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Individual investment avenues in Indian financial system: A conceptual perspective

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Abstract
Investor's relationship is determined by several demographic, economic and cognitive factors. In behavioral finance, the information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. Investment of hard earned money is made by investors for financial security in future on such investments. But before taking any investment decision and choosing any financial avenue, they follow a process of cognitive decision making which guides them towards selection of avenue. Investors sometimes are not having knowledge about different avenues available and thus face problems to make a good investment decision. This conceptual perspective can be used to build representation of individual investors. This model can bridge the gap between the micro level of individual investor behaviour and the macro level of aggregate market phenomena. This paper will present the concepts that help illustrate the individual investment avenues and the investment behaviour of individuals.

Keywords: Investments, individual investment avenues, individual investors behaviour and cognitive decision making

Introduction
Investment is investing money in to a company or enterprise, hoping that it will be successful and pay you back with even more money. Individuals that has surplus of cash are liking after an investment opportunity that satisfy the highest return during the investment period with reasonable associated risk on the expected return after maturity. The decision making process is a cognitive process which results in the selection of a course of action among several alternatives. In this process, the emphasis is on thinking things and weighing the outcomes and alternatives before arriving at a final decision. Every decision making process produces a final choice. The output is an action or choice. Environmental variables which have effect on individual decision making are ambiguity clarity of the informative stimulus and reliability of the source of information. The individual cognitive profile is depicted by the cognitive style, ambiguity tolerance, etc.

Information that is knowledge of financial options plays an essential role in the decision making. Investors have a perception regarding the uncertainties involved in any investment based on the information they receive from different sources. The behavioral finance introduced psychology into finance; sine psychology was never out of finance. On the same grounds, that empirical research based on psychological aspects contributes to a better understanding of actual information in markets by considering market participants attitudes and exploring the role of the sources of information and their influence on investors' behavior.

This paper presents a proposed conceptual perspective of the Individual investment avenues available to the investor. By taking a descriptive point of view, we focus our attention on how investors make their investment decision in real world setting.

Review of literature
Krishnan and Booker (2000) [1] analyzed the factors influencing the decision of investors who use analysts' recommendations to arrive at a short-term decision to hold or sell a stock. The results indicate that a strong form of the analyst summary recommendations report, i.e. one with additional information supporting the analysts' position further, reduces the disposition error for gains and also reduces the disposition error for loss.

Guido Baltussen, (2008) [2], stated that investors' change their preferences in response to previous outcomes and they tend to use simplified heuristic to construct their portfolio.
Kabra, G., Mishra P.K and Dash M.K (2010) [3] studied the factors effecting investment behaviour and concluded that investors' age and gender are the main factors which decide the risk taking capacity of investors.
D.P Warne (2012) [4] studied Investment Behaviour of Individual Investors in the stock market to understand the attitude and perception of investors, concluded that market movements affect the investment pattern on investors in the stock market.
AshisGarg and Kiran Jindal (2014) [5] Studied the Herding Behaviour in the emerging stock market, attempt to attend the presence of herding behavior in the stock market concluded that there is an existence of herding behaviour during the crises.

Objectives of the study

In the light of above background the present research paper focuses on the following objectives.
1. To study the present status of Indian financial system.
2. To examine the individual investors normal behaviour towards capital market.
3. To study the investment avenues available in capital market.

Methodology

The study is mainly based on secondary resources of information the main resources of information are as journals (international/national) newspapers, research articles and website etc.

The Present Status of Indian Financial System

The growth of financial sector in India at present is nearly 8.5% per year. The rise in the growth rate suggests the growth of economy. The financial policies are able to sustain a stable growth rate.
The reform pertaining to the monetary policies and the macroeconomic policies over the last few years has influenced the Indian economy to the core. The major step towards opening up of the financial market further was the nullification of the regulations restricting the growth of the financial sector in India. To maintain such a growth for a long term the inflation has to come down further.
The financial sector in India had an overall growth of 15%, which has exhibited stability over the last few years although several other markets across the Asian region were going through turmoil. The development of the system pertaining to financial sector was the key to growth of the same. With opening of the financial market variety of products and services were introduced to suit the need of the customer. The reserve bank of India played a dynamic role in the growth of the financial sector of India.

