CHAPTER - II

REVIEW OF LITERATURE
2.1 INTRODUCTION

One of the most rudimentary assumptions of conventional economics and finance is investors are rational "wealth maximizers" and always seek to secure their financial future. According to conventional economics, emotions and other extraneous factors do not influence investors when it comes to making investment decisions for desired return on investment. In most cases, however, the above assumption doesn't stand good and reflect how people behave in the real world especially in a challenging investment market scenario where financial asset prices are in declining phase. The fact is that people throughout the world frequently behave irrationally. These anomalies prompted academics research community to look into cognitive psychology to account for the irrational and illogical behaviours of investors that modern finance had failed to explain. Behavioural finance seeks to explain the actions of the investor in financial market. Behavioural finance literature strives to explore the notion of perceived risk pertaining to novice and expert investors.

According to a study conducted by Boston-based Dalbar\(^6\) in its 2007 report “Quantitative Analysis of Investor Behaviour”, found that in the past 20 years the American S&P 500 Index returned on an average 11.8% per annum, while the average investor earned 4.3% per annum which is substantially lower than the index. The main reason for the variance was the tendency of the average investor to sell after a stock prices fall and buy back after it has risen up substantially. Effectively the average investor is buying high and selling low, and thus incurring losses.

The study of behavioral finance and its various theories and concepts is imperative especially with regards to the factors which influence the investor’s perception on investing on financial assets such as mutual funds, stocks, deposits with banks and in government sponsored short-term and long-term schemes. In this chapter, section 2.2, literature related to behavioral finance and how it affects the investor’s psychological traits is explored. Section 2.3, defines the term risk in investment. In Section 2.4, perception as psychological trait of retail investors has been explained.

\(^6\) Dalbar, Inc. is the nation's leading financial services market research firm and performs a variety of ratings and evaluations of practices and communications that are committed to raising the standards of excellence in the financial services and healthcare industries. Since 1994, Dalbar's Quantitative Analysis of Investor Behavior (QAIB) has been measuring the effects of investor decisions to buy, sell and switch into and out of mutual funds over both short and long-term time frames.
along with the available relevant literature available. Section 2.5, lists out the previous research on risk perception and its impact on investor’s investment decision. Section 2.6 enumerates how retail investor’s demographic profile influences or impacts the decision-making on different investment options. In various empirical research is conducted by Indian and foreign researchers (or research organizations) has been documented and concluded that investors based on their demographic profile such as age, marital status, gender, income, occupation, geographical location of the residence and work place, number of dependants and education status plays a significant role in taking investment decisions. Section 2.7 of this chapter deals with the influence of awareness and knowledge on investment and savings of investors. In India, financial literacy is very low as compared to other countries in Asia Pacific regions. Education and awareness of financial markets, financial products and related areas is a major factor which affects the decision-making. Section 2.8 contains the literature review on retail investor’s preferences on saving and investments especially on various investment options available. Mutual fund investment is always most important topic in personal investment especially for retail investors. Section 2.9 specifically documented various relevant researches and survey findings on investment in mutual funds. Section 2.10 of this chapter contains literature on review of literature on factors affecting the investment in mutual funds. Following are the list of sections dealt in this chapter:

2.2 Introduction: An Insight into Behavioral Finance
2.3 Review of Literature on Risk
2.4 Review of Literature on Perception
2.5 Review of Literature on Risk Perception and its Influence on Investor’s Decision-Making
2.6 Review of Literature on Demographic and Investment Decisions
2.7 Review of Literature on Investor’s Awareness and Investment Behaviour
2.8 Review of Literature on Savings, Investment Preferences and Investment Options
2.9 Review of Literature on Mutual Fund Investment by Retail Investors
2.10 Review of Literature on Factors Affecting the Investment in Mutual Funds
2.2 INTRODUCTION: AN INSIGHT INTO BEHAVIORAL FINANCE

Behavioural Finance is the study of how humans construe and act on available information to make informed investment decisions. It is one of the most interesting and fascinating fields of research throwing light on the motives, preferences, perceptions and expectations of the investors. The emergence of behavioural finance has opened up a new vista for analyzing the ways in which investors make investment decisions that includes psychological factors, as well as providing new grounds of modelling investor behaviour. The study of investor behaviour has attracted researchers of diverse backgrounds. Within behavioural finance, it is believed that information structure and the characteristics of market participants systematically influence retail investors' investment decisions as well as market outcomes. The decision-making by retail investors is usually based on their demographic profiles such as age, education, income, investment portfolio, and other demographic factors. The impact of behavioural aspect of investing is, however, often ignored.

A better understanding of behavioural processes and outcomes is important for financial planners to understand as to how investors generally respond to market movements. This will help investment advisors develop suitable asset allocation strategies for their clients. Indian stock market is totally dependent upon the sentiments of the investors. The investment behaviour of market participants has been linked to factors such as investor's investment horizons, the benchmarks used to measure performance, the behaviour of other market participants, the degree of market volatility, and the presence of speculative trading activity in the financial markets. Finally, economic policies of government are one of the most influential factors for accelerating investment and savings rate in the country. Therefore, it is the responsibility of government of India to identify such factors which would affect investors' behaviour and bring in required changes to provide for market efficiency.

Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets. Behavioural finance is of interest because it helps explain why and how markets might be inefficient. Although cognitive and emotional weaknesses affect all people, traditional finance ignores these biases because it assumes that people always behave rationally (Statman, 1995). One of the central propositions of financial theory for the past three
decades is that markets are efficient. Efficiency means that the price of each security coincides with the fundamental value, but in few instances, some investors may commit errors due to personal bias. Although a case can be made against efficient markets, existing evidence does not generally support the ability of investors to consistently produce excess returns. That is although market inefficiencies may exist, they are generally not easy to exploit. If stock prices are efficient and transaction cost and taxes are ignored, investors should not do serious harm to their wealth if they trade frequently or follow specific investing strategies. Therefore, traditional finance has developed in a normative manner. That is traditional finance typically does not focus on actual investor behaviour and its consequences. Alternatively, behavioural finance examines how real people actually behave in a financial setting and is, therefore, descriptive. Behaviour finance is what Thaller (1993) calls “open-minded finance” because it contemplates the possibility that either investors, trading members or other market makers in the financial market may behave less than fully rationally some of the time. At the most general level, behavioural finance is the application of psychology to financial behaviour. Proponents of behavioural finance argue that people may not always be “rational” but they are always “human”. Thus, behavioural finance exposes the irrationality of investors in general and shows human imperfection in competitive markets. Not surprisingly, sceptics such as Fama (1998) and many others pointed out that long-term anomaly, which challenge the efficient market hypothesis, are sensitive to methodology. Although departures from rationality are sometimes random, they are often systematic. As Shleifer (2000) noted that investor’s deviation from the maxims of economic rationality turn out to be highly pervasive and systematic. Shleifer (2000) also found in his study that people often act in a seemingly irrational manner and make predictable errors when forecasting. Behavioural finance relaxes the usual assumptions of traditional finance by incorporating observable, systematic and very human deviation from rationality into models of financial markets behaviour. By combining psychology and finance, researchers hope to better explain certain features of securities markets and investor behaviour that appear irrational. Selden (1912) wrote Psychology of stock market. He based the book upon the belief that the movements of prices on the exchange are dependent to a very considerable degree on the mental attitude of the investing and trading public.
Shefrin (2000) notes that investors are prone to committing specific errors of which some are minor and others are fatal. By allowing psychological bias and emotion to affect their investment decisions, investors can do serious harm to their wealth. As Kahneman and Riepe (1998) note, “investors who are prone to these biases will take risks that they do not acknowledge, experience outcome that they did not anticipate, will be prone to unjustified trading, and they end up blaming themselves or others when the outcome is adverse”. Understanding the psychological basis for investor errors and taking appropriate actions to correct such errors may reduce the effects on investment decisions and potentially lead to improved investment results.

Behavioural finance as defined by Shleifer (1999) is a rapidly growing area that deals with the influence of psychology on the behaviour of financial practitioners. According to the literature available on behavioural finance, it is assumed that information structure and the characteristics of market participants systematically influence individual’s investment decisions as well as market outcomes. The behavioural finance mainly focuses on how investors interpret and take action on micro and macro information to make investment decisions. The globalization of financial markets has been increasing the retail investor’s community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process.

