Is Family Gross Annual income of individuals in Indore associated with their Preferred Asset Choice : An Empirical Investigation.

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Abstract

Finance and investment has evolved as a big industry in recent years throughout the globe. Those involved in such business mainly the financial institutions and the advisors are always in search of new products and services to satisfy the financial needs of their clients. This demand and need create scope for research in the area of behavioural finance which study the participants of financial market and specific behaviour of them in a given situation. With this background, this research work explored the effect gender on asset allocation decisions of individuals in Indore. The present study has attempted to explore the association of family gross annual income of individuals in Indore with their preferred asset choice. The research work attempted to explore the association between preferred asset choice of individuals with their income and found that Income of the respondents is significantly associated with the preferred asset choice decision of individuals in Indore.

Key words: *Preferred Asset Choice, Gross Annual Family Income, Demography, Individuals in Indore*

Introduction

Finance and investment has evolved as a big industry in recent years throughout the globe. Those involved in such business mainly the financial institutions and the advisors are always in search of new products and services to satisfy the financial needs of their clients. This demand and need create scope for research in the area of behavioural finance which study the participants of financial market and specific behaviour of them in a given situation. With this background, this research work explored the effect of financial exposure on asset allocation decisions of individuals in Indore.

The present study has attempted to explore the preferred asset allocation decisions and financial exposure of individuals in Indore and also attempted to explore the impact of financial exposure on asset allocation decisions of individuals in Indore. The study also focused on identifying key demographic variables of individuals in Indore from the perspective of their financial exposure and asset allocation decisions.

Rationale of the Study

The rationale behind this study lie in the fact that exploring association of Gross Annual Family Income of individuals with preferred asset Choice is of key importance from the perspective of those offering investment avenues to individuals

Asset Allocation : The Concept

"Asset allocation is the strategy used in choosing between the various kinds of possible investment, in other words, the strategy used in choosing in what asset class such as stock and bond one wants to invest" [www.wikipedia.com].

Dividing investment portfolio between different asset classes, namely Equity Shares, Bonds and Debentures, money market instruments etc. With an objective to get a regular income and appreciation in the value of investment is called Asset Allocation.

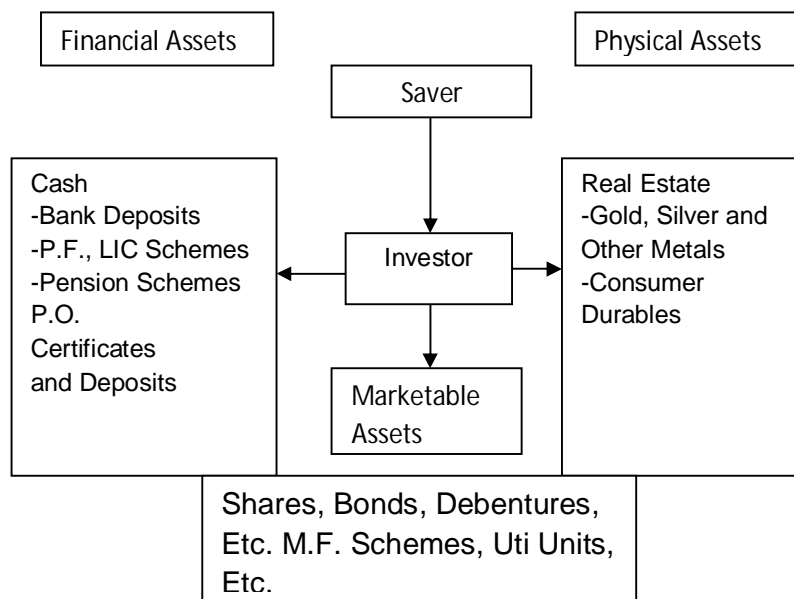## Asset Allocation Decisions of Individuals

Asset allocation is the practice of dividing investible funds available with an individual among different categories of investible assets such as stocks, bonds, mutual funds, investment

partnership, real estate, cash equivalents and private equity to get desirable returns on it. An individual investor does not invest all his money in a single avenue because all avenues have different risk-return combination. He can lessen risk and optimize returns by selecting various categories of assets or what is technically known as diversification.