The Growth of Financial Sector in India Was Due To the Development in Sectors

Growth of the Banking sector in India

The banking system in India is the most extensive. The total asset value of the entire banking sector in India is nearly USD 270 billion. The total deposit is nearly USD 220 billion. Banking sector in India has been transformed completely. Presently the latest inclusions such as internet banking and Core banking have made banking operations more users friendly and easy.

Growth of the Capital market in India

- The ratio of the transaction was increased with the share ratio and deposit system.
- The removal of the pliable but ill-used forward trading mechanism.
- The introduction of InfoTech systems in the national Stock Exchange (NSE) in order to cater to the various investors in different locations.
- Privatization of stock exchanges.

Growth in the Insurance sector in India

- With the opening of the market, foreign and private Indian players are keen to convert untapped market potential into opportunities by providing tailor-made products.
- The insurance market is filled up with new a player which has led to the introduction of several innovative insurance based products, value add-ons and services. Many foreign companies have also entered the arena such as Tokio Marine, Aviva, Allianz, Lombard General, AMP, New York Life, Standard Life, AIG and Sun life.
- The competition among the companies has led to aggressive marketing and distribution techniques.
- The active part of the Insurance Regulatory and Development Authority of India (IRDAI) as a regulatory body has provided to the development of the sector.

Growth of the Venture Capital market in India

- The venture capital sector in India is one of the most active in the financial sector inspite of the hindrances by the external setup.
- Presently in India there are around 34 National and 2 International SEBI registered venture capital funds.

Investor's Behaviour -Conceptual Framework

It was believed that the decisions of individual investors were based on the modern portfolio theory and the efficient market hypothesis. But many individual investors do not pick their portfolio based solely on the criteria of modern portfolio theory. In fact the individual investors investing process and his buying decision process along with behavioral biases, pattern of investment, their awareness level; factors affecting their investment behavior and the problems faced by them need to be analyzed in order to understand the individual investors behaviour. Practical experience and technical knowledge is required for rational decision making. Investors' behavior approaches investing as a rational decision-making process in which the investors attempts to select a portfolio of securities. Maximizing principles becomes the motivation for rational investors they make decision on inadequate information which my go wrong.

Investor's Investing Process

Every investor should have a process. An investment process helps keep investors focused and on track, and prevents them on making wrong investment decisions. Emotional investment decisions are bad for returns and can really ruin a portfolio. The investor can either look at broad market condition, interest rates and other microeconomic data in order to decide where to invest or ignore such facts and focus solely on attributes and value of a company from balance sheet information with no regard to market business cycle.

A typical value investing process should make a financial plan which normally includes the answering of following issues.

1. Avenues available for saving and investment viz. precious materials, real estate, financial products and personal products.
2. The current financial situation and the individual net worth.
3. The individual income and expenses? Track of probable income and expenses for each month. Earning ability of the one member in the family.
4. Priority spending-family friends holidaying, investment in social cause.
5. Amount available for investment for attending all the personal and family commitment.

Investor's Behaviour

Investors' behaviour is made by many influences either in the form of information gathered or certain influencing factors which affect their decision making. Investor's perception differs with respect to alternative investment avenues, assets and market segments in the market. The investment motives can be varied.

