S. P. Mandali's

R. A. Podar College of Commerce and Economics

Celebrating 75 years of Excellence

OCTOBER, 2015

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P.J. FOUNDATION, BOMBAY STOCK EXCHANGE – INVESTORS' PROTECTION FUND

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INVESTMENT PATTERN OF YOUTH IN INDIA WITH PARTICULAR REFERENCE TO MUMBAI

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DECLARATION

This is to hereby declare that the Research project titled, **"Investment Pattern of Youth in India with Particular Reference to Mumbai"** is our own original work.

Due sources in the Research Project have been cited and acknowledged wherever necessary.

The information submitted is true and original to the best of our knowledge.

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October 2015,
Mumbai.

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Research Team

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Mumbai

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Executive Summary

A nation's productive capacity depends on a healthy capital formation. Robust savings rate coupled with good capital mobilization are the key macro economic variables, which play a significant role in economic growth. A nation's savings and investment propensities also play a key role in achieving dynamic stability in the capital market. Per Capita Income in India has been on the rise since all of the last decade. With growth in the PCI, savings and investment in the country too has shown a northbound movement. At the same time, there has been a phenomenal rise in the youth population. This has made India the youngest nation with a demographic dividend appearing to be a reality. This young work force is expected to drive the engine of growth.

In Economics, investment is generally held to mean formation of capital. As such, from a pure economics point of view, the formation of physical assets is important when considering investment. However this study focuses on what is referred to as Financial Investment i.e. investment in shares and securities aimed primarily at earning income rather than enhancing production. By virtue of this the words savings and investment come closer in meaning than traditionally seen. However a slight difference still remains which is that while savings is simply setting aside funds for future, investment also involves mobilizing them so that somebody else may use it for productive purposes.

This study examines the savings and investment pattern of select college going students (Age: 17-25 years) in the city of Mumbai who has just begun to earn. The study also looks into the basic financial literacy amongst the youth; how they go about educating themselves, and how do they look at risk, returns and various modes of investments and what determines the same. Primary data was collected using a survey method. The information generated during data collection was both qualitative and quantitative. The major objectives of the study were (1) To understand the youngsters' income and saving pattern. (2) To know their long-term financial goals. (3) To find out risk appetite of youngsters. (4) To find out whether the young investors are looking for long term growth or risk or return or liquidity.

The study finds that safety and security, which were always important reasons for investment, are still influential in determining the direction of investment. Respondents liked to keep multiple options while choosing their investment options. However, returns on investment

were obviously the most considered factor followed by risk. Saving accounts in banks appears to be the most common way of saving and investing for the respondents. Mutual fund has gained the favor of young investors. Investment in mutual funds through the Systematic Investment Plan (SIP) is a favored investment option for the youngsters. This is especially true of the young salaried class, which has just started earning and does not have a fat bank balance as yet. Youngsters today do know about the options available to them due to the rapid spread of information in recent times; they are not always sure about how to go about investing in newer ways actively.

An informed investor is a good investor; there is opportunity for providing them with guidance and information but it has to be done in a way that is in accordance with their lifestyle – seminars and workshops are no longer the kind of options to peruse. Podcasts, online videos, forums and tutorials are the way of learning of the young generation. The social media platforms specially Face Book, Twitter, LinkedIn along with e-groups and websites can be a medium to spread awareness about various options available for the young investors. Thus, investor education can play a vital role in improving the active participation of the investors in the market, which can help them in the informed investment and in getting good returns.

CHAPTER-1

INTRODUCTION

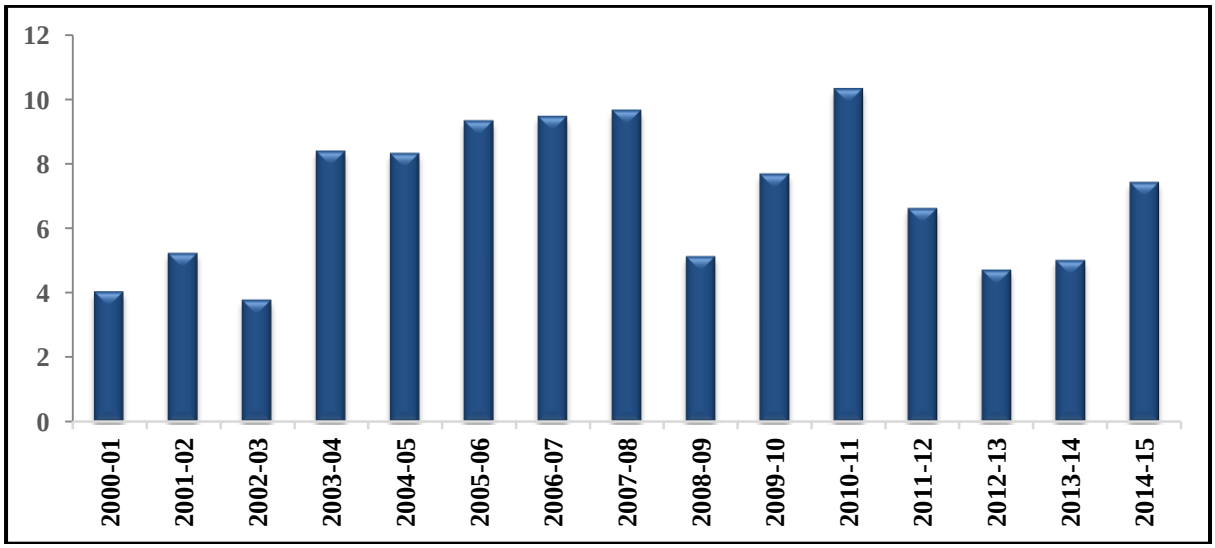
A nation's productive capacity depends on a healthy capital formation. Robust savings rate coupled with good capital mobilization are the key macro economic variables with micro foundations, which play a significant role in economic growth. Since the domestic saving rate is directly related to the investment rate and the lending capacity of the banking system, it is also an important indicator of economic development. A nation's savings and investment propensities also play a key role in achieving dynamic stability in the capital market.

1.1. Macroeconomic Trends of growth, saving and investment in India

Post-independence India under the Planning Commission has strived to achieve the goals of economic development by creating an environment of prosperity for its population. While the initial phase was more socialistic and set out to strengthen the base for the economy, the Hindu growth rate induced policy-makers to shift gear to a more market based approach and give a freer rein to the economy.

Since the "New Economic Policy", the country has witnessed a period of faster growth and an improvement in the well-being of the people as measured by the growth in the Gross Domestic Product (GDP) and Per Capita Income (PCI).

Figure 1.1.1: GDP growth rate (in percentage)

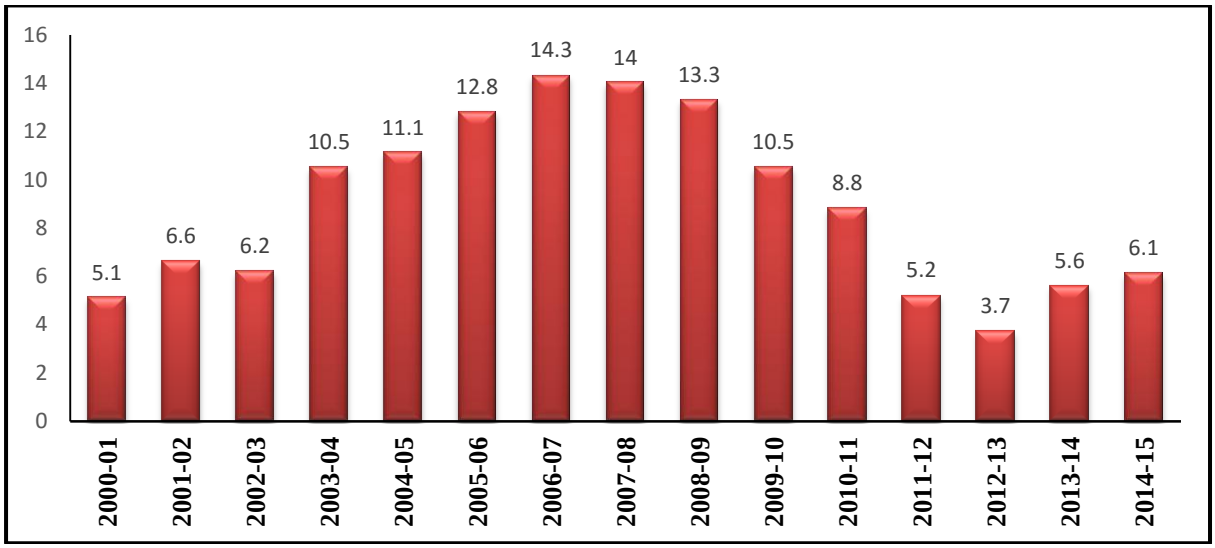


Source: Compiled from NCAER survey, 2011 and CSO data

With growth in the PCI, savings and investment in the country too showed a northbound movement. The savings and investment rates in India soared through the first decade of the 21st Century both peaking in 2007-08 before the financial crisis of 2009 started pulling them down.

As GDP grew faster than the population annually, there was a noticeable growth in per capita income in the same period. India was amongst the fastest growing economies in the World in the period 2003-08 topped only by China which was also experiencing a great growth spurt. India's momentum since 2003 and structure of international trade allowed it to maintain a modest growth of 5.12% even in 2008-09, the year of the sovereign debt crisis although it broke the three-year spree of growth rates above 9% and caused most macro-variables to take a dip.

Figure 1.1.2: Per Capita Income growth rate (in percentage)

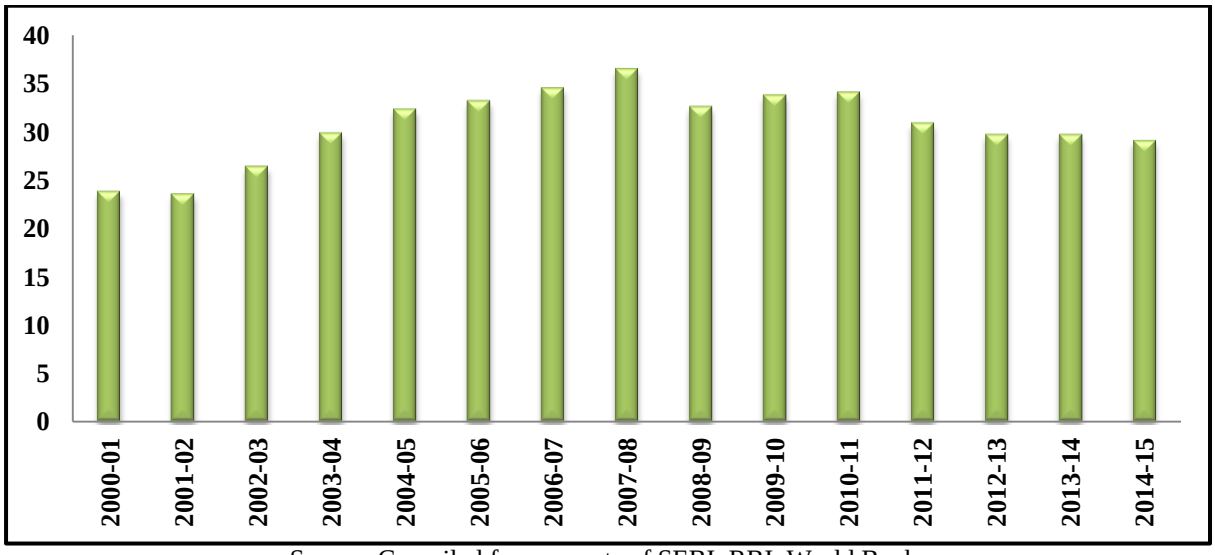


Source: Compiled from NCAER survey, 2011 and CSO data

India's PCI grew at a healthy rate throughout the period 2000-08. The growth slowed down after 2008-09 as a result of the crisis. The 2009 financial crisis had far reaching effects on every segment of the economy. The PCI growth rate fell drastically.

