

Evaluating the Association between Investment Attitude & Decision Making Habits of Individuals from Shimla Area

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Abstract

In the present era, availability of numerous investment avenues creates ample investment opportunities, but at the same time this also requires investors to be more financially knowledgeable, aware and to make rational investment decisions with positive attitude towards investment. An investment is the purchase of goods or creation of assets that are not consumed today but are used in the future to create wealth. Opinion or feeling of individual toward some object, situation or financial actions is called investment attitude. Individuals always prefer to invest money in those financial instruments which generates returns more than the inflation rate, thus both variables play important role in taking investment decisions. Individual possesses appropriate investment attitude always prioritize their financial goals, make judicious choice of instruments and invest for longer period of time. Present paper focuses on comparing the investment attitude of individuals residing in urban and rural areas of Shimla. Paper also covers the aspect of association between investor attitude and investment decision. Statistical tools like descriptive analysis, chi square test was used to segregate individuals on basis of investment attitude and to find association between investors attitude and investment decision. Results indicate that number of individuals having positive attitude is more than the individuals having negative attitude in both urban and rural areas of Shimla. Result of chi square analysis reveals that that there is an association between investor's attitude and investment decision based on dimensions like investment experience, risk capability, and duration of investment, but there is no association between expected return and investor's attitude.

KEYWORDS: Investment, Investor Attitude, Risk, Return, Chi Square.

1. INTRODUCTION

Loosening of FDI norms and opening up of financial markets for international players had resulted in creation of ample investment opportunities, increased scope of investments and easy and quick access to investment product and services. With the rise in employment rate and per capita income of individual the demand for investment instruments has also start rising. In investment process the surplus income of individual will be diverted into various fruitful investment avenues.

An investment is the purchase of goods or creation of assets that are not consumed today but are used in the future to create wealth. Amount spent on the production of capital goods or net addition to stocks is also referred as investment.

Investment is an ongoing activity in which people will invest their savings in investment instruments with the expectation of capital gains in the future and safety of principal amount.

Investment was categorized into economic and financial investment. Economic investment deals with investment in capital assets such as machinery, land, inventories, plant, equipments or building which helps in production of other goods and services. Financial investment means any amount invested in monetary assets such as shares, bonds, real estate, commodities with a motive to earn additional income in future in form of returns.

Two main attributes of investment are risk and time of investment. Every individual wants maximum return and minimum risk from investment. Well managed investment results in regular income capital appreciation and increase in value of assets.

Investment decisions are dependent on the rate of inflation prevailing in the country and rate of interest. The higher the rate of interest, the greater is the inducement to save. There is an inverse relationship between rate of interest and investment. Due to increase in inflation rate the value of money start decreasing, so to mitigate the effect of inflation individual has started investing their money in various financial instruments which yields rate of returns more than inflation rate.

Opinion or feeling of individual toward some object, situation or financial actions is called investment attitude. Individual possesses appropriate investment attitude always prioritize their financial goals, make judicious choice of instruments and invest for longer period of time.

2. LITRETURE REVIEW

D. Bhuvaneswari and S. Tamilarasi (2019) in their study on investment and saving attitude of customers of Chennai region towards post office savings found that most important factor behind choice of post office savings is safety, security and high returns. People are aware about limited schemes offered by post office namely postal life insurance and recurring deposits. C. Boobalan and K.Selvavinayagam (2019) has done the research on investor's attitude towards risk and return in Indian stock market and has found that out of total 150 respondents 93 respondents are risk averse and only 15 respondents are risk seekers and 34% to 36% respondents generates moderate to high returns from cash and derivative market. From the correlation analysis it was found that there is no association between gender and returns but risk capability varies with age of the investors. Jayalakshmi S and K.P. Saraswathy Amma (2019) carried out a study and found that males, respondents in the age group of 30-40 having graduate degree have positive attitude towards systematic investment plan. From the chi-square analysis it was found that there is an association between gender, age, education, income and attitude towards investment in SIP. Arup Kumar Sarkar and Tarak Nath Sahu (2018) carried out a study and found that perceived risk attitude has significant impact on behaviour biases namely heuristic, market

