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ENCOUNTERING THE OBSTACLES DURING INDIVIDUAL'S INVESTMENT PROCESS

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ABSTRACT

Financial sector reforms have considerably influenced the nature and composition of household. Liberalization of Indian financial sector, personal financial management has emerged as an important branch of finance.

Personal finance is the application of the principles of finance to the monetary decisions of an individual or family. It addresses the ways in which individuals or families obtain, budget, save, and spend monetary resources over time, taking into account various financial risks and future life events.

KEYWORDS: Financial Sector, Equity Market, Investments, Monetary Resources, Income.

INTRODUCTION

Personal financial management allows individuals or families to achieve their personal financial goals. In other words proper planning, selection and management of investments contribute towards achieving these goals. While the individuals going through this process may face certain hurdles like Predicting income, estimating savings, predicting expenses, etc,. Present study centers around the perceptions of individuals on the problems that they come across during the process of financial management.

REVIEW OF LITERATURE

A study carried out by A.Lalitha and M.Surekha (2008), revealed that the typical retail investor in Hyderabad is well educated and belongs to the upper middle class strata of the society. The majority of investors seemed to be well aware of nuances of the markets and risk involved. Saravana Kumar.S (2010), has undertaken a study to know the investor preference of future and equity market. It revealed the level of awareness and satisfaction of investors towards equity and derivatives market. Simranjeet Sandhar, S.V.Kushwah and Navita Nathani (2008), studied the factors affecting investment decisions and the impact of those factors on investment decisions. BarneWell (1987), has provided the most comprehensive analysis of the lifestyle characteristics of individual investors, she characterized individual investors into active and passive investors. She explained that individual investor behavior can be predicted by lifestyle characteristics, risk-aversion, control orientation and occupation. Barber and Odean (2001), predicted that men will trade more excessively than women investors. Age is another demographic factor that affects investment decision making. Guiso, Jappelli and Terlizzese (1996), Powell and Ansic (1997), Jianakoplos and Bernasek (1998), Hariharan, Chapman and Domain (2000), Hartog, Ferrer – I – Carbonell and Jonker (2000), concluded that males are more risk tolerant than females.

Many researchers have examined various aspects of individual investment decision process, factors that appear to exercise the greatest influence on the individual investment decisions, risk and return base of investment making, demographic factors, behavioural aspects etc. But very meager work has been done on tracing the obstacles that they face during the financial management process.

NEED OF THE STUDY

Literature on various aspects like behavioral, demographic factors etc., of investment decision making is available whereas, literature on obstacles during investment decision process is abysmally low especially in India. While there have been occasional papers in journals with respect to some of the aspects of investment decision making, there is no comprehensive study so far that deals with obstacles aspect of the individual decision making process spanning over his/her lifecycle with respect to investments. The present study attempts to fill the gap and will provide a deeper understanding of the hurdles of the investment decision making with respect to individual's lifecycle. The study will be extremely useful to financial advisors, brokers, and Investment firms, who offer investment advice to investors and firms who sell instruments for investments as well as to every individual who makes investments at some point of time in his life.

OBJECTIVE To identify the obstacles that affects the investment decision process.

The first part of this objective is to extract the association between age of the investor and obstacles in investment decision process and the second part of this objective is to find if there is any significant difference between age groups with respect to perceptions of individuals about obstacles during investment decision process.

Summary Table Showing The Profile of The Respondents:-

Table 1 Respondents' Characteristics

		Frequency	Percent	Valid Percent	Cumulative Percent
Age	20-30years	236	24.6	24.6	24.6
	30-40years	310	32.3	32.3	56.9
	40-50years	206	21.5	21.5	78.3
	Above 50years	208	21.7	21.7	100
	Total	960	100	100	
Gender	Male	632	65.8	65.8	65.8
	Female	328	34.2	34.2	100
	Total	960	100	100	
Marital Status	Single	256	26.7	26.7	26.7
	Married	704	73.3	73.3	100
	Total	960	100	100	
Education	Graduate	216	22.5	22.5	22.5
	Post graduate	450	46.9	46.9	69.4
	Above post graduate	294	30.6	30.6	100
	Total	960	100	100	
Occupation	Employed	492	51.2	51.2	51.2
	Self employed	254	26.5	26.5	77.7
	Retired	68	7.1	7.1	84.8
	Other occupation	146	15.2	15.2	100.0
	Total	960	100	100	
Income	<5lakhs	216	22.5	22.5	22.5
	5lakhs-10 lakhs	328	34.2	34.2	56.7
	10lakhs-15lakhs	250	26	26	82.7
	>15lakhs	166	17.3	17.3	100
	Total	960	100	100	
Investment Size	<3lakhs	402	41.9	41.9	41.9
	3lakhs-6lakhs	358	37.3	37.3	79.2
	6lakhs-10lakhs	144	15	15	94.2
	>10lakhs	56	5.8	5.8	100
	Total	960	100	100	

Source: Primary data

Table 1 shows the descriptive statistics of the sample on the basis of Demographic factors that include Age, Income, occupation Investment size, gender, education and marital status.

