"Study of Investor's Awareness, Objectives and Constraints in Investment Planning in the city of Nagpur, India"

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Abstract

Investment is defined as money utilized for buying financial and non-financial assets for earning positive returns in future. To earn returns amidst diversifiable and non-diversifiable risks requires systematic planning which essentially involves preparation of 'Investment Policy Statement'. The key inputs in this Statement are the 'Objectives of Investment' and the 'Constraints' that the investor faces while planning for investment. The present study relates to the level of investment knowledge of the investors as well as to the above two constituents of investment planning.

The present study is based on primary sources of data which are collected through structured questionnaires. The sample is comprised of investors working in private & public (government and semi-government) organizations; professionals such as lawyers, doctors, architects, lecturers, CA's, CS's; and those running businesses or are self-employed. An excel spreadsheet is extensively used for analysis.

The study reveals that the investors have shallow knowledge of investment options and investment planning. They face constraints in the form of major expenditures, tax saving and liquidity. Also they are generally not able to achieve their investment objectives.

Key Words: Investment Knowledge, Portfolio Review, Investment Objectives, Constraints.

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1. Introduction

Finance professionals define investment as money utilized for buying financial and non-financial assets, for example equity shares, debentures, gold, silver, immovable properties, and precious items etc., for earning positive returns in future. These returns entail some risks which may be diversifiable as well as non-diversifiable. Risk is defined as the chance that an investment's actual return will be different than expected. Desire to earn maximum possible returns with minimum risks require the investment planning process to be systematically planned, which essentially involves preparation of 'Investment Policy Statement'. The preparation of this statement requires sufficient knowledge of investors and/or professional help from financial experts.

For any statement to be meaningful, it should contain well defined inputs. An Investment Policy Statement is no exception. The two main ingredients of an investment policy statement are:

- Investment objectives of an investor.
- Investment constraints of an investor.

1.1 Investment Objectives

The investment objectives of an investor not only specify the investor's need for returns but also the level of risk he is willing to take in order to have such returns. The investment objective is not same for all investors. Here, it should be mentioned that the investment objective of a 25 year old employee is not the same as that of a 65 year old retiree. The former may be more concerned about an immediate purchase of the house, whereas the latter might be more concerned about a steady inflow of income.

Thus, the investment objectives are specific to the individual investors depending upon the level of risk tolerance, returns to be generated, age, time horizon and other associated factors. The investment objectives may be one or more of the following:

- To earn regular monthly income
- To plan for retirement
- To plan for emergency expenses
- To fund children's education and marriage
- To beat inflation etc.

1.2 Investment Constraints

A constraint can be anything which restricts the investor from investing in his choice of investment. The constraints that the investor faces can be any of the following:

- Risk tolerance level – The investor may not be able to take higher risk to earn high returns.
- Time horizon for investment – Child's education requirement in the near future may not permit the investor to invest in long term investment options.
- Liquidity requirement – An investor having dependents in the family especially elderly, may need higher amount of liquidity to meet expenses.
- Save taxes – To save tax one has to invest in dedicated tax saving instruments which may not yield high returns or which may not be liquid enough.

2. Review of Literature

Investment pattern of the investors is formed based on their investment choices. These choices are based on investment objectives and constraints, investment options available and the risk tolerance levels of the investors. Various researchers have studied the investment patterns of the investors and have also tried to find the reasons for such patterns. Investment decisions get influenced by various factors which exist in an investor's life. Literature in this field of study is ever growing.

Fischer D. E. And Jordan R. J. (1996) analyzed the relationship between risk, investor preference and investor behavior and observed that the investors' attitude towards investment portfolios greatly depended upon the risk-return measures on the portfolios.[2]

Varghese, T. (1999), in his research work found that the most important objective for investment was 'Return' followed by liquidity and risk. Comparing investment avenues, real estate were the most preferred as highest returns were expected from this investment avenue. Shares were next best alternative.[9]

McCarthy K. M. (2001) addressed the question of hiring a professional investment planner. She talked about having a proper investment program; about expectations from an investment planner; and also about the circumstances under which the services should be hired.[7]

Yilmazer T. (2001) studied the relationship between the children in the family and the investment choices of the investors. It was concluded that having children in the family positively influenced ownership of the house and negatively influenced investment in equity markets. [10]

Das P. K. (2006) in his research paper focused on tax planning for educational expenses on children. He emphasized on proper maintenance of accounts for planning and claiming of income tax benefit as regards expenses on children's education. [1]

Lalitha A. and Surekha M. (2008) found that the investment decisions of the investors depended upon the education of the investors.[5]

Kathuria L. And Singhania K. (2010) studied the investors' knowledge and investment practices of private sector bank employees. It was also observed that only four percent of the respondents used services of financial planners for the purpose of investment. Considering the lack of comprehensive knowledge about various investment products, investment planning and portfolio rebalancing, this miniscule percent in itself revealed why investment objectives of investors were not fulfilled.[4]

