

## A study on factors affecting investor's preference for investment avenues in Surat city

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### Abstract

This study attempts to identify the preference of investors and also to analyze the significance of demographic factors such as gender, age, education, occupation, income influencing investor's decision of investment in avenues. It also attempts to understand factors considered while investment such as safety of principle, return, risk, tax consideration, liquidity, maturity period and many more. Hypothesis was drawn for testing the significance of demographic factors. The study is based on descriptive research design where primary data was collected through structured questionnaire with sample size 120. Significance of demographic factors was analyzed using one way ANNOVA and factors were identified using factor analysis. It was found that life insurance was most preferred investment avenues followed by fixed deposit and mutual fund whereas least preferred were commodity market and forex market. Gender, occupation and income level was found affecting investor's choice of investment. Most significant factors behind investment were return, safety of principle, risk associated and capital appreciation.

**Keywords:** investment avenues, investor's preference, demographic factors, return & risk factor

### 1. Introduction

The economic development of any country is concerned with the organisation of their financial system. Investment is a crucial habit which could accelerate the development of financial system strengthening the economy. The main idea is to mobilize the savings in the form of money and monetary assets and invest them effectively to produce venture.

Investment is a crucial decision and is effected by various concerned factors. Investor's preference is how investors prioritise thing in from most desired investment option to that which is least desired. Economist have observed that demographic factors like age, gender, qualification, occupation, annual income, geographic location etc. have an impact on investment decision. Along with that investor's ability to handle risk may be related to individual's characteristics such as age, time horizon, liquidity needs, portfolio size, income, taxes, investment knowledge etc.

As investors invests their money in different avenues to bring a balance approach between their goals. Every investor would have different attitude and behaviour considering the risk and return expectations. Investor's preference however is concerned with demographic characteristics identifying the most and least preferred investment avenues among investors.

The socio-economic, demographic and attitudinal factors act as a key driver for investment decision. However investors would have different attitude and behaviour towards their investment preferences depending on external and internal financial environment surrounding them. This study explores association of demographic characteristics with preferences towards investment avenues of the investors and identifies the most and least preferred investment avenues among investors of Surat district.

As financial markets are quite complex investors have their own financial needs based on their goals and risk appetite.

Saving in household however is more into risk free avenues.

There are large numbers of investment instrument available today, which can be classified into groups. The different avenues categories are as follows:

High risk avenues: Equity share market, commodity market

Traditional avenues: Real estate, gold/silver

Safe avenues: Bank Fixed deposit, public provident fund, government securities.

Moderate risk avenues: Life Insurance, debenture, bond

Some of them are marketable and liquid while others are almost riskless. The people have to choose proper avenues among them depending on their specific need, risk preferences and return expected.

### 2. Literature Review

Dr. K. Sowmya, J. Mounika Reddy (April 2016) <sup>[4]</sup> conducted a study on investors perception towards investment avenues with the objective to study the perception of investors towards investment avenues in terms of the knowledge and preference. Primary data was collected using simple random sampling with sample size 200. The data were analyzed by competing percentage of total response. Investors were found inclined towards deposit savings followed by stock market, mutual fund, gold silver and debenture respectively. The study came out with regular income as primary objective for investment.

R. Murugesan, G. Santhi (March 2015) <sup>[1]</sup> conducted a study on Investors awareness and preferences towards Investment Avenues in Namakkal district to examine the demographic details of respondents and analyzing the investors preference towards investment avenues. The study was based on primary data collected using convenience sampling technique and the sample size was of 160 respondents. Data's were analyzed using Chi square test. The results of their study suggested that the investors in rural and urban areas still prefer bank deposit. The major reason for

selecting this investment is owing to safety and security, only a few investors prefer stock.

Dr. Murlidhar Panga, Anjali Malpani, Ajay Malpani (May 2018) [2] conducted a study on factors affecting investors decision towards making investment in financial market with the objective to analyze some factors that bind the investors to invest in financial market. Research design used was exploratory and the study was based on primary data gathering through structured questionnaire from retail investors with sample size 244. The results of their study suggested that there were few factors which actually prevent the investors to invest in financial market.

Pratibha Chaurasia (July 2017) [5] conducted a study on Investment preference of investors with the objective of analyzing the impact of demographic factors on investment preference. Primary data was collected through structured questionnaire with sample size 229. Data was analyzed using Chi square test. Qualification was found impacting preference towards gold/silver where gender had significant association with preference towards saving account, mutual fund, real estate, gold/silver.