NULL HYPOTHESIS

Major Hypothesis framed for the study is:

Ho (a). There is no association between age of the investor and problems that arise in the investment decision making process.

Ho (b). There is no significant difference between age groups with respect to perceptions about problems that arise in the investment decision making process.

Sub Hypotheses are as follows:-

Ho (a1): There is no association between age of the investor and income unpredictable in budget

Ho (a2): There is no association between age of the investor and choice of spending
Ho (a3): There is no association between age of the investor and predicting expenses
Ho (a4): There is no association between age of the investor and budgeting time
Ho (a5): There is no association between age of the investor and making a plan
Ho (a6): There is no association between age of the investor and knowledge of Planning
Ho (a7): There is no association between age of the investor and comparison time
Ho (a8): There is no association between age of the investor and recording the expenses
Ho (a9): There is no association between age of the investor and knowledge of investment options
Ho (a10): There is no association between age of the investor and calculating knowledge
Ho (a11): There is no association between age of the investor and market fluctuations
Ho (a12): There is no association between age of the investor and scams in financial securities
Ho (a13): There is no association between age of the investor and estimating net worth
Ho (a14): There is no association between age of the investor and understanding the consequences of investments
Ho (a15): There is no association between age of the investor and advice by financial planners
Ho6 (a16): There is no association between age of the investor and other obstacles

RESEARCH METHODOLOGY

Sample for the study is based on the Stratified Random sampling method wherein strata consist of age of investors. Data used in the present study was obtained through a survey.

The primary instrument used in the present study to collect data is a structured questionnaire. The questionnaire was prepared after an extensive review of the literature relating to financial behavior. Questionnaire framed for the current study is based on the studies related to David E.P & Weber J.A (1990) modeled a scale to trace obstacles to financial management practices.

Reliability analysis of the questionnaire was done using the Cronbach alpha coefficient is found to be 0.778, which indicates high acceptable level of reliability. Respondents were asked to check the items indicating perception criteria towards problems that arise in the investment decision making process. They were also asked to give rank and order from one to five according to their opinions in a list using the Likert scale.

RESULTS

In order to test the hypotheses, chi-square test has been carried out and results of the test are presented in the following pages.

Summary Table Showing the Association of Age and the Problems that arise in the Investment Decision Making Process:-

Table No: 2 Summary Table Showing the Association of Age and the Problems that Arise in the Investment Decision Making Process.

S.No	Questions on Obstacles	Pearsons chi-square value	Df	Asymp. Sig. (2-sided)	Null Hypothesis	Conclusion
1.	Income unpredictable in budget	145.944	12	.000	Rejected	Significant
2.	No choice about spending, have to go by plan	266.622	12	.000	Rejected	Significant
3.	Expense too unpredictable	221.861	12	.000	Rejected	Significant
4.	Budgeting takes too much time	316.707	12	.000	Rejected	Significant
5.	Tried making a plan but couldn't stick to it	148.920	12	.000	Rejected	Significant
6.	Dont know how to plan	81.788	12	.000	Rejected	Significant
7.	Comparing budgets with actual investments takes too much time	273.940	12	.000	Rejected	Significant
8.	Have no proper records of spending	205.580	12	.000	Rejected	Significant
9.	Unaware of various investment options	323.022	12	.000	Rejected	Significant
10.	Difficulty in calculations	502.162	12	.000	Rejected	Significant
11.	Frequent changes in market	193.737	12	.000	Rejected	Significant
12.	Scams in financial securities	346.624	12	.000	Rejected	Significant
13.	Difficulty in estimating networth	163.975	12	.000	Rejected	Significant
14.	Inability to comprehend the consequences of investments	87.745	12	.000	Rejected	Significant
15.	Wrong advice by financial planners	57.938	12	.000	Rejected	Significant
16.	Others obstacles	176.079	12	.000	Rejected	Significant

The objective behind this part of the finding is to understand/obtain if there is any association between age of the individual investor and obstacles that arise in investment decision process. Sixteen questions in respect to this were put to the respondents and on analyzing their responses it is observed that there is significant association between investor's age and obstacles.

As mentioned earlier that the second part of the objective is to determine whether there is any difference in age groups with respect to perceptions about obstacles in investment decision process. To test this Analysis of Variance (ANOVA) is conducted. For this purpose the following Null hypothesis is framed.

Ho (b). There is no significant difference between age groups with respect to perception about obstacles in investment decision process.

Before analyzing, a brief description about the data is as follows

Descriptive table gives the mean values , standard deviation and 95% confidence intervals about planning for each separate age group, as well as when all groups are combined.

