A Study Of Savings And Investment Patterns Of Small Investors: A Literature Review

Sachin Kumar Rohatgi, Dr. P.C. Kavidayal, Dr. Krishna Kumar Singh

Abstract: The financial position of a country largely depends on the inflation rate, foreign exchange rate, per capita Gross domestic product, etc. Savings from middle class households also plays a vital role in improving the financial position of a country as it leads to more investments and capital formation in the economy. Savings and investments are directly proportionate to each other. There are a number of studies conducted in this area analyzing the factors affecting the saving and investment patterns, but there is a dearth of literature available which shows, whether the investors have been able to achieve their investment goals and the performance of different investment options meeting their expectations. This study is focused upon different literature available on saving and Investment patterns of small investors in Uttarakand region of India. It also focuses upon impact of factors on small investors as considered by the esteemed learners and how far it is applicable in the Uttarakand region of India. After study of the available vast literature the researcher will try to find research gaps in this area which will be considered for the further scope of study.

Keywords: Economic Development, Investors expectation, Investment goals, saving and Investment patterns,

I. INTRODUCTION

Economic development is a condition which transforms a developing economy to a developed economy. In the Indian context, even the current government is also focusing on turning the India economy to a magical figure of 5 trillion US dollars in the coming 5 years by 2024. Many economists agree that the economic growth and development rate are generally affected by physical capital, human resources, technology and natural resources. The contribution of each of these factors is imperative for the economic development of a country. The human resource requires more training and education so that they can perform well and increase the output which will ultimately increase the efficiency in the economy. A deficit of trained and skilled workers is a problem for the economic growth, as they are incompetent and not have a required skill set. They become a burden on the economy and it progresses to unemployment. There is a need for regular investment in infrastructure facilities like roads, railways, factories etc. so the cost per unit of product can be minimized by maximizing the output. By improvising on these facilities, labour will become more productive and eventually growth rate increases. The natural resources also increase the growth rate and the economic development. These resources help in increasing the productivity which leads to economic growth.

Another factor is technology, which contributes towards economic development. Advance technology makes the labour more productive and improves the growth rate in the economy. All these factors need a huge capital investment, which comes from government funds. These funds are provided by the central funding agencies like central bank. In reference to the Indian context these funds are provided by the Reserve bank of India (RBI) under different schemes framed by the central government. These funding agencies are using the funds invested in traditional and modern saving schemes like Provident Fund, National Saving Certificates, and Kisan Vikas Patra, Mutual Funds, Unit link Insurance plan (ULIP) etc. Middle class households are using these traditional and modern saving schemes to park their savings. Middle class households here referred to as small investors (Investing < Rs. 2, 00,000 per annum) who are investing their savings in different saving schemes which eventually helps in the India’s economic development and growth rate. Further in this reference it is crucial that there must be an analysis of saving and investment patterns of small investors so that their saving and investment behavior can be gauged and used in the framing of investment policies. Many studies in this regard have already been presented and published which shows the relationship between savings and investment patterns, factors affecting saving and investment patterns, etc. In this study researcher has reviewed available literature focused on the savings and investment patterns of small investors in Uttarakand region for the last 11 years since 2008. The literature review focuses on the factors affecting savings, shifting from traditional savings to modern saving instruments, relationship of Gross Domestic Product and Investment climate etc. Further the study focuses on the impact of factors considered by the esteemed learners for small investors and how these factors affecting in Uttarakand region.