Ms Anita, D. Phani Bhargavi (2014) [3] conducted a study on investors perception towards investment, with the objective to understand the preference of investors and analyze the significance of demographic factors that influence the investors decision towards making investment. Study was based on primary data. Data were drawn using person's Chi square technique. They concluded that demographic factors have a direct effect on risk perception and propensity ultimately on decision making.

### 3. Research Methodology

#### 3.1 Need for the study

Indian financial market is growing significantly. It has various investment options, each of these avenues have their own implications with different opinion among investors. This study would analyze whether the investment avenues have gained importance among the people or not. As, all avenues are not equally preferred by investors. Also this study aims at finding out the investment preferences of respondent and study of factors which leads to emergence of these preferences.

#### 3.2 Problem Statement

Investment has emerged with wider scope and good return opportunity. It is important to choose wisely among available investment options thoroughly. There are many considerations which influence investors while investing their money hence, there arises the need to study the factors which influences the investment decision of individual.

#### 3.3 Objectives of the study

1. To identify the investors awareness towards various investment alternatives.
2. To study the objective behind investment.
3. To find out types of financial instrument investors prefers to invest.
4. To identify the impact of demographic factor on investment preference.

5. To study the factors influencing the investors investment decision.

#### 3.5 Research Design

Research Design is purely and simply the framework of plan for a study that guides the collection and analysis of data. This study is based on descriptive research design as it tends to find out the factors affecting investor's preference towards investment avenues. As the study is pre-planned and structured in design in order to collect the information statistically inferred on a population. Where, the main idea was to gain insight into preference of people on investment.

#### 3.6 Data Source

Primary data is collected using structured questionnaire including close handed questions seeking response from investors which helped identifying their preferences and factors which leads to it.

Secondary data is collected from various sources like magazines, journal, internet.

The study aims to measure investment preferences of individual on the basis of various influencing factors. Hence, the sample unit consists of respondent from Surat city.

**Sample size:** 120 respondents

**Sampling method:** Convenience sampling method

#### 3.7 Hypothesis

- There is no significant relationship between Gender and investment avenues.
- There is no significant relationship between education qualification and investment avenues.
- There is no significant relationship between occupation and investment avenues.
- There is no significant relationship between income level and investment avenues.

#### 3.8 Data Analysis Technique

Various statistical tests applied on the data collected in order to interpret the data are as follows:

- Frequency and Percentage analysis
- One way ANNOVA
- Factor analysis

#### 3.9 Scope of the study

1. This study describes the behavioural characteristics of investors
2. The study can find the factors considered by investors while investing their funds.
3. The investors can be categorized in terms of their characteristics.

#### 3.10 Limitations of the study

- Lack of knowledge of respondent about the instrument can be major limitation.
- Area of study was restricted to Surat city only.
- Sample of respondent might not represent the perspective of aggregate investors.

**4. Analysis**

**Awareness Regarding Various Investment Avenues among People**

**Table 1**

Investment Avenues	Responses		Percent of Cases	RANK
	N	Percent		
Life insurance	84	20.3%	70.0%	1
Bank fixed deposit	69	16.7%	57.5%	2
Gold/Silver	67	16.2%	55.8%	3
Mutual Funds	59	14.3%	49.2%	4
Post office savings	42	10.2%	35.0%	5
Equity share Market	31	7.5%	25.8%	6
Real estate	25	6.1%	20.8%	7
Public Provident Fund	17	4.1%	14.2%	8
Debenture/Bonds	10	2.4%	8.3%	9
Government Securities	6	1.5%	5.0%	10
Commodity Market	3	.7%	2.5%	11
Total	413	100.0%	344.2%	

Highest level of awareness was about less risky avenues followed by moderate and riskier revenues.95% investors were aware of fixed deposit next was Life Insurance when 92.5% of investors were aware. Even the moderate risky avenues like mutual fund was observed in the knowledge of investors with awareness among 70.8% investors. Investors were found least aware of highly risky avenues such as commodity market and forex market with awareness among 10% and 10.8% respectively.

**Adoption of various investment avenues among people**

**Table 2**

Investment Avenues	Responses		Percent of Cases	RANK
	N	Percent		
Bank fixed deposit	114	15.1%	95.0%	1
Life insurance	111	14.6%	92.5%	2
Gold/Silver	96	12.6%	80.0%	3
Mutual Funds	85	11.0%	70.0%	4
Post office savings	78	10.2%	65.0%	5
Equity share Market	68	8.9%	56.7%	6
Public Provident Fund	67	9.1%	55.8%	7
Real estate	65	8.5%	54.2%	8
Debenture/Bonds	28	3.5%	23.3%	9
Government Securities	24	3.1%	20.0%	10
Forex Market	13	1.7%	10.8%	11
Commodity Market	12	1.6%	10.0%	12
Total	762	100.0%	635.0%	

First preference of investors was found to be life insurance where 70% of investors were found investing in life insurance. 2<sup>nd</sup> most preferred avenue is Bank fixed deposit. 3<sup>rd</sup> is mutual fund with 48% of respondents actually investing in where young investors were found investing in Systematic Investment Plan(SIPs) after the encouragement campaign for mutual fund. Least preferred avenues were again high risk associated avenues with no of investment in

commodity market in respondents.