It has been observed that an increase in GDP and PCI is accompanied with an improvement in the rate of savings and investment.

Figure 1.1.3: Gross Domestic Savings as a fraction of GDP



Source: Compiled from reports of SEBI, RBI, World Bank

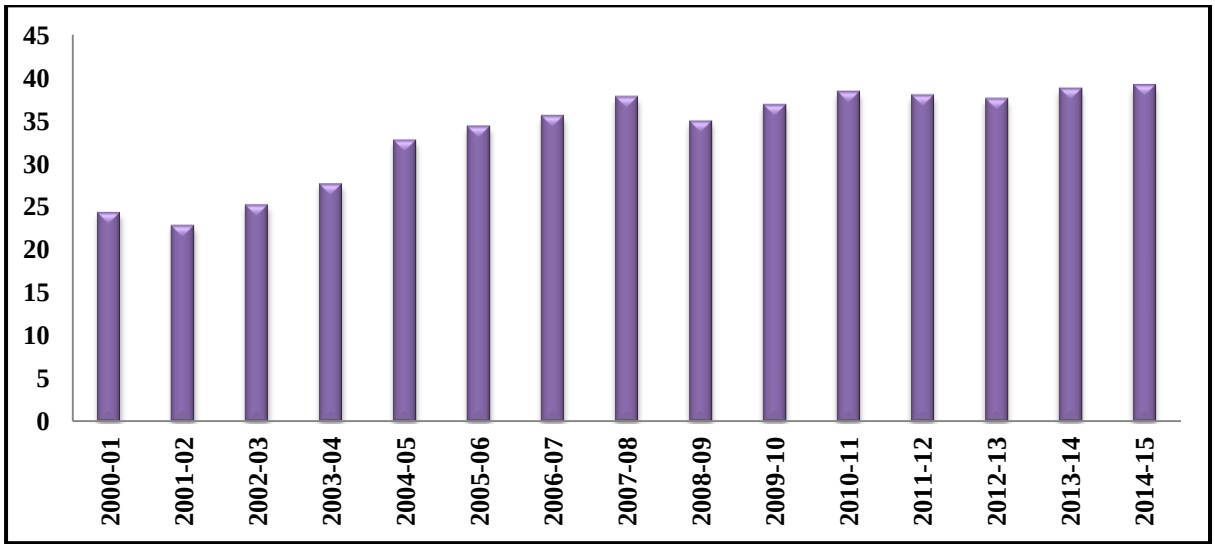
India has seen a general rise in the rate of savings over the last two decades. Gross Domestic Savings which stood at 24.2% in 1999-00 reached a peak 36.28% of GDP in 2007-08. This is not a surprising result as in developing nations, growth theory dictates that an increase in the rate of savings must bring about faster growth and improve per capita statistics. Besides, a general increasing trend in PCI leave people with more money at their disposal to save and invest than before and they would more willingly forego current consumption in order to have more tomorrow. Gross Domestic Savings have since then gradually declined to 30.5% of GDP in 2013-14. (Indian Macro-Economic Survey, Databook for Planning Commission, 22nd December, 2014).

Within savings, household sector contributes the most (more than 20% of GDP). There are two major components of savings, Financial Savings (Shares, Bonds, Bank Deposits, etc.) and Physical Savings (assets like House Property, Gold, etc.). The former is the more mobile of the two i.e. the latter, for obvious reasons, has less liquidity and is slower to mobilize. Across the years 2005-06 to 2007-08 financial savings were at par with or slightly higher than Physical Savings. But since 2008-09, the relative share of financial savings to physical savings has been falling consistently. Since 2009-10 the absolute value of financial savings also fell until 2011-12 and only saw a significant increase in 2012-13. In 2012-13, Household sector savings were at 22.06% of GDP of which financial savings comprised only 7.15% while their physical counterparts made up for the remaining 14.91%. This is an undesirable

trend as it lowers the mobility of such savings. To combat the same, the government has taken to measures such as a hike in Gold Import duty.

When savings are on the rise in an economy and the mobilization is efficient, it is reflected in the investments as Funds are made available through the banking system to those who invest. The following chart explains the trend in investment rates (as a % of GDP) in the same years as the savings data above:

Figure 1.1.4: Gross Domestic Investments as a percentage of GDP

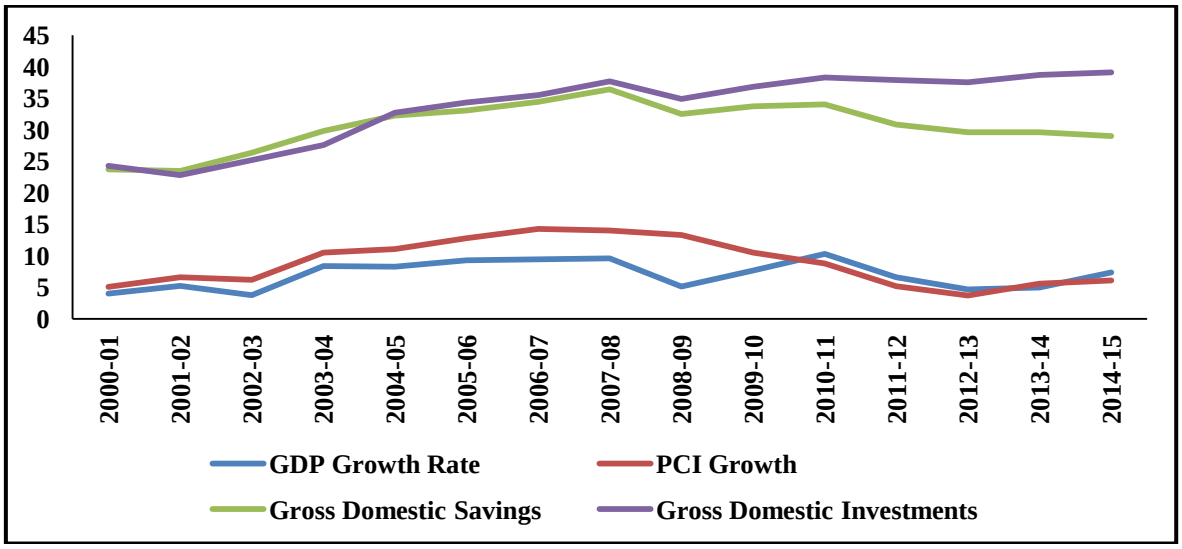


Source: CSO

The rate of investments in India has also shown a rise very closely related to that of Gross Domestic Savings similarly peaking in 2007-08 and then falling a bit in 2008-09 – the crisis years. A healthy rate of Investment is a good sign for any economy and this should herald opportunities for rapid growth for India combined with other Economic and Social Factors. ‘

It is worthwhile to consider all the above data together. It points out a trend seen in India wherein the savings and investment rates of a nation rise along with its GDP and PCI. Rather then there being a causality causing one variable to rise because of the other, a correlation is observed where both the set of variables rise together. An increase in the Investment rate of a nation provides better capital formation leading to faster growth while faster growth would lead to better PCI which would leave more disposable income to save and Invest. Superimposing the above sets of data over each other, gives the trend lines as depicted in Figure 1.1.5.

Figure 1.1.5: Trend in growth of Income, Savings and Investment



Source: Compiled from NCAER survey, 2011 and CSO data

A rising trend is observed where all variables have been following a similar trend line, have peaks around a similar point in time (2007-08) and then fall following the crisis together. The above data may provide important pointers for both the growth situation and the savings situation in India.

1.2. India's demographic profile of savers and investors

The proportion of India's youth population (*United Nations' definition of youth is people from 15 to 24 years of age*) has increased steadily from 16.7% in 1961 to 18.12% in 2011. This phenomenal rise in the youth population has made India the youngest nation with a demographic dividend appearing to be a reality.

Table 1.2.1.: Age wise distribution of the population

Age Group	Absolute			
	Total	Males	Females	Total
0-14	28.48%	187,016,401	165,048,695	352,065,096
15-24	18.12%	118,696,540	105,342,764	224,039,304
25-54	40.56%	258,202,535	243,293,143	501,495,678
55-64	7.02%	43,625,668	43,175,111	86,800,779
65+	5.82%	34,133,175	37,810,599	71,943,774
	100.00%	641,674,319	594,670,312	1,236,344,631

Source: Census of India, 2011

The 2011 Census data shows that India's youth bulge is now sharpest at the key 15-24 age group, even as its youngest and oldest age groups begin to narrow. Economists are of the opinion that a young work force will drive the engine of growth. But, what this young labor force does with its income after achieving gainful employment will also form a part in determining the course the country will take.

More than 86% of the population is below the age group of 54. Roughly 65% of the population is in the working age of 15-64. Besides, even the Work Force Participation statistics show a rising participation amongst the youngsters in contributing to the earners of the country. A higher participation by the youngsters gives a healthy "Dependency" Ratio, i.e. the number of dependents to that of earners.

Table 1.2.2: Work Force Participation

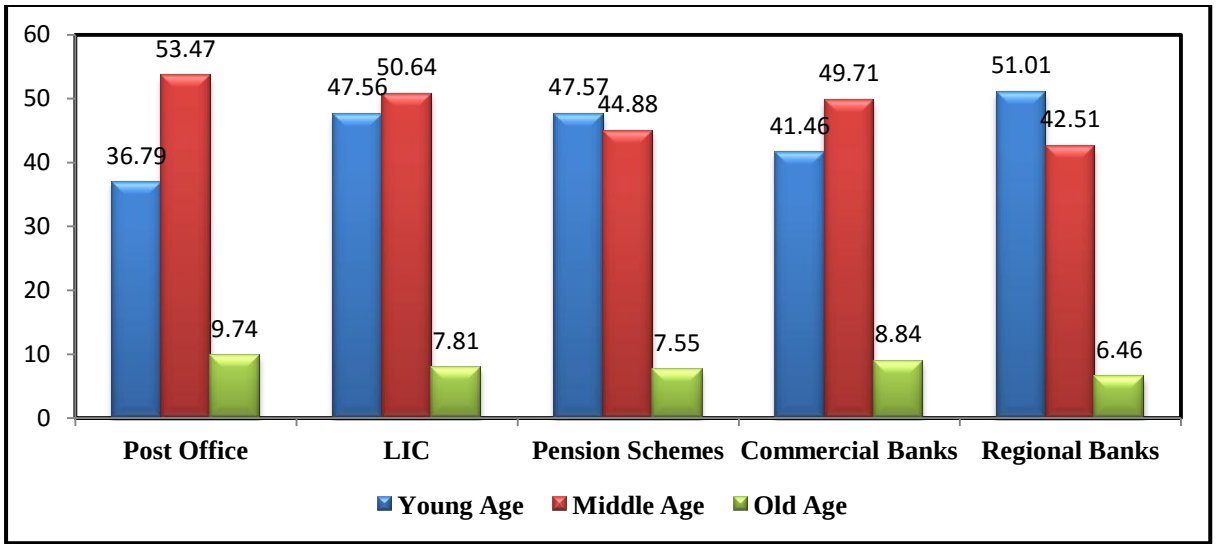
Age Groups	15-17	18-29	30+
UPS	10.70%	49.00%	59.70%
UPSS	14.10%	52.00%	62.80%

UPS – Uniform Primary Status; UPSS – Uniform Primary and Secondary Status
Source: Census of India, 2011

Table 1.2.2 shows that 49% of those capable of working in the age-group 18-29 were in the Work Force on UPS basis and 52% on UPSS basis.

