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A Comparative Study on Factors Influencing Investment Decisions of Investors Based on Income Level in Coimbatore

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ABSTRACT

This research project is a comparative analysis between the levels of income of individuals making investment decisions based on different factors from the Traditional Finance Theory and Behavioural Finance Theory. The study involves data that was collected using quota sampling method from the students and housing community in Coimbatore. There are about 154 responses collected for the purpose of the study. The non-parametric test Mann-Whiteney U Test was done to compare the impact of various variables in the different income groups- Low and High by analysing the statistically significant differences. The findings reveal that the factors of traditional finance and behavioural finance differ amongst the income groups. The perception of financial literacy has no significant difference between the categories. Risk & Return are almost perceived similarly by both the groups. Frame dependence and Herd behaviour have significant difference in its impact on the income groups. Although the findings reveal insightful information regarding the factors of investment decision which can be utilised by various stakeholders like investors and financial advisors, the study has its own limitations of using non-probability sampling method.

Keywords: Investment decision, Income level, Traditional Finance, Behavioural Finance, Financial Literacy.

1. INTRODUCTION

In the ever-demanding world, everything operates on finance and the decisions made by the individuals handling it. The economy of the households in the global village depends on each and every decision made by the individuals to such various players in the economy. The earnings generated in the economy are in return injected into it in the form of spendings and investments made by such players. The spending patterns of the players in the economy are very rigorous and dynamic based on the income levels of individuals, underlying the spending (Meyer et al., 2022). Whereas, the investments in the circular flow of money in the economy is a vast and dynamic perspective for individuals to consider before making decisions. It differs across various classes of investors on different basis grounds. The investment decisions of the individuals are affected by numerous factors that are directly and/or indirectly induced by the investors themselves.

The availability of various investment alternatives to individuals renders them a vast choice to invest their income. Most common investment alternatives include Deposits, Government Saving Schemes, Capital

and Money Market instruments, Insurance Products, Mutual Fund Schemes, Retirement Products, Precious objects, and Real Estate. The choice of investment relies on various aspects like the factors that will influence the individuals in choosing to invest in a particular investment (Singla, H. K., & Hiray, A, 2019).

In the dynamic sphere of finance, understanding the primary factors that influence the investment decisions of various investors is essential for conceiving effective investment strategies. Investment decisions are influenced by a multitude of factors, that includes cognitive, psychological and emotional, aspects of the investor (Shafee et al., 2018). These factors play a pivotal part in influencing investors' decisions (Jain et al., 2023).

One of the key assumptions in traditional finance is that investors are driven by rational expectations and aim to maximize the returns at a given level of risk (Annamalah et al., 2019). Regardless, behavioral finance argues by insisting on the limitations of traditional financial analyses, like fundamental and technical analysis, that it's not always accurate in determining the fair value of the securities. Instead, it focuses on the effect of emotions and behavioral biases on investment decisions, leading to market dynamics and volatility (Svoboda, J. 2022). This transformation in the perspective, emphasises on the significance of understanding the role of emotional and psychological factors that influence investment decision-making.

Besides, demographic factors such as age, gender, and education level crucially influence not only the choice of investment but also investor sentiment, response and self-confidence levels (Wilaiporn. P et al., 2021). With the gain of experience in the investment patterns, investors may start to become immune to emotional biases that can influence their decision-making. This would lead them to take more risks that would affect their portfolios which in turn affects the market as a whole. (Abideen Z.U et al., 2023).

