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Investment Decision: A Dilemma for Individual Taxpayers

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Abstract

The paper aims to present decisions about investment, and the risk attached to them. The Investment decision itself is a subjective act, but it is based on both subjective and objective factors. Risk is an important component of every investment; thus, it is necessary to analyse it as both, the objective component of the investment, and the subjective factor of the investment decision-making.

Investors generally follow different investment patterns based on the circumstances they find themselves in which may be environmental or personal. Environmental factors could be related to the economic conditions, resources available, or the constraints bound by investors for investment. Personal circumstances could be related to savings, personality traits, or knowledge. Investment in avenues should be made with significant consideration of risk and return.

Keywords: Investment decision, Investor behaviour, Investment Patterns, Investment Option

INTRODUCTION

Investment is a phenomenon for generating future rewards. It requires committing resources that are laid aside for future use to reap the benefits. Every investment decision is a risk-reward trade-off. Investors' behaviour and investing patterns are shown by the amount of money they invest out of their overall savings, the frequency with which they invest, the financial instruments in which they invest, and their risk aversion.

The diversification of the material resources has provided the individual investor with a variety of opportunities to invest. Savings are the difference between the amount an investor earns and the amount the investor spends. Investor attitudes have been changing drastically after economic reforms in selecting various financial instruments, evaluating, and analysing investment avenues, etc.

Setting financial goals whether they are short-term, medium-term, or long-term is an important step toward becoming financially secure. Even the most prudent person can't prepare against every crisis, but planning for any upcoming financial urgency is an ongoing process so you can shape your life and goals.

Financial planning allows the investor to review their investment. It is a step-by-step guide to achieve anyone's life goal and manage expenses, income, and investment to attain targeted tasks.

There is no one-size-fits-all approach to investment decisions. Investor's strategy should be tailored to your unique financial situation, goals, and risk tolerance. It's also important to continuously educate and adapt investment strategy as per the circumstances.

Investment behaviour refers to the actions and decisions individuals or organizations make when allocating their funds to various assets or financial instruments with the expectation of generating a return on their investment. This behaviour can be influenced by a variety of factors, including personal financial goals, risk tolerance, market conditions, and economic outlook.

VARIOUS INVESTMENT OPTIONS:

An investor should evaluate different investment options and select whichever suits them the most based on criteria like age, goal, risk appetite, investment amount, and risk tolerance**.** Some criteria are mentioned below:

1. National Pension Scheme (NPS):

The scheme has been introduced by the government of India under the Pension Fund Regulatory and Development Authority.

The scheme allows the subscriber to build up his pension fund over a long period so that after retirement he can draw a pension for his sustenance. The return on the investment will be market-related.

2. Sovereign Gold Bond Scheme:

The Sovereign Gold Bond (SGB) provides an alternative to traditional physical gold. Investors benefit not only from potential price appreciation but also earn an annual interest rate, typically around 2.5%, paid semi-annually. Moreover, they come with tax advantages, as capital gains tax is exempted if held until maturity. By eliminating concerns related to storage and security, the SGB scheme presents a convenient and efficient way for individuals to invest in gold, making it an attractive option for diversifying their portfolios.

3. Public Provident Fund:

The Public Provident Fund (PPF) is long-term investment avenue. The interest rate, which is set by the government quarterly, is compounded annually, offering returns that are generally higher than those of traditional savings accounts. Additionally, the scheme provides flexibility with options for loans against the balance after the third year and partial withdrawals starting from the seventh year. Backed by the government, PPF is considered a safe investment, making it an attractive choice for individuals looking to secure their financial future.

4. Equity-linked savings scheme (ELSS):

ELSS is basically a tax-saving mutual fund. Tax deduction up to Rs. 150000 is also available in 80C. The returns on the maturity of the investment are taxable as capital gains. The gains enjoy an exemption of up to Rs. 100000.

ELSS is a combination of debt and equity. The equity component offers increased returns and debt provides a cushion against price variations.

5. Fixed Deposits:

Fixed deposit accounts are hassle-free and the safest investment option in the market. There is flexibility in terms of tenure and frequency of interest. If the investor requires the fund before the maturity date, then they can choose to break the FD or even take an overdraft loan on the FD.

