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# A Study on Investment Behavior of Middle Class Households in Indore

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## **Abstract**

*Policy makers in India find tremendous untapped investment potential among middle class households. Investment refers to sacrificing a certain value in the present for a future uncertain reward. In the present scenario of economic prosperity, Indian middle class has emerged as one of active investors having surplus income at their disposal. They are aware of the various benefits of investment such as tax savings or precaution against any uncertainty and improving future standard of living. Depending on their needs and risk taking capabilities, they select various investment assets. The present study aims at exploring the investment behavior of middle class households in Indore to reflect the influence of demographic profiles on investment behavior. Data are collected on the basis of self structured questionnaire and processed to find the difference in choice of investment instruments by different age groups and gender of the middle class households in Indore. This study can be helpful to the investors, marketers, financial planners and government.*

**Key words:** *untapped potential, middle class, investment, income, financial planners.*

## **Introduction**

In modern economy, individuals make some investments during his/her life span in various assets such as stock, real estate or through participation in employee saving programs, pension plans, purchase of life insurance policies etc. Each investment instrument has some specific characteristics and a rational individual has to consider these characteristics while taking any investment decision. Investment is purchase of a financial/ real asset with an expectation of favorable future returns in future. An investment may be long term or short term depending upon the duration of the investment. An investment decision is a tradeoff between risks and returns. It is a continuous and a rational process, yet some people are not always rational in investment decisions for reasons such as

lack of information/ knowledge about various financial instruments. Also, individuals have different risk perceptions and appetite for risks. Age factor of the individual influences the choice of investment assets. All investments are made on the basis of future needs for income, expected yield from income in the context of future uncertainty and whether or not the asset can be easily converted into cash in case of needs.

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Various investment opportunities are available in the market for an individual to choose one which suits his/her needs. There are different types of opportunities provided by many financial institutions like commercial banks, co-operative banks, post office savings banks, life insurance corporation public limited company. Other investment assets are mutual funds, real estate, gold, debt instruments, investment in stock markets and commodity markets. This study attempts to find out how demographic variable like gender and age influence individual investment decisions.

### Literature Review

Men are inclined to feel more competent than women in financial matters (Prince, 1993). The research indicates that people living in the same society and having same income level are different in their investment behavior depending upon gender and age factors viz. people with different ages and genders have different levels of risk perceptions. Apart from risk perception, various factors influence the investor's risk taking attitude and their influence are different on different age groups and genders.

Thus, demographic factors contribute to the level of risk tolerance in investments decision making (Mishra & Dash, 2010). In their study, Estes and Hosseini, (1988) found that female investors had lower confidence in their investment decisions even when other factors and expected income of the different investors were the same. Women's investment had historically been lower than those of men for several reasons including Social and various demographic concerns. However, the difference continued to be significant even after controlling for individual characteristics (Schmidt & Sevak, 2006). In making any Investment Decision, Risk Aversion and Financial Literacy were major factors.

Factors influencing the investor's behavior have different intensity. A study using five factors self-image or firm-image, accounting information, neutral information, advocate recommendation and personal financial needs, finds that all these variables affect the investor's decision makings but with different intensity. Among these, accounting information highly influences investor's behavior while the advocate's recommendations have the least effect on investors decision making (Gnani, Ganesh & Santhi, 2012)

In their study, Lewellen et.al., (1977) observed that men spent more time and money on security analysis, relied less on their brokers, made more transactions, believed that returns were more likely to be predictable and the anticipated higher possible returns than women did. Chevalier and Ellison, (1997) and Ding and Wermers, (2004) provided evidence that fund performance was positively correlated with the education and experience levels of the fund manager.

### Scope and Design of the Study

The study is exploratory in nature and focuses basically on primary data for analysing the general perception of middle class households in the selection of various investment instruments classified on the basis of age and gender influences. The sample constituted of 100 respondents belonging to the middle class both male and female in the age group of both below 35 years and above 35 and have made certain years of investments. The term middle class applies to those having an earning between Rs. 90,000 to Rs. 10,00,000 (NCAER- Business Standard 2005). Respondents were selected through non-probability convenience sampling method from selected from the city of Indore.

