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To Study The Financial Behaviour Of Investors Towards Various Investment Options

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Abstract

Investor behaviour is influenced by different psychological, economical, and demographical factors, shaping their preferences for various investment options. This study examines how investors choose between traditional investments (fixed deposits, gold, real estate) and modern financial instruments (stocks, mutual funds, bonds, cryptocurrencies). The research explores key determinants such as risk appetite, financial literacy, and objective of investing.

Using a descriptive research design, primary data was collected through a structured questionnaire from individual investors. The findings indicate that risk perception and financial awareness significantly impact investment choices. Low-risk takers preferred stable options like fixed deposits, while high-risk investors opted for equities, cryptocurrencies and mutual funds. Behavioural factors, such as mentality and overconfidence, influence decisions, sometimes leading to financial losses.

The study identifies challenges like market volatility, lack of financial literacy, and limited access to professional advice. To address these issues, the research recommends enhancing financial education, promoting diversified investment strategies, and improving transparency in financial markets. These insights are valuable for policymakers, financial institutions, and individual investors, helping them make informed investment decisions for better financial security.

Keywords

Financial Behaviour, Risk Appetite, Financial Literacy

1. Introduction

1.1 Background

Investment behaviour has always been a subject of interest in financial research, as it directly impacts wealth generation and growth of the economy. Traditionally, investors relied on conventional investment options such as fixed deposits, gold, and real estate. However, with the evolution of financial markets and technological advancements, a wider scope of investment options, including equities, mutual funds, cryptocurrencies, and alternative assets, have gained popularity. This diversification has led to variations in preferences of the investor and decision-making patterns.

Investor's financial behaviour is shaped by multiple factors, including financial knowledge, risk taking capacity, market conditions, and psychological factors. Moreover, demographic variables such as age, income, education, and market experience play a crucial role in determining an individual's approach to financial investment.

It is important to understand these behavioural aspects for financial institutions, policymakers, and investors themselves, as it helps in designing effective investment strategies, promoting financial literacy, and encouraging informed decision-making. This research seeks to explore the financial behaviour of investors across various investment options, providing various insights into their motivations, challenges, and preferences.

1.2 Research Problem

Despite the increasing availability of various investment options, many investors struggle with making rational financial decisions. Factors such as risk perception, financial literacy, psychological factors, and market fluctuations significantly influence their investment behaviour. While some investors prefer traditional assets like fixed deposits and gold due to their stability, others are drawn to equities and mutual funds for higher returns, often without fully understanding the associated risks.

This research seeks to identify the factors that shape investor behaviour, analyze how different segments of investors approach financial decision-making, and uncover the challenges they face. By addressing these issues, the study aims to provide insights that can help improve financial literacy, guide investment advisory services, and enhance investor confidence in navigating financial markets.

1.3 Objectives

The primary objective of this research is to analyze the financial behaviour of investors towards various investment options. The specific objectives include:

1. To examine investor preferences - For different investment avenues such as equities, fixed deposits, mutual funds, real estate, gold, and emerging digital assets.
2. To analyze the factors influencing investment decisions - Including financial literacy, risk perception, return expectations, and behavioural factors.
3. To assess the impact of demographic variables - Includes variables such as age, income, education, and investment experience on investment behaviour.

1.4 Scope of the study

The study is beneficial to individual investors, financial advisors, policymakers, and financial institutions, as it provides insights into investor psychology and decision-making patterns of the investors. The research primarily relies on quantitative and qualitative data collected through surveys, and secondary sources, ensuring a comprehensive analysis of investor behaviours.

The scope of this study is limited to the geographical area of the city of Chhatrapati Sambhaji Nagar. The population of the study will be the people residing in this city only. The study serves as a foundation for further study in this field of investment behaviour and financial decision making.

2. Review of literature

Financial Behaviour of the investors have been extensively studied in the fields of behavioural finance and investment decision making and provide various insights into the factors influencing investment preferences, risk perceptions, and decision-making patterns. The literature has been studied related to this study.

Investors with greater risk appetite have shown an incline towards exploring new and diverse investment opportunities for diversification (Birwadkar, 2024). It has also been studied in this research that there has been a proliferation of novel options across various asset classes, including Equity and Stock, Debt Market, Mutual Funds, Insurance, Real Estate, Commodities, and Bank Fixed Deposits.