and herd behaviour. K.Dhanalakshmi and R. Rajesh Ramkumar (2018) carried out a study in Madurai city to analyse investor's attitude towards investment in shares and identified that 28% respondents prefer to invest money in shares because of high returns and 39% respondents expect returns between 6%-10%. Respondents prefer to invest money for a period ranges between 1-3 years. From ANOVA it was inferred that there is a significant difference between dimensions of attitude and satisfaction level. AV.V.S Subbalakshmi (2017) in her study on investor's attitude towards mutual funds found that liquidity is the most important factor of investment in mutual funds and 24 respondents use SIP as a medium to invest money in mutual funds. It was also found that one time investment is the most preferred mode of investment. Rajan Bilas Bajracharya (2017) identified that in Kathmandu region of Nepal males, individuals in age group of 31-45 and having bachelor's degree show positive attitude towards investment in mutual funds. There is no association between gender, age, education, income and attitude towards mutual funds. N.S.V.N Raju and Anita Patra (2016) identified the factors which had high and low influence on investors' attitude towards investing in equity stock. Researcher found that factors like business of company, valuation of company's stock, annual reports, and price to earnings ratio had very high influence on investor's attitude whereas factors like revenue pattern, customer review, vision and mission of company, nature of business and debt to equity ratio had low influence on investor's attitude. M Shahin Sarwar and Charls Darwin (2016) in his study concluded, that there is an association between education qualification and attitude of investor's but there is no association between demographic factors namely age, gender, income level, investment level and investor's attitude. P. Sasirekha and U. Jerinabi (2015) has done the research on investor's attitude towards investment and risk and has found that majority of the respondents are ready to take risk at moderate level and respondent with low awareness avoids risk investment. It was also find out that there is no difference in investment and risk attitude of male and female respondents. There is an association between age, education, social status, annual income, potential of investment and investor attitude towards risk and investment.

From the above review, it is clear that there no research has been conducted to compare the investor's attitude of urban and rural people and to analyse the association between investor's attitude and investment decisions.

3. OBJECTIVES

- a) To ascertain investment attitude of individuals of Shimla Area.
- b) To compare the investment attitude of individuals residing in urban and rural areas of Shimla.
- c) To study the association between investor's attitude and various dimensions of investment decision.

4. STATEMENT OF HYPOTHESES

In the context of the research objectives, the following hypotheses were framed:

Ho1: There is no significant association between investor attitude and investment experience.

Ho2: There is no significant association between investor attitude and risk capability of individual.

Ho3: There is no significant association between investor attitude and expected return.

Ho4: There is no significant association between investor attitude and duration of investment.

Ho5: There is no significant relationship between investor attitude and planning habits.

5. RESEARCH METHODOLOGY

- a) Research Design: Study is based on Descriptive research design
- b) Sampling: For the purpose of the study a survey was conducted amongst the individuals residing in urban and rural areas of Shimla. Two sub divisions i.e. Shimla urban and Shimla rural were selected from Shimla district randomly. Cluster and convenience sampling technique was used to select 400 respondents from four wards of Shimla urban and one block of Shimla rural area.
- c) Data Collection: Study is based on primary data. For the purpose of survey questionnaire was prepared and circulated
- d) Data Analysis tools: Reliability of the construct was checked using Cronbach alpha coefficient. Statistical tools and techniques such as descriptive statistics, correlation analysis and Chi- Square were used for analysis and hypothesis testing.

6. RESULTS AND DISCUSSION

6.1. Reliability of Scale- Investor Attitude

Reliability is an assessment of the degree of consistency between multiple measurements of a variable (Hair et al., 2009). Reliability is concerned with estimates of the degree to which a measurement is free of random and unstable errors. Instruments are robust; they work well at different times under different conditions (Cooper and Schindler, 2008)

Reliability Statistics

Table 6.1: Cronbach's Alpha Value & Mean Score of Investor's Attitude Factors

Sr.No	Dimension	Variables	Cronbach's Alpha	Mean Score
1	Investor's Attitude	Risk Analysis	0.724	3.99
2		Return Analysis		3.96
3		Information Gathering		4.01
4		Comparison of Terms & Condition		4.16
5		Affordability		4.49
6		Tax Saving		3.63
7		Tracking of Securities		3.71

