



INVESTMENT DECISION BASED ON ACQUAINTANCE STRATEGY

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ABSTRACT

Everywhere people talk about money and investment. The investor makes an investment to yield high returns with minimum risk. Generally the acquaintance refers to the neighbours. The investment decisions which is seen as continuous process of interactions between the investor, investor's behaviour and the investment environment. This investment process is influenced by a number of variables and driven by peer influence (including neighbours, friends, relatives, etc.). The experimental results show the decisions made by others, influence individual investor's choices irrespective of whether the payoffs are based on the individual's investment decision. Nevertheless the investor should select their personal utility-maximizing choice. So it becomes important framing effects on investment choices based on the neighbour's choice. This paper discusses the investor's behaviour and the factors that affect the investment choice and decision and the role of 'acquaintance or neighbour' strategy in investment decision.

Keywords : *Behaviour, Neighbour, Investment, Risk, Funds and Return.*

INTRODUCTION

Investment is a sacrifice of current resources i.e money for future benefits (Nagarajan K & Jayabal G (2011)). An investment is the utilization of funds with an expectation of earning some return. The return may be in the form of income, increase in the value or both with a minimum risk. Most of the people want to handle their investments so that they get full value from each available rupee they invest. The investment decisions are somewhat complex and have long term effect on the investor's financial position. The investment decisions which is seen as continuous process of interactions between the investor and the investment

environment. This investment process is influenced by a number of variables. However, a number of studies reveal that risk and return are just two of the factors that influence investor's investment decision (Alexander et.al (1997), Capon et.al (1994)). We focus our attention on how investors make their investment decisions in a real world setting, as opposed to rational/optimal behaviour proposed by various financial theories. This study incorporates results of the research on investment decisions from fields of behavioural finance and cognitive psychology. Tversky and Kahneman 1981, 1986; Redelmeier and Tversky (1992) indicates that the decision frames that people adopt are influenced by the manner in which different alternatives are presented to them.

This paper looks on the existing research on investor behaviour and investment environment, asking ourselves what we currently know about investors. Specifically, the paper studies the demographic profile of investor's, investment behaviour and factors like good/high returns, safety of funds, Savings, tax advantage, etc that influences the investor's investment decision. This study would help to understand the role of neighbour and follow the neighbour strategy on investor's decision making.

REVIEW OF LITERATURE/CONCEPTUAL BACKGROUND

INVESTORS BEHAVIOUR AND INVESTMENT DECISION

A research into investors and their behaviour has received a lot of consideration during the past, and is increasingly in the focus of interest of many scientists, being not confined only to economists. However, the particular way of looking at individual investor has been subjected to a great paradigmatic shift with the inclusion of psychology, both its findings and its methodology, into financial studies. Frankfurter and McGoun, (2000) defines "Behavioral finance, as a part of

behavioural economics, is that branch of finance that, with the help of theories from other behavioural sciences, particularly psychology and sociology, tries to discover and explain phenomena inconsistent with the paradigm of the expected utility of wealth and narrowly defined rational behavior. Behavioural economics is mostly experimental, using research methods that are rarely applied in the traditional, mainstream finance literature." Markowitz (1952, 1959), investment decision making is a result of the evaluation of return and risk involved in the investment. Customer's evaluation of perceived returns and perceived risk in an investment will determine his attitude towards the investment and in turn, the behavioural intentions. Psychology lists a number of possible deviations from rationality, while limits to arbitrage argue that rational investors may not be able to exploit opportunities created by



irrational investors. Furthermore, investors predict too narrow confidence intervals in the subjective probability distributions of prices (Tversky and Kahneman, (1974)).

FACTORS INFLUENCING INVESTORS DECISION MAKING.

Investors - who use heuristics, depend on framing of the problem, and are prone to biases, which in turn may lead to various anomalies at the market level – are subjects of research in the area of behavioural Finance. "An empirical result qualifies as an anomaly if it is difficult to "rationalize" or if implausible assumptions are necessary to explain it within the paradigm," as said by Thaler (1987) throughout his series of papers on anomalies. Secondly, the perception of asset's value is largely dependent on popular models (Shiller, 1990), that is socially shared tips from peers, Financial advisors, news in the media (and nowadays, especially, on Internet portals, forums, and news groups).