The data mentioned in Figure 1.1.3 and 1.1.4 (concerning GDS and GDI) shows that Indians are not shy of saving or investing. A young generation working and investing properly could be a boon for the nation. The National Council of Applied Economic Research (NCAER) survey report of 2011 examined in detail the various aspects of income, expenditure, savings, and investments in Indian urban and rural households. The report titled "How Households Save and Invest: Evidence from NCAER Household Survey" looked into the age-wise distribution of savers and investors across the country.

Figure 1.2.1: Estimates of Savers by Age

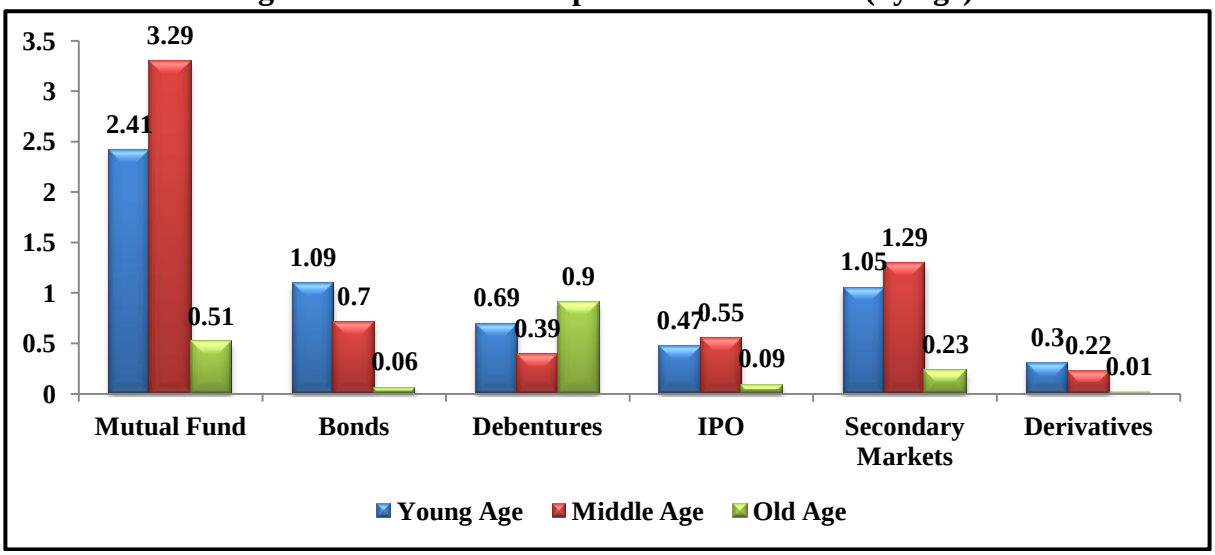


Source: NCAER Report 2011

The data from the NCAER survey shows that out of all the people saving in Post Office Schemes, 36.79% are of Young Age, 53.47% from the Middle Age and only 9.74% belong to Old Age. Post Office deposits do not attract youngsters a lot, though pension schemes have their own lure probably due to rising awareness because of advertisement. Regional Banks got the largest share of young people depositing their money in them, 51% of the people, who put money in the Regional Banks, comprised of people from the young age. This could be due to the fact that Commercial Banks operate more in bigger cities where the average age of working people is higher than that in rural and non-urban regions where regional banks are predominant. It was observed that Post office savings schemes are less preferred compared to commercial bank deposits and accounts as such schemes have cumbersome procedures and offer inadequate returns. The degree of risk aversion was extremely high in Indian households. It is only at the margin that households engage in risky ventures. The report noted that risk taking increased only at very high-income levels or if there was a significantly large windfall gain.

A more interesting picture was depicted by the data on age-composition of various investors in different investment vehicles in the report. Figure 1.2.2 explains the same.

Figure 1.2.2: Investment portfolio of investors (by age)



Source: NCAER Report 2011

Figure 1.2.2 shows investors in millions (numbers) on the vertical axis and investment vehicles on the Horizontal Axis. Mutual Funds are a very popular investment vehicle as they do not need constant personal attention and (in case of Equity-Oriented Mutual Funds) also provide tax benefits to the holder of the units. There is the security of putting money in the hands of experts who take decisions for the investors thus saving them the trouble of having to constantly monitoring markets themselves. Mutual funds are well-favored by the youth as shown by the data. But the fact that the investors in the Bond markets are predominantly of a younger age shows that youngsters are not merely swayed by what they hear and see but are aware of multiple options available to them and consider the same before investing. Debentures are the only vehicle which is largely favored by the old. IPO's are also not as popular as Mutual Funds or Bonds but Secondary Markets are again a popular investment vehicle. And this time also, while the investors mostly comprise of people of middle age, their number is closely followed by that of people in the young age. A promise of higher return and probably the lure of higher risk along with a tax benefits provided by the Income Tax Act maybe the reasons for the participation of youth in these markets. A surprising factor seen in the chart is the derivative markets. While this is a relatively new, lesser known and lesser-tapped market and hence people of old age clearly do not favor them. However, youngsters show greater keenness in such markets then people belonging to the middle age group. This again goes to show that youngsters are well aware of different options at their disposal, at least on a national level.

CHAPTER-2

RESEARCH DESIGN AND METHODOLOGY

Objectives of the study

Major objectives of the research work include:

1. To understand the youngsters income and saving pattern.
2. To know their long term financial goals.
3. To find out risk appetite of youngsters.
4. To find out whether the young investors are looking for long term growth or risk or return or liquidity.

Rationale

The most important step in any long term investment plan is to start investing early. The youth should inculcate a habit of saving. A savings habit inculcated at an early stage can be very beneficial.

It has been established that people, more specifically young people do invest in India. But "young people" is a vague term. While it is not difficult to see the incentives for youngsters who have just started working to invest, it is also interesting to look into how youngsters a i.e. students working while studying look at saving and investing the meager sums they earn while undergoing what is considered one of the most long-term investments – Education. Mumbai being an important education and financial hub in the country provides ample scope for both studying and working. Looking into the pattern of investment in studying youth is a way of looking at the potential pattern of the same youth a few years down the line when they have ceased to educate themselves further and have flung themselves wholly into work. The study follows similar intentions. Whether youngsters take time to consider wisely their decisions in this regard, what factors affect their decisions, what are some of the outcomes seen and what they speak about the decision-making process that was undertaken to reach the same are some of the questions the study will attempt to look into.

It is in the young that a country looks for hope for the future. Logically, it must be the way the young behave that should describe the path they will and so the country on a more macro level shall take in the years to come.

Methodology

Primary data collection involved a structured questionnaire (Annexure-I) with limited and focused questions covering questions regarding the saving/investment behavior amongst students. The questionnaire addressed areas such as how much (approximately) of the income is saved, whether it is put into traditional modes of savings or into the capital markets and also questions regarding how much do social factors like friends and family influence their choices. Around 80 percent of the contacted base (300 respondents) shared information sufficient for inclusion into the study sample. The focus was on students working or having an earning source and studying at the same time.

Secondary data regarding Macroeconomic statistics was collected from sources mentioned along with such data.

Methodology	Quantitative and Qualitative Research	Justification
Techniques applied	a) Informal Interview b) Observation	To collect personal views and ideas.
Tools used	a) Questionnaire in electronic form.	To collect specific opinion & ideas about the issue.
Sampling method	a) Convenience sampling	Data from respondents are collected in digital form from the respondents.

Scope of the Study:

The scope of the study is restricted to the survey of college going students in the city of Mumbai with respect to their earnings and their investment pattern while doing their financial planning.

Universe and Sample size

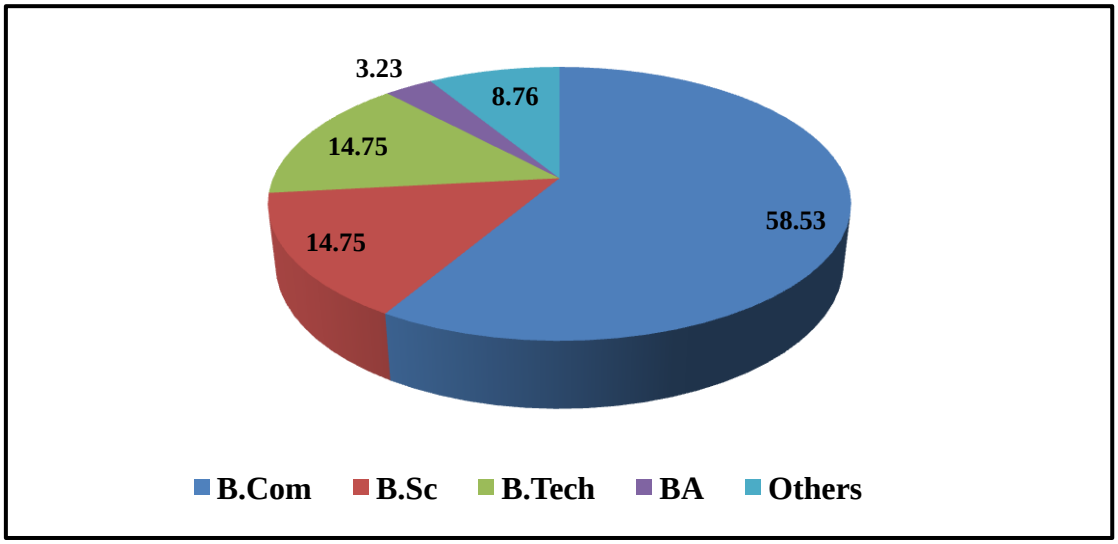
The geographical territory is restricted to the students studying in colleges in Mumbai district in Maharashtra. In Mumbai, the three major educational streams being Arts, Commerce and Science, one finds a greater inclination amongst the students in the Commerce field to start working earlier than the other two (generally on stipends or similar low-income earning jobs). There is also a generally greater understanding of and awareness of financial markets amongst students from this stream because it is related to their curriculum and is expected of them in their academic pursuit. Apart from Commerce, students pursuing Engineering also have jobs at times while pursuing their masters or at times higher studies. In the stream of Arts, the major vocations include journalism, teaching and research the latter two of which start at a relatively later stage and the former is also mostly a stipend job for those still pursuing studies.

Besides the more formal employment options, one finds some self-employed students, though very rarely. Tuitions are often a means of income among undergraduate students. At times one may find them engaged, if not wholly, in long-running family businesses.

For the purpose of the paper, the "youth" in the title refers to students in the age group 17-25, around the age where most students have begun or just ended their college courses and take up various small vocations or "first-jobs". The study tries to capture the way a college going student who has just begun to earn in one way or another, looks at saving his/her income, what he/she expects from his/her investments and tried to analyze the data so obtained. The study also looked into basic financial literacy amongst the youth; how they go about

educating themselves, and how do they look at risk, returns and various modes of investments and what determines the same.