Factors Affecting on the Investment Decision

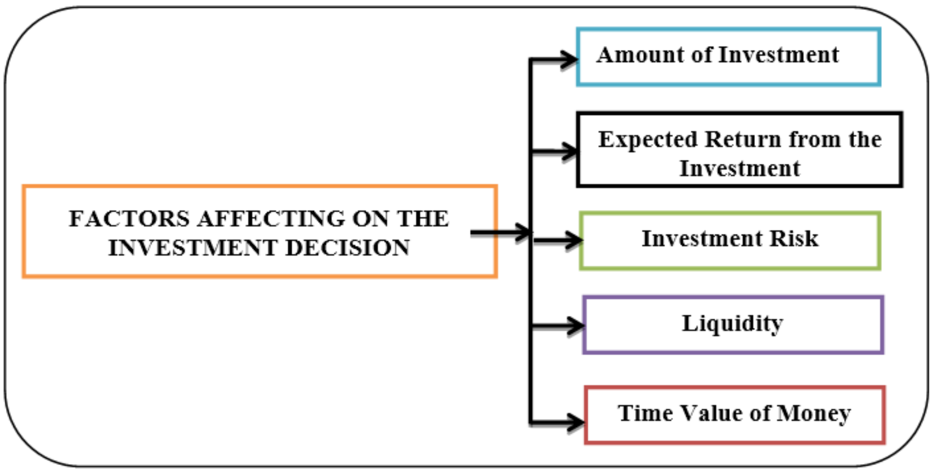

Fig 1: Factors Affecting Investment Decisions

1. Amount of investment (wealth)

- The total resources owned by the investors.
- The increase in wealth raises the quantity demand on an asset.

2. Expected return from the investment

- The expected return from the investment over the next period
- An increase in an assets expected return to that of an alternative asset raises the quantity demanded for the asset.

3. Investment risk

- Investment risk occurs when the expected investment is not realized
- It is common that the higher the risk associated with the investment the higher the return that can be realized and this occur in the stock market where there is unlimited level of profit and on the other side there is a possibility of losing the invested money in case of major down of the exchange during financial crisis like the one that started last year which led to a decline of CASE 30 index by more than 50% this serious situation led to huge capital losses to the investors.
- Risk adverse investors will go after the investment with lower risk investment like treasury bills.
- Money market instruments have the no risk since the banks bears all the risk of the investment.
- A diversified portfolio of assets can eliminate the non-systematic risk and minimize the systematic rick of the total investment portfolio.
- Holding everything constant, if an assets risk rises relative to that of alternative assets, its quantity demanded will fall.

4. Liquidity

- The ease and speed with the asset can be turned into cash
- The more liquid an asset is relative to alternative assets, holding everything else constant, the more desirable it is, and the greater will be the quantity demanded.

5. Time Value of Money (TVM)

- This concept refers to the fact that a pound in hand today is worth more than a pound promised at some time in the future, it can be used also to compare investment alternatives.
- The concept compares the future return of an investment to the present cost paid toady in that investment. The investor is willing to pay if the present value of the investment is less than the future value.

- This concept is the most important concept used by financial managers and investors to assess the investment opportunity.

On the basis of the above concepts an investor can select an investment instrument from the available investment markets as follows:

I. Safe investment options available are as under

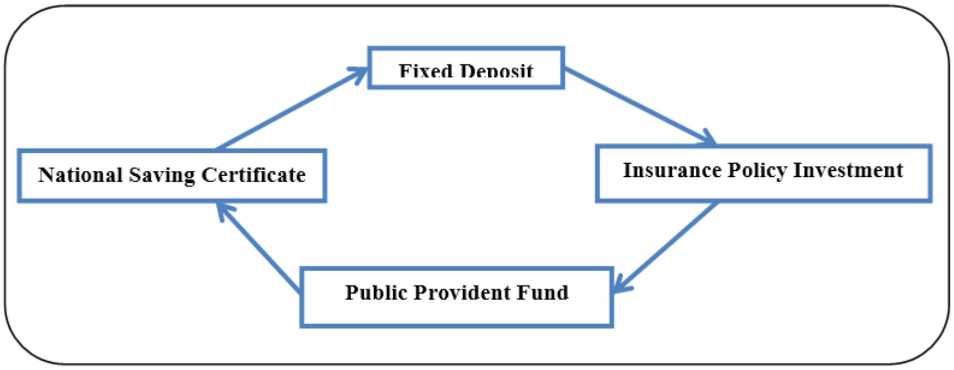

Fig 2: Investment Avenues available for investment

Fixed Deposit

Fixed deposit in banks form a major vote in terms of the safest investment in India. The most important reason for this is its ability to provide reasonable return and the money invested is locked in safely. You can always be assured of the returns. The time period for a Fixed Deposit may range from 15 days to more than five years.