According to Hussein et al 2006, retail investors usually consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by variety of factors such as regular dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness programme, experience of other successful investors etc. A better understanding of behavioural processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements would help investment advisors in devising appropriate asset allocation strategies for clients. It is to be noted that the investors also show sensitivity to reference points. When stock prices fall, because of disappointing news, investors do not like to sell at loss. Here, the reference point is the original cost of purchase. The investors have a tendency to hold on to their investment and thereby to bear the losses. But some investors wait in anticipation that the stock
price would return to their purchase price before they decide to sell it without rationally evaluating the situation. The investors generally "hate to lose".

The objective of this research is to explore the impact of behavioural factors and investor's psychology on their decision-making to invest in mutual fund schemes in Odisha (India), and also to examine the relationship between investor's attitude towards risk and behavioural decision-making by retired and non-retired investors. According to behavioural finance, investor market behaviour derives from psychological principles of decision making to explain why people buy or sell stocks or other financial products such as mutual funds. Behavioural finance focuses upon how investors interpret and act on information to make investment decisions.

Various studies have been conducted in other countries but there is no comprehensive study covering investor's sentiment on mutual funds in the State of Odisha, India. Further the study of this nature should be conducted at periodical interval as investor's attitude changes from time to time depending upon the market and economic condition. Hence, this study attempts to find out the impact of investor's, both retired from regular employment and those who are still in employment in the State of Odisha, sentiment while making investments in various investment options and also their psychology (in terms of risk perception) behind investing in mutual fund schemes. In this chapter, various literature related to behavioural finance has been documented to understand various aspects of behavioural effects on investment in mutual funds schemes and also in other investment instruments to achieve their individual / family goals in various stages of life cycle.

Barbewris, Shleifer, and Vishny (1996), Daniel, Hirshleifer, and Subhramanyam (1997) explain how the judgement biases of investors can produce over-reaction to some events and under-reaction to others. The BSV model\(^7\) is motivated by evidence from cognitive psychology of two judgment biases:

(i) The representative bias of Kahaneman and Tversky (1982): people give too much weights to recent patterns in the data and too little to the properties of the populations that generates the data, and

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\(^7\) Barberis, Shleifer and Vishny (1996) explain the formation of sentiment and its influence to stock price according to the cognitive bias of the investors. They built the investor sentiment model about the belief formation, which is known as the BSV model.
Conservatism attributed to Edwards (1968): the slow updating of models in the face of new evidence.

As behavioral finance is the study of investor's behavior in financial market that derives from psychological principles of decision-making, this branch of knowledge explains why people buy or sell financial assets such as stocks, mutual funds, bonds, debentures, etc. Behavioural finance primarily focuses upon how investors interpret and act on information to make informed investment decisions. Investors do not always behave in a rational, predictable and unbiased manner as indicated by the various research findings. Behavioural finance also highlights upon investor behaviour leading to various market anomalies.

A substantial component of the behavioural finance literature examines the decision making process of all types of investors (i.e. retail investors those who are currently working as a salaried professionals; self-employed professionals and entrepreneurs) in terms of specific themes or concepts (i.e., prospect theory, over-confidence and loss aversion). For the purpose of this research various aspects of investors have been studied and their risk taking ability has been analysed by applying the basic behavioural finance concepts. Behavioural finance scholars take a different viewpoint of risk and decision-making when compared to standard finance academics. Sortino (2001) wrote “recent research in the behavioural finance area claims that investors do not seek the highest return for a given level of risk, as portfolio theory assumes - rather than maximize the expected return, they want to maximize a ‘satisfying’ strategy”.

Psychologists from the school of cognitive and experimental psychology have made the argument for many years that the basic assumptions of classical decision theory are incorrect since individuals often act in a less than a fully rational manner but many of their errors are predictable. In particular, the seminal work by Kahneman & Tversky (1979) advocated a new theory pertaining to risk-taking behaviour known as prospect theory. In effect, under the assumptions of prospect theory there are departures from rationality (i.e., classical decision theory) in terms of judgments and choice. Olsen noted prospect theory gives weight to the cognitive limitations of human decision makers.
Prospect theory explains the persistent biases driven by behavioural factors that influence individual's choices under risky conditions for a specific situation or circumstance. It assumes that people are loss averse and are more concerned with losses than by gains and, as a result, a person will assign more significance to avoiding loss than to achieving gain. This theory asserts that there are continual biases motivated by emotional (affective) and cognitive factors (mental processes) that influence a person's choices under specific situations as pointed out in Edwards (1995), Ricciardi and Simon (2000), and Ricciardi (2003). In effect, the work on prospect theory revolutionized the field of financial economics by proposing that behavioural biases in general and prospect theory in particular are better explanations of how decisions are made in risky situations (Naughton, 2002).

The field of psychology supports the notion of behavioural decision theory in which the concepts of bounded rationality, cognitive limitations, and heuristics are the theoretical foundation. Individuals usually make judgments concerning a problem that is not clearly defined, has limited knowledge of possible outcomes and their consequences, and chooses a satisfactory outcome (Simon 1947, 1956, and 1997). Behavioural finance is based on the notion of bounded rationality, in which a person utilizes a modified version of rational choice that takes into account the limitations of knowledge, cognitive issues and emotional factors. Bajeux-Besnainou and Ogunc (2003) provided this perspective: “satisfying” is an optimization methodology that involves emotions, adaptive learning and cognitive biases. Simon (2001) calls for individuals to “satisfy”, that is, to optimize until it is close enough in the traditional sense of optimization. By contrast, the traditional way of optimizing is a maximization of a utility function subject to budget constraints, as in the classic economics framework.

Cooley (1977) suggested over twenty-five years ago that risk research should concentrate on the individual decision maker (i.e., an expert professional, a individual investor) in order to gain better understanding into the valuation process. This was based on laboratory experiments and mailed surveys that document the wide range of behavioural risk characteristics and financial risk indicators that influence an individual’s perception of risk.
An observation by Frankfurter, McGoun, and Chiang (2002) provides an interesting closing quote: behavioural finance has looked at risk in greater depth and found that attitudes towards risk are not logical. They concluded that real individuals usually have to address risk in situations that they have never encountered before and will never encounter again, for which statistical techniques are largely irrelevant. They also observed that there is clearly much more to risk than finance has begun to consider, and much of it involves how people form images of the events of which they are expected to assess the risk.

Dhar, and Ning Zhu (2006) documented biases in investor behaviour, with regard to the disposition effect. The disposition effect refers to the tendency to sell previously purchased stocks that have appreciated in price ("winners") and the reluctance to sell those that are trading below their purchase price ("losers"). Their work clearly points out that differences in trading frequency and demographic characteristics that proxy for knowledge about investment products are in part responsible for the variation in the disposition effect. Due to tax considerations, investors with high disposition effect will have lower after tax returns than what they could possibly obtain without suffering from the disposition effect. The bigger the disposition effect, the greater an investor could suffer from this bias. Their work on "Disposition effect" shows that individuals who are of "low-income" and work in "non-professional" occupations show the highest disposition effect among all investors. It is particularly unfortunate as the changes in investment return may have the adverse impact on such investors.

Brad, Barber, Odean (2000) also did a study by measuring the effect of attention and news on the buying behaviour of retail and institutional investors’ and confirmed the hypothesis that retail investors are net buyers of attention grabbing stocks. Attention-based decision-making has implications for a wide variety of economic situations (for example, hiring decisions or consumer purchases). Authors have tested investor’s decision making in the context of buying equity shares. But it is argued by other researchers that many investors solve this search problem by considering for purchase only those stocks that have recently caught their attention. Under an adverse market conditions, investors do not buy every stock that attracts their attention. Within the group of stocks that do attract their attention, investors are likely to have personal preferences-contrarians, for example, may select stocks that are out of favor with
others. But whether a contrarian or a trend follower, an investor is less likely to purchase a stock that is out of the limelight.

Henrik, C. and Stephan, S. (2010) stated that the cross-sectional heterogeneity is the key to measures of investment behaviour into genetic and environmental influences. They found that up to forty five percent of the variation in stock market participation, asset allocation, and portfolio risk choices is explained by a genetic component. Genetic variation is a very important explanation for variation in investment behaviour compared to the influence of education, net worth, entrepreneurial activity etc.