II. LITERATURE REVIEW

N. Geetha, M. Ramesh have studied the significance of demographic factors on the elements considered while making investment decisions. They conclude that there is no relationship between demographic factors and the elements which are considered during investment decision. However some demographic factors have a relationship with period of investment. The study further states that the
family size and age has no relationship with the sources of awareness and the investment avenues. The individual investors who were investing more in physical assets than in financial assets have now changed their approach by investing in both the categories in a balanced way. K. Parimalakanthi, Dr. M. Ashok Kumar \(^{17}\) opines that investment in various investment avenues is directly related to the risk appetite of the investor. Investor can’t avoid risk but it can be minimized by investing in those avenues which are less risky. The study emphasizes on the investors education and their need to collect and read the investment related documents before they opt for any investment avenue. The investors prefer to invest in saving account followed by an investment in gold and silver. According to Dr. K. Malar Mathi\(^1\), A. Kungumapriya\(^2\) the individual saving and investment pattern plays a vital role in the economic development of a country. The investment culture among the people in a country will help in the capital formation and nation building. As the majority of the population is from rural area, therefore it is imperative that the quality financial services should be available in the rural areas so that they can also contribute more in the process of economic development. The financial services and support system must be there in rural areas so that the people should not shift to the urban areas in the search of livelihoods. Dr. Vyasa Ravi\(^{11}\) states that now a days financial markets are more technical in nature. These markets automatically incorporate an impact of inflation and other related factors. Mutual fund is considered to be an investment vehicle which can be easily operated and give high returns. However many investors are still unaware about the mutual funds they are still investing in the physical assets or financial assets like FD, bank deposits etc. They are still unaware about the risk assessment concept and are highly dependent on the brokers and investment agents for their investment. G. Velmurugan, V. Selvam, N. Abdul Nazar \(^{13}\) states that the globalization and liberalization policies have brings favorable opportunities for the small investors. There is a drastic change in the investment approach of the investors because of the infrastructural development in the manufacturing and service sector and with the deployment of foreign capital in the Indian economy it has increased many folds. The investors are showing more confidence in shares and mutual funds whereas the old investment vehicles like bank deposits finds a back seat. However they are still considered as a safe bet. They have concluded that the investors look for capital appreciation and earnings, but the protection of capital invested is still the main element of investment decision process. Dr. Samudra Aparna & Dr. Burghate M.A.\(^9\) assume that the middle income class households which has a great potential for saving and investment is still untouched and as result many financial products are coming up with the objective to tap this opportunity. The study further says that, the age of the head in the middle class household family influence the type of Investment Avenue. The study confirms that the most preferential saving option for the middle class house hold is bank deposits which is followed by insurance the post office and provident fund finds a third place in the ladder. However there is a need to increase the financial literacy among the middleclass households as their investment choices for all the categories of age group are confined to only bank deposits and other like instruments. They should be open to other opportunities as per their age and need patterns. According to Dr. Amaraveni P. & Mrs. Archana M \(^{5}\) house hold savings are invested in different type of assets which are based on their risk and return appetite, liquidity, capital protection, the availability of investment avenues etc. However the loss of capital is still a primary area of concern for the investors, many investors are not having adequate knowledge and information due which they lack in their investment objectives. The study tries to establish a relationship between the income of the investors and the investment objectives, but no relationship is formed between age of the investors and the preference for the investment. Dr. Ananthapadmanabha Achar \(^{2}\) in his study states that the teachers are one of the main pillars in the nation building. How much they contribute in the nation building depends on the quality of life, which in turn depends on his level of saving, investment and consumption. Further it was concluded that demographic factors such as age, gender, marital status and lifestyle decides the level of saving and investment behavior of the teachers. It is also stated that the family characteristics like family size; family income etc. also affects the savings and investment behavior of the investors. Dr. Chaubey, D.S. & Dimri, Rajat Praveen\(^{6}\) opines that liberalization and globalization has increased the investment avenues to many folds. They further studied that the investors preferences and their behavior towards various investment options. However the study concludes that there is a difference between the investment experts recommendations and the investor’s buying behavior. The investors were not investing as per the expert’s recommendations and that creates a gap between the two. There should me a more effective educational material for the investors so that they can perceive as per the investors recommendations. According to R. Suyam Praba\(^{26}\) most of investors don’t plan for their savings and they believe that the current savings are enough to meet out the post retirement needs. Further the study reveals that the investor’s behavior is affected by the psychological and sociological factors and their behavioral trend is tends to change with the change in any of the given factors. S. C. Das & Vivek Kumar\(^{27}\) studies the relationship between the saving and investment of middle household in India. The study notifies that monthly income and type of employment has no impact on the saving behavior of an individual however the investment behavior is largely depends on the monthly income of the investor. According to Dr. Chaubey, Dhani & Dev, Rishabh\(^7\) the majority of the investors from all age class, gender and occupations like to invest their savings in long term investment opportunities. They also conclude that the female investors invest their savings in safe investments whereas the males are more aggressive in their investments. Dr. Agarwal, Manjari\(^{2}\) opines that there is a strong relationship between the Gross Domestic Savings and Investment climate. As the Gross Domestic Savings increases it will affect the Investment climate and it eventually it will improve the business environment in the country by attracting more and more foreign investors. Verma, Meenu\(^{36}\) has evaluated the development of the Indian economy and the rise of the incomes at individual and at family level. Further author has also examined the need of providing wealth management related services to these people. Wealth management services involve