The result of a study by (Zhang & Zheng, 2015), showed that investors do not always adopt rational behaviours as traditional finance theory assumed it to be, but make a lot of irrational decisions based on individual cognitive and prejudices, even institutional investors often show the characteristic of irrational. The paper also studies the investment psychology of Chinese investors based on questionnaires. As seen from the analysis of this study, investors, especially institutional investors, in China show the irrational characteristic in making investment decisions. Conservative bias, overconfidence, self-attribution bias and loss aversion are four main psychology biases according to the research. These biases are more obvious among institutional investors, which mean that the psychology biases cannot be improved or eliminated by studying and accumulating experiences.

In the investment process, every individual requires good financial planning. People should be aware of all investment options before making financial decisions. The financial markets nowadays are highly complex, with each investor having unique financial demands based on his or her financial goals and risk appetite. But, in the end, every investor wants to maximize returns while also protecting his or her cash. As a result of the study (Agarwal & Bansal, 2021), financial education is required for people to invest their money wisely. Study was limited to the geographical area of Delhi-NCR.

A study on modern investment options revealed that all four behavioural finance factors (herding, disposition effect, blue chip bias and overconfidence) have a significant positive indirect effect on investment decision making through risk perception. The scope of this study was limited to Saudi and might not be applicable generally due to cultural differences but we can get a basic understanding of financial behaviour of investors through this study (Almansour & Elkrgli, 2023).

The result from a study (Mahmood & Arshad, 2024) suggests that it significantly influences behavioural biases related to investment decisions. The results underscored the unique investment behaviours in emerging markets, contrasting with established norms in well-developed financial markets. The study was conducted in Pakistan with reference to Pakistan Stock Exchange (PSX).

Faculty members in Uttarakhand were surveyed using a questionnaire. Study concludes that behaviours matter a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires investors complete considers factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns. (Kandpal & Mehrotra, 2018)

A study was attempted to investigate the relationship between financial literacy, financial behaviour, financial stress, and financial well-being of the B40 group in Malaysia. (Rahman & Isa, 2021) Results demonstrate that financial behaviour is the key antecedent followed by financial stress and financial literacy in predicting financial well-being. Hence, balancing between income and expenditure, managing financial stress, and increasing financial literacy would be necessary to assure financial well-being of lower-income group people.

3. Research Methodology

3.1 Data Collection

The study aims to analyze the financial behaviour of investors towards various investment options. Data will be collected through primary and secondary sources to ensure a comprehensive understanding of investor decision-making patterns.

3.2 Research Design

This research follows a descriptive research design, as it describes and analyzes the investment behaviours of individuals based on various influencing factors such as risk perception, financial literacy, and demographic characteristics. The study will focus on identifying trends, preferences, and challenges faced by investors in their decision-making process.

3. Type of Data

The research will utilize both primary data and secondary data:

- Primary data will be gathered directly from investors through surveys and structured questionnaires.
- Secondary data will be obtained from published reports, financial market studies, academic research papers, and government or financial regulatory authority websites.

4. Methods of Data Collection

The primary method of data collection will be a structured questionnaire, designed to assess investor preferences, risk tolerance, and investment behavior. The questionnaire will consist of both close-ended and open-ended questions to capture qualitative and quantitative insights.

5. Sampling Method, Sample Size, Sample Area, Sample Unit

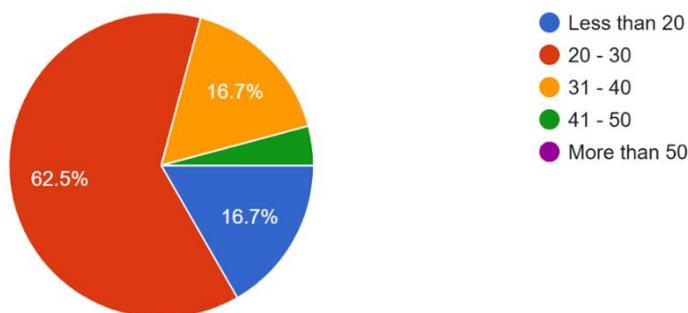
- Sampling Method: Random sampling method will be used to select investors from various financial backgrounds, ensuring a diverse representation of investment behaviors.
- Sample Size: The study will target 100 respondents, depending on data availability and feasibility.
- Sample Area: The research will be conducted within Chhatrapati Sambhaji Nagar, focusing on investors from different financial and demographic backgrounds.
- Sample Unit: The sample unit consists of individual investors, including salaried professionals, business owners, and self-employed individuals who actively participate in financial investments.

