



# Various Investment Avenues and Factors Affecting the Investment Pattern of Individuals

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## ABSTRACT

*People's investment choices impact their lives in terms of Long-Term capital gains as well as current liquidity positions. Gains on investments, whether of Capital or Revenue nature depends upon a plethora of factors which further affects the investment patterns of individuals. Investors in India are also biased towards some investment avenues like Gold and precious metals, Fixed Assets etc. Along with this, it is also equally significant to trace the rationales based upon which the investments are made. Various demographic variables also affect the investment behavior of the individuals, Occupation, Qualifications and Life Cycle Stage being some of the influential ones. This review paper enlists various investment avenues with a brief explanation to them and also analyzes various researches relevant to our study. An effort is made to include the contemporary environment and the new situations resulting from the pandemic and any probable outcomes of it on the investment behavior of individuals.*

## INTRODUCTION

*"I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."* — Warren Buffett,

In the preceding two years humanity witnessed something devastating times, loss of favorites, shattered dreams and financial crashes, followed by an unprecedented response by us. However this crisis threw up some opportunities for us as well. A shift in preferences can be clearly observed in our consumption behavior as well as our Savings and Investments habits. Not only the producer sector but the households in general also experienced displacements.

Volatility of situations transitioned the investing behaviors into emotional experiences. A Ubiquitous decline in the Personal Disposable Income ignited the urge in people to save and invest more than before. This made the "Analysis of the Savings and Investments Patterns" noteworthy.

Investments are substantial for individual for mainly two rationales, "financial Independence" and "Financial Security". Predominantly investments are perceived as a long term phenomena and are associated only with capital gains but, it can be short and medium term as well. Investments can either be in the nature of "Financial Products" like Stocks, Bonds etc. as well as "Non-Financial Products". Investments can be best perceived as the current sacrifice of the savings out of the Disposable Income of the individuals against the future benefits in face of either capital or revenue nature gains.

At the current juncture it is precise to classify the elements that can be included in "Investments". Primarily it includes commitment of residual or excess disposable income, for a future period of time, whether short term or long term. Such pledging of the funds would be against anticipation of adequate return. Adequate return implies an "Inducing Return", which is

characterized by a “Future Value” that should be greater than the “Present Value” of investments. To culminate Investments can be defined as a “Trade-off between current and the future consumption in synchronization to the investor’s “Risk Appetite”.

Tracing a pattern of the Investment Behavior is pertinent as it attracts populace with any surplus income, but in varied senses. Particularly for Indian investors, the demand from the industrial sector for the savings made by the Indian households against a lucrative return proves leveraging. High circulation of money in India makes the investments drill beneficial for all encompassing, Individual, Economy and Society. Through investments individuals seek to earn some additional income as a revenue profit as well as a capital profit in the form of growth in value of the investments.

In this review paper, an effort is made to contour the silhouette of the investments 'patterns among the Indian investors in various investment avenues, divergence observed in few investments options lately, varying interests in these based on traits like Demographic profile consisting of Age, Qualifications etc., Risk appetite, Income Level etc.

Investment patterns in different economies can depend upon a plethora of factors, but underlying factors being the availability of investment option, legal environment, effect on tax liability of individual etc. Furthermore the interest of investors in different investment avenues also bears an effect of the Demographic and personal profile which includes factors like, Age, Gender, Qualifications, Income Level, Personal risk perception, Risk tolerance, among others. Lately it has also been observed that some investment avenues promising a lucrative return profile have now been redundant in the context of the current scenarios, Real Estate being on the top of the list. Any research and review would be missing a fragment without tracing an impact of COVID-19, and the mutations caused by it. Investments also observed a few modifications attributable to a decreased personal income of the households, as well as loss in the demand for funds among the producer sector and industrialists.

