DISPARITY IN INVESTMENT BEHAVIOR OF URBAN AND RURAL INDIVIDUAL INVESTORS

Dr. Mital Bhayani[1], Dr. Priyanka Bobade [2], Dr. Vinod Malkar[3], Prof. Pooja Kawale[4]

[1]Associate Professor, MBA Department, Sanjivani College Engineering Kopargaon.

[2]Assistant Professor, MBA Department , D. Y. Patil Global Business School & Research Center, Pune.

[3]Professor and Head of the Department, Sanjivani College Engineering Kopargaon.

[4]Assistant Professor, Sanjivani College of Engineering Kopargaon.

ABSTRACT

Investment is one of the foremost concerns of every individual investor as their small savings of today are to meet the expenses of tomorrow. The study aims to make comparative analysis of investment behavior of urban and rural investors by conducting a survey in Nasik (Maharashtra, India). The investment behavior is compared with respect to current investment options, highest investment avenues, and preference given to various investment options with respect to liquidity, profitability, returns, risk and procedural understanding. The paper focus on preferences of individual investor's for various investment options available in India. The study used a structured questionnaire in which potential investors were asked for their reactions to some specific questions. It was found that there is significant difference in investment behavior of urban and rural individual investors. So the financial investment service providers can think of different products to cater the need of both urban and rural category investors. From the research point of view, such a study will help in developing and expanding knowledge in this field of personal finance and investment.

Keywords: Investment behavior, Investment options, Individual investors.

INTRODUCTION

All the individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, bullion etc. In each life cycle stage, every individual desires his hard earned money to be invested in most secure and liquid avenue. However, the decision varies for every individual depending on their risk taking ability and the purpose for which such investment is to be done.

Purpose of investment can be related with saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals. Investment behavior of an individual investor reveals how he/she wants to allocate the surplus financial resources to various instruments for investment available. The investment behavior consists of why they want to invest, how much of their disposable income they want to invest, for how many years/months they want to invest and most importantly the timing of such investment. In various empirical studies, it has been found that information being an important factor on taking decision to invest, which influences them on choice of investment and later on how they act after investment (Kasilingam & Jayabal, 2008). The study was conducted mainly to know find out difference in the individual investor's perception towards the deciding on the objective for which they save money for future. In every life cycle stage, saving objective by an individual always changes. Such a change occurs not only due to the age of the investors, but also due to the occupation and income level category, where they fall. Saving objective of household savers is always substantiated by the investment option they choose to attain those objectives.

LITERATURE REVIEW

Shanmugasundaram and Balakrishnan (2011), they conducted research to find the factors influencing the behavior of investors in capital market. They showed that demographic factors influence the investors' investment decisions. Horvarth and Zuckerman (1993), said that biological, demographic and socioeconomic characteristics, together with his/her psychological makeup affects one's risk tolerance level. Murithi Suriya, Narayanan and Arivazhagan (2012), in their study reveal that female investors dominate the investment market in India. According to their survey, majority of the investors are found to be considering two or more sources of information to make investment decisions. Most of the investors discuss with their family and friends before making an investment decision.

RESEARCH PROBLEM

"The aim of this research is to find out whether investment behavior varies with respect to place of residence (Urban and Rural)"

OBJECTIVES OF STUDIES

1. To Compare the investment behavior of individual investors in urban and rural region
2. To study find out current investment options of individual investors
3. To compare the preferences given to various investment option on the following parameters
   - Liquidity
   - Returns

- Risk
- Tax savings
- Procedural understanding

ANALYSIS AND INTERPRETATION OF DATA:

Table no. 1

Sr. No.	Income range	Urban	Rural
1	Less than 4,00,000	60	40
2	4,00,000 to 6,00,000	30	80
3	6,00,000 to 8,00,000	20	20
4	Above 8,00,000	90	60

Interpretation: 45% of the respondents in urban area are having income level above 8,00,000 followed by 30% having less than 4,00,000 and 40% of the respondents in rural area have income level between 4,00,000 to 6,00,000.

