

## **“The Budding Indian Investor’s Outlook” A Study of Young Investor’s Market Perception**

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### **1. ABSTRACT**

#### **Abstract**

A well-planned investment portfolio is immensely important for both capital security and capital appreciation. Sound investment requires careful analysis and commitment of funds for the purpose of earning future profits. The benefits that can be reaped out of investment totally depend on the knowledge of the investor, his risk appetite and time period that he/she is willing to devote for investment. This research paper analyzes the perception of young working professionals (below the age of 35), in Shimla (Himachal Pradesh) about the various investment tools and options available in the Indian Financial System along with due analysis of their awareness regarding the same.

**KEYWORDS:** Investment, Portfolio-Analysis, Risk-Appetite, Perception, Investment-Avenues

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### **2. INTRODUCTION:**

“India”, is one of the emerging superpower with 50% population under the age of 25 years and 65% under the age of 35 years, offering tremendous opportunity for the growth of various industries in the nation along with providing earning opportunities to the skilled youth. But to fulfill all material aspirations, just earning is not enough. We need something more! We need to invest!

### **PROBLEM STATEMENT:**

India is a fast growing world economy, but even with all the development going around only 3% of our earning population invests in stock market and mutual funds, compared to 62% in USA.

The concept of savings and investment is not at all new to the Indian people but still in one way or the other we have remained quite hesitant to take complete advantage of the various investment instruments.

Majority of our adult population makes use of bank accounts and invest in Fixed Deposits to earn a small percentage of interest. Moreover a lot of Indian families still consider gold and real-estate better investment options than securities and debt instruments.

All this data clearly depicts that still; there are lots of people around who are failing to take full advantage of the growing Indian economy, which either exists due to the lack of information or due to the inherent fear of the unknown.

### 3. HYPOTHESIS FOR THE STUDY:

Since there exists a vast difference between the number of equity investors in USA and India, it becomes absolutely important to understand the core reason for this difference. We must know if it is the lack of financial soundness or the income status that hinders the equity investment in the Indian economy.

Based on these factors the hypothesis for this study has been formulated.

Considering the problem statement here are the Null ( $H_0$ ) and Alternate Hypothesis ( $H_a$ ):-

#### Case 1 -

$H_0$ : The budding Indian investor is not well informed and has a restricted investment outlook.

$H_a$ : The budding Indian investor is well informed and has a wide investment outlook.

#### Case 2 -

$H_0$ : There does not exist significant difference between the income levels of the respondents and their corresponding investment in mutual funds and stock market industry.

$H_a$ : There exists significant difference between the income levels of the respondents and their corresponding investment in mutual funds and stock market.

### 4. RESEARCH OBJECTIVES:

The purpose of the study is to analyze the perception of young Indian investors about the various investment tools available along with establishing the current level of information that they possess regarding investment. The study is addressed to understand the investor's outlook and their attitude towards investment. Here are certain key areas that are focused upon while conducting this research:

- To understand the stock market perception of a young investors
- To identify the current financial knowledge of young investors
- To figure out the driving forces that influence investment
- To understand the factors that induce fear in a budding investor

### 5. SCOPE OF THE STUDY:

This research focuses on the analysis of the budding investor's perception of the mutual funds and stock market industry in Shimla, H.P, India. And it can find its scope in various fields like:-

- Planning of investor training programs
- Research and development of investor friendly, investment approach
- Eradication of inherent investor skepticism
- Outset point for exhaustive research by other researchers

### 6. RESEARCH METHODOLOGY:

Research is a systematic plan which gives the direction to the research.

### **6.1 Research type:**

Exploratory research was conducted to analyze the investor's outlook. This research is described by the use of questionnaire and successive responses generated by the targeted population to draw meaningful conclusion.

This form of research enables us to explore new areas for investigation.

### **6.2 Research Sources:**

This research is based on the primary data, which was collected by the means of questionnaire and first hand interview. A standardized questionnaire was prepared to conduct this research focusing on the key parameters that describe the outlook and understanding of the young investors.

### **6.3 Target Population:**

Earning, in-job, Indian individuals (from Shimla, H.P) belonging to the age group 18 to 35.

### **6.4 Sampling Method:**

To conduct this research Non Probabilistic sampling strategy was followed where techniques like:-

- Convenience Sampling
- Snowball Sampling &
- Quota Sampling

were applied to fulfill the research objective.