Source: Primary Data 2019-20

Table 6.1 indicates that a value of Cronbach Alpha for attitudinal scale is 0.724 which is above the acceptable limit of 0.70 (Hair et. Al., 2009), hence scale was found to be reliable for measuring the attitude of investors in urban and rural areas of Shimla. From above table it can be seen that affordability has the highest mean score of 4.49, which indicates that individual in urban & rural area buy costly ornaments or articles according to their purchasing power or surplus money at their disposal; whereas tax saving has the least mean score of 3.63, which indicates that investor attitude towards saving tax or investing money in tax saving instruments is negative and they give least preference to tax saving financial instruments. From the mean score of comparison of term and condition (4.16) it was inferred that respondents show positive attitude towards comparing terms and condition of two or more instruments before taking any investment decision. Individuals also gather information about the product or company and analyse amount of risk and return he will get from the investment while taking investment decision. Lowest mean score for tracking of securities (3.71) indicates that respondents have negative attitude towards management of their investment as they rarely evaluate the return they are getting from the security and match them with their targets and they are not in a habit of changing the composition of their portfolio or basket of financial instruments.

6.2. Cross Tabulation of Investment Attitude of individuals in Urban and Rural Areas of Shimla

Table 6.2: Investment Attitude of Individuals in Urban & Rural Areas of Shimla

Individual Attitude Level Cross tabulation				
		Attitude Level		Total
		Positive Investment Attitude*	Negative Investment Attitude*	
Community	Urban	123 (62)	77 (38)	200
	Rural	108 (54)	92 (46)	200
Total		231	169	400

*Value in parenthesis indicate percentage

Source: Primary Data 2019-20

Seven attitudinal statements based on five point Likert scale assigning 1 for 'strongly disagree' and 5 for 'strongly agree' were used in the study to classify respondents in two categories i.e. respondent with positive investment attitude or respondent with negative investment attitude. Median score of respondents was calculated and respondents with score equal to and above median that is four was considered as individual with positive attitude and respondent having score below median was considered as individual with negative attitude. Items such as risk, return, collecting information about the company, tax saving, tracking of securities have been used to assess the investment attitude of the respondent residing in urban and rural areas of Shimla.

Table 6.2 represents the percentage of respondents having positive and negative investment attitude on the basis of community they are residing in. The result shows that in positive investment attitude category, urban respondents has the highest percentage i.e. 61.5%, n=123 in comparison to respondents from rural area i.e. 54%, n=108. For the negative investment attitude category, number of respondents in rural area (46%, n=92) is more than urban area (38.5%, n=77). Thus it can be concluded that in comparison to individuals from rural area individuals in urban area take investment decisions after making through and in-depth study about the company, instruments and buy only those instruments which they can afford.

6.3 Analysis of Investor's Attitude and Investment Decision

6.3.1 Association between Investor's Attitude and Investment Experience

Table 6.3: Investor Attitude and Experience Level of Respondents in Urban & Rural Area of Shimla

CROSS TABULATION OF INVESTOR'S ATTITUDE AND EXPERIENCE LEVEL							
Community			Investor Attitude Level		Total	Chi-Square Value	** P-Value
			Positive Investor Attitude*	Negative Investor Attitude*			
Total	Experience Level	New Investor	41 (18)	41 (24)	82	24.311	0.000
		Very Inexperienced	22 (10)	37 (22)	59		
		Somewhat Experienced	118 (51)	77 (46)	195		
		Experienced	49 (21)	13 (8)	62		
		Very Experienced	1 (1)	1 (1)	2		
	Total		231	169	400		

*Value in parenthesis indicate percentage

**Level of significance 5%

Source: Primary Data 2019-20

From the analysis of investment attitude and experience level of respondents of both urban rural area of Shimla table 6.3 it was found that as individual became experienced in taking investment decisions, his or her attitude towards investment also change. 41 respondents or 24%, of new investors or those who have just started investing money show negative investment attitude in comparison to respondents having positive attitude towards investment i.e. 18%, n=41. More than 50%, n=118 of the investors in the somewhat experienced category show positive attitude towards investment. Out of total 62 respondents in experienced category 21% or n=49, have positive attitude towards investment, whereas only 8%, n=13 possess negative attitude. The difference in attitude level based on investment experience is statistically significant as chi square value obtained is 24.311 is significant at 5% significance level ($p < 0.05$). Thus null hypothesis that there is no association between experience level and investor attitude get rejected and it can be concluded that as experience level increases, attitude towards investment become positive and investor takes rational decisions.