Kahneman and Tversky (1979) found in their work, “Prospect Theory - An Analysis of Decision under Risk”, that the individuals make decisions based on the potential value of losses and gains rather than the final outcome, and people evaluate these losses and gains using interesting heuristics.

2.3 RISK DEFINED: REVIEW OF LITERATURE

Perceived risk (risk perception) is the subjective decision-making process that retail investors employ after taking into account risk and the degree of uncertainty. The term is most frequently used with regard to risky personal activities and potential dangers such as environmental issues, health concerns or new technologies. The study of perceived risk as a branch of behavioural finance has been developed from the discovery that novices and experts repeatedly failed to agree on the meaning of risk and the degree of riskiness for different types of technologies and hazards in investing. Perception is the process by which an individual is in search of most excellent clarification of sensory information so that he or she can make a final judgment based on the basis of expertise and past experience.

Risk clearly has a comprehensive presence in a wide range of the current literature especially on financial, economic, social, and technological issues. The basic definition of risk generally carries a “negative connotation” such as the possibility of harm, loss, destruction, or an undesirable event. Thus, if investors want to place themselves “at risk” it implies that they want to partake either voluntarily or involuntarily in an activity or activities that might result them in harm, loss, or an undesirable event. In the literature, risk is defined as “danger of making loss”. Risk
appears when an uncertainty may or may not occur in the future. If the future is not
definitely predicted, the investor will face uncertainty or risk.

Decisions about a retail investor’s investment are resulted with the fact that
investor undertakes risk by investing in wide range of financial and non-financial assets
and create a portfolio. When considered from financial perspective, risk can be defined
as “real rate of return from a portfolio or from a single asset differs from the
individual’s own expected rate of return from the portfolio or that asset”. In general,
larger the distribution range of return, higher will be the risk. In case of investment in
financial asset such as stock or mutual funds, risk might be considered a decision
customized to realize or failure to reach a impending investment objective.
Fundamentally, quantitative measures such as beta, standard deviation, semi-variance,
skewness, and kurtosis have been identified as different dimensions of risk perceived
by investors. (Modani, Cooley, and Roenfeldt, 1983).

Renn (1998) focused on the human element of risk, when he stated “risks refer to the
possibility that human actions or events lead to consequences that affect aspects of
human value”. The human element of risk is highly significant if we assume it on a
micro-level that the decision maker is one of the most important aspects of defining and
understanding risk instead of merely within a macro-level such as all the participants in
the financial markets as a whole. Renn also opined that risk incorporates a systematic
set of prospects and statistical chances that include gains (upside risk) and losses
(downside risk).

Lane and Quack (1990) defined risk as a state in which the number of possible future
events exceeds the number of actually occurring events, and some measure of
probability can be attached to them. Risk is thus seen to differ from uncertainty where
the probabilities are unknown. Such a definition is beholden to mathematically inspired
decision theory, and the “rational actor” model, and does not sufficiently consider the
complexity of risk in business. The technical definition of risk is usually described as
follows: the word risk refers to situations in which a decision is made whose
consequences depend on the outcomes of future events having known probabilities.
According to a study by Lopes (1987) irrespective of the form of loss, risk is considered the product of the consequence of an event and its probability of occurring: 
\[ \text{Risk} = \text{Consequence} \times \text{Probability of Occurrence} \]
Another viewpoint of risk expressed by Kaplan and Garrick (1981) in the following manner: 
\[ \text{Risk} = \text{Uncertainty} + \text{Damage} \]
This perspective demonstrates that risk involves a factor of uncertainty and a potential loss that might be incurred. In essence, risk is the potential for recognition of unwanted, undesirable consequences to human life, health, wealth, or the environment. Markowitz (1952) first proposed that investment portfolios could be evaluated in terms of their expected return and the riskiness of that return. Over the years, the standard definition of risk that developed within academic finance was based on complex statistics and mathematics, in which risks are narrowed to purely objective measurements and figures.

Haslem (2003) provided an extended application of the widely accepted view of academic finance. Risk is the other side of return. Returns comprise two elements, the periodic payment of interest or dividends (yield) and change in asset values over a period of time (capital gains/losses). The capital asset pricing model (CAPM) posits that return and risk are positively related - higher return carries higher risk. It’s the belief of this author that investor risk is a situational, multi-dimensional judgment process that is dependent on the specific characteristics of the financial product or investment service.

2.4 REVIEW OF LITERATURE ON PERCEPTION

Most of the academic studies on risk or investor perception fail to express a working or introductory definition of the phrase perception or neglect to address the issue of perception in any manner. Gooding (1973) has provided an extensive discussion of perception from a behavioural perspective in the area of investor perception. With the notion of perception implies that there is a component of subjective risk, which is not recognized by most academics from the disciplines of accounting, economics, or finance. Webster’s dictionary defines perception as the act of perceiving or the ability to perceive; mental grasp of objects, qualities, etc. by means of the senses; awareness and comprehension. A psychological definition of perception is the process by which the brain organizes and interprets sensory information (Wade and
Tavris 1996). The field of organizational Behaviour offers the following perspectives on perception:

1) The key to understanding perception is to recognize that it is a unique interpretation of the situation, not an exact recording of it. In short, perception is a very complex cognitive process that yields a unique picture of the world, a picture that may be quite different from reality (Luthans, 1998).

2) Perception is the selection and organization of environmental stimuli to provide meaningful experiences for the perceiver. It represents the psychological process whereby people take information from the environment and make sense of their world. Perception includes an awareness of the world, various events, different people, objects, situations, and so on. It involves searching for, obtaining, and processing of information about that world (Hellriegel, Slocum and Woodman, 1989).

Literally the term “Perception” is how a person becomes conscious about the world and her/his existence in the world. Perception is fundamental to understanding behaviour since this process is the technique by which stimuli affect an individual. In other words, perception is a method by which individuals organize and interpret their sensory intuitions in order to give meaning to their environment regarding their awareness of “events” or “things” rather than simply characteristics or qualities. Perception is a search for the best explanation of sensory information an individual’s self knowledge and past experience. Sometimes during this perceptual process, illusions can be intense examples of how an individual might misconstrue information and incorrectly process information (Gregory 2001).

Ittelson and Kilpatrick (1951), provided the following viewpoint on perception: What is perception? Why do we see what we see, feel what we feel, hear what we hear? We act in terms of what we perceive; our acts lead to new perceptions; these lead to new acts, and so on in the incredibility complex process that constitutes life. Clearly, then an understanding of the process by which man becomes aware of himself and his world is basic to any adequate understanding of human behaviour. Perception is a functional affair based on action, experience and probability. While Morgan and King (1966), elaborated further with their description of perception from the field of psychology. The authors provided two distinctive definitions of perception:
1) Behaviourists, often use the term perception as the process of discrimination among stimuli among the individual investors.

2) Another definition of perception refers to the world as experienced based on what is seen, heard, felt, smelled, and tasted. One can use her/his own experience to give some good clues to the other person’s experience.

The literature seems to have a wide interpretation among the different branches of psychology regarding the exact meaning of perception according to works by Allport (1955), Garner, Hake, and Eriksen (1956), Hochberg (1964), Morgan and King (1966), Schiffman (1976), Bartley (1980), Faust (1984), McBurney and Collings (1984), Cutting, (1987), Rock, (1990), Rice (1993), and Rock (1995) which is a similar predicament regarding the different interpretations of risk perception across various disciplines. Individuals from the area of finance and investments might want to focus on the basic characteristics of perception, including:

1. An individual’s perception is based on their past experience of a similar event, situation or activity;
2. People focus or pay attention to, different components (information) of the same situation;
3. A major premise of perception is, individuals have the ability to only process a limited number of facts and pieces of information at a time in order to make a judgment or decision concerning a certain activity, event, or situation;
4. In general, it’s human nature to organize information so we can make sense of it. Generally, people have a tendency to make new stimuli match with what they already understand and know about their environment.
5. A stimulus (impulse) that is not received by an individual has no influence (effect) on their behaviour while, the stimulus they believe to be authentic, even though factually inaccurate or unreal, will affect it;
6. Perception is the process by which each individual senses reality and arrives at a specific understanding, opinion, or viewpoint;
7. What an individual believes or perceives may not truly exist;
8. A person’s behaviour is based on their perception of what reality is, not necessarily on reality itself; and
9. Lastly, perception is an active process of decision-making, which results in different people having rather different, even opposing, views of the same event, situation or activity.

