

# Investor's Demographics and Its Influence on Investment Objectives

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*Abstract -- Every individual save a part of their income in order to invest it in some financial product. This investment pattern is guided by the purpose for which he desires to compromise on current needs and save to fulfill some future need. Choice of investment objective is dependent on many independent variables. One of the variables that influence this decision is the demographic profile of investors. The present research aims to analyze the impact of this independent force on the investment objective preference of investors. Data from 536 investors was collected across India. The objectives were categorized as capital appreciation, regular income, future security, tax benefit and status quo. Investors were asked to rank these objectives in order of their preferences. Kruskal Wallis and Mann Whitney tests were used to analyze the results.*

*Index Terms: Demographics, investment objectives, mann whitney, kruskal wallis*

marriage or education. Knowing investment objective is the first step of financial planning. This objective can then be matched to numerous financial instruments available in market. Once invested the investment portfolio again has to be monitored according to the previously set investment objective and also it's changing faces. One may primarily invest with a specific objective and then may change his goals as per changing needs and situations in life.

Hence making an appropriate choice of investment objective is very important. This choice is generally guided by many internal and external influences. Knowing the impact of such factors can help investors to make a rational choice and design a financial plan which is achievable and helpful in meeting various future financial needs.

## I. INTRODUCTION

The initial step in designing an investment strategy or investment plan is setting of investment objective or goal. Investment objective is defining the ultimate motive of investing into a financial product. The choice of objective should be well thought, analyzed and clear. Only than the investment strategy can be correctly framed and implemented.

The investment objective is generally determined by two important considerations that is risk and return. These two work simultaneously in financial market. In case an investor desires higher than risk free rate of return than he has to take a reasonable amount of risk. The risk appetite and return expectations are usually a factor of demographic or socio economic profile of investors. An understanding of differences that may exist in preference of investment objective by investors of different demographic profile can be useful for many market participants and regulatory bodies.

As every individual has unique set of needs and requirements his purpose of making an investment may also be unique. A person may investment for his retirement, or to facilitate his travel, or for his child's

## II. LITERATURE REVIEW

Impact of demographics on financial decisions has been studied by many researchers but the existence of a narrow view over investment objectives and its guiding forces are very limited. Some of the studies focusing on investment objective are listed below:

Droms (1987) studied various investment options in which individual investors can invest their money in like money market instruments, fixed-income securities, equity investments in common stocks and real estate. He concluded that the decision of portfolio mix and allocation of funds requires investor to decide on their return objectives. The return objectives suggested by him were high long-term total return, accumulation of deferred capital gains, tax advantages, high current income, low total return fluctuation, low single period loss probability, high degree of liquidity.

Firer (1988) analyzed individual investors who trade on Johannesburg Stock Exchange in South Africa. His aim was to focus on various investment objectives considered by investors while investing in the capital market. He reported that long term capital appreciation is most important objective of investors in owning shares.

Hoffmann et.al (2010) segmented investors based on their investment objectives. The segments were named as Capital Growth, Hobby, Saving for Retirement, Speculation, and Building Financial Buffer. These segments were then studied to identify their investment strategy. The outcome of the study suggests that technical analysis and financial news, intuition & professional advice segments performed poorly while investors have higher aspirations form fundamental analysis.

Bishoni S (2014) conducted a survey of 400 investors in order to identify relationship between demographic variables and various investment objectives preferred by investors. Demographic variables considered in the study were income, gender, age, occupation, education and marital status. The analysis revealed that majority of the respondents invested their money with the objective of safety, followed by tax purpose, capital appreciation, periodic return and liquidity. The study also concluded that all demographic factors have a significant association with investment objective.

Ikeobi and Arinze (2016) studied 180 investors at Nigeria capital market with intent to determine impact of demographics on investment objectives reported by investors. A wide range of demographic variables were included namely gender, age, marital status, employment status, education, income and capital market experience. The study applied chi-square test and pearson correlation to analyze the hypothesis. The results reported suggests that employment status and income of investors are the factors that are most influential in framing of investment purpose. No association was found between factors like age, gender, marital status and capital market experience.

