CHAPTER-2 LITERATURE REVIEW

The review of literature provides information and overview of the prevailing framework and helps to outline the study by exploring the existing literature. The present study reviews the literature available to provide an introduction of the followed groundwork and theoretical structure proposed by the Theory of Reasoned Action (TRA) and presents the relevant components associated with investor behavior.

This chapter explores the meaning and definition of wealth management and also provides some insight on the need for wealth management. A part of the section focuses on the determinants of wealth management. The present study is based on a model developed under the Theory of Reasoned Action: behavioral intention model which identifies two determinants of behavior viz. attitude and subjective norms. Further, the study conceptually establishes relationship between investor’s knowledge (financial literacy), beliefs, risk appetite, norms and attitude; and their impact on investor’s intention to invest and investment behavior for Wealth Management Services. Further, this chapter discusses about the need for wealth management and challenges associated with the wealth management. Subsequent section discusses about the factors influencing investor’s choice of Wealth Management Services and finally concludes with the chapter summary.

2.1 OVERVIEW OF WEALTH MANAGEMENT

The idea of Wealth Management originated in the US in the 1990’s. In the beginning, it encompass investment advisory which in turn included financial planning that offered people with services like private banking, portfolio and asset management, taxation advisory etc. Majority of these services are extremely personal and portfolio management being the most common among them. These services includes products like stocks, equity linked and structured savings products, mutual funds and alternative investments.
The Wealth Management Services can be availed by High Net-worth Individuals (HNWIs), small entrepreneurs and other individuals who want their hard earned money to be professionally managed by specialists known as Wealth Managers. After China, India is considered to be the second most appealing market for Wealth Management. According to a research conducted by one of the Asia’s leading wealth manager firm, Barclays Capital, a known Investment Banking firm, "China and India persist in being the most appealing Asian markets, both in context of ability to expand businesses and anticipated growth rate of revenues.”

Families employ wealth management services not merely to monitor their money, but to employ expert management to advice and invest their wealth, deal with family relationships and also handle the succession planning. The main function of a wealth management firm is to understand the requirements of a client, support them and provide them with all the necessary resources required to manage their wealth. From a customer’s viewpoint, wealth management is considered as an investment and financial advisory field which includes a wide spectrum of specialized and aggregated financial services that involves activities like income tax planning, investment portfolio management, risk management, retirement planning and administration (Chan & Chan, 2011). Wealth manager also provide assistance in the implementation of continuity and disposition planning with other such professional guidance to the closely held businesses.

2.1.1 Need for wealth management

It was argued by Basu and Drew (2009) in studying portfolio size effect that many wealth management organizations or companies are assessing and seeking avenues to reassemble the lost trust of customers. The firms are looking forward to engage their business customers and also want them for managing the investments of business customers in a very efficient and collaborative manner. Despite of that, wealth managers are also seeking to fortify themselves with comprehensive and complete customer information, at the same time making every possible effort in order to offer the best solution and the prudent advice to their customers (Thunderhead, 2013). With the widespread growth of new products and financial services, financial institutions are increasingly widening their focus
even on the small investors and helping them in achieving their financial goals (Lusardi & Mitchell, 2014).

Shun-Yao & Chyan (2011), in their research on *Influence of information on risky investment preferences* observed how the lack of essential financial knowledge to efficiently measure the level of risk involved in a particular investment generates the need of the professional wealth managers to provide them with an advice or manage their wealth on their behalf. Wealth managers provide such investors with a service to directly interact their experienced professionals face to face while taking any major financial decision or investing in any complex investment portfolio. Professional wealth managers possess the knowledge of several investment portfolios available in the market. They exhibit knowledge of how to efficiently balance risk and returns from an investment and also possess special techniques to analyse company’s performance and are also proficient in effectively managing a portfolio (Lusardi & Mitchell, 2014). Financial service managers provide a sound advice that is based on in depth understanding of the customer’s requirements compared to their actual behavior (Kahneman and Riepe, 1998).

Need of the wealth managers and their financial advice is more critical for the anxious investors. The investors who possess such behavior tend to intuitively and spontaneously take decisions and show less patience even while making huge investments. Consequently, it is important for these investors to opt for personal advisory services offered by wealth managers in order to avoid making big mistakes resulting in big losses because of their behavioural issues (Funfgeid et al, 2008). Also, the investors who follow their gut feeling while making any investments face potential problems in effectively managing their wealth and essentially need professional advice and guidance in regards to their financial matters (O’Donoghue and Rabin, 1998). Investors who feel insecure in making financial decisions and investments are also the primary candidates for the need to wealth management services. Past performance and future returns can be well determined by the financial institutions who hire experienced financial advisors to comprehend the future state of market to take the right decisions (Lusardi & Mitchell, 2014).
Bahbah (2009) in a research on *timeless strategies for building financial security in wealth management*, elucidated that various measures to increase the awareness must be taken to guide the people regarding the importance of wealth management services to manage their wealth. After gaining wealth, it is more important to safeguard it by managing in an effective and diverse manner. By following a proper saving and investment plan; and correct utilization of wealth in a planned way provides a secured future for a family. To achieve this professional financial advisers are appointed to help their clients through professional wealth management. The customer centric solution is one of the best solutions for the needs of wealth management, definitely that would ease to overcome several challenges faced by customers at every level of wealth management business. The wealth management business cycle includes covering acquisition, identification, reporting and servicing (Brennan and Xia, 2002).

### 2.1.2 Determinants of wealth management

According to Wealth Management advisors, providing advice across different types of products, predicting recent trends in the local and global markets, suggesting rare product bundling and also suggesting investment protection mechanism are key factors for the achievement of wealth management services. The customer’s expected quality of service, profit and loss reporting and investment advice from firms are few of the important selection criteria for customers to choose their wealth managers. Technology plays an important role in delivering actionable advice in an efficient manner; it acts as a supporting tool in the client-to-advisor association, and also plays a vital role in retaining the customers. The other factors contributing to the needs of a wealth management strategy includes the business model, diversity of offerings, standard or quality of advisors, customer segregated organizational structure. Wealth Managers need to efficiently train the employees in order to provide better services to their customers.

Moreover, Wachter (2002) in a study on *optimal consumption and portfolio allocation under mean reverting returns* mentioned that the vital differentiators for an accomplished system include higher client servicing capabilities, increased
operational efficiencies and strong management oversight. The superior client servicing capabilities consist of family association view, advice based sales, analytics driven advertising, campaign administration, uninterrupted monitoring and reporting performance of wealth. The Strong Management Oversight which includes online monitoring of advisor accomplishment, reducing risk through timely reporting and institutionalizing compliance information across all levels of organizational hierarchy and increased operational efficiencies which includes execution of investment plans, automated planning, online or active collaboration tools. The best solution offered by customer centric solution which benefits wealth management organizations through timely advance, focused marketing, clear portfolio management, improved and advisor productivity, resulting in enduring customer association and enhanced wallet share.

According to Brennan and Xia (2002) in a study on dynamic asset allocation under inflation and Watcher (2002) the key objectives for the success in wealth management are increasing focus on client-centricity through specified client segments, understanding of client needs, proactive effort and individualized value propositions and exceeding client expectations. The customer centric solution has proven to be one of the important deciding factors for wealth management organizations, ensuring customer fidelity by providing distinguish services from other competitors and suitably gaining competitive advantage.

Barber and Odean (2001) while examining the overconfidence in common stock investment have explained the theoretical concepts and predicted that overconfidence in an investor makes him trade more excessively. A study conducted on analyzing the investor’s behavior by Maditinos et al. (2007) determines that an individual investor’s behavior depend excessively on the social media such as newspaper and the rumors in the market while an intellectual and experienced investor will depend more on the analysis of fundamental facts. Hou, Peng and Xiong (2009) in a study on the implications of investor attention for price and earning momentum, concluded that earnings momentum reduces with the attention of investor while the price momentum gets build up and increases with the attention of investor.
Walia and Dr. Kiran (2009) in their research on *analysis of investor’s risk perception* have focused on the perspective of an individual investor by understanding the expectation of the investor and his risk appetite. Customers consistently expect to get innovative solutions with higher quality in the provided services. A research conducted by Kabra, Mishra and Dash (2010) on *factors influencing the investment decisions of generations* concluded that age and gender of an individual investor essentially influences his risk appetite. Chandra and Kumar (2011) in a study on *determinants of individual investor behavior* concluded that five major factors that influence investment behavior of an individual investor are investor’s foresight, financial knowledge, cautious attitude, skewness in information and the confidence level.

According to Bennet et al. (2011) while examining the *investor’s attitude on stock selection decision* found the factors those influence investor’s attitude are: goodwill and reputation of the firm, market conditions, industrial regulations and revenue. In a study conducted by Qureshi et al. (2012) on *factors affecting investment decision making of fund managers*, examined the various factors (such as inquisitiveness, risk reluctance, adoption of modern fiscal techniques, industrial regulatory controls) that influences the behavior of an investor and impacts the decisions of the fund manager. Riaz et al. (2012) in a study on *impact of psychological factors on investment decision making* concluded that the availability of information to the investors and how the investor perceive and interpret that information significantly impact and determines the risk tolerance, investor’s behavior and decision making in regards to their investments.

Khanifar et al. (2012) in a research on *studying affecting factors on analysts decisions regarding share analysis*, found that financial statements and midterm reports are considered more important than economy market and industry related factors by financial analysts. Kadariya (2012) while studying the *factors affecting investor’s decision making* found that both the tangible and intangible information are essential for investors to succeed in capital market. Raheja and Lamba (2013) have mentioned that there are many different investment options available in the market and every individual as per his preference choose to invest in diverse options. Risk tolerance is
one of the important factors influencing the investor’s decision while choosing for a particular investment option and demographic factors are related to the risk taking capacity of an investor

Obamuyi (2013) in a research on factors influencing decisions in capital market concluded that the investment decisions of individual investors are considerably impacted by the educational qualifications, marital status, age and gender of the investor. In a similar study on factors influencing investment decisions, Jagongo and Mutswenje (2014) concluded that financial institution’s reputation, trustworthiness and creditability status in the market are the most essential factors that significantly impact the investment decisions of an individual investor. Stafford (1994) mentioned in his research that “fundamental elements that clients look for in their service managers are courtesy, cordiality, sincerity and convenience but they also consider reasonable fee, firm’s stability, concerned management and organizational strength and security as crucial elements of the service”. Khazeh and Decker (1992) while studying the choice of investors for their banks determined the essential elements for the selection of wealth manager are service cost or brokerage (price), trustworthiness and creditability (Goodwill) and competitive loan or interest rates (price).

In a research conducted by Vincent F. Yu and Hsiu-I Ting (2011) on identifying key factors affecting consumer’s choice of wealth management services, the three main elements that form the crucial factor in choosing a financial institution for the wealth management are image, product and services. Sub-elements of image are popularity, reliability, morality, professionalism and recommendation. Sub-elements those come under products category are diversification, fee, returns and risk. Key elements of services are convenience, confidentiality, communications and attitude. Gerrard and Cunningham (1997) elucidated that providing the quick and efficient service and maintaining the confidentiality of the customer’s information considerably influences the decisions of the customers.