Regardless of the ample research done in this domain, there is an evident research gap that requires further exploration. The previous researches conducted reveals the impact of various factors in the investment decisions of the individuals. There are articles that have studied Traditional Finance factors and Behavioural Finance factors specifically in each of the researches. With the availability and accessibility of various investment alternatives, the individuals are prone to make dynamic investment decisions in spite of the resources available to them. While existing studies identified the impact of emotions, cognitive biases, and individual characteristics on investment decisions, there is a need for an in-depth understanding of how these factors particularly affect various classes of individuals, such as students or young investors who have limited sources of income or none and the earning class with regular income. Considering the Level of Income an individual earns to be the major source of investment funds, it is crucial to study the influence of various factors from the Traditional Finance Theory, Behavioural Finance Theory and the Financial Literacy of the individuals in making the investment choices. Narrowing this gap will add up to a more profound understanding of investment behaviors, that facilitates the development of customised investment strategies and academic interventions, thus progressing the field of financial decision-making. Based on the above considerations, this research attempts to compare the discriminating factors on investment decisions among various classes of individuals in Coimbatore, Tamil Nadu based on their income level, and infer evident conclusions to optimize investment outcomes and promote financial literacy in the light of investor behaviour. Addressing this gap in understanding, this study aims to present insights for investors, financial advisors, educational institutions, and policymakers to enhance investment practices and cultivate a financially empowered society.

2. REVIEW OF LITERATURE

Investment decisions are the conclusive planned choices made by economic players in their choice of allocating their financial resources in order to achieve their desired objective through such investment. The investment decisions of individuals are influenced by various factors from traditional finance and behavioural finance. The study considers the factor variables from both the theories that tend to influence investment decisions to a considerably higher extent out of the other factors under the category. The following discussions on such factors and its impact on the investment decisions are elaborated.

2.1. Income

Based on the survey research conducted by Chandra A (2009), individuals with higher income tend to be more confident and willing to act on their own judgments. They are more likely to trade frequently. On the other hand, individuals with lower income tend to trade less frequently and prefer to play safe with their funds. The research also reveals that sometimes investors with higher income also tend to trade less frequently, indicating the safety of investment is a major concern of all income groups.

In contrast to some previous research, that infers that income is not a benchmark criterion for individual investment decisions, the study by Baiq Fitri Arianti (2018) concludes that income significantly affects investment decisions. Individuals earning higher income levels are associated with a greater likelihood of making more investment decisions. The findings from the research imply that income has a noteworthy effect on investment decisions. Increased levels of income are mostly associated with a greater tendency to make more investment decisions. Individuals who earn higher levels of income have more financial resources available to invest and are inclined to be more confident about their investment choices.

The research paper by Kumawat, A., & Parkar, A. (2020) comprehends the impact of income on investment decisions. According to this study, there exists a strong positive correlation between income and investments made. This indicates that higher-income individuals are more likely to invest in mutual funds and equity shares as per the study. Additionally, the research also infers that as income increases, the investment in unorganized investments also tends to increase. Therefore, income plays a significant role in the choice of the portfolios.

2.2. Expected return

The study conducted by Kartini K., & Nahda K (2020) concludes that investors focus more on avoiding losses rather than maximising returns. They tend to sell stocks too soon when the price goes up, fearing that it may decline shortly. On the other hand, they tend to retain stocks when the prices fall, anticipating for future hikes. This shows that returns have a bearing effect on investment decisions, as investors are driven by the fear of losing money.

In the research by Kengatharan (2019), expected earnings and dividends are two of the most influential factors in investment decision-making. Rather the study concluded that expected earnings had violated the assumption of homogeneity of variances, indicating a significant difference in relation to age groups.

The article by Patil et al., (2021) highlights the importance of expected corporate earnings in investment decision-making. It states that expected corporate earnings which is also known as the ‘bottom line’, refers to the amount of revenue earned or lost by a company in a given period of time. The study by Bradshaw (2004) reinforces taking into account the expected earnings in investment decisions. Additionally, Nagy and Obenberger (1994) report that a significant percentage of respondents in their study consider expected earnings as an important attribute for their investment. The article also mentions a positive relationship

between expected earnings and stock returns, as suggested by Choi et al., (2016). Furthermore, Alcock et al., (2014) find that the growth of stock prices for firms with low expected corporate earnings is more sensitive to leverage compared to firms with high expected corporate earnings growth. However, Ball and Brown (1968) report a negative relationship between expected earnings and expected returns.

2.3. Risk Tolerance

'Risk tolerance' refers to an individual's ability and willingness to bear a certain degree of risk in their investments in order to achieve a desired return. According to the research by Mubaraq et al., (2021), risk tolerance has a positive effect on investment decisions. This means that people with a high risk tolerance will mostly choose investments that carry a higher overall level of risk level, while those with a lower risk tolerance prefer investments with a lower overall level of risk. The degree of risk tolerance may vary depending on various factors such as gender, age, and perceived risk. Risk tolerance directly influences decisions regarding risky investments and indirectly influences decisions by risk perception.

