CHAPTER - 1

INTRODUCTION
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1.1 Introduction

Investment means the purchase by an individual of a financial or real asset that produces a return proportion to the risk assumed over some future investment period. Many individuals find investments fascinating because they can participate in the decision making process and see the results of their choices. Not all investments will be profitable, as investors will not always make the correct investment decisions over the period of years; however, one should earn a positive return on a diversified portfolio. In addition, there is the thrill of the major success, along with the agony associated with the stock that dramatically rose after one has sold or did not buy.

Continuous ups and downs of stock markets, rise and fall in inflation rates, volatility of interest rates, and emerging patterns of shift from fixed returns investment products to variable returns investment options have made the decision making process much more complex and difficult for ordinary Indians who are experts in their own fields but not in finance saving.

Until the decade of the 1990s, most of the middle class Indians were paying little attention to managing personal finance during their working life span and only at the time of retirement they would consult their well wishers or advisors about some deposit schemes with banks or post office or companies which would ensure them regular monthly or quarterly returns. With the advent of the new millennium, needs have multiplied and changed and so have the solutions. The importance of correct advice at the right time is being appreciated and an average Indian is trying to remain abreast of the developments in finance markets so as to manage his “personal finance” efficiently.

Today, because of rising inflation, the purchasing power of money is decreasing at an accelerated pace. Earnings and savings are no longer enough to provide for the future. In order to maintain the standard of living, finance has to be actively managed.
1.1.1. Investment

Investment is the deployment of savings with the intention of maintaining or increasing its value or earning an income.

An individual investor normally has three types of financial investments:

i) Liquid investments such as Savings Account, etc.
ii) Liquid funds - regular income investments that are Fixed Deposits, Bonds, Debentures, etc.
iii) Growth Investments like equity based mutual funds, residential house property, gold, etc.

A proper balance among these three categories is needed so that wealth grows to meet the various requirements. Investor decides whether he wants to invest his savings to appreciate in value or to get a regular income or a combination of both. For achieving this, he has to decide on how and where to deploy his savings so that his future requirements for money can best be met. Many types of investment media or channels are available for making investments. Some media are simple and direct, whereas others are complex necessitating detailed analysis and investigation.

1.1.2. Trends of Household Savings in India

In Indian men used to deposit their savings in banks or buy government bonds and Indian women used to keep their small savings from household expenditure either at the bottom of their old steel trunk or buy jewellery. The more enterprising ones used to invest in land and the rare ones in equity shares. The liberalization of Indian economy opened up several new investment opportunities and the growing disposable income made Indians less averse to risk. Indians put their money in stock markets and in new investment tools like chit funds and plantations, but burnt their fingers. There is another set of Indians who made good money in booming stock markets, especially during the rally over the last four years. There is yet another group of Indian investors who learnt to trust the wisdom of fund managers at mutual funds. A small group of Indians invested in life insurance policies for protection as well as long term wealth.

1 Outlook Money, 15th July, 2007 p.99
creation. The big question is what percentage of Indian population has really started using such new age investment avenues. Max New York Life – NCAER Indian financial protection survey revealed that 56 percent of Indian households prefer to invest in bank deposits and 31 percent keep their money at home. Another 8 percent deposit their money in post office, and co-operative societies, just 2 percent invest in life insurance policies, and 3 percent invest in other instruments like bonds, mutual funds and equity. The choice on instruments used to save became even more surprising; those savings are for long-term planned events and therefore do not need liquidity. 83 percent of Indians save for emergencies, 81 percent for children’s education, 69 percent for old age, and another 63 percent for social ceremonies such as child birth, marriage etc. This study clearly points out that Indians save but do not save wisely. Their objective for saving and the choice of instruments are not matched. Short term instruments are used for long term savings with poorer yields ostensibly due to liquidity.

This study clearly points out that there is a lack of understanding of financial management and planning. The Indian households do not have a clear view of the investment opportunities available in the market and how to build a balanced portfolio of investments keeping the financial needs and risk taking ability in mind. The basic principles of savings are – start early, save a minimum percentage of income before spending, identify the financial needs, build the investment portfolio to meet the financial needs at different states of life and review the investment portfolio periodically to remodel it to meet the changed needs.

