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IMPACT OF DEMOGRAPHIC FACTORS ON INVESTMENT RISK BEHAVIOUR OF INDIVIDUAL INVESTORS-A STUDY IN PUNJAB

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Abstract:-With the Increasing growth of the Financial Services Sectors, it is also important that the growth in any sector should be the balanced growth. The primary objective of the investor is to earn the regular income and the market knowledge and risk taking ability of the investors make the difference in their expected rate of return. The main factors affecting the balanced growth are the Income and demographic factors. In this paper, we are focusing on the effect of the demographic factors. The psychology of the Investors also differs demographically. As the markets are becoming more dynamic and the risk exposure is also changing and the risk differs among the different demographic profiles. This paper explores relationship between level of risk and demographic factors of investors' confined to Punjab state.

Keywords: Demographic Factors, Risk Exposure, Psychology of Investors.

INTRODUCTION

When an investor prefers less risk to more risk that is known as risk averse investor. According to the Portfolio theory that investor will require reward for bearing systematic risk. The antonym of risk aversion is risk seeking (sometimes called risk lover or risk takers). A risk lover investor prefers more risk to less. There are risks that he will pay to be allowed to take. Financial theories generally assume investors are not risk seeking. However, risk seeking behavior is observable in actual life. Between risk aversion and risk seeking is a state called risk neutrality. An investor is risk neutral if he is indifferent to risk. Investor will neither pay to avoid it nor to take it. In a nutshell, risk does not affect his decisions.

Investment is a commitment of funds, directly or indirectly, to one or more assets with the expectation to enhance future wealth. Direct investment may take in the forms of either physical assets or financial assets that are traded or non-traded in a financial market. Investors may hold non traded financial assets by investing their funds on bank products, such as saving accounts and time deposit. These types of investment are relatively less risky: can be sold more easily, and have a shorter investment period. However, investors may also choose to invest their funds in traded money market instrument. In addition, investors with a long-term investment horizon may invest their money into capital market instruments, such as common stock and bond. These kinds of investment are riskier, but offer higher expected returns than that of money market instruments. Rational investors, of course, try to maximize their returns for a given level of risk they bear, or minimize their risks for a given level of return. In that case, the type of investment instrument selected by individual investor will depend on his or her risk tolerance, whether the investor is risk taker, risk averter. In addition to risk tolerance, investor's demographic factors can influence investment decision. For example, male investors tend to be more tolerant to risk than do female investors (Barber and Odean, 2001). This finding may attribute to psychological factor that males tend to be more self-confidence than those of female. Investment decision may also be affected by demographic factor, such as age. For example, investors under 30 years old tend to take more risk than do the older ones (Evans,2004). Therefore, the main purposes of this study are to explore:

1. The relationship between investor’s risk behaviour and investor’s demographic factors.
2. The relationship between investor’s demographic factors and types of investment.
3. The relationship between investor’s risk behaviour and types of investment .

DEMOGRAPHIC CHARACTERISTIC AND INVESTMENT DECISION

A rational investor will trade only when it increases the expected utility. An overconfident investor, on the contrary, tends to trade more as to lower the expected utility (Barber and Odean, 1999). Some studies have tried to examine the relationship between demographic factors and investment decision.

Male investors spend more time and money to analysis securities, depend less on brokers, and trade more than do female investors (Lewellen, Lease, and Schlarbaum, 1977). In addition, the difference in trading frequencies between male and female investors is more pronounce for married investors. By trading more, male investors earn returns less than those of female investors. Male investors are also more tolerant to risk than do female investors (Wood and Zaichkowsky, 2004). Female investors tend to be more conservative, by spending more of their funds in long-term investments, relying more on brokers, and being less risk tolerant, than do male investors. Consequently, male investors put more of their funds in riskier assets, such as stocks, than in less risky assets, such as saving accounts, time deposits or bonds. Investment decision and investor’s risk tolerance are also influenced by other demographic factors, namely age, level of education, and family member. Young investors (less than 30 years old) tend to be more risk tolerant (Evans, 2004). Young investors with a higher level of income invest their funds in more volatile portfolio composed of more volatile stocks (Barber and Odean, 2001;

Schooley and Worden, 1999). Investor’s risk tolerance is also affected by the level of education, whereas investors with a higher level of education tolerate more to risk (Bhandari and Deaves, 2006; Lewellen, Lease, and Schlarbaum, 1977; Schooley and Worden, 1999). In addition, investors with more family members tend to be risk averter (Lewellen, Lease, and Schlarbaum, 1977). In terms of investment choice, young investors with higher level of income, higher level of education, and less family members will choose riskier investment alternatives that offer higher expected returns. In other words, they tend to invest more of their money in stocks rather than on banking accounts and bonds.