Q.2. Amount invested by respondents

Sr. No.	Amount Invested	Urban	Rural
1	Less than 50,000	60	50
2	50,000 to 1,00,00	30	50
3	1,00,000 to 1,50,000	20	40
4	More than 1,50,000	90	60

Interpretation: 45% of urban respondents invest more than 1,50, 000 Rs. annually and majority of the respondents in rural also invests more than 1,50,000. The percentage of less than 50,000 investments is 30 and 25 respectively for urban and rural area.

Q.3. Current investment options of the respondents (Can be more than one option)

Sr. no.	Investment Options	Urban		Rural	
		Score	Rank	Score	Rank
1	Fixed Deposits	17	2	19	1
2	Insurance	13	4	12	3
3	Post office savings/National saving certificate	9	5	9	4

| 4 | Gold/e-Gold | 16 | 3 | 19 | 1 |
5	Bonds	0	9	1	6
6	Public provident fund	11	5	3	5
7	Real estate	19	1	14	2
8	Mutual Funds	0	9	0	7
9	Shares	3	8	0	7
10	Commodities	0	9	0	7
11	Any other	6	7	0	7
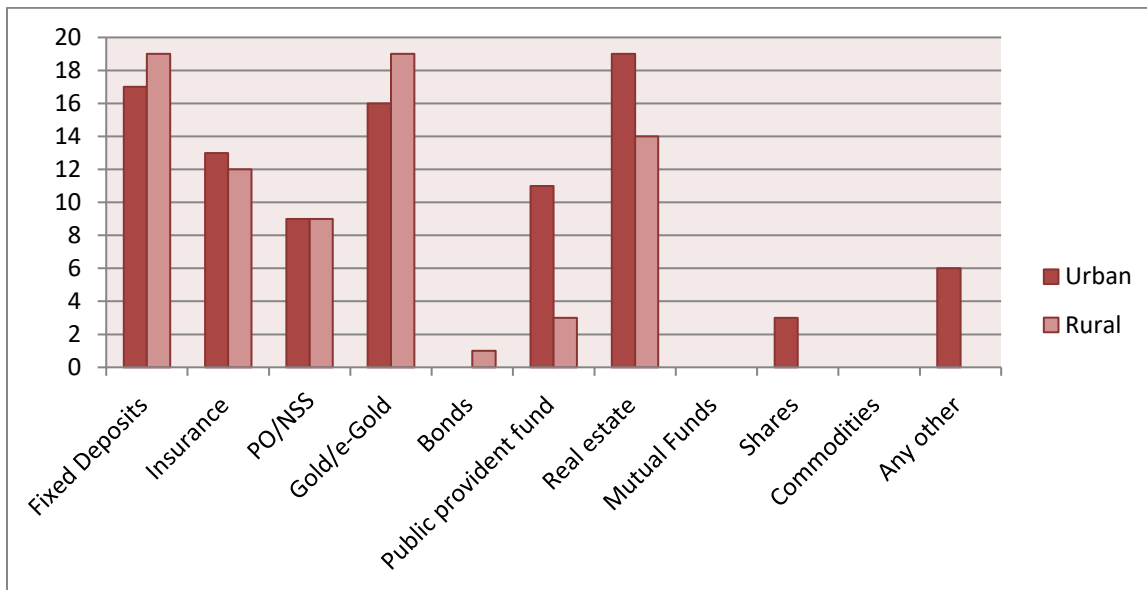
Interpretation: Urban respondents- Current investment option of majority of respondents is Real estate, the second most scored option is fixed deposit followed by gold, insurance, POS/NSC and PPF. Least scored option is shares.

Rural: Current investment option for most of the rural respondents is fixed deposit and gold followed by real estate. And None of them have preferred to invest in shares.