Kast and Rosenzweig (1974) summaries the entire discussion of perception as a direct line of “truth” which is often assumed, but each person really has only one point of view based on individualistic perceptions of the real world. Some considerations can be verified in order that several individuals can agree on a consistent set of facts. However, in most of the real-life situations, many conditions cannot be verified because it can vary considerably for different individuals.

It has been suggested in the literature that high hope can lead to lower risk perception, which can lead consumers to harmful Behaviours. For instance, a consumer who has a high level of hope can underestimate risks and be more prone to indebtedness (Almeida et al., 2007, Fleming, 2008, McInnis and De Mello, 2005). Accordingly, hope has been shown to be an important element in the purchase of personal credit, which appears to be more likely to happen when consumers have income restrictions, what would make their current conditions much lower than the desired one (Clotfelter & Cook, 1989, Fleming, 2008, Hamilton, 1978 and Lazarus, 1999).

The concept of hope is important to a number of fields, such as Philosophy, Theology, Nursery, Medicine, and also in behavioural finance and social sciences. However, due to conflicting definitions found in the literature, the concept of hope still needs to be better developed (Elliott and Olver, 2007, McInnis & Chun, 2007, Sigstad and Vanzellotti, 2007) to be operationalized in an empirical research. Present study has tried to first identify the objective of the investment of retail investors (retail investor) and their hope and expectation from such investments. Secondly, with the various investment options considered for the study, an effort has been put to find out the preference (liking) for a particular investment options. Thirdly, after finding the liking or degree of options, study find out duration of the holding of such investment option (investment for long-term or short-term). Fourthly, perception of the retail investor’s risk perception has been identified. Every investor hopes for a particular outcome, such as, greater returns on the amount invested; but if the outcome of such investment is not as per the “hope”, taking into consideration of the investment goals, then there could be
a failure. The hope leads the person to mentally draw a path to achieve the desired outcome, being capable of visualizing herself or himself in the future, where current difficulties will be overcome (Snyder, 2000). Hope works as an incentive, an extra strength for the person to achieve positive outcomes for the desired goals (Almeida et al., 2007). For its motivational characteristic, hope seems to be relevant, capable of influencing attitudes and investment behaviour (MacInnis and De Mello, 2005).

Some authors suggest (MacInnis and Chun, 2007, MacInnis and De Mello, 2005) that risk perception in purchase decisions is lower when hope is strong. It is because, a) stronger levels of hope may increase the perception of achieving desired goal and vice versa; and b) severities of the consequences may be based on the negative or positive risk perception.

Even though these authors have not empirically tested these propositions, those reasons make it reasonable to suppose that it is by lowering risk perception that hope influences the propensity to indebtedness. However, there are some explanations in the literature pointing other directions. For example, instead of reducing risk perception, hope may just increase the perception that the risk-return relation is worthwhile (Bell, 1995, Chen, 2007, MacInnis and Chun, 2007, MacInnis and De Mello, 2005). In addition, some studies found that higher levels of hope are related to preventive behaviours (Snyder, 2000), which would lead to an understanding that hope would actually increase risk perception. Finally, some studies found that a decrease in risk perception would not necessarily lead to riskier behaviours (Becker, et al, 1977 and Langlie, 1977).

2.5 REVIEW OF LITERATURE ON RISK PERCEPTION AND ITS INFLUENCE ON INVESTOR’S DECISION-MAKING

Several studies have been conducted by various researchers which identified that psychology that may influence a person’s perceived risk of specific situation or activity. Since 1960s, the topic of perceived risk has been employed to explain consumer’s behaviour. Fundamentally, within the framework of consumer behaviour, perceived risk is the risk a consumer believes to exist in the purchase of goods or services from a particular merchant, whether or not a risk actually exists. The concept of "perceived risk" has a strong foundation in the area of consumer behaviour that is rather analogous to the discipline of behaviour finance (i.e., there are similarities
regarding the decision-making process of consumers and investors). Based on the individual risk perception, which is a major factor, investors decide the investment in a particular financial asset for a particular investment horizon and with a particular amount.

According to Rohrmann, & Renn, (2000) the investigation of risk judgments (the principal foundation of risk research) is typically focused on issues of risk acceptance (i.e., in terms of individual vs. societal concerns), and scholars from psychology are specifically concerned with the fundamental aspects of how information is processed (i.e., the influence of heuristics and cognitive biases) as well as linked to actual behaviour in risky activities. Another important area of investigation is the issue of personality traits and demographic differences among survey respondents. In addition, the results can be linked to statistical data on hazardous events, which are applied to communication programs. Recently, cultural factors in risk perception research have become a significant area of study.

Perception mapping of risk of retail investor also pertains to the area of information processing (i.e., cognitive issues and/or emotional factors) including the availability heuristic, issues of overconfidence, the principle of loss aversion, the concept of representativeness, issues of framing, the topic of anchoring, the notion of familiarity bias, the factors of perceived control, the issues of expert knowledge, the role of affect (feelings), and the influence of worry. There are a substantial number of factors that influence a person’s risk perception and there has been an ever-growing body of research that has attempted to define risk, categorize its attributes and comprehend (understand) these various issues and their specific effects (Slovic, 1988). In some academic circles, it has been acknowledged that perceived risk might be of more significance than actual risk within the decision-making process. Risk perception studies have been conducted across a wide range of academic fields, with the leading ones being from the social sciences, primarily from psychology.

Cox and Rich (1964) provided a more precise definition of perceived risk. They believed it’s a function of consequences (the dollar at risk from the purchase decision) and uncertainty (the person’s feeling of subjective uncertainty that he or she could “gain” or “lose” from the transaction). They also stated that, perceived risk refers to
the overall amount of uncertainty perceived by a consumer in a particular purchase situation. Risk theory suggests that consumers perceive some degree of uncertainty in most buying situations. This uncertainty or perception of risk may produce anxiety which, in turn, influences the consumer decision-making process.

Stone and Gronhaug (1993) made the argument that the marketing discipline mainly focuses on investigating the potential negative outcomes of perceived risk. This focus on the negative side of risk is similar to the area of behavioural finance in which scholars examine downside risk, the potential for below target returns, or the possibility of catastrophic loss.

Tarpey and Peter (1975) developed six components or dimensions of perceived risk including financial, product performance, social, psychological, physical, and time/convenience loss. Their study was not solely concerned with the consumer’s judgments as related to perceived risk (in which consumers minimize risk) rather they investigated two additional aspects:

1) Perceived risk, in which the consumer makes purchase decisions which maximizes perceived gain, and;

2) Net perceived return in which the decision maker’s opinion consists of both risk and return. These two components are analogous to the tenets of modern portfolio theory in standard finance (i.e., the risk and return relationship of the efficient frontier) by Markowitz (1952), Sharpe (1963), and Sharpe (1964).

Human judgments, impressions and opinions are fashioned by our background, personal understanding, and professional experiences. There are a substantial number of factors that influence a person’s risk perception and there has been an ever-growing body of research that has attempted to define risk, categorize its attributes and comprehend various issues and their specific effects (Slovic, 1988).

In some academic circles, it has been acknowledged that perceived risk might be of more significance than actual risk within the decision-making process. Risk perception studies have been conducted across a wide range of academic fields, with the leading ones being from the social sciences, primarily from psychology. These groups were interdisciplinary, but the leading academic involvement has been
psychological and the methodology is mainly “psychometrics”. Perceived risk has broad application across various business fields including: consumer behaviour, marketing, behavioural finance, and standard finance.