6. National Savings Certificate (NSC):

NSC provides fixed returns. There is five years lock in period. The government analyses the interest rate of the scheme quarterly. It also has tax saving benefits.

Tax deductions up to Rs. 150000 under section 80C can be claimed. The interest is annually compounded and paid only on maturity.

7. Post office Monthly Income scheme:

In Post office monthly income scheme account holders will get a monthly income of interest. The scheme is open only to resident Indian citizens. The interest earned is not eligible for any tax deduction or exemption.

8. Atal Pension Yojana (APY):
APY launches for the welfare of the weaker section of society, especially those who belong to unorganized sectors and includes a very low premium.

9. Life Insurance Plans:

Life Insurance scheme guarantees for loss of life. Beneficiary receives a specified sum from the insurer after the occurrence of an event.

Insurance companies offer a different option plans as per individual needs. Plans may offer the following benefits:

a) Risk coverage

b) Health Expenses coverage in hospitalization and illness.

c) Promotes saving, as the policies also offer saving plans.

d) Insurance policies could also be bundled with the guaranteed sum which is payable on the happening of the event.

10. Investment in Securities:

Buying stocks of a company. Stock markets are dynamic. Buyers and sellers communicate with each other to trade stock of the company as goods.

11. Mutual Funds:

Individual investor lacks the skill and expertise to invest in the stock. They offer individuals an opportunity to invest in a professionally managed fund, which can help spread risk and enhance potential returns.

12. Exchange-traded funds (ETF):

ETF is a pooled investment. It will track a index, sector, or asset which ultimately aims to provide higher returns to investors.

KEY ASPECTS OF INVESTMENT BEHAVIOUR:

1. Risk Tolerance: Some investors are risk-averse and prefer conservative investments, while others are more risk-tolerant and may seek higher returns through riskier assets.

2. Financial Goals: Investment behaviour is often driven by specific financial goals, such as saving for retirement, buying a home, funding education, or building wealth. These goals influence the investment horizon, asset allocation, and overall strategy.

3. Investment Horizon:Short-term investors may focus on quick gains and be more susceptible to market fluctuations, while long-term investors tend to adopt a more patient and strategic approach.

4. Market Sentiment: Market psychology can play a important role in investment behaviour. When markets are optimistic, investors may become more aggressive, while during periods of uncertainty or pessimism, they may become more conservative.

5. Information and Research: Investment behaviour is influenced by the information and research available to investors. Well-informed investors are more likely to make rational decisions based on data and analysis.

6. Diversification: Investing in different investments to reduce the risk factor. Investors who understand the benefits of diversification are more likely to adopt it in their investment behaviour.

7. Emotional and Behavioural Biases: Emotions, such as fear and greed, can lead to impulsive investment decisions. Behavioural biases, like confirmation bias, overconfidence, and loss aversion, can also affect investment behaviour.

8. Economic and Market Conditions: Broader economic and market conditions, including interest rates, inflation, and geopolitical factors, can influence investment behaviour.

9. Regulatory and Tax Considerations: Regulations and tax laws can impact investment behaviour by affecting the choice of investment vehicles, such as IRAs, 401(k)s, or other tax-advantaged accounts.

CHALLENGES FACED BY INVESTORS

Individual investors face several challenges and problems when it comes to managing their investments. Some of the common problems of individual investors include:

1. Lack of Expertise: Many individual investors lack the financial knowledge and expertise to make informed investment decisions. This will amount to bad investment options and lower returns.

2. Emotional Decision-Making: Emotions often drive investment decisions, leading to impulsive actions such as panic selling during market downturns or chasing after hot investment trends. Emotion-driven decisions can result in losses.

3. Overtrading: Some individual investors engage in excessive buying and selling of investments, incurring high transaction costs and potentially reducing returns.

4. Diversification Challenges: Achieving a well-diversified portfolio can be challenging for individual investors with limited capital.

5. Limited Access to Investment Opportunities: Individual investors may not have access to certain investment opportunities, such as private equity or hedge funds, which are typically available to institutional investors.

6. Inadequate Research: Thorough research is very important for making crucial investment decisions. Some individual investors may not have the time or resources to conduct thorough research on potential investments.

