

# A Study on Investment Preferences of middle class from western Maharashtra with special reference to Satara, Sangali, Kolhapur and Solapur District

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**Abstract** - Every individual earning money spends it to meet his or her own personal needs or to fulfill the basic needs of his or her family. Individuals use money for various purposes including funding their daily household expenses and expenses incurred for buying luxuries for a better life. Money earned is generally used to fund some immediate expenses or saved to meet some future needs. Those who spend less than what they earn end up with savings. These savings can be accumulated and grown to fund various goals, such as, for education, marriage, vehicle purchase, house purchase or for acquiring any other asset, for medical emergencies and for meeting the post retirement financial needs. In general, the entire amount saved is not held in cash, but is invested in different asset classes or investment avenues in order to get a return, which can be in the form of regular income or capital appreciation or sometimes both. Investment is necessary for human being to avoid inflation in future life. Savings and Investments are two coins. Both are required for human to survive in dynamic world, and it is useful to fulfillment of future needs.

A study is focuses on Investment Preferences of middle class from western Maharashtra. Indian economy is rapidly growing economy of the world in which 50 % people belong to middle class and they are key elements for economic development. They influence demand and supply of need and comfort products at a great extent. Their saving and investment pattern gets influenced by their future needs, have wide scope for researchers due to greater impact on the investment market.

**Index Terms** - Investment, Middle Class, Investment Avenues, Economic Development.

## I.INTRODUCTION OF THE STUDY

### I. Introduction

The income that a person receives may be used for purchasing goods and services that he currently requires, or it may be saved for purchasing goods and

services that he may require in the future. In other words, income can be what is spent for current consumption. savings are generated when a person or organization abstain from present consumption for a future use. The person saving a part of his income tries to find a temporary repository for his savings until they are required to finance his future expenditure. this result in investment.

Investment is an activity that is engaged in by people who have savings, i.e. investments are made from savings, or in other words, people invest their savings. But all savers are not investors. investment is an activity which is different from saving. Let us see what is meant by investment.

It may mean many things to many persons. If one person has advanced some money to another, he may consider his loan as an investment. He expects to get back the money along with interest at a future date. another person may have purchased on kilogram of gold for the purpose of price appreciation and may consider it as an investment.

In all these cases it can be seen that investment involves employment of funds with the main aim of achieving additional income or growth in the values. The essential quality of an investment is that it involves something for reward. Investment involves the commitment of resources which have been saved in the hope that some benefits will accrue in future.

According to Sharpe," investment is sacrifice of certain present value for some uncertain future values".

In economics, it refers to net addition to capital stock of society. In financial terms, it is acquisition of assets for future gains of capital gains. In general way, it is commitment of money for future gain or profit.

Every investor's objective is to maximize return and minimize risk. When he wants to take decision

regarding investment, he will consider different investment avenues available in India and also take decision on the basis of investment pattern.

## II. MIDDLE CLASS INCOME GROUP

Middle class - it is the stratum that builds our economy and resiliently works towards having a safe and secure future. It has always been considered as the backbone of any economy and plays a crucial role in India's growth and development.

According to the National Council of Applied Economic Study (NCAES) in the Market Information Survey of Households in association with Business Standard in August 2005, the term "middle class" applies to those earning between Rs.90,000 to Rs.10,00,000 a year. The households are further divided into aspirers, middle- middle class and upper middle class. The household's whose annual income lies between Rs. 90000 - Rs. 200000, have been defined as aspirers, income between Rs. 2,00,000 to Rs. 5,00,000 are middle -middle class and income between Rs.5,00,000 to Rs. 10,00,000 are classified as upper middle class.

'The Unprecedented Expansion of the Global Middle Class', India's middle-class market is growing at an impressive pace and will soon overtake US to become the second largest in the world.

They enjoy the luxuries of life from time to time but strive to build their family without worrying. Most average middle-class homes in India enjoy the comfort of a private vehicle, live in residential complexes and seldom splurge on things. An investment for these middle-class folks becomes an extremely crucial aspect of earning. Whether it is planning for the short-term goals of buying a better car or saving for their retirement, financial planning plays a critical role in their lives. While the average income of a middle-class household has been consistently increasing, the means of investments are somewhat still the same.