ROLE OF NEIGHBOUR/FOLLOW NEIGHBOUR STRATEGY IN INVESTMENT DECISION

Neighbour – a person who lives next to you or near you (oxford Advanced Learner's Dictionary 2005). In this paper neighbour means neighbours, friends, relatives, etc. According to Fishbein & Ajzen (1975) Theory of Reasoned Action (TRA), if people evaluate the suggested behaviour as positive, then they think it will significant others (friends, relatives, advisors, etc.) wanted them to perform the behaviour, this result is a higher intention and they are likely to do so. Sharma M. and Dr. Gupta S.(2011), the influence of the society, such as friends, relatives, and other influential members on the behaviour of investor. Two major influencers are close friends or relatives and the influence of advisors. Investors take suggestion from their peer, but as their investment objectives are different, they do not necessarily act on the advice of their friend/neighbour.

OBJECTIVES OF THE STUDY

1. To examine the demographic profile and investor's behaviour.
2. To study the factors that influences the investor's investment decision.

3. To study the role of neighbour and follow the neighbour strategy on investor's Decisions making.

HYPOTHESIS

H₀= Investors does not Follow the neighbour strategy while making investment.

H₁= Investors Follow the neighbour strategy while making investment.

RESEARCH METHODOLOGY

This paper is an attempt to study the role of 'follow the neighbour' strategy and factors influencing investment decision of with reference to Bangalore city. For carrying out the research both Secondary and Primary data is used. Secondary data comes from different books, Journals, Magazines, News Papers etc. Data is also collected from different libraries. The survey was conducted in Bangalore city in the month of March 2016. A Purposive sampling method is used to select the sample; the study covers 120 investors who belong to the middle class families who's income is between to Rs.1 lacs to 4 lacs (Capon et.al.1994, Sharma and Gupta 2011). The data had collected with the help of structured questionnaire. In order to analyze the factors rank method is used in that investors are asked to give the rank, Strongly Disagree(1) to Strongly Agree(5) to particular factor. A chi square test is used to test the hypothesis.

RESULTS AND ANALYSIS

TABLE - 1: DEMOGRAPHIC PROFILE OF THE INVESTOR

DEMOGRAPHIC FACTOR		No. of Respondents	Percentage
Age (in years)	20-30	30	25
	30-39	58	48
	40-50	22	18
	Above 50	10	8
Gender	Male	86	72
	Female	34	28
Marital Status	Married	98	82
	Unmarried	22	18
Educational Qualification	SSC	8	7
	HSC	33	28
	Degree/ Diploma	63	53



	Post Graduation	16	13
Occupation	Service (Private)	46	38
	Service (Govt.)	15	13
	Business	39	33
	Professional	11	9
	Other	9	8
Annual Income	100000-200000	7	6
	200001-300000	35	29
	300001-400000	59	49
	400001 and above	19	16
total		120	100

Table-1 shows the demographic profile of investors. The demographic factor like age, sex of investors, marital status, education, occupation and income of the investors are analyzed, which reveals that 48 percent of investors belong to the age range of 30-39, 72 percent respondents are male. 82 percent investors are married, 53 percent investors have completed their graduation and 38 percent investors are working in private organizations, 49 percent investors' annual income ranging between Rs. 300001-400000 per annum.

TABLE - 2: PRIMARY INVESTMENT GOAL OF AN INVESTOR

Sr. No	Particulars	No. of Respondents	Percentage
1	Long Term Wealth Accumulation	46	38
2	Retirement Income	26	22
3	Emergency Savings	34	28
4	Current Income	14	12
Total		120	100

Table-2 shows the primary investment goal of the investors while investing. 38 percent investors give priority to long term wealth accumulation as well as 22 percent investor invest

for retirement income, 28 percent investors invest for emergency saving or any contingency and 17 percent investors invest for current income as their primary goal.

TABLE - 3: INVESTMENT ACCORDING TO INVESTMENT PLAN

Sr. No	Particulars	No. of Respondents	Percentage
1	Yes	72	60
2	No	48	40
Total		120	100

Table-3: Shows that the investors have some investment plan and they are doing the investment according to their plan. 60 percent investors have their investment plan, where as 40 percent investors invest without any investment plan.