## Various types of Investment Avenues

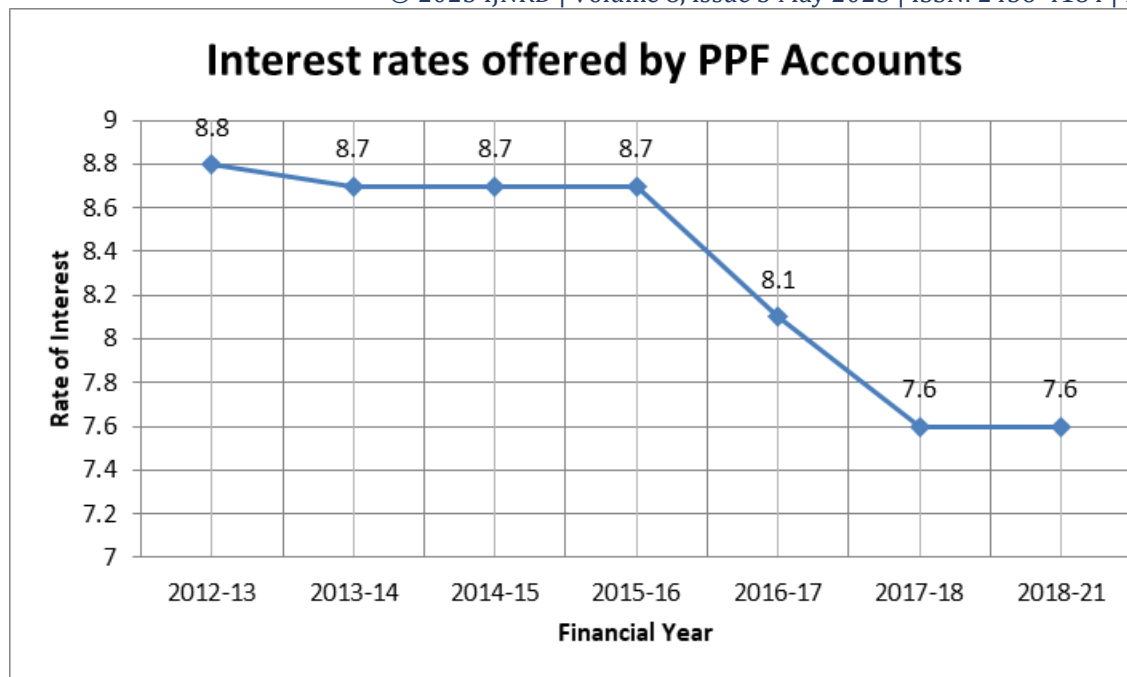
Forthwith, a discussion about various investment avenues available for Indian investors is appropriate. The avenues can be classified on various basis like term of investments and risk associated, which are also the primary considerations of an investor. Then secondary considerations would include, tax liability, type of investment, form of benefits among others.

### 1. ULIPs

Unit linked insurance plans investment based on insurance; such investments are tax-exempt upon maturity. Lock in period for such investments are 3 to 5 years depending upon the plan opted for. The premium paid by the investor would partly cover the insurance and the part would be invested in market linked investment instruments.

### 2. PPFs

Public provident funds are long-term and tax free investments; with a lock-in period of 15 years, and extension tenure of 5 years is offered as well. The benefits are relatively higher due to incidence of the compound interest on the accumulated money. Withdrawals are possible after 6 years. These are government backed securities against which loans can be raised as well.



### 3. Mutual Funds

These are the long term, investment options in which the pooled resources are then invested in the market linked investment options. Risk is relatively higher because of the volatility of the markets. Although there is an option of investment in Equity Mutual Funds and Debt Mutual Funds. These are exempt for the Wealth Tax.

### 4. BankFDs

These are the most popular investment options among the Indian households; these are fixed pay ventures with an investment period ranging between 7 to 10 years. Interest lies in class of 6.50% to 7%. This investment option is popular owing to the financial stability, low risk, and negligible market risk association.

### 5. NPS

NPS stands for “National Pension System”. It is a government backed pension solution, for post-retirement planning. Investments can be made in “Auto” and “Active” options. The investments made under it attain maturity when the investor attains the age of 60 years. It provides benefit of Tax-free, accumulated interest, as well as tax-free lump-sum. “Pre-maturity” return can be opted when the investor attains the age of 40 years.