According to Economic Level Method, Traditionally, those households who spend no more than 30% of their monthly income on house rent/purchase may be categorized as middle class.

## III. INVESTMENT AVENUES

There are a large number of investment instruments available in financial markets, some of them are

marketable and liquid while others are non-marketable and some of them also highly risky while others are almost risk less. Investors can choose an appropriate one depending on their needs, risk preference, and return anticipated. Investment avenues can broadly categories under the following heads.

### Nonnegotiable securities

Deposits earn fixed rate of return. Even though bank deposits resemble fixed income securities they are not negotiable instruments. Some of the deposits are dealt subsequently.

a) Bank deposits :-It is the simplest investment avenue open for the investors. He has to open an account and deposit the money. Traditionally the banks offered current account, Saving account and fixed deposits account. Current account does not offer any interest rate. The drawback of having large amount in saving accounts is that the return is just 4 percent. The saving account is more liquid and convenient to handle. The fixed account carries high interest rate, and the money is locked up for a fixed period. With increasing competition among the banks, the banks have handled the plain saving account with the fixed account to cater to the needs of the small savers.

b) Post office deposits:- Post office also offers fixed deposit facility and monthly income scheme. monthly income scheme is a popular scheme for the retired. an interest rate of 9 percent is paid monthly. the term of the scheme is 6 years, at the end of which a bonus of 10 percent is paid. the annualized yield to maturity works out to be 15.01 per annum. after three years, premature closure is allowed without any penalty. if the closure is one year, a penalty of 5 percent is charged.

### Tax sheltered saving scheme

The important tax-sheltered saving scheme is

#### a) public provident fund scheme (PPF)

PPF earn an interest rate of 8.5% per annum compounded annually which is exempted from the income tax under sec80 C. The individuals and Hindu undivided families can participate in this scheme. There is a lock in period of 15years.PPF is not indented for those who are liquidity and short-term returns. at the time of maturity, no tax is to be given.

b) National saving scheme (NSS):-This scheme helps in deferring the tax payment. Individuals and HUF are

eligible to open NSS account in the designated post office.

c) National saving certificate: - This scheme is offered by the post office. These certificates come in the denomination of Rs.500,1000,5000 and 10000.the contribution and the interest for the first five years are covered by sec 88.the interest is cumulative at the rate of 8.5%per annum and payable biannually is covered by sec 80 L.

#### Life insurance

Life insurance is a contract for payment of a sum of money to the person assured on the happening of event insured against. Usually, the contract provides for the payment of an amount on the date of maturity or at a specified date or if unfortunate death occurs.

Type of life insurance policy: - Endowment policy; Term policy: Whole life policy, Money back policy

#### Mutual fund

Investing directly in equity shares, and debt instruments may be difficult task for a large number of customers because they want to know more about the company, promoter, prospects, competition for the product etc.in such a case, investor can go for investing in financial assets indirectly through mutual fund. A mutual fund is a trust that pools the savings of a number of investors who share a common financial goal. Each scheme of a mutual fund can have different character and objectives.

Type of mutual funds: -Open Ended and close ended

#### Real estate

The real estate market offers a high return to the investors. The word real estate means land and buildings. There is a normal notion that the price of the real estate has increased by more than 12% over the past ten years. Real estate investments cannot be encashed quickly. Liquidity is a problem. Real estate investment involves high transaction cost. The asset must be managed, i.e. painting, repair, maintenance etc.

#### Commodities

Commodities have emerged as an alternative investment option now a days and investors make use of this option to hedge against spiraling inflation-commodities may be broadly divided into three. Metals, petroleum products and agricultural

commodities. Metals can be divided into precious metals and other metals. Gold and silver are the most preferred once for beating inflation.

#### Gold

Off all the precious metals gold is the most popular as an investment. Investors generally buy gold as a hedge against economic, political, social fiat currency crisis. Gold prices are soaring to the new highs in recent years comparing to the previous decades because whenever the sign of an economic crisis arises in the world markets may find shelter in gold as safest asset class for investors all around the world. Silver Yellow metal is treated as safe haven. but silver is used abundantly for industrial applications. Investment in silver has given investor, super returns than what gold has given.