Seetharaman et.al (2017) investigated factors influencing investment objective of individual investors. They hypothesized investment objective as a function of investment time horizon, income level and life cycle stage. For the purpose of study investment objective was categorized as building a financial buffer, capital growth, future needs and speculation. The study further concluded that investor's behavior is influenced by investment objective defined by investor.

### III. RESEARCH METHODOLOGY

#### A. Objectives of the study

The objective of the present study is to analyze the impact of demographic variables on the investment objective preferred by investors.

#### B. Data Collection

A self-administered survey was carried out to collect the data. Convenient Sampling method was employed to select the respondents. Participants belonged to various tier 1 and tier 2 cities across India. They were contacted directly or through internet. The data was collected during January to November 2016. Total number of questionnaires distributed was 1000. However, researchers received 536 fully answered questionnaire, all of them were included in the study. Thus the response rate was 53.6%.

#### C. Hypotheses of the study

Keeping the objectives of the study in mind the following hypotheses were framed & tested:

H1.1 There is no impact of age of investors on investment objective preferred by investors

H1.2 There is no impact of education background of investors on investment objective preferred by investors

H1.3 There is no impact of occupation on investment objective preferred by investors

H1.4 There is no impact of yearly income on investment objective preferred by investors

H1.5 There is no impact of gender on investment objective preferred by investors

H1.6 There is no impact of city of residence on investment objective preferred by investors

#### D. Data Analysis

Statistical tools used for data analysis is descriptive analysis, kruskal wallis test and mann whitney test. Descriptive statistics will help to understand the sample characteristics. Investment objective has been ranked by investors according to their preferences. Therefore in order to identify influence of various demographic variables on preference of investment objective non parametric tests are been used. Variable that are being categorized in more than two categories are analyzed using kruskal wallis test. For two independent variables mann-whitney test was applied. The test result was then used to evaluate the hypothesis.

Table 1: Demographic Characteristics of sample

		Frequency	%	Cumulative Percent
Gender	Female	318	59.3	59.3
	Male	218	49.7	100
	Total	536	100.0	100.0
Age (in years)	18-25	87	16.2	16.2
	26-35	239	44.6	60.8
	36-45	149	27.8	88.6
	Above 45	61	11.4	100.0
	Total	536	100.0	100.0
Education	H.Sc	25	4.7	4.7
	Graduate	166	31	35.6
	Post Graduate	214	39.9	75.6
	Professional	131	24.4	100
	Total	536	100	100.0
Occupation	Service	261	48.7	48.7
	Business	127	23.7	72.4
	Housewife	34	6.3	78.7
	Professional	114	21.3	100
	Total	536	100	100
Yearly Income	Less than 5 lakhs	109	20.3	20.3
	5 lakhs - 10 lakhs	152	28.4	48.7

	10 lakhs - 15 lakhs	146	27.2	75.9
	More than 15 lakhs	129	24.1	100.0
	Total	536	100.0	
	City of Residence	Tier 1	253	47.2
	Tier 2	283	52.8	100
	Total	536	100	

Table 1 gives demographic details of the participants. The sample consisted of 318 males and 218 females. A large proportion of respondents were in 26–45 age group. 4.7% of respondents had higher secondary as their highest qualification, 31% had a graduate degree, 39.9% had a post graduate degree and 24.4% were qualified professionals. The above data indicates that majority of the sample represents highly educated class. Statistics related to occupation reveals that a significant number of the sample belongs to service class (48.7%) followed by businessman (23.7%). 48.7% of the respondents have annual income less than or equal to Rs. 10 lakhs, while 24.4% of the respondents have income in excess of Rs. 15 lakhs. . It is interesting to note that 47.2% of the sample resides in tier 1 cities and 52.8% resides in tier 2 cities.