RESEARCH METHODS

Research Variables

a.Investor demographic characteristics consist of gender, age, marital status, education, income, and family member. The variables are measured using nominal scale as shown in Table 1.

Variable	Category	Score
Gender	Male	1
	Female	2
Age(years)	<25	1
	25-40	2
	>40	3
Education	Post graduate	1
	Graduate	2
	Diploma	3
	High school	4
	<High School	5
Family member(s)	1	1
	2	2
	3-4	3
	=5	4
Income(Rest)	< 200000	1
	>200000-300000	2
	>300000-400000	3
	=500000	4
Funds invested	<200000	1
	>200000-300000	2
	>300000-400000	3
	>500000	4

b. Investor's risk behaviour is the investor's tolerance to investment risk. This variable is measured using nominal scale as follows:

Risk Taker: investors are categorized as risk seekers if they shift their funds from bank accounts or real assets to capital market instruments, or if they currently put their funds in capital market instruments and maintain the funds in this instruments.

Risk averter: investors are categorized as risk averters if they shift their funds from capital market instruments to bank accounts or real assets, or if they currently put their funds in bank accounts or real assets and maintain the funds in this assets.

c. Type of investment is the investment alternatives chosen by investors. This variable is measured using nominal scale as follows.

Investment in bank accounts
Investment in capital market instruments.
Investment in real assets .

Sample and Data

The sample of this study is investors in Punjab, who invest their money in bank account, capital market instruments and real assets. The sample is selected using convenience sampling method, one of non random or non probabilistic techniques (Cooper and Schindler, 2001), in which the sample is chosen because it can be reached or obtained easily This research uses primary data, collected using survey of questionnaire. Out of 200 questionnaires distributed and are filled completely and can be analyzed.

DATA ANALYSIS AND DISCUSSION

Descriptive Analysis

Descriptive analysis is used to identify and explore various demographic characteristics of investors as well as other factors related to investors' behaviour in investing their funds.

Descriptive Analysis

This section discusses the average response of respondents regarding variables listed in the research instruments and the number of respondents for each variable.

Table 2
Gender, Type of Investment, and Risk Behaviour

	Type of Investment							
Gender	**Bank Account**		**Capital Market Instruments**		**Real assets**		**Total**	
Male	40	27	75	50	35	23	150	75
female	30	60	15	30	5	10	50	25
Total	70	35	90	45	40	20	200	100

	Risk behaviour					
Gender	**Risk Taker**		**risk averter**		**Total**	
Male	50	33	100	67	150	75
Female	5	10	45	90	50	25
Total	55	28	145	73	200	100

Table 3
Age, Type of Investment, and Risk Behaviour

Age	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
<25 years	0	0	5	50	5	50	10	5
25-40 years	40	38	60	57	5	5	105	52.5
>40 years	30	35	25	29	30	35.29	85	42.5
Total	70	35	90	45	40	20	200	100

Age	Risk behaviour				Total	
	Risk Taker		risk averter			
<25 years	5	50	5	50	10	5
25-40 years	35	33	70	67	105	53
>40 years	15	18	70	82	85	43
Total	55	28	145	73	200	100

Table 4
Marital Status, Type of Investment, and Risk Behaviour

Martial Status	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
Married	65	43	50	33	35	23.33	150	75
Single	5	10	40	80	5	10	50	25
Total	70	35	90	45	40	20	200	100

Martial Status	Risk behaviour				Total	
	Risk Taker		risk averter			
Married	20	13	130	87	150	75
Single	35	70	15	30	50	25
Total	55	28	145	73	200	100

Table 5
Education, Type of Investment, and Risk Behaviour

Education	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
Post graduate	20	24	42	51	20	24	82	40
graduate	26	43	22	36	13	21	61	43
diploma	4	20	12	60	4	20	20	13
high School	16	59	8	30	3	11	27	3
<high School	4	40	6	60	0	0	10	2
Total	70	35	90	45	40	20	200	100
Education	Risk behaviour				Total			
	Risk Taker		risk averter					
Post graduate	30	37	52	63	82	40		
graduate	15	25	46	75	61	43		
diploma	5	25	15	75	20	13		
high School	5	19	22	81	27	3		
<high School	3	30	7	70	10	2		
Total	55	28	145	73	200	100		

Table 6
Family Member, Type of Investment, and Risk Behaviour

Family member(s)	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
1	5	23	10	45	7	32	22	11
2	20	32	30	48	13	21	63	31.5
3-4	35	40	40	45	13	15	88	44
=5	10	37	10	37	7	26	27	14
Total	70	35	90	45	40	20	200	100
	Risk behaviour				Total			
Family member(s)	Risk Taker		risk averter					
1	7	32	15	68	22	11		
2	30	48	33	52	63	32		
3-4	6	7	82	93	88	44		
=5	5	19	22	81	27	14		
Total	55	28	145	73	200	100		