Debentures/Bonds: - A Bond is a loan given by the buyer to the issuer of the instrument. Companies, financial institutions, or even the government can issue bonds. Over and above the scheduled interest payments as and when applicable, the holder of a bond is entitled to receive the par value of the instrument at the specified maturity date.

Equity Share: -Equity, also called shares or scrips, is the basic building blocks of a company. A company's ownership is determined on the basis of its shareholding. Shares are, by far, the most glamorous financial instruments for investment for the simple reason that, over the long term, they offer the highest returns. Predictably, they're also the riskiest investment option.

Money market instrument: - A money market is a market for short-term money and financial assets that are near substitutes for money. Money market's participants are bankers, RBI and Commercial bills, commercial paper, Government Treasury bills certificate of deposits, call money and inter-bank term money etc. are money market instrument. In money market, a retail investor can't invest money due to the restrictions in terms of eligibility and minimum amount of investment.

## IV. INVESTMENT OBJECTIVES/CHARACTERISTICS

Investment is made because it serves some objective for an investor. Depending on the life stage and risk appetite of the investor, there are three main objectives of investment: safety, growth and income. Every investor invests with a specific objective in mind, and each investment has its own unique set of benefits and risks.

#### V. INVESTMENT DECISION PROCESS

A typical investment decision goes through a five-step procedure which is known as investment process these steps are:

1. Defining the investment objective
2. Analyzing securities
3. Construct a portfolio
4. Evaluate the performance of portfolio
5. Review the portfolio

#### VI. INVESTMENT PREFERENCES

Financial products act as an investment avenue and provide the required financial security to the investors based on the risk-return profile of the financial products. In the past, traditional financial products were offered in India by banks (deposit account, credit account), Life Insurance Corporation (LIC), and postal department (recurring deposit, National Saving Certificate, Kisan Vikas Patra). However, in recent years with the advent of liberalization of financial services industry, diverse financial products have been introduced such as mutual funds, shares, derivatives, life and non-life insurance schemes (Unit Linked Investment Plans (ULIPs), pension plans, children education plans, etc.). Investment preference differs from person to person, as every individual behaves differently while investing. Investment behaviour of an individual is guided by his own set of circumstances. With an expectation of generating high returns over a period of time and certain levels of risk, individuals invest in different financial products.

#### B. OBJECTIVES OF THE STUDY

1. To Study investor's awareness about investment alternatives available in western Maharashtra.
2. To Study Investment Pattern of investors.
3. To find out difficulties of investor while making investment decision.
4. To suggest the measures for effective investment.

#### C. SCOPE OF THE STUDY

This study is focusing on the preference of Investments by middle class, through which we can identify the better investment options in the market for the same income group.

#### D. REVIEW OF LITERATURE

Joseph and Prakash (2014) have revealed in their paper 'A Study on Preferred Investment Avenues Among the People and the Factors Considered for Investment', that to have an insight into different investment avenues available and to understand the preferred investment avenue among the people of Bangalore City. In the present-day world, new financial products are available. It has become difficult and confusing to choose the best options due to lack of proper financial knowledge to the common man to decide the factors which are considered for making sound investment decisions. It is further analyzed that investors are not much aware about investment in stock exchange and equity and are more inclined towards traditional investments like bank deposits, insurance, post office savings etc. Awareness programs should be introduced by the government and stock broking firms to make people aware about investment options with their merits and demerits so right decisions are taken for their personal finance.

Geetha and Ramesh (2011), have investigated in their study 'A Study of People's Preferences in Investment Behavior' that the factors which influence the investors behavior and to know the attitude of investors towards different investment avenues. The author reveals that all the investors irrespective of age preferred to invest in insurance, post office savings, PPF or bank deposits but these are less risky avenues, showing that people were not aware of all investment options, and they lack knowledge about securities.

Narayana (1976)<sup>1</sup> found that the most important forms of urban financial investment were bank deposits, shares and securities. Vikram.S (2008)<sup>12</sup> records that major percentage of respondents have moderate knowledge and have less exposure towards the financial market.

