

A CONCEPTUAL FRAMEWORK FOR RESEARCH ON INVESTMENT DETERMINANTS AMONG NON-INSTITUTIONAL INVESTORS

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ABSTRACT

In modern economic world income plays a very vital role in every one's daily life. Investment has been one of the major concerns for the Non-institutional investors as their today's small savings would be meeting with the expenses of tomorrow. The risk and returns proportion from each of these investment options varies from one to another. Investor's behavior plays an important role in investment decision making, which is influenced by many a factors during the process of investment decision making. Today, investors have many avenues of investment with different features to cater their present and future needs. The focus of this paper (non-institutional investors), unlike institutional investor, suffers from various sort of perception while deploying their funds due to their low investible funds, risk taking capacity, low investment education and their exposure to evaluate the available information. This situation of the non-institutional investors motivates to study as these investors are the finest source of small savings in investment set-up of the country. This paper presents a conceptual framework for research on investment determinants among non-institutional investors to be carried out further by the researchers.

Key words: Non-institutional investors, investment patterns, Investment objectives, Investment determinants

JEL Classification: D19, G14

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1. INTRODUCTION

The non-institutional investors are the investors who do not have access to detailed information about economic development. Non- institutional investors face a lot of problems due to inadequate knowledge, rural orientation, lack of investment skills, lack of information, etc. An investment is the current guarantee of money and the hope of securing future benefits. It also involves the diversion of resources from current consumption. Investment in equity desires a close study of assorted factors of an organization before investment in it. The institutional investors analyze the various factors which are to be studied before investing in equities but the non-institutional investors traditionally, with their several limitations, do not appraise the company before investing in shares. However, with rising degree of awareness and a number of other capitalist awareness programmers conducted by completely different broking homes as a region of their capitalist friendly image building strategy and typically to comply with the necessary provisions of regulative bodies, even small scale and infrequent investors have started considering different factors those influence the likely performance of the company they are investing in.¹

2. LITERATURE REVIEW

The study carried out by Kaur and Vohra² (2012) found that investment strategies adopted by various categories of investors due to their varied level of knowledge. The motivation behind making investments by an investor is complex in nature and depends upon variety of factors. The individual investor's decision to invest in the market is broadly influenced by the variety of benefits. Investing in various types of equity is an attractive activity that attracts people from all walks of life.

Karthikeyan and Ramprasath³ (2013) explained the individual investors' behaviour towards select investments in the study mainly focused on investor classification, investment avenues, investor behaviour and investment decision. Investors prioritise the investment avenues that give better returns. The investors choose multiple investment avenues at a time. In the study many types of investment avenues were described including post office small savings schemes, bank deposits, company deposits, life insurance, mutual funds, Government bonds, shares, debentures, bullion (gold, silver) and real estate. The research concluded that the investors give most importance to the safety factor and, thus, investment options such as bank deposits, life insurance policies and precious metals are preferred by the individual investors.

Rao and Chalam⁴ (2013) in their study described the theoretical background of independent variables on investment decision by equity retail investors. The researchers described that investors have various avenues of investment with different features matching their needs. The study used four-point scaling technique, average score analysis and Wallis H-Test were obtained to analyse the responses of the retail equity investors.

The research of Goyal and Sharma⁵ (2014) was based on investment behaviour of middle income group towards different kind of investment avenues. The study is important from the as Indian economy is one of the rapidly growing economics of the world where more than 50% people belong to middle class and lower class with their annual income up to rupees 10 lacks (according to NCAER's definition). The study emphasised the middle class population as the key element for economic development of India. They found that growth in economy and, thus, growth in per capita income of low class and middle class need to be studied with regard to increase in inflation rate.

Motwani⁶ (2013) in his research described fundamental determinants of equity investment among infrequent small-scale investors. Investment in equity needs a holistic study of various factors those play an important role in good financial performance of a company. The researcher identified the reasons because of which small investors do not appraise the company before

investing in shares while institutional high net worth investors analyzes the same factors which need to be studied before investing in equities. This study was an attempt to find how the infrequent small investors consider the different fundamental determinants while making equity investment decision. The study concluded that the infrequent small-scale investors do consider some of the fundamental determinants of a company before investments.

