avenues. The factors include Indian budget, monetary and fiscal policy, agricultural, industrial and service sector growth rates, inflation and business cycles.

6) The Ministry of Human Resource Development (MHRD) should take the lead role in ensuring inclusion of financial literacy contents in school curriculum across India through coordination with various boards, ministries and state governments.

7) The investors should understand the concept of circular flow of income with saving and investment, by this, it will be figured out the role of saving in national income.

8) The investors should read previous studies of behavioural finance.

9) The investors should identify the proper source of information for selecting investment avenues.

10) The investors should get knowledge of new emerging investment avenues and try to invest some amount of money in these investment avenues.
7.10 Conclusion:

This study concludes that the savings and investment habits of the Salaried and Self-employed investors are depends on attitude towards risk, some social, psychological, demographic and personal factors. Herding, Imitations, Heuristics and Representativeness factors are more influence while taking decision of savings and investment by salaried and self-employed investors. This study is also noted that financial illiteracy still present in the educated investors. Nobody is interested to invest in commodity market except commercial investors. Young generation is giving more preference to risky investment avenues rather than traditional investment avenues. Investors are known about the various types of investment avenues but they do not have proper information how to invest and where to invest.

7.11 Future Scope of this Study:

The present study is analysed the behavioural approach of Investors about the financial investment avenues in Nanded city. However, following areas are identified for further study.

- This study can be extended to all cities in the states
- Investors behavioural approach may be analysed a particular physical investment avenues.
- Investors behavioural approach can be explained with the comparison of Urban and Rural household.
- A comparative study of Risky and Non risky investment avenues
- It can be analysed the growth and importance of the particular investment avenues in an economy.