Mathematical Statistician and Engineering Applications
ISSN: 2326-9865
DOI: https://doi.org/10.17762/msea.v70i1.2149

Factors Affecting Investment Decision Among Indians

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Article Info
Page Number: 91-100
Publication Issue:
Vol. 70 No. 1 (2021)

Article History
Article Received:12 January 2021
Revised: 25 February 2021
Accepted: 20 April 2021

Abstract: Sector-specific study of investment decision-making variables aids several stakeholders in comprehending investors' behavior. After considering important factors such primary safety, availability of funds, reliability of returns, flexibility of ownership, etc., investors are prepared to put their money to work. But, the tastes and actions of each investor will determine which of these elements they prioritize. This research contributes significantly to the functioning of investing behavior.

Keywords investment alternatives, Investment Decision, Income, Financial

Introduction

A person's disposable income often goes toward two primary goals: spending and conserving. There are two types of savings: liquid savings held by the individual, and investment. To "save" is to put aside funds for future use. There are several options for storing wealth, including but not limited to: bank accounts, retirement plans, investment portfolios, and hard currency. In a nutshell, savings represent income that is set aside rather than squandered. People invest their savings in order to increase their financial standing. The definition of investment is the use of money with the expectation of a future gain. A modern investor may choose from a wide variety of investment opportunities, or "investment channels," or "financial goods." The term "financial products" refers to the many different investment opportunities provided by banks and other financial organizations.

When it comes to managing money and preparing for the future, nothing is more important than making smart investing decisions. Making a good investment decision requires researching available options and picking the one with the best return. The economy, market movements, and an individual's own circumstances are just a few of the external and internal factors that might affect investment decisions. The health of the economy is a major consideration for business owners when deciding where to put their money. Stocks, bonds, and real estate are just few of the investment vehicles whose returns may be impacted by the economy. When the economy is doing well, businesses are making money, and investors are feeling optimistic, therefore stock values go up. If firms struggle to produce a profit and investors become wary, however, stock values may decline during economic downturns.

Literature Review

Dr. Suruchi Sharma et.al (2021) An investment decision is a choice to put money into a variety of financial instruments with the hope of increasing returns or wealth growth. A prudent investor weighs potential financial returns against the benefits to society, culture, and the environment before making any investment. The research will continue to look at how different

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variables affect investment choices made by individual investors in Uttarakhand. As part of a qualitative research technique utilized to evaluate the choice of equity investment made by retail investors in Uttarakhand, six exploratory questions were provided to analyze people's views throughout the decision-making process. Data were collected using semi-structured interviews. Twenty-five minutes or so were set up for each interviewee. The city of Dehradun was the site of ten separate interviews. Findings suggest that convenience and ethics, rather than cold hard numbers, are what drive people's financial choices. They make investment decisions heavily influenced by psychological biases and often use their own experience to work through challenging situations. Investors have confidence in the state's economy and population because of a number of things.

S. Meena et.al (2020) Everyday investors, regardless of their financial resources, have access to the expertise of fund managers via mutual funds, allowing anyone to take part in the Indian capital market. Assets under administration of different fund firms have increased, reflecting the rising popularity of mutual funds in India. If you're looking for a safer investment choice, mutual funds may be a better fit for you than buying individual equities. This study will examine the preferences of institutional investors for investing in mutual funds and the variables that influence such preferences. The reasons that discourage consumers from purchasing mutual funds are another focus of this investigation. With these results, mutual fund firms may better target their advertising and prioritize regions in need of attention. Because of this, mutual fund firms will be better able to develop cutting-edge products in line with the preferences of their clientele.

Lingesiya Kengatharan (2019) This research endeavors to better understand the socioeconomic backgrounds of Sri Lankan Stock Market investors and the variables that impact their investing choices. The study covers individual investors from all five districts in Sri Lanka's Northern Region, and its data were gathered using a self-administered questionnaire employing a simple sampling approach. The gathered data was analyzed using an independent t-test, an ANOVA, and the appropriate post hoc tests. The stock's past performance, the company's stability and goodwill, the company's reputation in the industry, the dividend paid, and the projected corporate earnings and dividend were found to have the most influence on investors' decisions among the eight factors. Results also showed that the views of the firm's majority shareholders, the availability of borrowing money, the necessity for diversification, the views of friends and coworkers, the views of the governing body, and Investment decisions were least impacted by social class. There was a statistically significant relationship established between individual investors' investment decisions and factors including age, gender, marital status, educational attainment, and monthly income. Investors, practitioners, and policymakers may all benefit from the study's theoretical contribution and its practical consequences.