Pati A. P. and D. Shome (2011) studied the impact of financial reforms post 2008 on the household savings. This study revealed that individuals still preferred safe and risk free investment avenues like bank deposits and not the ones with high return possibility.[8]

Maymin P. Z. And Fisher G. S., (2011) mentioned that the services provided by the investment advisors prevent the investors from trading aggressively and thereby losing money. Apparently investors also desire the services of the advisors.[6]

Joseph A. D. et al (2011) revealed that people were aware of the importance of saving, but faced a lack of awareness as regards the avenues of investment. They suggested that advertising campaigns need to be taken up by the government as well as the investment companies to create awareness about the various investment options. Also schemes which were affordable by the low income group people, less educated or uneducated as well as families with children should also be offered by the investment companies.[3]

3. Objectives of Study

The main objectives of the study are:

1. To assess the investment knowledge of the investors.
2. To study the constraints faced by the investors while planning for investments.
3. To study the investment objectives of the investors and whether these objectives are achieved.

4. Hypothesis of Study

H1. Investors have shallow knowledge of investment planning.
H2. Investors face constraints while planning for investments.
H3. Investors are generally unable to fulfill their investment objectives.

5. Research Methodology

The geographical area selected for the study was the city of Nagpur (India). Primary data were collected through a structured questionnaire. The sample size initially planned to be 1000 respondents. Final data were analyzed based on sample size of 1003 respondents. The questionnaire comprised of four sections (a) Demographic information (b) Income and investment related (c) Investment objectives and (d) Constraints. Likert scale was used for some of the questions wherein the numeric score of 1 to 5 is attached to the question. 5 represents the highest degree of favorableness while 1 represents least favorableness.

The sampling frame for the study was selected professionals, businessmen and executives in private and public organisations.

'Stratified Sampling' method was used by which investors were identified. The population was divided into several sub – populations that were individually more homogenous than the total population and then researcher selected items from each stratum. Within the strata of investors, data were collected from investors working in private & public (government and semi-government) organizations; professionals such as lawyers, doctors, architects, lecturers, CA's, CS's; and those running businesses or are self-employed.

Excel spreadsheet has been extensively used for assessing the investment knowledge, objectives and constraints.

6. Limitations of Study

Though the present research paper is aimed at achieving the above mentioned objectives in full earnest and accuracy, there are certain limitations.

- The data have been taken from primary sources, so the findings are true to the extent of authenticity of the data.
- The study was conducted targeting the investors in Nagpur city only.
- The primary data has been collected through a structured questionnaire to a sample of 1000+ investors in Nagpur city, which may not reflect the opinion of the entire population.

7. Research Analysis

7.1 Age distribution of the respondents: The categories asked for in the questionnaire were '20 to 29', '30 to 39', '40 to 49', '50 to 59' and 'Above 60'. Table 1 shows the age distribution of the respondents.

Table No. 1

As can be observed from table no. 1, approximately 42% of respondents were under 40 years of age, 22% of the respondents were in the category 40 years to 49 years of age and 36% of the respondents were above 50 years of age.

Similarly Income wise and Occupation wise distribution of respondents are given below:

7.2 Income distribution of the respondents: Table no. 2 shows the income distribution of the respondents.

Table No. 2

7.3 Occupation distribution of the respondents: Table No. 3 shows the occupational distribution of the respondents.

Table No. 3

7.4 Investment Knowledge

Figure No. 1

The figure no. 1 relates to the knowledge level of the respondents as regards long term investment options and investment planning. As can be observed from the figure, 39% of the respondents have limited knowledge and 38% have very basic knowledge. Only 23% of the respondents have good or considerable knowledge.

Surprisingly out of the 390 respondents who said that they have limited knowledge, only 94 respondents i.e. 24% rely on the financial advisor. Balance 76% of these respondents rely on their own limited knowledge.

Further, the respondents were also asked about the frequency of portfolio review. The results were more surprising.

Figure No. 2

As can be seen from figure no. 2, 34% of the respondents rarely review their portfolio. On the same lines, 28% of the respondents review their portfolio once a year. Thus 62% of the respondents do not give much importance to portfolio review.

7.5 Constraints faced by investors while planning for investments

Respondents face constraints such as major expenditure, tax saving, liquidity requirement, etc. in deciding their long term investments.

7.5.1 Major Expenditure as Constraint

Out of the total sample size of 1003 respondents, 64% i.e., 641 respondents said that they faced ‘major expenditure in future’ as a constraint in investment planning. Specifically they were also asked about Education, Marriage and House Purchase as such major expenditures. The further analysis was done based on the sample size of 641 respondents who had said that they faced this constraint.

Figure No.3

The responses received are as shown in the figure no. 3. 34% of the respondents out of the 641 respondents selected Marriage expenses as a major expenditure.