### **6.5 Sample Size:**

A sample size of 120 individuals was considered for this research, out of which 107 individuals responded to the questionnaire. Of all the available results, 100 responses were found to be usable for the research purpose. Based on the population of Shimla, (Summerhill), economic constraints and available time this sample size was selected.

### **6.6 Tools used for data analysis:**

To draw meaningful conclusion, quantitative and analytical tools like **Simple Percentage Method** along with **Chi square Test** were employed to test the hypothesis.

## **7. SURVEY FINDINGS:**

- Based on the analysis of the data, 77 % of the people agreed to the fact that it is important to save and invest depending on their income status; with 43% population considering 10 to 20% of their income for investment.
- Needless to say that everyone wants to have the best from both the worlds, i.e. capital appreciation with capital security, but when motivated to make only one choice people considered security of their deposited money over capital appreciation.
- 87% of the respondents knew about traditional tool of investment i.e. Fixed Deposits.

Apart from that a combined average of 56.5% people knew about Mutual Funds and Stock market industry. Though having heard about them doesn't guarantee their knowledge about the same.

Finally Government Bonds were the least known tool of investment for the respondent with corresponding familiarity of 43%.

- In order to make sure whether the respondents really knew about these investment tools or not they were asked to rank the investment tools in the ascending order of risk and return that these tools yield.

Surprisingly the percentage dropped further from 56.5% to only 36%, who gave the correct answer; thereby giving a clear indication, that the young investors were not fully versed, with the different kinds of investment tools.

- When asked to rank themselves, 57% people accepted themselves to be completely **naïve** in investment and 23% reported to have knowledge in bits and pieces about the industry. On the other hand there were only 6 people out of 100 who were well aware of various investment tools.
- The data further depicted that 58% people still considered traditional investment options like gold, real estate, FDs and RDs better than the modern investment approach.
- In order to get the clear idea of how many people actually invested in MF and stock market, more questions were put forward and the results were definitely above expectation. Since 31 people out of 100 were investing in MF and stock market, contrary to previous studies that depicted, in India only 3 people out of 100 invested in these sectors, (based on a survey published back in 2008).
- There is no hidden fact that Mutual funds and share market investment can yield much higher returns, still 69 our young investors out of 100 were somewhat reluctant to invest in these tools. When analyzed further, **Lack of Knowledge** was regarded as the key factor behind it, voted by 65 out of 69 people, closely followed by **Risk Associated** and **Dependence on broker for investment** voted by 63/69 and 58/69 people correspondingly. 55/69 people also considered **Complexity of investment** another major reason for their disinterest in MF and stock market investment.
- Chi square test to confirm the hypothesis:-

**Table 1: Monthly Earnings of individuals and corresponding investment choices**

Monthly Earnings	MF & Stock Market Investors	MF & Stock Market Non Investors	Row Total
10k-20k	2	17	19
20k -30K	5	19	24
30k-40k	7	29	36

40k+	17	4	21
<b>Column Total</b>	<b>31</b>	<b>69</b>	<b>100</b>

**Table 2: Calculation of the expected values:-**

Monthly Earnings	MF & Stock Market Investors Expected value	MF & Stock Market Non Investors Expected Values	Row Total
10k-20k	$31 \times 19 / 100 = 5.89$	$69 \times 19 / 100 = 13.11$	19
20k -30K	$31 \times 24 / 100 = 7.44$	$69 \times 24 / 100 = 16.56$	24
30k-40k	$31 \times 36 / 100 = 11.16$	$69 \times 36 / 100 = 24.84$	36
40k+	$31 \times 21 / 100 = 6.51$	$69 \times 21 / 100 = 14.49$	21
<b>Column Total</b>	<b>31</b>	<b>69</b>	<b>100</b>

### Chi Square Test

- **Degree of Freedom for the test,  $df = (\text{number of rows} - 1) * (\text{number of columns} - 1)$**   
 $= (4 - 1) * (2 - 1)$   
 $= 3$
- **The Level of Significance, alpha ( $\alpha$ ) for the test is considered at 10% with value .1**

