CHAPTER 7
INVESTORS BEHAVIOUR & ADVERTISEMENTS

7.1 Behavioural Analysis of Investors

An investment refers to the deployment of funds, in anticipation of some positive rate of return in future. Today the horizon of investment is very wide. An investment normally exists with a wide choice of investment avenues. It is the employment of surplus money with the aim of achieving additional income or growth in value. The quality of income is that, it involves ‘waiting ‘for a reward. It involves the commitment of funds which have been saved or put away from current times in the hope that some benefits will occur in future.

Every investor, in general, prefers to be a successful investor. Success in investment is earning the highest possible return inspite of the limitations imposed by the investor’s personal circumstances-age, family needs, liquidity requirements, tax status and risk-appetite. The performance can be measured against alternative investment or combination of investment, available to the investor within those limitations. The investor’s real success means winning the battle against inflation, against the fall in the real value of savings and capital.

A successful investor strives to achieve the rate of return, consistent with the risk assumed. A rational investor should assess the level of risk he can take and make certain that the investments he makes fulfills the risk expectations. As a reward for assuming this level of risk, he will receive the returns that are consistent with it. It has to be tried by the investor that he should try to outperform the market returns.

It can be said that the success is achieving the rate of return warranted by the level of risk assumed and also achieving a rate of return in excess by the level of risk assumed. Investors normally expect abnormal returns for the risks assumed.

A rational investor would like to follow the following three golden rules for investments:

- Invest early
- Invest regularly
- Invest for long term and not short term
An investor is a person or an organization that invest money in various investment avenues for a specific objective. The investor’s attitude of investment is different in each alternative e.g. some investors are risk averse, while some have an affinity of risk. The risk bearing capacity of an investor is essentially a function of personal, economical, environmental and situational factors such as income, family size, expenditure pattern and age. A person with higher income is assumed to have higher risk-bearing capacity.

**Categories of Investors**

An investor’s behaviour can be better understood by categorizing investors into three broad categories: Conservative, Moderate and Aggressive.

**Conservative investors**

The conservative investors avoid risk, particularly, the risk of losing the principal even to settle for very modest returns. These investors allocate most of their funds to bonds, bank deposits and money market instruments. They are generally reluctant to invest in shares and equity markets, especially over the short term. In case the conservative investors do venture into equity investments they often choose the shares of blue chip companies because they change value more slowly than other types of stocks and often pay dividend.

**Moderate investors**

The moderate investors try to increase the value of their portfolios and protect their assets from the risk of major losses. For example, a moderate investor might use an allocation model that has 60% in equity, 30% in bonds, and 10% in cash equivalents. While they will tend to favor blue chip and other large-cap stocks, they may be willing to invest a modest portion of their principal in higher risk securities such as international stock, small-caps, and volatile sector funds in order to increase their potential for higher returns.

**Aggressive investors**

The aggressive investors concentrate on investments having the potential for higher growth. They are willing to take the risk of losing some of their principal, with the expectation that they will realize higher returns. These investors might allocate from 75% to 95% of their portfolios to individual shares and equity based mutual fund schemes. Many aggressive investors have significant holdings in more speculative stocks and funds, such as emerging market and sector mutual funds. As aggressive investors focus on growth, they are usually less inclined to hold income generating securities, such as bonds. This style is suited for
investors with a long-term perspective of 10 years or more and are willing to make a long-term commitment to the stocks they buy.

Any rational investor, before making any investment would like to ensure:

- to obtain written documents explaining the investment schemes and understand such documents
- find out the costs and benefits associated with the investment and assess the risk-return profile of the investment
- know the liquidity and safety aspects of the investment and ascertain the appropriateness for his specific investment goals
- compare with other investment opportunities
- deal only through an authorized intermediary, if need be and also seek all clarifications about the intermediary

Much of the economic theory is based on the belief that individuals behave in a rational manner and that all existing information is embedded in the investment process. But, some researchers have observed that the rational behaviour is not always exercised. Behavioural finance seeks to understand and explain how human emotions influence investors in their decision-making process. The average investor may fail to achieve market related returns. Some theories with regard to investors behavioural patterns are as below:

**Regret Theory**

The regret theory relates to the emotional reaction people experience after realizing they've made an error in judgment. Faced with the prospect of selling a share, investors become emotionally affected by the price at which they purchased the share. So, they avoid selling it as a way to avoid the regret of having made a bad investment, as well as reporting a loss.