Varun Sagar Singa et.al (2018) No of the size of the investment, mutual funds allow ordinary people to take advantage of the benefits of a professionally managed investment portfolio. It makes it much simpler for regular people to start trading on the Indian stock exchange. The increase in total assets under managed by India's numerous asset management companies is indicative of the sector's fast expansion. As compared to the stock market, investing in mutual

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DOI: https://doi.org/10.17762/msea.v70i1.2149

funds is a safer bet. The financial markets attract risk-averse investors because of the low levels of risk, modest rewards, and expert management. This study will investigate the influence of behavioral elements on an investor's investing choice with respect to mutual funds. The variables that discourage consumers from buying into mutual funds are another focus of this investigation. The results may be used by mutual fund firms to hone their advertising and pinpoint problem areas. Using this information, mutual fund firms may tailor their product development to meet the needs of their investor base. The way investors see things has a big effect on their investing choices. Several factors, such as the investor's level of expertise and the impact of the fund's inception date, significantly affect the investing selections of a retail investor.

Sivaramakrishnan et al., 2017 looked at how things like financial literacy affect how people invest their money, especially in the stock market. Quantitative survey research followed qualitative interviews in a mixed-methods study. Experts and investors were interviewed at length. Analysis was performed on answers from 506 retail investors in four Indian cities. The results of the research demonstrated that investing intentions were predictive of actual stock market investments. Although it was shown that both self-reported and objective levels of financial literacy influenced intentions significantly, only the latter seemed to have an impact on actual behavior. The factors of "perception of regulation," "risk avoidance," and "burden factor" were combined to form a second-order concept termed "Attitude to Investing Behaviour." This had a chilling effect on people's plans to put money into the stock market. There was a favorable correlation between financial stability and behavior, but it had a negative influence on planning.

Investment Options Available In India

- **Direct Equity**

Stocks are a risky asset type whose returns are not guaranteed, therefore they may not be appealing to all investors. However, Picking the right stock is challenging, but it's much more to know when to enter and exit the market. The one bright spot is that, relative to other asset classes, equities has historically provided returns that are greater after accounting for inflation. But, without using a stop-loss strategy, you run the chance of losing a large amount of money. Stop-loss trading involves submitting a future sell order for a security at a predetermined price. Diversifying across industries and market caps may help mitigate some of the danger. Presently, one may expect a return on the market of roughly 13% for a period of one year, 8% for three years, and 12.5% for five years. A demat account is required for direct equity investments.

- **Equity Mutual Funds**

Equity mutual funds often put their money into equities of other companies. According to the current Securities and Exchange Board of India (Sebi) Mutual Fund Regulations, at least 65% of an equity mutual fund scheme’s asset must be invested in equities and equity-related instruments. The management style of an equity fund may either be active or passive.

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The success of an actively managed fund relies on the skills of the fund manager. Exchange-traded funds and index funds that are passively managed track the underlying index (ETFs). Market size and investment sector are two popular ways to categorize equity schemes. They may be broken down further according to whether they are local (dealing only with Indian company stocks) or global investors (investing in stocks of overseas companies). The current 1-year, 3-year, and 5-year market returns are around 15%, 15%, and 20%, respectively.

- **Debt Mutual Funds**

Investors seeking reliability of return might choose debt funds. They are safer than equities funds since they are less likely to experience large swings in value. Debt mutual funds invest primarily in bonds issued by corporations and governments as well as other money market instruments such as treasury bills, commercial paper, and short-term notes. Current returns on the market over one year, three years, and five years average 6.5%, 8%, and 7.5%, respectively.

- **National Pension System (NPS)**

The Pension Fund Regulation and Development Authority oversees the National Pension System (NPS), an investment product with an emphasis on retirement savings (PFRDA). Tier-1 NPS accounts now need a minimum yearly (April-March) payment of Rs 1,000 rather than the previous Rs 6,000. Equity, term deposits, corporate bonds, liquid funds, and government funds are all part of the diversified portfolio. Your NPS allocation to equity investments is completely up to you and your comfort level with risk. Fund option E currently has a 1-year market return of around 9.5%, a 3-year market return of about 8.5%, and a 5-year market return of about 11%.

