CHAPTER III
THEORETICAL BACKGROUND ON INVESTMENT AND ITS AVENUES

3.1. INTRODUCTION

Indian economy has witnessed tremendous growth and transformation over the last two decades, making India one of the most dynamic economies in the world today and an important destination for companies from across the globe. According to Datamonitor (2010, p. 1) report on India, “India’s GDP growth rate is expected to be more than 8% during 2010-13, which indicates the inherent strength of the country’s economy.” The relatively consistent economic growth over the past years has lead to substantial creation of wealth, which has lead to a rise in the income levels across households in India. The household savings in India have increased from 19 per cent of GDP in 1999 to 24 per cent of GDP in 2008, according to Edelweiss Report. The net household saving as a percentage of personal disposable income, for India, equals to 32 per cent as per the 2008 figures, which is the highest household saving rate in the world (Edelweiss, 2010, p. 32).

With the changes in the social structure of the Indian society, individuals need to manage their wealth in such a way that ensures them a secure retirement and the ability to meet various personal and family goals that arise during their life cycle (Sahi, 2009). This calls for a deliberate choice of investment options that meet the individual’s needs and personal preferences. With the increase in the number and types of financial products that are making their way into the Indian markets, an understanding of the individual’s preferences and profiling of the same, would help the financial services industry in targeting the right consumer. Kumar and Sarkar (2008, p.204) stated that, “Since 1991, India is emerging as a key destination for marketers from across the globe. However, little work of relevance has been undertaken to understand the Indian Consumers.”

This increasing trend of saving rate and creation of financial products, the consumer is faced with various investment alternatives to choose and save. Further, the surplus of information regarding the numerous investment alternatives has lead to more complexity in financial decision-making, as the financial consumers are not fully equipped to evaluate the available information (Pradhan, 2008). Also, it has been seen that many investors have little or no formal education in finance (Nofsinger, 2001; Chikermane, 2006; Chidambaram, 2007; Pradhan, 2008; Agarwal, 2010). Hence, effectively analyzing information is becoming very difficult for the individual investor (OECD, 2004; Reddy, 2006; Pradhan, 2008; Sahi, 2009; Agarwal, 2010). This is a more serious concern as more and more people are taking personal control over their financial planning and without the knowhow or the proper guidance on the most suitable investment options, the individual may be unable to achieve their financial goals, which would lead to a decrease in their financial satisfaction.
Since, the individual investor has limited information processing ability and thus cannot analyze the complete set of information available in the market, has to rely on their beliefs and attitudes that reflect their preferences, towards the investment options. Hence, understanding of the financial product buying behaviour has become important (Slovic, 1972; Diliberto, 2006; Mudholkar and Sadique, 2007; Pompian, 2008). According to Lewellen et al. (1977), an investor can be described by a relatively short list of demographic and socio-economic attributes and these impact the investment styles.

India is a developing country where, there has been a consistent increase in the national saving rate after the independence period, although some fluctuations has been noticed. In international standpoint of view, India has had a high saving rate compared to other developing countries, except those in East Asia. To study on savings in India one needs to look into four aspects namely the determinants of savings, the composition of savings, the methods of measuring savings, and the pattern of saving. Saving has emerged as an important variable in several studies, in its relationship for the country’s economic growth and development. Saving is an important macroeconomic variable to be studied under the purview of the economic arena on an individual as well as household basis. According to classical economists like Adam Smith, David Ricardo and J.S.Mill, “Saving is an important determinant of economic growth”. Saving components can be based on an individual or on household basis and proves to be contributing to the well being of both. As for an individual saving becomes the cushion for the future’s intercourse of the unforeseen and upcoming as well as the uncertain circumstances of life. Saving is the part of the income earned by the individuals. For the higher economic growth for the country, marginal propensity to save should be higher but it also helps in multiplier process. The determinants and patterns of saving differ from rural to urban region. In rural areas, the marginal propensity to consume is more rather than the marginal propensity to save which seems to be vice-versa in urban areas where the marginal propensity to save is more than that of the marginal propensity to consume. According to Lewis (1954), “The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing four or five percent of its national income changes into an economy where voluntary saving is running at about twelve to fifteen percent or more of the national income”.