4. Data analysis and interpretation

4.1 Age Factor

Age

96 responses

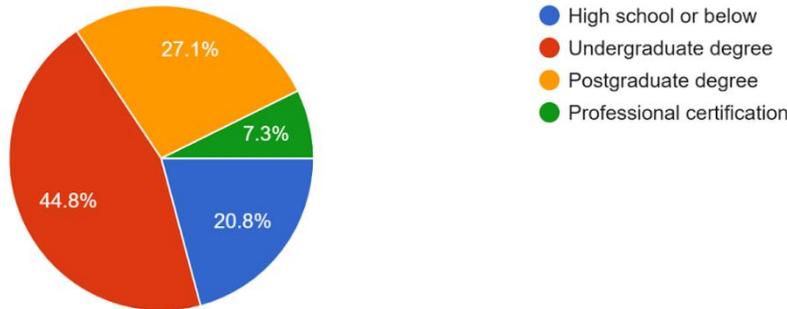


Interpretation - It can be observed that the respondents of the survey had a majority of people aged between 20-30 with a total of 62.5%, followed by 31-40 and less than 20, both at 16.7% and the least respondents were of the age 41-50 with 4.2% of the total.

4.2 Education

What is your highest level of education?

96 responses

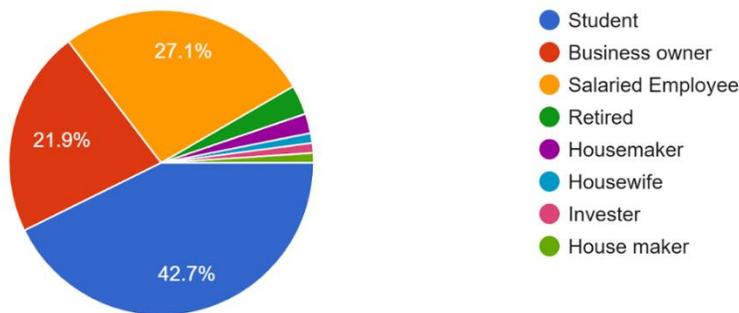


Interpretation - Most of the respondents had an Undergraduate degree, with 44.8%. Additionally, 27.1% had a Postgraduate degree, followed by High school or below accounting for 20.8%. Whereas, only 7.3% had a professional certification.

4.3 Occupation

Occupation

96 responses

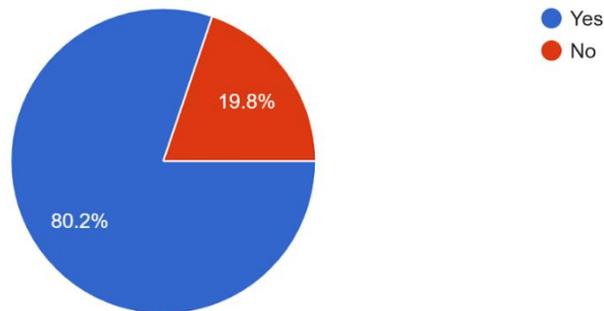


Interpretation - The study can be focused on students as they were highest in numbers as respondents with 42.7% of the population.

4.4 Investments

Do you currently invest in financial instruments?

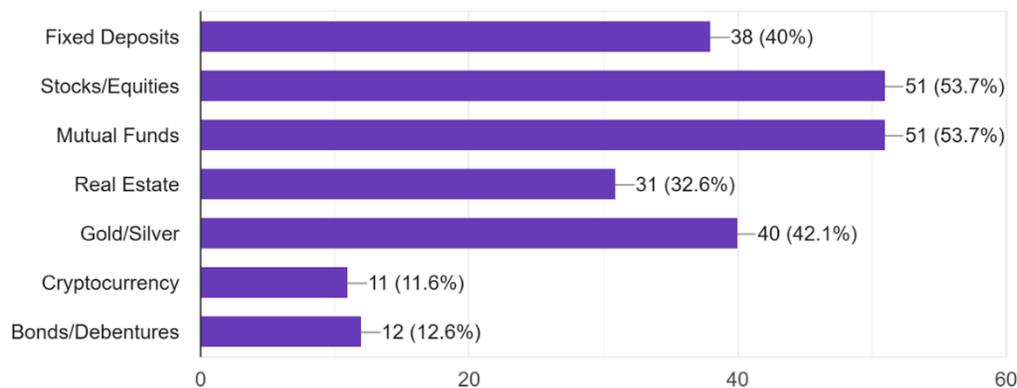
96 responses



Interpretation - From the pie chart it can be said that 80.2% of the population invests in Financial Instruments.