Asset Options for Individuals in Current Scenario

Investment decisions in present scenario have become very difficult now a day, the no. of investment avenues have considerably increased with the growth of economies all across the globe. Some of the investment avenues available for individual investors have been classified by Avadhani (2008). The same has been exhibited below :

Chart 1.1: Investment Avenues for Individuals

Source: Avadhani V A. (2008), Investment & Securities Market in India.

Literature Review

The income level of individuals decides their life style and also decides their standard of living, savings, expenditure and investments. Less income increases financial exposure which results in less savings and increased investment in safe assets. In a study on the attitude of the respondent towards investment choices in Thanjavur District, Tamil Nadu, Munthaga (2013), the authors also considered the income level of a respondent for the study as a factor which affects portfolio of the respondents and it was found that lower income level groups respondents are preferred to invest insurance, NSC, PPF and Bank Deposit rather than any other investment avenues. Jain and Mandot (2013), in their study titled impact of demographic factors on investment decision of investors in Rajasthan, revealed that that, income level do influence the investment decisions of individual investors in Rajasthan. Lachchwani and Chaurasia (2015), in their research work on effect of demographic factors on investment decisions & risk taking ability of investors explored that income level of respondents do influence their choice of investment avenues.

Kaushal and Kinjal (2012), concluded that due to less risk all income group and category of investors prefer to invest in bank deposits as well as post office deposits. But when it comes to invest in equity shares, mutual funds, insurance, commodities and real estate it is observed that these are preferred by higher income group with higher education. On the other hand Sarita (2011), found that the irrespective of income level investor would like to protect their future by

taking an insurance policy. In this research author explored that there is no association between income level and the asset choice of investors.

Research Question

Is there any significant association of Gross Family income of Individuals in Indore with their Preferred Asset choice?

Objective

On the basis of literature gap identified and research area of the study, this research work adhered to meet the following objective:

Explore the association between Gross Family annual income and Preferred Asset choice of individuals in Indore.

Research Design

The study is exploratory and empirical in nature. An attempt has been made to explore the association of gross family annual income of Individuals in Indore with their Preferred Asset Allocation Decisions. An empirical investigation of the respondents from Indore has been undertaken on the similar lines. Primary data has been collected for the purpose. Respondent individuals have been identified using convenient cum judgmental non-probability sampling. A total of 428 questionnaires (out of 500 distributed) with a response rate of 85.6% were received back. Finally, 404 questionnaires were considered for the purpose of data analysis.

Instrument for Preferred Asset Allocation Decisions and Demography

A self structured instrument was developed to obtain information on demography and asset choice of individuals in Indore. In order to finalize the asset options for individuals in Indore, a detailed review of the existing literature on investment avenues available for individuals was done. As considered by Sitlani B. (2013) in her Ph.D. dissertation, six investment avenues were finally considered to collect the required data to meet the key objectives of this research work. Demographic traits incorporated in the instruments were finalized on the basis of extensive literature survey of existing literature available on the subject.

Research Hypothesis

It is believed that the income level of individual do effect the spending or saving behaviour of the individual. Similarly does this have any impact on the asset allocation pattern of the individuals is a question of debate since years and many researchers have also evidenced that level of income is significantly associated with investment decisions of Individuals.(see Munthaga (2013), Jain and Mandot (2013), Lachchwani and Chaurasia (2015), revealed that that, income level do influence the investment decisions of individual investors.

Based on this premise, the following hypothesis has been framed for this research work:

H01: Family Annual Gross Income of Individuals in Indore is not significantly associated with their Financial Exposure.

H02: Family Annual Gross Income of Individuals in Indore is significantly associated with their Preferred Asset Allocation Decisions.