Approx. 44% of the respondents i.e. 109 respondents out of 245 SINGLE respondents had mentioned Marriage as their major constraint in planning for long term investments. Hence the further analysis was done to assess Major Expenditure as Constraint for Married Respondents. Thus the sample size for further analysis was 433 respondents who were married and faced major expenditure as a constraint in investment planning.

Figure No. 4

Considering only married respondents, 32% of respondents selected House Purchase as a major expenditure which influenced their long term investment planning. House Purchase was the most common answer. 26% of the respondents faced two or more major expenditures as constraints while 25% and 17% of the respondents faced marriage of dependents and education of dependents respectively as major expenditures.

It can be said that many times the constraints themselves become the investment objectives.

7.5.2 Tax Saving as a Constraint

Respondents were asked whether they faced Tax Saving as a constraint while planning for investment. The question was based on a Likert Scale with '1' as Strongly Disagree to '5' as Strongly Agree.

Figure No. 5

As in figure no. 5, 22% of the respondents strongly agreed that they felt tax saving as a constraint in planning for investments. 26% of the respondents agreed with the same. Thus 48% (combined) of the respondents agreed that they felt tax saving as a constraint. About 14% and 18% of the respondents strongly disagreed and disagreed respectively which sums up to 32%.

Tax saving is closely related to income levels. Hence, further analysis of tax saving as a constraint was done income wise also.

Figure No.6

As can be observed in figure no. 6, in case of respondents belonging to the income group 'Up to 3 lakh, the majority of the respondents, i.e., more than 40%, were indifferent. However as the income level increased, the respondents agreed that they faced tax saving as a constraint while planning for investment. In the income group 'Rs. 3 lakh to 6 lakh', 29% and 23% of the respondents agreed and strongly agreed respectively. In the income group 'Above 6 lakh', 31% and 28% of the respondents agreed and strongly agreed respectively.

Thus, overall, it can be said that investors face tax saving as a constraint in investment planning.

7.5.3 Liquidity as Constraint

Respondents were also asked whether they faced Liquidity as a constraint while planning for investment. This question was also based on a Likert Scale with '1' as Strongly Disagree to '5' as Strongly Agree.

Figure No.7

As can be observed from the above figure no. 7, 19% and 24% of the respondents strongly disagreed and disagreed respectively, thus making up 43%. On the other hand 21% and 19% of the respondents agreed and strongly agreed to respectively make up 40%. Rest 17% of the respondents is indifferent to this constraint.

Marginally, it can be said that investors do not face liquidity as a constraint while planning for investment.

Liquidity is also closely related to income levels. Hence, further analysis of liquidity as a constraint was done income wise also.

Figure No. 8

In case of income group 'Up to 3 lakhs', 24% and 25% (combined 49%) of the respondents agreed and strongly agreed respectively that they faced liquidity as a constraint while planning for investment. On the other hand, 36% (combined) of the respondents disagreed and strongly disagreed.

In the income group 'Rs. 3 lakh to 6 lakh', 43% (combined) of the respondents agreed and strongly agreed, while 39% (combined) of the respondents disagreed and strongly disagreed, that they faced liquidity as a constraint.

In the income group 'Above 6 lakh', 33% (combined) of the respondents agreed and strongly agreed that they faced liquidity as a constraint. On the other hand, 48% (combined) of the respondents disagreed and strongly disagreed.

Thus, with lower levels of income, investors face liquidity as a constraint while planning for investment. However as the income levels increase, this constraint fades.

7.6 Investment Objectives

Using the Likert scale of 1 – 5 (one being least important and 5 being most important), the respondents were asked to mark their purpose of investment. The investment objectives in the questionnaire were:

To Invest for:

- Earning current regular monthly income, i.e., investing today for earning returns today.
- Earning a regular income after retirement, i.e., investing today for earning returns post retirement.
- Managing emergency requirement.
- Beating inflation.
- Managing education and marriage of children
- Saving taxes
- Creating wealth in a quick manner.

Figure No. 9

As can be seen from figure no. 9, more than 40% of the respondents had their most important investment objective (Likert scale 5) as 'Earning Regular Income after Retirement'.Least important investment objective was Earning Current Regular Monthly Income.

7.6.1 Mean Score of Investment Objectives

The mean score was calculated based on the Likert scale for all the investment objectives. It was calculated by adding up the Likert scale scores for each investment objective and dividing the summation by the total number of respondents.

Figure No. 10

The average importance attached to various investment objectives can be seen from the figure no. 10. In the order of importance, the investment objective 'Earning regular income after retirement' (mean score 3.53) was the most important one followed by 'Investment for managing emergency requirements' (mean score 3.32) and 'Funding children education and marriage' (mean score 3.31). The least important investment objective was 'Investment for earning current regular monthly income' (mean score 2.35).