If yes, which of the following investment options do you prefer? (Select all that apply)

95 responses



Interpretation - Most preferred way of investing were Stocks/Equities and Mutual Funds, with both having 51 investors.

The next was Gold/Silver with 40 individual investors.

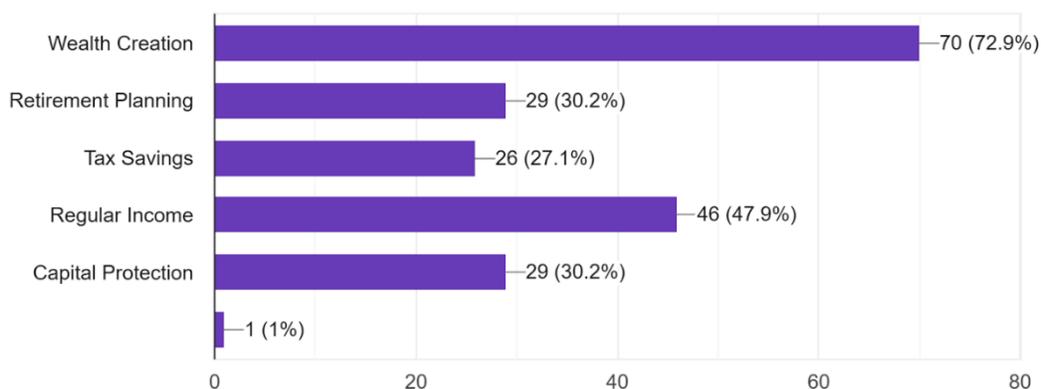
38 people had invested in Fixed Deposits. It is also observed that Real Estate is also a preferred investing option with 31 investors.

The least invested options were Cryptocurrencies and Bonds/Debentures with 11 and 12 investors respectively.

4.5 Objective of Investing

What is your primary objective for investing? (Select all that apply)

96 responses



Interpretation - It is evident from the bar graph that the primary motive of around 70 individuals was Wealth Creation.

46 people chose investing for regular income.

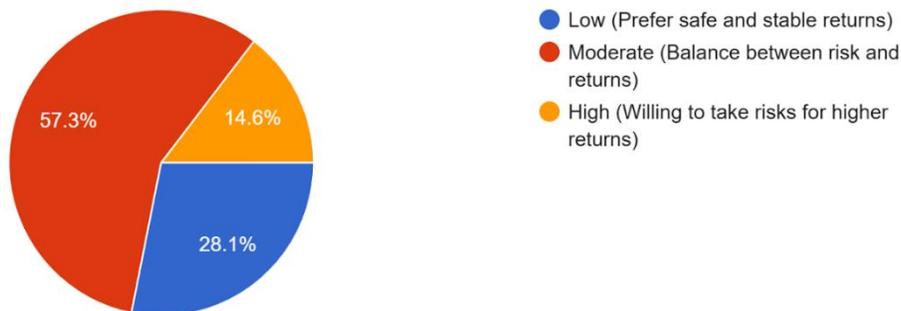
Retirement planning and Capital protection were the goals of 29 people.

26 investors chose Tax saving.

4.6 Risk Level

What is your risk tolerance level for investments ?

96 responses



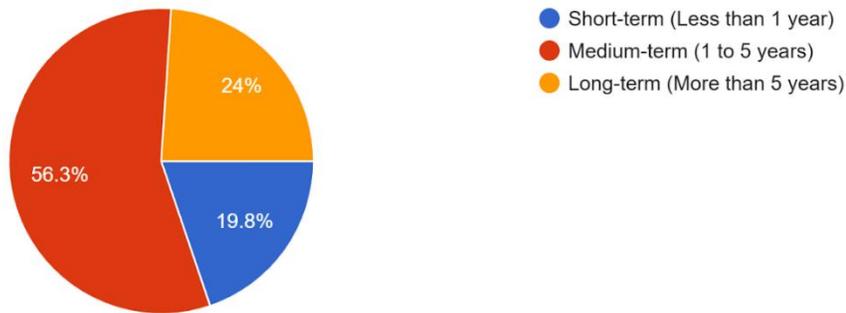
Interpretation - 57.3% of the investors had a moderate level of risk tolerance level. Whereas, 28.1% had Low risk appetite.