evaluating and understanding the customer financial and investment needs and accordingly offering them a proper solution regarding financial planning and portfolio needs. The vast practical experiences of managers who are giving wealth management services states that the client’s behavior and psychology play a very prominent role in forming and maintaining a strong wealth management relationship. Behavioral finance is a new but fast development area, which focus on individual's behavior and psychology while taking financial decisions. Demographic factors and individual's personality traits are the two important decisive factors that can be used for making the perception about the customer's psychology. Author further states that if these factors can be scientifically examined and applied, it can help the wealth management executives in giving the right and better advices to their clients. Jain, Dhiraj & Jain, Parul have doctrine Savings and Investment Pattern of School Teachers, a study with reference to Udaipur District, Rajasthan. The study inferred that in this day and age money assumes a imperative role in one's life and the significance of money has been perceived by the school teacher's community. Since they know the significance of money they have started themselves to set up the spending limit and reduce down their costs to meet the future needs It has been apparent from the examination that most of the school teachers are setting aside their money and saving it with the end goal of their child's education, marriage and as security after retirement. Ramakrishna Reddy, G. & Krishanudu, C.H. has analyzed the attitudes, perceptions, and disposition of the people and companies putting their surplus funds in varied monetary assets, technically called as securities. A study on the investors' perceptions and choices, thus, assumes a bigger role in framing and formulating the policies for the growth, development and effective monitoring of the security markets in general and safety and development of small and house-hold investors in particular. The Indian securities market has changed beyond expectation since 1990s. The profile of the investors, financial vehicles availability, the financial and economic conditions and the issues experienced by the small retail and house hold investors are significantly unique today from what they were 10 years back. Ramesh Krishnan & Fatima have studied the links between Investment to Social and Psychological Concepts. The examination reveal that the investment made by any investor in not a pure rational decision, however it is related to the science of psychology and sociology. Several paradoxes that are unexplained by classical finance are currently being concluded and evaluated using behavioral finance concepts. Since behavioral finance has social-psychological roots, the tendency to behave as perceived, it must have temperamental dimensions. The author has developed an estimation instrument from shefrin's instances of behavioral finance and has utilized the Big Five as the personality estimation instrument. Rajarajan Vanjeko has stated that, the retail investors are the main stream of the capital market. The growth of the Indian capital market since liberalization policies implemented by the government has drastically affected the investor population in our country. The investment environment has drastically changed. This context stressed on understanding the features of the investors in terms of their investments, strategies, expectations etc. The study shows that the equity has gain a popularity as an investment option among individual investors. According to Subramanya P.R., Renuka Murthy T.P. have done their study to research about investors frame of mind towards mutual fund in Hassan region of Karnataka state. The primary information has been gathered through surveys. Secondary information has been gathered from reports, books, diaries, magazines and other distributed information's and for gathering the primary data random sampling method is utilized. The example size limited to 100 respondents of all class of investor. Chi square measurable strategy utilized to draw the outcome from the gathered information. He found that most of the investors like to invest in mutual funds for the profits and feel that it is a protected proportion of to invest in it. To the extent the demographic and socio economic factors are concerned, age, sex, capability, pay and occupation have been supporting and encouraging the disposition of investors towards Mutual. store. Speculators sparing factors are not affecting the frame of mind of the financial specialists. Mittal, Manish, Vyas R.K. have analyzed that the investors have certain psychological and emotional shortcomings which come in the way of their Investment choices. In the course of recent years, financial analyst have experimentally demonstrated that investors don't generally act rationally. They don't take their decisions rationally. They have social inclinations that lead to deliberate mistakes in the manner they use information for investment choice. Numerous researchers have attempted to rank the investors based on their relative risk taking limit and the kind of investment they make. Experimental evidences also propose that components, for example, age, salary, training and marital status influence an individual's investment choice. This study characterizes Indian investors into various personality types and investigates the link between different demographic factors and the investment character shown by the Investors. The author concluded that the Indian speculators can be grouped into four personalities i.e., easygoing, technical, educated and cautious. Reddy S. G. found that the investors invest their money on the basis of the returns they expect from the investment avenues. According to his observation the investors invest their money for taking tax benefits. Syed, T.S. & Pardhasardhi, S. concluded in their empirical study that Indian individual investors are conservative investors. Marital status, earnings, occupation and number of dependents are significant factors associated with risk tolerance. Dr.Vyas, R., & Moonat, S.C. found that gold was the first preference of the investors followed by bank deposits, life insurance and postal deposits. According to Kumar Rajesh and Arora R. S. there is a dearth of investment education. The investors are not well informed and educated and as a result they landed up in taking wrong decision and deteriorate their wealth. They should be educated about investment and investment avenues through TV, internet, Newspapers and other medias so that they can be well informed before taking and investment decision. Priyadhanlaxmi, M. & Dhanlaxmi, M. analyzed investors inclinations towards different type of investments viz., shares, bank stores, gold, land, life coverage, postal reserve funds and equity shares and found that bank fixed deposits were famous among the investors. Author further presumed that there was no huge relationship between
income level and investment awareness level. Keshvan, S. K., Chidambaram, V., & Ramchandran noticed that demographic factors like age, gender, and socio economic factors like educational qualification, occupation and annual income do not affect the type of investment avenues. Rangnathan, Kavitha has examined that how financial behavior of the retail investors affect the financial markets. Development of industrial policy reforms has affected the public sector, financial sector money market, capital market and mutual funds industry. These sectors have become an important portal for the retail investors to put their savings. However the choice of avenue is still influenced by the financial behavior of the investor. Agrawal, M. informed that the male and female investors are not significantly different in terms of their expectations towards the rate of return. According to Kasilingam, R. & Jayabal, G. the selection of investment avenues by the individual investors is based on the family income, timing of investment and other short term and long term objectives. Selvakumar, M., Jegatheesawan, K., & Gandhi, J. explained that awareness about investment avenues is very low among rural people compared to urban people. The study suggested that the educational status should be improved in the rural sector. According to Dr. Singh, Krishna Kumar, P. Dimri and J. N. Singh the databases used by stock market intermediaries and exchanges are traditional databases which are efficient enough but failed to integrate all types of data and it becomes difficult to modify the data in this changing environment. This scenario will create a hardship on the small investors as the required information will not disseminate to them and they will not able to get good returns from their savings and investments.