It was added by Evensky, Horan & Robinson (2011) in financial advisors guide to managing and investing client assets that the wealth management strategies compiled for investors focuses on trade-off between profit and risk, wealth creation for retirement
planning and safeguarding revenue income. The wealth management, offering diverse range of services like tax planning, financial planning, cash flow & debt management, investment management is based upon requirements of clients. However, wealth managers assist individuals to find their goals and achieve them. Further it was supported by Watcher (2002) that, successful advisors develop a strong and clear association with clients by addressing client’s interest with utmost concern. In order to strengthen the advisory relationship, the wealth managers can work with the clients and develop comprehensive plans and strategies for managing their wealth. But nowadays there are different investment options and plans with complicated risks. Hence, greater diversification is required in the initial stages of investment. For instance only some investors hold all their accounts with the same wealth manager. For an investor to make a decision based on the understanding of all the facts and implications, a thorough and consolidated view of his financial report is quite crucial. In order to make profitable decisions, wealth managers need to have access to customer data to examine and analyze it efficiently. Moreover, for wealth managers to take right decisions based on facts, it is essential to have integrated information across all accounts and firms at one single place, rather than spending time and money in assembling all the information from several different sources (Essvale, 2008).

With the increasing workload in life, every individual wants to easily access his or her account information when and where they need it. Thus, the access to the consolidated information through multi-channel communication tools allows the customers to have access to the accurate and most recently updated information by using mobile application, online web access or over a telephonic call. According to Walia and Dr. Kiran (2009), even though returns and risk are two most important determinants of an investor for their investments, they also considerably focus on the media’s recommendation, transparency in the disclosures, management fee and maintenance charges, history of the fund and the reputation of the organization. In a research on *strategy and technology for the new wealth management*, Ceru (2004) stated that most of the financial firms are trying to step in and evolve themselves in this “new wealth management” business. An appropriate combination of business strategic model and modern technology would drive the important decisions of
financial institutions to implement technology solutions for the continued growth and success of their business in the wealth management sector. Wealth management institutions primarily focus on the customers lying in high net worth (HNW) and ultra-high net worth (UHNW) segments and make use of growing technology to establish their business footprints in the core of this market.

As mentioned by Finkelstein and Poterba (2004) in a study on *adverse selection in insurance markets*, wealth management spans far beyond than just an investment advice and it encloses a blueprint of entire financial activity of an individual. Most of the financial institutions engage in providing this service to help investors to preserve, safeguard and expand their wealth in effective manner. In a research conducted by Basu and Drew (2009), the first step in viable wealth management is identifying attractive customer segments. A firm operating the space of wealth management can achieve success by comparing their own abilities, skill and competence with the needs and requirements of the customers. Moreover, the annual income has a relationship with perception, for benefits of wealth management services. To attract new clients and retain the trust and confidence of the existing customers, a financial institution must be compassionate with the customers and proficient in their skills. Human touch is one of the fundamental and essential elements for the success in the wealth management sector. It is important for the wealth management firms extending their services to the middle-income group of customers with fewer assets to balance the cost to service with the profit anticipated (Evensky et al., 2011).

In a study examining the *challenges to delivering integrated wealth management services to business owners*, Budge (2007) has found that there is a large segment of people from business class sector who are encountering a lot of formidable challenges with managing their assets and wealth in an efficient manner, which is yet be explored by the wealth managers. A research conducted by Isdale (2006) on *strategies for simplifying and increasing the effectiveness of wealth management*, focuses on the initiatives that can be taken by high-income group investors and their wealth managers to make their investment decisions and efforts more effective and efficient. A book by an author Pompian (2012), advises a model to understand the investor’s behavior and building an investment portfolio in accordance with the exhibited
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behavior of that investor. In an article on *issues and concerns with wealth management in India*, Dwivedi et al. (2008) has brought the attention towards the growing Indian wealth management industry and how has it played an important role in bringing relief to the falling Indian economy. Hamilton (1992) discusses the investment model and criterion for choosing wealth managers for efficiently managing their wealth and to yield high returns on their investments.

In a research on *private banking and wealth management services*, Driga et al. (2009) determines the characteristics of the private banking sector and the significant growth it has obtained in the last 10 years as the private banking primarily focuses on the high net worth section of the people. Shamsuddoha (2005) introduces the leading strategy and design approach followed by the wealth managers. Pang and Warshawsky (2009) compares the strategies followed by wealth managers in retirement planning. Amenc, Martellini & Ziemann (2009) focuses on the modern technical approaches and management strategies followed for making substantial gains through asset management in the private banking sector. Brunel (2002) has proposed new techniques and initiatives over the conventional and primitive portfolio management approach for the wealth management sector, which will drive a portfolio manager to take up a much wider role of wealth manager.

In a study on *Investor’s perception*, Das (2012) focused on the perceptions of small investors in funds in a study based on Assam. He advocated in his study that success relied on professional competence of FM (fund managers) and their past performance. Mutual fund provides investment opportunities to a group of people who want to deposit their small earning and saving in diversified portfolios including government and private bonds, equities and commodities. It was observed in the study that the viewpoint and attitude of investors depends on the demographic factors such as investor’s age, marital status and occupation, which is considered to have significant positive influence on the type of investments an investor, chooses. It was also observed that the female segment of the society and population considered in this research is not fully involved in this wealth management industry. Thus, the fund managers must take necessary actions for tapping the higher income group and female
segment for targeting more investments in Mutual Funds Avenue of investments that would steer this sector towards growth and development.

2.1.3 Challenges in wealth management

Recently the wealth management has become one of the most demanding and competitive industry across the globe and is facing many real time challenges including promoting their services, widening their scope of support and building trust among clients. With the increasing use of technology current wealth management clients are interested to use mobile applications to access and manage their accounts. Wealth managers need to build robust and secure IT infrastructure to safeguard their investor’s wealth. After the heavy financial setback by wealth management firms, clients have now started hesitating to trust their wealth managers with doubts regarding their integrity (Kumar et al., 2011).

In a study on *consumption and portfolio choice over the life cycle*, Cocco et al., (2005) elucidated that wealth management firms now need to review their primitive business strategies, amend their legacy business model, improve their services and enhance their infrastructure, revise their plans and build up a new business model which is more robust and resilient. Building such a business model and appointing a relationship manager as a single point of contact for clients would strengthen the association and relationship between the clients and wealth managers. Firms must change their business models to meet the global financial investment requirements of their clients. In recent years, the client’s faith on advisors have significantly reduced and many clients have started to probe their advisors and have also raised their expectations from their advisors forcing them to fulfill their commitments and focus on a client centric view to deliver amiable experience to their customers. In a similar study, conducted by Chacko and Viceira (2005) on the *dynamic consumption and portfolio choice*, discussed about another challenge faced by wealth management organizations i.e. lack in robust productivity tools. Wealth managers need to upgrade their firm wide technology to build interactive and efficient tools. These tools could be used for collating and providing diverse views of the client, formulating financial
strategies, building robust CRM applications and to collaborate with back office systems. It has become imperative for the advisors to use high-end technology tools to run their business with the clients. In general, most organizations are unable to address and handle the increasing client’s demands, which include instant access to their accounts information on mobile devices with the required data security in place. Some of the major challenges of wealth management organization are mentioned below:-

- Using redundancy tools
- Lack of integration
- Data security challenges
- Inability to provide robust mobile solutions
- Sub optimal reporting solutions
- Lack of good document management system
- Lack of real time access to market information

The organizations need to focus on technology investments to transmute the business of wealth management in a prosperous way. The world’s population is progressing rapidly with increasing urbanization. According to the United Nations (UN), world’s population is forecasted to touch around eight billion people by the year 2050. Approximately five billion will be under the age of 59. Currently older generations retain an important share of private banking assets and will continue to do so. However, the disclosure of “Entrepreneur 2.0” survey by United Nations and the growing base of younger clients will create major challenges to the wealth management firms. On an average, wealthy or young clients are higher in numbers than older clients in developing countries. In the emerging markets, proliferating GDP growth will result in immense accumulation of wealth in wealth management markets leading to an expanding fragment of wealthy and young clients across worldwide. The young clients have different expectations and needs than senior clients. Retaining the trustworthiness of clients towards their banks and their relationship manager is an important challenge for the wealth management firms. The long-term and constant
relationships bring success for the wealth manager (Cocco et al, 2005 and Campbell and Viceira, 2005).

In a case study on the *Impact of demographics on the selection of the investment avenues*, Sireesha and Laxmi (2013) pointed out that the wealth management firms need to focus on outsourcing their support functions, which can benefit their clients at an affordable cost. Apart from support functions, the important areas of interest are the middle and back offices. Back office functions which include payments, custody, security processing, IT business applications and credit processing activities are the essential roles which can be outsourced. The specific middle-office activities that benefit most from outsourcing are trade execution and client reporting. As described by Walia and Dr. Kiran (2009) in their research on *investors risk perception towards fund services*, it is important for the wealth managers to carefully examine the level of risk that investors is willing to bear and make sure that the designed portfolio adequately satisfies their risk tolerance. According to Gain et al. (2012), in the *study on individual investor behavior* and research conducted by Dhivya and Sekar (2010) on *investor’s preference towards financial investment*, the clients look for technologies from wealth managers. So the financial institutions need to use best technologies to satisfy the needs and fulfill the expectations of client by wealth management advisors. However, it is clear that the firms face important challenges in bringing the entire suite of brokerage, banking, trust, investments, retirement products, banking and custody services in an integrated manner. Moreover there is the need to invest in new platforms for handling distinctive asset classes. The main key to success for the wealth managers lies in prudently selecting their partners, understand the fast changing requirements of the local market and then need investigate to integrate various factors, so that the clients see them as seamless and endless provider. The technology called open architecture will involve many challenges for integration of data from multiple money managers; and efficient overlay management will become a key differentiator for firms.

Further, Walia and Dr. Kiran (2009) stated that the clear communication, well organized contact, yearly reviews and timely detailed account statements are needed by advisors to improve or enhance client relationships. The biggest impact of social
networking steer people to expect more innovative solutions for their requirements, i.e. clients do not just want to be fed with information; they want and expect it to be analyzed into a conclusive graphs and data so that they can use it to accredit themselves to make decisions. The wealth management advisors need to address the challenges by gathering information from the clients as much as possible and to integrate their distributed function, i.e. to establish a central control over things like compliance, regulated content, integrity controls and brand protection. It is important to know how different organizations interact with their clients to improve and enhance their communications with respect to their competitors.

In order to make the customers accept the services of wealth management, it is essential to recognize what influences the decisions of investors when choosing wealth management services. As a result, some researchers have identified the factors by adopting Analytic Hierarchy Process. The relative significance of alternatives and factors were reviewed by taking feedback from various respondents who are using or intend to use Wealth Management Services (Ananda and Herath, 2008). The results revealed that the foremost concern of investors is the service quality provided by Wealth Managers, followed by their image, the products offered and the risk associated with these products. Hence, to pull the individual investors, special attention and focus is required to invest more time and effort to the new product designs to extract maximum returns with minimum risk (Liu and Hai, 2005).

Vaidya and Kumar (2006) in their research on Analytic Hierarchy Process, described the Analytic Hierarchy Process (AHP) as an effective technique for analyzing complex and complicated problem statements and making intricate decisions by selecting among numerous challenging alternatives in a multi objective environment through forecasting and optimal allocation of inadequate resources. It is particularly applied in bringing consensus in-group decisions. Based on mathematical ratios and human psychology, it was originally introduced by Thomas L. Saaty in the period of 1970s and is often called as Saaty method. It was supported by Liu and Hai (2005) and Handfield et al (2002), that AHP is a flexible and efficient technique for making multiple attribute decisions. It segments a multifaceted decision problem into numerous smaller components in the form of a hierarchy. This decision support
approach can be used in wide varieties of application catering to various industries like patent valuation, education, supplier selection, purchase decision, operations efficiency improvement, land use planning, waste management, health care etc (Chiu and Chen, 2007). This method enables to make complex decisions by clearly defining the objective, outlining the different criteria and then finally evaluating and comparing various alternatives, eliminating them based on their analysis and choosing the most scored alternative

According to Boyd (1994) in a study on customer preferences for financial services, with the fast changing and more complex demands of investors, it has turned out to be very significant for the wealth managers to strenuously focus on the deciding factors of the investors which influence their decisions to choose their wealth managers and advisors. It is a tough challenge for a general customer to differentiate between two wealth managers and compare their services on various different aspects. In the view of Grady and Spencer (1990) in their analysis of managing commercial banks, there is an intense competition for both the creditors and lenders types of customers, hence it has become incredibly important for the financial institutions to be more informed and acquainted with the demands and wishes of the customers.