7.6.2 Fulfillment of Investment Objectives

Respondents were asked whether their investment objectives were fulfilled. The purpose of this question was to find whether the respondents were able to achieve the investment objectives that they had planned while investing in various investment avenues. The question was based on a Likert Scale with '1' as Strongly Disagree to '5' as Strongly Agree.

Figure No. 11

In the questionnaire, a question was asked to the respondents about 'By what age should the long term investment objective be fulfilled?' Nearly 63% of the respondents suggested the age group 50 to 59. Hence analysis as regards the achievement of investment objective has been done based on data of respondents aged 50 years and above. The number of respondents aged 50 years and above was 355.

Nearly 25% of the respondents, out of the above 355 respondents, strongly disagreed that their investment objectives were met. Approx. 30% of the respondents disagreed that their investment objectives were met. Thus nearly 55% of the respondents were not able to achieve their long term investment objectives. 14% of the respondents were indifferent and barely 19% and 12% of the respondents agreed and strongly agreed that their investment objectives were fulfilled.

The figure no. 11 very clearly indicates that respondents failed to achieve their investment objectives.

8. Findings and Discussion

1. Figure no. 1 reveals the knowledge level of the respondents relating to investment planning. 77% of the respondents have very basic knowledge. Only 23% of the respondents have good knowledge of investment planning. Thus hypothesis no. 1 that investors have shallow knowledge of investment planning is proved.
2. Investors face constraints such as major expenditure, tax saving, and liquidity requirement in deciding their long term investments.
   a. Figure nos. 3 and 4 prove that investors face major expenditure as constraint in planning for investments. House Purchase as a major expenditure was the most common answer which influenced their long term investment planning.
   b. Figure nos. 5 and 6 prove that investors face tax saving as constraint in planning for investments.
   c. As per figure no. 7, generally, investors do not face liquidity as a constraint. However, with lower levels of income, investors face liquidity as a constraint while planning for investment and as the income levels increase, this constraint fades (figure no. 8).

   Thus hypothesis no. 2 that investors face constraints while planning for investments is proved.
3. Figure no. 11 shows the percentage of respondents agree or disagree on whether they were able to achieve their investment objectives. 55% of the respondents disagreed that their investment objectives were fulfilled while 31% of the respondents agreed. 14% of the respondents were indifferent. Based on this, it is concluded that investors failed to achieve their investment objectives. Thus, hypothesis no. 3 is hereby proved.
4. Figure no. 2 shows that investors rarely review their portfolios. Periodic review of portfolio along with rebalancing is imperative for achieving investment objectives. It has already been seen that the respondents have limited or very basic investment knowledge. This coupled with rarely reviewing the portfolio is one of the primary reasons why respondents' investment objectives are not achieved. Surprisingly, in-spite of limited knowledge, the majority of the respondents does not seek professional help from financial advisors.

9. Suggestions

The money that is invested by the investors is their hard-earned money. Therefore it is imperative to plan investments systematically. Following are some suggestions:

- As has been seen that investors' investment knowledge is very limited, it is suggested that various financial entities like SEBI, PFRDA, IRDA as well as investment houses should make extensive efforts to make people aware of investment options and investment planning.
- So far as the investor is concerned, he should first of all prepare a formal investment plan statement clearly stating the investment objectives, the level up to which he is ready to take risks and the constraints and major expenditures that he currently faces.
- Then the investment avenues should be identified based on detailed study of the risk-return profile of each of the avenue. Over the long term, the investor should try to build a diversified investment portfolio consisting of liquid as well as liquid assets, high risk-return as well as low risk-return assets and financial as well as non-financial assets.
- The desired investment portfolio is not created in one day. It has to be worked upon. Investment plan statement plays a very important role here. The plan statement should contain the investment targets per annum. The investor should strive to achieve these targets. For the same, regularity in investment plays the key role. Even small but regular investments can help in achieving the targets. For the same mutual fund SIPs can be used.
- The investors should also obtain professional help from investment advisors. The tendency to think that 'I know everything' should be shunned.
- Lastly, the investment world is a dynamic world and therefore periodic review is necessary. Hence, alignment of investment objectives and the current economic environment becomes imperative. Therefore, the investment portfolio should be rebalanced at regular intervals i.e. quarterly or semi-annually or at least annually. Frequency of rebalancing would depend upon the cost-benefit equation of rebalancing. It should be remembered that every time any asset is bought or sold, it entails cost.

10. Conclusion

The purpose of this study was to assess the investment planning awareness, investment objectives and constraints of investors. The results show that the investors' knowledge about investment planning is poor. The investors are generally not able to achieve their investment objectives. It is hereby concluded that the primary reasons for investors' not achieving their investment objectives are:

a. Shallow investment knowledge
b. Avoiding professional help of financial advisors
c. Infrequent review and rebalancing of portfolio
d. Constraints that investors face in investment planning.