According to Rao (1980), “Saving constitutes the basis for capital formation, and capital formation constitutes a major determinant of economic growth”. In the developed countries, the income is generated at a higher rate which encourages people to have more savings which opines to more investment leading to more capital formation. But in a country like India, the income standard is almost uncertain and leads to more consumption rather than saving. In India, as in many developing countries, most households are poor and do not save. Here, there is a requirement of mobilization of rural saving for financial
growth. Aggregate saving in any economy depends on a number of determinants. In the Indian economy, the household sector contributes a lion's share of the total saving which needs to be stepped up.

3.2. NATURE OF SAVINGS

Sufficient national saving provides an economy with enormous benefits. A country with a high savings rate could generate both foreign and domestic investments and need not depend on foreign debt. The financial sector in every economy is responsible to put these savings back into the income and expenditure circular flow, through investment. Furthermore, Miles and Scott (2004: 72) commented that: “The more investment a country does, the higher its steady state standard of living.” It also seems as if saving and investments are more beneficial if they come from the domestic sector and more specifically from the household sector (Samuelson and Nordhaus, 1995: 445).

The Micro Finance Institutions and micro-enterprises are playing a major role in recent years by encouraging the people to save more. Micro Finance Institutions need to inject capital or funds which may be the owner's money or loan. Micro enterprises, like other businesses, convert savings into investment, in the creation of wealth. Variations in the saving pattern is mostly found in different societies, as there exists, a difference in environmental, social, economic and cultural contexts. Human wants get transformed as the society grows and in turn cause substantial changes in the outlook of the people towards saving. In low-income communities, the ability to save is low and often is in cash or kind. Saving in cash is cheap and convenient. Variations in saving is visible in different communities as there exists difference in income levels, consumption pattern, awareness of the saving benefits, family size, investment opportunities, etc. Human attitude towards saving has changed through the decades along with the remarkable growth in the society.

Savings can be known as the cash or physical products set aside for future use. Salaried People and other low-income communities can save when they are guided and encouraged by the Government and financial institutions. The savings are made through traditional credit rotation groups. Gradually, the traditional way of saving has been abolished and got shifted to save in the form of physical assets, like gold, land and durable goods and financial assets like shares, stocks, and bonds.

3.3. STRUCTURE OF SAVINGS IN INDIA

In India domestic savings originate from three principal sectors namely: (i) Household sector, (ii) Private-corporate sector and (iii) Public sector. The household sector comprises of individual, non-corporate business and private collectives like temples, educational institutions and charitable foundations. The saving can be held in the form of increases in (a) Liquid assets like currency bank deposits and gold (b) Financial assets like shares, securities and insurance policies and physical assets. The corporate
sector includes joint stock companies in the private business sector, industrial credit and Investment Corporation etc., and cooperative institutions. Saving of the corporate sector is represented by the retained earnings of this sector. Government sector consists of the central and state government, the local authorities and various government and department undertakings; hence the saving of this sector relates to the budgetary surplus on current account of the central government, state government, local authorities, the current surplus of various government departments and retained projects of government undertakings.

The basic purpose of financial reforms of the country was to enhance the generation of domestic funds in order to reduce the dependence of outside funds. This warranted a market based organization which could tap the vast potential of domestic savings and channelize them into profitable investments.

Investment can be viewed as deferred consumption, that is, income earned but not consumed but kept for future consumption. The concept refers to the immediate commitment of resources, money or otherwise, in the expectation of reaping future benefits irrespective of the form it takes, its key attributes is the sacrificing of something of value now for future benefit (Bodie, Kane and Marcus, 2001). An investment refers to any money or income not consumed but kept aside, either in financial institution or invested in the capital market, real estate or any other production activity with a view to generating higher future income and/or increasing its innate value in the future (Geetha and Ramesh, 2012).

In economics, it has been observed that it is not possible to embark on investment without first embarking on saving. Although, it is acknowledged that savings do not always translate into investment, without savings there can be no investment. When an entrepreneur starts a venture with loan, he is primarily utilizing other people’s savings. Thus, savings is essential for investment (Oyatoye and O.F. Odesanya, 2009).