In the study done by Annamalah et al., (2019), the importance of the risk-taking behaviour in investment decision-making is highlighted. It states that there exists a positive relationship between risk and the earnings from the investments. So, understanding risk-taking behaviour is crucial for both investors and brokers. By considering the factor of risk, the investors are able to choose investment options within their affordability and risk range and prevent over-reaction to losses. It also enables investment brokers to introduce affordable and profitable investment options to their clients.

In the research conducted by Jain et al., (2023), the mediations between the heuristic biases and the risk perception is analysed. This paper explains how risk perception acts as both a dependent and independent variable in this context. It defines risk perception as the biased judgments individuals make about features and severity of risks that it influenced by attitude, beliefs, values, etc. The study highlights the influence of peer effects and behavioural biases on risk perception. By the way the risk relating to an investment is perceived, it's tolerance level shall be estimated by the investor.

2.4. Financial Literacy - Financial Proficiency

Shafee et al., (2018) bring about the importance of financial literacy in mutual funds to decide on its investments. It states that the investors and the prospective investors gather information on how to invest from various sources such as brokers, financial advisors, the internet, articles, and consultants. It also mentions that financial literacy has to be acquired from credible sources as this has a direct bearing effect on the choice of investment. In spite of its significant influence, the findings from the study inferred only lower degree of influence on decision-making from the respondents.

The empirical analysis done by Bhushan et al., (2014) studied the linkages of the various aspects of financial literacy such as financial attitudes, behaviour and knowledge. The findings from the research indicate that when there was a positive correlation between the three aspects, the degree of association was relatively low. This concludes that high financial knowledge does not always guarantee positive financial behaviours. There are other factors like an individual's financial situation that play a crucial role in shaping the overall financial literacy of the investor.

As reviewed in the paper by Weixiang et al., (2022), financial capacity has a key impact on investment decisions. This study inferred that people with higher financial literacy are more likely to make rational investment decisions. This insists that a better understanding of financial concepts and investment strategies can help investors explore the complexity related to the stock market and make better investment

decisions. The study also highlights the fact that financial literacy can lead investors to avoid being misled by financial advisors and reduce the chances of incurring losses. By this, people can plan their expenses, understand their monthly income and make sensible decisions about saving, spending, borrowing and investing. Overall, this study emphasizes the importance of financial literacy in increasing the accuracy and quality of investment decisions.

2.5. Heuristic Bias

In the study conducted by way of Weixiang et al., (2022), heuristic bias, which is also known as the "rule of thumb", simplified the decision-making process for investors, especially in uncertain and complex situations. It eases the process of evaluating the investment options and forecasting the benefits of the investments, which helps investors in making faster decisions. Even so, there is a risk that heuristic bias may obstruct returns on the investment and lead to lower portfolio income. The phenomenon of heuristic bias can be interpreted in various ways, including representativeness bias, overconfidence, and anchoring bias. Heuristic bias also significantly affects both the framing effect and cognitive illusion in investment decisions.

Jain et al., (2023) conducted research that examined the effect of heuristic biases on investment decision-making process. Heuristics such as anchoring, availability bias and regret aversion attitude play a dominant role in decision-making. The findings also indicate that individual investors rely on traditional information sources, contradictory to the other existing research. So, it suggests that individual investors from India should be aware of heuristics- based decisions and try to incorporate it along with fundamentals in their investment strategies.

2.6. Frame Dependence

The framing effect has a profound influence on investment decision-making, as highlighted by Weixiang et al., (2022). According to the framing effect, the decision-making process can be bifurcated as: one phase in which the framing effect is considered and the other in which the evaluation impact is considered. Investors should make decisions on the grounds of the potential value of both losses and returns rather than only on the actual results. This is due to the expected outcomes that can affect the actual outcomes. The framing effect infers that decisions should be made by emphasising the recognised advantages over the real expenses. The framing effect is considered inconsistent and illegitimate in the decision-making framework. It is also linked with other behavioral biases such as the endowment effect, mental accounting, and regret aversion.