Table: 3 Descriptive statistics

Descriptive

OBSTACLES

	N	Mean	Std. Deviation	Std. Error	95%Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
20-30YEARS	236	3.06	.638	.042	2.98	3.14	1	4
30-40YEARS	310	3.01	.490	.028	2.96	3.07	1	4
40-50YEARS	206	2.77	.444	.031	2.71	2.83	2	4
ABOVE 50YEARS	208	2.91	.417	.029	2.86	2.97	2	4
Total	960	2.95	.517	.017	2.92	2.98	1	4

It can be observed from the data in table 3 that mean value (obstacles)of 20 – 30 years age group is 3.06, standard deviation is 0.638, 95 percent confidence interval for obstacles is 2.98 – 3.14. Mean value (obstacles) of 30 – 40 years age group is 3.01, standard deviation is 0.490, 95 percent confidence interval for obstacles is 2.96 – 3.07. Mean value (obstacles) of 40 – 50 years age group is 2.77, standard deviation is 0.444, 95 percent confidence interval for obstacles is 2.71 – 2.83. Mean value (obstacles) of above 50 years age group is 2.91, standard deviation is 0.417, 95 percent confidence interval for obstacles is 2.86 – 2.97. And mean value (obstacles) of all age group combined is 2.95, standard deviation is 0.517, 95 percent confidence interval for obstacles is 2.92 – 2.98.

As mentioned earlier in order to test any significant differences in responses among different groups, with respect to obstacles, ANOVA was carried out and the results are presented in table 4.

Table: 4 ANOVA - Obstacles

ANOVA					
OBSTACLES					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	10.598	3	3.533	13.720	.000
Within Groups	246.158	956	.257		
Total	256.756	959			

Table 4 shows the output of the ANOVA analysis. It can be seen that significance level (F (3, 956) = 13.720) is p = 0.000 which is below 0.05 and there is statistically significant difference in mean obstacle between the different age group investors. Therefore null hypothesis is rejected. In other words it can be concluded that there is significant difference between age groups with respect to perceptions on obstacle.

From the results so far, we know that there is significant difference between the groups as a whole. To know which of the specific groups differ from each other, Tukeys post – hoc test is applied. The results of this test are presented in Multiple Comparisons table 5.

Post Hoc Tests

Table: 5 Multiple comparisons - Obstacles

Multiple Comparisons						
OBSTACLES Tukey HSD						
(I) AGE	(J) AGE	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
					Lower Bound	Upper Bound
20-30YEARS	30-40YEARS	.046	.044	.716	-.07	.16
	40-50YEARS	.284*	.048	.000	.16	.41
	ABOVE 50YEARS	.144*	.048	.015	.02	.27
30-40YEARS	20-30YEARS	-.046	.044	.716	-.16	.07
	40-50YEARS	.238*	.046	.000	.12	.36
	ABOVE 50YEARS	.098	.045	.137	-.02	.22
40-50YEARS	20-30YEARS	-.284*	.048	.000	-.41	-.16
	30-40YEARS	-.238*	.046	.000	-.36	-.12
	ABOVE 50YEARS	-.140*	.050	.027	-.27	-.01
ABOVE 50YEARS	20-30YEARS	-.144*	.048	.015	-.27	-.02
	30-40YEARS	-.098	.045	.137	-.22	.02
	40-50YEARS	.140*	.050	.027	.01	.27
***. The mean difference is significant at the 0.05 level.**						

Table 5 above shows that mean differences of obstacles were statistically significantly different ($p < .05$) between different age group investors except in few cases like in case of 20-30 years age group investors and 30-40 years age group investors ($p = 0.716$); between 30-40 years aged investors and above 50 years age group investors ($p = 0.137$).

MAJOR FINDINGS OF THE STUDY

Investor's age group 20-30 years:-

Investors of this age group are young and are new to earnings, savings and investment. They find it difficult to predict income and expenses. They don't know planning and are unaware of various investment options. They also find it difficult in calculating things like networth and in maintaining records. They feel that frequent changes in market, scams in financial securities, wrong advice by financial planners, etc are some of the constraints in investment decision process.

Investor's age group 30-40 years:

This group is in that stage of investments in which investors has little experience of investments, savings and expenses. Inspite of this experience, have knowledge of various options, know to calculate net worth, etc they still find it difficult in predicting income and expenses. According to them frequent changes in market and wrong advices by financial planners are some of the constraints.

Investor's age group 40-50 years:

Investors in this group continue to estimate expense, saving and investments. They have complete knowledge of expenses and investments as they have crossed first two stages. They do proper planning. They have no problem in estimating networth. Only problems they come across are frequent changes in the market and financial planners' advice.

Investor's age group 50 years and above:

What is observed in this group is that they have overcome whatever problems (except changes in the market) that the first three stages individuals faced as they have sufficient experience, make proper planning, record what is invested and compare planned with actual invested. Most of their decisions are individual decisions.

CONCLUSION

Based on chi-square test it is identified that there is significant association between age of the investor and obstacles during investment decision process. Through ANOVA test it is identified that there is significant difference in age groups with respect to perceptions about obstacles during investment decision process.

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