Every individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, bullion etc. In each life cycle stage, every individual desires hard earned money to be invested in most secure and liquid avenue. However, the decision varies for every individual depending on their risk taking ability and the purpose for which such investment is to be done. Purpose of investment can be related with saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals. Investment behavior of an individual investor reveals how he/she wants to allocate the surplus financial resources to various investment avenues available. The investment behavior consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and most importantly the timing of such investment. In various empirical studies, it has been found that information being an important factor on taking decision to invest, which
influences them on choice of investment and later on how they act after investment (Kasilingam and Jayabal, 2008). In every life cycle stage, saving objective by an individual always changes. Such a change occurs not only due to the age of the investors, but also due to the occupation and income level category, where they fall. Saving objective of household savers is always substantiated by the investment option they choose to attain those objectives.

Investment is on their mind and an option that has the potential to multiply their savings and provide max-im-mum tax rebate is the one they crave. Traditional saving options like post office schemes and fixed deposits are now passé. “Options like post office schemes and fixed deposits are not very popular with the youth as the rate of interest on them is lower as compared to other in-vestment options available,” says Mr.Vishal Sawhney, Manager, Citibank. Safety and security are no longer the major criteria that determine the choice of investment. With money in hand and age on their side, the young investors are not hesitant in taking risk, say experts. “Fixed deposits are not a very attractive investment option for youngsters these days. Most of our clients who opt for fixed deposits are senior citizens,” says Manoj Mishra, Financial Advisor, Sansad Marg Head Post Office. (Shweta Sawhney, The changing saving patterns of our youth, Today’s Deal, 10 September, 2007.)

3.4. INVESTMENT MEANING

Investment is the employment of funds with aspires of getting return on it. It is the assurance of funds which have been saved from current consumption with the hope that some benefits will accrue in future. Thus, it is an incentive for the deposited money. So, the first step to investment is savings. In common usage, saving generally means allocating money aside, for example, by putting money in the bank or investing in a pension plan. In a broader sense, saving is naturally used to refer to economizing, cutting costs, or to rescuing someone or something. In terms of personal finance, saving refers to safeguarding money for future use, typically by putting it on deposit which is distinct from investment where there is an element of risk.

The developing countries like India face the enormous task of finding adequate capital in their development efforts. Most of these countries find it complex to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make a rise forward in its efforts of attaining high levels of growth. Since the beginning of planning, the importance was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment was considered the vital determinant and capital formation had to be supported by appropriate volume of saving. There are a lot of investment avenues and one must select the most appropriate one. The person dealing with the financial planning must know
all the various investment choices and how these can be chosen for the purpose of attaining the overall objectives. The details of making the investment along with the various behavior in which the investment has to be maintained and managed.

3.4.1. Income, Savings and Investment

The developing countries like India need funds for economic development and growth. For this proper cash management is required. While planning the management of cash, the twin objectives of financial management-liquidity and profitability are kept in mind. The cash balances must be adequate to meet obligations in right time otherwise a large cash reserve may be wasteful which could be better employed elsewhere.

The three variables that measure the growth of an economy are Income, Savings and Investment. While investment is the single most factors for the development of an economy, it is savings which provides the basis for investment. Savings appears to be crucial variable indicating the capacity or willingness of an economic unit to forego current consumption by channeling a part of the resources to capital formation. Investment in its broadest sense, means the sacrifice of certain present value for (possible uncertain) future value.

For making proper investment, involving both risk of principal and return the investor has to make a study of the alternative avenues of investment, their risk and return characteristics and make proper projection or expectation of the risk and return of the alternative investments under consideration. The saving in financial form include savings in currency, bank and non- bank deposits, LIC finds, provident funds, pensions fund, claims on government, share and debentures, units of Unit Trust of India and trade debts etc. The investment pattern and saving habits of employees sector is determined by their expectations from the various preferred avenues. Preference may vary due to various considerations i.e. Safety, Liquidity and Marketability, returns, tax benefits, risk involved etc. Investment also depends upon the awareness about investment opportunities, level of knowledge and how these investment opportunities are evaluated and selected.