6.3.2 Association between Investor's Attitude and Risk Capability

Table 6.4: Investor Attitude and Risk Capability of Respondents in Urban & Rural Areas of Shimla

CROSS TABULATION OF INVESTOR'S ATTITUDE AND RISK CAPABILITY (TOTAL)										
Community			Risk Capability					Total	Chi-Square Value	** P- Value
			Conservative*	Moderate Conservative*	Moderate*	Moderate Aggressive*	Aggressive*			
Total	Investor Attitude Level	Positive Investor Attitude	20 (9)	34 (15)	71 (31)	16 (7)	90 (39)	231	13.211	0.010
		Negative Investor Attitude	25 (15)	43 (25)	42 (25)	8 (5)	51 (30)	169		
	Total		45	77	113	24	141	400		

*Value in parenthesis indicate percentage

**Level of significance 5%

Source: Primary Data 2019-20

Table 6.4 shows the investor investment attitude and risk capability of respondents of both urban and rural area. Results show that risk capability of respondents will increase with change in their attitude level. As inferred from the results that investors with the positive attitude are willing to take more risk by investing money in risky instruments i.e. 39% or n=90 lies in the category of aggressive investors. 31%, n=71 of individuals having positive attitude & 25%, n=42 having negative attitude said that they can take moderate risk. In comparison to investors having positive attitude, 25% investors having negative attitude said that they are moderate conservative and they prefer to invest money in instruments giving maximum returns at minimum level of risk. From table 6.4 it can be observed that at 5% significance level the calculated chi square value (13.211) is significant ($p < 0.05$) which proves that there is a significant association between investor attitude and risk capability, so null hypothesis get rejected and alternate hypothesis will be accepted. This implies that investors those who show positive attitude towards analysis of risk before taking any investment decision are more comfortable in investing money in risky instruments.

6.3.3 Association between Investor's Attitude and Expected Return

Table 6.5: Investor Attitude and Returns Expected by Respondents in Urban & Rural Areas of Shimla

CROSS TABULATION OF INVESTOR'S ATTITUDE AND RETURNS (TOTAL)									
Community			Expected Return				Total	Chi-Square Value	** P- Value
			0-5*	6-10*	11-15*	16 & Above*			
Total	Investor Attitude	Positive Investor Attitude	3 (1)	67 (29)	34 (15)	127 (55)	231	5.328	0.149
		Negative Investor Attitude	2 (1)	35 (21)	20 (12)	112 (66)	169		
	Total		5	102	54	239	400		

*Value in parenthesis indicate percentage

**Level of significance 5%

Source: Primary Data 2019-20

By analysing the results obtained in Table 6.5 it was found that respondents from the both the categories i.e. positive (55%, n=127) and negative investment attitude (66%, n=112) prefers to invest money in those instruments or products from where they will get more than 15% returns. Very few individuals i.e. approximately 1% from both the categories said that they expect 0-5% return from their investment. 29%, n=67 & 21%, n=35 respondents from positive and negative investment attitude category expects that their investment will generate 6%-10% return. The chi square value is 5.328. The value is not significant at 5% level ($p > 0.05$). Thus null hypothesis association between expected return and investor's attitude gets accepted and it can be said that expected return from the investment is not dependent on attitude and investors from both the category expecting higher returns from their investment i.e. minimum expected return is 6%-10% and maximum expected return is 16% and above. In present era very few individuals prefer to invest money in those instruments which will generate 5% or fewer returns.

6.3.4 Association between Investor's Attitude and Investment Duration

Table 6.6: Investor Attitude and Investment Duration in Urban & Rural Areas of Shimla

CROSS TABULATION OF INVESTOR'S ATTITUDE AND INVESTMENT DURATION (TOTAL)							
			Investment Duration			Chi-Square Value	** P- Value
			1-5 Years*	6-10 Years*	11 Years & Above*		
Community							
Total	Investor Attitude	Positive Investor Attitude	142 (61)	81 (35)	8 (3)	33.776	0.000
		Negative Investor Attitude	147 (87)	17 (10)	5 (3)		
	Total		289	98	13		