Figure 2.1: Distribution of the educational background of the respondents



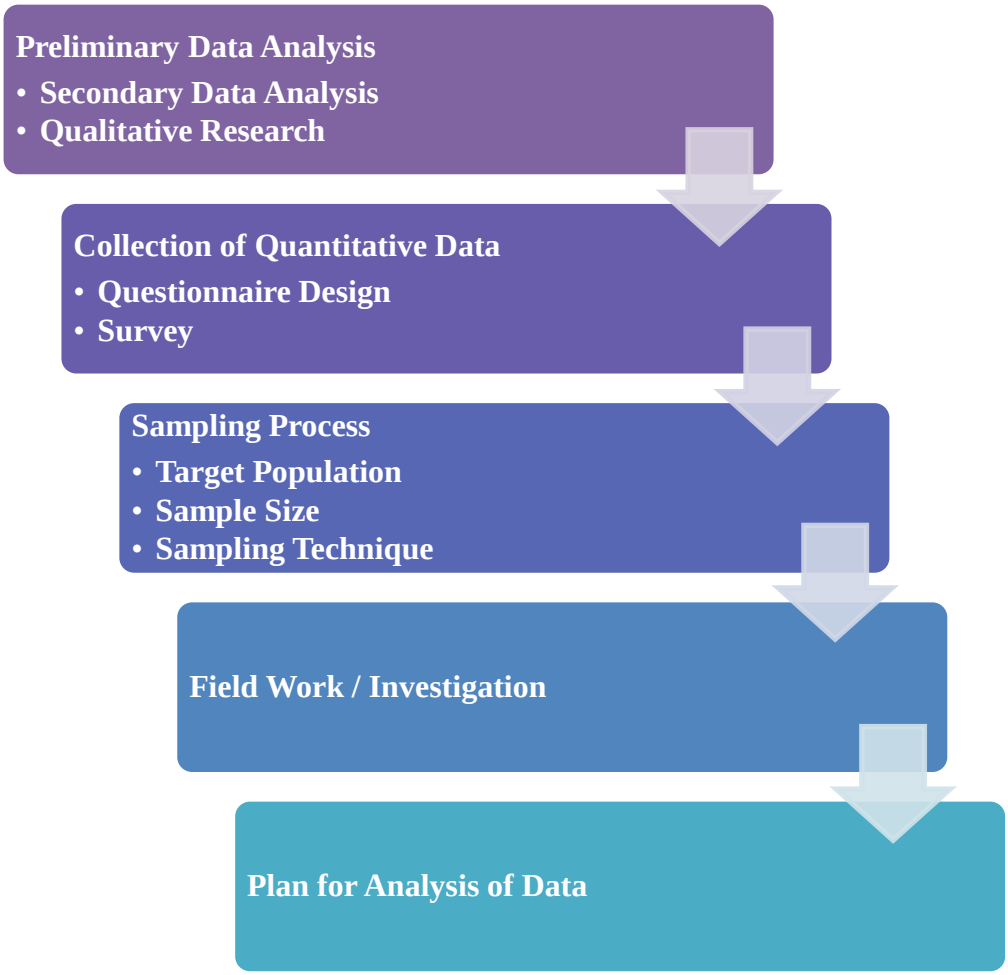
Methods of Analysis

The information generated during data collection was both qualitative and quantitative. The qualitative data was coded and tables were generated for analysis. The quantitative data on the other hand was categorized after lists of individual responses were compiled.

Plan of Work

The methodology followed for studying the saving and investment pattern amongst youth in Mumbai, is as shown in the figure 2.1.

Figure 2.2: Research Methodology of the Study



Chapter Scheme

- Chapter 1: Introduction
- Chapter 2: Research Design and Methodology
- Chapter 3: Review of Literature
- Chapter 4: Analysis and Observation.
- Chapter 5: Conclusion
- Bibliography
- Annexure

Limitation

This study focuses on a very small subset of the youth in India and is limited to the city of Mumbai. The study is restricted to the survey of college going students in the city of Mumbai and does not include those youth who have completed their education and is wholly into jobs. Thus, the generalization of results may require further validation.

CHAPTER-3

REVIEW OF LITERATURE

Several studies have been conducted on the various aspects of the capital markets in the past. These studies mainly relate to various instruments of capital market, shareholding pattern, new issue market and scope, market efficiency, risk and return, performance and regulation of mutual funds. However, not much of research work has been done on investment patterns amongst the young age group of the working population and investor's perceptions.

Abhijeet Birari & Umesh Patil (2014) studied the spending and savings habit of youth in the city of Aurangabad. The study finds that significant difference exists in the spending habits of students belonging to different education levels. The study finds that most of the youth in the sample spend a large portion of the money on consumable goods and that due to lack of awareness, the amount of money saved or invested is very little.

Gina Chowa, Mat Despard & Isaac Osei-Akoto (2012) in their paper 'Youth saving patterns and performance in Ghana' attempted to find whether the youth will participate in savings via formal financial services if given the opportunity. The study found that most youth in the sample, set aside money regularly, hold onto their set aside money for short periods of time and use it mostly for short-term consumptive purposes. The study concluded that, youth of a developing country have a high propensity to save but, lack of proper knowledge and information restricted the youth from venturing out into the area formal savings and investments.

Patel & Patel (2012) studied the investment perspective of salaried people. The paper aimed at studying the behavioural pattern & difference in perception of an individual related to various investment alternatives. The study finds that the youth that was surveyed preferred investments over savings. The study also discovers that, rather than safe and secure investments, the youth prefer investments that are high risk but also yield high returns.

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.

Shanmugasundaram and Balakrishnan (2011) conducted research to analyse the factors influencing the behaviour of investors in capital market. They concluded that demographic factors influence the investors' investment decisions.

Jaakko and Tikkanen (2011) in their study on "Individuals' Affect-Based Motivations to Invest in Stocks: Beyond Expected Financial Returns and Risks" found that most investors had affected based extra motivation to invest in stock, over and above financial return expectations. The more positive an individual's attitude towards the company was, the stronger was his extra investment motivation.

Suman Chakraborty and Sabat Kumar Digal (2011) found from their work that, saving is significantly influenced by demographic factors such as age, occupation and income level of investors. . It was found that female investors tend to save more in a disciplined way than the male investors. Paper attempts to explore whether dichotomy of the popular believes that men are more pro-risk than women. It was observed that women are risk averse indeed but save more than the male counterparts as the income level rises.

Deshpande & Zimmerman (2010) explored the potential of Youth Savings Accounts (YSAs) as a vital intervention in youth development and financial inclusion. The paper finds that the best way to encourage youth savings and asset accumulation is by offering major financial incentives to jump start the savings process. The paper found evidence that youth savings may have the potential to be a high leverage intervention, with positive effects on youth development and financial inclusion.

Kabra, Mishra and Dash (2010) studied the factors which affect individual investment decision and differences in the perception of investors in the decision of investing on the basis of age and gender and found that investors' age and gender predominantly decides the risk taking capacity of investors.

Zoghlami, F. and Matoussi, H (2009) in their study on Tunisian investors in " A Survey of the Tunisian Investors Behaviors" revealed psychological particularities that are not expected by financial behavioral literature.

Manish Mittal and R. K. Vyas (2007) study on "Demographics and Investment Choice among Indian Investor" shows that based on gender, men prefer Equities as their first choice and women prefer post office deposits as their first choice. The investor of age group 18-25

first choice is Equities and above 45 years first choice is Derivatives. Less income group prefers post office deposit and high income group prefers Derivatives as their first choice. Post graduates prefer Mutual Fund and Professionals prefer Equity. Service as occupation people prefers Equity whereas housewife prefers Real estates and Bullions.

Verma (2008) studied the effect of demographics and personality on investment choice among Indian investors and found that mutual funds were popular amongst professionals, students and the self employed. Retirees displayed their risk aversion by not investing in mutual funds and equity shares. It was also found that higher the education, higher was the level of understanding of investment complexities. Graduates and above in qualification preferred to invest in equity shares as well as mutual funds.

Gupta and Jain (2008) on the basis of an all-India survey of 1463 households found the preferences of investors among the major categories of financial assets, such as investment in shares, indirect investment through various types of mutual fund schemes, other investment types such as exchange-traded gold fund, bank fixed deposits and government savings schemes. The study provides interesting information about how the investors' attitude towards various investment types are related to their income and age, their portfolio diversification practices, and the over-all quality of market regulation as viewed by the investors themselves.

From the review of literature it can be inferred that various studies on investment pattern and preferences provide only glimpses of investment pattern of youth. Very few studies on investment pattern of youth have been carried out in India.

CHAPTER-4

ANALYSIS OF DATA

In the survey, the term Savings or Investment are used in similar contexts as savings mean financial savings and investments stand for investments in financial assets. There is a slightly greater focus on the latter of the two where it diverges a bit from the former, i.e. the study has tried to observe how students put their savings into newer vehicles like Shares, Mutual Funds, etc. rather than just Bank Deposits. Before moving on to analysis of the findings, it is pertinent at this point to explain the terminologies of saving and investment used during the survey.

4.1. Defining Savings

"Saving" means foregoing one's current consumption in favor of having an option to consume more in the future. Hence, saving is the tradeoff between consuming today and consuming tomorrow. Saving can be done for a multiplicity of purposes – guarding against future contingencies, for known events in the future (a child's marriage, to purchase a house), for acquiring wealth, etc.

Savings can be in two major forms:

1. Physical Savings – Savings converted into physical assets.
2. Financial Savings – Savings put into financial instruments like Bank Deposits, Shares, Securities, etc.

Savings if properly mobilized can help trade and commerce prosper. Financial savings are more liquid and hence more easily mobilized than physical savings. The current study covers financial savings as they are more relevant to students who have just started earning.

4.2.Defining Investment

Investment is "saving", to be used by another party for productive activity. It can be in the form of an advance or loan or contributing to the ownership capital or debt capital of a corporate or non-corporate business unit. Generalized, investment means conversion of cash or money into a monetary asset or a claim on future money for a return. This return is for saving, particularly financial saving, parting with liquidity and lastly for taking a risk

involving the uncertainty about the actual return, time of waiting and cost of getting back funds, safety of funds, and risk of the variability of the return. In the current study, investment refers to financial savings in the form of Shares, Securities, Bonds, Mutual Funds and other capital market instruments.

The cornerstone of any investment strategy is to maximize the return while maintaining a tolerable risk. The process of allocating assets among several investment categories is a way of achieving the goal. Younger people can assume greater risk than one who is retired; a highly paid executive will be less dependent on current portfolio income than will a disabled person on workmen's compensation and so forth. The goal of an individual may be current income, capital appreciation or an acceptable balance. If the investor decides on capital appreciation, the investors should have the personality to ride out major decline in the market.

4.2.1. Elements of Investments

A. Return: Investors buy or sell financial instruments in order to earn return on them. The return includes both current income (current yield) and capital gain (capital appreciation).

B. Risk: Risk is the chance of loss due to variability of returns on an investment. In case of every investment, there is a chance of loss. It may be loss of investment; however risks and returns are inseparable.

C. Time: Time is an important factor in investment. Time period depends on the attitude of investors who follow a 'buy' and 'hold' policy.

A serious minded investor will have to consider the following important categories of investment opportunities:

1. Protective investments
2. Tax oriented investment
3. Fixed income investment
4. Speculative investment
5. Emotional investment
6. Growth investment

4.2.2. Investor Profile:

An investor profile or style defines an individual's preferences in investment decisions, for example:

1. Time period for which investment is held (Long-term or Short-term).
2. Appetite for Risk.
3. Amount of diversity (if one invests in all kinds of investments or just one)
4. Value stock, growth stocks, quality stocks, defensive or cyclical stocks.
5. Small Cap or Large Cap stocks.
6. Understanding of derivatives.
7. Home turf or international diversification
8. Self-managed or through an investment fund, etc.

4.2.3. Determinants of an Investor Profile

The style or profile of an investor is determined by:

Objective traits like:

1. Investor's own income.
2. Family Income.
3. Age.

Besides, there are even more subjective attitudes, especially while investing in Capital Markets, for example one's temper (emotions) and beliefs (cognition).

Certain other factors also play a role, especially while determining the choices of youngsters, such as:

- **Social Norms** – If it is very common amongst a particular age group in the society to invest in a certain way one would expect individuals to conform to it to some extent.
- **Peer Group** – especially amongst the youth, conformity with a friend circle can be very high.
- **Family Background** – It helps if in an individual's family there is a culture of saving and investing. The individual then learns about such matters at an earlier stage and can turn to family for help.