Q.4. Top 3 options where respondents have invested more (3=highest, 2=medium, and 1=lowest)

Sr. no.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
1	Fixed Deposits	47	1	31	3

| 2	Insurance	23	5	21	5
3	Post office savings/National saving certificate	17	6	12	6
4	Gold/e-Gold	36	4	45	2
5	Bonds	0	8	9	7
6	Public provident fund	38	3	24	4
7	Real estate	46	2	49	1
8	Mutual Funds	0	8	0	8
9	Shares	13	7	0	8
10	Commodities	0	8	0	8
11	Any other	0	8	0	8
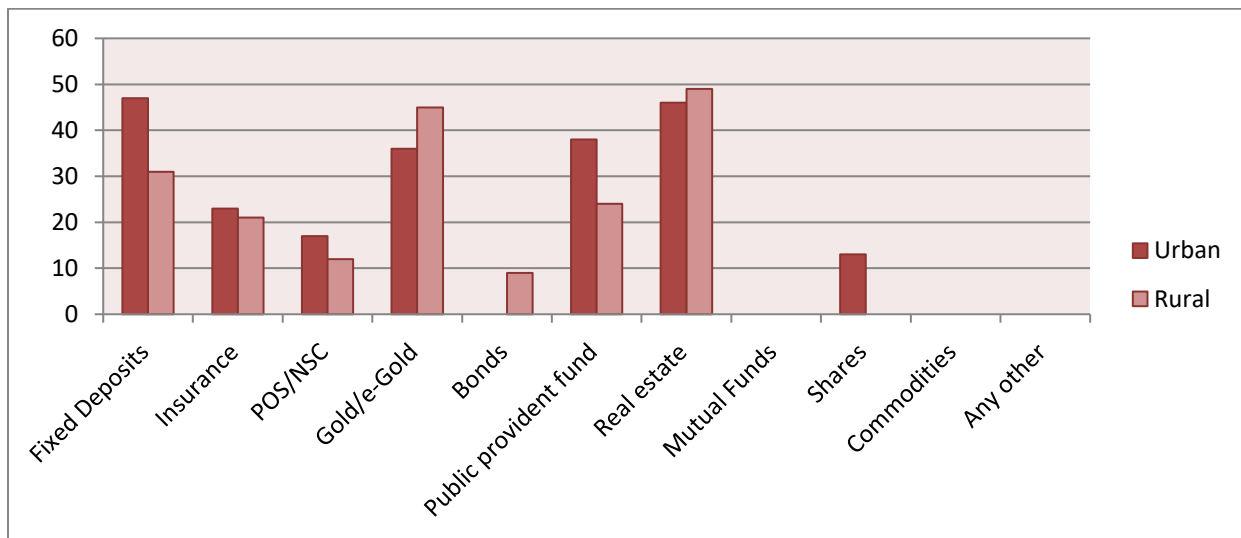
Interpretation: Urban respondents have invested highest amount in fixed deposit followed by real estate and PPF.

Rural respondents have invested most of their money in real estate followed by gold and fixed deposits.

Q.5. Preference of respondents for investment if their savings increases. (3= highest, 2= medium and 1 lowest)