These academic disciplines attempt to examine how a person’s feelings, values, and attitudes influence their reactions to risk, along with the influences of cultural factors, and issues of group behaviour. Individuals frequently misperceive risk linked with a specific activity because they lack certain information. Without accurate information, or with misinformation, people may make an incorrect judgment or decision (Lee, 1999). All of these different issues demonstrate that a person may possess more than one viewpoint regarding the acceptability or possibility of a risky activity depending upon which factor a person identifies at a certain period of time. So, it is understandable that we cannot simply define risk perception to a single statistical probability of objective risk (i.e., statistical variance) or a purely behavioural perspective (i.e., the principles of heuristics or mental shortcuts); instead the notion of perceived risk is best utilized with an approach that is interdisciplinary and multi-dimensional in nature for a given situation, activity, or event (Ricciardi 2003, 2004). When an individual makes judgments pertaining to a financial security, it incorporates both a collection of financial risk measurements and behavioural risk indicators (Ricciardi, 2004).

Risk is a distinct attribute for each individual for the reason that what is perceived by one person as a major risk may be perceived by another as a minor risk. Risk is a normal aspect of everyone’s daily lives. There is no such thing as a judgment with “zero risk” or without a “degree of uncertainty”. Risk perception is the way people “see” or “feel” regarding a potential danger or hazard. The concept of risk perception attempts to explain the evaluation of a risk situation (event) on the basis of instinctive and complex decision-making, personal knowledge, and acquired information from outside environment (i.e., different media sources).

Sitkin and Weingart (1995) defined risk perception as an individual’s assessment of how risky a situation is in terms of probabilistic estimates of the degree of situational uncertainty, how controllable that uncertainty is, and confidence in those estimates. Although we use the term risk perception to mean how people react to various risks, in
fact it is probably truer to state that people react to hazards rather than the more nebulous concept of risk. These reactions have a number of dimensions and are not simply reactions to physical hazard itself, but they are shaped by the value systems held by individuals and groups (Falconer, 2002).

Horvarth and Zuckerman (1993) suggested that one’s biological, demographic and socio-economic characteristics, together with his/her psychological make-up affects one’s risk tolerance level.

According to Falconer (2002) term risk perception is to mean how people react to various risks. In fact it is probably truer to state that people react to hazards rather than the more nebulous concept of risk. These reactions have a number of dimensions and are not simply reactions to physical hazard itself, but they are shaped by the value systems held by individuals and groups. The prevalent technical jargon from the risk perception literature emphasizes the terminology risk, hazard, danger, damage, catastrophic or injury as the basis for a definition of the overall concept of perceived risk. Risk perception seems to encompass both component of hazard and risk. The concept appears to entail an overall awareness, experience or understanding of the hazards or dangers, the chances, or possible outcomes of a specific event or activity.

MacCrimmon and Wehrung (1986) divided perceived risk into three main groups: a) The amount of the loss, b) The possibility of loss, and c) The exposure to loss. Perceived risk is a person’s opinion (viewpoint) of the likelihood of risk (the potential of exposure to loss, danger or harm) associated with engaging in a specific activity.

Renn (1990) provided an outline of findings in which perceived risk was viewed as the function of the following:

1. Intuitive heuristics, such as availability, anchoring, overconfidence, and others;
2. Perceived average losses over time;
3. Situational characteristics of the risk or the consequences of the risk event;
4. Associations with the risk sources;
5. Credibility and trust in risk-handling institutions and agencies;
6. Media coverage (social amplification of risk-related information);
7. Judgment of others (reference groups); and
8. Personal experiences with risk (familiarity).
The groundwork pertaining to the “behavioural component” of risk perception studies under behavioural finance was developed by various scholars Starr, Rudman, and Whipple (1976), Fischhoff, Slovic, Lichtensten, Read and Comb (1978), Slovic, Fischhoff, and Lichtenstein, (1980), and Slovic, Fischhoff, and Lichtenstein, (1985) from the previous works related to hazardous and risky activities. These research studies were commonly involved with determining how people assess risk on different hazardous activities, and what aspects involved in their risk perceptions across various risky activities. Some important trends and findings from this collection of studies are listed below which can be well applied to investor’s behaviour and how they view different investment options:

a) Perceived risk is measurable and predictable as well as subjective and descriptive in nature.

b) These collections of studies established the psychometric approach as well as the importance of factor analysis in the area of risk perception studies.

c) The notion of an inverse relationship between perceived risk and perceived gain (benefit).

d) The risk characteristics (indicators) that have been has been reiterated in various risk perception studies and confirmed by the researchers that basic 7-point or 5-point Likert scale format is most suitable for the measurement of risk variables.

The issues and findings from the different social science researches about major behavioural factors which influence the decision on investment are following:

a) **Familiarity**: Individuals are more comfortable and tolerant of risk when they are personally familiar with the specific activity, situation, or event.

b) **Controllability**: People undertake more risk when they perceive they are personally in control since individuals are more likely to trust their own abilities and skills when engaging in a risky activity.

c) **Media attention**: The public has higher levels of anxiety regarding issues that we are sensitive to and that we believe are significant and credible. Media reporting of certain topics increases our recognition of a problem and our belief in its credibility.
d) **Frequency:** Our perception in the frequency (rate of occurrence) of an activity or activity affects our perceived risk. If people do not believe that the risky activity will take place, they are more likely to accept the risk.

e) **Personal vs. Societal:** Individuals are willing to only assume risks that concern us. People apply a much higher benchmark to protect the general public from potential risk activities.

f) **Dread:** People have a substantial anxiety or dread of risks whose severity we judge but we cannot control. These types of risks are considered to be catastrophic, lethal, hard to prevent, unfair and threatening to future generations.

g) **Trust:** The higher the level of public trust on the information provided by experts about the risky activity, the lesser the anxiety (dread) of the individuals regarding the specific situation.

h) **Voluntariness:** Individuals reveal less anxiety or fear towards risk that we voluntary expose ourselves to rather than a risk, which he or she is required to engage in (involuntary risk).

i) **Catastrophic Potential:** Individuals display a tendency to have an increased level of perceived risk for activities they may injure or kill a lot of the public immediately and violently. There is less anxiety over chronic risks since they occur over a long period of time and not all in one occasion.

j) **Benefit:** The more an individual perceives a benefit from a potential risky activity the more accepting and less anxiety towards that risky activity, event, or situation.

k) **Knowledge:** The more individuals perceive an activity as difficult to understand (lack of knowledge) the increased anxiety or fear they have towards it.
2.6 REVIEW OF LITERATURE ON DEMOGRAPHIC AND INVESTMENT DECISIONS

Investing in various assets with an expected future return is always an interesting activity that fascinates people from all walks of life. For a retail investor, it is the deployment of their hard earned money out of monthly income in an investment option with an object of capital appreciation or recurring income (in the form of dividend or interest). Post 1990, financial service sector has become highly diversified and offering numerous investment options which suits different investors as per their investment preferences. Previous research shows that the portfolios held by retail investors had very few stocks and mutual funds which fail to diversify adequately (Kiran and Rao 2004).

The investment strategies of one investor are quite different from another. The motivation to invest and expectation from the investment is complex and depends upon multiple factors. Researchers across different nations have analyzed the behavior of investors and have attempted to explore the issues why people manage investments in different ways. Today, an extensive body of literature exists to explain investor’s portfolio practice, preferences and pattern of investment, factors affecting their investment behavior and the issues faced by them, etc. to forecast the investor’s behavior. Retail investors mainly consists of household investors either salaried or self employed professionals. A considerable proportion of investing population belonging to retail investor’s group is retired from regular employment. They are found to investing regularly either in their own name or in the name of the family. For most of the retail investors, investing is a way of saving for retirement or for the education of children. These retail investors are prepared to accept medium to high risk in the pursuit of high returns so that they can achieve their family goals.

Earlier studies have been carried out to determine the pattern of institutional investor’s investment but studies dealing with investment pattern of retail investors are very few. Previous studies mainly concentrated on difference in individual investing pattern based on gender. Differences on the basis of age and investment pattern are new avenue for research. Earlier studies concluded that women invested their asset portfolios more conservatively than their male counterparts. Women’s investment has historically been lower than men’s for several reasons, including social and various
demographic factors. However, the differences continue to be significant even after controlling the individual characteristics (Schmidt and Sevak 2006).