Across Asia, approximately 90 percent of individuals reviewed their financial services providers’ to deliver education on running investments and wealth more successfully. The problem identified was that the most significant factor which influenced their choice of banks in both Asian and Singaporeans list of counterparts was the ability to meet a wide range of client requirements (Bahl, 2012; Dr. Kukreja, 2012).

The study aims to examine the individual investor’s behavior in an effort to know their characteristics or personal details, which in turn will help to identify their preferences regarding various sources of investments they make. These study further attempts to highlight the impact of certain demographic aspects such as the age of the investors and their risk tolerance level on the investment decisions.

The factors that influence investor’s perception on private and public mutual funds are tax savings, transparency, liquidity, quality of service and flexibility and so on. Thus, it was concluded that fund managers have to improve the Wealth Management
Services in order to acquire more clients and attract more investors and to retain the existing clients.

2.1.4 Global Wealth Management Industry

The existing status of Wealth Management and Private Banking industry is changing because servicing client and delivering value is becoming the focal point for marketers. The control of time-honored enterprises is being challenged by the new rivals in addition to the influence of novel norms and client service infrastructures and their way of functioning. According to the 2001 Bi-yearly report of PWC, an investigation conducted discovered that wealth management persists to be a profitable venture with unexploited ability for substantial advancement if enterprises can swiftly respond to fulfilling the varying requirements. Number of millionaire families was about 2.3 million in the year 2003, which had significantly increased by 171 percent from 850,000 in the year 1993 and the yearly world wealth report predicted that the economic wealth of HNWIs in North America will rise at an average yearly rate of almost 11 percent between the year 2003 and 2008 (Shaikh and Kalkundarikar, 2011).

According to the 5th Annual World Wealth Report generated by Merrill Lynch Global Wealth Management and Cap Gemini (2014); the globe’s high net worth individuals (HNWIs) saw a rise of populace and wealth in 2010 exceeding 2007 pre-crisis marks in almost all areas. 2010 witnessed international HNWI populace and wealth advancement becoming more established; in fact the HNWIs populace rose to 10.9 million – a rise of 8.3% and HNWI fiscal wealth touched US$42.7 trillion – registering a growth of 9.7% (in contrast to 17.1% and 18.9% respectively in 2009). According to World Wealth report 2012, the world’s population of high net worth individuals slid 1.7 % to US $42 trillion after 2011. In 2010, the international populace of Ultra HNWIs rose beyond 10.2% and its worth increased by 11.5%. The international HNWI populace persisted to be clustered mainly in the U.S., Japan and Germany, which in all were responsible for over half (53.0%) of the globe’s HNWIs. The single biggest HNW section across the globe is located in the U.S., with its 3.1 million HNWIs being responsible for 28.6% of the international HNWI populace.
Global private wealth management grew by nearly 12% in 2014 to reach a total of $164 trillion. The rise was in line with 2013, when global wealth also grew by just over 12% (Beardsley et al., 2015). Market expansion was driven by the performance of existing assets and creation of new wealth. Overall the ongoing economic recovery and accommodating monetary policies resulted in strong stock and bond performance while rising income and consumption led to strong GDP growth. According to Forbes Billionaires List of 2012, global billionaire count increased to an all-time high of 1,226. US saw additions, due to innovations, strong brands and US market upswing. Amongst BRICs, only Brazil saw an uptake, while India and China saw a downfall. Since larger wealth management assets are in USA which is a largely fee-based market, it indicates revenues held firm there. A BCG report on global wealth also shows client assets/RM improved as firms let go of non-performers and used performance-driven sales. Many of the world’s wealth managers enjoyed solid Assets under Management growth in 2012 because of strong GDP performance in emerging economies, rebounding equity markets worldwide, net investor inflows and the fact that the number of HNWI continued to grow two to three times faster than the GDP in most markets (Gemes et al., 2014).

According to Mckinsey Global Wealth Management Survey, 2014, despite the slower economic growth, the number of millionaires is expected to rise by 7.1 % by 2018 to more than 18 million. The total HNW assets are expected to rise by 49% to USD 76 trillion. The Asian markets excluding Japan, is expected to create USD 9 trillion of wealth. The major developing countries to show an uptrend in HNW includes China, India and Saudi Arabia. Emerging markets are inclined towards UNHW clients and enjoy higher assets growth.

According to Allianz Global Wealth report, 2014, the total financial wealth of the private individuals was raised to little below 10% year on year in 2013, the maximum degree of growth observed globally since 2003. Investment in equities and other securities were the primary cause of steering the economic growth of the year: amount of capital invested in equities and fixed-income securities increased by 16.5% that year, which is even higher as compared to the growth in the years contemporary to the crash of the financial market and global crunch, to higher than EUR 45 trillion globally. However most of the investors made profits by opting for liquidity and
making most of their investment in bank deposits. Savings deposits and term deposits were raised by 5.5\% in the year 2013 (in comparison to 6.7\% in year 2012) to gross amount of nearly EUR 34 trillion globally towards the end of the year 2013. The third most preferred asset class in the security investment portfolio, specifically private domestic and everyday claims towards the insurance sector and pension institutions, observed substantial consolidated growth of 7.2\% at global level during the year 2013. Contrary to this securities asset class, in fact, this progress was steered not only by valuation gains, but also by significant capital investment. As a matter of fact, the capital investment into this securities asset class was more than as compared to any other investment option.

On the other hand, the same report outlines that wealth distribution in most of the developed nations observed to be deteriorated. Particularly, the relative amount of asset and capital increased in the possession of the richest 10\% of the individuals. Which in turn resulted in the considerable increase in the inequality in most of countries in Europe particularly in Italy, Ireland, Switzerland and France. It has been observed that the decline in the growth of securities as a result of a crisis, majorly have the harder impacts on the low and middle class investors categories (Brandmeir et al., 2014).

Looking forward, the global wealth is projected to grow at a CAGR of 5.4\% in next 5 years and will reach an estimated figure of $198.2 trillion USD by the end of 2018.
2.1.5 Wealth Management in India

The development of India makes it an alluring market for wealth management firms as India’s GDP has been steady around the 9% mark along with a robust future position. It is anticipated that this development would be persistent and India is anticipated to rank number 3 in terms of international economies by 2030. Thus, probable entrants in the wealth management domain find India to be an alluring market because of the growing economy with a considerably huge growth rate and the expectation that it will be ranked number three in terms of global economies by 2030; this encourages them to develop an early base and enhance their market revenues (Cognizant Report, 2011).

In contrast to their global equivalents, the wealthy populace of India is comparatively younger and thus, they have a varied perspective towards wealth management. The variation in the demography provides a chance to develop new plans to deal with the requirements of the younger populace and influence new technologies including the social media and mobile-based applications which enable investors to bring
investment opportunities at their fingertips and these advancements have turned out to be key differentiators in this industry.

Wealth management service industry in India is widely fragmented which is not astonishing because this sector is still in its early years of growth and is still not mature. Till now, majority of the organized firms have emphasized chiefly on the individuals living in metro cities, resulting in around one-fifth of the Indian high net-worth individuals (HNI) populace remaining unexploited. India is regarded as one of the rapidly developing wealth management markets.

In contrast to its large populace, the Indian HNW market is quite small; with 153,000 HNWIs India ranked 16th in the world by the HNI Population (Asia-Pacific Wealth Report, 2014). However its development is rapid across the globe, providing the wealth managers a large scope to expand. The robust financial performance of the Indian economy is the cause for the development of the HNW populace as it has enhanced the ratio of HNW entrepreneurs and trade owners. According to a research report by Data monitor (2011), the characteristic of Indian high-net worth individual is most probably a male, whose age is above 65 years and who has earned his wealth mainly via entrepreneurship. In context to his portfolio, he is partial towards real estate, preferring to apportion the biggest share of his wealth to real estate investment funds, as he considers real estate to be a sound investment.

The growing volatility in Indian markets makes a shift in the focus of clients to low risk products with the expectation of higher returns at competitive prices. This poses a challenge for wealth managers to redesign their business models in order to sustain and maintain their market share in the evolving market.

According to the Karvy Private Wealth (2014), total wealth in India grew 27.5% to INR257.4 trillion (US$4.1 trillion) in 2014, with physical assets of INR122.7 trillion (up 52.3%) and other assets growing 37.7% to INR134.7 trillion. Furthermore, Karvy forecasts that Indian wealth will double over the next five years. The total Indian Individual wealth in Financial Assets stands at INR134.71 Lakh Crore in FY14 and Indian Individual wealth in Physical Assets (Real Estate, gold, Silver, Platinum)
stands at INR122.70 lakh crore. Hence, the total Indian Individual Wealth in FY14 is estimated at INR257.41 Lakh Crore, an increase of 27.47% over FY13.


**Figure 2-2 Distribution of Individual Wealth in Financial Assets**


The figure 2.2 above shows the distribution of individual wealth in Financial Assets. Fixed Deposits and Bonds occupy the top position with an aggregate investment of 21.82% followed by Direct Equity with an investment of 19.79%, Insurance (16.43%) and Saving Deposits (12.09%).

The figure 2.3 above shows the distribution of individual wealth in Physical Assets. Investment in Gold occupies the top position with an aggregate investment of 50.96% followed by Real Estate with an investment of 41.07%. Diamond, Silver and Platinum holds a very small amount of investment of 6.33%, 1.59% & 0.05% respectively. Owing to India’s financial growth, increase in investment and rising income level, the wealth management market has seen a healthy growth. Households prefer investing their savings in physical assets rather than financial assets.)
Looking forward, there are a lot of opportunities available for Indian banks and financial institutions to boost the wealth management market. The wealth managers must start creating the awareness of wealth management in smaller cities where people are not yet aware of these services or they cannot access these services because of lack of resources. These small cities might have potential wealthy people which the wealth managers should not ignore. Also, the growing wealth of Indian entrepreneurs and private company employees is an opportunity that may take Indian Wealth market to a new level because these people need professional advice to manage their money as they create wealth and build up companies.

As a result of the economic and financial growth of India and the significant increase in the individual’s wealth, wealth management industry has seen a boom in its demand. India is one of the rapidly expanding wealth management industries with the total HNWI population growing at over 20% CAGR (Allianz, 2014).
It is expected that the total worth of the liquid wealth held by rich people in the developing countries like Brazil, China, and India will become three times from $1.5tn to $4.6tn between 2006 and 2015 (World Wealth Report, 2014).

Figure 2-4 HNWI Population In Asian Countries
(Source: Survey by Knight Frank; http://www.2point6billion.com/news/2013/03/18/asias-high-net-worth-individuals-concentrated-in-china-india-12062.html)

2.2 THEORIES ON INDIVIDUAL’S BEHAVIOR

This section provides an abstract of the theoretical framework adopted during the course of this research, reviews the literature available to provide an introduction of the followed groundwork and existing theoretical model, architecture and design described and explained in the Theory of Reasoned Action (TRA) which presents most relevant components associated with investor behavior.