*Value in parenthesis indicate percentage

**Level of significance 5%

Source: Primary Data 2019-20

On analysing the association between investor attitude and duration of investment from table 6.6 it was found that individuals from both urban and rural areas of Shimla with positive attitude i.e. 35%, n=81 prefer to invest money for more than 5 years and only 10%, n=17 individuals having negative investment attitude prefer to invest money for more than 5 years. 87% respondent having negative attitude towards investment i.e. n=147 prefers to invest money for maximum period of 5 years and 61% respondents having positive attitude i.e. n=142 prefers to invest money for the maximum of 5 years. Only 3%, n=13 respondents from both the categories go for long term investment i.e. for more than 11 years and above. In order to test association between attitude of investor and investment duration chi square test was applied. The value of chi square came out to be 33.776 (Table 6.6). The value is significant at 5% level ($p < 0.05$). Thus null hypothesis get rejected and alternative hypothesis get accepted. Thus it can be concluded that as attitude toward investment will change, individual having positive investment attitude prefers to invest money for more than five years.

6.3.5 Relationship between Investor's Attitude and Planning Habits

Correlation Analysis between Investor's Attitude and Planning Habits in Urban Areas of Shimla

Table 6.7: Correlation between Investor Attitude and Planning Habits of Respondents in Urban Area of Shimla

Correlation			
		Investor Attitude	Planning Habit
Investor Attitude	Pearson Correlation	1	.356**
	Sig. (2-tailed)		.000
	N	200	200
Planning Habit	Pearson Correlation	.356**	1
	Sig. (2-tailed)	.000	
	N	200	200
**. Correlation is significant at the 0.01 level (2-tailed).			
a. Community = Urban			

Source: Primary Data 2019-20

Table 6.7 shows that the correlation coefficient between the variable i.e. investor attitude and planning habits is .356 with significance value of .000, which is less than 0.05. This suggests that there is a weak positive correlation and significant relationship between two variables. Thus we can conclude that those individual those who prepare plans they have positive attitude towards investment i.e. individuals those who prepare short to long range plans they take investment decision after gathering, analysing complete information about the instrument/company they are investing in and invest money according to their financial objectives.

Correlation Analysis between Investor's Attitude and Planning Habits in Rural Areas of Shimla

Table 6.8: Correlation between Investor Attitude and Planning Habits of Respondents in Rural Area of Shimla

Correlation			
		Investor Attitude	Planning Habit
Investor Attitude	Pearson Correlation	1	.396**

	Sig. (2-tailed)		.000
	N	200	200
Planning Habit	Pearson Correlation	.396**	1
	Sig. (2-tailed)	.000	
	N	200	200
**. Correlation is significant at the 0.01 level (2-tailed).			
a. Community = Rural			

Source: Primary Data 2019-20

Table 6.8 shows that the correlation coefficient between the variable i.e. investor attitude and planning habits is .396 with significance value of .000, which is less than 0.05. This suggests that there is a weak positive correlation and significant relationship between two variables. Thus we can conclude that those individual those who prepare plans they have positive attitude towards investment i.e. individuals those who prepare short to long range plans they take investment decision after gathering, analysing complete information about the instrument/company they are investing in and invest money according to their financial objectives.

From the above correlation analysis it can be concluded that there is a positive correlation between planning habits and attitude of investors towards investment. This finding is comparable with the study conducted by Puneet Bhushan, (2014). It was found that an individual who follows financial planning shows positive attitude or responsible investment behaviour.

7. FINDINGS

1. The result shows that in positive investment attitude category, urban respondents has the highest percentage i.e. 61.5%, n=123 in comparison to respondents from rural area i.e. 54%, n=108. For the negative investment attitude category, number of respondents in rural area (46%, n=92) is more than urban area (38.5%, n=77).
2. From the analysis of Chi-square it was inferred that in urban & rural areas of Shimla, that there is a statistical significant association between experience level, risk capability, investment duration and investor's attitude.
3. Chi-square test performed to know association between expected return and investor's attitude in both urban and rural areas of Shimla found no statistical significant association between expected return and investor's attitude.
4. From the analysis of correlation coefficient it was found that investor's attitude does have weak positive correlation (.396) and significant relationship with planning habits of respondents residing in urban & rural areas of Shimla.

8. CONCLUSION

After careful analysis and interpretation, the findings of the study suggest that there is significant association between investor's attitude and investment decisions based on dimensions like investment experience, risk capability of investors, duration of investment and planning habits. Experienced Individual with positive attitude towards investment prefer to invest money for long period of time, don't hesitate to take risk and prepare long term plans. There is no association between attitude of investor and expected return from investment.

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