### 6. Senior Citizen’s Savings Scheme

It is a risk-free and tax-saving investment, and provides returns in form of a regular income. An interest ranging 7.4% to 8.6% per annum is paid. The investments are made for a period of 5 years with an extendable 3 years period, ceiling investment amount is ₹15,00,000 (Fifteen Lakhs).

### 7. DirectEquity

It is a long term and high-risk investment option, which requires a meticulous analysis before making an investment decision. De-mat. Accounts are used for dealing in such investments. An average of following highest returns can be eared in such investments.

Number of years of investments	1	3	5
Rate of Return	8%	13%	12.5%

## 8. RealEstate

These are high-value tangible assets, which are generally appreciate in value with time. It is a constructive Portfolio-building tool which lowers the volatility of the investments against high-returns. It can be clubbed as other revenue nature returns like Rental income and loans.

## 9. RBIBonds

These are investments for a period of 7 years, offering an interest of 7.75% per annum. These are furnished in de-mat. Mode and accreditations are made in “bond Ledger A/c”. Issue price of such investments is ₹1,000, these can be cumulative and non-cumulative options, with no maximum limit of investments.

## 10. Post-Office monthly scheme

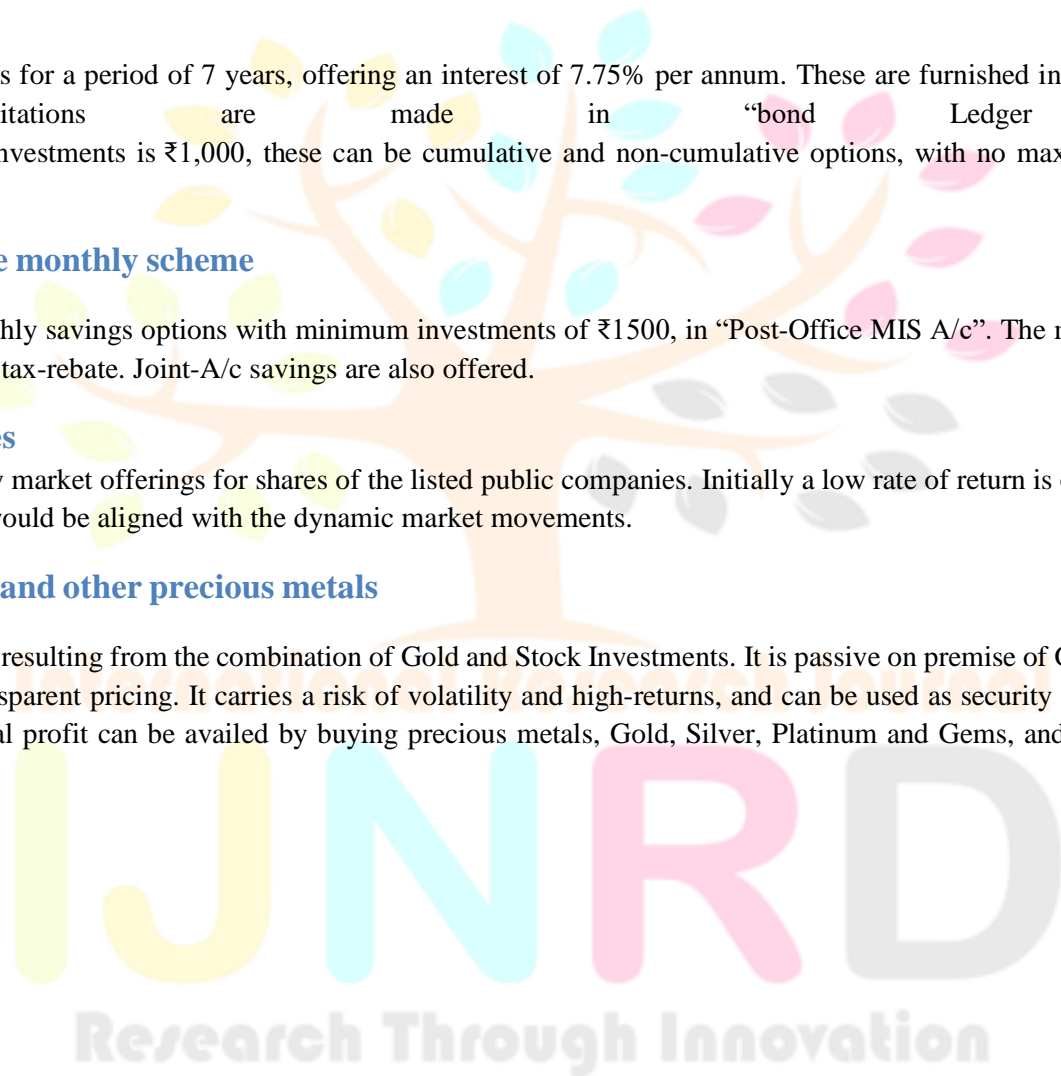
These are small monthly savings options with minimum investments of ₹1500, in “Post-Office MIS A/c”. The maturity period is of 5 years, with no tax-rebate. Joint-A/c savings are also offered.