3. OBJECTIVES OF THE STUDY

The key objective of the study is to identify and prioritise the factors influencing investment decisions of the retail investors in the Indian Capital Market Further, to compare how these factors relate to the socio-economic characteristics of the investors in Rajasthan. The objective of the study can be elaborated as:

3.1 Identifying factors influencing the investment decisions in equity market.

3.2 Identifying factors that motivate the investors to invest in equity market.

3.3 To know whether the investment determinants are common for institutional and non-institutional investors.

3.4 To explain the reasons why determinants are uncommon between institutional and non-institutional investors.

3.5 To find out whether the investment determinants differ across the different categories of non-institutional investors based on demography.

3.6 To explore the possibility of developing a model that helps non-institutional investors in appraising the factors, which are otherwise overlooked.

4. NEED TO STUDY NON-INSTITUTIONAL INVESTORS EXCLUSIVELY

The non-institutional investors usually invest small funds for varied time horizon. They have less than average know-how of principles and procedures of investments. This makes them a follower investor, which mostly results in loss as they cannot decide whom and how to follow. Their access to needed information is also limited. These are some of the reasons why non-institutional investors need to be studied exclusively particularly when the determinants of investments are concerned. Following are some of characteristics, which makes them distinct and support for exclusive study:

4.1. Frequency

It is an established fact that the investors who feel more competent tend to trade more frequently than investors who feel less competent. The frequency of trading by non-institutional investors is found to be relatively low, which in turn, affects the comfort and confidence in investments.

4.2. Size of Investment

The size of investments made by non-institutional investments is low as they tend to invest their own money only. They do not hold the leveraged portfolios.

4.3. Percentage of Investable Funds to Total Available Funds

The ratio of investable funds to total available funds is also low in case of non-institutional investors. Unlike the institutional investors, they invest a little amount to risky investment options.

4.4. Level of Diversification

The decision regarding diversification with regard to non-institutional investors is usually limited to including some stocks apart from bank deposits and other like risk-free options or the options with least risk. Cost of diversification also plays a critical role in investment decisions by them.

4.5. Technical Limitations

Institutional investors usually have greater flow of information and better access to financial markets that makes them technically sound to make faster and more accurate decisions. The scenario is exactly opposite in case of non-institutional investors who are less informed and updated.

4.6. Access to Real-Time Information

Real-time information access involves two requirements for enterprise systems. First, the latest data available is taken into investment when answering a query. And second, the response time of a query is so low that it does not obstruct the workflow of the user. Accessing the latest data is important for any investment decision linked to a fast-paced investment process. The real time information is a dream for non-institutional investors due to their access to information as well as quick response to information.

4.7. Cost of Transactions and Holding

The cost for making investment like brokerage, account charges etc. are high for non-institutional investors as compared to institutional investors whose cost per transaction and other maintenance cost are very low. Some of the institutional investor, due to their position in financial markets, enjoys negligible cost in this regard.

4.8. Different Preferences in Investment Objectives

The preferences of non-institutional investors in terms of selection of investment options, investment horizon, tax implications etc. are totally different from those of institutional investors.

5. IMPORTANCE OF STUDYING NON-INSTITUTIONAL INVESTORS

Studying non-institutional investors exclusively becomes important while looking at their role in total investments in economy. It is also important to keep and build their trust in investment setup of the country and to support the endeavours of policy makers to shift small individual savings from bank to stock markets.

5.1. Role of Non-institutional investors in total economy

The presence of non-institutional investors is perceived to be short of what is should be. A survey of household saving and investment behaviour conducted by NCAER⁷ in 2011 found that households investing in bonds, debentures, equity instruments, mutual funds and derivatives totalled 24.5 million and constituted 10.74 per cent of all households in the country. The proportion of investor households was nearly 21 per cent in urban areas and 6 per cent in rural areas. Of these investors 43 per cent showed a preference for mutual funds, 22 per cent were exposed to bonds and debentures, another 22 per cent to the secondary market, 10 per cent invested in IPOs and less than 4 per cent in derivatives. In sum, though a significant share of investor households were exposed to the secondary equity market, they amounted to only 2.4 per cent of all households, with that figure falling to just above 1 per cent in terms of exposure to IPOs.