A Textbook Portfolio Management ICFAI University (2005) state Investing is considered as a rational decision-making process in which an investor attempts to invest in securities with the expectations of obtaining an income or profit. There are various investment avenues available such as treasury bills,

mutual funds, equity market, real estate, etc. instead of investing all the money in one avenue, the investor should spread his pool of resources in different assets and thus create an asset portfolio.

Chaturvedi and Khare (2012) the two key aspects of investment are preferences and pattern. Benefit is expected in the future and tends to be uncertain. In some investments (like stock options) risk element is dominant attribute while in some investment (like govt. bonds) time is dominant attribute. There are various factors which affects investors' portfolio such as annual income, government policy, natural calamities, economical changes etc.

I have done A Study on Investment Preferences of middle class from western Maharashtra with special reference to Satara, Sangali, Kolhapur and Solapur District which considers all parameters for decision making about investment in various cities.

#### E. RESEARCH METHODOLOGY

For collection of data following research methodology used

1. Type of Research - descriptive research
2. Definition of the Population - The study relates to the investment patterns of included both groups engaged in either service or business, whose annual disposable income lie between INR 2,00,000 to INR 5,00,000.
3. Sample Size- The sample size of 200 respondents was taken for the research work among in western side of Maharashtra including four cities (50 each city). They will be considered adequate to represent the characteristics of the entire population. However, the study covered a wide range of question; factual questions about investment, questions about perceptions and intentions, questions about investors own characteristics; questions about preferred investment avenues etc.
4. Sampling Procedure - non-probability - convenient sampling
5. Data collection Method  
 Primary Data- A structured questionnaire was prepared and the primary data were collected through survey method.  
 Secondary Data- Textbooks, magazine, journals, newspapers and websites.
6. Analysis of Data - In order to analyze the collected data, simple percentage analysis tool

were used. It states the frequency and percentage of the respondents' profile, attitude and opinion regarding different variables. The analysis of data collection is completed and presented systematically with the use of different tables.

#### F. HYPOTHESIS OF THE STUDY

1. Middle Class mainly investing in gold and Bank FDs.
2. Investors have less knowledge about other investment Avenues of investment such as mutual fund.

#### G. LIMITATIONS OF THE STUDY

1. The total number of financial instruments in the market is so large that it needs a lot of resources to analyze them all. Handling and analysing such a varied and diversified data needs a lot of time and resources.
2. As the analysis is based on primary as well as secondary data, possibility of factual information cannot be avoided.

#### H. FINDINGS AND INTERPRETATION OF DATA

Table No.1 Shows Demographic profile of Respondents

Demographic factor	Variable	No. of Respondent
Gender	Male	122
	Female	78
Age (in yrs.)	Below 30	62
	30-50	100
	Above 50	38
Annual Income (In lakhs)	Upto 2 lakhs	39
	2 to 5lakhs	100
	Above 5 Lakhs	61
Education	S.S.C	22
	H.S.C	45
	Graduation	83
	PG	50
Occupation	Govt. Employee	40
	Private Employee	68
	Self Employed/ Businessman	52
	Retired Employee	40

From above table, it is found that majority of the investors (122) are male group having majority of respondents (100) lies in age group 30 to 50 years. Majority of respondents (100) are having middle class i.e. income lies between Rs. 2 to 5 Lakhs. More no. of respondents completed their graduation and more no. of respondents are working as private employee in western side of Maharashtra.

Table No.2 Shows awareness about the Investment Avenues available in India

Demographic factor	Variable	No. of Respondent	Bank Deposits	Gold	Life Insurance	Mutual Fund	Post Office
Gender	Male	122	80	20	10	04	08
	Female	78	50	10	08	02	05
Age (in yrs.)	Below 30	62	20	20	10	02	10
	30-50	100	40	25	18	05	12
	Above 50	38	12	10	10	01	05
Annual Income (In lakhs)	Upto 2 lakhs	39	10	10	10	03	06
	2 to 5lakhs	100	60	30	05	01	02
	Above 5 Lakhs	61	20	10	17	04	10
Education	S.S.C	22	10	06	02	01	03
	H.S.C	45	13	12	10	02	08
	Graduation	83	33	20	15	02	13
	PG	50	20	20	05	01	04
Occupation	Govt. Employee	40	18	16	04	01	01
	Private Employee	68	18	20	10	05	15
	Self Employed/ Businessman	52	13	22	13	02	12
	Retired Employee	40	10	10	05	03	12

From Above table, it is observed that the no. of respondents are more aware about bank deposits, Gold as compared to other investment avenues. So they are less aware about mutual fund as investment tool.