The framing theory as addressed by Kartini et al., (2021), explains that the framing bias occur when the investor makes decisions based on the way the information is presented, rather than just the facts. It further emphasises that framing is an important factor that influences judgments that would affect the investment criteria overlooked in traditional finance. It clarifies on the aspect where the information is not often transparent and it depends on the perception of the investors in understanding and analysing the financial decisions.

Fehrenbacher et al., (2018) explores the influence of culture and framing on investment decision, specifically in the context of Germany and Vietnam. It highlights the importance of understanding cultural differences in order to adapt management practices to different markets. This study used a lab experiment with participants from both countries to examine the effect of framing and escalation of commitment.

2.7. Herding Effect

'Herd mentality' refers to the tendency of the investors to imitate the decisions and actions of the majority of other investors in the market. This behavior takes place when investors feel pressured into making investment decisions. According to the research carried out by Weixiang et al., (2022), herd mentality exists in the market both when it rises and falls. This can lead to poor investment decisions and cause substantial changes in both volume and volatility of the market. Investors mostly rely more on their emotions and instincts over their own critical thinking when following the herd.

The research carried out by Nareswari et al., (2021) states that herding behavior has a positive influence on investment decisions which means investors tend to follow the majority of the investors in the market to make investment decisions, especially in emerging markets like Indonesia. This leads to stock prices going too high or too low, as investors flock to sell shares simultaneously when the market is going down and vice versa when the market is going up. The study also highlights that herding behavior can drive stock investment decisions and could create momentum in the market.

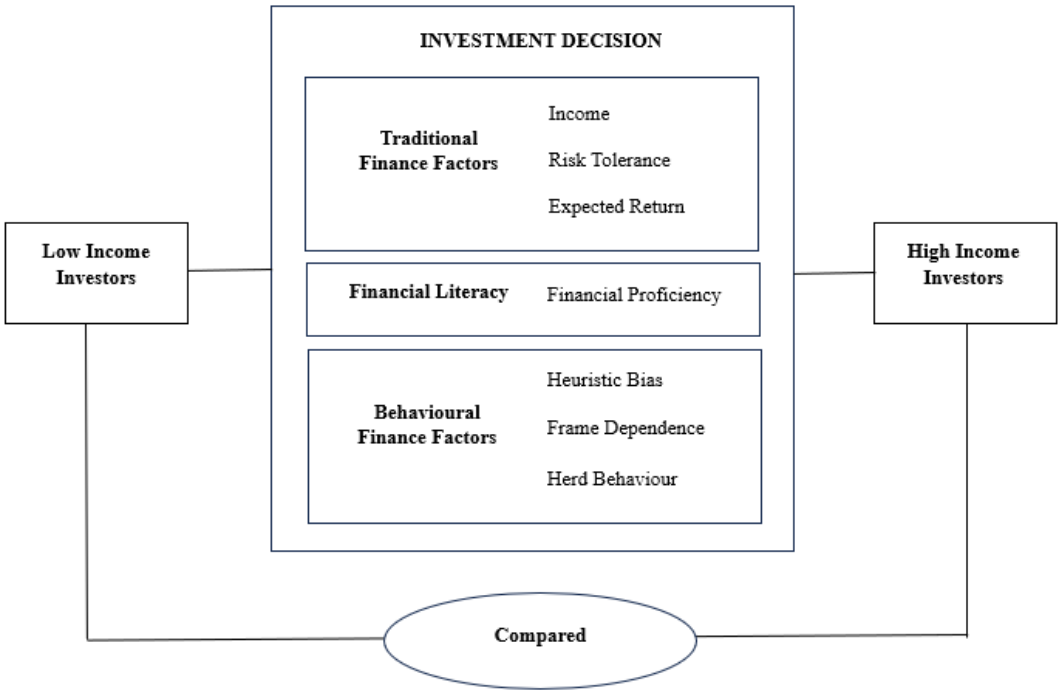
Metawa et al., (2019) in their research paper provide several empirical evidence on herd behavior observed among various classes of investors. This study also suggests that herd behavior is influenced by different factors such as market-wide cash flows, information processing and the responses in the market to the price fluctuations. It also mentions about the impact of herd behavior on price stabilisation and adjustment processes. Finally, the study emphasises on the significance of understanding and analysing herd behavior in the securities market.