7. High Fees: Individual investors often face higher fees for services like trading, investment management, and financial advice, which can erode their returns over time.

8. Tax Considerations: Managing the tax implications of investments can be complex. Individual investors may not take full advantage of tax-efficient strategies, potentially leading to higher tax liabilities.

9. Short-Term Focus: Many individual investors have a short-term investment horizon and may not focus on long-term financial planning and wealth accumulation.

10. Lack of Risk Management: Proper risk management is essential for preserving capital. Individual investors may not employ risk management strategies effectively, exposing themselves to significant losses.

11. Inconsistent Contributions: Some individual investors do not consistently contribute to their investment accounts, missing out on the benefits of compounding over time.

12. Behavioural Biases: Psychological biases, such as confirmation bias, anchoring, and overconfidence, can cloud judgment and lead to suboptimal investment decisions.

13. Lack of Resources: Individual investors may not have access to the research tools, data, and financial professionals that institutions and wealthier individuals do.

OBJECTIVE

1. To study and identify various Investment options regarding safety and realistic returns.

2. To study the investment avenues of different income groups of individuals to meet their sequential future needs.

Hypothesis:

- H_0: Investment options cannot be identified regarding safety and realistic returns.
- H_1: Investment options can be identified regarding safety and realistic returns.
- H_0: Investment avenues cannot fulfil the sequential future needs of different income groups.
- H_2: Investment avenues can fulfil the sequential future needs of different income groups.

LITERATURE REVIEW

- Baiq Fitri Arianti (2018) analysed and measured whether financial literacy, financial behaviour, and income influence the investment decision of an individual. Data was collected through questionnaires, the sample size was 100 and the techniques used were descriptive statistical analysis, data quality test, classical assumption test, multiple linear regression test, F test, t-test and coefficient of determination. Financial literacy doesn't have a significant effect on investment decisions, but Income has a significant effect on investment decisions.

- Varun Sagar Singal et al. (2019) in this research they tried to identify the factors affecting investment decisions on mutual funds, the impact of behavioural factors on an investor and what are the factors that stop people from investing. Fundamental factors such as past performance, the experience of the fund manager, risk, return, and diversification plays a very vital role in the decision-making process of an investor.

- Santhosh Kumar, (2019) in this research they emphasized the importance of planning in financial decisions, to tackle inflation and create retirement portfolios to maximize money management. Explain the importance of selecting the appropriate plan and examining it on continuous basis to formulate a financial strategy.

- Divya Verma, Deepak Sahni, (2020) this research concluded that people want to save money but prefer traditional modes of investment like gold, bank deposits or investment in land. Investments of people doing job depend on age, as they want regular returns, They are the people with low risk-taking capability. Investors can't control risk, but they can manage risk by making appropriate investments strategy that suits their income and risk-bearing capacity.

- BM. Saranya, S. Joyce, (2022) The research study uncovered several significant respondents are unaware of investment choices. The general people are concerned about losing their money than concerned about investing challenges.

- Mrs. B Poornima, (2023) COVID-19 outbreak has significantly impacted the economy, individual investors has been impacted negatively and seem to have become more risk averse preferring safer investment options with low risk. Investors need to get more knowledge about investment avenues.

METHODOLOGY

Primary and secondary data has been captured. Primary data have been collected from 223 respondents in Delhi NCR region. The secondary has been collected from various books, magazines, journals, newspapers and websites. We are following probability sampling in this study. Simple random sampling is used to select the respondent from the available database.

Respondent Profile:

Particulars	Row Labels	National Pension Scheme	Sovereign Gold Bond Scheme	PPF	ELSS	FD	NSC	Post Office Saving scheme	Atal Pension Yojana	Life Insurance Plans	Investment in Securities	Mutual Funds	RD	Gold & Property	Grand Total
Gender	Female	2	1	4	1	14	1	1	0	15	4	15	4	12	**74**
	Male	5	2	9	4	27	2	2	1	20	18	23	9	27	**149**
Age Group	25-40	4	1	4	1	8	1	0	0	5	7	11	7	6	**55**
	40-60	2	1	6	3	12	1	2	1	15	8	17	4	14	**86**
	60 & Above	0	0	0	1	20	1	1	0	13	5	8	1	19	**69**
	Less than 25	1	1	3	0	1	0	0	0	2	2	2	1	0	**13**
Qualification	Professional	4	1	0	1	9	0	2	0	4	1	9	4	14	**49**
	Graduation	1	0	7	3	17	2	1	1	23	15	21	5	16	**112**
	Post- Graduation	2	2	6	1	15	1	0	0	8	6	8	4	9	**62**
Yearly Income	10 Lacs- 15 Lacs	0	0	5	2	12	1	1	0	11	6	15	2	7	**62**
	15 Lacs- 30 Lacs	5	1	2	1	6	1	2	0	7	7	11	1	8	**52**
	30 Lacs and above	2	2	1	1	3	0	0	1	3	2	5	1	16	**37**
	6Lacs-10 Lacs	0	0	3	1	15	1	0	0	10	5	4	5	6	**50**
	Below 6 Lacs	0	0	2	0	5	0	0	0	4	2	3	4	2	**22**
Expected % of Return	10%-15%	1	1	4	1	5	1	1	0	7	4	4	1	6	**36**
	15%-20%	1	0	3	1	6	1	1	0	9	3	5	1	11	**42**
	20%&Above	3	0	2	2	11	1	1	1	14	4	8	1	19	**67**
	5%-10%	1	1	3	1	7	0	0	0	3	4	14	4	2	**40**
	Below 5%	1	1	1	0	12	0	0	0	2	7	7	6	1	**38**
Reason for Investment	Medical contingencies	2	0	3	0	14	1	2	1	18	4	13	2	7	**67**
	Purchasing of assets	0	2	4	1	7	1	0	0	0	9	16	6	23	**69**
	Marriage of Children	2	1	1	0	10	1	1	0	8	5	5	4	4	**42**
	Tax savings	3	0	5	4	0	0	0	0	3	0	0	0	0	**15**
	Higher Education	0	0	0	0	7	0	0	0	2	3	3	1	3	**19**
	Others	0	0	0	0	3	0	0	0	4	1	1	0	2	**11**
Risk factor	High	0	0	0	1	0	1	0	0	7	11	12	2	8	**42**
	Low	4	2	5	2	16	0	1	1	11	2	7	3	13	**67**
	Moderate	3	1	8	2	25	2	2	0	17	9	19	8	18	**114**
Satisfied with Expected Returns	Yes	6	2	12	2	40	1	3	1	20	7	12	4	16	**126**
	No	1	1	1	3	1	2	0	0	15	15	26	9	23	**97**
Satisfied with fulfilling future needs	Yes	2	1	4	2	11	1	0	0	12	7	12	9	27	**88**
	No	5	2	9	3	30	2	3	1	23	15	26	4	12	**135**
Opinion	A diversified portfolio minimizes Risk	1	1	6	2	16	2	1	0	12	6	12	6	18	**83**
	Secured investment avenues are always	5	2	6	2	22	1	2	1	10	3	5	5	11	**75**
	The higher a speculations' yield or rate of return, the more prominent is its related	1	0	1	1	3	0	0	0	13	13	21	2	10	**65**
Investment period	1 – 3 years	0	0	0	1	8	1	1	0	8	4	7	3	1	**34**
	10 years and above	5	2	9	0	14	0	0	0	12	0	2	2	15	**61**
	3 – 5 years	0	0	1	3	12	1	1	0	5	4	13	3	8	**51**
	5 – 10 years	2	1	3	1	7	1	1	1	10	5	8	4	14	**58**
	Less than 1 years	0	0	0	0	0	0	0	0	0	9	8	1	0	**18**

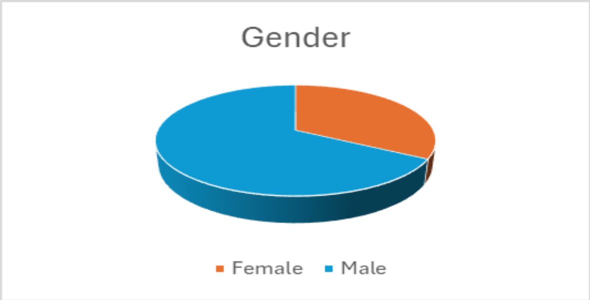
Research Gap:

There are some investment options which has emerged in recent years like Futures and options, Equity Linked saving scheme. Furthermore, investors nowadays are very prudent and active about return on their investments.