#### 1) Computation:-

**Table 3: Chi<sup>2</sup> Table**

Monthly Earnings	MF & Stock Market Investors (O-E)	MF & Stock Market Non Investors (O-E)	Investors (O-E) <sup>2</sup> /E	Non Investors (O-E) <sup>2</sup> /E
10k-20k	-3.89	3.89	15.13/5.89	15.13/13.11
20k -30K	-2.44	2.44	5.95/7.44	5.95/16.56
30k-40k	-4.16	4.16	17.30/11.16	17.30/24.84
40k+	10.49	-10.49	110.04/6.51	110.04/14.49

$$\begin{aligned} \text{Therefore Chi square} &= \frac{(\text{Observed frequency} - \text{Expected Frequency})^2}{\text{Expected Frequency}} \\ &= 2.569 + 0.8 + 1.551 + 16.903 + 1.154 + 0.36 + 0.697 + 7.594 \\ &= 31.628 \end{aligned}$$

For degree of freedom = 3

And level of significance = 0.10

From the  $\chi^2$  table we find the P value for the experiment that shows the result is significant at  $p < 0.10$

Since there is a huge difference between the observed value and the table value, we can say that the result is indeed significant.

- Hence the **Alternate Hypothesis** was accepted concluding that there is enough evidence to claim that income level of the investors influence their stock market and mutual funds investment decisions.
- Apart from this, based on the direct comparative analysis, it can be said that the Budding Indian Investor has a wide investment perspective; as 31% of the sampled population was already investing in mutual funds and stock market which is almost 10 times greater than the estimated percentage of 1.5 to 3% considered in 2018.
- This clearly shows that those who belong to the age group of 18 to 35 are willing to learn more about the science of investment and hopefully improve the overall equity investment percentage in the country. Therefore **Null Hypothesis** was rejected and **Alternate hypothesis** was accepted for this case.

## 8. LIMITATIONS OF THE RESEARCH:

Complete care was taken to accomplish the research in the best way possible with focus to avoid all sorts of errors. But still this research has certain limitation.

These are:-

- The sample taken for the research was based on Non Probabilistic sampling
- Convenience sampling was used to carry out the research
- The research was based on the opinions of only 100 people
- No Co-relational analysis was done for this research

## 9. CONCLUSION:

Mutual Funds have emerged in term of flexibility, variety, diversification, liquidity and benefits of tax, at the same time stock markets have been providing immense opportunity for growth to the investors.

For a developing country like India, it becomes really important for its citizens to take part in its development process. This can be achieved by making economic growth ourselves and by funding the ventures that have the similar thought process behind it. Investment not only helps an individual secure his future profits but also helps the institutions that can further use your money to generate greater economic output. Investment opportunity can be accessed by the Stock Market and Mutual fund Investors that would otherwise be engaged to them due to inadequate

resources and knowledge. Especially Mutual funds can help to solve the problem of extreme brain storming which is required to select the best possible shares. In India, the Equity Investment industry is growing rapidly and is dealing with greater volume of funds every year. From the analysis I found, though the investors are interested in equity investment, still they are not fully confident regarding their investment in mutual funds and stock market as they find it difficult to handle the investment process by themselves and either rely on their family members or employ a stock broker for managing their investment. For all those who still don't invest in equity, lack of knowledge and risk associated with stock market and mutual funds stands as the prime reason. Most of the investors prefer security of their money over its potential for appreciation. Fixed Deposits still remains the most preferred investment tools for the investors, as they believe it is secure and even the returns are fixed. Mutual fund is link with share market and the budding investors can definitely start of their investment journey with them. There is no denying that there are lots of uncertainties in the share market and even the risk associated with equities is high, but careful analysis and good knowledge can shield the investors for sure. Expecting a common man to become Stock Market Connoisseur is not realistic but having basic knowledge about investment and investment tools is very necessary for each and every person. Since there is a large dispersion based on the income status of the respondents and their corresponding investment habits in MF and stock market, we can say that along with imparting the knowledge of subjects like Mathematics and Science, Investment should also be taught and encouraged amongst the students, so that even they can develop the habit of saving and investing early in their lives. Today investment does not require the commitment of huge amount of funds, even something as small as Rupees 100 per month can be made a part of your systematic investment plan. The magic of investment lies in compounding; hence one must start investing early in his life. In order to make our budding investors more informed techniques of personal finance should also be taught along with corporate finance in colleges and universities. Finally organization of various investor training programs should also be encouraged by the government. The growth of a nation directly depends on the growth of its citizens; our financial growth will not only help us but will also make our country financially stable and hence will provide better financial opportunities in the years coming ahead.

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