2.2.1 Theory of Reasoned Action

The present study forms its basis on the components presented under the Theory of Reasoned Action (TRA), which was originally described and elaborated in 1967 as an extension to the expectancy-value structural framework and has been applied to comprehend an individual’s behavior and predict it. This theory presents a proposition that every individual thinks wisely and logically uses the available information to reach his/her decisions (Ajzen and Fishbein, 1980). It has been stated that an investor does consider the consequences and benefits of their actions before
making any decisions about their conduct or behavior related to any investment they make. Hence it resulted into a conceptual theory known as “a theory of reasoned action”.

The Theory of Reasoned Action (TRA) basically refers to a framework build from behavioral intention and fundamentally describes the relationship between attitude and behavior of an individual.

![Diagram of Theory of Reasoned Action](image)

**Figure 2-5 Theory of Reasoned Action**

According to this theory, an individual’s intention is derived from a function of two essential attributes. The nature of the first attribute is personal to the individual and the second attribute reflects the influence of the society on that individual. This evidently concludes that an attitude and social pressure forms a person’s intention (Azjen and Fishbein, 1980). Attitude, a personal factor, determines whether a certain behavior should be exhibited or not. The second determinant referred to as subjective norm, determines the influence of social pressures on an investor’s behavior (Azjen & Fishbein, 1980). This theory provides us with one of the most influential techniques to effectively predict human behavior and the related behavioral characteristics. Research on this theory was primarily only focused on the voluntary behaviors because the other kinds of behaviors could be result of external elements influencing the behavior. Habitual actions and impulsive behaviors are also excluded during the development of this theory. This theory has proven to be relatively effective in
understanding the human behavior and its related dispositions (Sheppard and Hartwick, 1988). This theory presents useful conceptual model, which offers a technique to conveniently determine the intermediate variables and elements in developing a relationship between attitude and behavior. This Theory proposes that individual’s behavior is influenced by his behavioral intentions to exhibit or perform a specific behavior. Intentions of an individual refer to his decisions to act in a particular way. Intentions can be determined by a mathematical function of two fundamental elements. First element is the attitude towards performing an act or behavior, which is an evaluative reaction that results from perceived implications often associated with behavior. The second element is the influence of significant others generally referred as subjective norms, which is derived from the beliefs about the expectations of close referents and the individual’s motivation to follow their expectations. Thus, Theory of Reasoned Action can be mathematically represented as below

\[ I = bA + cU + e_t \]

In the above equation \( I \) refer to the individual’s intentions. \( A \) refers to the individual’s attitude towards the act or behavior. \( U \) refers to the beliefs about the expectations of referents and significant other to exhibit a specific behavior, which represents subjective norm. ‘b’ and ‘c’ are the specific constants associated with attitude and subjective norm respectively. Whereas \( e_t \) represents random error element. As described by Fishbein individual’s intentions are influenced by the behavioral beliefs (F), which refers to the anticipated implications of acting in a specific way. The subjective norms are driven by normative beliefs (N) which refers to the expectation of the significant others about what is expected behavior comprised of. Hence this theory can be compiled by mentioning that the intentions to engage in a specific behavior influence the individual’s behavior. Secondly the individual’s intentions are encapsulated by attitude towards the behavior and the subjective norm. Subjective norms are driven by normative beliefs and the desire to be in consensus with the significant others and the attitude is driven by behavioral beliefs and the evaluation of the anticipated outcomes.
Limitations in Theory of Reasoned Action

Even though theory of reasoned action is most widely preferred in research, several criticisms have been raised against this theory because of some of its limitations. Many researchers have presented an argument that apart from attitude and subjective norm there are other determinants of one’s intention, to which this theory does not cater. Most common of them are cognitive reactions towards individual’s attitude (Ajzen and Driver, 1992), habit of an individual (Triandis, 1980), self-identity (Granberg and Holmberg, 1990) and moral obligations for an individual (Schartz and Tessler, 1972). It does not accurately determine behavioral constraints due to lack of resources and opportunities such as time, skill and money. This theory also had some limitations in predicting behavioral intentions in a situation when the individual does not have free control on his behavior. In order to overcome these limitations, another theory referred as Theory of Planned Behavior was developed by adding another variable referring to perceived behavioral control.

2.2.2 Theory of Planned Behavior

Theory of planned behavior was developed by Ajzen in 1985. This theory is considered as one of the most widely used theories in human psychology in observing and predicting human behavior. Theory of planned behavior has evolved as one of the important theories with a broad spectrum of influence and is used in research on human behavior (Lai & Hung, 2010). This theory proposes that the perceived behavioral control of an individual is the important influencing factor of his behavioral intentions while making any decision (Chiou, 1998). The model of perceived behavioral control is consistent with concept of perceived self-ability within a general model to study relationship between attitude, subjective norm and behavioral intention developed by Bandura (1982) with the acumen of how wisely an individual would take action to handle a particular situation. This theory also measures the most challenging behaviors that require the special skills, knowledge, opportunities, resources and cooperation from others (Ajzen, 1991). The extent to
which one’s intentions to act and behave in a particular way is carried out, is driven by the amount of control and availability of resources one has over his behavior. Since this study is primarily based only on Theory of reasoned action, theory is planned behavior is out of scope of this research objectives and has been mentioned above just for the reference.

2.3 DETERMINANTS OF INVESTOR’S BEHAVIOR

The following literature reviews some of the factors’ that influence investor’s behavior and relate each other in the relevant investor behavior research.

2.3.1 Financial Literacy

Financial literacy means how literate a person is in terms of financial and investment techniques. In other words, it means how well an individual understands and possesses knowledge of financial and banking industry. If such knowledge is not present, an investor tends to make poor investment decisions, which sometimes prove to be fatal for his financial health. Education is said to have a relation with the knowledge and financial maturity of an individual (Lin, 2007).

Lodhi (2014) in a study on factors influencing individual investor’s behavior defined financial literacy as a set of skills and knowledge, which helps a person to take informed and prudent financial decision with their knowledge of financial market. Lusardi & Mitchell (2014) referred financial literacy as the ability of the investor to analyze financial information and take informed decisions for their financial investments and to effectively manage their wealth and debt. Baker et al., (2014) stated that financial literacy is a human capital form that entails skills and knowledge regarding personal finances encompassing financial theory, mathematical ability, knowledge of financial instruments and potential to apply knowledge efficiently. In a research conducted by Becchetti, Caiazza and Coviello (2013) on financial education and investment attitudes, financial literacy has been referred as the development and growth of the investor and financial service consumers in enhancing their knowledge of financial products and concepts with seeking advice from professionals and gathering more financial information; and enhancing their skills and getting more confident in making financial decisions by understanding the financial risks.
and making right use of opportunities. As reported by Olsen (2008) gaining financial knowledge is broadly classified into two fundamental categories, first step is associated with the financial literacy in which an individual understands the basic financial concepts and obtain knowledge on how the different financial products work and the functioning of the financial system and the second step is associated with the financial empowerment that tells them how to make use of their knowledge in step one to enhance their decision making skills. Cole and Shastry (2009) mentioned that in terms of finance, understanding of the compound interest and the ability to carry out calculation to derive the present value are the important predictors of the effective financial planning.

According to Al-Tamimi and Kalli (2009) in their study on financial literacy and investment decisions, need of financial literacy has gained a lot of attention due to the extensive development of the new financial products, and the increasing complexity of the finance system surrounded by stringent regulations and the continuous advancements in the economic and political system. With the increase in the earnings people now have more money to save and invest. Financial Literacy is becoming increasingly important for the people to optimally utilize the credits, which has relatively become easy with the increasing completion in the banking industry. Victor and Jonathan (2007) while studying the disclosure regulation and credit market outcomes, observed that the individuals who lack in understanding of the calculation of interest rate associated with the series of payments are more likely to get into indebtedness by borrowing high amount and leading to poor financial condition.

It was identified that investors with high financial literacy does not develop their portfolio based on their knowledge rather they count upon the professionals to do this task for them (Muller and Weber, 2010 and Doran et al, 2010). According to Hira and Loibl (2005) financial literacy in the past few years has attained a lot of consideration in many different applications and broader scope in different industries especially the government companies, consumer industry, banking institutions, marketing and advertising industry.

In a research conducted by Braunstein and Welch (2002) on financial literacy and overview of practice, research and policy, it was examined that business analysts and
strategy designers and other involved business communities are giving attention to the inadequate financial knowledge with the consumers in industry; and lack of intelligent and powerful tools to help them take efficient economic decisions to generate profit and good returns; and also to effectively manage their own business accounts and financial issues. Such lack of adequate financial knowledge can impact an individual’s various daily activities such as sale and purchase to the effectively managing their earnings, planning for their financial budget for their better tomorrow.

Friestad and Wright (1994) in their study on the persuasion financial knowledge model determined that financial literacy could be broadly categorized into two major elements; subjective knowledge and objective knowledge. Objective knowledge refers to the exact and precise information available and the subjective knowledge refers to the belief regarding the state of information available. Cavazosa (2013) opined that financial literacy is increasingly gaining the focus and is becoming an integral dimension of the research out of the various determinants of the human investment behavior, exclusively while observing the global economic crisis. In the middle of changing financial world, investors are required to make prudent financial decisions and in such a situation, lack of financial knowledge may result into various negative impacts on individual’s financial health. From the investors perspective it could result in getting into over-indebtedness situation. This may lead to severe consequences on the financial health and situation of the investor (Keese and Schmitz, 2010). Financial Literacy also impacts the ability of an individual to make savings for future and long-term objectives and goals such as saving for higher education, planning to buy a house and also doing sound planning for his retirement. It also allows an individual to efficiently manage their assets and liabilities, understand the importance and significance of insurance, how to evaluate various risks involved in an investment and the returns generated from it. Chen and Volpe (1998) in an analysis of personal financial literacy, observed that individuals with higher financial literacy tend to make more appropriate judgment and often make more prudent investment decisions for their saving and more wisely utilize the credit available to them. It if difficult for a person with less financial knowledge to take the right precautions and measures to protect himself from the risk of financial crises and they are more impacted by the
fluctuations in the financial market. In a wider context, a person with lack of skills or inadequate financial knowledge to manage his finances has to sometimes compromise with increasing competition and their operations. Well-informed Investors with good financial knowledge result in bringing efficiency in the market and more competition. In a related study Edmiston and Gillett-Fisher (2006), concluded that the decision made by high financial literate individuals more closely reflect the perspective and opinion of the professional financial experts.

In a study conducted by Sherraden and Boshara (2008) on how to increase the effectiveness of financial education and saving programs, it was observed that it is not necessary for an individual to first attain financial knowledge and then make huge gains by making wise investments, but it might also be the case that when an individual starts making lot of investment then he becomes more and more knowledge about the financial system and products. Consumers with higher literacy expect the product to be suitable to their demands and meet their financial investment objectives and the providers of those products and services have to meet tough competition to create them with all the desired features and characteristics appropriate to the demands of the consumers.