TABLE - 4: INVESTMENT CHOICE

Sr. No	Particulars	No. of Respondents	Percentage
1	Insurance	22	18
2	Real Estate	15	12
3	Gold	18	15
4	Shares	9	8
5	Bank deposits	21	18
6	Tax Saving Instruments	35	29
Total		120	100

Table-4 shows the investment choice of the investors for investment. 29 percent investors prefer tax saving instruments as their investment, followed by 18 percent in bank deposits and insurance, 12 percent invest in Real Estate and only 8 percent investor invest in shares.

TABLE - 5: PERCENTAGE OF INVESTMENT TO TOTAL ANNUAL INCOME

Sr. No	Particulars	No. of Respondents	Percentage
1	Less than 10%	30	25
2	Between 11% to 25%	48	40
3	Between 25% to 50%	33	28
4	More than 50%	9	8
Total		120	100



Table-5 exhibits, the percentage of investment made by the investors from their annual income. 40 percent investors have invested between 11 % to 25% of their annual income, 8 percent investors have invested more than 50% of their annual income.

TABLE - 6: INVETSMENT TIME HORIZON OF THE INVESTOR

Sr. No	Particulars	No. of Respondents	Percentage
1	Less than 1 year	14	12
2	Between 1 years to 3 years	21	18
3	Between 3 years to 5 years	33	28
4	Between 5 years to 10 years	38	32
5	More than 10 years	14	12
Total		120	100

Table-6 shows the duration of investment 32 percent investors prefer the duration between 3 years to 5 years. 12 percent investors invest for less than 6 months.

TABLE - 7: FREQUENCY OF INVESTMENT BY THE INVESTORS

Sr. No	Particulars	No. of Respondents	Percentage
1	Every month	54	45
2	Every quarter	16	13
3	Half yearly	32	27
4	Once in a year	18	8
Total		120	100

Table-6 shows the frequency of investment by the investor, 45 percent investor invests regularly i.e. every month, but 8 percent investor go for only one time investment in year.

TABLE - 8: RISK & RETURN TRADE OFF

Sr. No	Particulars	No. of Respondents	Percentage
1	More risk with all of money	15	12
2	Little more risk with all money	18	15
3	Little more risk with some of money	33	28
4	Not increase the risk at all	54	45
Total		120	100

Table-8 shows, the behaviour (willingness) of investor to earn more returns by increasing risk. 45 percent investor doesn't want to take risk to earn more returns. 28 percent investor want to take some more risk than the current to earn some more return that shows the dislike of risk by the investors.

TABLE - 9: FACTORS MOSTLY CONSIDERED WHILE INVESTMENT BY

Sr. no	Factors	Rating					Total Respondents	Total score	Mean	Rank
		5	4	3	2	1				
1	Safety	12	27	34	19	28	120	336	2.80	II
2	High Returns	26	34	22	21	17	120	391	3.26	I
3	Savings	17	20	42	22	19	120	354	2.95	IV
4	Tax advantage	25	23	30	24	18	120	373	3.11	III
5	Liquidity	16	31	32	25	16	120	366	3.05	V
6	Company Image	8	13	23	41	35	120	278	2.32	VI
7	Past Performance of instruments	12	10	14	39	45	120	265	2.21	VII

INVESTOR

Table-9 exhibits, the factors that influence the investors while doing investment. High returns are the first priority of the most investors followed by safety of fund. Company image and services and popularity have the lowest influence on the investors.

**TABLE - 10: KNOWLEDGE & EXPERIENCE OF INVESTOR ABOUT INVESTMENT**

Sr. No	Particulars	No. of Respondents	Percentage
1	Very inexpensive investor	23	19
2	Somewhat inexperience investor	21	18
3	Somewhat experience investor	35	29
4	Experienced investor	28	23
5	Very experienced investor	13	11
Total		120	100

Table-10 shows that the knowledge and experience of the investors about investments. 29 percent investors have some knowledge and experience about investment but 19 percent investors don't have the knowledge and experience in investment.

TABLE - 11: TAKING ADVICE FROM NEIGHBOUR ON INVESTMENT/BEFORE INVESTMENT/INVESTMENT DECISION

Sr. No	Particulars	No. of Respondents	Percentage
1	Always	29	24
2	Sometime	43	36
3	Not at all	48	40
Total		120	100

TABLE - 12: NEIGHBOUR GIVE ADVICE TO THE INVESTOR ON INVESTMENT/INVESTMENT DECISION.