Non-institutional investor's presence appears smaller when assessed relative to population. A study by De, Sankar and Gondhi, Naveen R. and Sarkar, Subrata³ estimated that there were around 2.02 million retail investors in India, which was small relative to the Indian population (0.2 per cent).⁸ other evidence also shows that Non-institutional investors constitute a miniscule share of the population. Thus, the study by De et al using a database covering transactions of all 755 stocks traded on the NSE between January 1, 2005 and June 30, 2006 found that the number of retail investors who engaged in at least one trade in this 18-month period was 2.5 million or 0.22 per cent of the Indian population. Many of these investors were retail participants from small towns that were not part of the top 50 cities in the country. Thus, retail participation among the 'tax-paying middle class' seems substantially higher than revealed by figures on retail participation relative to the population of Indian economy.

5.2. Keep and Building Trust Regarding Investment setup of Country

The role of non-institutional investors in investment setup of a country cannot be denied. Despite of several limitations, these investors keep contributing in total savings of the country and thus, investments. The trust of this category of investors in stock market and overall investment setup decide the overall direction of the market, thus, their behaviour need to be studied exclusively.

5.3. Supporting Endeavours of Policymakers to Shift Savings of Non-institutional Investors from Banks to Stock Market

There is a constant emphasis of policy makers to improve transparency in dissemination of information related to non-institutional investors' investment, creating awareness about investment planning, investor education programmes and strengthening the system to resolve investors' grievances with a view to shift the small savings of these investors from bank to financial markets. These efforts can be supported by studying investment behaviour of these investors.

6. METHODOLOGY OF THE STUDY

This study is an attempt to identify the factors, which non-institutional investors consider while investing in any equity. The research will be based on survey of non-institutional investors of Rajasthan state selected based on the judgment of the researcher through questionnaire. The respondent who understands the fundamental determinants of investments will only be selected as a sample. Unsuitable questionnaires rejected due to multiplicity of ratings for one question and other reasons will not be considered in the study.

In order to quantify the extent to which these factors influenced their investment decision respondents will be asked to assign the relative importance of each factor. A rating of five denotes the strongest influences, a rating of one denotes the weakest influence and a rating of zero denotes no influence. The ratings will subsequently be averaged to calculate mean scores for each factor. Each factor's average rating will be evaluated to understand the importance of specific factor that affects the equity investment decisions of non-institutional investors.

7. FACTORS INFLUENCING NON-INSTITUTIONAL INVESTORS DECISIONS

- **Availability of Funds:** It is prime factor which influences Non-institutional Investors Decisions the most. Most of the investors of this category don't have huge funds to be invested. A large amount of these investors are not regular in chosen time horizon due to irregular income.

- Economic status: It is a reason of worry as per capita income is very low. The earning members of a family is only one or two, hence the amount available for savings is very less or nil.
- Social and Religious factor: The society do not motivates heavily for investment a social or cultural scenario in Rajasthan is very expensive if it is compared with Gujarat and few other states of the country.
- Educational Status: There is lack of investment education among Non-institutional investors, as well as lacking with the basic education also. However a pleasing development has been seen in this area.
- Local economic factors: Size of the local market and the demand generated by the local purchasing power Influences on the non-institutional investor decision.
- Risk of an investment: The risk taking attitude is very low. Most of the investors want to play safe. This always restricts the diversification investment portfolio.
- Tax Aspects of investments: It is again a question that how many of the investors of this category files income tax. A large amount of Non-institutional investors is not interested in higher tax savings instruments like ELSS, ULIP etc but are more demanding towards Bank fixed deposits, investment in real estate, investment in gold etc.
- Investment horizon: Non-institutional investors generally don't go beyond a time horizon of 3-5 years. ULIP polices of most of the insurers are not reaching to the maturity because it takes average 15-20 years, which is very far compared to the mind set of 3-5 years.

8. CONCLUSIONS

The discussion above clearly reveals how different the non-institutional investors are from intuitional investors. Their distinct objectives, ability to plan investments and execute procedures, access to meaningful information, and level of technical knowhow from institutional investors make them a class apart in the overall investment setup of any economy. At the same time their role in economy cannot be overlooked. This kindles the need of studying this category of investors exclusively as they are the source of small savings in investment set-up of the country. This paper presents a conceptual framework for research on investment determinants among non-institutional investors to be carried out further by the researchers.

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