4.3. Defining speculation

In finance, speculation is a financial action that does not promise safety of the initial investment along with the return on the principal sum. Speculation typically involves the lending of money or the purchase of assets, equity or debt but in a manner that has not been given thorough analysis or is deemed to have low margin of safety or a significant risk of the loss of the principal investment. The term, "speculation," which is formally defined as above in Graham and Dodd's 1934 text, Security Analysis, contrasts with the term "investment," which is a financial operation that, upon thorough analysis, promises safety of principal and a satisfactory return. In a financial context, the terms "speculation" and "investment" are quite distinct and specific. For instance, although the word "investment" is typically used, in a general sense, to mean any act of placing money in a financial vehicle with the intent of producing returns over a period of time, most ventured money—including funds placed in the world's stock markets—is actually not investment, but speculation if used in the broadest meaning of the word.

4.4. Investment v/s Speculation

Identifying speculation can be best done by distinguishing it from investment. According to Ben Graham in Intelligent Investor, a prototypical defensive investor is "...one interested chiefly in safety plus freedom from bother." He admits, however, that "...some speculation is necessary and unavoidable, for in many common-stock situations, there are substantial possibilities of both profit and loss, and the risks therein must be assumed by someone." Frequently, long-term investors, even those who buy and hold for decades may be classified as speculators, except only the rare few who are primarily motivated by income or safety of principal and not eventually selling at a profit. Speculators can be increasingly distinguishable by shorter holding times, the use of leverage, by being willing to take short positions as well as long positions. A degree of speculation exists in a wide range of financial decisions, from the purchase of a house to a bet on a horse; this is what modern market economists call “ubiquitous speculation”.

The following are the findings of the data collected from the survey.

4.5.1. Profile of the respondents

The educational backgrounds of the respondents have been discussed in Figure 2.1 (Chapter 2). Most of the respondents in the survey conducted are from the Commerce background. As stated in earlier, Commerce students pursuing their CA or CS courses alongside their B.Com and M.Com courses and are earning stipends through their jobs have a higher possibility of saving and investing early. About 41% of the respondents were females (Figure 4.5.1). Figure 4.2 shows the income distribution of the respondents. The survey data shows that respondents with an income more than 1 lakh per annum, 92% of the respondents saved or invested their money. Significantly, 71% of the respondents who did not disclose their income or stated no income also saved or invested money. This may also point to the possibility that youngsters are investing their money received as pocket money or their parents' money.

Figure 4.5.1(a): Gender distribution of the respondents

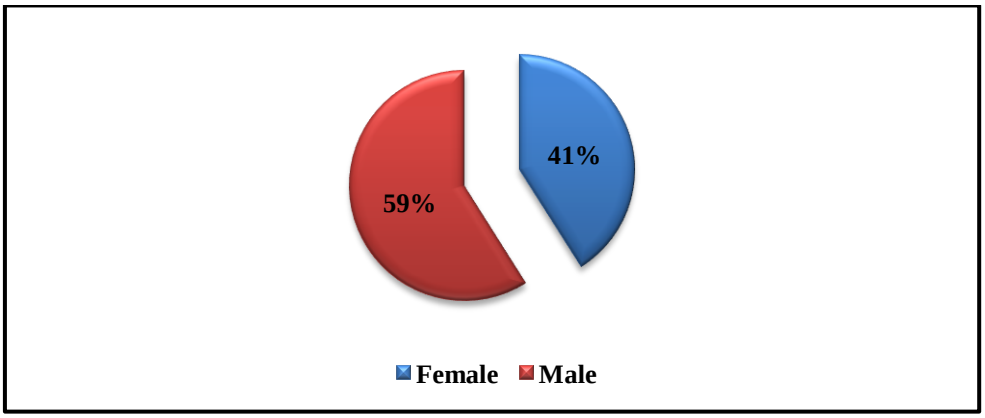
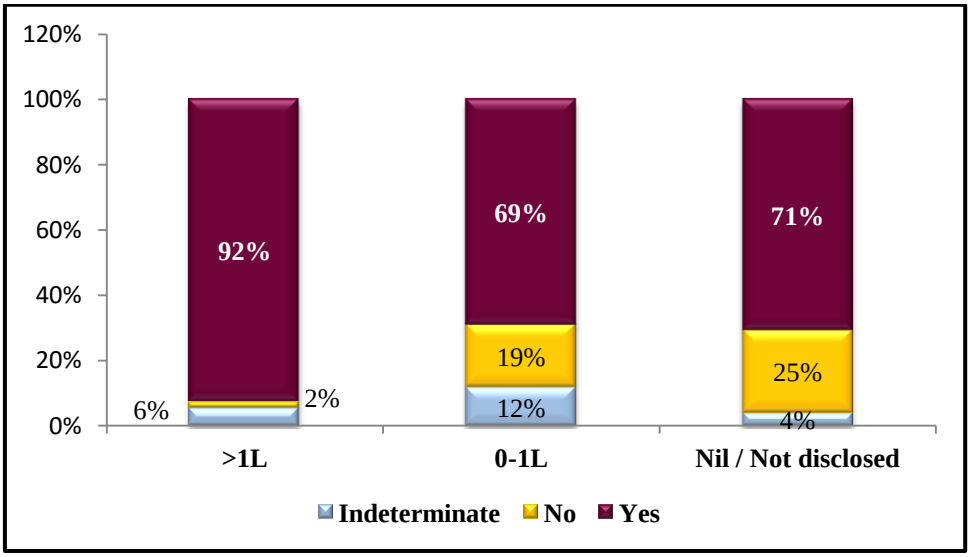


Figure 4.5.1 (b): Income bands of the respondents who saved/invested



4.5.2. Saving / Investment pattern of the respondents

The sample data reveals that 76.5% of the respondents saved or invested their money. Figure 4.5.2(a) shows that the percentage of female respondents (81%) saved more than the males (72%). Out of the ones who saved or invested, 37% said they put roughly up to 25% of their income into savings or investment, the figure was 31% for savings between 25%-50% while 16% saved or invested between half and three-fourth of their income and only 9% claimed to save more than 75% of their income as shown in Table 4.5.2.

Figure 4.5.2(a): Gender distribution of respondents who saved/invested

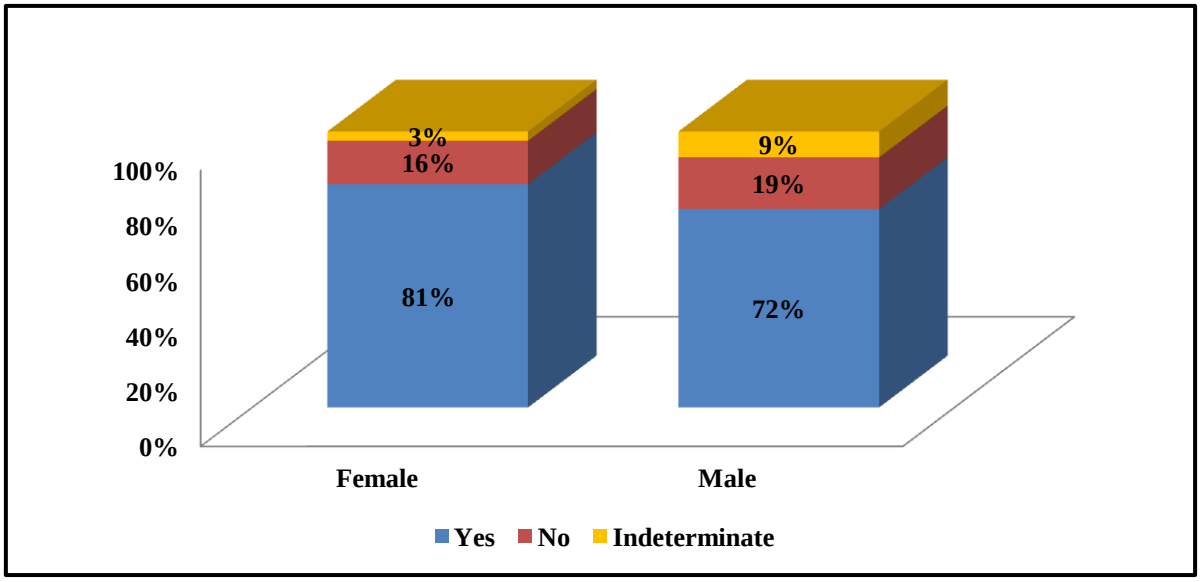


Table 4.5.2: Proportion of income saved/invested

Proportion of income saved	Percentage of respondents
Up to 25%	37%
25-50%	31%
50-75%	16%
More than 75%	9%
No response	7%

The gender distribution shows a slightly different picture. Female respondents tend to save/invest a higher percentage of their income as depicted in Figure 4.5.2(b). 33% of the female respondents saved around 25-50% of their income.

Figure 4.5.2(b): Distribution of proportion of income saved/invested (Gender wise)

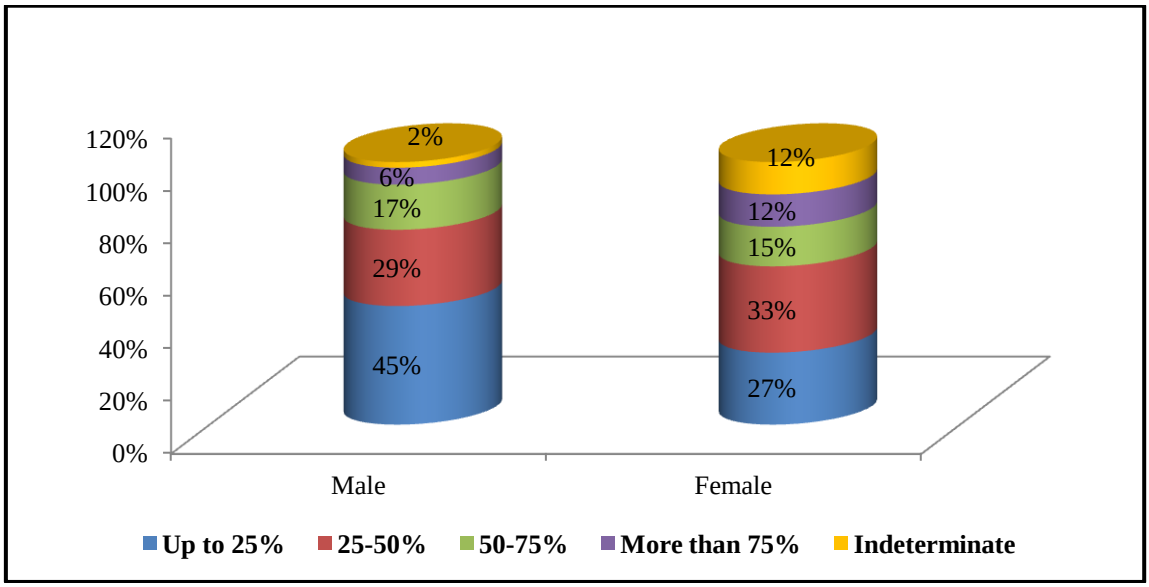


Figure 4.5.2(c) shows the age wise progression of savers/investors. 48% of the respondents of the age of 19 saved/invested. This number significantly rose to 94% for the age band of 24 years and above. This highlights the fact that saving or investment begins early which also corroborates the fact that youngsters are aware of the benefits of saving and investing early in life.