Table 7
Income, Type of Investment, and Risk Behaviour

Income	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
<200000	50	45	55	50	5	5	110	55
200000-300000	10	22	25	56	10	22	45	22.5
300000-400000	5	25	5	25	10	50	20	10
>400000	5	20	5	20	15	60	25	12.5
Total	70	35	90	45	40	20	200	100

Income	Risk behaviour				Total	
	Risk Taker		risk averter			
<200000	5	5	105	95	110	55
200000-300000	20	44	25	66	45	23
300000-400000	15	75	5	25	20	10
>400000	15	60	10	40	25	13
Total	55	28	145	73	200	100

Table 8
Risk Behaviour and Type of Investment

Risk Behaviour	Type of Investment							
	Bank Account		Capital Market Instruments		Real assets		Total	
Risk Taker	**0**	0	37	67	18	33	55	28
Risk averter	**70**	48	53	37	22	15	145	72
Total	70	35	90	45	40	20	200	100

GENDER, INVESTMENT TYPE, AND RISK BEHAVIOUR

Table 2 shows that majority of male investors put their money in capital market, while majority of female investors invest their funds in banking industry. Overall, there is no significant difference in the number of investors that put their fund in banking industry and capital market. In terms of risk behaviour, both male and female investors tend to be risk averters. However, the proportion of risk seeker is higher for male investors than for female investors. This indicates that male investors tend to be more risk tolerant than do female investors.

MARITAL STATUS, INVESTMENT TYPE, AND RISK BEHAVIOUR

It seems from Table 4 that marital status effects investment decision. Married investors tend put their money in bank accounts, while most single investors put their funds in capital market instruments. By investing their funds in capital market instruments, single investors take higher risks in the hope to earn higher returns. The majority of single investors are risk seekers, while most married investors are risk averters. Single investors are usually young investors that just graduated from university. They have no obligation, or not significant if any, to support living of cost of their family. They want to accumulate their future wealth by investing their funds in more risky assets that offers higher returns.

EDUCATION, INVESTMENT TYPE, AND RISK BEHAVIOUR

Table 5 shows that majority of respondents with an education level of at least Diploma. Investment in capital market instruments requires more knowledge and skills than those required by investment in bank accounts or real assets. The risk and return profiles of capital market assets are more complex and difficult to estimate. They avoid investing their money in capital market because there is no protection in this market. They prefer to put the money in banking account due the protection provided by RBI.

FAMILY MEMBER, INVESTMENT TYPE, AND RISK BEHAVIOUR

It seems from Table 6, respondents with a maximum family member of two persons tend to invest their money in capital market assets. On the contrary, big family respondents tend to put their money in bank accounts. This may indicate that small family investors tend to take more risk than do big family respondents. Due to the bigger burden assumed by big family investor, they avoid investing their money in more volatile securities, namely capital market instruments. When they lose their money, investors with more family members will find difficulty in supporting their family. Therefore, they tend to choose less risky instrument, especially bank accounts.

INCOME, TYPE OF INVESTMENT, AND RISK BEHAVIOUR

Table 7 shows that respondents with an income of at least 200000 Rs. put most of their funds in capital market instruments. On the contrary, the majority of respondents with an income of less than Rs.200000 put their money in bank accounts. This may be due to the fact that investment in bank accounts, such as saving account, requires much less money. Therefore, a low income respondent will tend to have their money in bank accounts. Table 6 also reveals that low income respondents tend to be risk averters, while wealthier respondents tend to be risk seekers. This imply that income may affect investor's risk behaviour.

RISK BEHAVIOUR AND INVESTMENT TYPE

Table 8 reveals that risk avoiding investors tend to put their money in bank accounts, while the risk seeking investors commit their funds in capital market instruments. There is no single risk seeker that put their money in bank accounts. This profile suggests that the investors with a higher risk tolerance will invest their money in capital market instruments, such as stocks. These instruments offer higher returns to compensate the higher risk they bear. On the contrary, investors that are risk averters tend to find saver assets, such as bank account and real assets, to protect their investments.

CONCLUSION

Using a sample of 200 investors, this study concludes that investors' demographic characteristics positively correlate with investors' behaviour and type of investment chosen. They prefer to put their money in bank accounts and real assets. By investing their funds in riskier assets, risk seeking investor may expect higher returns from those assets. The results of this study are very relevant to bank executives and investment managers. Bank executives and investment managers need to understand the demography of their clients in order to design an appropriate product for that client. They should offer high yielding investments to risk seeking clients, and offer stabile and less risky products for risk avoiding clients. Bank executives may offers mutual funds consisting mainly of stock to single, well educated, relatively wealthy, and small family clients. Investment managers, on the other hand, may offer less risky or risk free assets, such as government securities and Bank Certificates, to attract bank clients who are tend to risk averters.

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