There is evidence that women are more risk averse than men in general and this translates into investing in less risky assets in their investment plans (Julie 2003). Differences in financial literacy between men and women may also explain differences in their investment decisions. There is some research on individual investors for e.g. Langer (1975) finds that self reported risk tolerance does the best job of explaining differences in both portfolio diversification and portfolio turnover across retail investors. Dunham (1984) admits that although personality factors can change over an extended period of time, the process is slow and tends to be stable from one situation to another.

Therefore, these factors are expected to influence the decision-making behaviour of an individual. Bamewall (1987) finds that an individual investor can be found by lifestyle characteristics, risk aversion, control orientation and occupation. Bamewall (1988) suggests the use of psychographics as the basis of determining an individual’s financial services needs and takes one closer to the truth from the customer’s perspective of need to build a marketing program.

Sreepriya and Gurusamy (2013) conducted research on the investment pattern on 150 salaried persons. The investment securities considered in this study are equity, municipal bonds, corporate bonds, real estate, gold post offices and bank deposits. They also measured investment level according to educational qualification. Major findings of this research paper are salaried persons always invested to secure their future. They preferred increments on their investments but they were possessive about their investments rather than high returns or gains on investments. These preferences vary from one another because every individual investor has different level of investments, savings, needs and returns requirements.

Statman (1988) observed that people trade for both cognitive and emotional reasons. They trade because they think they have information, when in reality they make nothing but noise and trade only because trading brings them joy and pride. Trading brings pride when decisions made are profitable, but it brings regrets when they are not.
Investors try to avoid the pain of regret by avoiding realization of losses, employing investment advisors as scapegoats and avoiding stocks of companies with low reputations. Harlow and Brown (1990) observed that psychologists tend to believe that an individual’s choice is primarily determined by factors unique to the particular decision setting, whereas economists assume that there is some individual specific mechanism playing a common role in all economic decisions.

Olsen and Cox (2001) found in their study that women investors weight risk attributes, such as possibility of loss and ambiguity, more heavily laden than their male counterparts. In addition, as an investor, female counterparts tend to emphasize risk reduction more than men in portfolio construction. While gender differences appear to influence perceptions of risk and recommendations to clients, these differences tend to be the most significant for assets and portfolios at risk extremes. There is extensive evidence that when faced with social and technological hazards, women are more risk averse than men. This appears to be so even when decision-makers of both genders have the same level of expertise and experience. In the investment realm, non-professional women investors also appear to accept less risk than their male counterparts, after controlling for factors such as age, education, wealth and experience. Although the precise reason for this gender difference in risk taking is unknown, it appears to be related to evolutionary and social factors.

Rajarajan (2011) conducted a study entitled, “Investors Life Styles and Investment Characteristics”, with the objective of analyzing the investors life styles and to analyse the investment size, pattern and preference of retail investors on the basis of their life styles. Data was collected from 405 investors in Chennai by administering questionnaire method. The investors were classified into three groups’ viz., active investors, individualists and passive investors. Cluster Analysis, Correspondence Analysis and Kruskal Wallis Test were used in their study to find out the association between lifestyle groups and the various investment related characteristics. The study revealed that the level of expenses, earnings and investment were associated with the size of the household. Active investor group was dominated by officers, individual group by clerical cadre and passive investors group by professionals. The expected rate of return from investments varied between investment styles. The study clearly indicated that market performance of the share, company’s operating level, capital
performance and the expectation of the investors were found to influencing the risk perception of the investors.

Bandgar (2011) in his study titled, “A Study of Middle class Investor’s Preferences for Financial Instruments in Greater Bombay”, studied the existing pattern of financial instruments in India and the performance of middle class investors, their behaviour and problems. Questionnaire was administered to collect data. Average, Skewness, Chi-square test and Fisher Irving Test were used to analyse the data. The study revealed that only 16% of the investors were facing difficulties in buying and selling securities. Middle-class investors were highly educated but they were lacking skill and knowledge to invest. Female investors preferred to invest in risky securities as compared to male investors. The study also revealed that there was a moderate and continuing shift from bank deposits to shares and debentures, and a massive shift towards traditional financial instruments namely, life insurance policies and government securities.

Warren et al. (1990) and Rajarajan (2000) predicted individual investment choices (e.g., stocks, bonds and real estate) based on lifestyle and demographic attributes. These investor’s rewards were contingent upon their own behaviour (Rajarajan, 2002). Gupta (1991) argued that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. Risk tolerant investors behave as though they can control risk. This suggests that risk tolerance serves as a proxy for an “illusion of control” and thus overconfidence [Madhusoodanan (1997), Odean (1998), Barber and Odean (2001), Benartzi and Thaler (2001), Gervais and Odean (2001), and Daniel and Huberman (2003)].

Grinblatt and Keloharju, (2011) in their study titled, “The Investment Behaviour and Performance of Various Investor Types: Study of Finland’s Unique Data Set”, analyzed the extent to which past returns determined the propensity to buy and sell. The study revealed that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly households contradicted the same. This difference in investor behaviour was consistent in regular intervals. The portfolios of foreign investors outperformed the portfolios of households, even after controlling the behaviour difference.
Pandian and Christopher (2010) conducted a study titled, “A Study on Equity Investor Awareness” in order to study the stock market literacy of the investors about the company, stock exchanges as well as capital market regulatory bodies. The primary data using multiple regressions, path analysis and chi-square test along with ANOVA clearly showed the difference in the awareness among the investors. The research work found that the awareness index was high among young male investor, post-graduates and meticulous business men.

Society for Capital Market Research and Development (2009), conducted a survey titled, “Indian Household Investors Survey-2004”. The study was based on direct interviewing of a very large sample of 5908 household heads over 90 cities spread across 24 states. The study stated that price volatility, price manipulation and corporate mismanagement / frauds have persistently been the household investors’ top three worries in India. A large percentage of investors had a negative opinion on company management. A majority of retail investors in India did not regard mutual fund equity schemes as superior investment alternatives to direct holding of equity shares. Retail investors overwhelmingly preferred bank deposits rather than liquid / money market funds. Shareholding in 3-10 companies is the dominant practice among retail shareholders in all income and age classes. Middle class investors were long-term and conservative. Equity shares had achieved a much higher degree of penetration among middle class households compared to other capital market instruments.

Nayak (2010) analyzed the significance of difference between the various demographic variable and investor’s knowledge of grievances. Awareness of functions of redressed agencies and loading of complains were found to be some of the factors affecting their satisfaction level. He concluded that professionals and servicemen being more educated were expected to be more rational in their decisions, where as business man were more daring, risk bearing, and instinctively investment-minded. Agriculturists were generally less informed and passive to making investment so they suffered from all the traits and were prone to grievances.

Chaiubey and Dimri (2009) in their research article, “Investment Pattern: A Psychographic Study of Investors of Garhwal Region of Uttrakhand” identified the investment perceptions and their behaviour for designing effective investment policies.
Researchers wanted to identify the investment objectives that instigate or motivate the investor to make investment in the equity market. Analysis indicates the shifting trend of investors from post office and other government investment schemes to investments in banks, mutual funds, and equity, etc. Based on the above literature, it was known that retail investors' investment pattern, investment priority, risk-return perception, and their investment objectives could be understood very little.

Chandra (2008) stated that the decision-making by individual investors is usually based on the factors such as age, education, income, investment portfolio, etc. The impact of behavioral aspects like greed and fear, cognitive dissonance, heuristics, mental accounting of investing is, however, often ignored.

2.7 REVIEW OF LITERATURE ON INVESTOR'S AWARENESS AND INVESTMENT BEHAVIOR

According to the Annual MasterCard's index for financial literacy 2013, overall financial literacy, India is at the bottom among 16 countries in the Asia-Pacific region with 59 index points. The index is based on a survey conducted between April 2013 and May 2013 with 7,756 respondents aged 18-64 years. The survey polled consumers on three aspects—basic money management (50% weight), financial planning (30% weight) and investment (20% weight)—to arrive at the overall financial literacy index. The survey does show lack of penetration of financial products and literacy in India compared with other nations. Investors who demonstrated awareness took better decisions on investment.