**Kruskal Wallis Test**

Kruskal Wallis test was used to identify association between investment objective and demographic variables like age, occupation, education and yearly income

Table 2: Age and Investment Objective

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Chi-Square	8.040	.861	5.116	14.794	3.187
Df	3	3	3	3	3
Asymp. Sig.	.045	.835	.016	.002	.034
a. Kruskal Wallis Test					
b. Grouping Variable: Age (in years)					

Table 2 displays the result of statistical test applied to analyze the relationship between age and investment objective. It can be seen that null hypothesis is rejected in case of capital growth, future security, tax benefit and status quo at 5% level of significance. This

indicates that age significantly influence the preference of investment objective.

Table 3: Education and Investment Objectives

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Chi-Square	4.757	3.956	8.877	11.114	6.449
Df	3	3	3	3	3
Asymp. Sig.	.190	.266	.031	.011	.002
a. Kruskal Wallis Test					
b. Grouping Variable: Education					

Table 3 displays the test result between education and investment objective. The null hypothesis was rejected in case of all investment objectives except for capital growth and regular income. This signify that investors with different education background have different preference for tax benefit, future security and status quo as an investment objective. Investors are indifferent for capital growth and regular income.

Table 4 contains result for occupation and investment objective. The null hypothesis was rejected for all investment objectives except for tax benefit. This suggests that investors employed in different occupations vary in their preferences of investment objectives.

Table 4: Occupation and Investment Objectives

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Chi-Square	7.252	10.137	6.748	.943	6.947
Df	3	3	3	3	3
Asymp. Sig.	.044	.017	.040	.815	.034
a. Kruskal Wallis Test					
b. Grouping Variable: Occupation					

Table 5: Yearly Income and Investment Objectives

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Chi-Square	5.357	4.659	4.632	11.569	5.361
Df	3	3	3	3	3
Asymp. Sig.	.047	.009	.001	.009	.026
a. Kruskal Wallis Test					
b. Grouping Variable: Yearly Income					

Table 5 represents test results aiming to identify association between yearly income and investment objectives. The outcome indicates that income

influences all investment objectives considered in the present research.

Mann-Whitney Test

Table 6: Gender and Investment Objectives

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Mann-Whitney U	29389.000	34594.000	31524.500	29442.500	31756.500
Wilcoxon W	80110.000	85315.000	55395.500	53313.500	82477.500
Z	-3.079	-.039	-1.820	-3.039	-1.712
Asymp. Sig. (2-tailed)	.002	.009	.069	.002	.035
a. Grouping Variable: Gender					

Mann Whitney test was used in analyzing relationship between gender and investment objective. Null hypothesis was rejected for all objectives except future security. This signifies that investors have similar preference in their desire of future security from their

financial investments. For all other objectives the preferences vary for male and female investors.

Table 7: City of Residence and Investment Objectives

	I invest because of the potential capital growth	I invest to earn a regular income (Dividend or Interest)	I invest to secure my future.	I invest because I want to avail tax benefit	I invest because I want to show people that I own shares
Mann-Whitney U	32621.500	35583.500	33423.500	32258.500	32834.000
Wilcoxon W	64752.500	67714.500	73609.500	72444.500	64965.000
Z	-1.826	-.123	-1.356	-2.028	-1.720
Asymp. Sig. (2-tailed)	.038	.902	.015	.043	.041
a. Grouping Variable: City you live in					

Table 7 presents results of impact of city of residence on investment objectives. The outcome of the study reveals that city of residence is an influence factor in choice of investment objectives. Since the null hypothesis is rejected for all objectives except for regular income.

IV. CONCLUSION

From the findings and analysis of the present research it can be concluded that demographics factors exert great influence over preference of investment objectives. Investment objective is the most crucial variable in investment decision making process as all the actions and decisions are taken in the light of these objectives. An investor departs from their saved money for some time with the expectation of fulfilling the desired objective that the future inflow will serve. Therefore an understanding of the factors that guide the decision of investment objective is important for

any issuer, marketer, financial advisor or financial decision maker.

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