With the increasing concern of the financial literacy, several educational programs on saving, basic accounting, maintaining the credits and debts are being conducted on a wider scale to train the youth and develop financial skills in them, which can help them to focus on their objectives to achieve their goals. Mixed results have been obtained from the analysis and research on benefits of conducting various training sessions on financial literacy. Only few programs those were conducted with a particular and definite objective were successful in developing and strengthening some specific areas related to financial management of a consumer which includes saving, managing the debt, insurance and; engaging in and adopting the welfare plans sponsored by the employer. But it is not necessary for an individual to exhibit an enhanced and efficient behavior by merely attending to those financial literacy programs. It depends on the pattern and composition of the training along with the personal characteristics of the individual such as reluctance to changes, which significantly influences the results of such trainings in bringing a positive impact.
contributing to their bright future. Training coordinator and instructor have a bigger challenge to design the entire training module with the information and content of the training to selecting the audience and right candidates for it and to decide how and when to conduct the training. All these variables combined together account for the effectiveness and positive results of such financial literacy programs. In a research conducted on financial literacy Al-Tamimi and Kalli (2009), have tried to determine the impact of demographic factors on financial literacy, particularly occupation, employment status, monthly earning, gender, age and education. They mentioned that the level of financial knowledge significantly differ by the gender of an individual. Men were found to have higher level of financial knowledge as compared to women.

According to Park, Mothersbough & Fieck (1994) in a study on assessment of consumer knowledge and Brucks (1985) in a research on the effects of product class knowledge on information search behavior, the level of the knowledge of an investor accounts for the information he possesses and influences his behavior of making decisions. As per Park, Mothersbough & Fieck (1994), there are two determinants of the knowledge that is objective knowledge, which determines or refers to the accuracy of the information and the second determinant is the subjective knowledge, which is individual’s perspective of what and how adequate is his knowledge. In a related study on dimensions of consumer expertise, Alba and Wesley (1987) have mentioned in their research that even though the objective and subjective knowledge are correlated but they are fundamentally different in two important forms. Firstly, an individual with his subjective knowledge can sometime under or overestimate his knowledge, as he cannot accurately realize about how much and how less he knows. Subjective knowledge can be determined as a measure of level of confidence an individual has in his knowledge and hence it signifies the level of self-confidence. Subjective knowledge increases the ability and the confidence in an investor to take his decisions and exhibit a behavior. Glaser and Walther (2013) in a research on financial literacy as a dual process theory and investment behavior, studied the importance of financial literacy in making more intelligent investment decisions and found that the investment behavior of individuals with higher level of financial literacy is primarily influenced by two instincts i.e. cognition and intuition. Danes,
Casas and Boyce (1999) observed the improvement in the financial behavior of an individual with the increase in financial knowledge and consequently reported significant changes in their saving and investment patterns.

Studies performed by Garrett, Bernheim & Maki (2001) on education and saving and the long term effects of financial education, examined from their research that the effects of financial knowledge commonly support the concept that financial knowledge improves the financial behavior of an investor. Hira and Loibl (2005) observed that financial management behavior is positively influenced and driven by the financial knowledge. Elliehausen, Lundquist and Staten (2007) in their research on the impact of credit counseling on subsequent borrower behavior, examined that individuals with higher financial knowledge have exhibited more responsible financial behavior. In a study based on four important aspects of financial management; investing, saving, credit management and cash-flow management, Hilgert, Hogarth & Beverly (2003) derived a positive connection between the financial literacy and the investment behavior of the investor. Perry and Morris (2005) in a study on the role of self-perception, knowledge, and income in explaining consumer financial behavior, examined the link between the financial literacy of an investor and his investment behavior and found that an investor with higher financial understanding tends to exhibit more responsible behavior towards making investment. Clark (2012) observed more responsible attitude, effective investment behavior and less risky decision-making in individuals with higher financial knowledge. Choi et al. (2004) found that the substantial impacts of the financial knowledge are probably overstated by measuring the dimensions of intended behavior of the investor.

In a research conducted by Lusardi and Mitchell (2011) it has been determined that financial knowledge and investment planning are tightly correlated and higher financial literacy leads to successful retirement planning. Gustman and Steinmeier (2004) also concluded that the individual’s knowledge of benefits of pension and their understanding of the social security are related to their efficient retirement planning. A similar research conducted by Bernheim, Skinner and Weinberg (2001) found that retirement planning behavior of an individual is positively related to the financial knowledge. Financial literacy is also positively related to optimal financial,
investment and retirement decisions (Clark, 2012). Education was found to have a significant influence on wealth management decisions (Lin, 2007). Education plays an imperative role in helping every individual in making his or her financial decisions. Investors might need additional assistance in planning for their retirement and deciding for long-term investment. A study conducted by Cole & Shastry (2009) on the effect of education, cognitive ability and financial literacy on financial market participation, it was observed that with the higher financial knowledge an individual is more likely to prudently plan for their retirement.

Wang & Jing (2009) while studying the buying behavior, social support and credit card indebtedness, conducted a research to examine the risk taking behavior of an investor based on the subjective and objective knowledge that the investors possess. He mentioned in his research that investors repeatedly take risks while making their investment decisions. They may earn huge returns in their investments by taking risk, for some investors, as they lack in some fundamental financial concepts, they may sometimes make poor decisions putting their capital at risk. Literature based on financial literacy predicts two important theories. First theory as explained by Edmiston and Gillett-Fisher (2006) in a study on financial education at the workplace derives more insight to the relationship between the financial literacy and taking risk while making investment decisions. Second theory that was formulated by Lyons et al. (2006) states that financial experience and financial education has positive effect on the financial behavior and knowledge of an individual. A study conducted by Siegal and Hoban (1982) examining the relative risk aversion revisited, indicates that financial knowledge and personality of an individual has positive influence on the risk taking behavior and investment decision-making. Several studies have been conducted to investigate the relationship between individual’s personal characteristics and the degree of risk he can bear. Barnewall (1987) in a research on Psychological Characteristics of the Individual Investor determined the investor’s behavior from the aspect of taking risk in their investment decisions and found that they are active or passive. Passive investors are those who have inherited wealth or have gained it by putting someone else’s money at risk. Such investors require more safety of their investments and have less risk tolerance. While the active investors are the one those
have gained wealth by their own by putting their own money at risk. Such investors tend to have greater risk tolerance as compared to first former category. Filbeck, Hatfield and Horvath (2005) have determined how risk tolerance of an individual relates to the individual’s personal traits. They concluded that the level of risk tolerance in the individual are directly associated with the perception, thinking, intuition and individual’s preferences. Individuals who have higher inclination to their feeling have less risk tolerance and those who are more inclined to listen their minds have high risk-tolerance.

Grable and Lytton (1998) in a study on investor risk tolerance and testing the efficacy of demographics as differentiating and classifying factors determined that gender of an investor has influence in making decisions that involves risk. Riley and Chow (1992) examined that the age of an investor has positive influence on the risk tolerance. Lyons (2004) while studying the profile of financially at-risk college students concluded from his research that investors who lack the financial knowledge and experience tend to be at more risk of being unable to repay their debts. Lodhi (2014) determined that the length of the investment duration is also important criteria of making the investment choice. Long-term investments are less risky as compared to short-term investments. It is concluded that financial knowledge of an individual’s increases their capacity of taking risk, as with higher financial knowledge an investor can wisely and efficiently analyze the financial reports and information available in hand.

In a similar study Lusardi and Mitchell (2014) has tried to determine the basic financial concepts of the individuals by assessing them on their elementary knowledge on inflation and Interest rate calculation. The findings of the study concluded that the knowledge of the individual investor about the diversification of risk is a vital factor of making decisions of investments. Lyons & Neelakantan (2008) & Lyons et al., (2007) found that Investor needs to be educated to understand the market risks, how to hedge them and how to invest in precarious investments so that there is enough growth in their savings. Lodhi (2014) identified that investment knowledge and other investment related information help investors in minimizing asymmetry of facts and permits him to invest in risky assets. It has been proved that
financial literacy is positively correlated with the risk taking i.e. financial knowledge of an investor increases his risk-taking capabilities. This is based on the observation that a more financial literate person has the understanding to efficiently analyze the financial statements and annual reports of a company to give him an idea about the future performance of the company and the profit that can be made by investing in that company.

Maditinos et al. (2007) in a study on investors’ behavior in the Athens stock exchange, examined from his research that the level of financial literacy has a significant relation with the investment decision making of an individual. Investors with higher knowledge of financial matters generally adopt a different approach while making their investment decisions as compared to investors with less financial literacy. Investors with high financial knowledge tend to make greater use of financial information published in reports and newspaper, while the people with lesser financial knowledge tend to rely more on the noise and sentiments prevailing in the market and the advice from their friends, colleagues, family and other social sources. In a similar study, Al-Tamimi and Kalli (2009) have determined that financial literacy has a relation and significant impact on the investment decisions of an individual. They have also derived a relation between the occupations of an individual with the financial knowledge he possesses. An individual working in the sector of banking, accounting and finance will eventually have greater level of financial knowledge. It was observed by Lusardi and Mitchell (2014) that financial literacy is associated with the individual’s ability of efficiently saving money and making sound investment decisions. If a person with low financial knowledge will make a mistake he will have to pay a significant price for his mistake.

Mirshekary and Saudagarah (2005) while studying the perceptions and characteristics of financial information users in developing countries examined how the investors use the annual reports, financial statements and other sources of information of different organizations to make their investment decisions. Some researchers also noticed that knowledge of finance does not influence on the quality
of investment decisions (Perry, 2008; Braunstein and Welch, 2002; Gathergood, 2012; Bodnaruk and Simonov, 2012).

Rooij et al., (2011) in a study on financial literacy and stock market participation referred that participants of stock market have a higher financial literacy level than average population. Bayer et al., (1996) determined that with the gain in financial knowledge an investor tend to make wiser investments. Schooley and Deborah (1999) in a research on investor’s asset allocations versus life-cycle funds mentioned that investors with higher financial knowledge are found to have more equity stocks in their portfolio account as compared to other financial products. Cole and Shastry (2009) observed the influence of the financial literacy on the cognitive ability of an individual which consequently increases the participation of the individual in the investment and financial activities. Rooij et al. (2011) concluded that the individuals who are well-versed with financial knowledge are expected to participate more in the equity shares.

2.3.2 Beliefs

Li and Li (2014) while studying the evidence from belief dispersion and stock trading volume found out that there exist a positive and firm link between dispersion of trust about the prevailing economic situation between investors and trading volume of share market. It was also noticed that dispersion of modifications in belief is also positively correlated with the volume of trading activities in equity market. This outcome is consistent with study of Kelley and Tetlock (2013) and Campbell (2007). In a research conducted by Weinstein (1980) on unrealistic optimism about future life events, belief has been referred as a human cognitive factor, which persuades an individual who has belief over any element or matter to take an action on account of his belief. In addition to that belief also plays an important role in building an attitude towards or against the positive or negative objective respectively. In case the belief of an individual induces a positive attitude, he is more committed to perform an action. Another piece of evidence was founded by Ben (2012), who says that individual investor’s decisions are primarily motivated by their beliefs rather than their preferences. Also, it was found that some
Investors believe that majority of the population also shares the relatively same opinion as themselves and those who have a different point of view or disagrees with them are partial and biased (Egan et al., 2014).

Beliefs and preferences are central determinants of individual investor’s trading and risk-taking behavior (Hoffmann, Post and Pennings, 2013). Belief and trust are the important determinants of the exhibited investment behavior of an individual (Guiso, Sapienza and Zingales, 2008). Wang and Jing (2009) observed in their research that individual belief and their gut feeling is one of the important determinants of individual’s investment behavior. In a similar study conducted by Roger, Griffin and Ross (1994) on exploring the planning fallacy, it was observed that the individuals with stronger and firm beliefs also tend to exhibit greater confidence in their actions. Through a research conducted on the investors in the equity market, it was found that individual who had more belief in some particular securities or instruments to yield high returns and believed that those instruments would help them to achieve their financial goals, have displayed higher confidence investing in those instruments and also continued to invest in them despite of any market situations or any other influencing factors against those instruments.