Meanwhile, High risk taking capacity was observed in 14.6% of individuals.

4.7 Duration

How long do you keep your investments

96 responses

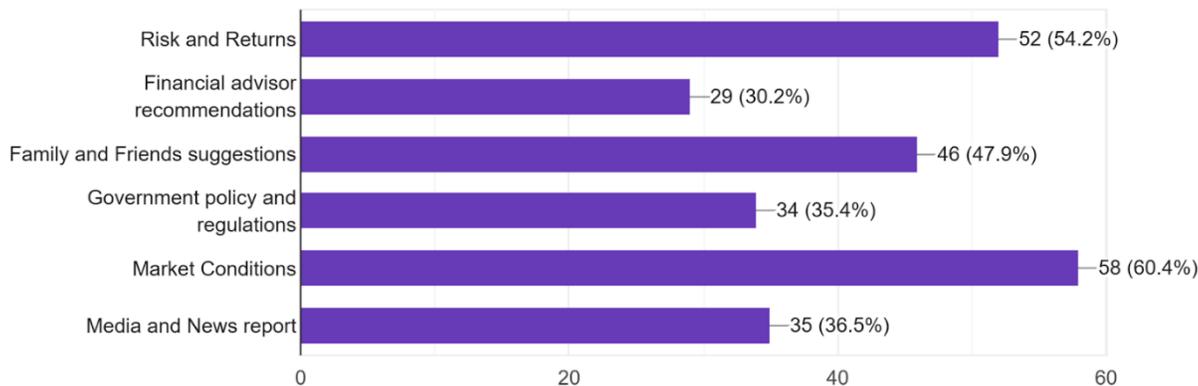


Interpretation - More than half of the population kept their investments for 1-5 years. 24% preferred Long-term and 19.8% preferred Short-term.

4.8 Factors Influencing Investment Decisions

Which is the key factor that influence your Investment decisions ? (Select all that apply)

96 responses

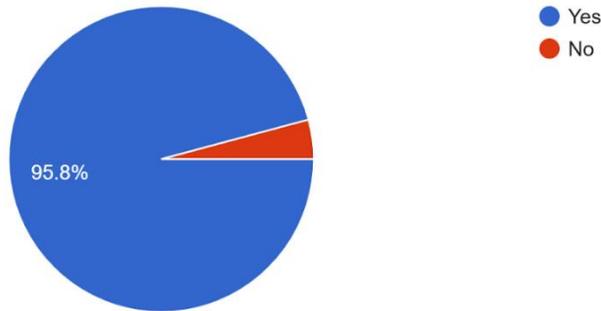


Interpretation - Market Conditions was the main factor that influenced the decision of 58 investors. Followed by Risk and Returns with 52 individuals. 46 People were influenced by the suggestions of Family and friends. Government policy and regulations and media news and reports were also a influencing factor for investment decisions with 34 and 35 people respectively. Financial advisor’s recommendations had the least influence with 29 investors.

4.9 Financial Literacy

Do you consider financial literacy important before making investment decisions?

96 responses

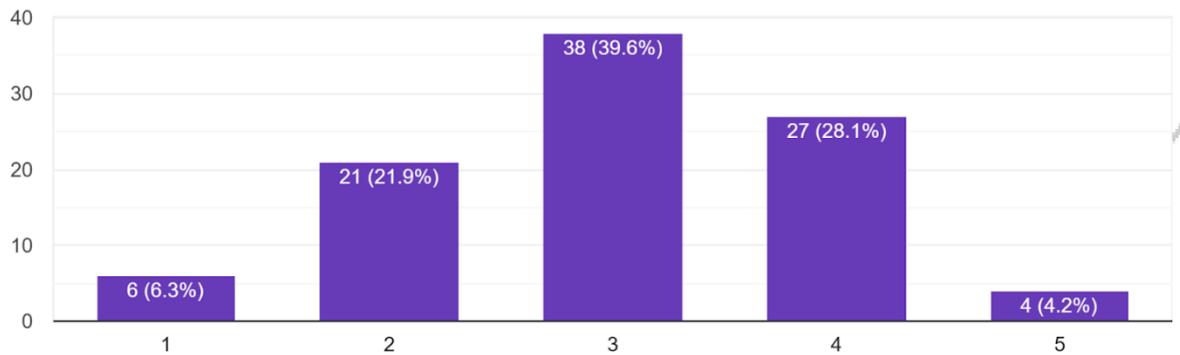


Interpretation - More than 95% of individuals considered Financial Literacy an important part while making a decision.