ANALYSIS OF INVESTMENT

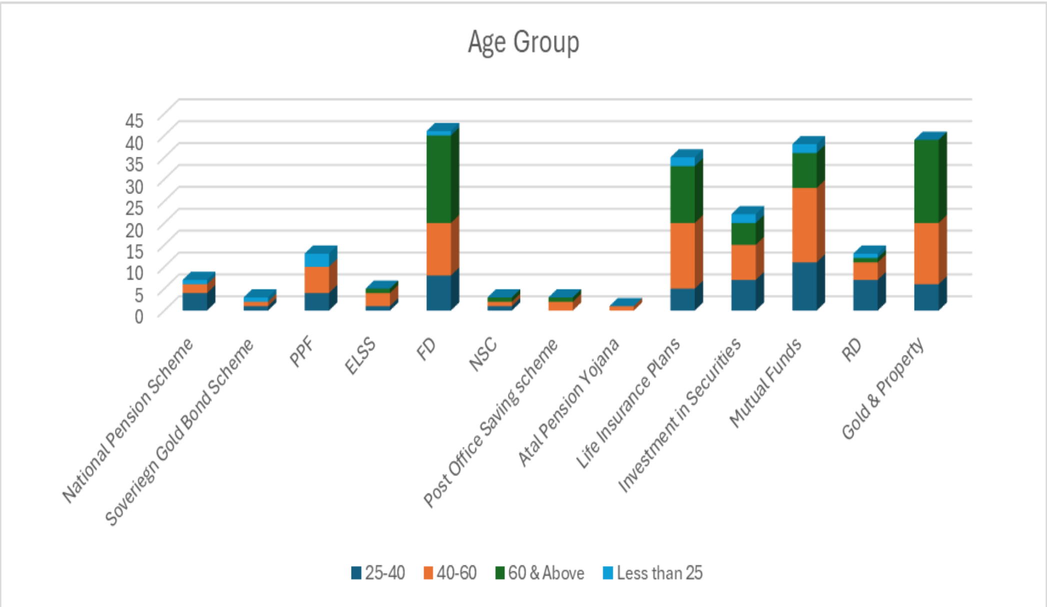
1. Gender:

Particulars	Row Labels	No.	%
Gender	Female	**74**	**33%**
	Male	**149**	**67%**
		223	**100%**



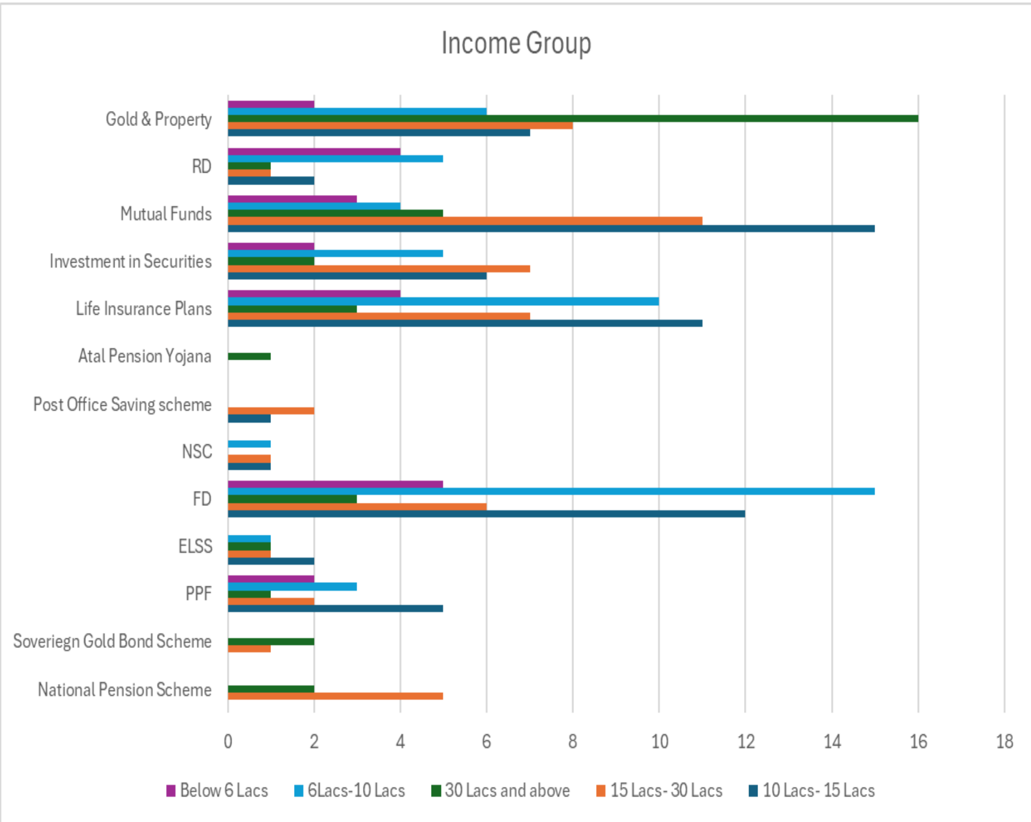
2. Age Group:

Particulars	Row Labels	No.	%
Age Group	25-40	**55**	25%
	40-60	**86**	39%
	60 & above	**69**	31%
	Less than 25	**13**	6%
		223	100%



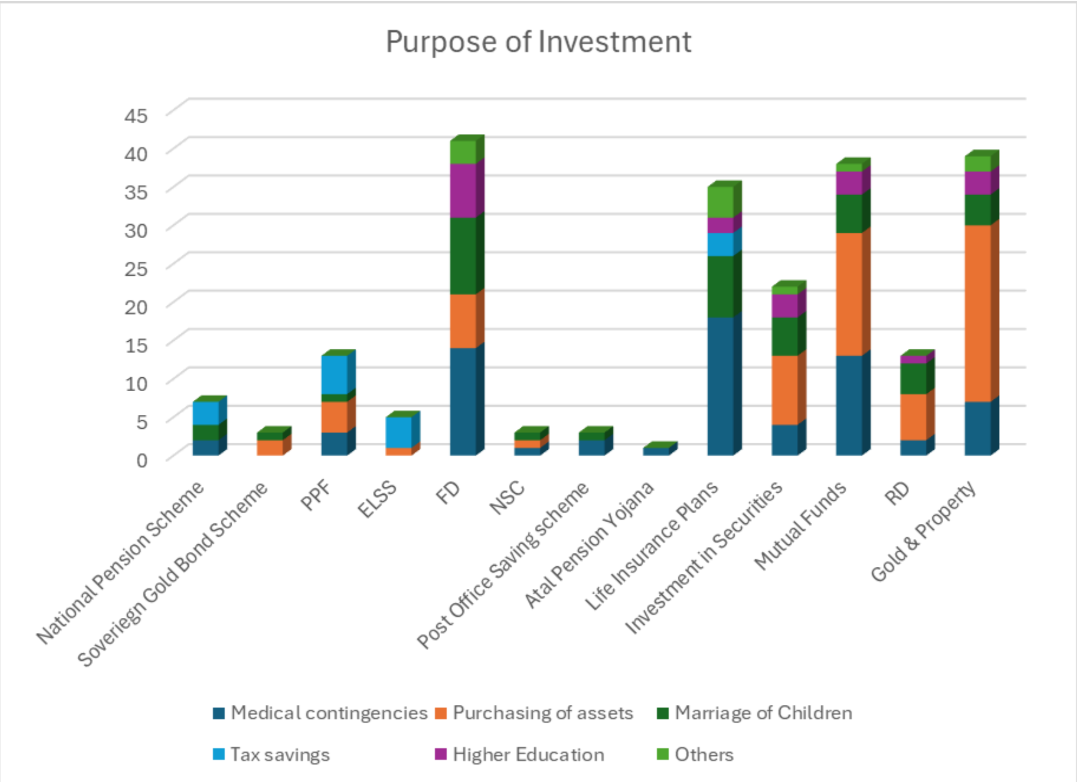
3. Income Group:

S. No.	Income group	10 Lacs- 15 Lacs	15 Lacs- 30 Lacs	30 Lacs and above	6Lacs-10 Lacs	Below 6 Lacs	Total
1	National Pension Scheme	0	5	2	0	0	**7**
2	Sovereign Gold Bond Scheme	0	1	2	0	0	**3**
3	PPF	5	2	1	3	2	**13**
4	ELSS	2	1	1	1	0	**5**
5	FD	12	6	3	15	5	**41**
6	NSC	1	1	0	1	0	**3**
7	Post Office Saving scheme	1	2	0	0	0	**3**
8	Atal Pension Yojana	0	0	1	0	0	**1**
9	Life Insurance Plans	11	7	3	10	4	**35**
10	Investment in Securities	6	7	2	5	2	**22**
11	Mutual Funds	15	11	5	4	3	**38**
12	RD	2	1	1	5	4	**13**
13	Gold & Property	7	8	16	6	2	**39**
	Total	**62**	**52**	**37**	**50**	**22**	**223**



4. Purpose of Investment:

S. No.	Usage	Medical contingencies	Purchasing of assets	Marriage of Children	Tax savings	Higher Education	Others	Total
1	National Pension Scheme	2	0	2	3	0	0	**7**
2	Soveriegn Gold Bond Scheme	0	2	1	0	0	0	**3**
3	PPF	3	4	1	5	0	0	**13**
4	ELSS	0	1	0	4	0	0	**5**
5	FD	14	7	10	0	7	3	**41**
6	NSC	1	1	1	0	0	0	**3**
7	Post Office Saving scheme	2	0	1	0	0	0	**3**
8	Atal Pension Yojana	1	0	0	0	0	0	**1**
9	Life Insurance Plans	18	0	8	3	2	4	**35**
10	Investment in Securities	4	9	5	0	3	1	**22**
11	Mutual Funds	13	16	5	0	3	1	**38**
12	RD	2	6	4	0	1	0	**13**
13	Gold & Property	7	23	4	0	3	2	**39**
	Total	**67**	**69**	**42**	**15**	**19**	**11**	**223**



In this analysis, male respondents give preference to Investment in Securities and are likely to take more risks, while female respondents are inclined towards investments in Life insurance plans and likely to have fewer investment risks. Further, respondents over the age group of 40 years are likely to invest in Gold and Property. However, 25-40-year-old age group prefers Investment in Securities, Mutual funds, FDs, and Insurance plans.

76.5% of respondents are satisfied with the expected and actual returns of PPF, FD, NPS, Post office Saving scheme, Atal Pension Yojana, NSC, ELSS, Sovereign bond scheme etc. Hence null hypothesis is true that Investment can be identified with safe and realistic returns.

29.3% of respondents believe that for getting high returns they must take high risk.

Furthermore, 60.5% of Investors are dissatisfied with their investments for fulfilling their future needs because of increase in inflation, Market risk, change in Government policies. Hence, the null hypothesis is false and the alternate hypothesis is accepted.

INTERPRETATION

The study has been conducted to analyse the investment choices of people in Delhi NCR.. After analysis and interpretation of data it is concluded that respondents are medium aware about various investment choices like stock market, equity, and Investment schemes. The study is conducted with the number of sample sizes. There might be the chance that the perceptions of respondents are different and varied due to diversity in social life, living patterns, income levels, etc. All age groups give more importance to investment in PPF, NPS, and FD. Various awareness programs must be conducted for investors to guide them before investing their hard-earned money.

CONCLUSION

In conclusion, making an investment decision is a multifaceted process that involves careful consideration of various factors. It requires a thorough analysis of the potential risks and returns associated with the investment, as well as an evaluation of how it fits into one's overall financial goals and portfolio. The decision should be guided by a well-defined investment strategy and a clear understanding of one's risk tolerance. Additionally, conducting due diligence and seeking professional advice, when necessary, are essential steps in arriving at an informed conclusion. Ultimately, the conclusion of an investment decision should align with the investor's objectives and preferences, ensuring that it is a prudent and well-informed choice that contributes to their financial well-being. Regular monitoring and adjustments to the investment strategy may also be necessary to adapt to changing market conditions and evolving financial goals.

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