## 11. IPO/Shares

These are the primary market offerings for shares of the listed public companies. Initially a low rate of return is observed, once listed, performance would be aligned with the dynamic market movements.

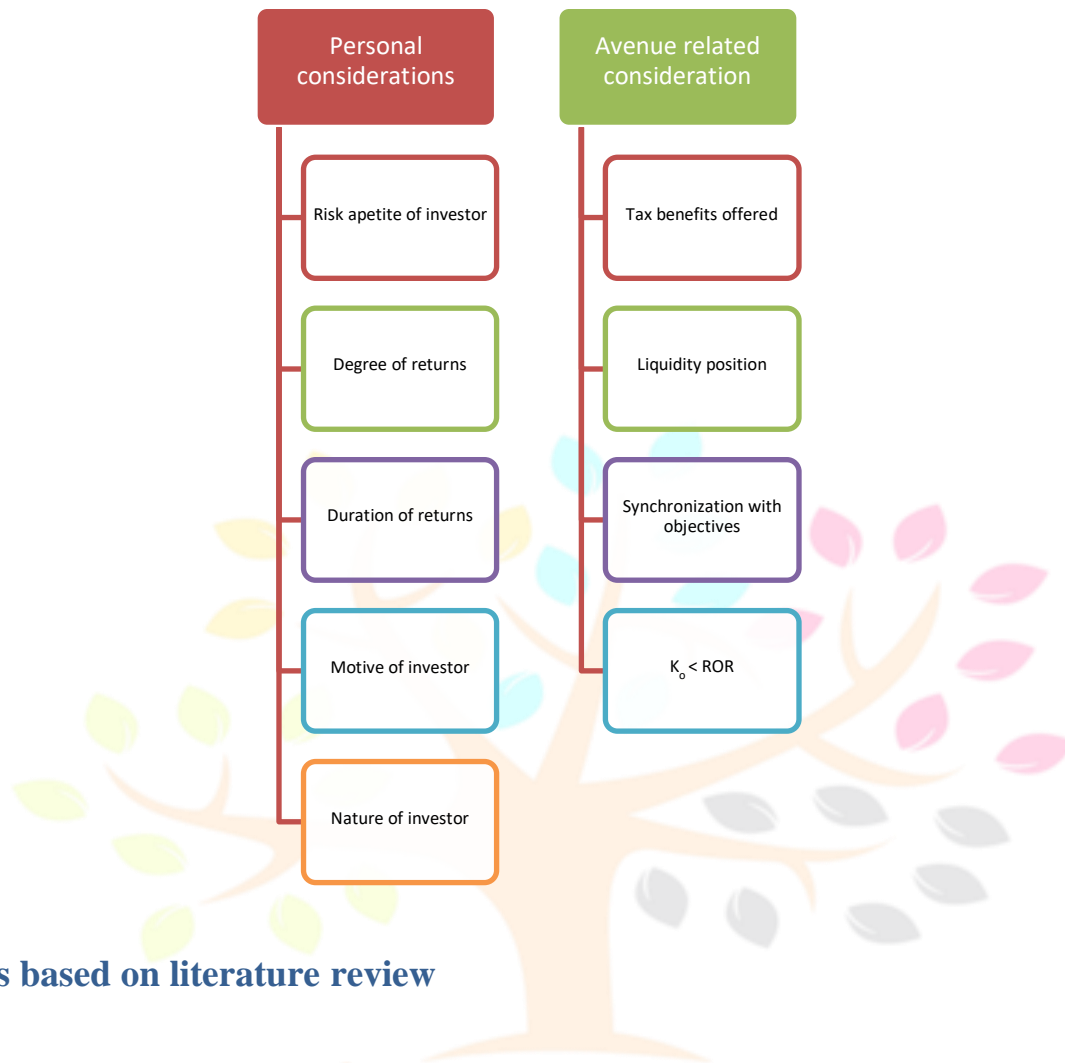
## 12. Gold ETF and other precious metals