1.2. Savings and Investment

Investment is the employment of funds with the aim of achieving additional income or growth in value. Investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets may range from safe investments to risky investments.

Savings are excess of income over expenditure for any economic unit. Thus, \( S = Y - E \) where \( S \) is savings, \( Y \) is income and \( E \) is expenditure. Excess funds or surplus

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2 Preeti Singh, Investment Management, Himalaya Publishing House p.1
in profits or capital gains are also available for investment. Thus, \( S = W_2 - W_1 \) where \( W_1 \) is wealth in period 1 and \( W_2 \) is wealth in period 2 and the difference between them is capital gains or losses. Investment is also made by many companies and individuals by borrowing from others. Thus the corporate sectors and government sectors are always net borrowers, as they invest more than their savings. Thus, \( S = B - L \) where \( B \) is borrowings and \( L \) is lending.

Investments have become a basic necessity for everyone. Each investor has different objectives that need to be met depending on age, income, and attitude towards risk. Investors have to work out their investment profile to determine which investments are right for them and should consider important factors such as personal status, plans, and constraints. To achieve progress and maintain the status quo in the ever-changing scenario of the present day world, it is important to raise the income level adapting some mode of saving or the other.

1.3. Tax Planning

Tax planning is an arrangement of one’s tax affairs in such a way that without violating any legal provision, full advantage is taken of all exemptions, deductions, concessions, rebates, allowances and other reliefs or benefits permitted under the income tax act so that the burden of taxation on assessee is eliminated or reduced. Proper tax planning will help improve the efficiency of investments. Tax planning is an important part of investment planning. While selecting an investment option, care has to be taken that investment should not result in increase in taxable income. Two things affect return on any investment: inflation and tax. Returns on any investment should be taken into account after assuming the effect of these factors.

1.4. Importance of the Study

This study is concerned with the evaluation of individual finance that is savings and investment practices of salaried class investors. The study will help the individuals concerned, i.e. salaried class, to plan savings and investments towards maximizing the returns. The in-depth analysis of the behavioural pattern of the investors would help the government to work out various schemes to mobilize finance.

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\(^4\textit{Journal of Organization Management},\text{ October-December, 2006.}\)
from the salaried class investors by bringing out tax saving schemes, retirement benefit schemes, etc. The study assumes significance in the light of the fact that very few research works are available on investment decision process of investors in India. While majority of the studies concentrate on behaviour towards equity share process, studies on the investors’ attributes are small in number.

1.5. Statement of the Problem

The focus of this study is on the individual salaried class investors. In the Indian context, savings from all quarters are the need of the hour. The savings of agriculturists, business men, and the self employed are not stable and not assured because it is subject to the conditions of business and many other factors. The salaried class investors with assured monthly income supplemented by additional income from other sources could be regular savers. Various studies at macro level confirm the role of the salaried class investors in providing the financial resources to the industrial sector. Keeping in view the potential savings of the salaried class investors, this study is prompted to understand the attitude and behaviour of the salaried class investors.

1.6. Objectives of the Study

The study is undertaken with the following objectives:

1. To outline the conceptual background with focus on investment and tax planning.
2. To examine the profile and awareness of the salaried class investors.
3. To analyze the attitude and satisfaction of the salaried class investors towards investments.
4. To evaluate the factors motivating the investors for investments and expected rate of return on investments.
5. To analyze the awareness and attitude of investors towards tax planning.
6. To identify the investors’ decision making process.
7. To offer suggestions for educating individual investors on balanced investment patterns.
1.7. Hypotheses

In line with the objectives of the study, following hypotheses have been formulated and tested.

i) There is no significant relationship between demographic factors and the level of awareness of salaried class investors on modes of investment.

ii) There is no significant relationship between demographic factors and the attitude of salaried class investors towards investment.

iii) There is no significant relationship between demographic factors and the level of satisfaction of salaried class investors with investment.

iv) There is no significant relationship between demographic factors and the awareness of the salaried class investors on tax planning.

v) There is no significant relationship between demographic factors and the attitude of the salaried class investors towards tax planning.