How would you rate your financial knowledge ?

96 responses



Interpretation - The graph shows the financial literacy of investors according to themselves. 38 people considered themselves to be average in financial knowledge.

While 27 considered themselves above average.

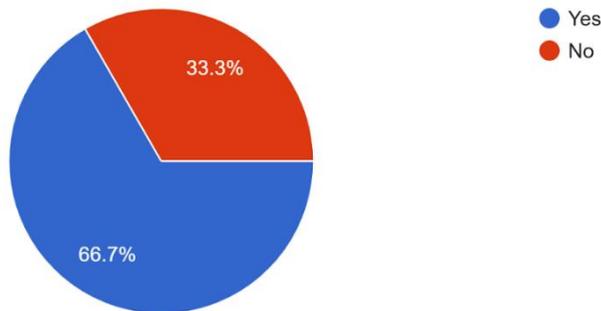
21 People were aware that they are below average.

6 individuals were poor in terms of financial knowledge, whereas 4 were experts in managing their finances.

4.10 Financial Losses

Have you ever faced financial loss due to investment decisions ?

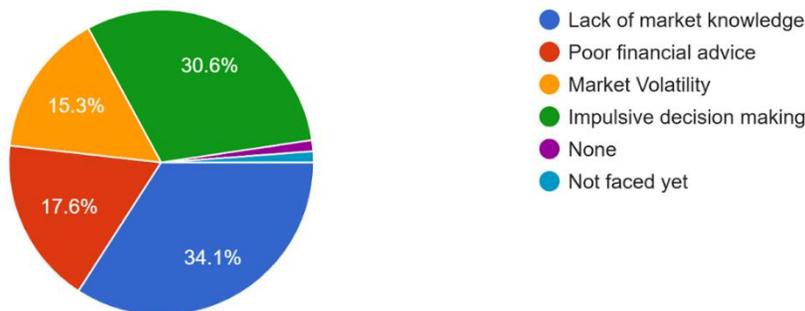
96 responses



Interpretation - Almost two-thirds of investors have faced financial losses while investing in various instruments, meanwhile remaining haven't faced any loss.

If yes, what was the primary reason for the loss?

85 responses



Interpretation - Slightly more than a third of the people have faced financial losses due to Lack of market knowledge.

More than 30% had impulsive decision making which led to losses.

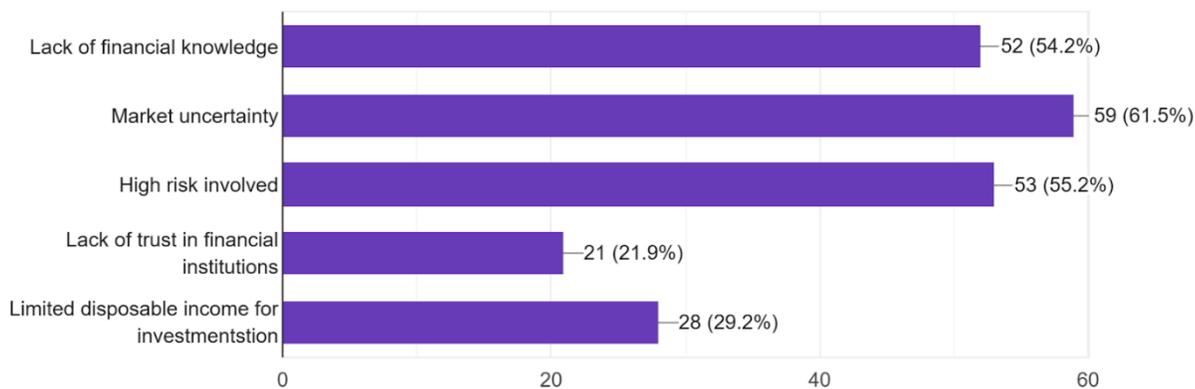
Around 17% of the investors got poor financial advice which resulted in loss.