3.5. FACTORS OF SOUND INVESTMENT

Investment management involves analysis and selection of investments. For an individual investor as well as for other investors, investment management is a part of overall financial decision making. An investor should draw an overall financial plan setting how much total funds to be invested, how much to be invested in real assets, etc. Such a financial plan should include decision whether to buy a house or not, as it is a major investment decision for an individual. Other aspects to be considered may be how much to invest in life policies, future endowment funds, e.g., provident funds, etc. Once a financial plan is prepared, an investor would be interested in constructing and managing the optimum combination of the investment alternatives.
Following are some of the features which an investor looks into while making an investment.

1. **Liquidity**: Liquidity, with reference to investments, means that the investment is saleable or convertible into cash without delay. It is a relationship between the time dimension and price dimension of the sale of an investment. Liquidity provides an option of freedom to the investor that he can exit when he wants and get back the money. This is particularly relevant in case an emergency appears before the investor and the funds are immediately required to deal with the situation at hand. So, it works best for the investor to build a portfolio containing a good proportion of investments which have relatively higher degree of liquidity. Liquidity necessitates that the funds are not committed for a long period.

2. **Risk of an Investment**: Risk of an investment is to be analysed from two different angles. These are Safety of Principal and the Stability of Return.
   (a) **Safety of Principal**: An investor should take care that the amount of investment (principal) is safe. The safety of an investment depends upon several factors such as the economic conditions, organization where investment is made, earnings stability of that organization, etc. Guarantee or collateral available against the investment should also be taken care of. For example, bonds issued by the Reserve Bank of India are completely safe investments as compared with the bonds of Private Sector Company. With reference to investment made in a particular company, investment made in debentures of that company is safer than investment in preference shares of the same company. Further, investment in preference shares is still safer than that in the equity shares of the same company. The reason being that in the case of liquidation of the company, order of payment is noted that the safety of investment and the expected return from that investment are interrelated. So preference stock is more safer than equity.
   (b) **Stability of Return**: An investment is considered a good investment if it offers stable returns. The prime objective of making every investment is to earn stable returns. If returns are not stable, then the investment is termed as risky. It may be noted that riskiness of returns refers to the position that the returns may fluctuate. For example, return (interest) from Savings Account, Fixed Deposits Account, Bonds and Debentures are stable but the expected dividends from the equity shares are not stable. The rate of dividend on equity shares may fluctuate depending upon the earnings of the company.

3. **Capital Appreciation**: Some investments such as land, buildings, equity shares provide opportunities of capital appreciation. On the other hand, there are some investments such as fixed deposits, debentures, etc., where the initial value and maturity value are same. Investors always prefer those investments which have more chances of capital appreciation. But this is only one side of the coin. Chance of capital appreciation implies that there is a chance of capital loss as well. Investment in equity share is one which has chances of capital appreciation as well as capital loss. In case of debentures, capital loss
may appear if the company is wound up. An investor has to consider the chances of capital appreciation in the investment decision process. Chances of capital appreciation or capital loss add to the risk of the investment. Investors differ with respect to perception of capital appreciation and to the degree of their risk bearing capacity.

4. **Tax Aspects of Investments**: Investments differ with respect to tax treatment of initial investment, return from investment and redemption proceeds. For example, investment in Public Provident Fund has benefits with respect to all the three characteristics noted above. However, investment in equity shares entails exemption from taxability of dividend income but the transactions of sale and purchase are subject to Securities Transaction Tax or Tax on capital gains. Sometimes, the tax treatment depends upon the type of the investor. Tax consequences are of prime relevance to investment decisions.

5. **Investment Horizon**: Investment horizon refers to the planned liquidation date of the investment. Investment horizon must be considered by investors while choosing and selecting investments. The maturity period of an investment (say bonds) makes it more attractive if it coincides with the date when funds would be needed.

**3.6. INVESTMENT PATTERN OF SALARIED EMPLOYEES**

Savings and investments by individuals are as vital to personal financial well-being and security as it is to a healthy economy. People with savings are better able to weather economic shocks such as a loss of income, to build assets for the future, and are less reliant on credit to cover unexpected expenses. Savings also enable further welfare enhancing actions such as entrepreneurial activities and access to education and training. At the macroeconomic level, household savings drive growth by enabling banks to lend to businesses and by financing directly or indirectly investment in companies. The ways in which individuals save can range from holding surplus income as cash, through simple informal saving mechanisms such as savings and loan clubs, to complex investments, or non-financial saving such as property or livestock. Some of these approaches are more suited to short-term savings and income smoothing, whilst others provide long-term savings to draw upon in future periods.