Regret theory can also hold true for investors who find a share they had considered buying but did not went up in value. Some investors avoid the possibility of feeling this regret by following the conventional wisdom and buying only shares that everyone else is buying. Many investors feel much less embarrassed about losing money on a popular stock that half the world owns

**Mental Accounting**

The investors have hesitation in selling an investment that once had handsome returns and now has a modest gain. During an economic boom and bull market, investors get used to
attractive returns. When the market correction reduces the investor's networth, they're more hesitant to sell at the smaller profit margin. They create mental compartments for the gains they once had, motivating them to wait for the return of that gainful period.

**Prospect/Loss-Aversion Theory**

The prospect theory says that people express a different degree of emotion towards gains than towards losses. Individuals are more stressed by prospective losses than they are happy from equal gains. A loss always appears larger than a gain of equal size - when it goes deep into our pockets, the value of money changes.

The theory also explains why investors hold on to losing stocks. People often take more risks to *avoid losses* than to *realize gains*. For this reason, investors willingly remain in a risky stock position, hoping the price will bounce back. So, despite our rational desire to get a return for the risks we take, we tend to value something we own higher than the price we would normally be prepared to pay for it.

The loss-aversion theory points to another reason why investors might choose to hold their losers and sell their winners: they may believe that today's losers may soon outperform today's winners. Investors often make the mistake of chasing market action by investing in stocks or funds which garner the most attention. Research shows that money flows into high-performance mutual funds more rapidly than money flows out from funds that are underperforming.

**Anchoring**

In the absence of better or new information, investors often assume that the market price is the correct price. People place lot of credence to recent market views, opinions and events and analyse recent trends that differ from historical, long-term averages and probabilities. In bull markets, investment decisions are often influenced by price anchors, prices deemed significant because of their closeness to recent prices. This makes the more distant returns of the past, irrelevant in investors' decisions.

**Over-/Under-Reacting**

Investors get optimistic when the market goes up and also assume that it will continue to do so. Conversely, investors become extremely pessimistic when market falls. A result of anchoring, placing too much importance on recent events while ignoring historical data, is an over or under-reaction to market events which results in prices falling too much on negative news and rise too much on positive news. At the peak of optimism, investor greed moves
stocks beyond their intrinsic value. Extreme cases of over or under-reaction to market events may lead to market declines.

**Overconfidence**

People generally rate themselves as being above average in their abilities. They also overestimate their knowledge and their knowledge relative to others. Many investors believe they can consistently time the market. Moreover in reality, there's an overwhelming amount of evidence that proves otherwise. Overconfidence results in excess trades, with trading costs affecting profits.

### 7.2 Response of Investors to Mutual Fund Advertisements

**Table 7.1: Investment decisions influenced by**

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Self-Decision</td>
<td>17</td>
</tr>
<tr>
<td>Friends</td>
<td>9</td>
</tr>
<tr>
<td>Advertisements TV/Newspapers</td>
<td>6</td>
</tr>
<tr>
<td>Financial Advisors</td>
<td>68</td>
</tr>
</tbody>
</table>

**Pie Chart 7.1: Investment decisions influenced by**

The Table 7.1 & pie chart 7.1 reveal that the majority of the respondents i.e. 68% consult their financial advisors and get influenced by their advice to invest. Only 6% get influenced with advertisements appearing in visual and print media. 17% of the investors in this study act on their own based on their knowledge and information. 9% respondents get influenced by their friends.

**Table 7.2: Watching/listening advertisements for savings and investments**

<table>
<thead>
<tr>
<th>Responses</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>81</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
</tr>
<tr>
<td>Can't say</td>
<td>7</td>
</tr>
</tbody>
</table>
As per Table 7.2 & pie chart 7.2 it has been revealed in this study that 81% respondents do see and watch advertisements of financial savings instruments appearing in various media. Only 12% say that they do not look at these advertisements. Although 81% respondents watch advertisements but they are not taking investment decisions merely by seeing the advertisements.

**Table 7.3: Most attractive advertising media for investment of savings**

<table>
<thead>
<tr>
<th>Responses</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Print</td>
<td>55</td>
</tr>
<tr>
<td>TV</td>
<td>29</td>
</tr>
<tr>
<td>Radio</td>
<td>0</td>
</tr>
<tr>
<td>Others</td>
<td>16</td>
</tr>
</tbody>
</table>

The Table 7.3 & pie chart 7.3 have revealed that print advertisements attract the investors the most i.e. 55% whereas 29% respondents were influenced by TV advertisements. The radio advertisements had no attraction. 16% respondents get attracted by other media which may be due to the fact that the newspapers advertisements provide detailed information about the financial instruments which is desired by the investor.
Table 7.4: Most preferred time to watch/read the Mutual fund schemes advertisements