**Source of investment avenues**

**Table 3**

Sources	Responses		Percent of Cases	RANK
	N	Percent		
Family	99	50.5%	82.5%	1
Internet	39	19.9%	32.5%	2
Financial Advisor	32	15.8%	26.7%	3
Media	27	13.8%	22.5%	4
Total	196	100.0%	163.3%	

The source found to be most significant was family and friends where 82.5% people considered their opinion before investing. Next was financial advisor followed by internet and media including digital and print media.

**Objectives behind investment**

**Table 4**

Objectives	Responses		Percent of Cases	RANK
	N	Percent		
Minimising Risk	80	25.0%	66.7%	1
Maximizing Return	67	22.5%	55.8%	2
Safety of Principal	56	17.7%	46.7%	3
Capital Appreciation	36	11.4%	30.0%	4
Tax Saving	29	9.8%	24.2%	5
Maintaining Liquidity	22	7.0%	18.3%	6
Diversification of risk	21	6.6%	17.5%	7
Total	316	100.0%	263.3%	

The most commonly found objective is to minimise the risk next was to maximise the return after that investors invests ensuring safety of principle and to earn capital appreciation. Least important objective however was found to be diversification of risk and maintaining liquidity. Also, tax savings was not much significant objective behind investment.

➤ **Time Period Preferred to invest**

**Table 5**

Time period	Frequency	Percent
Less than 1 year	17	14.2
1 to 5 years	61	50.8
more than 5 years	42	35.0
Total	120	100.0

Different Investment option comes with different maturity period. Table above shows the period for which investors prefer to invest their money. Where, majority of investors nearly 51% prefers investing for medium term i.e. from1-5 years. 35% prefers investing for long term for more than 5 years and 14% prefers investing for short term i.e. less than one year.

➤ **Percentage of income people investment on an annual basis**

**Table 6**

Parameter	Frequency	Percent
Below 10%	20	16.7
10-20%	67	55.8
20-30%	32	26.7
30-40%	1	.8
Total	120	100.0

Nearly 56% of investors are investing approximately 10-20% of their income. 26.7% investors investing below 10% of their income.

**One Way ANNOVA Hypothesis**

- H0 –There is no significant relationship between gender and investment avenues.
- H1 – There is significant relationship between gender and investment avenues.

**Table 7**

Investment Avenues	Sum of Squares	Df	Mean Square	F	Sig.
Bank fixed deposit	29.325	119	0.308	0.241	0.624
Debenture/Bonds	9.167	119	0.13	0.69	0.408
Post office savings	27.3	119	1.128	4.043	0.047
Public Provident Fund	14.592	119	0.23	0.875	0.351
Equity share Market	22.992	119	0.784	3.132	0.079
Government Securities	5.7	119	0.12	1.503	0.223
Commodity Market	2.924	118	0.027	0.094	0.76
Mutual Funds	29.992	119	1.125	3.56	0.062
Forex Market	0	119	0	0	0
Life insurance	25.2	119	0.312	0.463	0.497
Real estate	19.792	119	1.652	9.653	0.002
Gold/Silver	29.592	119	0.943	2.852	0.094

From the table above it was found that the investment avenues such as post office saving equity share market mutual fund and real estate have significant relationship with gender as the significance test value is less than significance level 0.10. The F value for real estate (9.653), post office savings (4.043) avenues are more significant; the F value for equity market is 3.132 and for mutual fund are 3.560 respectively. The rest of avenues including Provident fund, bank fixed deposit, debenture, government securities, commodity market, life insurance and gold/silver does have any significant relationship with gender as the significance

test value being more than 0.10 and lower F value at the same time. Hence the null hypothesis is partially accepted. As the investment preferences for some avenues is affected by gender.

**Hypothesis**

- H0 –There is no significant relationship between age and investment alternative.
- H1 – There is significant relationship between age and investment alternative.