The questionnaire consisted of 20 statements measuring perceptions of respondents on factors affecting their investment decision. Reliability test was conducted to measure the consistency of the scale. Reliability of the measures was assessed with the use of Cronbach's Alpha. Cronbach's alpha reliability estimates are used to measure the internal consistency of the scales (Nunnally, 1978). As a general rule a coefficient greater than or equal to 0.7 is considered acceptable and is a good indicator of reliability. The Cronbach's Alpha for the questionnaire is 0.733 (Table 1). Hence, it is reliable and can be used for analysis. Also data collected were subjected to Kaiser- Meyer-Olkin (KMO) to check the appropriateness of sample adequacy. Generally, KMO measure is an index used to evaluate the sample adequacy of a factor analysis. A high value (between .5 & 1.0) indicates that factor analysis is adequate in terms of sample (Malhotra, 2009). Value of KMO measure of sample adequacy in case of present research is 0.612 which signifies the purpose of adequacy.

The survey explored factors like security, additional benefits, professional advice, simple procedure and service quality that affect the investment decision of majority of investors. Later on, the perception of investors towards the explored factors affecting selection of investment assets on the basis of age group and gender were tested. All items were measured by responses on a five-point scale in agreement/ relevance with statements, ranging from 1= Strongly Disagree/ Completely Irrelevant to 5= Strongly Agree/ Completely Relevant. Data were analyzed using independent sample *t*-test to examine whether the mean difference in the response rate of male and female and on the basis of age groups for various factors explored is statistically significant or not.

### Objectives

- To identify the objectives of investment in various assets by the middle class households
- To analyze the perceptions of respondents on the basis of gender and age group towards factors affecting selection of various investment assets.

### Hypothesis

H<sub>01</sub>: There is no significant difference between male and female respondents in their perceptions of security variable of selection of investment assets.

H<sub>02</sub>: There is no significant difference between the perceptions of male and female respondents on additional benefits variable of selection of investment assets.

H<sub>03</sub>: There is no significant difference between male and female respondents in their perceptions of professional advice variable for selection of investment assets.

H<sub>04</sub>: There is no significant difference between male and female respondents in their

perceptions of simple procedure variable of selection of investment assets.

H<sub>05</sub>: There is no significant difference between male and female respondents in their perceptions of service quality variable of selection of investment assets.

H<sub>06</sub>: There is no significant difference in the perceptions of security variable for selection of investment assets among different age groups.

H<sub>07</sub>: There is no significant difference in the perceptions of additional benefits variable for selection of investment assets among different age groups.

H<sub>08</sub>: There is no significant difference in the perceptions of professional advice variable for selection of investment assets among different age groups.

H<sub>09</sub>: There is no significant difference in the perceptions of simple procedure variable for selection of investment assets among different age groups.

H<sub>10</sub>: There is no significant difference in the perceptions of service quality variable for selection of investment assets among different age groups.

### Results and Discussion

H<sub>01</sub>: There is no significant difference between male and female respondents in their perceptions of security variable of selection of investment assets.

**Table - 1**

| Gender | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|--------|----|-------|----------------|-------|-----------------|
| Male   | 59 | 2.796 | 1.028          | 0.016 | Not             |
| Female | 41 | 2.669 | 0.793          |       | Accepted        |

Mean perception score of male respondents is 2.796 and female respondents is 2.669. The impact of gender towards the perception of security variable is statistically significant as ( $P = 0.016 < 0.05$ ). Therefore the null hypothesis H01 is not accepted. i.e. There is significant difference between male and female

respondents in their perception of security variable of selection of investment assets.

H<sub>02</sub>: There is no significant difference between male and female respondents in their perceptions of additional benefits variable of selection of investment assets.