<table>
<thead>
<tr>
<th>Responses</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breakfast time</td>
<td>43</td>
</tr>
<tr>
<td>Office Time</td>
<td>3</td>
</tr>
<tr>
<td>Evening time</td>
<td>38</td>
</tr>
<tr>
<td>Prime Time TV</td>
<td>16</td>
</tr>
</tbody>
</table>

Pie Chart 7.4: Most preferred time to watch/read the Mutual fund schemes advertisements

It has been observed in this study as per Table 7.4 & pie chart 7.4 that 43% of the respondents prefer reading/watching financial saving instruments advertisements in the morning breakfast time. This may due to the fact that since investment is a major decision involving money & savings, people watch them when they are fresh and active at this time. 38% of the respondents conduct this exercise in the evening time when they are back from work. 16% respondents preferred to watch advertisements during the prime time, may be alongwith taking dinner. Only 3% do this during office time.

Table 7.5: Understanding of the term “Conditions apply” in MF advertisements

<table>
<thead>
<tr>
<th>Responses</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>79</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
</tr>
<tr>
<td>Can't say</td>
<td>9</td>
</tr>
</tbody>
</table>

Pie Chart 7.5: Understanding of the term “Conditions apply” in MF advertisements
The study reveals that majority of the respondents, 79% do understand the term “conditions apply” that appear in the advertisement of Mutual Fund schemes. Only 12% say that they do not understand this term. Based on this observation it can be said that investors do watch/read the advertisements of Mutual Fund schemes carefully and collect the knowledge about conditions as they have to make investment of their hard earned money.

**Table 7.6: More questions in mind after reading/watching the savings advertisements**

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>81</td>
</tr>
<tr>
<td>No</td>
<td>19</td>
</tr>
</tbody>
</table>

**Pie Chart 7.6: More questions in mind after reading/watching the savings advertisements**

As per Table and pie chart 7.6 it is revealed that 81% of the respondents, after looking/reading the financial instruments advertisements, are interested to know more about the instruments. This may mean that these advertisements do have effect on the serious investor’s mind since most of them are wanting to collect more information. Only 19% have no further questions in mind, which may mean that these are casual investors.

**Table 7.7: Going through the advertisement word by word completely**

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>44</td>
</tr>
<tr>
<td>No</td>
<td>56</td>
</tr>
</tbody>
</table>

**Pie Chart 7.7: Going through the advertisement word by word completely**
This study through Table & pie chart 7.7 reveal that 44% of the respondents very carefully go through the advertisements and 56% do not see them word by word. It can be said that since investing the savings is a serious task, about 50% are going through the text thoroughly.

Table 7.8: Most preferred savings instrument

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post office Schemes</td>
<td>22</td>
</tr>
<tr>
<td>Equity Shares of Co.</td>
<td>23</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>28</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>24</td>
</tr>
<tr>
<td>Bonds</td>
<td>3</td>
</tr>
</tbody>
</table>

Pie Chart 7.8: Most preferred savings instrument

As per Table and pie chart 7.8, the mutual funds have attracted 28% of the respondents as compared to 22% in Post office schemes which provide sovereign guaranteed fixed rate of return. Equity shares as investment avenue have attracted 23% of the respondents and 24% have been attracted to bank deposits.

Table 7.9: Prime objective of making savings and investment

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Safety of capital</td>
<td>31</td>
</tr>
<tr>
<td>Higher returns</td>
<td>38</td>
</tr>
<tr>
<td>Capital appreciation</td>
<td>18</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>13</td>
</tr>
</tbody>
</table>

Pie Chart 7.9: Prime objective of making savings and investment
Different investors have different prime objective for their savings. In the present study as per table and pie chart 7.9, it is revealed that 38% of the investors have earning higher returns as the prime objective of their investments. Safety of the capital is the prime objective of 31% of the respondents. 18% of the respondents have capital appreciation as their major objective. Tax benefit is the prime objective with only 13% investors in this study. The majority of the investors want to earn higher returns which is possible only in MF schemes as compared to other saving instruments like Bank Deposits, Bonds & Post Office saving schemes.