Data Analysis

Association between Family Annual Gross Income and Financial Exposure

The table below displays the descriptive statistics of respondent individuals in three financial exposure categories on the basis of their family gross annual income:

Table 1. Descriptive Statistics for Family Annual Gross Income and Financial Exposure

Financial Exposure Family Annual Gross Income		Low	Moderate	High	Total
Less than 5 Lac	Count	25	123	71	219
	%	11.4	56.2	32.4	100

5-10 Lac	Count	36	77	12	125
	%	28.8	61.6	9.6	100
More than 10 Lac	Count	28	28	4	60
	%	47.5	47.5	5	100
Total	Count	89	228	86	404
	%	22.1	56.6	21.3	100

As seen from table above, 32.4% of respondents having family annual gross income less than Rs. 5 Lacs are falling into high financial exposure category whereas a maximum of 56.2% respondents are falling into moderate financial exposure category and the lowest 11.4% comes under low financial exposure category. Whereas in case of respondent individuals with family annual gross income between Rs. 5 Lacs to Rs. 10 Lacs out of total,9.6%respondents falling in high financial exposure category whereas a maximum of 61.6% respondents are falling in the moderate financial exposure category, followed by only 28.8% respondents in low financial exposure category. Further out of total only 05.0% of respondents with family annual gross income of Rs. 10 Lacs and more are falling in high financial exposure category, 47.5% respondents are falling moderate financial exposure category and 47.5% respondents are falling into low financial exposure category. The results are not indicating similar frequencies in all three income groups and apparently, there seems to be significant difference in income groups from the perspective of financial exposure categories.

To explore more clear association between the family annual gross income of respondents and their financial exposure statistically, Kruskal Wallis H Test was conducted considering Financial Exposure Scores of Respondent individuals in various income categories and the result has been exhibited below:

Table 2 Kruskal Wallis H Test statistics for Family Annual Gross Income and Financial Exposure

Family Annual Gross Income	N	Mean Rank
Less then 5 lacs	219	236.31
5-10 lacs	125	172.92
More then 10 Lacs	59	136.26
Test statistics for Kruskal Wallis H test		
Value		57.084
df		2
Asymp. Sig (P Value)		.000

The test result of Kruskal Wallis H Test accepts significant association between family annual gross income and financial exposure of respondent individuals in Indore. The test statistics of 57.084 with P value of .000clearly indicates that there is a significant association between family annual gross income and Financial Exposure of the respondents. Hence the hypothesis H02e "Family Annual Gross Income of Individuals in Indore is not significantly associated with their Financial Exposure" stands rejected.

Association between Family Annual Gross Income and Preferred Asset Allocation Decision
The descriptive statistics of Family Annual Gross Income and Asset choice of respondent individuals and related chi-square statistics is exhibited in the bar graph and table below:
Chart A: Frequency Distribution of Family annual Gross Income and Preferred Asset Allocation Decisions
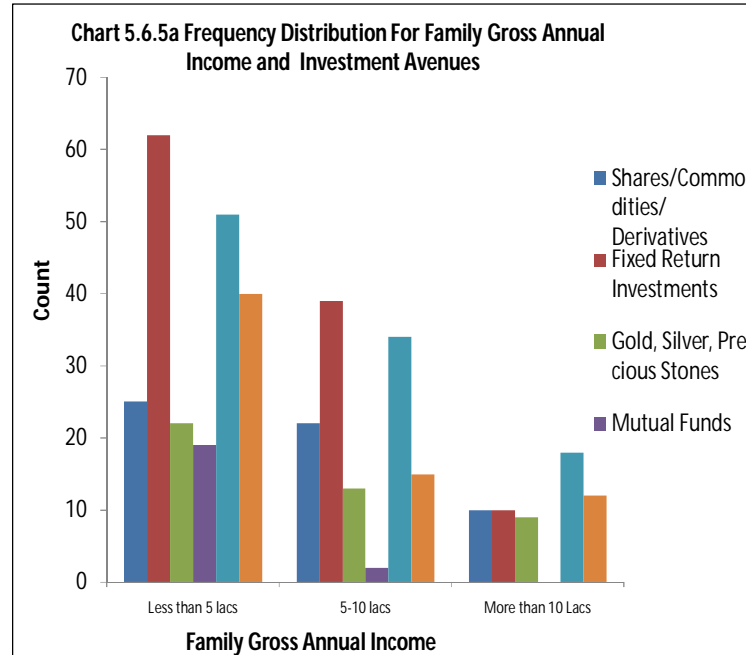
Chart 5.6.5a Frequency Distribution For Family Gross Annual Income and Investment Avenues

Legend:
- Shares/Commodities/Derivatives
- Fixed Return Investments
- Gold, Silver, Precious Stones
- Mutual Funds

