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Impact of Socioeconomic Factors on Investors' Investment Culture

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Abstract:

As, the Indian economy growing, there is an increasing demand for investors' investment culture. Investments are vehicles through which an economy drives growth by channeling funds from surplus units of the economy to the deficit units the economy. The bounded rationality of investors' behavior has become the most prominent issue nowadays for the researchers of applied economics & finance. Economist and policy makers have observed that socioeconomic factors were both intrinsic and as well as extrinsic like age, gender, marital status, educational qualifications, occupation, income levels (etc...) have an impact on investment objectives and investors' investment culture. Present study critically examines the significance of socio-economic factors which influence the investor's investment culture.

Keywords: Investment culture; Socioeconomic factors; Investors' behavior

1. Introduction

“To invest successfully over a life time one does not require a stratospheric IQ, an usual business. What's needed is a sound intellectual frame work for making a decision and the ability to keep emotions from corroding that frame work.” – Warren Buffet
In this investment era, money plays an imperative role in one's life. In order to overcome the problem in future everyone should plan to perk up investment culture. But the most of investors are confused with various investment avenues and their risk- returns. According to finance scene, investment is a commitment of a person's funds to achieve the investment objectives like return; liquidity; safety; capital appreciation and tax benefits with originate income/ wealth benefits. The economic growth of every country depends upon the size of the investments. So the investment culture has to be developed among the people and they should be motivated to select the various avenues. But the choice of investments differs from investor to investor based upon their expectations. Investment culture mainly depends on the factors which influence investment avenues, objectives of investment and socioeconomic factors of investors. An investor's ability to handle the risks may be related to individual socioeconomic characteristics such as age, gender, educational qualification, marital status, occupation and income levels etc...When the level of investors' investment culture increases thus it will benefit to both the country as well as the individual investor.

2. Objectives of the Study

- To study the collision of socioeconomic factors on investors' investment culture.
- To study the association among socioeconomic factors, invest objectives and investment avenues.

3. Methodology

The whole study has been done on the basis of secondary data. The data used in this study were collected from the Journals, News Papers, Magazines and Investment company's websites. Descriptive research is used for analysis.

4. Review of Literature

It is commonly reported that investor's psychology drives the investment culture of investors' on avenues.

Lawellen (1977) found that age, gender, income and education affects investor's preferences and attitude towards investment decisions.

Rajarajan (2000) has revealed that there is an association between the lifestyle clusters and investment related characteristics.

Yash pal Davar & Suvera Gill (2007) in their analysis on investment decision making revealed that the class of investors with growing age developed the maturity and experience for making decisions about the usage of their surplus and available funds in light of overall economic needs of the family.

Shanmugasundaram & Bala Krishna (2009) acknowledge the role of emotions in investment decision making and their empirical results suggested that the demographic factors influence the investors investment decision.

Rehman, Faridi& Bashir (2010) analyzed that the householders belonging to lower income groups may have different saving behavior compared with those who are in the middle or higher income groups.

Jamshidivavid, Chavoshani& Amiri (2012) found that, the investment prejudices in individual investors has relationship with personal characteristics meaningfully and with some of the demographic variables weakly.

One dominant theme has emerged from all of their research: Success in the market does not depend solely on how smart we are, what information we possess, what academic degrees we've earned, how much experience we've gained or what technical or fundamental systems we use. Rather, investors must have ability to identify, understand and act upon their investment psychology their socioeconomic features.

5. Discussions

Individual investors expected to behave rationally as per modern economics. Unfortunately, every investor is not behaving rationally (Barder& Odean, 2011).

Investor behavior is associated with mainly two factors, namely Socio and economic factors.

5.1. Association of Socio Factors on Investor Behavior

As per present study, Age; Gender; Marital status and Educational qualifications were observed as significant socio factors which influence on investors' investment culture.

- Age: Dr. Dhiraj Jain& Mr. Nikil Mandot (2012) revealed that there is a significant relation between the investor's age and level of risk capability. According to S Augat Das& Ritika Jain (2012) described that, the investment objective has associated with age, which means for different age group the choice of investment have been varied based on investment avenue.
- Gender: Psychological research demonstrated that in financial decision making process women have different outlook and preferences than men (Schumell, 1996). Y. Venkat Ramana Murthy& M. Madhusudhana Rao (2012) investigated that there is a difference in the performance of funds managed by women and men, as well as, the types of investment choices made by each gender. Reported by Abdela (2012) female household heads have a greater saving propensity as compared to male household heads.
- Marital status: Rehman H Shaikh, Dr. Anil& B. Kalkundrikar (2011) examined that there is a positive impact on marital status to investors' investment culture.
- Educational qualification: D. Vellumoni& S.S. Raju (2015) have examined the positive impact of educational qualification on investment culture to find whether educational qualification enhances the knowledge of investment which in turn increases the level of risk bearing capacity in financial market.
- Association of economic factors on investor behavior:
- Income levels: R. Dhivya& Dr. C. Sekar (2010) furnished that as the annual income increases; the annual investments would also increases substantially. According to Suresh Vadde (2015) households with high level of income were more in the investment category than with those who had low levels of income.
- Occupation: Dr. Dhiraj Jain& Mr. Nikhil Mandot (2012) revealed that there is a relation between the investor's occupation& investment culture of the investors'.