- **Public Provident Fund**

Many individuals use the PPF to save for their future. In the latter years of the PPF's 15-year duration, the compounding impact of tax-free interest becomes more important. Moreover, both the interest and principal are insured by the government, making this a risk-free investment.

Table 1: PPF INTEREST RATE 2012-2019

Financial Year	Interest Rate
2013-14	8.80%
2014-15	8.70%
2015-16	8.70%
2016-17	8.70%
2017-18	8.10%
2018-19	7.60%
2019-20	7.60%

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- **Bank Fixed Deposit (FD)**

In India, you may put your money to good use with a fixed deposit (FD) with a bank. Each bank depositor has up to Rs 1 lakh in principle and interest protected under the provisions of the Deposit Insurance and Credit Guarantee Corporation (DICGC). Interest on them might be paid monthly, quarterly, semiannually, annually, or accumulated. The interest income is added to the taxpayer's total taxable income and taxed accordingly.

- **Senior Citizen's Saving Scheme (SCSS)**

The Senior Citizens' Saving Scheme (SCSS) is an essential addition to the investing portfolios of most retirees. Seniors and early retirees are the intended target demographic for this investment opportunity. Anybody over the age of 60 may apply for SCSS at any participating post office or bank. The initial term of SCSS is five years, with an additional three-year extension possible after the program has reached full maturity. SCSS now offers an interest rate of 8.3 percent per year, payable weekly, and subject to full taxation. It is possible to register several accounts and invest up to Rs 15 lakh.

- **RBI Taxable Bonds**

The old 8% Savings (Taxable) Bonds from 2003 have been retired and replaced with the new 7.75% Savings (Taxable) Bonds. The maturity date for these bonds is seven years from now. Bonds may be issued in demat form, with ownership recorded in the purchaser's Bond Ledger Account (BLA) and evidence of ownership provided in the form of a Certificate of Holding.

- **Real Estate**

Your primary residence should always be used for your own needs and never for financial gain. If you don't intend to make your second house your primary residence, it might be a good investment.

If you want to know what your property is worth and how much rent you can charge, the answer lies in its location. Rental income and capital appreciation both contribute to the profitability of real estate investments. Yet, real estate is very illiquid compared to other asset types. The arrival of the real estate regulator has also mitigated a significant risk associated with obtaining the required regulatory clearances. Among the many possible real estate investments are:

- Real estate
- Residential Property
- Commercial Property
- Agriculture Land
- Gold

The risks and costs associated with owning gold in the form of jewelry are unique. Making costs, which may add another 6-14% to the price of gold, are another factor. Anyone interested

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in purchasing gold coins may still do so. Ingeniously produced coins are also for sale. Gold exchange-traded funds (ETFs) provide a cheaper alternative to physical gold ownership. Gold is used in these transactions (buying and selling) as the underlying asset on the stock market (NSE or BSE).

- **Post Office Schemes**

Post office plans are a good option for those seeking for a short-term investing strategy. The monthly income plan offered by the Indian Postal Service is among the finest of its kind. It's a great investment opportunity with really little downside. Payments are made monthly at an annual rate of 8.5%. Many Postal Service Plans are:

- Monthy Income Scheme (MIS)
- Senior Citizens Savings Scheme (SrCSS)
- Term Deposits
- Recurring Deposits
- Sukanya Samriddhi Savings Deposit Scheme
- Public Provident Fund (PPF)
- Kisan Vikas Patra (KVP)
- National Savings Certificate (NSC)
- Initial Public Offerings (IPO)

Initial public offerings are used by startups to solicit investors for capital before they are officially traded on stock markets. Investors are enticed by low entry costs to seek out companies where they believe the stock price will grow following listing.

- **Unit Linked Insurance Plans (ULIP)**

Investments in bonds and stocks may be made via a Unit Linked Insurance Plan, which also provides insurance coverage. Your premium is split between a life insurance policy and an investment portfolio comprised of stocks and bonds that you choose. There is an element of danger with this choice, as there is with every investment. Net Asset Value (NAV) is used to quantify the changes (NAV).