Gold ETF is a hybrid resulting from the combination of Gold and Stock Investments. It is passive on premise of Gold and offers advantage of the transparent pricing. It carries a risk of volatility and high-returns, and can be used as security against loans. Other than this capital profit can be availed by buying precious metals, Gold, Silver, Platinum and Gems, and selling off on higher prices.





## Considerations while investing



## Observations based on literature review

1. Most preferred investment avenues are found to be Insurance, NSC, PPF and bank deposits, owing to the low risk involved and certainty of the returns on the principal invested.
2. Also, investors more than 50 years of age give preference to investing in low risk avenues like, insurance schemes, Post office savings, Public Provident Fund and Bank Deposits. Although they offer a little less returns but offers relatively high stability of the sum invested.
3. The most preferable investment avenue is found to be “Gold” in the form of precious metal.
4. Although Gold ETF is also tied to the prices of gold, the formalities and minimum lot buying requirements act as a factor declining interest.
5. The increasing prices, occupation, qualifications etc. does not affect the yearning of Indian investor as well as households. The multifold increase in the prices of gold has not affected the interest in investment in Gold.
6. The literature review did not conclude any concrete findings on the significance of the relationship between investment avenues and gender. Other factors like qualifications, income, and age group are significant and affect the investment decision.
7. Investors with private employments generally perform well in the investment avenues, as they take informed and analyzed decisions. Similar nature of correlation can be observed between investment decisions and qualifications of the investors.
8. Income level of the investors limits the investment avenues due to the minimum investment limits and lot sizes for some. The investors with relatively lower income are left with lower investible capital and hence are bound by a few investment options.

9. Individuals with lower incomes show keen interest in avenues with less risk and more security or returns as well as the capital invested. So, they opt for avenues like insurance, bank deposits, PPF, NSC etc.
10. Life cycle stage and occupation are also factors that have to be considered, investors in professional jobs tend to invest to assure a future stability in financial position, as well as a desire to invest so as to establish the future returns as a source of income.
11. Entrepreneurs project a greater risk-appetite, and hence show least interest in systematic investment plans like NSC, ULIP etc.
12. It is established as a general finding through that investors prefer long term investments, to attain a more secure futures either for themselves personally or for the next of the kin. The durations of 5 or more years is generally preferable, but long term investments like FDs and Provident fund are also quite popular among certain strata of investors.
13. Investor behavior when studied without any stratification of the investors, revealed interesting patterns which can be summed up as self-reliant, implying that the investment decisions are independent and without the influence of the suggestions and the leads given by the family, friends and relatives.
14. Also individual investors do not pay much attention to the more technical aspects like listing of the firm.

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