The saving and investment differs from person to person and place to place as the savers have varying degrees of fortitude in embracing safety, liquidity and profitability. Such a dynamic situation compels one to have a clear-cut objective of future investment. The investor thinks of channelizing the surplus income for their own benefit as well as for the growth of the country. The mode of choosing an ideal investment is very important for an investor in choosing specific investment. Investor must know the characteristic of that investment which has return, liquidity, safety, appreciation, risk covered tax benefits. The investor should be very careful in selecting the investment avenues by exercising skill, knowledge and experience for choosing investment opportunity otherwise the whole of the investment may not yield returns.
Salaried people invest for future benefits. The employees save their savings in various aspects of investment avenues mostly, after the safety of their investment is given importance rather than high returns. The salaried people have different investment channels to invest their surplus funds in modern equipments. Consumer durables have attracted the salaried brackets towards it. Further, an increment in the saving is always preferred and it has reached a stage where the returns decide the investment. The salaried group will also differ in their investment pattern due to safety, security, regular income, retirement benefit and other exclusive features than the other occupation people like business man and professionals. The tax payers choose investment in such a way to get tax benefits. The respondents of this study are the investors those who are earning their money as salary, popularly referred as salaried groups (V.R.Palanivelu & K.Chandrakumar 2013).

3.7. INVESTMENT OPTIONS

There are a large number of investment avenues available today in India. Some of them are marketable and liquid while others are non marketable. Some of them are also highly risky while others are almost risk less. The people have to choose Proper Avenue among them, depending upon specific need, risk preference, and return expected.

Investment avenues can broadly categories under the following heads.

1. Equity stock
2. Financial Institution Bonds
3. Corporate Debenture
4. Company Fixed
5. Bank Fixed Deposits
6. Public Provident Fund
7. Life Insurance
8. Post Office-NSC
9. Gold/Silver
10. Real Estate
11. Mutual Fund
12. Preferred Stock

1. Equity

Equity is one of the most risky areas. But, at the same time this is also a place where an investor can earn high rates of returns that will push up the returns of the entire portfolio. There is a need for the investor to separate the speculation from the investment. Investment in equities can be made directly by the purchase of shares from the market or it can be done through the mutual fund route, whereby the investor buys the mutual fund units and the fund in turn buys equity shares for its portfolio. There are various benefits as well as risks associated with both these routes and it is up to the individual to make up mind.

2. Financial Institution Bond

Debt is a route that most people will know and have the necessary experience of. There is a wide range of debt instruments that are available from bank fixed deposits to company fixed deposits. Debt is simple as the investor ill earn at a fixed percentage of the investment, which will then be returned to the investor at the time of maturity or redemption of the investment.
3. Corporate Debenture

Corporate debentures are normally backed by the reputation and general creditworthiness of the issuing company. It is a type of debt instrument that is not covered by the security of physical assets or collateral. Debentures are a method of raising credit for the company and although the money thus raised as a part of the company's capital structure, it is not part of the share capital.

4. Company Fixed Deposit

Company fixed deposit is the deposit placed by investors with companies for a fixed term carrying a prescribed rate of interest. Company Fixed Deposits are primarily meant for conservative investors who don't wish to take the risk of vagaries of the stock market. The investor to take up a fixed deposit is similar to that before buying shares.

5. Bank Fixed Deposits

Fixed Deposits with Banks are also referred to as term deposits. Minimum investment period for bank Fixed Deposits is 30 days. Deposits in banks are very safe because of the regulations of RBI and the guarantee provided by the deposit insurance corporation. The interest rate on fixed deposits varies with term of the deposits Bank deposits enjoy exceptionally high liquidity. Loans can be raised against bank deposits.