**Table 7.10: Measuring the risk appetite**

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>High Safety, low returns</td>
<td>27</td>
</tr>
<tr>
<td>Moderate returns</td>
<td>43</td>
</tr>
<tr>
<td>High Risk, high returns</td>
<td>20</td>
</tr>
<tr>
<td>Market linked returns</td>
<td>10</td>
</tr>
</tbody>
</table>

**Pie Chart 7.10: Measuring the risk appetite**

The Table and pie chart 7.10 show that the majority, 43% respondents expect moderate returns from their investments. They are more concerned with safety of capital and are happy with earning moderate returns. Further 27% respondents want high safety and are comfortable with low returns. 20% are ready to take high risk with high returns. There is also a segment of about 16% who are willing to move with the markets. They are ready to earn market related returns.

**Table 7.11: Preference of investing in public/private sector Mutual Fund**

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public sector MFs &amp; Why</td>
<td>53</td>
</tr>
<tr>
<td>Private sector MFs &amp; why</td>
<td>24</td>
</tr>
<tr>
<td>Both &amp; why</td>
<td>23</td>
</tr>
</tbody>
</table>
This study as per Table and pie chart 7.11 also reveal that 53% respondents want to invest in public sector MFs, with the perception of having more trust and safety while 24% want to invest in Private Sector MFs while 23% are comfortable in investing in both public and private sector Mutual Funds. MFs, whether public or private sector, have to give market related returns.

Table 7.12: Repeat investment in a mutual fund scheme

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>48</td>
</tr>
<tr>
<td>No</td>
<td>52</td>
</tr>
</tbody>
</table>

48% respondents in the study as per Table and pie chart 7.12, invest repeatedly in the same MF scheme, may be based on the returns. On the other hand 52% do not invest repeatedly in the same MF scheme. This may be due to various factors, like not satisfied with the returns, poor after-sale service etc.
Table 7.13: Preferred period of investment in Mutual fund schemes

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>January-March</td>
<td>56</td>
</tr>
<tr>
<td>April-June</td>
<td>18</td>
</tr>
<tr>
<td>July-September</td>
<td>13</td>
</tr>
<tr>
<td>October-December</td>
<td>13</td>
</tr>
</tbody>
</table>

Pie Chart 7.13: Preferred period of investment in Mutual fund schemes

Investment in various mutual fund schemes are not evenly spread throughout the year. This particular study as per table and pie chart 7.13 also reveal the same. 56% of the respondents invest their savings in MF schemes during January-March quarter predominantly to avail the tax benefits. It may be so as during this quarter only, many investors finalise their investments for the financial year. Around 18% respondents invest during the quarter April-June. The quarter of July to September & October to December have the same 13% of investments done by these respondents.

Table 7.14: Tracking the performance of a Mutual fund scheme

<table>
<thead>
<tr>
<th>Response</th>
<th>% age</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>55</td>
</tr>
<tr>
<td>No</td>
<td>9</td>
</tr>
<tr>
<td>Occasionally</td>
<td>36</td>
</tr>
</tbody>
</table>

Pie Chart 7.14: Tracking the performance of a Mutual fund scheme
The mutual fund investors invest in MF schemes to seek professional management of their funds through professional Fund Managers. In such schemes the risk also gets diversified due to funds being invested in a basket of securities. However it is advisable for MF investors to monitor the performance of these schemes by simply watching the movement of NAV of the scheme. In this study as per Table and pie chart 7.14, it is found that 55% of the respondents do track the performance of MF schemes in which they invest. 9% do not do the same as they believe in the performance given by the Fund Manager and the market. About 36% respondents monitor the performance some times.

The mutual funds in India have to strictly follow the guidelines, conditions stipulated by SEBI, while advertising their schemes. With an objective to improve the standard of disclosures in advertisements and for effective implementation of the regulatory intent, SEBI in consultation with AMFI, issue guidelines from time to time and all MFs are bound to follow them. The advertisements should, along with the copy of the advertisement, carry the standard warning, “mutual fund investments are subject to market risks, please read the offer document before investing”. This message has to be carried by all advertisements of MF schemes advertised on TV, print and outdoor media. All performance advertisements disclosing returns statistics should also mention the return on the benchmark indices during the same time periods.

Therefore the behavioural analysis of investors, including the profile of a rational investor, the categories of various investors are also analysed here. The responses of the respondents regarding mutual fund schemes advertisements, whether they carefully see the mutual fund scheme advertisements, prime objective of making savings and investments, tracking the performance of mutual fund schemes. The Mutual fund houses use various advertisement media to inform, persuade and motivate the prospective investors and also appoint the distributors/agents/financial advisors who in turn, contact the investors and motivate them to invest in a particular scheme. This study has focused on the effectiveness of advertisements on investors’ behaviour with special reference to Mutual funds. The majority of the investors want to earn higher returns which is possible only in MF schemes as compared to other saving instruments like bank deposits, bonds & post office saving schemes.