Figure 4.5.2(c): Age wise distribution of savers/investors

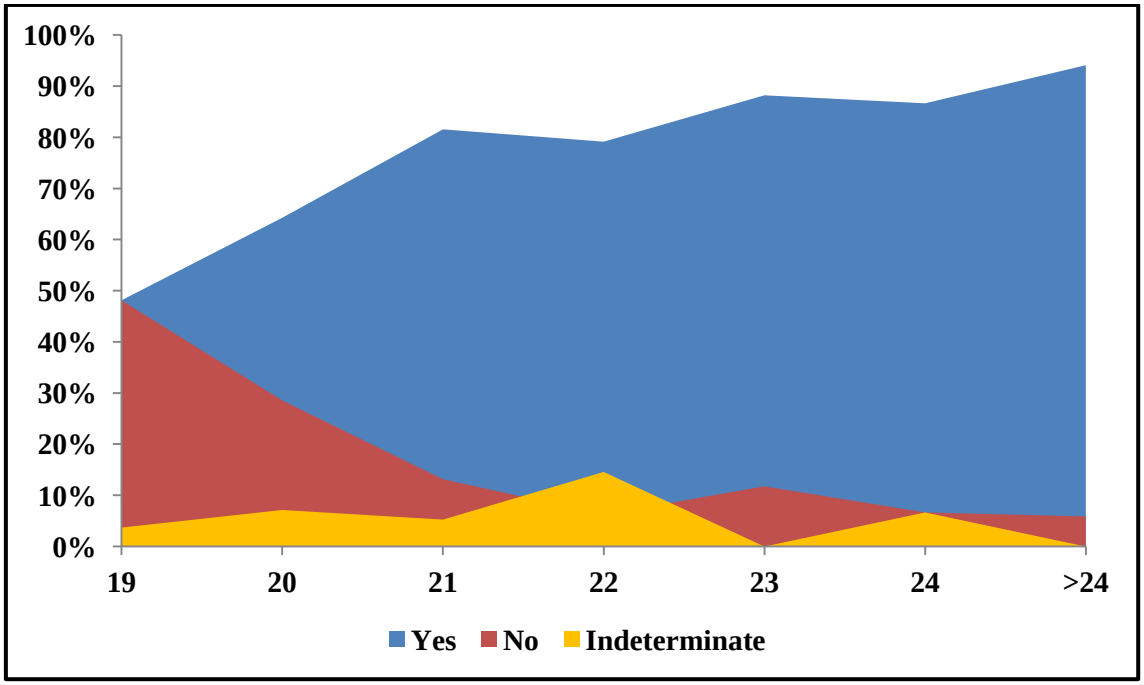


Figure 4.5.2(d): Need for saving/ investing

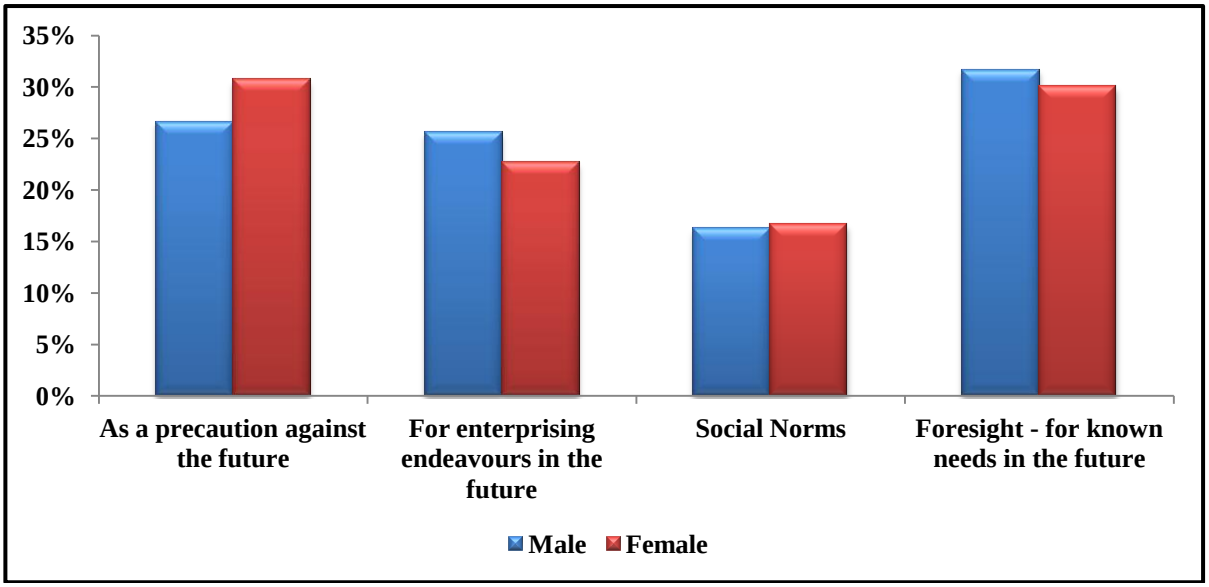
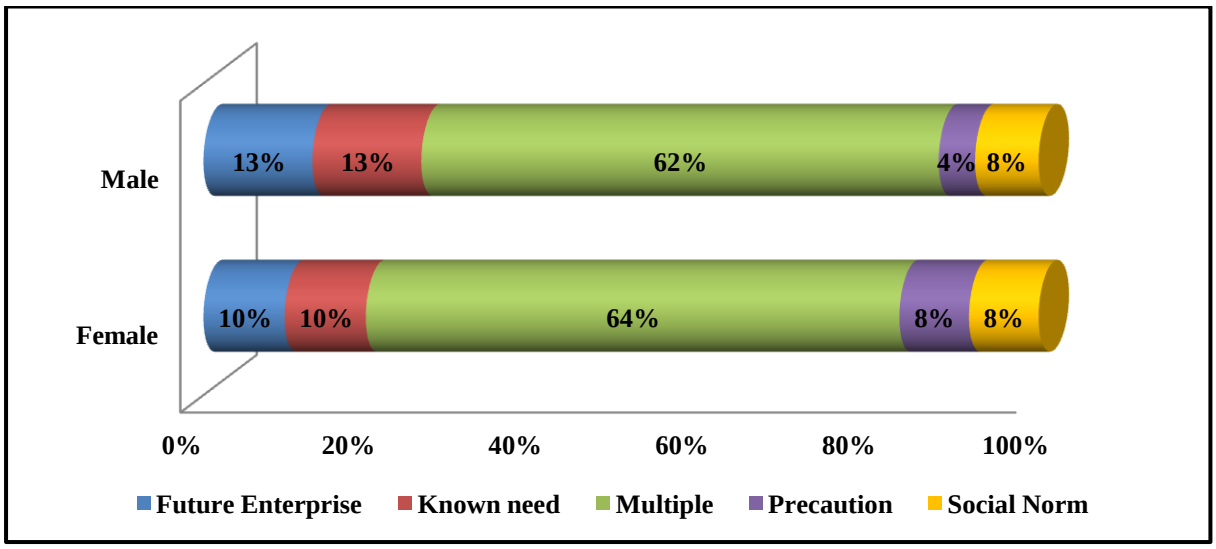


Figure 4.5.2(e): Need for saving/ investing (Gender wise distribution)



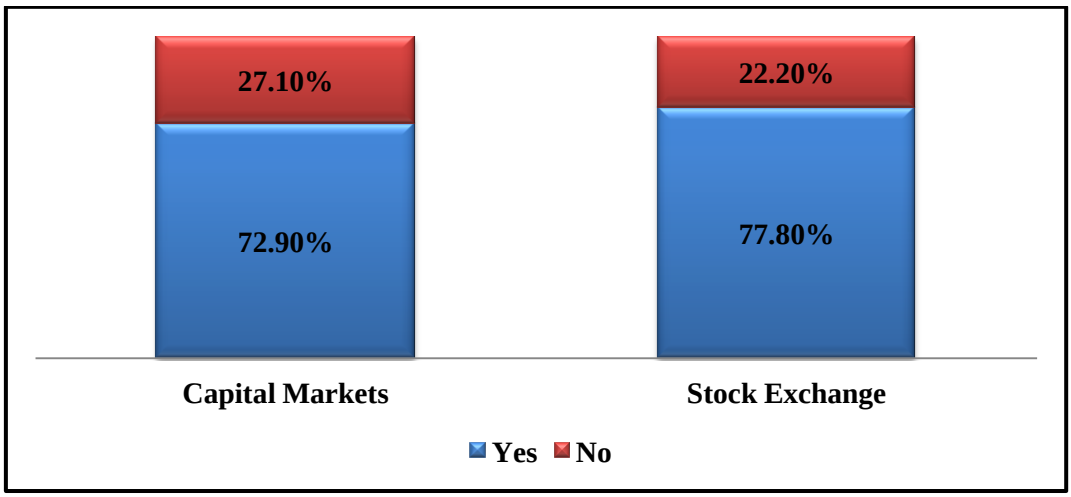
The survey also questioned the respondents on the need for saving or investing. While both male and female respondents had multiple requirements for a need to save or invest, the female respondents (31%) had more of precautionary requirement in mind while saving or investing. All respondents as shown in Figure 4.5.2(d) ranked high the foresight of near future needs as the single most important reason for saving or investing. Male respondents had more known needs for saving or investing compared to the female respondents. 26% of the male respondents subscribed to the view that savings or investments were done alone with

an aim of enterprise in the future. Only 8% of the respondents as shown in Figure 4.5.2(e) thought that social norms were the only reason for deciding to save.

4.5.3: Capital Market awareness

About 72% respondents claimed to know about the existence of Capital Markets while the figure stood at 78% for Stock Exchanges.

Figure 4.5.3: Awareness of Capital Markets



4.5.4: Investment Vehicles

Bank deposits were the most opted investment vehicle followed by Equity shares and Mutual Funds. These three accounted for most of the share of the data. A lesser knowledge of commodities and bond markets probably led to the lower number there. Post office savings and Retirement Plans also got a lower share, maybe because the respondents were youngsters and such schemes do not have much hold on them.

Table 4.5.4: Distribution of Investment portfolio

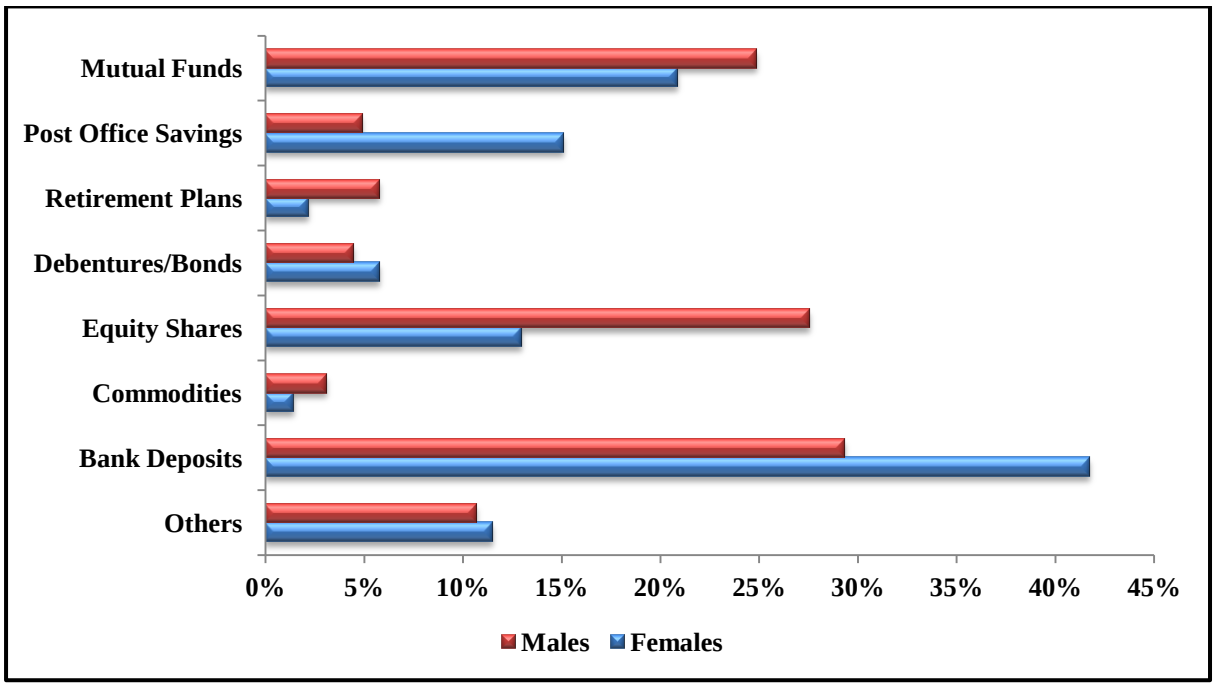
Investment Vehicles	Proportion of respondents
Bank deposits	70%
Mutual Fund	45%
Equity Share	43%
Commodities	4%
Debentures Bonds	11%
Retirement Plans	9%
Post Office Savings	18%

Within the alternatives, among those who said they invested in Mutual Funds, SIP's and Growth plans were the most popular. In Equity Shares most opted for the Cash option and very few said they also invested in Futures, Options, etc.