According to a study on Understanding Information Technology Usage conducted by Taylor and Todd (1995) in a situation when there is a possibility of finding differences in opinion between different referent groups, subjective norm of an individual can be divided into his normative belief and his motivation to adhere to one referent group over other, which determines his choice of engaging into specific behavior or not. It was found that determinants of degree or extent of normative belief and motivation to follow someone’s opinion influence the financial decisions made by an individual. In another related research carried out by Srivastava (2012) on rational investment decisions of irrational household investors, it was determined that the investment attitude of an individual equity investors is largely influenced by his strong belief that long-term investments mostly generate higher returns and possesses lower risk than short term investments. It was due to this belief that many new investments were made in 2007, despite of the major economic crises and financial breakdown observed in the same year. Al-Tamimi and Kalli (2009) in their findings
mentioned that Investment decisions are highly influenced by the beliefs and least influenced by the rumors. In a research conducted by Cole and Shastry (2009) it was observed that the lack of trust in individuals significantly reduces their participation in the investment activities. In a study by Glaser and Walther (2013) it was observed that the investment behavior of an individual is dependent upon their personal belief and trust towards different financial theories.

In a study on why do forecasters disagree and lessons from the term structure of cross-sectional dispersion, Patton and Timmermann (2010) reported in their research that the variation in the investor’s belief helps in identifying the influence of publically available information and analyzing them to understand its effects on the actions of an investor. It was concluded that individual’s personal belief is the driving element of the conducted investment behavior in financial market. In a research conducted by Morris and Shin (2002) on social value of public information, reported that Belief is an important determining element of the average public opinion about the prevailing financial situation in an economy. Karpoff (1986) and Varian (1985) observed in their research that the primitive, traditional and fundamental beliefs of individual influences their interpretation of the information which in turn effects their perspectives and any changes in their belief subsequently leads to a significant change in their trading patterns. Hoffmann, Post & Pennings (2013) in a study on how investors’ Perceptions Drive Actual Trading and Risk-taking Behavior determined that most of the individual investors in India preferred to invest in mutual fund based on equity portfolio rather than directly investing in equity. This action was based on their belief that the fund managers would better manage the equity portfolio and it’s good to trust and rely on experts than taking their own decisions.

In a similar study on Religiosity, Ethical Ideology and Intentions to Report a Peer's Wrongdoing Tim, Ken and Gene (1996) found the religious belief to be positively influencing the individual’s attitude. Results were consistent with the research conducted by Dolan et al., (2012) who reviewed the determinants that play an important role in changing the financial behavior of an individual. It was observed that the financial behavior is changed with the change in the mind and thinking of a person; subsequently it was found that the personal beliefs and perception of an
individual significantly influences his thinking and can change his mind which in turn can drive a change in his financial behavior. Lodhi (2014) characterized belief and preferences as the psychological factors, which influences the individual’s investment behavior and decision making. In one of the related study Azam, Quaddus and Lubna (2013) observed that an individual who believes that exhibiting a specific behavior will lead to positive results and good returns will have considerably favorable attitude towards performing the said behavior. Such a positive belief determines the attitude, which in turn determines the intention of a person. In addition to this it was also concluded that normative beliefs also determines the degree of influence of subjective norms on an individual’s life.

Brimble, Vyvyan and Ng (2013) conducted a study on belief and investing preferences to examine the influence of investor’s values and religious belief on their attitude and investment preferences. The results were negative and no significant relationship was found between the religious beliefs and their investment behavior. Agle and Buren (1999) observed that conventional and religious beliefs had a very minute connection with individual’s attitude. Therefore it is extremely important to explore more on this front to understand the influence of personal belief on the investor's attitude and examine the behavior of an investor considering belief as the ground element.

### 2.3.3 Risk appetite

There are many different definitions and diverse literature on risk in finance, but most arguments contain the concepts of unexpected results and uncertainty. According to Walia and Dr. Kiran (2009) risk tolerance represents the minimum and maximum limits for an investor’s ability to bear risk. Hui, Zheng and Wang (2013) and Gai and Vause (2006) have collectively referred Risk Appetite as the investor’s preference and willingness of an investor to bear risk, which is further dependent upon the level to which an individual dislikes the uncertainty and the degree of such uncertainty. Tversky and Kahneman (1974) in a study on Judgment under uncertainty; heuristics and biases reveal that predicting and forecasting under uncertainty do not usually follow probability rules.
Elmiger and Kim (2003) in a study on *how to grade the risk in your investment* and *how to measure risk* defined risk as the compromise or tradeoff between the large returns and the huge risk as an after effect or outcome of making insecure and unstable investments. In a similar prospect theory by Tversky and Kahneman (1992) claimed that people tend to be reluctant to take risk in the “profitable zone” and are ready to bear risk in the “losing zone”. Lopes (1987) referred risk to a state or circumstances in which the after effects of a decision made by an individual depends on the results of future events with anticipated consequences. From a strategic management view risk is defined as a factor of individual’s subjective awareness and knowledge of results as an outcome of a particular action or decision. According to Walia and Dr. Kiran (2009), investors consider their level of monthly earning to decide the limits of risk that they can bear for a specific investment. Risk is a measure of uncertainty of any undesired or unfortunate events to happen. In a similar research conducted by Hui, Zheng and Wang (2013) on *investor sentiment and risk appetite of real estate security market* determined that the level of risk appetite of an individual depends on the hesitation of individual to bear any uncertainty in investment returns and the positive or negative fluctuations in the finance market. Williams & Heins (1964) while conducting a study on *risk management and insurance* advised that the possibility of predicted outcome differs from the unpredictability of the actual results.

From the perspective of a rational investor Walia and Dr. Kiran (2009) mentioned that maximizing returns and minimizing risk are the two fundamental criteria gaining the focus of the wealth managers while creating their service strategies. As described in a study conducted by Sharpe (1966), it was illustrated that the slope of the regression line and explains the volatility of a particular instrument corresponding to the market standard, has been accepted as the most suitable yardstick for the risk measurement. Walia and Dr. Kiran (2009) examined that the uncertainty in the returns of an investment is primarily due to the lack of knowledge and skills to analyze the financial information because of the increasing complexity in the finance industry. With this uncertainty in place, the associated risk with a particular investment is an important factor for the decision makers to derive their investment decisions. In a similar study conducted by Kaplan and Garrick (1981) risk has been determined as an
uncertainty factor, which could probably result into considerable loss. Schwartz and Tesssler (1972) observed that anticipated returns on the investments are positively correlated with the systematic market risk; higher returns are generated from high-risk investments. Walia and Dr. Kiran (2009) examined that an important and crucial challenge for the investors is their lack of insight and understanding to efficiently measure the risk factor associated with the investment. Therefore, deviating from the standpoint of standard finance, behavioral finance also examines subjective factors, where observed risks include both emotional and perceptional aspects. Two main attitudes toward risk are risk aversion and risk seeking, both could manifest in one individual under different circumstances (Olsen 2007, Olsen 2008). It was proved that one of the important factors influencing investor’s attitude is their tolerance for risk (Bennet et al., 2011).

Alanko (2009) in a study on what drives investors' risk appetite determined that risk attitude and risk allocation are correlated and goes hand in hand. During the period of the study, he observed that a situation of recession in an economy creates risk aversion among the investors in the market. Walia and Dr. Kiran (2009) in their research concluded that the risk aversion behavior of an individual determines his decision to completely refrain from risk or only take minor risk i.e. whenever a person is given a choice between 100% guaranteed moderate returns and high risk and high return, majority of the people choose for the moderate returns which are guaranteed. In a similar research, Alanko (2009) observed that risk attitude of individual person determines the allocation of the investment and decision making attitude.

Srivastava (2007) in an analysis of behaviour of investors in India observed that past experience of successful investing in funds maximizes risk tolerance of investor and vice versa for unsuccessful past experience. Walia and Dr. Kiran (2009) opined that before designing any innovation solution for the investors, wealth managers carefully consider the trade-off between the risk and returns; and comprehensively evaluate different investment schemes on various risk elements to satisfy the need of all investors to obtain maximum returns. Tarashev et al., (2003) observed that dynamics of financial market would modify systematically with effective risk aversion level of investors. Walia and Dr. Kiran (2009) examined that wealth managers with their
technical skill and professional management are consistently trying to make the markets more transparent and efficient in order to easily determine and effectively manage the risk factor.

Talati and Sanghvi (2011) in *an analytical study on investors’ awareness and perception towards the hedge funds* mentioned that Gujarati investors would like to invest in fixed deposits of banks which are nationalized and government securities where they get security of their investment with nominal returns. Investors prefer to take risk in land, equity markets, gold and other such commodities. Walia and Dr. Kiran (2009) determined that uncertainty of the returns and changing perspective of an individual investor towards risk are influencing his decision to invest in the high-risk instruments. Anand and Murugaiah (2004) in a study on *marketing of financial services: strategic issues* observed that the satisfaction of an investor is built upon the dependence and trust confide on the wealth managers in order to gain benefits. Despite of having skills and expertise, most of the wealth managers are not able to retain their trust for investors by ensuring them risk free returns and could not compensate for the extra risk borne by the investors. Walia and Dr. Kiran (2009) found that out of the various factors which influence the decision of an investor, associated risk and expected returns are the important determinants which indicate the direction of an investor towards a particular investment option.

Khitoliya (2014) while studying the *investors awareness and perceived risk attitude* found that investors mostly discuss with relatives and friends about different schemes available in mutual fund prior taking investment decision, which is not fair in decisions of investment. Kumar and Persaud (2002) proposed a method to determine the factor of risk aversion by analyzing the distribution of abnormal returns from an investment. As determined by Walia and Dr. Kiran (2009) investors are normally more conscious while making any decisions for their investments and rationally demands higher returns at low risk, but it is nearly impossible to obtain exceptionally higher returns in an efficient market. Related research has been conducted by Donkers et al. (2001), Diaz-Serrano and O’Neill, (2004), to measure the risk preferences of the individual investors. Ali and Waheed (2013), in their research observed that personality traits encompassing extraversion, openness to experience,
conscientiousness, agreeableness and neuroticism would have a significant correlation with investor’s attitude regarding risk assumption.

According to Alanko (2009) investor’s attitude and decision making related to risky investments plays a vital role in understanding investor’s behavior and perception towards risk and this study can provide wealth managers with a deep insight and useful information to improve and focus on investor’s demands and customer satisfaction. Hallahan et al., (2004) observed the individual investor’s risk appetite and risk tolerance. Dohmen et al. (2005) has conducted extensive and comprehensive research to understand the individual’s behavior and their willingness to bear risk. Guiso and Paiella, (2005) also conducted research on individual investors to observe and determine their risk preferences. As observed by Walia and Dr. Kiran (2009) in order to fulfill the demands and requirements of the investors, wealth managers are designing more innovative, productive and cost-effective tools based upon the risk appetite of the individual investors.