11. Acknowledgements

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13. Tables:

Table No. 1: Age Distribution Pattern of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	20 to 29	196	19.5	19.5	19.5
	30 to 39	229	22.8	22.8	42.4
	40 to 49	223	22.2	22.2	64.6
	50 to 59	247	24.6	24.6	89.2
	60 and above	108	10.8	10.8	100.0
	Total	**1003**	**100.0**	**100.0**	

Table No. 2: Income Distribution Pattern of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	upto 3 lakhs	197	19.6	19.6	19.6
	3 to 6 lakhs	397	39.6	39.6	59.2
	Above 6 lakhs	409	40.8	40.8	100.0
	Total	**1003**	**100.0**	**100.0**	

Table No. 3: Occupation Distribution Pattern of the Respondents

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Businessmen	320	31.9	31.9	31.9
	Government employees	274	27.3	27.3	59.2
	Pvt. Sector employees	186	18.5	18.5	77.8
	Professionals	223	22.2	22.2	100.0
	Total	**1003**	**100.0**	**100.0**	

FIGURES:

Figure No. 1 Investment Knowledge

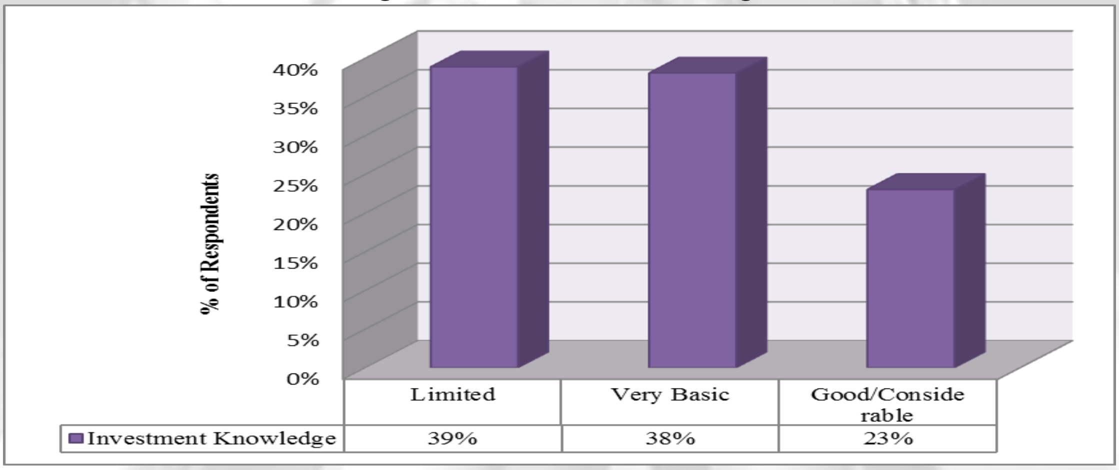

Figure No. 2 Portfolio Review

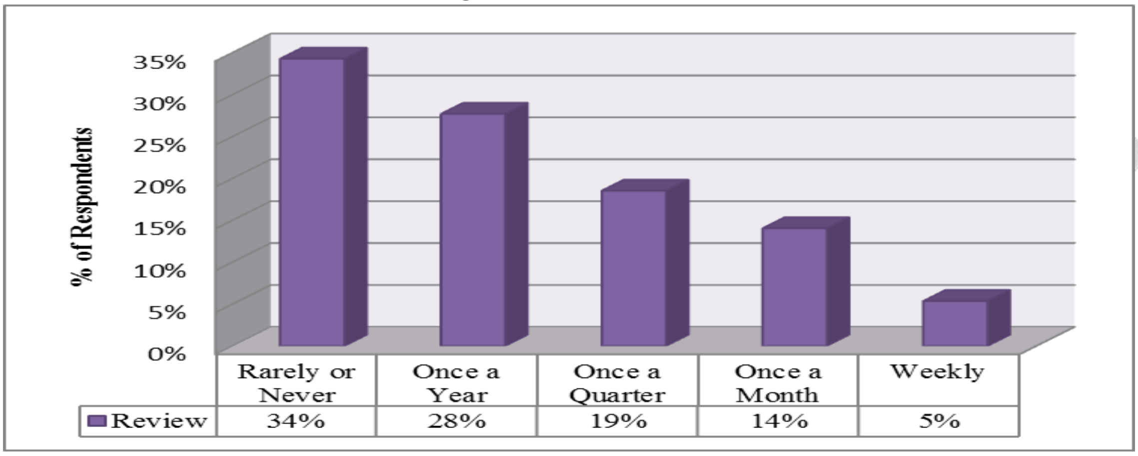

Figure No.3 Major Expenditure as Constraint – All Investors

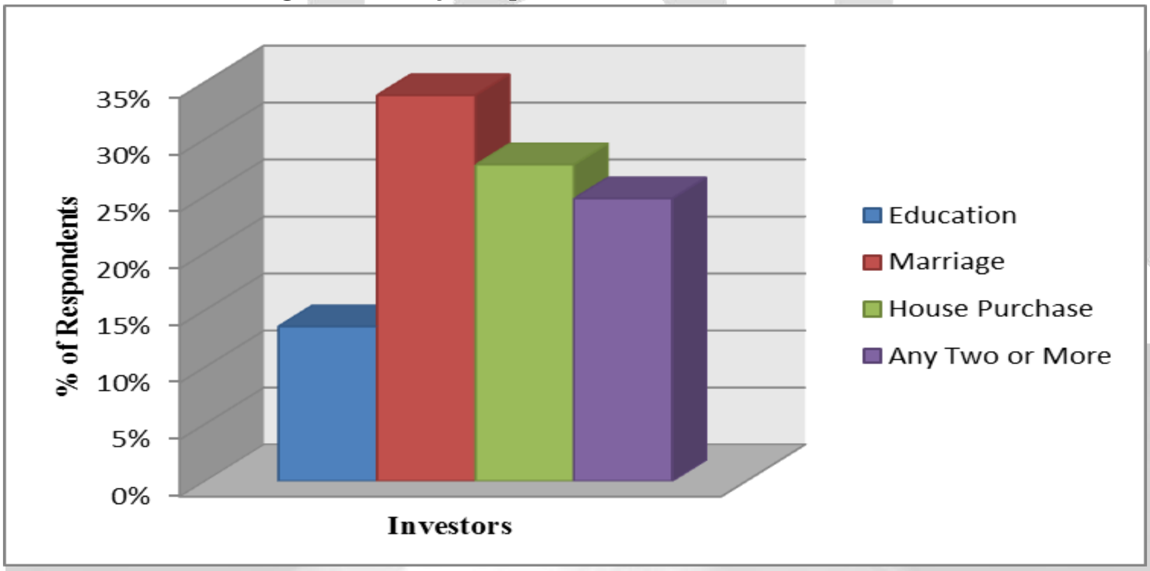

Figure No. 4 Major Expenditure as Constraint – Married Investors

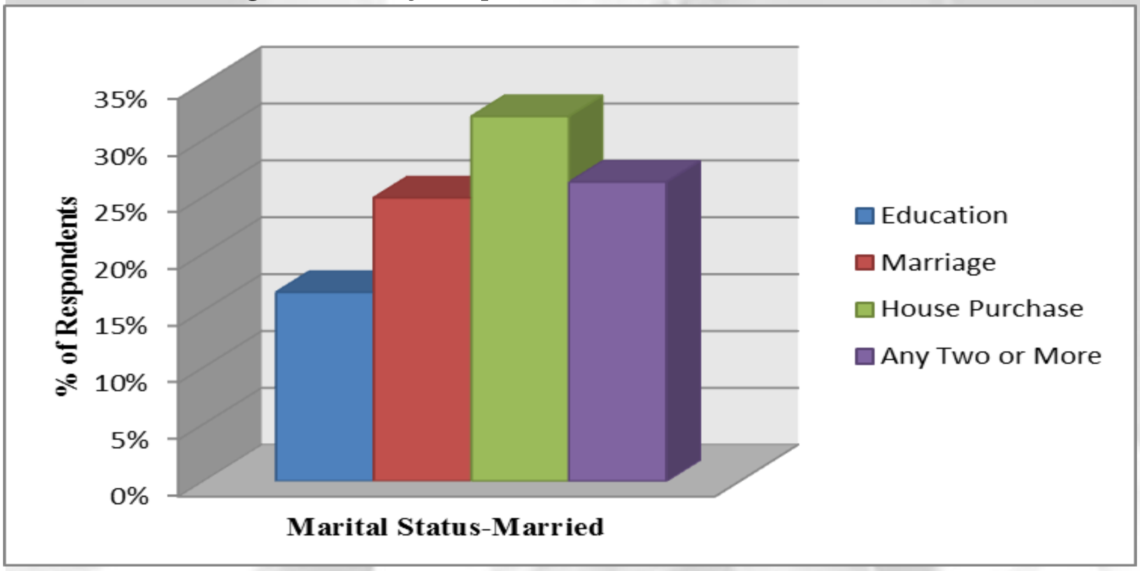

Figure No. 5 Tax Saving as a Constraint

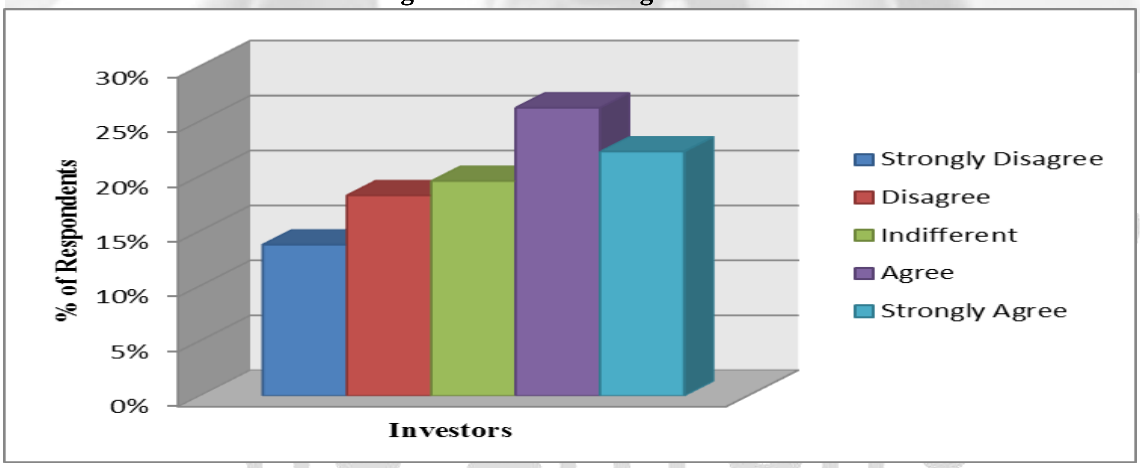

Figure No.6 Tax Saving as a Constraint – Income Group Wise