Insurance Policy Investment

After fixed deposit in banks, another popular choice of people in the list of the best investment option in India for 2016 is Insurance Policy Investment. An excellent feature about this option is that you can get profits which are risk free. Insurance policy range from variety of types and provide different types of coverage. Insurance policies like LIC, Home insurance, car insurance and Health insurance are few examples of such type of investment options.

Public Provident Fund has High Returns

Public Provident Fund (PPF) is also a good option to invest money securely for future periods. The primary reason is the high rate of returns mainly for people who are under 30% tax brackets. The rate of interest returns on Public Provident Fund can as good as 9%. However, the time span of investment can be as high as 15 years. However, with almost no risk options and good returns makes this pretty options to choose.

National Saving Certificate (NSC) is a Widely Common Option

National Saving Certificate (NSC) is another favorite investment option of people in India. This investment option comes with six year timespan and with the ease of Government subsidies. Hence, all these characteristics make this option secured in every sense. A person can begin with as small as Rs. 100/-. The rate of interest is calculated two times in one year. You can benefit from tax deductions till up to Rs. 1-Lakh on NSC returns. Now you can learn about another good investment options and those are mutual funds.

II. Money market

This market has instruments with short terms to maturity less than 1 year with the least price fluctuations and the least risky instruments follow the main money market instruments.

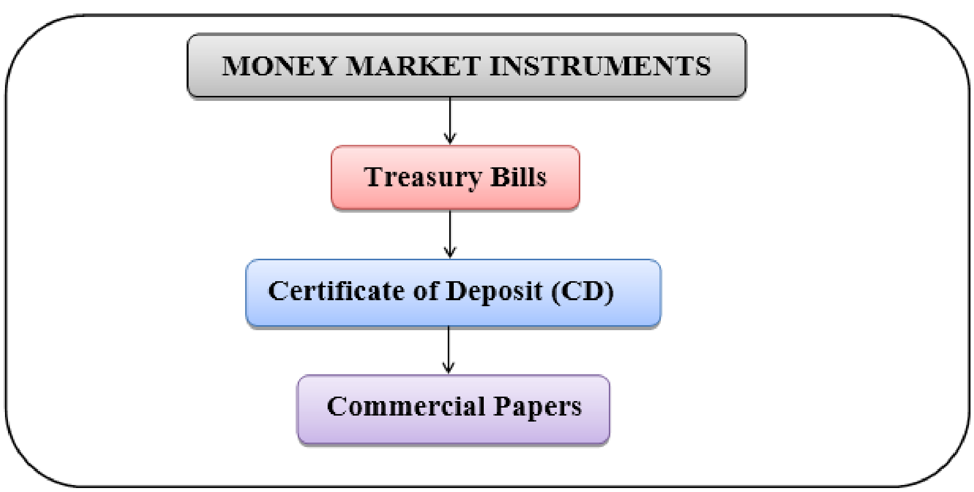

Fig 3: Money Market Instrument for Investment

a) Treasury Bills
Issued by the government of India for up to 6 moths maturity, the most liquid instrument in the money market with no risk associated.

b) Certificate of Deposit (CD)
Pay interest at certain times and pay back the full certificate amount at maturity, issued by commercial banks, corporations, mutual funds, and government agencies etc. it is considered a secure investment for a range from 3 to 5 years.

C) Commercial Papers
A commercial paper is an unsecured promissory note issued with a fixed maturity by a company approved by RBI, negotiable by endorsement and as may be determined by the issuing company.

I. Capital market
This market has debt and equity instruments with maturities of greater than 1year; they have far wide price fluctuations and are considered to be risky investments.