| Sr. no.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
1	Fixed Deposits	36	4	46	1
2	Insurance	31	7	13	5
3	Post office savings/National saving certificate	27	8	10	6
4	Gold/e-Gold	56	1	39	2
5	Bonds	21	9	0	
6	Public provident fund	32	5	21	3
7	Real estate	49	2	46	1
8	Mutual Funds	33	6	2	6
9	Shares	47	3	16	4
10	Commodities	8	10	0	7
11	Any other	7	11	0	7
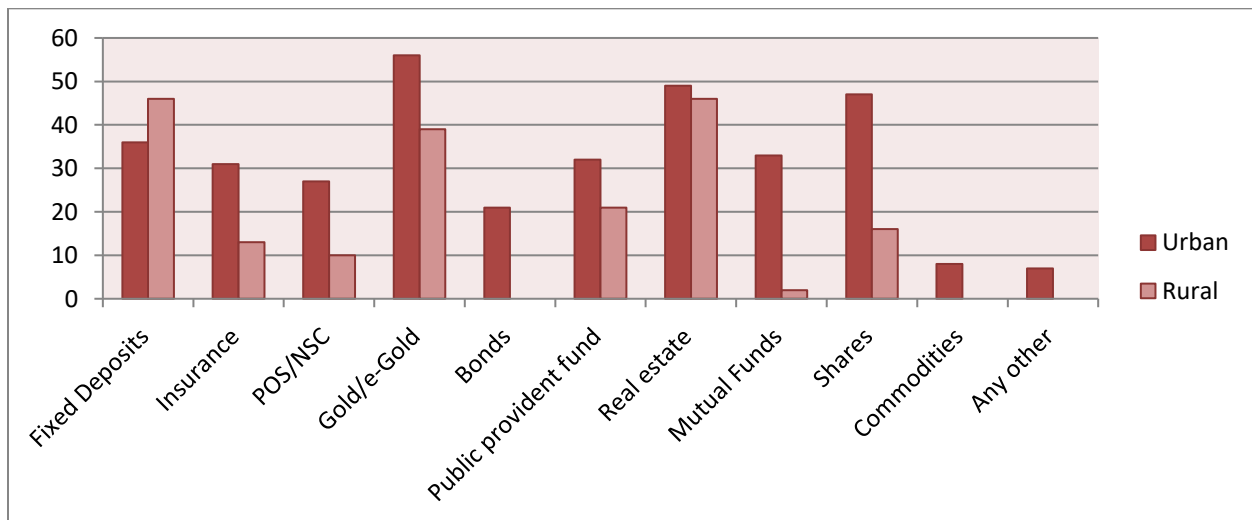
Interpretation: Urban respondents have given highest preference to gold, 2nd highest to real estate and 3rd preference to shares if their income increases.

Rural respondent's preference is fixed deposit, real estate and gold respectively if their income increases.

Q.6. Rating given by respondents to investment options on the basis of risk, returns, liquidity tax savings and procedural understanding.

Returns					
Sr. No.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
i)	Fixed Deposits	56	4	64	3
ii)	Insurance	28	10	52	5
iii)	Post office savings/National saving certificate	33	9	59	4
iv)	Gold/e-Gold	82	2	89	1
v)	Bonds	29	8	19	10
vi)	Public provident fund	45	5	24	9
vii)	Real estate	89	1	76	**2**
viii	Mutual Funds	41	7	35	7
ix)	Shares	78	3	46	6
x)	Commodities	47	6	33	8
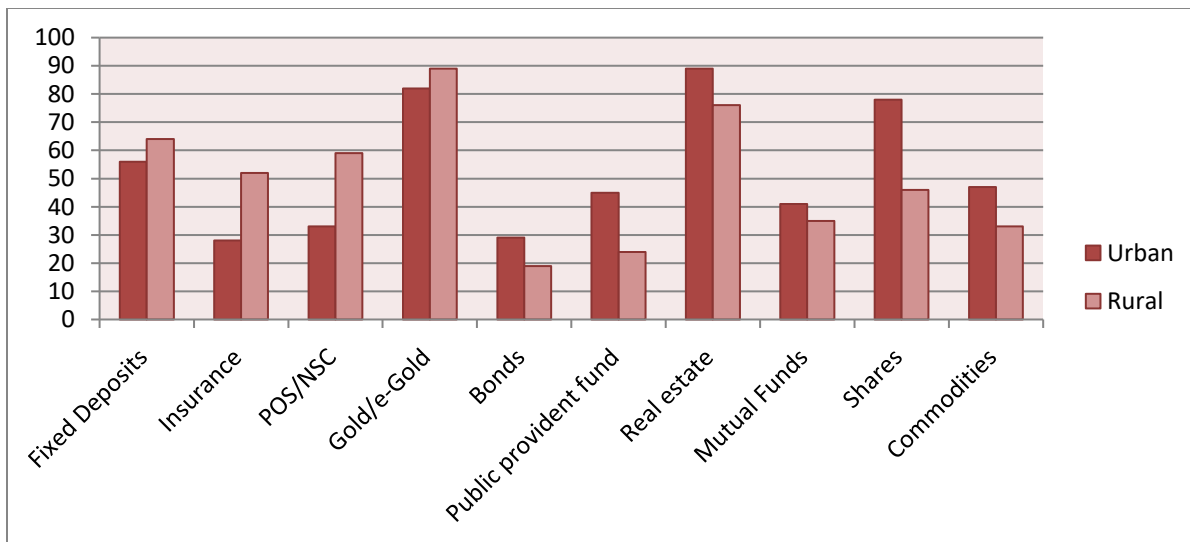
Interpretation: Urban respondents have given highest rating to real estate, followed by gold and shares on the basis of returns. And rural respondents have rated gold ,real estate and fixed deposit respectively in term of returns.