**Table 8**

Investment Avenues	Sum of Squares	df	Mean Square	F	Sig.
Bank fixed deposit	29.325	119	0.622	1.571	0.187
Debenture/Bonds	9.167	119	0.146	0.895	0.469
Post office savings	27.3	119	0.271	0.149	0.963
Public Provident Fund	14.592	119	0.255	1.091	0.365
Equity share Market	22.992	119	0.409	1.128	0.347
Government Securities	5.7	119	0.103	1.152	0.336
Commodity Market	2.924	118	0.048	0.929	0.45
Mutual Funds	29.992	119	1.122	3.88	0.005
Forex Market	0	119	0	0	0
Life insurance	25.2	119	0.524	1.52	0.201
Real estate	19.792	119	0.244	0.439	0.78
Gold/Silver	29.592	119	0.486	0.953	0.436

From the table above it is found that there is significant relationship between age and investment preference only for mutual fund as the significance test value is 0.005 which is less than alpha value with F value 3.880. Whereas there is no significant relationship between age and investment avenues for bank fixed deposit, post office savings, debenture, public provident fund, Equity share market, government securities, commodity market, life insurance, real estate and gold/silver as the significance test value is more than significance level 0.10 and lower F value with no

significance.

However, considering mutual fund null hypothesis is partially accepted.

**Hypothesis**

- H0 – There is no significant relationship between qualification on investment avenues.
- H1 – There is significant relationship between qualification on investment avenues.

**Table 9**

Investment Avenues	Sum of Squares	df	Mean Square	F	Sig.
Bank fixed deposit	29.325	119	0.257	0.025	0.975
Debenture/Bonds	9.167	119	0.185	1.424	0.245
Post office savings	27.3	119	0.547	1.401	0.25
Public Provident Fund	14.592	119	0.137	0.104	0.901
Equity share Market	22.992	119	0.327	0.686	0.506
Government Securities	5.7	119	0.051	0.046	0.955
Commodity Market	2.924	118	0.061	1.462	0.236
Mutual Funds	29.992	119	1.151	3.781	0.026
Forex Market	0	119	0	0	0
Life insurance	25.2	119	0.328	0.541	0.584
Real estate	19.792	119	0.241	0.435	0.648
Gold/Silver	29.592	119	0.638	1.59	0.208

From the table above it is found that there is significant relationship between qualification and investment avenues for mutual fund as the significance test value 0.026 being less than significance level 0.10. Whereas there is no significant relationship between age and investment preferences towards bank fixed deposit, post office savings, debenture, public provident fund, Equity share market, government securities, commodity market, life insurance, real estate and gold/silver as the significance test value is more than significance level 0.10 and lower F value with no

significance. Hence again the null hypothesis is partially accepted as there exists relationship with qualification for some avenues.

**Hypothesis**

- H0 – There is no significant relationship between occupation and investment avenues.
- H1 – There is significant relationship between occupation and investment avenues.

**Table 10**

Investment Avenues	Sum of Squares	df	Mean Square	F	Sig.
Bank fixed deposit	29.325	119	0.389	0.562	0.641
Debenture/Bonds	9.167	119	0.155	1.01	0.391
Post office savings	27.3	119	0.491	1.147	0.333
Public Provident Fund	14.592	119	0.379	2.185	0.094
Equity share Market	22.992	119	0.298	0.521	0.668
Government Securities	5.7	119	0.08	0.662	0.577
Commodity Market	2.924	118	0.051	1.055	0.371
Mutual Funds	29.992	119	1.008	3.22	0.025
Forex Market	0	119	0	0	0
Life insurance	25.2	119	0.301	0.402	0.752
Real estate	19.792	119	1.08	6.373	0
Gold/Silver	29.592	119	0.954	3.03	0.032

From the above table it is found that there is significant relationship between occupation and investment avenues in case of public provident fund, mutual fund, real estate and gold/silver respectively as the test value being less than significant level 0.10. Where the most significant f value is for mutual fund 6.373 followed by gold/silver. The results shows that there is no significant relationship occupation and investment avenues for Bank Fixed Deposit, debenture, post office savings, equity share market, Government Security, commodity market and life insurance as the test

value is greater than significance level 0.10. Hence, the null hypothesis again partially accepted as there is relationship between occupation and some avenues.

**Hypothesis**

- H0 – There is no significant relationship between Income investment avenues.
- H1 – There is significant relationship between Income investment avenues.