The research by Kumar S et al., (2014) discusses the empirical findings on herding behavior among different types of investsors. The review highlights the inconsistent evidence on herding behavior among institutional investors and positive correlation between analyst recommendations and herding behavior.

3. CONCEPTUAL FRAMEWORK:

Based on the review the study arrived at the following framework:

Figure 1. Framework of the study



3.1.With the framework as the basis, the study has the following objectives:

- To analyse the investor perception on major factors in Traditional Finance Theory- Income, Risk Tolerance and Expected Return and Financial Proficiency.
- To analyse the impact of major factors in the Behavioural Finance theory- Heuristic Bias, Frame Dependence and Herd Behaviour.
- To compare the influence of these factors in the investment decisions of the investors across income levels and arrive at conclusions based on such theories.

3.2.Hypothesis:

Based on the Review of Literature, the study aims to test the following hypotheses:

H1: There is a significant difference in the perception towards Income between Low Income and High Income investors.

H2: There is a significant difference in the perception towards Risk & Return between Low Income and High Income investors.

H3: There is a significant difference in the level of Financial Literacy between those who earn Low Income and High Income investors.

H4: There is a significant difference in the impact of Heuristic Bias on the investment decisions of Low Income and High Income investors.

H5: There is a significant difference in the impact of Frame Dependence on the investment decisions of Low Income and High Income investors.

H6: There is a significant difference in the impact of Herd Behaviour on the investment decisions of Low Income and High Income investors.

4. METHODOLOGY

The study aims to compare the impact of various factors in the investment decisions of the individuals in Coimbatore, Tamil Nadu based on their income levels. This study employed a descriptive research methodology to investigate the perceptions of investors of both Low Income with income about Rs.4,00,000 or less and High Income with income more than Rs.4,00,000. Since the exact composition of the income levels amongst the population in Coimbatore were unknown, Non-Proportionate Quota Sampling method was employed to collect responses. The per capita income in Coimbatore is about Rs.3,00,000 for the year 2019-20 computed through inflation multiplier by Department of Economics and Statistics, Government of Tamil Nadu. Considering the diverse sector of employment, growth in the district and time growth of inflation, Rs. 4,00,000 is set as the bifurcation income between the groups for the project.

The data was collected through a questionnaire hosted on Google Forms, utilising the a 5-point Likert scale (ranging from 1= Strongly Disagree/ Very Low to 5 =Strongly Agree/Very Strong). The survey link was circulated to college students who invest, housing community and some clients of a financial advisors from around Coimbatore resulting in about 154 responses with 79 and 75 responses in each quota respectively. These data were compiled and transferred for analysis to derive findings. The questionnaire was framed to measure the aforementioned factors that underwent reliability test to ensure consistency and trustworthiness. Data analysis was conducted using the SPSS software. Since quota sampling is a non-random sampling method and the data obtained was not normally distributed, the non-parametric test Mann-Whitney U test to analyse the gathered data effectively.

5.DATA ANALYSIS & INFERENCE

5.1.Descriptive Study

The following Table presents the demographic composition of the respondents to the survey.

Table.1 Frequency Distribution of Demographics

Frequencies of Age

Age	Counts	% of Total	Cumulative %
22 years & Below	9	5.8 %	5.8 %
23 - 32 years	78	50.6 %	56.5 %
33 - 42 years	25	16.2 %	72.7 %
43 - 52 years	31	20.1 %	92.9 %
53 years & above	11	7.1 %	100.0 %

Frequencies of Occupation

Occupation	Counts	% of Total	Cumulative %
Student	33	21.4 %	21.4 %
Business	26	16.9 %	38.3 %
Profession	25	16.2 %	54.5 %
Employed	50	32.5 %	87.0 %
Self-employed	7	4.5 %	91.6 %
Freelancer	3	1.9 %	93.5 %
Homemaker	10	6.5 %	100.0 %