		Risk			
Sr. No.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
i)	Fixed Deposits	20	9	20	9
ii)	Insurance	36	7	29	7
iii)	Post office savings/National saving certificate	29	8	34	5
iv)	Gold/e-Gold	43	5	48	4
v)	Bonds	39	6	57	3
vi)	Public provident fund	45	4	34	5
vii)	Real estate	36	7	26	**8**
viii	Mutual Funds	61	2	65	2
ix)	Shares	78	1	76	1
x)	Commodities	47	3	33	6
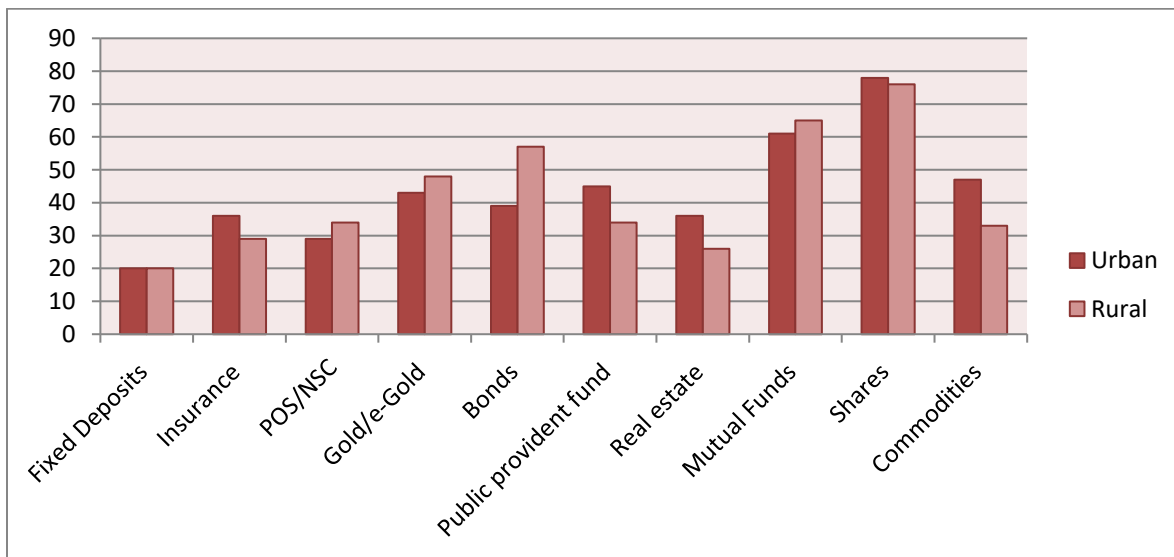
Interpretation: On the basis of risk urban respondents has ranked shares as having highest risk followed by mutual funds and commodities.
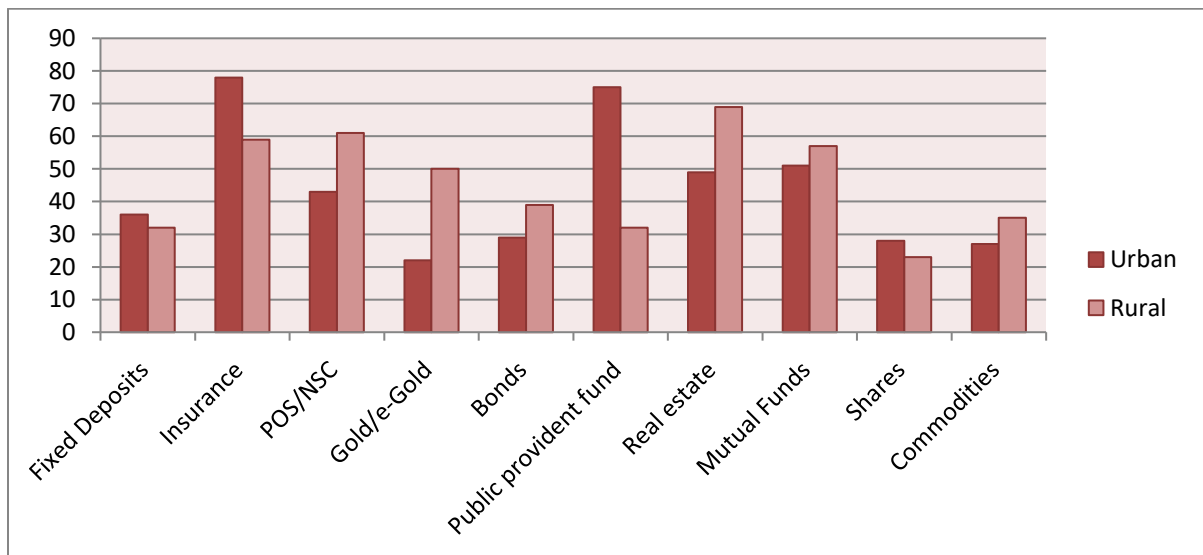
Rural respondents consider shares to be more risky followed by mutual funds and bonds.