Potential research and study has been conducted by several researchers to figure out the various determinants of the risk in the financial industry. Alanko (2009) determined that the risk aversion behavior increases with the age of investors concluding that risk appetite is negatively and non-linearly related to the age. A related study has been carried out by Barsky et al. (1997) on preference parameters and individual heterogeneity determines the impact of age on the investment risk appetite of an individual. Nosic and Weber (2007) while studying the determinants of risk taking behavior presented an argument age, gender, education and other demographic variables are only the intermediaries of the determinants of risk. Lytton and Grable (1998), Hanna and Wang (1997) and Joo and Grable (1997) have presented some contradictory result concluding that age has a linear relation or no influence on the risk appetite of the investor’s behavior. In a related study, McInish (1982) and Wallach and Kogan (1961) found that investor’s risk appetite gradually reduce upon their retirement with the rational to carefully spend their saving and pension to maintain their present living standards. Taking high risk in their investments could jeopardize their entire life savings. Haarala (2008) concluded that an investor with the increasing age tends to be more risk averse. Gai and Vause (2006) have proposed a method to determine investor’s risk appetite and existing
market sentiments at the time of investment. Risk Appetite and risk aversion are often conversely used terms to mutually indicate the market sentiments.

In a study by Hui, Zheng and Wang (2013) on *investor sentiment and risk appetite of real estate security market* proposed a new framework to determine the risk appetite of an individual investing in real estate and equity market; and observed that degree of risk appetite differs from individual to individual and from time to time. Froot and O’Connell (2003) examined that investor’s confidence is positively related to the risk tolerance and the market sentiments is the important determinant of the investor’s confidence. In a related study on *investor sentiment in India*, Sehgal, Sood and Rajput (2009) determined that the sentiments of the investor play a key role in influencing the economic and market variations. Prevailing sentiments in the financial markets predominantly drives the economy and influences the stock prices in the market, which in turn have the significant influence on the investor’s behavior and attitude. Finding of their research were consistent with the results of study conducted by Baker and Jeffrey (2006), Fisher and Meir (2000) and Eichengreen and Mody (1998).

Nosic and Weber (2007) deduced that regardless of the method used measure the risk, risk attitude is always predicts the risk taking behavior of an investor. Alanko (2009) conceptually established a relationship between the individual’s risk tolerance of and his attitude and behavior towards risky investments. Hui, Zheng and Wang (2013) examined that risk aversion is a combination of multiple economic and psychological theories, which indicates the investor’s attitude in the situation of uncertainty. Risk aversion is the essential element of the investor’s behavior towards risky investments.

### 2.3.3.1 Risk appetite as moderator

The research undertaken by various behavioral finance experts proves that the investment behavior is not only affected by physical considerations but also by mental traits (Kannadhasan, 2006). Psychological and behavioral factors to a great extent determine the investor’s behavior. Theorists believe that the behavior of investors is governed by their attitude and risk bearing capacity (Eisenhardt, 1989; Wiseman & Gomez-Mejia, 1998; De Long, Shleifer, Summers, & Waldmann, 1990; Weber, Blais, & Betz, 2002; Mohanta & Debasish, 2011). Risk appetite or risk bearing capacity is considered an important aspect in analyzing the investors’ attitude (Illing & Aaron, 2005). It is proved to be a key factor...
driving investor behavior (Kannadhasan, 2006). Shift in risk appetite causes shift in investors’ attitude and thus behavior. Being central to the concept of investors’ attitude and behavior, it is believed to have a significant impact on other factors influencing attitude (Fung, Tam, & Yu, 2009). It is because of this reason; risk appetite is taken as a moderating variable in this study in order to examine its role in influencing the relationship between financial literacy, beliefs, subjective norms and attitude. Moreover, no studies so far have been undertaken to prove risk appetite as a moderator in explaining the relationship between predictors and investor’s attitude.

2.3.4 Subjective norms

Subjective norms are related to the influence of society such as friends, relatives, peers and other influential members on the behavioral intention of the decision-maker. In case of investment decision-making two major influences are the influence of close friends or relatives and the influence of the advisors who recommend various policies to the decision-maker. Ajzen and Fishbein (1980) defined Subjective Norm as the individual’s perception regarding the influence of significant others in conducting a specific behavior or to decide whether a particular behavior be exhibited or not. According to the Theory of Reasoned Action, an individual investor will most likely have an intention to perform a certain behavior if a person who is important to him thinks that he should perform such behavior. However it has been observed that even though many individuals do not exhibit a specific behavior, it is more likely that they do not have an intention. This concludes the fact that even though an individual is not in favor and has no inclination towards a performing a particular or specific behavior, he may still conduct such behavior under the social influence and pressure (Venkatesh and Davis, 2000).

Subjective Norms refers to the belief of an individual whether his significant others have the same opinion as himself about whether or not to engage in particular behavior. It was mentioned that subjective norms depends upon the normative expectations of close friends, family and relatives (Cavazosa, 2013).
Azam, Quaddus and Lubna (2013) in a study on behavioral modeling of the individual’s acceptance referred subjective norms as the individual’s perspective towards the social pressure exerted on him to perform or not to perform the said behavior. Subsequently it was observed that subjective norms are hypothesized to be a function of normative beliefs. An individual who believe that his friends, family and colleagues expects him to perform a behavior, he will tend to exhibit it under the social pressure of their expectation. In the study conducted on growth intentions and actual growth, Kolvereid and Erlend (1996) has characterized subjective norms into two groups of psychological determinants. The first group consists of elements identifying the investor’s belief about the opinion of their family, friends and colleagues to participate or not to participate in any investment or big financial decision in a business. The second group of elements identifies the degree to which the opinion of family, friends and colleagues influence the financial decisions of an individual. The positive score in findings of the research substantiated that the support of the significant other does significantly matters for an individual to take decisions confidently. Applying the theory of planned behavior as well; subjective norm has a considerable influence on investor’s investment decision (Sharma and Gupta, 2011; Croy, Paul and Craig, 2009).

Social influence theory suggests that the perspective of peers and other close referents are essential factors in the investment decision-making. Study conducted by Sheppard, Hartwick and Warshaw (1988) on theory of reasoned action observed a positive relationship between subjective norms and intentions of an individual to engage into specific behavior. According to Taylor and Todd (1995) in a situation when there is a possibility of finding differences in opinion between different referent groups, subjective norm of an individual can be divided into his normative belief and his motivation to adhere to one referent group over other. In a research conducted by Hussein, Hassan and Al-Anood (2009) on financial literacy and investment decisions, it was concluded that the investors with less knowledge about the financial system rely extensively on the suggestions and opinion of close relatives, colleagues, friends, peers and family and take their advice before making any investment related decisions. According to Hong, Kubik & Stein (2010) in their research on social
interaction and stock market participation, they pointed out that a market seems more attractive to an investor, when he sees his peers participating.

Sheppard, Hartwick and Warshaw (1988) studied the theory of reasoned action and mentioned in their research that friends play an indispensible role in one’s life. Friends of an individual have a significant influence in making almost all the crucial decisions in life, which include studies, marriage, professional career, buying a property or making any huge investments. In a similar research on attitude, subjective norm and perceived behavioral control, Cavazosa (2013) observed that in most of the cases it is the friends who introduce one to the investment for the first time in life. In another study conducted by Shin et al., (2010) on financial socialization and the role of parents work and education, it was examined that while taking any big decision, friends are considered to be the major source to get motivation and inspiration. Primarily in case of taking any investment decisions, it was observed that whenever an individual has any doubt of any heavy risk associated with the investment, friends are the first one to be contacted for advice and their perspective in regards to that investment and then compare their beliefs with their friends perspective and only goes ahead if both of their opinion matches and they both reach the consensus. These results were consistent with the findings of research carried out by Wang and Jing (2009), which was based on the influence of friends on one’s investment decisions. It was founded from the conclusions that some individual’s make investments just because their friends are also making investment. They have no intention or goal to get huge returns on their investments, but the actual motive is just to be associated with their friends and they make investments just for the sake of friendship. Gali (1994) conducted a study on consumption externalities, portfolio choice, and asset prices and observed that it was quite common for an individual to copy and follow their friend’s investment decision who they think have higher financial knowledge and invest in the same portfolio or instrument in which their friend has invested. This behavior of copying investment decision of friends was particularly observed more during the initial and new investments. Bursztyn, Ederer and Ferman (2012) while studying on understanding peer effects in financial decisions found that peers have economically and statistically considerable influence on the investment decisions. It was observed that the investment choices of people often look similar to the choices
of their peers and friends. This peer influence was found across various studies of economics and social psychology. Peers play an important role in motivating a person in taking financial decisions. When a person makes any investment, his peers also tend to follow the same investment pattern, which results from the two major concepts of social learning and social utility.

In a study conducted by DeBono and Omoto (1993) on *individual differences in predicting behavioural intentions from attitude and subjective norm*, subjective norms are referred to the impression of normal social pressures to exhibit a behavior. Influence of employees and neighbors depict the financial behavior of an investor in his investment pattern (Cole and Shastry, 2009). Evidently, the varied conclusions related to the influence of subjective norm on intention indicate a concrete relation among them. Hence it is logical to conclude that an individual investor, who possess and exhibits an inclination towards favorable subjective norms, tends to have greater intention to invest than those who do not possess the same preference. Septyanto and Adhikara (2014), Listyarti and Suryani (2014), Gain et al., (2012) found out that subjective norms positively influence investment intentions. They also observed that financial information particularly accounting information and intentions of investors has a positive significant effect on investment decisions.

Chiou (1998) conducted an extensive study on *the effects of attitude, subjective norm, and perceived behavioral control on consumer’s purchase intentions* to identify and determine the effect of subjective norm and attitude on the consumer’s behavior and intentions. The study resulted into conclusion that the elements like subjective norm and attitude do have positive influence on the perceived behavior of an individual. The theory of reasoned action suggests that the behavior is influenced by intention and consequently intention is influenced by subjective norm and attitude. It refers subjective norm as a function of motivation and belief associated with any referred object. On the other hand, some studies prove insignificant links between these two constructs i.e., subjective norms and investment behavior (Lewis, Agarwal et al. 2003).
2.3.5 Attitude

*Attitude* is said to be associated with future investor behavior. It is observed to be a driving element of the individual’s exhibited behavior. In simple words, attitude predicts behavior. As described in the theory of reasoned action, attitude is considered as a significant factor influencing the behavior of an individual. Attitude is described as a psychological and cognitive tendency that is exhibited by assessing any particular element with some degree of favorableness or unfavorableness (Eagly and Chaiken, 1993). *Attitude* of an individual towards a specific behavior refers to his judgment about whether performing the said behavior would result into positive or negative returns. Thus attitude is hypothesized to be a function of one’s belief about the outcomes of exhibiting a particular behavior. Attitude towards an act is also a function of individual’s anticipated consequences associated with conducting any particular behavior and is derived from the implications of that behavior (Azam, Quaddus and Lubna, 2013).

Attitude is primarily formed by three components i.e. cognitive, affective and behavioral elements. One of the oldest studies carried by Schuman and Johnson (1976) revealed the evidence to substantiate the positive relationship between the attitude and behavior. Almost a decade later Snyder and Ickes (1985) in a study on *personality and social behavior* mentioned in their finding that there is moderate relationship between attitude and individual’s behavior and found some positive patterns which link these two human attributes. In a research conducted by Murgea (2008) on *investor’s psychology cycle on the romanian capital market* and Sehgal and Singh (2012) on *psychology of investors based on value and life style survey* it was found that psychological factors have considerable influence on the attitude and behavior. An individual in good mood is intended to be more optimistic while making investment decision and contrarily becomes more pessimistic when not in good mood.