Factors Affecting Investment Decisions

Nowadays, banks and Internet Investment businesses provide a diverse range of investment opportunities for new investors. Whether we choose to make our own investing selections or to work with a professional, there are a number of considerations to keep in mind while deciding on which investments to include in our portfolio.

- **Interest rates**

Investment is financed by a combination of internal savings and external borrowing. Investment decisions are thus heavily influenced by interest rates. Borrowing money is a costly endeavor when interest rates are high. When interest rates are high, the rate of return on bank deposits increases. The interest payments you forego while investing are known as the "opportunity cost.

Table 2: Interest Rate

Interest rate	Quantity of Investment
5%	80
2%	100

Evaluation

According to the marginal efficiency of capital, an investment's rate of return must be greater than the interest rate for it to be profitable. A minimum rate of return of 5% is required for an investment project if interest rates are 5%. If interest rates rise, fewer investment opportunities will be profitable. If interest rates on loans were reduced, more potential investment projects would be feasible.

- **Economic Growth**

Businesses spend money in preparation for future growth in customer demand. As demand drops, companies reduce spending. If the economy shows signs of improvement, companies are likely to ramp up investment in anticipation of a surge in demand. Investment seems to be cyclical, according to data. Investment levels drop during a recession and then rise again when the economy improves.

Investment, according to the accelerator hypothesis, is sensitive to the tempo of economic expansion. In other words, as the economy improves, investment expenditure will rise along with it. This is because a higher growth rate indicates that the economy is doing better. Investment, according to the accelerator hypothesis, follows the business cycle.

- **Confidence**

Saving is less risky than investing. Only when businesses are positive about their cost structure, demand, and economic outlook can they make investments. Keynes believed that businessmen's "animal spirits" were a major factor in investing decisions. Keynes observed irrational assurance often accompanied confidence. Growth and interest rates are important factors in determining consumer confidence, but the overall economic and political atmosphere also plays a role. Uncertainty about the future might limit or even stop business investment.

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- **Inflation**

Inflation is a potential threat to long-term investment gains. Because inflation is both high and volatile, it hinders one's ability to plan ahead financially. If companies have doubts about the sustainability of the economy and the effects of inflation, they may be unwilling to make investments. Countries that have had low and stable inflation for an extended period of time tend to increase their investment levels.

- **Productivity of Capital**

The allure of a long-term investment might be affected by technological changes. Around the end of the nineteenth century, developments like Bessemer steel and enhanced steam engines gave businesses a compelling reason to invest in cutting-edge technology. If technical advancement stalls, businesses will spend less since their profits will decrease.

- **Availability of Finance**

As a result of the liquidity crisis that began in 2008, numerous financial institutions reduced their lending to customers. Investment loans from banks were very hard to come by. As a result, companies who wanted to invest were unable to do so despite historically low loan rates.

One such factor that might effect long-term investment is the ability to save money. If savings rates are high, more money might be directed toward investments. The more money people deposit in banks, the more money they can give out. A decrease in national savings reduces the quantity of money available for investment.

- **Government Policies**

Investing might be made more challenging by some government rules. Strict zoning regulations, for instance, might put off investors. Yet, government subsidies and tax cuts may encourage investment.

- **Investment Knowledge**

The level of expertise and experience of the investor is a critical consideration. While weighing their investment possibilities, no shady investor will consult their circle of friends and relatives. Investors with more expertise generally make their own choice on which possibilities to pursue.

Table 3: Factors Influencing Investment Decision Behavior

Factors	No. of Respondents	Percentage
Family member(s)	53	53
Friends/colleagues	15	15
Agents	12	12
Expert opinion	15	15
None	5	5
TOTAL	100	100

Source: Primary Data

Table 4: Descriptive Statistics

Mean	25
Standard Error	16.38597
Median	14
Standard Deviation	32.77194
Confidence Level (95.0%)	52.14747

According to Table 4, the most influential factor on investing behavior is/are family members (53%), followed by friends (15%) and experts (15%). Just 5% of those surveyed report having absolutely no impact on their financial choices.

Conclusion

The majority of investors (56%) invest once a year and check up on their portfolios infrequently. Family and friends are young people's most popular investing source, followed by financial advisers. Most respondents invest over a medium time frame (between one and five years) with the goal of earning a steady stream of income. The responders are quite sensitive to changes in the market. People's investing habits vary depending on factors such as their risk tolerance, their familiarity with available investment options, and so on.

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