

# Review of Literature on Investment Behavior of Rural Investors

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**Abstract:** *The diversification of the financial services sector has provided the individual investor with a wide range of opportunities to invest. Savings are the mantras that any investment advisor will recite. Savings are the difference between the amount investor earns and the amount investor spends. One reason could be that there are certain materials goals that they want to save for. Indian investor's behavior has been changing drastically in the post-economic reforms era in investment activity, preferences in selecting various financial instruments, evaluating and in analyzing the investment avenues. In this paper the diverse literature available worldwide on individual investor behavior has been explored. Its main objective is to understand individual investor behavior. In order to review the literature, research papers have been collected from various referred journals related to individual investors' behavior.*

**Keywords:** Investment, Investment behavior, rural investor, investment pattern and financial market

## 1. Introduction

Individual savings and investment pattern plays important role in any economy since it is a major component of resource market. In the recent past the paradigm shift has been observed in the strategies of service sector in India. With the increase in purchasing power and the demand for a wide variety of products by the rural consumers, the rural markets offer new and greater opportunities to manufacturers of several consumer and industrial products in India. To tap this vast and expanding market, companies are developing effective marketing and advertising strategies based on their study and understanding of the rural consumer behavior. There are certainly significant differences in the buying behavior of the rural consumers from the stand point of product development, pricing policies, distribution, and after-sales service, which create differences in requirements for marketing strategies in rural India. Understanding consumer and their behavior is at the heart of marketing. In recent times, there has been a preoccupation among financial institutions with customer retention and relationship marketing- essentially understanding the behavior of consumers after the initial purchase made.

## 2. Significance of Financial Services

The Indian economy is growing significantly and has various investment options. Even in developing countries like India the importance and role of service sector has been rapidly increasing in recent years. Understanding the individual investor behavior could be of great help in order to explain the stock market anomalies and to help the policy makers, the investment agencies, the researchers as well as managers of firms to prepare themselves to respond to the varying moods of an investor.

## 3. Review of Literature

Ramakrishna Reddy & Ch. Krishnu Dec 2009 on investment behavior of rural investors in their study states that the investment culture among the people of a country is an essential prerequisite for capital formation and the faster growth of an economy. Investment culture refers to the attitudes, perceptions, and willingness of the individuals and institutions in placing their savings in various financial assets, more popularly known as securities. A study on the investors' perceptions and preferences, thus, assumes a greater significance in the formulation of policies for the development and regulation of security markets in general and protection and promotion of small and house-hold investors in particular.

Rajarajen Vanjeko December 2010, Finance India on Indian investors' investment characteristics showed that the use of these characteristics for a better understanding of individual investors and their financial product needs. It also shows that investor's future preferences. The study reveals the increasing popularity of equity as an investment option among individual investors.

Sushant Nagpal and B. S. Bodla June 2009 on impact of investors' lifestyle on their investment pattern: an empirical study states that the modern investor is a mature and adequately groomed person. Occasions of blind investments are scarce, as a majority of investors are found to be using some source and reference groups for taking decisions.

Ramprasath .S and Dr. B. Karthikeyan , December 2013, on individual investors' behavior towards select investments, states that the majority of the investors are giving much importance for the factor "safety". Similarly investment avenues such as Bank deposits, LIC policies and Bullion has been preferred by the individual investors. Similarly the majority of the investors are periodically evaluating the performance of their investment avenues.

A Sarangapani and T. Mamatha on investment pattern of Indian investors (July 2011) assessed in their research, investment pattern of sample investors indicates that the majority investors prefer to invest in equity shares than in other instruments. It is also revealed in analysis of the portfolio of investors that 72% investors prefer to invest in different types of instruments and the rest only in equity shares. The portfolio size of convertible debentures is comparatively more than non-convertible debentures in Hyderabad city.

Dr. Ganapathi & Ms. S. Anbu Malar on investor attitudes towards post office deposit schemes (July – December 2010) assessed in their research, the various small savings schemes are mainly meant to help the small investors and also those who are in high tax brackets. Proper advertisement must be made for post office savings schemes. So that even a layman comes to know about these schemes and deposits can be increased. Investing our amount in post office deposits schemes ensures high rate of return and it provides safety and security for the amount invested.

Suresh Chandra Bihari & Apoorv Raj on investment behavior of the customers towards mutual fund and other products (Jan – June 2013) assessed in their research, commercial sources are attracting and helping more consumers to take decision. At the same time personal sources are also adding value to their decision making process. Magazines, newspapers, film, advertisement, display, demonstration, exhibition and colleagues play a vital role in searching meaningful information.