Frequencies of Maximum level of Education

Maximum level of Education	Counts	% of Total	Cumulative %
HSC or equivalent	11	7.1 %	7.1 %
Under graduation	51	33.1 %	40.3 %
Post graduation	84	54.5 %	94.8 %
PhD or Higher	8	5.2 %	100.0 %

From the above tables, it is evident that there has been highest number of respondents of age 23 – 32 years. Students constitute 21.4% of respondents and Employed individuals of about 32.5%. The maximum of the respondents has completed their Post Graduation. The samples comprise of about 64.3% Males and 35.7% Females. There were about 79 responses received from individuals who earn a Low Income and 75 from the High Income.

Reliability Test

Table. 2 Reliability Statistics of variables

Variable	Cronbach's Alpha	No. of items
Income	0.887	5
Risk & Return	0.680	5
Financial Literacy	0.867	5
Heuristic Bias	0.756	5
Frame Dependence	0.822	5
Herd Behaviour	0.889	5

Table.3 Overall Reliability Statistics

Case Processing Summary

		N	%
Cases	Valid	154	100.0
	Excluded[a]	0	.0
	Total	154	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	N of Items
.752	6

The Cronbach's Alpha for the individual variables (factors)- Perception of the Income, Financial Proficiency, influence of Heuristic Bias, Frame Dependence and Herd Behaviour in the investors is above 0.7 and that of Risk & Return is almost 0.7 with 0.68. This indicates that there exists a high level of internal consistency reliability among the items in the questionnaire. The Alpha value of the averages of the perception of these factors is about 0.752. This suggests that the scale is reliable for measuring the construct of interest.

The following table summarises the variable-wise distribution of the data collected through questionnaire:

Table.4 Descriptive Statistics of Variables

Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum	Percentiles		
						25th	50th (Median)	75th
Income	154	4.049	.5858	2.0	5.0	3.800	4.000	4.250
Risk & Return	154	4.297	.5884	2.0	5.0	4.000	4.400	4.800
Financial Literacy	154	3.939	.2680	3.4	5.0	3.800	3.800	4.200
Heuristic Bias	154	4.016	.5331	2.0	5.0	3.600	4.000	4.400
Frame Dependence	154	3.342	.7256	1.8	5.0	2.800	3.400	3.850
Herd Behaviour	154	2.694	.9232	1.0	4.8	2.000	2.600	3.400
Annual Income	154	1.49	.501	1	2	1.00	1.00	2.00

5.2.Mann-Whitney U Test

Table.5 Ranks

Ranks

	Annual Income	N	Mean Rank	Sum of Ranks
Income	1	79	84.37	6665.00
	2	75	70.27	5270.00
	Total	154		
Risk & Return	1	79	84.27	6657.50
	2	75	70.37	5277.50
	Total	154		
Financial Literacy	1	79	72.25	5707.50
	2	75	83.03	6227.50
	Total	154		
Heuristic Bias	1	79	85.28	6737.50
	2	75	69.30	5197.50
	Total	154		
Frame Dependence	1	79	90.68	7163.50
	2	75	63.62	4771.50
	Total	154		
Herd Behaviour	1	79	92.15	7279.50
	2	75	62.07	4655.50
	Total	154		

The Table.5 represents the averages and the sum of the ranks assigned to each quota on the variables. Here, "1" depicts the respondents who have "Low Income" and "2" the ones with "High Income". It can be seen that for the variable Herd Behaviour, Low Income quota has registered a higher sum and average rank of 7279.50 and 92.15 respectively as compared to the High Income with 4655.50 and 62.07 respectively. It is the same state of Low Income having higher mean and sum of ranks in other factors like, Income, Risk & Return, Heuristic Bias and Frame Dependence. But in case of Financial Literacy, Low Income has lower rank sum and mean of 5707.50 and 72.25 than that of High Income with 6227.50 and 83.03.