Y-axis: Count
X-axis: Family Gross Annual Income

Table 3. Descriptive and Chi-square Statistics of Family Annual Gross Income and Preferred Asset Allocation Decisions

Most Preferred Asset Choice Family annual Gross Income		Shares/Commodities/Derivatives	Fixed Return investments	Gold, Silver, Precious Stones	Mutual Funds	Real Estate	Insurance	Total
Less than 5Lacs	Count	25	62	22	20	51	40	220
	%	11.4	28.3	10	8.7	23.3	18.3	100
5-10 Lacs	Count	22	39	13	2	34	15	125
	%	17.6	31.2	10.4	1.6	27.2	12	100
More than 10 Lacs	Count	10	10	9	0	18	12	59
	%	16.9	16.9	15.3	.0	30.5	20.3	100
Total	Count	57	111	44	21	103	67	404
	%	14.1	27.5	10.9	5.2	25.6	16.6	100

Pearson Chi-Square	Value	21.633[a]
	DF	10
	Asymp. Sig. (2-sided)	.017

The data present in table above indicates that, a maximum of 28.3% of respondents having family annual gross income less than 5 lacs ranked fixed return investments as their most preferred asset choice, similarly a maximum of 31.2% respondents with family annual gross income between 5 lacs to 10 lacs opted fixed return investments as most preferred asset

choice. Whereas a maximum of 30.5% respondents with family annual gross income more than 10 lacs have ranked real estate as their most preferred asset choice. Second most preferred asset choice for those having family annual gross income less than Rs. 5 lacs is real estate as out of total, 23.3% gave it rank 2, similarly 27.2% respondents with family gross annual income ranked real estate as second preference. Out of total 20.3% respondents with family gross annual income more than Rs. 10 lacs ranked insurance as second most preferred asset choice. A minimum of 8.7% respondents having family annual gross income less than 5 lacs have ranked Mutual Funds as their least preferred asset choice. Likewise a minimum of 1.6% of respondents with family annual gross income between Rs. 5 lacs to Rs. 10 lacs have ranked mutual funds as their least preferred asset choice. Similarly a minimum of 0.0% respondents with family gross annual income more than Rs. 10 lacs have also ranked mutual funds as least preferred asset choice.

The chi-square value of 21.633 with asymptotic significance value of .017 reveals that there is a significant association between preferred asset allocation decisions and family annual gross income of individuals in Indore. Hence the hypothesis

H02 : Family Annual Gross Income of Individuals in Indore is significantly associated with their Preferred Asset Allocation Decisions" stands not rejected.

Major Findings

This research work has been undertaken to explore the association of preferred asset choice of individuals in Indore with their Family Gross annual Income. On the basis of the data analysis conducted in course of this research work, it has been explored that Family Gross annual Income of Individuals in Indore is significantly associated with their preferred asset choice. As evidenced by this study and as supported by existing worldwide studies, it is apparently clear that the Family Gross annual Income of individuals in Indore do effect allocation choice while taking investment decisions.

Lower income high expenses and sometimes some contingent liabilities make it very difficult for them to manage their financials properly. Hence their financial exposure is more. The findings of present work provides that the maximum individuals earning more than 5 lac per annum and individuals earning more than 10 lac per annum have reported moderate to low financial exposure, which is in conformity with the contention that as the income increases the capacity to bear financial needs increases.

Key Recommendation

An important finding of the study indicated that the individuals in Indore prefer to take different asset allocation decisions on the basis of their income. Hence, it is recommended to the players of investment industry and finance companies and other players in the market to design and promote different investment products for these different income categories. It is suggested in many other researches also that the investment industry should not treat investors as one homogenous group and different income groups should be offered investment proposals as per their specific demographic characteristics.

Conclusion

The results of present research work show a positive association between the earning capacity of the household and their financial exposure. Those who earn less than Rs. 5 Lac per annum are more exposed financially and falling into moderate or high financial exposure category only few of them reported low financial exposure for them. For this group meeting out its financial needs is a big issue. The study found a significant association between the FAGI and Asset choice of individuals in Indore there is a clear shift seen in the asset choice amongst the various income groups, those who are more secure financially do differ in their investment pattern than those who are more financially exposed.

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