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8 Annual MasterCard’s index: MASTERCARD is a technology company in the global payments industry. The index is based on a survey of consumers from 25 markets across APMEA and comprises questions covering three major components:

- Basic Money Management (50% weight): To determine the level of basic money management skills in terms of budgeting, savings, and responsibility of credit usage.
- Financial planning (30% weight): To assess level of knowledge about financial products, services, and concepts, and ability to plan for long-term financial needs.
- Investment (20% weight): To determine basic understanding of the various risks associated with investment, different investment products and skills required.

A Financial Literacy Index Score for each market was calculated out of the weighted sum of the 3 components. Regional Aggregates are calculated via the average of the individual country components before applying the weights described above.
Suriya, Narayanan and Arivazhagan (2012) in their study revealed that female have a tendency to get more information before investment. Investors dominated the investment market in India. According to their survey, majority of the investors were found to be considering two or more sources of information to make investment decisions. Most of the investors discuss with their family and friends before making an investment decision.

Shanmugasundaram and Balakrishnan (2011) conducted research to analyze the factors influencing the behaviour of investors in capital market. They concluded that demographic factors influence the investors' investment decisions.

Bloomfield, Libby and Nelson (2011) in their study titled, “Confidence and the Welfare of Less Informed Investors”, have indicated that less informed investors are over confident in investments. Providing more information only to professional investors could harm the welfare of less informed investors if less informed investors are not aware of the extent of their informational disadvantage.

SEBI – NCAER Survey (2010) started such awareness program for small investors, benefiting, in terms of value investing and informed investing from retail investors.

Statman (2010) in his research titled, “A Century of Investors”, compared the investors a century ago with investors today. He concluded that today’s investors are informed much faster than their predecessors, but they are neither better informed nor better behaved.

Shobana and Jayalakshmi (2010) in their study titled, “Investor Awareness and Preferences”, studied the 100 investors’ preferences, level of investor awareness and the factors influencing investor awareness in Salem District. The study revealed that real estate, bank deposits and jewellery were the preferred investments. Investors above 50 years of age, post graduates and professionals had high level of awareness. Age and education did not have any significant influence over investor awareness but occupational status led to difference in the awareness level of people.
Mahabaleswara (2009) in his paper, “Behavioural Finance- A Discussion on Individual Investor Biases”, made an attempt to throw light on the investors’ biases that influence decision-making process. Empirical studies have time and again proved that the irrational behaviour have caused stock market bubbles and crashes. The knowledge so developed through the studies would provide a framework of behavioural principles within which the investors react. The article suggested for a time bound program to educate and counsel the retail investors about the wisdom required in stock trading and be aware of unethical and tactical practices of brokers, shady dealings of the companies and the insider trading.

Jones (2007) in his article, “Investment with a Conscience: Examining the Impact of Pro-Social Attitudes and Perceived Financial Performance on Socially Responsible Investment Behaviour”, addressed the growing industry of socially responsible retail investment profile of mutual funds. The study examined the impact of a number of pro-social, financial performance, and socio-demographic variables on SRI behaviour in order to explain why investors choose to invest different proportions of their investment portfolio in SRI profiled funds. Some private investors including women were investigated and the results showed that women and better-educated investors were more likely to invest a greater proportion of their investment portfolio in SRI. Overall, the findings indicated that both financial perceptions and pro-social attitudes are connected to consumer investment in SRI.

Desigan et al (2006) conducted a study on “Women Investor's Perception Towards Investment” and found that women investor’s basically are indecisive in investing in mutual funds due to various reasons like lack of knowledge about the investment protection and their various investment procedures, market fluctuations, various risks associated with investment, assessment of investment and redressal of grievances regarding their various investment related problems. Savings as a habit specially embodied into women. Even in the past, when women mainly depended on their spouses’ income, they used to invest to meet emergencies as well as for future activities. In those days, women did not have any awareness about various investment outlets. But as time passed, the scenario has totally changed.
The terms financial literacy, financial knowledge and financial education often are used interchangeably in the literature and popular media. Few scholars have attempted to define or differentiate these terms. Unlike health literacy, which is typically measured using one of the three standardized tests, there currently are no standardized instruments to measure financial literacy. Therefore, Marcolin and Abraham (2006) identified the need for research focused specifically on measurement of financial literacy. They observed that financial literacy has an additional application dimension which implies that an individual must have the ability and confidence to use his/her financial knowledge to make financial decisions. Financial education is an input intended to increase a person's human capital, specifically financial knowledge and/or application (i.e., financial literacy). A well-designed financial literacy instrument that adequately captures personal finance knowledge and application can provide insight into how well financial education improves the human capital needed to behave appropriately to enhance financial well-being. It is increasingly apparent that financial mistakes can impact individual welfare as well as create negative externalities that affect all economic participants.

Phillip (1995) reported changes in financial decision-making and investor behaviour as a result of participating in investor education programs sponsored by employees. In India, SEBI started such awareness program for small investors, which has started giving benefits, in terms of value investing and informed investing from retail investors.

2.8 REVIEW OF LITERATURE ON SAVINGS, INVESTMENT PREFERENCES AND INVESTMENT OPTIONS

Every individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposits, real estate, bullion etc. In each life cycle stage, every individual desires his hard earned money to be invested in most secure and liquid avenue. However, the decision varies for individuals 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 behaviour of an individual investor
reveals how he/she wants to allocate the surplus financial resources to various instruments for available investment. The investment behaviour 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 for taking decision to invest, that influences them on choice of investment and later on how they act after investment (Kasilingam & Jayabal 2008). The study was conducted mainly to know about the retail investor’s perception towards deciding the investment objective for which they invest money for future. In every life cycle, 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, where they fall. Saving objective of household savers is always substantiated by the investment option they choose to attain these objectives.

Geetha and Ramesh (2011) conducted a research on 210 respondents in India to know people’s behaviour about investment preferences according to their age, income, education, savings and gender. There was lot of options for investment like equity, mutual bonds, company funds, gold/silver, bank deposits, real estate and life insurance, etc. But investors preferred them according to their choices which were most appropriate and suitable for them. The study found that the people were not aware about the investment options and they lacked knowledge about risky and less risky securities.

Tripathi (2008) emphasized on behaviour of investors along with various kind of investment strategies used by them while investing in the market. Study revealed that there has been substantial change in the investment strategies in last five years and size based strategies, momentum strategies, following FIIs investment behaviour, buying stocks on the basis of 30 days moving average: Buying stocks on the basis of relative strength index were found to be five most widely used investment strategies in Indian equity market. Ronald (2004) observed in their study that many investors are following investment styles where investments decisions are made with only limited reference to available information and they are not concerned with fair value. Nasir and Khalid (2004) concluded that savings in Pakistan showed a positive response to GDP growth and government’s current expenditure while it remained insensitive to interest rates.
Kavita Ranganathan (2004) survey in Mumbai revealed that investors prefer performance records, brand name, expense ratio, portfolio of investment, reputation portfolio manager, withdrawal/exit facility, products with tax benefits and load charges for taking decisions on investment.

Singh and Chander (2004) studied the perceptions of investors towards mutual funds and analysed reasons for withdrawal and or not investing any more in mutual funds by some investors. The study covered Punjab, Delhi and Mumbai with convenience sample size of 260 completed questionnaires. The study revealed that the investors belonging to salaried and professional category and in the age group of 20-35 years preferred day-to-day disclosure of NAV by funds. Salaried and the retired wished for higher tax rebates on investment in mutual funds, perhaps with an obvious desire to enhance return when combined with tax benefits. Factor analysis revealed that investors perceive mutual funds as better investment avenue than others. Close end funds and public sector mutual funds were perceived less risky. What can be the basis for considering closed ended funds as less risky was not clear from the study. The mutual funds having balanced portfolio and large corpus size were believed to be possessing better professional expertise to provide better returns with transparent management. There was also an expectation of listing of open ended schemes like close ended ones.

Dhake (1996) emphasized that the average investors have the tendency to increase their holdings in investments that perform the best in the short-term. At the same time, these investors tend to sell or reduce their holdings in investments that have performed poorly, again, in the short-term. As a result, the average investors will hold a portfolio that is heavily weighted in asset classes that have demonstrated the best short-term performance. Since, a large proportion of money has been added to these investments after most of the growth has occurred, this strategy leads to a dramatic decline in their portfolio when the market corrects.