**Table 11**

Investment Avenues	Sum of Squares	df	Mean Square	F	Sig.
Bank fixed deposit	29.325	119	0.358	0.432	0.73
Debenture/Bonds	9.167	119	0.257	2.466	0.066
Post office savings	27.3	119	0.592	1.618	0.189
Public Provident Fund	14.592	119	0.207	0.67	0.572
Equity share Market	22.992	119	0.389	1.015	0.389
Government Securities	5.7	119	0.081	0.685	0.563
Commodity Market	2.924	118	0.038	0.521	0.669
Mutual Funds	29.992	119	0.333	0.298	0.827
Forex Market	0	119	0	0	0
Life insurance	25.2	119	0.595	1.87	0.139
Real estate	19.792	119	0.993	5.669	0.001
Gold/Silver	29.592	119	0.393	0.564	0.64

From the above table it is found that there is significant relationship between income level and investment avenues for debenture and real estate as the test value 0.66 and 0.01 respectively being less than significance level 0.10 which means that level of income differentiates investment in this avenues. Also there exists no significant relationship between income level and investment avenues including Bank Fixed Deposit, post office savings, public provident fund, equity share market, government securities, commodity market, mutual Fund life insurance and gold/silver as the test value being more than significance level alpha 0.10 also insignificant F value. Hence the null hypothesis is partially accepted there is relationship between income level and choice for certain avenues.

➤ **Factor Analysis**

**Table 12**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.503
Approx. Chi-Square	178.434
Bartlett's Test of Sphericity	Df
	91
	Sig.
	<b>.000</b>

In the above table that Kaiser Meyer olkin test value is 0.503 hence there is accuracy of sample size of the data employed. The Bartlett's test value is 0.000 which is less than significance level suggesting that their is at least one significant correlation in items.

**Table 13**

<b>Rotated Component Matrix<sup>a</sup></b>					
	<b>Component</b>				
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
I invest my money to avail tax benefit.	.642				
I invest my money in different avenues to diversify my risk.	.545			-.411	
Investors are influenced by experts and other investor's opinion while taking investment decision.	.540				
Risk plays a significant role in selection of investment alternative.	-.485			.427	
Maturity period is likely to determine the selection of investment alternatives.		.841			
Past performance of avenues do affect further investment choices.		.670			
Investors prefers to invest in avenues affecting capital appreciation		.549			
Liquidity of avenues influences investment decision.			.748		
I ensure regular return from the investment before investing my money.			.704		
Avenues in which investment is made should hedge the funds against inflation.			.423		
Safety of principle affects my choice of investment alternatives.				.836	
Higher income leads to more investment in riskier alternatives.					
I tend to invest in avenues if I find them easy and convenient to invest in.					-.747
Return on investment is the most likely factor to influence investment decision.					.734
<b>Extraction Method:</b> Principal Component Analysis. <b>Rotation Method:</b> Varimax with Kaiser Normalization.					
a. Rotation converged in 15 iterations.					

The rotated component Matrix table contains the rotated factors represent how variables are awaited for components and their correlation.

Again the component column contains the rotated factors that were extracted. The value of the table represents the components and the variables under that component. Looking at the table it is observed that maturity period, past performance, capital appreciation are substantially loaded on factor (component) 2 while liquidity, regular return, heading against inflation are substantially loaded on factor 3. Risk, safety of principle loaded on factor 4, convenience of investment and return on investment under factor 5. All the remaining variables are substantially loaded on factor (component) 1.

**5. Findings**

- The most preferred avenue for investment is found to be Life Insurance followed by Bank fixed deposit and mutual fund.
- Least preferred avenues were again high risk associated avenues with almost negligible investment in commodity market and forex market.
- Most commonly found objective behind investment is minimising the risk and maximizing the return.
- Gender was found impacting Investors Choice for Post office saving, Equity share market, Mutual fund and Real estate.
- It was found that there is significant impact of age on investment preference towards Mutual Fund.

- There is an impact of qualification on investor's preference towards Mutual Fund.
- Occupation is found impacting the choice of investors for public provident fund, mutual fund, real estate, gold and silver.
- There is significant impact of income on investor's preference for debenture and real estate.

**6. Conclusion**

From the findings of the study it is concluded that in this era of acceptance people are still inclined towards low risky and traditional avenues as investors as investors were found to be risk averse as this still prefer to invest in low risk associated investment avenues. However mutual fund is emerging SN preferred Avenue for investment with moderate risk association. There is still lack of awareness and adoption when it comes to high risk associated investment avenues.

The important objective behind investment is found to be minimising the risk and to earn maximum return. Well friends and family plays a major role affecting the choice of Investment avenues. Most preferred time duration for investment among investors is for medium term that is 1 to5 years of time duration. Also people are indulged in investment activity is respective of their income level and commonly invest 10 to 20 percent of their income.

In context of demographic factor it is concluded that gender occupation and income level has significant impact on investors reference for investment avenues where is age and

qualification are relatively less significant.

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