M.R. Shollapur and A.B. Kuchanur on a study on individual investors in selected investment avenues. (April 2008), assessed in their research investors strongly agree on the perceptions in the case of bank deposits (80%) life insurance policies (65%) . on the other hand (54%) disagree on in the case of corporate securities. The perceptual gaps analysis presents certain revelations – corporate securities are less preferred; government securities do not provide regular and steady income; investment in insurance policies appreciate in values; bank deposits require more transaction costs etc. there is a need to help investors develop a right perspective of the investment schemes and their attributes.

By sunnykutty Thomas and rajesh M.N on Investment pattern of rural Investors in Kerala under (NEP).(Apr 2009) assessed in their study the vast and drastic changes are to be found in investor's behaviours and motives of investors under present economic scenario. In that situation, rural investors in kerala also adopted a new investment pattern under the present economic crisis.

Sunil kumari on investment attitude of rural investors(august 2012-july 2013 ) states that all of the rural investors consider the risk and return on investment and most of them are also dependent on financial advisor's opinion because of lacking the depth knowledge of market. But generalization of the study is subject to its limitations like unwillingness of respondents, limited period of time, lack of literacy of rural investors etc. it is concluded that psychological theory planned behavior reflects in rural people's investment

decisions along with a finance theory is concepts i.e. risk and return equilibrium/ trade off.

Ravinder Kumar and Abhijeet Chandra on selection behavior of individual investors; Evidence from mutual fund investment (Jan – June 2010) assessed in their research, performance ranking were rated the most preferred source of information for individual mutual fund investors followed by recommendations by experts. Other sources of information such as print media like business magazines, and newspapers, electronic media like business channels and internet, friends and family recommendations, and seminars were respectively valued by individual mutual fund investors. As far as selection criteria is concerned, past performance of the fund was highly rated followed by investment pattern, management fees charged by the fund manager's reputation.

R. Kasilingam and G. Jayabal on segmentation of investors based on choice criteria assessed in their research small saving schemes are designed with good features so as to make it suitable to the needs of the people; but the facilities offered and services provided are not attractive enough to provide convenience to investors. To attract the large resources available in the rural places, financial services should be taken into doorstep of those people. As stated earlier the majority of indian investors want risk protection to their capital. So, the flow of household savings to the capital market will not increase as there is a high volatility in the market.

Dr. Kapil Sharma on a comparison of Investment risk perception between lay investors and experts in Indian market (May-Aug 2012) assessed in their research, experts and non-experts have different perceptions and understandings about risk communication programmes designed to reeducate consumers. However , this approach is likely to be successful in an environment where individual consumers distrust regulations and other experts. The ultimate objective of risk communication in personal financial services should be therefore be to establish a procedure whereby lay investors become involved in the two way process of the management and communication or risk.

A. Charles and R. Kasilingam on frame dependence and its influence on investment decisions (July-Dec 2012) assessed in their research, framing is a type of form and substantive. It reflects the behavior of investors. Cognition and emotion influence the frames development. Lacks of cognition and emotional instability make the investors to be biased on their decision making. Finding of this study suggest that investors use their frames to make decisions. These are classified as positive, negative and neutral frames. Most of the investors are displaying the behavior of positive frame dependence model suggest that investors' frames become matured from negative to positive over a period of time. Negative – frame dependence investors prefer high return by taking non-calculative risk. Positive – frame dependence investors prefer high return by taking calculated risks. Neutral frame dependence investors associate with moderate risk-moderate return. Parizad dungore (2011) in his study states that women were willing to take more risk than men, with age, the risk-taking ability declined; risk aversion level decreased

as education level increased; and its income level increased, the investors risk aversion decreased.

R. Shanmugam & K.Ramya (March 2010) in their research analysed that, personality traits have greater impact on one's behavior. This research revealed that internals have high correlation with investment knowledge and successful investment behavior. Also it was found that investment knowledge of internals is higher than that of individuals with external locus of control. It was further found out that there is significant difference in investment behavior amongst individuals with high and low investment knowledge. Hence the study clearly shows that internals with high investment knowledge show successful investment behavior.

#### 4. Conclusion

The availability of quality financial services in rural areas is extremely important for the growth of the economy as this will enable the large number of rural households to fund the growth of their livelihoods. The growth of the economy is dependent on the growth of the rural market in the country. Therefore greater financial inclusion in these segments is imperative. Lack of financial help stunts the growth of many rural micro-enterprises and force people to migrate to urban areas in search of jobs. Timely and affordable financial support helps people sustain and grow their livelihoods. It helps them adopt and start new livelihoods where opportunities exist.

#### 5. Future Scope

Investment behavior of rural investors has potential scope for future research. Future research on customer preference level to avail financial services, factors affecting purchase decision of rural consumers, level of services of the financial institutions to rural consumers, risk profile of rural investors also be studied.

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