Tamilkodi (1983) has stated that small saving schemes have a psychological impact and it provides an opportunity to ordinary men, women, and even children to park their savings. It reaches a large number of people and covers a wide range of areas. She also suggested that efforts should be taken to simplify the procedure of small savings schemes to suit the needs of illiterate and socially downtrodden people. Further, she
suggested an increase in the rate of interest of small saving schemes to meet the challenges emanating from the commercial banks.

Gupta (1970) using annual time series data from India, analyzed the determinants of saving. He found that permanent income hypothesis is a better fit in the urban areas in India whereas in the rural areas saving behavior is more in accordance with the absolute income hypothesis. The study showed the marginal propensity to save is an increasing function of income at lower level of development.

### 2.9 REVIEW OF LITERATURE ON MUTUAL FUND INVESTMENT BY RETAIL INVESTORS

Singh and Chandler (2011) in their article, “Investor’s Preference For Investment In Mutual Funds: An Empirical Evidence”, mentioned that interest rates on investments like PPF, NSC, bank deposits, etc., are falling, the question to be answered is: What investment alternative should a small investor adopt? One of the alternatives is to invest in capital markets through mutual funds. This helps the investor avoid the risks involved in direct investment. Considering the state of mind of the general investors, this article figured out: (i) the preference attached to different investment avenues by the investors; (ii) the preference of mutual fund schemes over others for investment; (iii) the source from which the investor gets information about mutual funds; and (iv) the experience with regard to returns from mutual funds. The results showed that the investors consider gold to be the most preferred form of investment, followed by NSC and Post Office schemes. Hence, the basic psyche of an Indian investor is to keep his savings in the form of yellow metal. Investors belonging to the salaried category, and in the age group of 20-35, years showed inclination towards close-ended growth \((equity-oriented)\) schemes over the other schemes. A majority of the investor’s investment decision was based on the advice of brokers, professionals and financial advisors.

Rao and Parashar (2010) undertook a survey in three states viz., Rajasthan, Gujarat and Madhya Pradesh with a sample size of 358 investors based on Stratified Convenience Sampling to understand the factors affecting perception and level of awareness towards mutual funds. The data was analyzed using factor analysis for identification of key features factors influencing the investment decisions. Twenty six statements were
generated for measuring perception of investors towards mutual funds on a 5-point Likert scale. Overall, five factors reflected investors perception towards mutual fund. Among these, the most important was monetary factor and investors’ expectation; the least being the risk and return. Investors considered entry/exit fees as an important monetary factor followed by better customer care and image of the AMC. Scheme’s NAV was considered as one of the important factor but, when all the 26 statements are considered individually, new and innovative schemes launched by the mutual fund companies were given priority.

NCAER (2010) in its survey of three lakhs retail investors in 2010 revealed, that bank deposits has an appeal across all income class. Forty three percent of the non-investor households lack awareness about stock markets. It also revealed that mutual funds have not truly become the investment vehicle for small investors as the number of households owning units of mutual funds was only nine percent.

Ranganathan (2006) in her paper, “A Study of Fund Selection Behaviour of Individual Investors towards Mutual Funds: With Reference To Mumbai City”, observed that consumer behaviour from the marketing world and financial economics has brought together to the surface an exciting area for study and research i.e., behavioural finance. As this is a serious subject, analysts seem to treat financial markets as an aggregate of statistical observations, technical and fundamental analysis. A rich view of research waits this sophisticated understanding of how financial markets are also affected by the “financial behaviour” of investors.

Chalam (2003) used the primary data of about 200 investors to know the determinants of investment in various types of assets including the mutual funds for the five years period ranging from (1997-2002). He observed that the return and capital appreciation are the most influencing factors in inducing most of the investors to opt for the MF schemes. Tax saving is another major determinant of the choice. Liquidity is among important determinants in attracting investors. MF distribution network and prompt service enables investors to liquidate their investment in shortest possible time. Factors like marketability and safety are insignificant in influencing the investors’ choice. Madhusudhan (1996) carried out a study and revealed that the income schemes and open-ended schemes are preferred over growth schemes and close-ended schemes.
during the prevalent market conditions. Investors look for safety of principal, liquidity and capital appreciation in order of importance in the selection of mutual funds.

Jambodekar (1996) conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study revealed among other things that the income schemes and open ended schemes were more preferred than growth schemes and close ended schemes during the then prevalent market conditions. Sikidar and Singh (1996) carried out a survey of the investors of the north eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self-employed are the major investors in MFs primarily due to tax concessions. Ippolito (1992) and Bogle (1992) findings showed that investors select funds on the basis of past performance of funds and investors spend more money on winning funds than the losing funds.

Sundar (1998) conducted a survey to get an insight into the mutual fund operations of private institutions with special reference to Kothari Pioneer. The survey revealed that the agents play a vital role in spreading the mutual fund culture. Open-end schemes were much preferred. Age and income are the two important determinants in the selection of the fund/scheme whereas brand image and return are the prime considerations while investing in any mutual fund.

2.10 REVIEW OF LITERATURE ON FACTORS AFFECTING THE INVESTMENT IN MUTUAL FUNDS

Al-Tamimi (2005) investigated the factors influencing retail investor behaviour on the United Arab Emirates (UAE) financial markets. The study found that the six most influencing factors in order of importance were: expected corporate earnings, get rich quick, stock marketability, past performance of the firm’s stock, government holdings and the creation of the organised financial markets. He also found the least influencing factors to be expected losses in other local investments, minimising risk, expected losses in international financial markets, family member opinions and gut feeling on the economy.
Al-Tamimi and Kalli (2009) carried out a similar study on UAE investors indicate that the most influencing factor that affects the investment decision is religious reasons and the least affecting factor is rumours. However, the results of the two studies are combined in the study made by Hossain and Nasrin (2012) where it is submitted that all possible factors influencing investors’ investment decisions are not constant over time and that they may vary widely from investor to investor for distinct demographic features.

Mojgan and Ali (2011) studied the effect of earnings per share and cash dividend per share on investor decision making in the Tehran stock market, and found that the two factors influenced investors’ decision to buy stocks. Azam and Kumar (2011) examined the factors influencing Pakistan investors’ behaviour on the Karachi Stock Exchange and found that the earning per share, foreign direct investment and gross domestic product growth rate have a significant impact on stock prices.

Jain and Mandot (2012) studying the impact of demographic factors on investment decision of investors in Rajasthan, concluded that various demographic factors like age, marital status, gender, city, income level, market knowledge, occupations and qualifications have a major impact on investment decision of investors.

Sen (2011) studied to identify the problems faced by the individuals due to ill health and ever increasing health costs. The title of the paper is “Financing health care for all: challenges and opportunities. Authors of the paper explained that nearly thirty nine million people in India are pushed to poverty because of ill health every year. Around thirty percent in rural India actually didn’t go for any treatment for pure financial reasons in 2004. Similarly, in urban areas, twenty percent of ailments were untreated for financial reasons. Shockingly, forty seven percent of hospital admissions in rural India and thirty one percent in urban India were financed by loans and the sale of assets. Between 1986 and 2004, the average real expenditure per hospital admission increased three times in government and private hospitals. The sharp increase in the prices of drugs has been the main reason for the rising costs of medical care, which more than tripled between 1993-94 and 2006-07, says the paper.
India's financing system for medical and health related issues is a cause of and an exacerbating factor in the challenges of health inequity, inadequate availability and reach, unequal access, and poor-quality and costly health-care services. In India, low per person spending on health and public expenditure result in one of the highest proportions of private out-of-pocket expenses in the world. Financial protection against medical expenditures is far from universal with only 10% of the population having medical insurance. The Government of India has made a commitment to increase public spending on health from less than one percent to three percent of the gross domestic product during the next few years.

Huhmann and Bhattacharyya (2005) study conducted on Mutual Fund advertisement in Canada and United States and found that mutual fund advertisements are not providing the information necessary for optimal investment decisions. In another word, mutual fund advertisements do not contain all the requisite information on the risk-return trade-off, principal-agent conflict, and transaction costs that consumers need to optimize their investment decisions. Mutual funds used techniques known to increase the likelihood that their advertisements are noticed, but they also use techniques known to decrease the readership of their advertisements. Also, they rarely included convenience information.
REFERENCES


**BOOKS**


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