**Table - 2**

| Gender | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|--------|----|-------|----------------|-------|-----------------|
| Male   | 59 | 2.684 | 0.859          | 0.670 | Accepted        |
| Female | 41 | 2.486 | 0.878          |       |                 |

Mean perception score of male respondents is 2.684 and female respondents is 2.486. The impact of gender towards the perception of additional benefits variable is statistically not significant as ( $P = 0.670 > 0.05$ ). Therefore, the null hypothesis H02 is accepted. i.e. There is no significant difference between male and female respondents in their perceptions of

additional benefits variable of selection of investment assets.

H<sub>03</sub>: There is no significant difference between male and female respondents in their perceptions of professional advice variable of selection of investment assets.

**Table - 3**

| Gender | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|--------|----|-------|----------------|-------|-----------------|
| Male   | 59 | 2.894 | 0.969          | 0.484 | Accepted        |
| Female | 41 | 2.397 | 0.906          |       |                 |

Mean perception score of male respondents is 2.894 and female respondents is 2.397. The impact of gender towards the perception of professional advice variable is statistically not significant as ( $P = 0.484 > 0.05$ ). Therefore, the null hypothesis H03 is accepted. i.e. There is no significant difference between male and female respondents in their perceptions of

professional advice variable of selection of investment assets.

H<sub>04</sub>: There is no significant difference between male and female respondents in their perceptions of simple procedure variable of selection of investment assets.

**Table - 4**

| Gender | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|--------|----|-------|----------------|-------|-----------------|
| Male   | 59 | 3.443 | 1.070          | 0.821 | Accepted        |
| Female | 41 | 3.507 | 1.121          |       |                 |

Mean perception score of male respondents is 3.443 and female respondents is 3.507. The impact of gender towards the perception of simple procedure variable is statistically not significant as ( $P = 0.821 > 0.05$ ). Therefore, the null hypothesis H04 is accepted. i.e. There is no significant difference between male

and female respondents in their perceptions of simple procedure variable of selection of investment assets.

$H_{05}$ : There is no significant difference between male and female respondents in their perceptions of service quality variable of selection of investment assets.

**Table - 5**

| Gender | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|--------|----|-------|----------------|-------|-----------------|
| Male   | 59 | 2.017 | 1.840          | 0.227 | Accepted        |
| Female | 41 | 1.894 | 0.690          |       |                 |

Mean perception score of male respondents is 2.017 and female respondents is 1.894. The impact of gender towards the perception of service quality variable is statistically not significant as ( $P = 0.227 > 0.05$ ). Therefore, the null hypothesis H05 is accepted. i.e. There is no significant difference between male

and female respondents in their perception of service quality variable of selection of investment assets.

$H_{06}$ : There is no significant difference in the perception of security variable for selection of investment assets among different age groups.

**Table - 6**

| Age Groups     | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|----------------|----|-------|----------------|-------|-----------------|
| Below 35 Years | 62 | 2.426 | 1.840          | 0.161 | Accepted        |
| Above 35 Years | 38 | 2.325 | 0.690          |       |                 |

Mean perception score of respondents in the age group of below 35 years is 2.426 and of the respondents in the age group of above 35 years is 2.325. The impact of age towards the perceptions of security variable is statistically not significant as ( $P = 0.161 > 0.05$ ). Therefore, the null hypothesis H06 is accepted. i.e. There is no significant

difference in the perception of security variable for selection of investment assets among different age groups.

H<sub>07</sub>: There is no significant difference in the perception of additional benefits variable for selection of investment assets among different age groups.

**Table - 7**

| Age Groups     | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|----------------|----|-------|----------------|-------|-----------------|
| Below 35 Years | 62 | 2.635 | 0.8052         | 0.542 | Accepted        |
| Above 35 Years | 38 | 2.613 | 0.8533         |       |                 |

Mean perception score of respondents in the age group of below 35 years is 2.635 and of the respondents in the age group of above 35 years is 2.613. The impact of age towards the perceptions of additional benefits variable is statistically not significant as ( $P = 0.542 > 0.05$ ). Therefore, the null hypothesis H07 is accepted i.e. there is no significant difference

in the perception of additional benefits variable for selection of investment assets among different age groups.