1.8. Period of the Study

The study covers a period of 3 years that is January 2006 to December 2008. The data collected, and opinions and expectations revealed pertain to the same period.

1.9. Area of the Study

Vellore District is one of the 32 districts in the Tamilnadu state of India. Vellore City is the headquarters of this district. This district has a population of 34,77,317 as on 2001 consisting 5,72,481 individual tax payers. The district is bound on the Northeast by Tiruvallur District, on the Southeast by Kanchipuram District, and on the Northwest and North by Andhra Pradesh state.

1.10. Methodology

The sources of data were primary as well as secondary. The data collected in the consumer survey constitute primary data. A structured questionnaire was prepared for the study. The drafted questionnaire was tested with 50 individual tax payers and the exercise ensured the adequacy of the questions in the questionnaire. The information gathered from books, journals, magazines, reports, and dailies was the
secondary data. The data collected from both these sources were scrutinized, edited, and tabulated. The sample size of tax payers was 750. Convenience sampling method was followed in selecting these salary class investors. The questionnaire was distributed to the investors at their work places. Adequate time was given to them to fill the questionnaire and complete it in all respects. Though, 900 questionnaires were issued and collected the researcher was able to use only 750 properly responded questionnaires, complete in all respects. The study had conformed the feasibility of the inquiry and the quality of the items in the questionnaire.

1.1.1. Tools of Analysis

The data collected were analyzed by preparing suitable tables. The information collected with the help of questionnaire were tabulated and analyzed by using various statistical measures like percentage analysis, mean and standard deviation analysis, Chi-square test, T-test, Analysis of Variance (ANOVA - F Test), Factor analysis, and Kendall’s Coefficient of Concordance Test.

T-test

It is used for judging whether there is any significant difference between the means of two samples. The T-test will indicate whether the perceived differences among the two groups are significantly different.

Chi-Square Analysis

The Chi-square analysis is used to test the significance of influence of one factor over the other factor; for this purpose the factors were classified into two groups.

ANOVA

It is an importance technique in the context of all those situations where one wants to examine the significant mean differences between more than two groups. The result of the ANOVA will show whether or not the means of various groups are significantly different from one another as indicated by F-statistic.
Factor Analysis

The general purpose of factor analysis is to find out a method of summarizing the information contained in a number of original variables into a smaller set of new composite dimensions (factors) with minimum loss of information. Factor analysis identifies and defines the underlying dimensions (factors) that exist in the original variables selected for the study.

Kendall's W

It is a non-parametric statistic, also known as Kendall’s coefficient of concordance. It is used to assess the priority of the investors on certain aspects. The investors are asked to rank their priority and based on their opinion the mean rank is calculated through Kendall’s W test.

1.12. Limitations of the Study

This study is confined to a particular selected region, that is, Vellore District and hence conclusions are drawn with due care when an attempt is made to generalize the results. Further, the findings may not be applicable to other regions. Due to paucity of time and fund, the size of the sample is restricted to 750. The study is confined to the salaried class investors only and therefore the outcomes cannot be generalized to other category investors. As this study is concerned with financial matters, investors’ reluctance to disclose information on some items in the questionnaire had to be encountered. Many of the responded questionnaires could not be considered because the respondents were not willing to disclose the amount of investments in various schemes, etc.
1.13. Chapter Arrangements

The report is presented in nine chapters.

The First Chapter introduces the subject matter and sets out the period and area of the study, problems, objectives, and significance of the study, hypotheses, and the importance and the limitations of the study.

The Second Chapter relates to the Review of Literature and basic concepts used in the study.

The Third Chapter provides the profile of the study area, Vellore District.

The Fourth Chapter describes the profile and awareness of salaried class investors.

The Fifth Chapter highlights the attitude and satisfaction of the salaried class investors.

The Sixth Chapter deals with the factors motivating the investors and the expected rate of return on investment.

The Seventh Chapter deals with the awareness and attitude of investors on tax planning.

The Eighth Chapter deals with investor's decision making process.

The Ninth Chapter summarizes the major findings of the study and gives suggestions for further study.