CHAPTER – 1

INTRODUCTION
1.1. Saving and Investing:

Investing is said to be the act of savings. Saving is the excess of income over expenditure. It is the amount kept aside after meeting all the routine monthly expenditure. It is the amount that can be used to meet future needs / contingencies. Hence, there is a need to understand if investment actually means only savings. Investment is a broader concept than savings. Investment is much beyond keeping aside money for future needs. It is an arrangement for maximizing the wealth. This maximized wealth is not only used for future needs / contingencies, but precisely can be utilized for meeting the financial goals.

1.2. Investment Goals:

The individuals firstly need to identify their future needs in the form of financial goals. eg. Purchase of vehicle, purchase of home, children’s education, children’s marriage, provision for retirement, foreign trips / excursions etc. These financial goals need to be prioritized according to the time-span available for meeting them. They may be classified into short – term, medium – term and long – term goals. As the financial goals to be met are greater than the money kept aside in the form of savings, the art of investment plays a greater role.

As referred earlier, investment is maximization of wealth. Wealth maximization is allocation of money to various investment avenues, so that they enable the investor to get appropriate returns. These returns along with the principal amount that belong to various asset classes enable the investors to maximize their wealth, thereby enabling the individual investors to meet their financial goals.

1.3. Investment Avenues:

The asset classes are investment avenues that are identified on the basis of their risk and return characteristics. The asset classes can be categorized as low risk – low return, moderate risk – moderate return and high risk – high return investment avenues, eg. Bank FDs, PPFs, NSCs, LIC Schemes, MFs, Real Estates, Equities, Commodities, Gold / Silver, etc. Investments only in one specific category could give extreme results. Hence, there is a need to identify the appropriate combination of asset classes so as to give maximum returns,
but, at the same time minimize the risk. Thus, investments can be made easy with the help of diversification of assets. But, to choose appropriate classes inorder to diversify the portfolio, it is necessary that individual investors have fair enough financial literacy or financial knowledge or financial awareness of the same.

1.4. Financial Awareness:

Financial literacy or awareness or knowledge is getting education or information about the investment avenues. It is being aware of the existence of the investment avenues. It is being aware of the existence of the investment avenues in the market along with their risk and return features, so that the individual investors are in a position to select them appropriately to meet their financial goals. Lack of financial literacy or awareness creates hurdles in the selection of the investment avenues for the diversification of asset classes. It delimits the financial planning process which thereby fails the process of investment for meeting the financial goals and wealth maximization.

1.5. Financial Planning:

Financial planning is management of personal finances. It is setting and executing an action plan for meeting the financial goals. Financial planning begins with planning the monthly budget, monitoring the routine expenditures, reconciliation of the expenditures with the budget by monitoring the personal income and expenditure statement and monitoring the personal balance sheet by keeping a track of the personal assets and liabilities. It also includes setting up of the financial goals by prioritizing the financial needs considering the factors like income, age and time period. Financial planning moves ahead to selection of appropriate investment avenues to fulfill the financial goals set, taking into consideration the risk-return factors of the investment avenues. Here, financial literacy or awareness plays an important role in the execution of an effective financial planning process.

1.6. Behavioural Finance:

Financial planning is also affected by the cognitive or the behavioral pattern of the individual investors. The psychological bias and emotions the investment decisions of the investors and investors can do serious harm to their wealth. If investors fail to take
appropriate actions to correct the errors created in investment decisions, it may have adverse effects on investment decisions and potentially lead to poor investment results. Individuals do not make decisions based on just internal inputs – they communicate with others. The social influences of the media as well as friends, relatives, and colleagues also affect investment decisions. Investors feel that they are better decision – makers not involving the financial advisors. The finance profession hence identifies the psychological and social factors that affect financial decisions. The proponents of behavioral finance also believe that investment decision making is not completely rational process. Individuals’ investment decisions are guided by their desires, goals, prejudices and emotions. Demographic factors such as gender, age, education, income and marital status affect an individual’s investment decision such as risk tolerance, thereby influencing the behavioral pattern of investors on the financial decision making.

The research “An Analytical Study of the Behavioral Pattern of Individual Investors in Pune City” studies the financial planning process of the individual investors. It also studies the influence of the demographic variables on the behavioral pattern of the investors.

1.7. Outline of the Study:

The chapter scheme followed is given below along with a brief description of the contents of each chapter;

Chapter 1 – Introduction:

Personal Finance today, has become an inevitable part or an action in the life of an individual investor. Investment in personal finance is inseparable. Individual investors need to cater to this carefully and thoughtfully. This Chapter - introduces various aspects like investment, wealth maximization, investment avenues, financial literacy, financial planning and behavioral finance. These key features are dealt in detail by the researcher in the further chapters. The chapter also gives an outline of the chapter scheme which the researcher has tried to unfold in the due course of research.
Chapter 2 – Theoretical Background:

This chapter explains in detail the conceptual aspects of investment justifying that investment is neither speculation, trading nor hedging. It explains the fundamentals of investment and investment avenues giving in detail the features of the investment avenues. The chapter clarifies in detail the most important risk and return features of the investment avenues. It also discusses the methods of understanding, identifying and handling risk while making investments. The chapter explains the important process of diversification leading to wealth maximization. Financial planning in the process of investment is influenced by the investor behaviour as well as behavioral finance are discussed in detail in the chapter.

Chapter 3 – Literature Review:

The chapter reviews extensively the literature relating to the concept of investment, all other factors related to investment and financial behaviour. It reviews the evolution of investment, and its meaning defined by different researchers and financial advisors. The chapter indicates how risk tolerance is associated with the demographic variables like age, gender, educational qualification, income etc. Through extensive review the chapter highlights the fact that spreading risk by diversification and asset allocation helps in wealth maximization.

The chapter reviews financial planning which focuses on goal setting. Financial planning helps in risk management and achieving financial goals. The review highlights that demographic variables affect financial planning. It also brings to light association between financial planning and cognitive behaviour, and the role of financial planners in financial planning. The literature review enlists various approaches on financial literacy and financial education affecting financial behaviour. The chapter classifies the types of investors on the basis of the style of investment and on the basis of investment avenues. Several research papers that made a significant impact on research have been discussed in the chapter.
Chapter 4 – Research Methodology:

The research methodology followed in carrying out the research such as type of research, the methodology and rationale in framing the questionnaire, the objectives and hypotheses and the limitations experienced while carrying out the research have been elucidated in the chapter. The sampling process, the method of data codification, tabulation, and the techniques used to analyse and measure the data collected have also been discussed in the chapter.

Chapter 5 – Data Analysis and Interpretation:

After codification, the data collected was entered and tabulated into frequency tables and cross – tabulation. The figures in the tables were analysed with the help of statistical techniques and interpreted to come to logical conclusion. The reliability tests were used to find if the data used for analysis was reliable. The analysis and interpretations enabled the researcher to fulfill the objectives and validate the hypotheses. All these steps are covered in this chapter.

Chapter 6 – Observations and Findings:

The data analysed and the interpretations evolved in the earlier chapter enabled the researcher to arrive at meaningful observations and findings in this chapter. Findings related to demographic variables and financial planning, financial awareness, financial planning process and problems related to financial planning and investor behaviour are put forth in this chapter.

Chapter 7 – Conclusions and Recommendations:

The analysis led to the findings and conclusion about financial planning of the individual investors. These conclusions throw light on the financial awareness of the investors, their financial planning process and behavioral pattern of the investors that influences the financial planning. On the basis of these findings, recommendations have been made so as to improve the effectiveness of financial planning process by the individual investors. The chapter also makes a note of contribution of the present research and areas in which further investigations can be conducted.