6. Public Provident Fund (PPF)

Public Provident Fund is a long term savings instrument with a maturity of 15 years. A PPF account can be opened through a nationalized bank at anytime during the year and is open all through the year for depositing money. Tax benefits can be availed for the amount invested and interest accrued is tax-free. A withdrawal is permissible every year from the seventh financial year of the date of opening of the account.

7. Life Insurance Policies

Insurance companies offer many investment schemes to investors. These schemes promote saving and additionally provide insurance cover. LIC is the largest life insurance company in India. Some of its schemes include -

- Life policies
- Convertible whole life assurance policy
- Endowment assurance policy
- Jeevan Saathi
- Money back policy

- Unit linked plan
- Term assurance
- Immediate annuity
- Deferred annuity
- Riders and so on

Insurance policies, while catering to the risk compensation to be faced in the future by investor, also have the advantage of earning a reasonable interest on their investment insurance premiums.
8. Post Office Savings

Post Office Monthly Income Scheme is a low risk saving instrument, which can be availed through any Post Office. The interest rate on deposits is slightly higher than banks. The interest is calculated half yearly and paid yearly.

9. Gold / Silver

Investments in physical assets including buying gold, silver, precious metals and antiques. Jewels historically appreciate at about the rate money inflates. Jewelry, and diamonds, can last forever and have more "intrinsic value" than cars and houses. Land has "Intrinsic value" and so too do gold and diamonds. Diamonds as an investment involving buying and selling for profit. But the "fashion value" can be fickle, unless the piece is a rare collectable. The bullion offers investment opportunity in the form of gold, silver, art objects (paintings, antiques), precious stones and other metals (precious objects), specific categories of metals are traded in the metal exchange.

10. Real Estate

Investment in real estate is also made when the expected returns are very attractive. Buying property is an equally strenuous investment decision. Real estate investment is often linked with the future development plans of the location. At present investment in real assets is booming. There are various investment source are available for investment which are directly or indirectly investing in to the area of real estate. In addition to this, the more affluent investors are likely to be interested in other type of real estate, like commercial property, agricultural land, semi urban land, and resorts.

11. Mutual funds

Mutual funds lure investors with the promise of stock market-like returns in a lower risk and more novice-friendly environment. A wide variety of funds exist, including very conservative (secure) investments, or more speculative (riskier) investments. Mutual funds may offer opportunities to invest in large-cap companies (companies with high capital), or companies with less capital-mid-sized caps or small caps. These funds pool their members' investments in professionally managed portfolios of stocks, bonds, and other investments. As a result, the individual investors are provided with the kind of investment diversification that would otherwise require a much greater amount of money to be invested and much more effort in reviewing the many choices. Thus choosing mutual funds involves many of the same considerations as choosing stocks.

12. Preferred Stocks

Revenue from preferred stocks is also considered a form of fixed security income. Unlike bonds, stocks represent a portion of ownership in a company and provide dividends for the holders. However, obligations on preferred stocks must be met before holders of common stock can be paid. The preferred stock holders are considered creditors and may be entitled to relief, whereas holders of common stock may have no such
recourse. Like interest earned from savings accounts and caution deposits, dividends from preferred stocks are fully taxable.

3.8. RETURN

Investors always wish to earn a return on the funds invested in assets. Return from an investment helps the investor realizing that opportunity cost. The return from an investment may be available in terms of revenue return (dividend or interest) and in terms of capital return (capital appreciation). The net return is the sum of revenue return and capital return.

3.9. RISK

Investors invest for anticipated future returns, but these returns can rarely be predicted precisely. There may be difference between the expected return and the realized return and latter may deviate from the former. This deviation is defined as the risk. The chance that the actual return from an investment would differ from its expected return is referred to as the risk. All investors, in general, would prefer investments with highest possible return but for getting this higher return, he has to pay the price in terms of accepting higher risk too. Investors are rational and prefer less risky investments to riskier investments. Investors are risk-averse in the sense that they do not assume risk for it’s own sake but they will not incur any level of risk unless there is an expectation of adequate compensation for undertaking that risk. Nearly every type of investment contains some element of risk, or the degree of uncertainty on the return of an asset-in other words, the likelihood that the investment will not lose money. Part of the valuation process is to determine how much risk an investor is willing to take, and how much chance there is that the investment will fail. Investors who are risk averse are reluctant to make investments that have high risk; investors who are "risk tolerant" are more comfortable making higher-risk investments. The Risk-Return Tradeoff (Kapoor, Blabay & Hughes, 2007) is a helpful concept for deciding if an investment is worth making: Is the potential benefit of the investment worth the chances of losing it? Keown (2003) identifies seven sources of risk:

- Interest rates during the lifetime of the investment;
- Inflation rates;
- The company's risk in operating the business;
- How much money the company can produce (liquidity);
- The performance of the overall market;
- Political and regulatory issues;
- The exchange rate of the currency, and;

Any of these sources, or perhaps all of them, influences the value of an investment that could fail because of events internal or external to the company. Seven major risks are present in varying degrees in different types of investments.
Default risk

This is the most frightening of all investment risks. The risk of non-payment refers to both the principal and the interest. For all unsecured loans, e.g. loans based on promissory notes, company deposits, etc., this risk is very high. Since there is no security attached, nothing can be expected. Given the present circumstances of enormous delays in the legal systems will still be left wondering. So based on credit ratings of the company the investor should invest in company deposits or debentures.

Business risk

The market value of the investment in equity shares depends upon the performance of the company in which it is invested. If a company's business suffers and the company does not perform well, the market value of the share can go down sharply. This invariably happens in the case of shares of companies which hit the IPO market with issues at high premiums when the economy is in a good condition and the stock markets are bullish. Then if these companies could not deliver upon their promises, their share prices fall drastically.

Liquidity risk

Money has only a limited value if it is not readily available to the investor as and when needed. In financial jargon, the ready availability of money is called liquidity. An investment should not only be safe and profitable, but also reasonably liquid. An asset or investment is said to be liquid if it can be converted into cash quickly, and with little loss in value. Liquidity risk refers to the possibility of the investor not being able to realize its value when required. This may happen either because the security cannot be sold in the market or prematurely terminated, or because the resultant loss in value may be unrealistically high. Current and savings accounts in a bank, National Savings Certificates, actively traded equity shares and debentures, etc. are fairly liquid investments.

Purchasing power risk, or inflation risk

Inflation means being broke with a lot of money. When prices shoot up, the purchasing power of the money goes down. Given the present rates of inflation, it may sound surprising but among developing countries, India is often given good marks for effective management of inflation. The average rate of inflation in India has been less than 8% p.a. during the last two decades. However, the recent trend of rising inflation across the globe is posing serious challenge to the governments and central banks.

Interest rate risk

In this deregulated era, interest rate fluctuation is a common phenomenon with its consequent impact on investment values and yields. Interest rate risk affects fixed income securities and refers to the risk of a change in the value of investment as a result of movement in interest rates. Due to the lower yield, the value of security gets reduced.
Political risk

The government has extraordinary powers to affect the economy; it may introduce legislation affecting some industries or companies in which the investor have invested, or it may introduce legislation granting debt-relief to certain sections of society, fixing ceilings of property, etc. One government may go and another come with a totally different set of political and economic ideologies. In the process, the fortunes of many industries and companies undergo a drastic change. Change in government policies is one reason for political risk.

Market risk

Market risk is the risk of movement in security prices due to factors that affect the market as a whole. Natural disasters can be one such factor. The most important of these factors is the phase (bearish or bullish) the markets are going through. Stock markets and bond markets are affected by rising and falling prices due to alternating bullish and bearish periods.

Thus, Savings of money and investment is a purely human activity which requires the application of common sense and intelligence. It is true to say that the saving and investment of money has a direct bearing on one’s behavior. Measurement of attitude, as it is a behavioral matter, is not susceptible to any rigorous statistical analysis. There are several parameters that an investor will think before investing like return, flexibility and etc but the markets will face a question mark in knowing the pulse of an investor.

3.10. PROFILE OF SALARIED CLASS INDIVIDUALS

The individual may be equal in all aspects, but their financial planning needs may be different. In this context, demographics alone may no longer suffice as the basis of segmentation of individual investors. It is by using personality along with demographic that synergise between investors be made. In fact, an investor necessitates an understanding on the demographic and socio-economic type of investors, to have a clear picture of financial products and services.