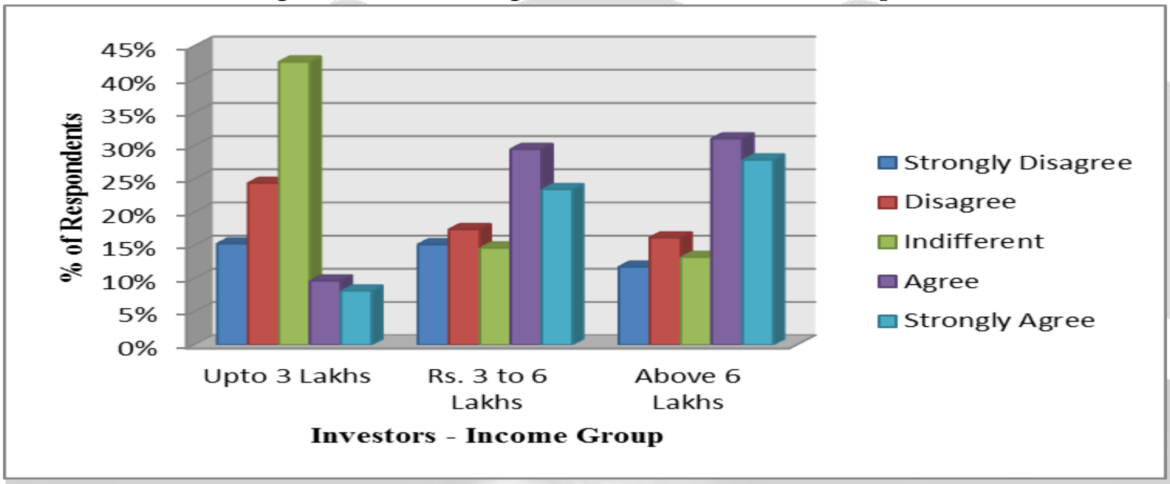

Figure No.7 Liquidity as Constraint – All Investors

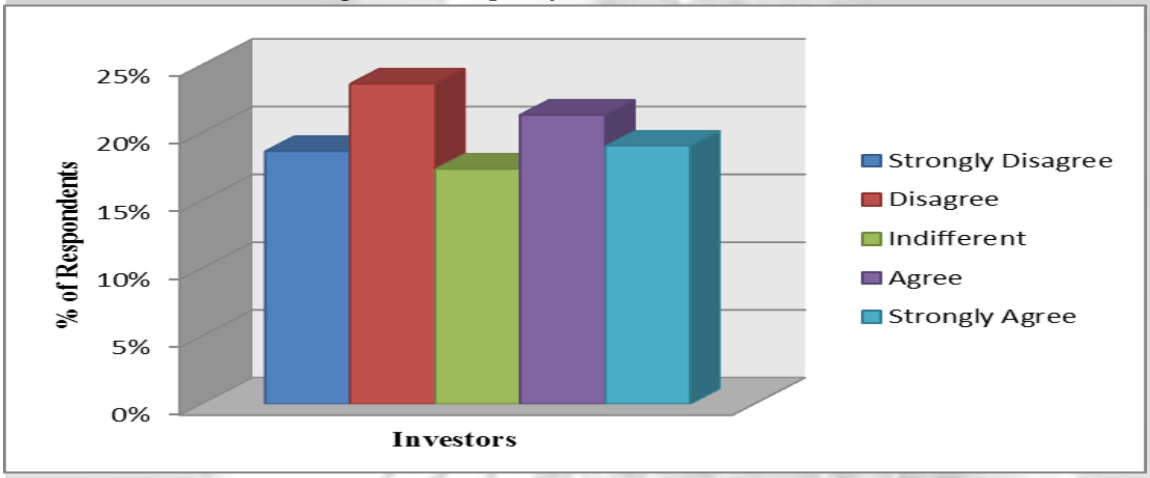

Figure No. 8 Liquidity as Constraint – Income Group Wise

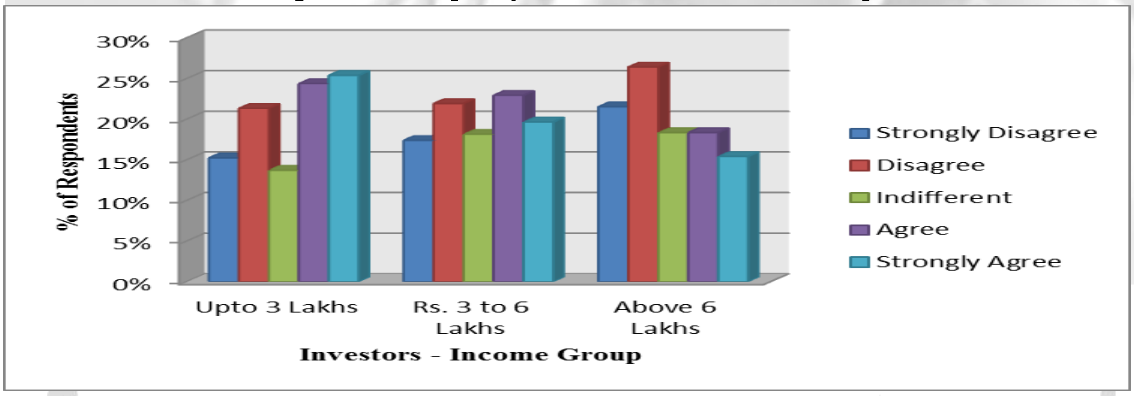

Figure No. 9 Investment Objectives

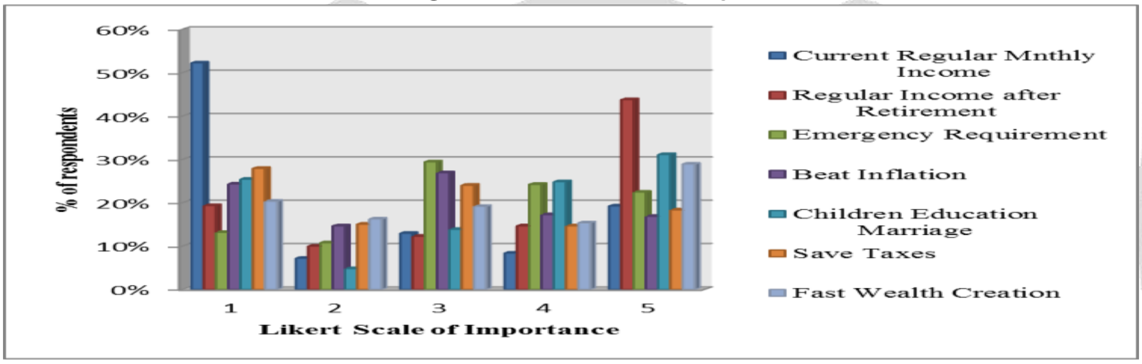

Figure No. 10 Mean Score of Investment Objectives

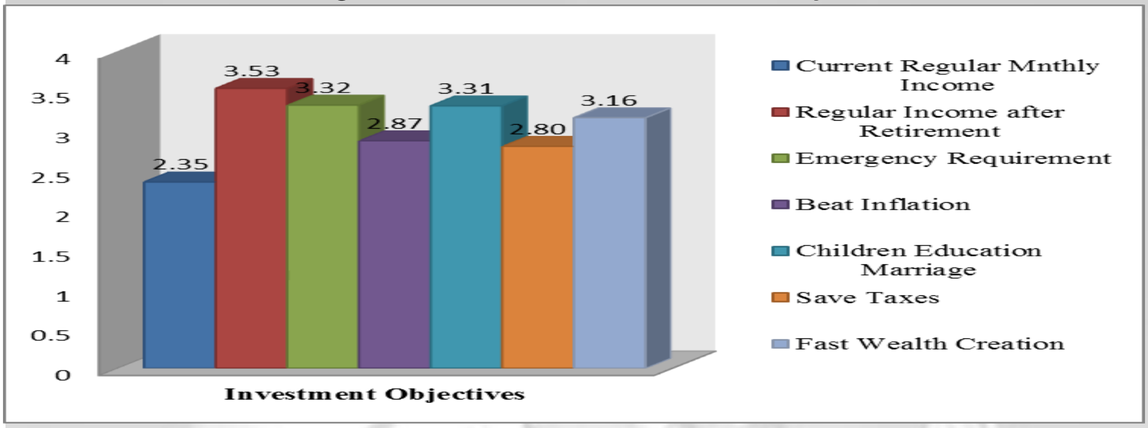

Figure No. 11 Fulfillment of Investment Objectives