H<sub>08</sub>: There is no significant difference in the perception of professional advice variable for selection of investment assets among different age groups.

**Table - 8**

| Age Groups     | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|----------------|----|-------|----------------|-------|-----------------|
| Below 35 Years | 62 | 2.668 | 1.1024         | 0.001 | Not Accepted    |
| Above 35 Years | 38 | 2.221 | 0.7012         |       |                 |

Mean perception score of respondents in the age group of below 35 years is 2.668 and of the respondents in the age group of above 35 years is 2.221. The impact of age towards the perceptions of professional advice variable is statistically significant as ( $P = 0.001 < 0.05$ ). Therefore, the null hypothesis H08 is not accepted. i.e. There is significant

difference in the perceptions of professional advice variable for selection of investment assets among different age groups.

H<sub>09</sub>: There is no significant difference in the perceptions of simple procedure variable for selection of investment assets among different age groups.

**Table - 9**

| Age Groups     | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|----------------|----|-------|----------------|-------|-----------------|
| Below 35 Years | 62 | 3.512 | 1.0260         | 0.110 | Not Accepted    |
| Above 35 Years | 38 | 3.126 | 1.152          |       |                 |

Mean perception score of respondents in the age group of below 35 years is 3.512 and of the respondents in the age group of above 35 years is 3.126. The impact of age towards the perception of simple procedure variable is statistically not significant as ( $P = 0.110 > 0.05$ ). Therefore, the null hypothesis H09 is accepted. i.e. There is no significant

difference on the basis of age groups towards the perception of simple procedure variable for selection of investment assets.

H<sub>10</sub>: There is no significant difference in the perception of service quality variable for selection of investment assets among different age groups.

**Table - 10**

| Age Groups     | N  | Mean  | Std. Deviation | Sig.  | Null Hypothesis |
|----------------|----|-------|----------------|-------|-----------------|
| Below 35 Years | 62 | 1.806 | 0.6912         | 0.518 | Accepted        |
| Above 35 Years | 38 | 2.030 | 0.6503         |       |                 |



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Mean perception score of respondents in the age group of below 35 years is 1.806 and of the respondents in the age group of above 35 years is 2.030. The impact of age towards the perception of service quality variable is statistically not significant as ( $P = 0.518 > 0.05$ ). Therefore, the null hypothesis H10 is accepted. I.e. there is no significant difference in the perception of service quality variable for selection of investment assets among different age groups.

### Conclusion and Implication

Modern investors are mature and knowledgeable and the investment market is flooded with various investment options. Individual investors prefer to invest according to their risk preference. Risk averse investors prefer to invest in secure investments like bank deposits, life insurance policies and post office deposits. Majority of them seek diversified information from their reference groups before taking any investment decision. Factors influencing asset choice were identified by the preliminary study and then were tested on the basis of demographic variable like gender and age. Results of the study show that there are significant differences on the basis of gender towards the perception of security variable in selecting investment assets. There is no significant difference towards the perception of variables like additional benefits, professional advice, simple procedure and service quality on the basis of gender.

The perception of professional advice variable for selection of investment assets were observed to be significantly different among age groups while there is no significant difference on the perceptions of variables like security, additional benefits, simple procedure and service quality on the basis of age groups.

The study is useful for investors as their financial planning is based on their the selection of investment assets. Investors seek information on available investment assets. Their preferences are influenced by awareness and information regarding factors and features of various investment instruments. The financial advisors can suggest investment assets that best fit their clients choice and to some extent they

can influence their client's perceptions on investment assets. Finally, the government has the power and responsibilities to modify rules according to needs and choices of the customers thus infusing a momentum in the market efficiency.

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