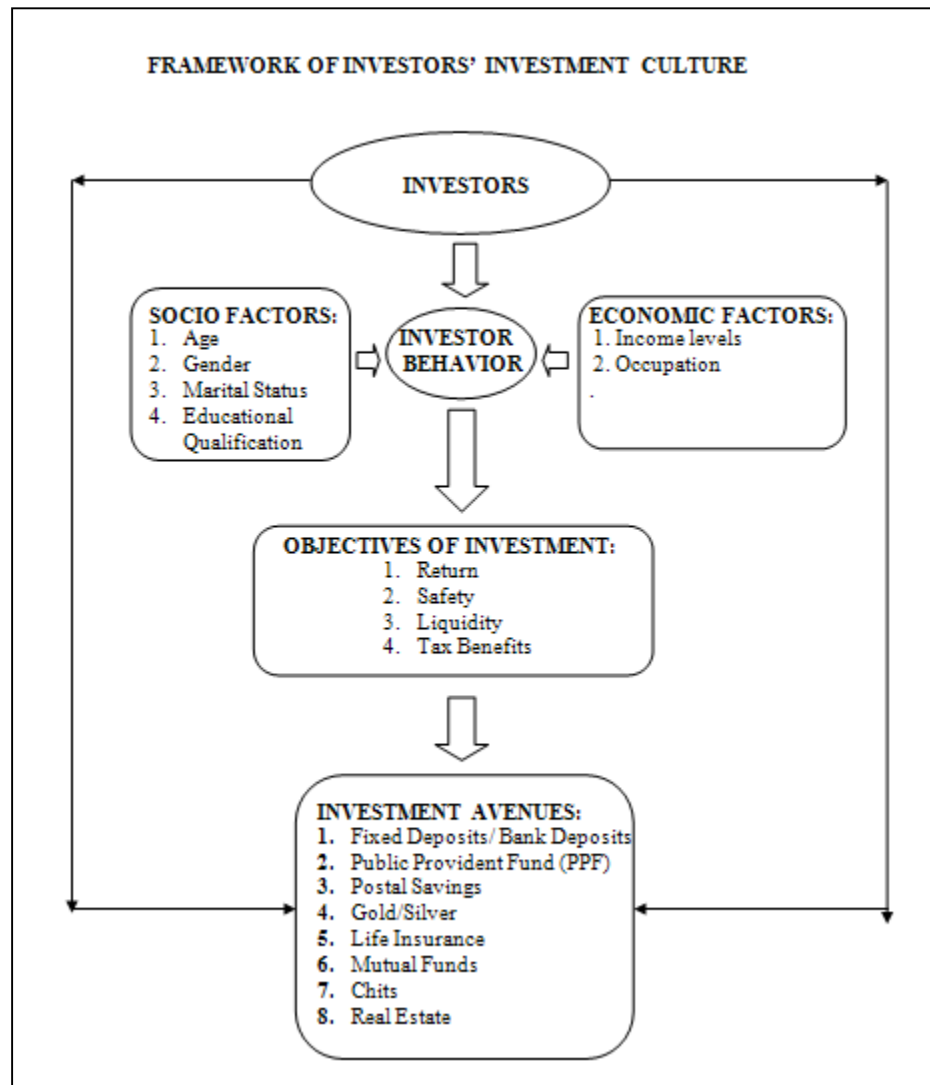


Figure 1

This study offers a simple frame work to understand the relationship between socioeconomic factors and investors’ investment culture. Socioeconomic factors are directly affects investors’ investment culture by influencing the investor’s objectives with effecting their financial environment.

5.2. Association among Socioeconomic Factors, Investment Objectives of Investor and Investor Behavior

Investor behavior is associated with objectives of investment like Return, Safety, Liquidity & Tax benefits.

B. Raja Mannar& B. Ramachandra Reddy (2013) analyzed as investor’s perception& expectations towards investments. Investors’ are differing in their choice of investments on objectives of investment. Educational qualification of investors reflects on the financial needs and investment objective. Marital status influences impact on investment objective, willingness to take risk and volatility in investment value. Monthly income and monthly savings significantly influence financial needs, investment objective and volatility in investment values.

Investment objectives	Return	safety	Liquidity	Tax benefits
Socio factors	Age	For different age groups, the choice of investment will vary based on safety.		
	Gender	Varying based on return variable.		
	Marital status	It is prejudiced on safety & liquidity measures.		
	Educational qualification	Mainly return objective is influenced.		
Economic factors	Income levels	Income level of investor increases, then they adopt tax benefits objective.		
	Occupation	Return & safety variable is influenced.		

Table 1: Relation between socioeconomic factors and investment objectives

This study revealed that the above socioeconomic factors have an association with the objectives of investment. It is prejudiced that socioeconomic factors such as age, Educational qualification and occupation plays vital role in investors' investment culture. The analysis of how an investment choice gets affected by the socioeconomic factors could help the financial advisors and portfolio managers to give better suggestions to their clients.

6. Conclusion

For promoting investor's investment culture a lot of new schemes have been launched by the government. But the success of these schemes is not possible without developing the competency and financial literacy of the people. When the competency and financial literacy of the people increases, the investors may take an informed decision about their investment culture, which will benefit both the country as well as the individual investor. No doubt, it is a long continuous process.

7. References

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