Table. 6 Mann-Whitney Test Statistics

Test Statistics[a]

	Income	Risk & Return	Financial Literacy	Heuristic Bias	Frame Dependence	Herd Behaviour
Mann-Whitney U	2.420E3	2427.500	2547.500	2347.500	1921.500	1805.500
Wilcoxon W	5.270E3	5277.500	5707.500	5197.500	4771.500	4655.500
Z	-1.984	-1.950	-1.598	-2.239	-3.781	-4.192
Asymp. Sig. (2-tailed)	.047	.051	.110	.025	.000	.000
a. Grouping Variable: Annual Income						

H1: There is a significant difference in the perception towards Income between Low Income and High Income investors.

H1 is accepted as the p value= 0.047 is < 0.05. This means that there exists a significant difference between the perception of the Income earned by the individuals earning Low and High levels of Income while making investment choices. Arianti (2018) produces result that there is evident influence of income level in the investment decisions. It could be inferred that the result is in par with the previous research that the income levels have a crucial impact on the investment decisions of individuals.

H2: There is a significant difference in the perception towards Risk & Return between Low Income and High Income investors.

H2 is accepted since p=0.051 is approximately equal to the value of the idle p value of 0.05. So, there is statistically significant distinction between the individuals earning Low and High levels of income in their perception of risk tolerance and their expectations of returns from the investments. Ainia et at (2019) presents that there is a moderate level of risk tolerance in individuals when they expect higher returns from the investments. The result matches the previous findings that the perception of risk and return factor to the individuals' decision making is more or less similar.

H3: There is a significant difference in the level of Financial Literacy between those who earn Low Income and High Income investors.

H3 is rejected as p=0.110> 0.05 which implies that there is no significant difference between the Low and High Income groups about their proficiency in finance. From the findings of Arianti (2018), there is no significant effect of financial literacy on investment decisions. So, based on the composition of the samples, although the education levels of the respondents are almost similar, there is no difference in their investment choices based on their income levels. This adds up to the previous findings that financial literacy did not influence their decision more.

H4: There is a significant difference in the impact of Heuristic Bias on the investment decisions of Low Income and High Income investors.

H4 is accepted as the p=0.025 < 0.05. This implies that there is difference in the impact of heuristic bias on Low and High income. Weixiang et al., (2022) concludes that there exists a crucial degree of relationship with the heuristic bias in the behavioural biases in small investors. So, the level of income as a deciding parameter and the part of income that the individual invests is to a lower extent based on the rules of thumb that makes them make faster choices.

H5: There is a significant difference in the impact of Frame Dependence on the investment decisions of Low Income and High Income investors.

H5 is accepted with p=.000 < 0.05, it tells that there is significant difference between the income groups with the impact they have from the Frame dependence of the investments. Weixing et al., (2022) also finds that there is deleterious relationship between framing effect and the behavioural bias of small investors. So, the impact of the presentation of the investment information is lower and are perceived differently between the income groups.

H6: There is a significant difference in the impact of Herd Behaviour on the investment decisions of Low Income and High Income investors.

H6 is accepted as p=.000 < 0.05, implies that there exists statistically significant distinction between the income groups with their perception on the Herd Behaviour. Weixing et al., (2022) also finds that there is deleterious relationship between herding mentality and the behavioural bias of small investors. So, the

investors' decision on making investments does not purely depend on the influence of fellow investors in the market. This is again perceived differently amongst the income groups.

5.3. INVESTMENT CHOICES

The following figure depicts the investment choices made by the respondents belonging to different income groups.

Fig.2 Choices of Investment

From the above graph, it can be concluded that Gold is the investment option equally opted by both the income categories. Insurance and Fixed Deposit are the investment choices that the High Income category have higher inclination than the Low Income. Retirement Products and Mutual Funds are the options that the High Income has more inclination but relatively Low Income also has the similar inclination to these investments. Real Estate is the type of investment that has significantly highest degree of inclination from the High Income group than the Low Income. Post office deposits, Stock market and Cryptocurrencies are two choices that the Low Income has more inclination than the High Income. The Other types of investment choices that the investors include Chit Funds and Debentures.