It is the attitude of an individual which helps him to decide whether a particular behavior be conducted or not, considering both the positive and negative aspects of it (Fishbein and Ajzen 1980). Also, behavioral intention has been described as the preferences and inclination of an individual with respect to a psychological phenomenon. In case the attitude of an individual is more inclined towards a distinct behavior, the probability is more that the individual will intend to conduct that
particular behavior. However, if an individual has an aversion towards a specific behavior, it is unlikely for that individual to have the intention to possess such behavior (Ajzen and Fishbein 1980). Attitude of an investor towards risk taking involved in an investment plays an important role not only affects his investment behavior but also influences the economic growth and development (Kisaka and Mwewa, 2014). A lot of research has been conducted in this field to claim that an attitude has a significant impact on the intention and behavior of an individual (Michael, 2011; Ramayah and Suki, 2006; Teo and Pok, 2003; Shih and Fang, 2004; Mathieson, 1991). As a result, in the context of individual investment, it is reasonable to assume that if an individual investor is more favorable of the investment, they are more motivated to take the action than those who are less favorable. According to Kaiser, Oerke and Bogner (2007) while studying behavior-based environmental attitude and Dickson (2000) in a research on attitude, knowledge, belief and personal values relating to intentions, observed that it is easier to attain the prediction about the behavior of an investor by determining his attitude while making a decision for buying a particular product. In their research, attitude is considered as the persuading factor which influences the intention of an investor to choose for the wealth management services. On the other hand, despite having a positive attitude towards investment most of the investors still do not have any intention to invest in volatile market (Kothari and Mindargi, 2012).

Funfgeld and Wang (2008) in a study on attitude and behavior in everyday finance revealed an important dimension of an attitude of an investor i.e. the degree of anxiety. The investors who possess more anxiety in their attitude tend to intuitively and spontaneously take decisions and show less patience even while making huge investments. An anxious investor is always unsure with the feeling of insecurity and doubt in mind. In a study conducted by Mandell and Klien (2009), it was observed that the attitude of an individual is sometimes also influenced by the past life history and difficult times spent in life. These results were consistent with the finding of research conducted by Bentler and Speckart (1979) who proposed that the behavioral history of a person has been observed to influence the individual’s current attitude and behavior. Borden et al., (2008) observed in their research that for some of the
individuals their investment behavior and attitude is considerably influenced by their ethnicity and cultural background. Ismail et al., (2013) reported from their research that the financial attitude of an individual relates to the borrowing behavior i.e. more stronger is the financial attitude means less preference of an investor to borrow money.

Bennet et al (2012) in a research on the impact of investor’s sentiment on the equity market found out that market specific factors had a positive effect on investor’s attitude and opinion in India. Singh and Jha (2009) and Das (2012) identified that investor’s preference is primarily based on liquidity, potential and safety. Felicia (2014) verified that there was change in investor’s attitude prior and after the financial crisis regarding investments. According to Kisaka and Mwewa (2014) general agreement formed by scholars after extensive study on identifying relationship between attitude and behavior is that there exist both direct and indirect determinants of the exhibited behavior. Personal traits and demographic elements are the indirect determinants while the intention is the biggest direct determinant of individual’s behavior. Intentions of an individual are formed by three basic components; First, Attitude towards exhibiting a behavior; Second, the Subjective Norms and finally the perceived behavior.

2.3.5.1 Attitude as Mediator

Besides looking into the relationship between attitude and investment behavior, the study also examines the role of attitude as a mediator. This is done to assess whether there is any observable relationship between financial literacy, risk appetite, beliefs, subjective norms and investment behavior or the relationship is the cause of mediation created by attitude. Mediation is a form interrelationship between variables that describes causation. It is normally used to provide a more precise explanation to the causal relationship between a predictor and outcome (Hair et al., 2010). A mediator corresponds to a dominant variable through which an independent variable influences a dependent variable (Baron & Kenny, 1986). The previous studies emphasize that the investor’s attitude is one of the predictors of investment behavior and is determined by various components. In other words, since the predictor variables influence
investor’s attitude, which in turn influences investment behavior, it can be concluded that attitude has a mediating effect and might explain the relationship between predictors and investment behavior. Very few studies have been undertaken to prove attitude as a mediator in explaining the relationship between predictors and behavioural intention and actual behavior. A study conducted by Çabuk, Tanrikulu, & Gelibolu, (2014) showed that attitude plays a major role in terms of direct impact on intention to buy and indirect effect as a mediator on how predictor variables affect intention to buy. To the best of researchers’ knowledge there’s no study conducted that examines the impact of attitude as mediator on intentional behavior and actual behavior.

2.3.6 Investment behavior

Investment behaviors as defined by Slovic (1972) is a process by which investors display their conduct of judgment, prediction, analysis and review of strategy planning and decision-making, which includes investment psychology, information accumulation, defining and understanding, research and analysis. According to Azjen & Fishbein (1980), a specific future behavior of an individual can be predicted by his behavioral intentions. In a study on values, attitudes, and interpersonal behavior, Triandis (1980) referred intention as self-directions to exhibit a specific behavior and is presumed to consequently influence the behavior. Armitage and Conner (2001) in their research on efficacy of the theory of planned behavior observed the inherent relationship between the individual’s intentions and behavior. In a related study Brubaker and Fowler (1990) reported a positive link between them and found that any changes in the intentions of an individual subsequently results in behavioral transformation. In an extensive research on self-instructed attitude and financial behavior Byrne (2005) factorized individual’s attitude and financial behavior into five fundamental characteristics, which together forms intentions and leads to conduct of particular behavior. These characteristics are anxiety, spending tendency, need for saving, decision patterns, and interest in financial affairs. Based upon these characteristics, individual attitudes were studied to obtain more insight in understanding their behavioral patterns.
Wang (2001) observed that due to overconfidence in the behavior of investors, they usually overestimate the role of their own information and therefore excessively trust their capacity. Excessive optimism in the behavior usually comes from overconfidence and captures the perception that future incidents would be better and more positive than present situation. Walia and Dr. Kiran (2009) determined that the investor’s optimistic behavior and awareness about the volatility in market also influences the investor’s decision to invest in high-risk investment options. In a similar study on the positive role of overconfidence and optimism in investment policy, Gervais et al., (2002) concluded that over-optimistic investors may believe that bad investment would not harm their portfolio and therefore expect too much from the market and from investing opportunities. Excessive optimism also has positive impacts on investing attitude and encourages people to invest, since too much risk aversion would decrease trading volume. Johnson et al., (2002) determined that excessive optimism has negative effects when it leads to highly risky investment. Moreover there exists a link between overconfidence and excessive optimism.

Locke and Mann (2005) in their study on do professional traders exhibit loss aversion have mentioned in their research that there are some preferred investment behaviors that assures the considerable gain and success in making investment decisions. Such investment behaviors are characterized by the following consistent investment strategy, maintaining patience during financial crises, rational thinking and disciplined trading. Investment strategies are primarily based on reversal strategies, momentum in the market and past performance of different financial products. Camerer, Loewenstein & Rabin (2004) while studying the behavioral economics: past, present, and future mentioned in their research that human psychology and theories of economics are being studied to broadly explore and understand the individual’s behavior related to financial matters. Barberis & Thaler (2003) in a survey of behavioral finance focused on the factors and circumstances, which results into significant deviation from the expected rational behavior of an individual.

However, it has been observed by Azjen & Fishbein (1980) that the measures of intention are not always good indicators. Intentions keep on changing with time and the intentions measured before observing the behavior can contradict with the
intentions measured while observing the behavior. This concludes that larger the time gap, less precise is the prediction of individual’s behavior from his intentions, which tends to broaden the difference in the relationship of behavior and intention. As per their research, occurrence of unexpected events and unforeseen situations may result into changes in intentions of an individual investor. According to Walia and Dr. Kiran (2009) wealth managers are making use of new technology and data mining capabilities to design modern approaches for investment decision-making and strategic planning to forecast the future trends and analyze the investment behavior of an individual in the wealth management industry.

Speed & Smith (1992) in a study on *retail financial services segmentation* and Harrison (1994) in a research on *segmenting the market for retail financial services* tried the market segmentation approach to learn and analyze the behavior of an investor. Market Segmentation intends to determine financial behavior patterns by grouping the investors into different segments based upon their financial requirements. Azjen & Fishbein (1980) have determined various reasons, which can deviate intentions of an investor such as sudden accident, loss of job, natural disasters, abrupt sickness, unanticipated pregnancy, any severe injury or disability, any causality in family or close relatives or sudden fall of the stock market or economic breakdown. Walia and Dr. Kiran, (2009) concluded that the behavior of an investor with respect to his willingness to bear risk is associated and impacted with the market sentiments and risk tolerance. Several researches have been conducted to determine the different elements of investment behavior that influences the trading behavior of an investor.

Linnainmaa (2011); Grinblatt, Keloharju and Linnainmaa (2012) presented that IQ of an individual is an important element of the individual’s investment behavior. Christells et al., (2010) reported that cognitive character of an individual is the important characteristic of his behavior. Kumar, Page and Spalt (2011) focused on how the religious beliefs influence the behavior of a person. Biais et al., (2005) studied the relation between the self-control and individual’s behavior. Muehlfeld, Weitzel and Witteloostuijn (2013) examined the effect of motivation on the investment behavior of an individual.
Lam (2008) in his study instituted that attitude, past behavior and subjective norms have significant positive impact on investor’s intention to make investments. Results derived from his research are similar with the outcomes of Das (2008) and Srivastava (2007). Byrne (2005) and Corter and Chen (2006) observed that past experience of successful investing in funds maximizes risk tolerance of investor and vice versa for unsuccessful past experience. Behavior exhibited in past investment affects future behavior of investment. According to Walia and Dr. Kiran (2009), it is important for the wealth managers to be aware and carefully consider the rationality present in the investment behavior.

2.4 SUMMARY

This chapter gives an overview of wealth management, its needs, its determinants and challenges. The scenario of global wealth management industry and Indian wealth management industry is also presented. This chapter has described the groundwork and the existing research model and theoretical structure build on two important frameworks explaining the investment behavior along with the conclusions of the existing literature, which exhibited significant information for the design of this research framework. The model identified various variables under study: financial literacy, risk appetite, beliefs, subjective norms, and attitude and investment behavior. The literature related to the relationship between these variables has been reviewed and related hypothesis have been proposed. Based on the relationships discussed in the study, attitude of an investor is formed on the basis of his financial literacy, risk appetite, beliefs and subjective norms and finally, the relationship between attitude and investment behavior is formed. Also, the research undertaken by various behavioral finance experts proves that the investment behavior is not only affected by physical considerations but also by mental traits (Kannadhasan, 2006). Psychological and behavioral factors to a great extent determine the investor’s behavior. Theorists believe that the behavior of investors is governed by their attitude and risk bearing capacity. Thus, risk appetite is taken as a moderating variable in this study in order to examine its role in influencing the relationship between financial literacy, beliefs, subjective norms and attitude. Besides looking into the relationship between attitude
and investment behavior, the study also examines the role of attitude as a mediator. In other words, since the predictor variables influence investor’s attitude, which in turn influences investment behavior, it can be concluded that attitude has a mediating effect and might explain the relationship between predictors and investment behavior.

Hypotheses has been presented and classified into three different types. First one is classified as direct path hypotheses, second is classified as Moderating hypotheses and third one is Mediating Hypothesis. These hypothesis are used to validate the research model proposed during this study. Structural Equation Modelling used along AMOS version 4.0 has been applied to verify the proposed hypotheses in accordance with the theoretical model. Analytical tools and methods employed to accomplish the goals of this research have been thoroughly explained in detail in Chapter 3. The analyses of the data and observations justifying and substantiating the finding of the research have been described in Chapter 4 and Chapter 5.