III. RESEARCH GAP
Thorough review of the available literature shows that there are some research gaps which need to be addressed and a study can be conducted on these research gaps.
1) Available literature is focused on the factors affecting savings and investment patterns, the relationship between the savings and GDP, the relationship between savings and investment climate etc. This is true that small investors are investing according to specific patterns but how far they are investing as per their investment goals is nowhere defined in the available literature.
2) The comparison analysis between investments by the small investors and their investment goals is not defined in the available literature.
3) The performance of investments options with respect to the small investor’s expectations is not clearly defined in the literature.
4) Financial illiteracy is another gap which needs to be addressed as small investors seems to be little shaky in taking their financial decisions because of lack of financial literacy.
5) The small investors are investing on their peer’s advices; they are not using scientific tools to identify the best investment options available.
6) Use of technology for deriving saving and investment patterns is another factor which is missing in the available literature.

IV CONCLUSION
From the study of available literature on savings and investment patterns of small investors it can be concluded that there is a need to study the relationship savings, Investments and investment goals of small investors. Further it is to be analyzed that, are the small investors satisfied with the savings and investment patterns? Are they achieving their Investment Expectations? The small investors are relying heavily on their peers for the investments as they lack in financial literacy. They should be given more study material so that they can horn their knowledge and skills set to take financial decision on their own. Some scientific tools can be used to create a portfolio for the small investors so that they can achieve their investment goals. Some strategies & mathematical models can be derived to forecast the future earnings of the small investors. The concept of BIG DATA analytics can be used to identify profitable investment opportunities for small investors. This will also help the various investment companies in framing new policies and dynamic financial instruments for the investment of small investors.

REFERENCES