The study reveals an interesting gender difference with respect to preferences of investment vehicles. According to the survey, females seemed to prefer the more traditional and relatively safer modes of saving / investment over more risky and comparatively unconventional modes. 41.73 % of the female respondents said that they preferred to put their money in bank deposits. While bank deposits were the most preferred vehicle for males as well, they constituted a much larger share for women. Even in regard to Post Office Savings, 15.11% of the female respondents preferred them – much higher than the corresponding figure for their male counterparts which stood at only 4.89%. Mutual Funds were the second most preferred vehicle for females with 20.86% respondents preferring them but only 12.95% of them said they preferred Equity Shares. While only 5.76% of the females preferred Debentures or Bonds, the number was still slightly higher than the 4.44% in case of males.

The data points out that females seem to prefer safer and less-risky investment (the slightly higher number than males in case of Debentures also seems to support a greater inclination towards safer allocation).

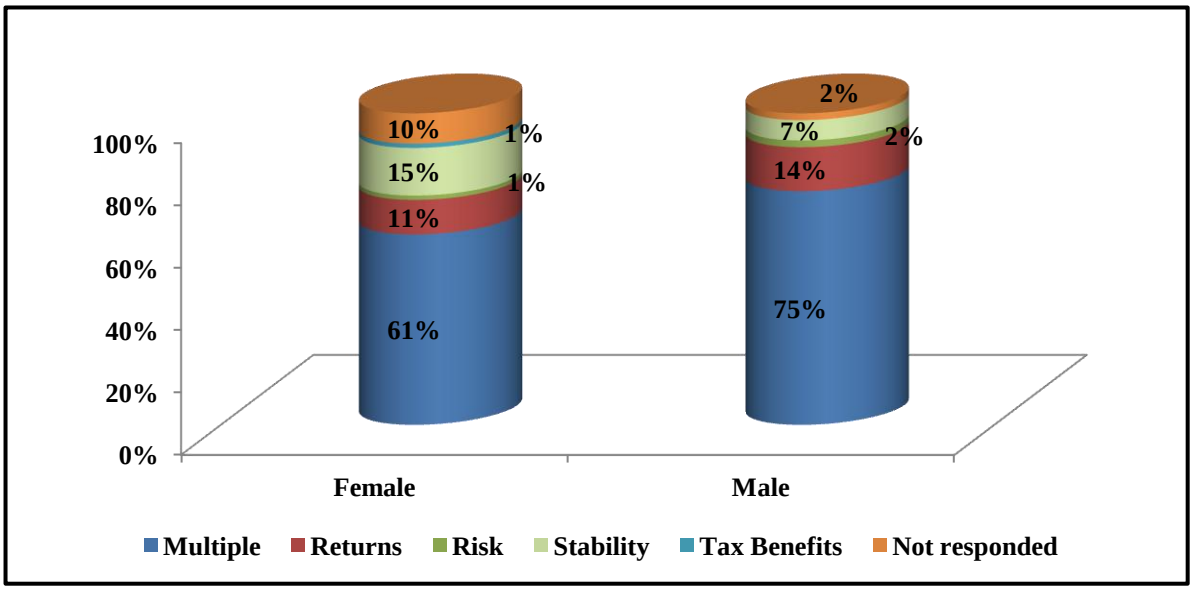
Figure 4.5.4: Investment vehicle preferences



4.5.5 Determinants in choice of investment option

Respondents liked to keep multiple options while choosing their investment options. However, Returns on investment were obviously the most considered factor followed by risk. Female respondents had stability in their mind while picking up an investment option (Figure 4.5.5), while male respondents gave more credence to returns.

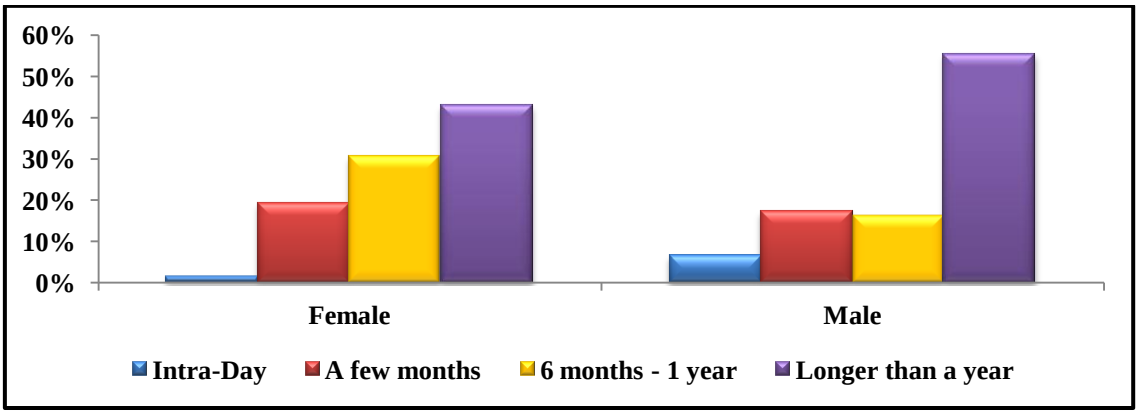
Figure 4.5.5: Determinants for investment



4.5.6 Time-Frame

When asked for the time-frame they have in mind while investing, as against perceived notions of young investors looking for short term gains, only about 4% of the respondents traded on an intra-day basis. Most respondents were considering investing for a longer time period.

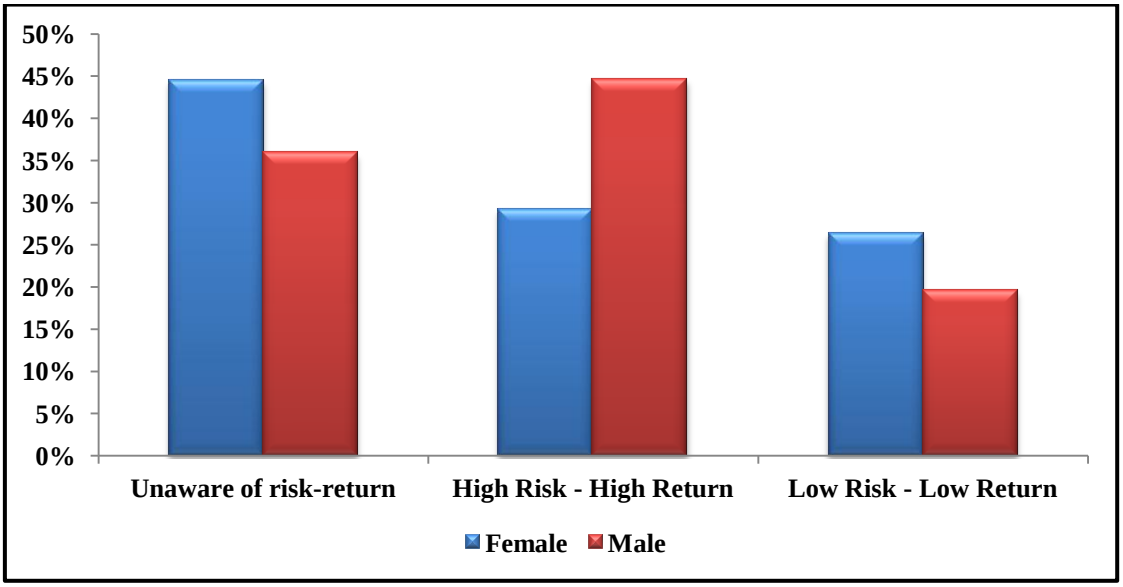
Figure 4.5.6: Timeframe considered while investing



4.5.7 Risk-Pattern

As prudent investors, it is assumed that the investors would weigh the risks involved in an investment. However, the results of the survey shows that about 36% of the respondents never thought much of the risk-return relationship involved. The proportion of female respondents unaware of the risks involved in investments was more than males. Since higher percentages of female respondents are unaware of the risks in the capital market, it translates into females investing in low risk investment options.

Figure 4.5.7: Risk pattern of the respondents



Around 45% of the male respondents said they preferred a higher-return earning investment even if it involved a higher risk which in case was only 29% for female respondents. This finding is also in sync with the traditional modes of investment that female respondents invested in. A higher percentage of female respondents liked to invest in low risk low return investment options accentuating the fact that women are risk averse.

4.5.8 Insurance

The survey also asked if respondents had a life insurance policy because while it is not exactly the kind of investment an Equity Share or a Debenture is, it is nonetheless seen to be frequently held by individuals and new options like ULIP's etc. which are more market-oriented have emerged.

When asked about their preferences regarding insurance, a large number said they had a Life Insurance Policy (about 83%). Very few however ticked options like ULIP's Endowment, or Pension Plans.

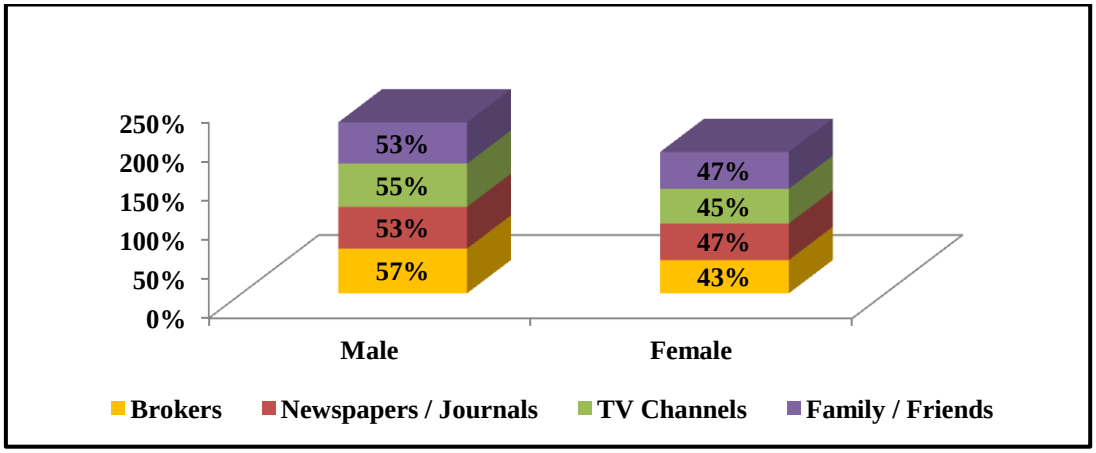
4.5.9 Source of Information / influence

It is assumed that when an individual invests he must have some base information to work on (to keep as much of speculation out of the investment as possible). Table 4.5.9 gives the distribution of information source. 59% of the respondents had multiple sources of gathering information with respect to their investment. However, the most popular source of information / influence were family and friends followed by mass media, like Newspapers, Journals etc. and Television. Brokers were understandably the least influencing source of information since earlier data pointed to an inclination towards Bank Deposits and Mutual Funds more than Equity Shares. 50% of the respondents stated that brokers have had no influence on their investment decisions while another significant 37% of the respondents did consult brokers but took their investment decisions independently.