| Liquidity					
Sr. No.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
i)	Fixed Deposits	28	10	44	4
ii)	Insurance	38	9	39	5
iii)	Post office savings/National saving certificate	42	6	31	7
iv)	Gold/e-Gold	86	1	76	1
v)	Bonds	72	3	58	3
vi)	Public provident fund	41	7	33	6
vii)	Real estate	39	8	29	**8**
viii	Mutual Funds	67	4	47	3
ix)	Shares	78	2	58	2
x)	Commodities	47	5	31	7
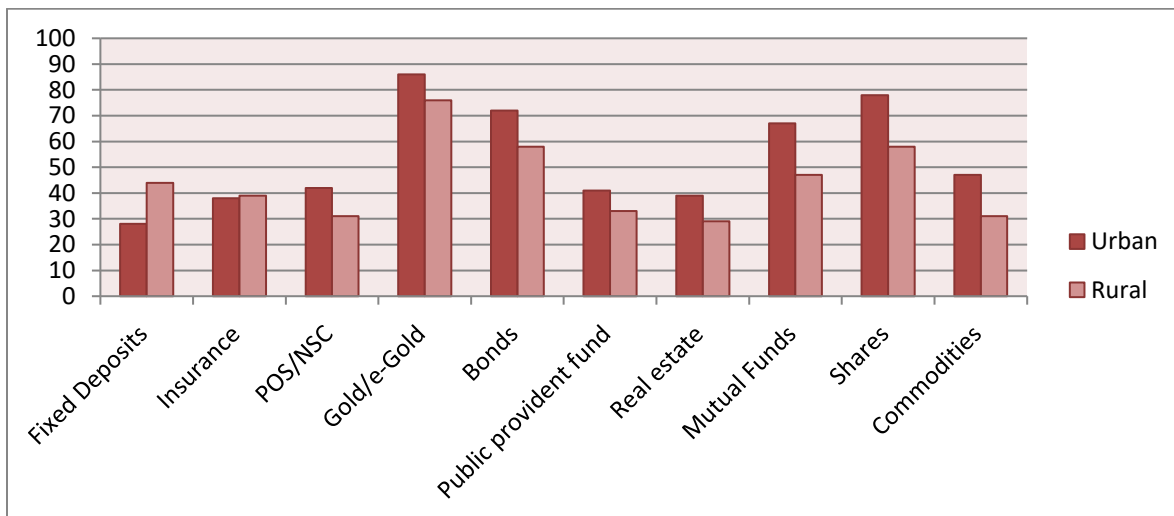
Interpretation: Urban respondents consider gold to highly liquid, followed by shares and bonds. According to rural respondents gold is having high liquidity followed by shares and mutual funds.