Table provide the information about the preference of sample investors in percentage towards various investment products as bank deposits, Gold, insurance schemes, mutual fund, post office deposits scheme.

Table No.3 Shows Investment preferences of investors

Demographic factor	Variable	No. of Respondent	Bank Deposits	Gold	Life Insurance	Mutual Fund	Post Office
Gender	Male	122	80	20	10	04	08
	Female	78	50	10	08	02	05
Age (in yrs.)	Below 30	62	20	20	10	02	10
	30-50	100	40	25	18	05	12
	Above 50	38	12	10	10	01	05
Annual Income (In lakhs)	Upto 2 lakhs	39	10	10	10	03	06
	2 to 5 lakhs	100	60	30	05	01	02
	Above 5 Lakhs	61	20	10	17	04	10
Education	S.S.C	22	10	06	02	01	03
	H.S.C	45	13	12	10	02	08
	Graduation	83	33	20	15	02	13
	PG	50	20	20	05	01	04
Occupation	Govt. Employee	40	18	16	04	01	01
	Private Employee	68	18	20	10	05	15
	Self Employed/ Businessman	52	13	22	13	02	12
	Retired Employee	40	10	10	05	03	12

From above table, it is observed that more no. middle class investors invest in bank deposits and gold as compared to other investment avenues available in India.

Table No.5 Shows reasons behind investing of middle class in Investment alternative

Characteristics/Objectives	Bank Deposits	Gold	Life Insurance	Mutual Fund	Post office Deposit Scheme
Low Risk	20	10	00	00	00
High Return	07	05	03	00	00
Safety	20	05	00	00	02
Tax Convenience	03	05	02	01	00
Liquidity	10	05	00	00	00

Above table shows that middle class investors (whose income lies between Rs. 2Lakhs to 5 Lakhs) are investing in bank deposits and gold due to low risk

Table No. 6 shows amount of annual investment

Sr. No.	Amount	Percentage of Respondent
1	Upto 10,000/-	15
2	Rs.10,000 to 50,000	30
3	Rs. 50,000 to Rs 1 Lakh	35
4	Above 1 Lakh	20

From above table it is found that majority of the investors invest more than Rs. 50,000 and below Rs.1,00,000 annually as an investment decision.

Table No.7 Shows difficulty associated during Investment

Sr.No.	Difficulty associated with	Percentage of Respondent
1	Clear Information	25
2	Periodical Return	25
3	Conditions mentioned in Documents	50

Above table shows that, 25 % investors are not getting clear information about different investment available in India and 25% says that they are not getting monthly return and 50% are avoiding to invest in mutual fund due to condition mentioned in document.

#### H. FINDINGS

- It is found that Majority of respondents (100) are having middle class i.e. income lies between Rs. 2 to 5 Lakhs. More no. of respondents completed their graduation and more no. of respondents are working as private employee in western side of Maharashtra.
- It is observed that the no. of respondents are more aware about bank deposits, Gold as compared to

other investment avenues. So they are less aware about mutual fund as investment tool.

- It is observed that more no. middle class investors invest in bank deposits and gold as compared to other investment avenues available in India.
- Middle class investors are investing in bank deposits and gold due to low risk.
- Majority of the investors invest more than Rs. 50,000 and below Rs.1,00,000 annually as an investment decision.
- 25 % investors are not getting clear information about different investment available in India and 25% says that they are not getting monthly return and 50% are avoiding investing in mutual fund due to condition mentioned in document.

#### I. CONCLUSION & SUGGESTION

The income class is more interested to buy gold in form of ornaments rather than in forms of biscuits or coins so gold coins should be promoted by bank and post office to enhance the people for making investment in bullions. The research found that tax advantage in any investment take last place in investor's mind then it indicate the tax concessions given by the government on any investment are less attractive so tax benefits and long term saving need to be increased for promoting long term investment by the government and policy makers. The mutual fund awareness should be increased so that investor can invest more in mutual fund for getting high return.

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