Market Volatility was a reason for loss for 15.3% of the total. Other individuals haven't faced any loss yet.

4.11 Challenges while investing

What challenges do you face while investing? (Select all that apply)

96 responses



Interpretation - 59 investors faced the challenge of Market Uncertainty while growing their money. Lack of financial knowledge and High-risk involvement was a challenge that was faced by 52-53 individuals. Limited Disposal income was a main challenge for 28 people, followed by lack of trust in financial institutions with 21 investors.

5. Findings of the study

Based on the analysis of the collected data, the study on financial behaviour of investors towards various investment options could conclude the following key findings:

5.1 Investment Preferences and Trends

- A significant proportion of investors prefer modern investment options such as Stocks/Equities and Mutual Funds due to their perceived returns and moderate level of risk.
- Individuals with higher financial literacy are more inclined towards stocks, mutual funds, government bonds and cryptocurrencies.
- Real estate remains a popular long-term investment choice, particularly among middle-aged investors.

5.2 Factors Influencing Investment Decisions

- Market conditions are the primary drivers of investment choices, followed by Risk and return considerations.
- Financial literacy plays a crucial role—investors with higher financial knowledge tend to diversify their portfolios and make more sound investment decisions.
- Recommendations from financial advisors, and peer influence also significantly affect investor behaviour.

5.3 Risk Appetite and Investment Duration

- Investors with low-risk tolerance primarily invest in fixed-income securities and savings schemes.
- High-risk capacity investors, particularly young adults, allocate a larger portion of their savings to stocks, mutual funds, and cryptocurrencies.
- Most investors prefer a medium-term investment horizon, with short-term investments being more common among high-risk traders.

5.4 Challenges Faced by Investors

- Lack of financial literacy is one of the major challenges, leading many investors to rely on informal sources of advice rather than professional financial consultants.
- Market uncertainty and volatility discourage many potential investors from engaging in high-risk investment options.

- Investors with limited disposable income find it difficult to allocate funds to investments, leading to low participation in equity markets.
- Trust issues with financial institutions and regulatory concerns impact investment decisions.

6. Suggestions and Recommendations

Based on the findings of the study, the following suggestions can be made to improve investor behaviour, financial literacy, and decision-making:

6.1 Enhancing Financial Literacy

- Conduct financial literacy programs to increase awareness about different investment options and their risks.
- Introduce investment-related courses in institutions such as schools and colleges to build financial knowledge from an early stage.

6.2 Promoting Diversification of Investment and Strategies

- Encourage investors to diversify their portfolios to minimize risk and maximize returns.
- Provide guidance on asset allocation based on an individual's risk tolerance and financial goals.

6.4 Awareness about Behavioural factors in Investing

- Educate investors on common cognitive factors (e.g., mentality, overconfidence) to promote rational decision-making.
- Develop investor awareness campaigns to manage impulsive investment behaviours.

6.5 Encouraging Long-Term Investment Planning

- Promote retirement planning and approaches like SIPs (Systematic Investment Plans).
- Highlight the benefits of compounding and wealth accumulation through long-term investments.

7. Conclusion

The study on financial behaviour of investors towards various investment options reveals the factors that influence investment decisions, including risk perception, financial literacy, demographic characteristics, and behavioural factors. While traditional investment avenues such as fixed deposits, gold, and real estate remain popular and low risk choice, there is a growing shift towards equities, mutual funds, and digital assets, particularly among younger and financially literate investors.

The findings conclude that financial awareness plays a crucial role in shaping investment choices. Investors with higher financial literacy tend to diversify their portfolios, whereas those with limited financial knowledge often rely on informal sources and have high risk investments.

Additionally, challenges such as market volatility, lack of trust in financial institutions, and behavioural factors impact investors decision-making.

To address these challenges, it is essential to promote financial literacy, and encourage diversified investment strategies.

Overall, this study provides valuable insights into investor behaviour in making sound investment decisions, which can be useful for financial institutions, policymakers, and individual investors. By implementing targeted strategies to improve financial education and investment decision-making, investors can optimize their portfolios, mitigate risks, and achieve their financial goals more effectively.

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