Tax savings					
Sr. No.	Investment Options	Urban		Rural	
		Scores	Rank	Scores	Rank
i)	Fixed Deposits	36	5	32	8
ii)	Insurance	78	1	59	3
iii)	Post office savings/National saving certificate	43	5	61	2
iv)	Gold/e-Gold	22	10	50	5
v)	Bonds	29	7	39	6
vi)	Public provident fund	75	2	32	9
vii)	Real estate	49	4	69	**1**
viii	Mutual Funds	51	3	57	4
ix)	Shares	28	8	23	10
x)	Commodities	27	9	35	7

Interpretation: Urban respondents consider insurance as highest tax saver, followed by PPF and mutual funds. Whereas real estate, NSC and insurance are rated high on tax saving criteria by rural respondents.

Procedural understanding					
Sr. No.	**Investment Options**	**Urban**		**Rural**	
		Scores	**Rank**	**Scores**	**Rank**
i)	Fixed Deposits	96	4	64	3
ii)	Insurance	68	10	52	5
iii)	Post office savings/National saving certificate	73	9	59	4
iv)	Gold/e-Gold	82	2	79	1
v)	Bonds	59	8	29	9
vi)	Public provident fund	65	5	24	10
vii)	Real estate	79	1	76	**2**
viii	Mutual Funds	41	7	35	8
ix)	Shares	38	3	46	6
x)	Commodities	27	6	43	7
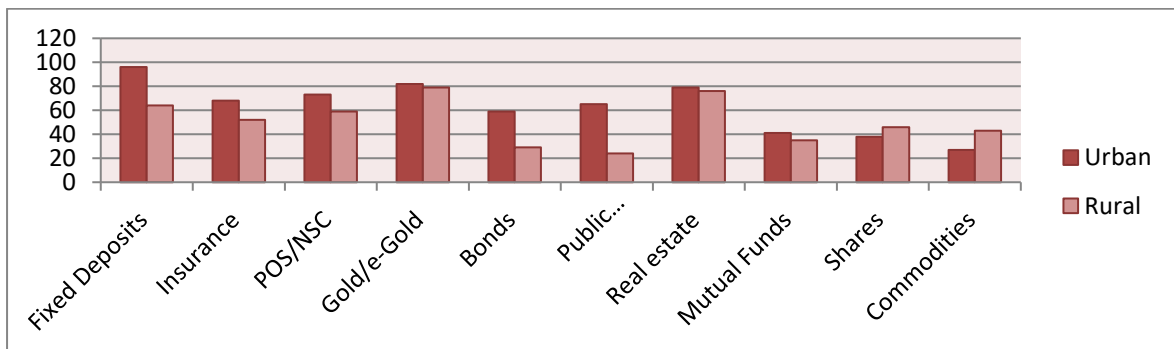
Interpretation: Both urban and rural respondents have rated real estate, gold and fixed deposit high on the basis of procedural understanding.

Findings and conclusion:

1. Majority of the respondents from urban and rural area invest more than 1,50,000 annually but none of them have invested in mutual funds
2. Majority of the respondents in urban prefer to invest for more than 5 years and in rural area for 1-5 years.
3. Urban respondents- Current investment option of majority of respondents is Real estate, the second most scored option is fixed deposit followed by gold, insurance, POS/NSC and PPF. Least scored option is shares. Current investment option for most of the rural

respondents is fixed deposit and gold followed by real estate. And None of them have preferred to invest in shares

4. In urban category majority of the amount is invested fixed deposit where as in rural category it is real estate

5.

Criteria	Urban		Rural	
	Highest	**Lowest**	**Highest**	**Lowest**
Returns	Real estate	Insurance	Gold	Bonds
Risk	Shares	FD	Shares	FD
Liquidity	Gold	FD	Gold	Real estate
Tax savings	Insurance	Gold	Real estate	Shares
Convenience	Real Estate	Insurance	Gold	PPF

Conclusion: It can be concluded that there is considerable difference observed in investment behavior of urban and rural investors, with respect to choice of investment, period of investment, and their perception on the returns, liquidity and tax savings of various investment options. All together Gold is considered as highest liquidity, and shared are considered as most risky options.

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