Table 4.5.9 Source of information for the investors

Information Source	Percentage of investors using the information
Multiple- Brokers, Family, Media	59%
Brokers	2%
Family / Friends	18%
Newspapers / Journals	6%
TV Channels	1%
No response	13%

Figure 4.5.9: Gender distribution of source of Information for investors



Other factors in deciding pattern

About 50% students said they rely occasionally on the investing pattern of peers and take their advice to decide their own. Only 13.6% said they largely borrow from their friends in the matter of how and where to invest.

14% said that many of their family members also invested in capital markets, while 39.2% said that there were very few or no one in the family that invested significantly.

4.5.10: The scope for providing skill building services

On the question of whether the respondents (if they had time) would consider taking efforts in the form of a course to improve their investment skills, 62% of the respondents replied in the affirmative. However, one must understand that the conditional clause attached i.e. "if they have time" is a very strong one and negation of which may swing many of them to the other side. In this age of the internet, online education has widened possibilities for anyone willing to learn. Such tutorials about investing, giving practical tips may not only provide time-flexibility to students to study about the Markets but also reduce the degree of speculation in their investments.

CHAPTER-5

CONCLUSIONS AND RECOMMENDATIONS

The economy is growing, the job market has been doing well and there has been a rise in the graph for salaries. The new generation of youth in India will have money in its pockets and ample opportunity to put it to good use, if they can shift from the traditional bank account savings to the capital market. They understand the importance and benefits of investing and know how they want to use their money now and in the future. They need lucrative options to put their money in for days to come but are understandably afraid or confused due to lack of practical understanding.

Traditional saving options like post office schemes and fixed deposits are now passé. Options like post office schemes and fixed deposits are not very popular with the youth as the rate of interest on them is lower as compared to other investment options available. But somehow savings accounts are still seen widely. Safety and security which were always important reasons for investment are still influential in determining the direction of investment. However their hold is loosening. With money in hand and age on their side, the young investors are becoming more inclined towards taking risk. Fixed deposits are not a very attractive investment option for youngsters these days. Tax saving is one of the reasons behind investment by the youth. Traditional saving schemes do not provide any tax benefits and are, therefore, keeping the youngsters away from them. There seems no rationale for investing in fixed deposits and post office schemes when they provide no tax rebates and the rate of return on them is fixed and also lower than other investment options. There is exemption for capital gains arising out of Equity Shares and Equity Oriented Mutual Fund units subject to certain conditions under the Income Tax Act.

Mutual fund has gained the favor of the youngsters today. Investment in mutual funds through the Systematic Investment Plan (SIP) is a favored investment option for the youngsters. This is especially true of the young salaried class which has just started earning and does not have a fat bank balance as yet. In case of Systematic Investment Plans, instead of bulk payment, a small amount is to be paid every month. This makes them very popular with the salaried class who find it difficult to shell out a large amount at one-go. Mutual Funds also have the benefit of requiring lesser financial competence as they are managed by experts while providing higher returns and better prospects than Bank Accounts. Other

traditional investment options like the Fixed Deposit or the Post Office schemes (PPF/ NSC / NSS/ KVP/IVP) are losing their way due to blocking of funds and lower returns. Gold is still preferred to some extent especially when it comes to females. Due to rise in price of gold from somewhere around 4,000-5,000 in 2003 to around 17,000 in 2010, gold is still shining as an investment option. However it is also an expensive investment and requires a fat purse to start with in the hope of having a fatter purse. Youngsters today are aware of what is happening around them and are intelligent enough to decide what is best for them. Every option is considered and the pros and cons of each weighed carefully before the decision to invest the hard-earned money is taken.

Youngsters today do know about the options available to them due to the rapid spread of information in recent times; they are not always sure about how to go about investing in newer ways actively. An informed investor is a good investor; there is opportunity for providing them with guidance and information but it has to be done in a way that is in accordance with their lifestyle – seminars and workshops are no longer the kind of options to peruse. Podcasts, online videos, forums and tutorials are the way of learning of the young generation. The social media platforms specially Face Book, Twitter, LinkedIn along with e-groups and websites can be a medium to spread awareness about various options available for the young investors. Thus, investor education can play a vital role in improving the active participation of the investors in the market, which can help them in the informed investment and in getting good returns. Media too can highlight young investors through newspaper columns, which would encourage more participation in the capital market from the young generation.

Some Recommendations for investors:

To quote J. Kenfield Morley, *"In investing money, the amount of interest you want should depend on whether you want to eat well or sleep well"*. An individual investor should keep the following points in mind while taking the decisions related to savings and investment of the savings:

(1) Safety of Investment

While making an investment decision, the factors that an investor needs look out for would vary with the type of investment. For example, in the case of shares, the safety may be

partially gauged from quantitative data such as the past trend in the price of the stock, the financial performance of the company; it also may be supplemented with qualitative factors such as the reputation of the company.

Analyzing balance sheets and project reports, however, require a great deal of expertise and time, which is usually beyond the scope of the retail investor. Therefore, the reputation of the issuer remains the only guide available.

(2) Credit Rating

When it comes to deposits or bonds issued by public companies or financial institutions, an investor can rely on credit ratings. A Credit Rating is an evaluation of the safety of an instrument made by an agency. These agencies undertake a detailed analysis of the issuer's strengths and weaknesses. The rating is allotted based on a formula that also incorporates past performance and volatility. They have a large and expert infrastructure that allows them to make the kind of financial judgement, beyond the scope of an individual retail investor.

(3) Type of Return

The return on investment may consist of appreciation in the value of the investment or receipt of income or both. The first type of return is typical of real estate whereas the second type is obtained as interest on loans or fixed deposits, savings certificates, bonds or debentures. Both income as well as appreciation in value could be got from equity shares of good companies.

(4) Risk - Return Linkage

The investor needs to be aware that there is a direct relationship between ' Return' on investment and the 'Risk' of losing them. Higher the return, greater is the possibility of loss. The Savings bank account under the present rules laid down by the Reserve Bank of India, gives interest depending on the duration of the deposit. A long-term deposit gives a higher rate of interest. The possibility of losing money in the savings bank account is almost negligible, except in remote cases of small-time co-operative banks. While the risk of losing money is almost absent. For instance, the saving bank accounts and bank fixed deposits offer interest in the range of 4.5 to 9% per annum respectively. The Company Fixed Deposits offer somewhat better rates of 12 to 15 % per annum. Building contractors and film producers offer very high returns such as 24 to 36 % per annum, but the probability of losing the entire principal amount in this case is very high.

(5) The Tax Factor

Return on investment in the form of income, attracts income tax under the Income Tax Act. Incidence of this tax depends on the type of the investment income and the quantum of other income. The interest on Savings bank accounts and bank fixed deposits is eligible for a tax concession up to Rs. 10,000 under Section 80TTA of the IT Act. Beyond that, it is taxable under the Income Tax Act as normal income.

As stated earlier, company fixed deposits yield higher returns than bank deposits, but they offer no tax concession. Incomes from mutual funds, deposits with notified financial institutions, interest on certain Post Office Deposits, interest on certain NSC, interest on notified bonds and debentures, are also eligible for a tax deduction under section 80L, all within an overall ceiling of Rs. 15,000.

The interest from PF and PPF is fully exempt from tax. Contribution up to Rs. 60,000 per year enjoys a tax rebate equal to 20% with a ceiling of Rs. 12,000. In the PPF, whenever there is a contribution made to the minor children's account, not only is the interest tax free but also it is not clubbed with the parent's income.

(6) The Inflation Factor

As mentioned earlier, real return is return that is post tax and post inflation. The value of the investment depends on the amount that the money can buy, and this goes down as inflation goes up. Therefore while evaluating the return from a scheme; one needs to see whether it is giving returns beyond the inflation rate.

The greatest problems with the investment avenues such as gold, silver, diamond and jewelry have been that they have not served as an effective hedge against inflation.

(7) High Risk and High Returns

And finally, equity shares of listed companies as an avenue of investment can be extremely rewarding. But they are also risky and call for a special mental makeup and unusually sharp skills on the part of the investor. As Peter Lynch, the acclaimed American fund manager said, "common stocks are not for everyone, nor for all times in the life of the same person".

(8) <u>Being Cautious</u>

It has been noticed world over that an investor's greatest and most portent enemy is GREED FOR HIGHER RETURNS. Many a times, rational thinking people tend to behave in the most irrational manner while investing their savings. A well-known investment guru has analyzed this uncanny behavior in one sentence - "Investor, protect thyself from thyself".

While analyzing, the popular savings options, an investor should consider two key factors: Taxation and inflation along with risk and return. Thus, a sound investment is one which gives the investor reasonable return after deducting outgo of tax as well as the invisible tax of inflation.

To conclude, the following advice was given to a few successful women investors:

"*Ask questions; Seek help; Do your homework; and Set goals*". This holds true for all investors.

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Annexure

Investment Pattern in Salaried Youth

Name: **Age:** **Gender:**

College/Institution: **Occupation/Job Title:**

1) Annual Income (your personal income approximately):

2) Educational Qualification:

- B.A
- B.Sc
- B.Com
- B.Tech
- B.E.
- Other (Specify)

3) Do you save / invest your income?

- Yes
- No

4) Why do you save / invest? (Rate your reasons on a scale of 1-4, with 1 being least and 4 being the most)

	1	2	3	4
As a precaution against the future				
For enterprising endeavors in the future				
Social Norms				
Foresight - for known needs in the future				

5) How much of your income do you invest / save? (Approx)

- Up to 25%
- 25-50%
- 50-75%
- More than 75%

6) Are you aware of Capital Markets?

- Yes
- No

7) Do you know about Stock Exchanges?

- Yes
- No

8) What investment vehicle do you prefer?

- Equity Shares
- Commodities
- Mutual Funds
- Debentures / Bonds
- Retirement plans are for me
- Post Office Savings, the old way
- Bank Deposits

9) If you chose Mutual Funds above, which one do you prefer?

- SIP
- Dividend
- Growth
- Bonus

10) If you invest in equity shares, which of the following do you prefer?

- Cash
- Derivatives
- Both

11) If you chose derivatives (or both) above, could you specify amongst the following?

- Futures
- Forwards
- Options
- Hedge Instruments
- Straddles

12) Which of the following are your sources of information for savings / investment? (Rate on a scale of 1-4 on the basis of frequency with 1 being the least frequent and 4 being the most)

	1	2	3	4
Brokers				
TV Channels				
Newspapers / Journals				
Family / Friends				

13) What factors do you consider while choosing an investment option?

- Returns
- Risk
- Stability
- Tax Benefits

14) What time-frame do you have in mind while investing?

- Intra-Day
- A few months
- 6 months - 1 year
- Longer than a year

15) What risk-return pattern do you look for?

- High Risk - High Return
- Low Risk - Low Return
- Don't know, never gave it much thought

16) Do you have an insurance policy? If yes what kind?

- Life Insurance
- ULIPs
- Endowment
- Pension / Retirement Plan

17) Would you consider taking a course or online tutorials or spend time (if you had it) to improve your investment skills?

- Yes
- No

18) Do you consult with a broker to reach at your investment decisions? How much influence does he/she have on your investment pattern?

- Yes, a lot
- Yes, but I don't depend on him much
- No, not at all

19) How much of a role, if any, does peer pressure play in your investing decisions?

- A lot! I constantly take advice from my friends and invest in a pattern similar to theirs
- Not much. I look into their investment patterns now and then and pick up something I like
- Not at all. I do my thing

20) How many members in your family invest in capital markets?

- No one. I'm exploring on my own
- Maybe a few.
- A lot of them! Runs in the blood