Age and employees

Age was considered as an important parameter in the study because the saving preference differs according to the age. Age plays an important role in nature of employees’ investment avenues. Due to experience and high income, aged employees practice a more diversified portfolio than young employees. Lewellen (1977) found that age, sex, income and education affect investor's preferences.

Gender and employees

In India, gender plays an important role in an individual’s choice. It is generally believed that the male in the household dominates the women in taking investment decision. Women are always economical with the limited aspire for all kinds of household
items. On the other hand, women prefer purchasing necessary household items at the earliest. Similarly, spending behavior varies significantly with that of men.

Marital status and employees:

The Married employees attitude regarding investment will be very clear and confident because the investor will not take more risk on their investment due to the dependences and commitment of the family. They search and collect various information related to investment means of future investment which has less risk and nominal return for their investment.

Nature of residence and employees

The basic need for men/women is food, cloth and shelter. The people who have fulfill all the needs will ready to take more risk towards their investment. The investors who have own house shows the different attitude towards the investments. The sample investors who resides in rental house have good level of investment preference because they want to build own house which forms to be very important objectives.

Educational Qualification and employees

In National perception, education is essential to all. Inorder to develops manpower for the different levels of the economy. Through education a person develops the ability and attitude towards social life and they make themselves fit for employment opportunities. It broadens a persons mental horizon by enabling him/her to come into contact with the outside world and earn and invest.

Nature of work and employees

Among the salaried class individuals, employment status varies considerably. Some occupations are with few privileges, some are with extra-remuneration and some have commanding power and respects. Since the employment status depends on education coupled with compensation, it is expected that employees in different cadres may expect the return on investment according to their requirement. The person who comes under government employment cadre has job security compared to private employment. Their earning are high than the private employee. So they are ready to take risk for their investment. Person who has insured job and less salary will not take more risk.

Additional earning and employees

The more number of earning members in the family, there is an opportunity for saving and investment in that family will be high. The attitude of that type of investors will take high risk for the investment. Generally, the employment of the spouse leads to additional income in the family. With the availability of extra income, investors may invest in different avenues.

Monthly investments and employees

The investment made by an individual is directly correlated to his income. High-income people tend to save and invest more because their disposable income after meeting
their fixed obligation is high. Further, the investment preferences and investment objectives differ according to income level. Investing is an act of conviction. When one invests in government bonds, one has faith in the long-term success of the Indian economy. The same pattern applies to one’s investments in equities. She/ he unfailingly has his faith in the specific stocks or a sectors in general.

**Monthly income and employees**

Monthly incomes play an important role in the growth of a family. Every family depends on its income for its survival, development and growth. Hence, it was decided to analyze the extend of the monthly income of the sample investors in relation to their level of attitude.

**Monthly investments and employees**

Investing is an act of faith. When one invests in government bonds, one has faith in the long-term success of the Indian economy. The same pattern applies to one’s investments in equities. She/ he unfailingly have his faith in the specific stocks or sectors in general.

**Monthly household expenses and employees**

Family expenses are an important constraint in deciding the level of saving. To increase their savings, investors have to augment income and at the same time reduce expenses. The disposable income of an individual is indirectly related to his personal fixed obligation and the amount of savings and investment is directly connected with the disposable income of an individual.

**Nature of Investment and employees**

This is very important perception for the investors. This is based on the liquidity of the investment. The extent and the tenure of the investment is decided based on the nature. Most of the investors have investment with the combination both medium term and long term investment. So the liquidity is based on the necessity.

**3.11. CONCLUSION**

The Economy is prospering, the job market is booming and salaries are touching a new high. The Indian youth are rich in cash with their ever increasing salaries. The new breed of Indian youth has its pockets full and is intelligent enough not to let its money rust in bank accounts. The investors do not park their hard-earned in money in traditional avenues instead, they look for higher returns and tax sops, their risk appetite is more and they patronize the on good return oriented investment. Investment is on their mind and an option that has the potential to multiply their savings and provide maximum tax rebate, which is among the topmost benefit that they crave. The present study is analysis of the pattern of investment of the salaried investors in the period under study into financial and physical assets, in general and for different income groups and with different demographic and socioeconomic factors.
REFERENCES