Sr. No	Particulars	No. of Respondents	Percentage
1	Always	34	27
2	Sometime	49	41
3	Not at all	37	31
Total		120	100

Table-11 and Table-12 shows the role of neighbour in the investment decision and influence on the investor. 40 percent investors are not taking the advice from the neighbours, 36 percent investors take some help/advice from their neighbours. Some time (41 %) neighbours share their views or give advice to the investors.

Role of Follow he neighbour strategy/ Investor use the same strategy of their neighbour for his investment.

TABLE - 13: FACTORS MOSTLY CONSIDERED WHILE INVESTMENT BY INVESTOR

Sr. no	Factors	Rating					Total Respondents	Total score	Mean	Rank
		5	4	3	2	1				
1	Safety	12	27	34	19	28	120	336	2.80	II
2	High Returns	26	34	22	21	17	120	391	3.26	I
3	Savings	17	20	42	22	19	120	354	2.95	IV
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Table-13 shows the investor follows the same strategy of the neighbour in their investment. The investors follows the neighbour in insurance, Real estate and in shares on the neighbours (friends, peer, agents,etc.), but in other instruments they do not follow the neighbour.

TESTING OF HYPOTHESIS

TABLE - 14: TESTING OF HYPOTHESIS

H0= Investors does not Follow the neighbour strategy while making an Investment decision.

H1= Investors Follow the neighbour strategy while making an Investment decision

Sr. no	Factors	Rating					Cal chi square Value	Table Value @ 5%	Conclusion
		SA	A	N	DA	A			
1	Insurance	29	38	24	14	15	72.63	31.41	Rejected
2	Real Estate	26	34	22	21	17			
3	Gold	17	20	42	22	19			
4	Shares	25	23	30	24	18			
5	Bank Deposits	16	31	32	25	16			
6	Tax savings	8	13	23	41	35			
		121	159	173	147	120			
H1 is Rejected for 20 DF @ 5% hence H0 is Accepted									

The Calculated Chi Square value is greater than the critical value for 20 DF @ 5 % level of significance the Hypothesis (H1) is rejected and null Hypothesis (H0) is accepted. Therefore the investors are not influenced by follow the neighbour strategy.

FINDINGS

1. From the Table 2, 5 & 6 found that 40 percent investors have invested between 11 to 25 percent of their annual income invest for the duration of between 5 years to 10 Years 38 percent investors have invested with an investment goal of long term wealth creation.

2. 45 percent investors believe on regular investment and 29 percent investors' choice is tax saving instruments.
3. Investors have considered factors like high returns, safety of fund, saving, tax advantage, liquidity, company image/service and past performance while making an investment. Investors are influenced by high returns as it rank first, second influencer factor is Safety and Past performance of instrument is least influencing/consider factor while investment/ in investment decision.
4. The Prospect Theory and Table 8 demonstrate that risk and return are the factors that influence the investors as most investors become risk averse when confronted with the expectation of a financial gain. 45 percent investor doesn't want to take risk to earn more returns.
5. The study reveals that the role of neighbour and the influence of neighbour were not significant. As 40 percent investors not take advice from their neighbour where as 41 percent neighbours sometime gives their advice on investment or investment decision. The influence of follow the neighbor strategy is more towards insurance and real estate but less on tax saving instruments the overall follow the neighbour strategy is not significant and investors are not following the same strategy of the neighbours while making an investment.

CONCLUSION

The investment decisions are somewhat complex and its relates with the demographic profile of the investors like age, gender, marital status, educational qualifications, occupation and income and have long term effect on the investor's financial position. The study reveals that risk and return are the factors that change the investor's behaviour. The behaviour of investors are depends on a psychology and sociology of the investor. The investment goal, time horizon, frequency of investment and knowledge and experience about the investment, etc. influenced the investors a lot. The factors like high return, safety of fund, savings, tax benefit, influence investor's investment decision. More likely the study shows that follow the neighbour strategy do not influence the investors. The role of follow the neighbour strategy is not significant. Investors take suggestion from their neighbours or the neighbour gives suggestion to the investors on insurance, real estate, gold, etc. decision but the investors are not necessarily act on the advice of their neighbour. Following the same strategy or advice of the neighbour is not the best strategy. The one's (investors)



objectives to save or invest may not be the same as the neighbour. So the role of neighbour/follow the neighbour strategy is restricted to only suggestions and not implementation.

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