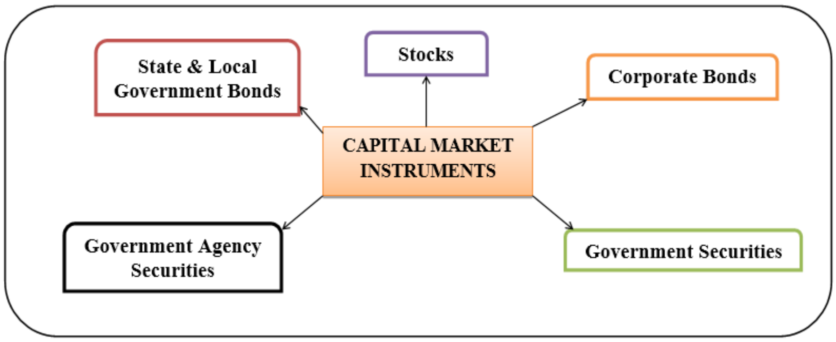

Fig 4: Capital Market Instruments are available for Investment

Following are the main instruments in capital markets:

a) Stocks

- It is an equity claims on the net income and assets of a corporation, stocks have the following advantages:
- Relatively low commission costs, easy to buy and sell, on the spot priced.
- Can gain dividends and has potential capital gain.
- It has proven track record of being rewarding investment over time.
- It is considered a risky investment with unlimited profit potential.

b) Corporate Bonds

- Long term bonds issued by corporations with strong credit ratings, interest paid once/twice a year and face value upon maturity.

c) Government Securities

- The most liquid security traded in the capital market.

d) Government Agency Securities

- Long term bond that issued by various government agencies.

e) State and Local Government Bonds

- Long term debt instruments issued by state and local government, it is tax exempted.

After the above analysis of factors an investment can select and ask certain questions to the investment being made, in order to get the surety of favorable returns in future.

Thus the proposed chart illustrates the investment decision roadmap for selecting the suitable financial investment avenues from different available instruments present in the market.

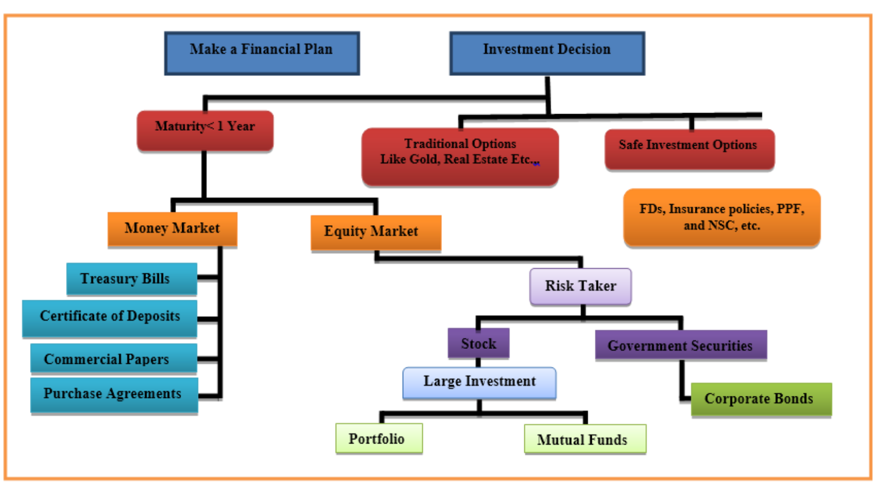

Fig 5: Proposed Model of Investors Decision Making

Conclusion

Investment decision process is an important analytical and critical decision for every individual investor. The decision to invest is influenced by the variety of benefits each individual wants from the selected avenue of investment. This paper has published theoretical framework for individual investor behavior in decision making process. The investor investment making process, factors affecting the individual investment behavior, avenues available has been studied in order to examine the investor behaviour. It is revealed from the understanding of the concept that the investor has some different financial plans and thus should choose accordingly from the avenues available. The behavior of individual investors should be understood thoroughly as it will help the investment companies, policy makers as well as managers of firms to prepare the financial products according to the needs and thus meet the investor's demands at large.

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