6. FINDINGS OF THE STUDY

6.1. DISCUSSION

According to this study, the investors with High Income show a different investment behaviour than those in the Low Income category. The Mann-Whitney test conducted to analyse the data collected for the purpose of this study produced the mean ranks of the variables for different income groups. Investors earning High Income show lower perception of Income level, Risk Tolerance and Expected Return of 70.27 and 70.37 respectively than that of Low Income earning investors with 84.37 and 84.27. These Traditional Finance Factors have higher perception from the Low Income group. It is the same with the Behavioural Finance factors that sees higher impact on the High Income investors with Heuristic Bias with 85.28, Frame Dependence with 90.68 and Herd Behaviour with 92.15 and that of the Low Income group with 69.60, 63.62 and 62.07 respectively. In case of Financial Literacy, the Low Income group has lower perception with 72.25 than High Income with 83.03. These mean ranks suggests that the investment decisions of the individuals are based on the various variables as studied in the research.

The Mann-Whitney test also gave the outcomes of the Asymptotic Significance (2-sided) to compare the impact of the variables between the income groups. This study also infers that there is no significant distinction between the Income groups in their perception of Financial Literacy with p value 0.110. This

maybe due to the increased awareness about the investment alternatives and the understanding of the benefits and risks associated with the investments. Income level, Risk & Return and Heuristic Bias are the variables that have a lesser degree of similarities but still significantly different of perceptions amongst the Income groups with p values 0.047, 0.051 and 0.025 respectively as the values are less than 0.05. Frame Dependence and Herd Behaviour have completely no similarities and completely different perception from the income groups with the p value 0.000. From this, it can be inferred that there are distinct investment behaviour based on the income levels of the investors. The choice of investments opted by the investors vary not only based on their income levels but also evidently from their understanding of the benefits and risks attached to the kind of investment. So, the study has collected data that depicts a diverse choice of investments from the individuals.

6.2.IMPLICATIONS

The findings from this comparative study of factors such as Income level, Risk Tolerance and Expected Return, Financial Proficiency, Heuristic Bias, Frame Dependence and Herd Behaviour between the individuals earning Low (or limited access to source) income and High income render crucial insights to investors, financial advisors and investment sellers. The traditional finance factors like income level, risk tolerance and expected return are perceived by the investors irrespective of their income level. Likewise, the behavioural finance factors like heuristic bias, frame dependence and herd behaviour are comparatively higher impact on those with low income over those with high income. The financial proficiency of the investors are almost similar amongst the income groups which means they make informed investments after understanding the benefits and risks associated with the choice of investment. This implies that in spite of the financial literacy, there can be various other factors that could influence an individual's investment decision. The investments are made based on their perception of accessibility and availability of the source of fund for investing, their goal out of the investment, or just to explore a kind of investment. Investors must know that there is a need for more robust financial education to individuals so that they are aware about the basic knowledge of the investments. Financial advisors can suggest based on the goal of their clients and their level of income. The sellers of the investments can tap into the insights from this and make use of framing the investment information to be presented to the market. By this, there can be a shift or a certain degree of evolution of investment behaviour amongst the stakeholders in the economy.

6.3. LIMITATIONS

While this study offers insightful information about the difference in influence of factors affecting the investment decisions between Low income investors and High income investors, there are limitations that should be considered. The collection of responses is made through quota sampling which is a non-probability sampling method. The authenticity of the responses could be biased and although the reliability test is passed, the respondents' ability to respond could affect their perception. The sample collected in this project is not a full representation of the low income category of investors in Coimbatore. Hence future research can be done using a probability sampling method and by using independent t test as a tool. Also, there are other factors to consider such as perceived emotional bias, cognitive bias, etc. Hence future research can be done by incorporating other factors that influence the investment decisions of the investors.

7. CONCLUSION

Based on the comparison done in the research, it can be concluded that there are differences in the perception and the influence of various factors in the traditional and behavioural finance theories on the investors with their levels of income. The level of financial literacy is almost similarly perceived but the application of such proficiency in making investment decisions varies amongst the groups. The objective of the study is thus achieved through the statistical test and analysis of investment choices conducted in the project. Although this project has its own drawbacks, it paves way for future studies in this field. It is insightful for various stakeholders in the sphere of investment.

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