Perception of Household Individual Investors towards Selected Financial Investment Avenues  
(With Reference to Investors in Chennai city)

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Abstract

Understanding household saving and investment is of importance for several reasons. At national level, house hold investment provide the main source of investment financing both for government and for the corporate sector. Rapid GDP growth leads to rising house hold income and higher the savings rate. This is true for Asia as it has been elsewhere in world. But for the individual household, saving is done in order to achieve specific short –term and long - term goals, notably financial security. Opening a regime in a particular field has created a shift from regulation to liberalization in investment environment integration of domestic financial markets with the international markets, a wide range of financial instruments are designed according to the specific expectation of investors. This paper particularly discuss about how demographic variable influence the investment decision and how Information technology has also deeply influenced the operations of financial markets. The changed scenario has also led to a shift in the perception of the individual investors toward various avenues.

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1. Introduction

1.1. “Indian household individuals – wise savers but unwise investors.”

Many individuals find investment to be fascinating because they can participate in the decision making process and see the results of their choice. Not all investments will be profitable, as investors will not always make correct investment decisions over the period of year.

Investing is not a game, but a serious subject that can have a major impact on investor’s future well being. Virtually everyone makes investments. Even if the individual does select specific assets such as stock, mutual funds investment are still made through participation in pension plan, and employee saving programme or through purchase of life insurance or a home. Each of this investment has common characteristics such as potential return and the risk you must bear. The future is uncertain, and you must determine how much risk you are willing to bear since higher return is associated more risk. The individual be should start by specifying investment goals. Once these goals are established, the individual should be aware of the mechanics of investing and the environment in which investment decisions are made.

Petrel. Bernstein in Against the Gods states that the evidence "reveals repeated patterns of irrationality, inconsistency, and incompetence in the ways human beings arrive at investment decisions and choices when faced with uncertainty."

1.2. Forecast of Individual Wealth

The increase in Financial Household savings will contribute significantly to the Individual wealth in the coming years. With encouraging GDP growth forecasts and with additional investments in the Indian economy, the total individual wealth is set to grow. In addition, the returns generated on the invested wealth will also contribute to the total wealth. The individual wealth is expected to grow to more than `106 lakh crore by FY 12 and will almost triple to `249 lakh crores by FY 16. Over the next five years, we expect wealth held by individuals in India to grow at 23% CAGR.
2. Review of literature

A comprehensive literature review about behavioral finance in general is beyond the scope of this paper. Instead, the results of some empirical studies about individual investor behavior will be highlighted. A substantial amount of attention has been given by researchers to individual investor behavior.

M. Halek si J. Eisenhauer(2001) came to relatively same conclusions after conducting similar study. They discovered that factors like age, sex, race, religion (Catholicism, Protestantism and Judaism were analyzed), unemployment and economic crises directly affect investor’s risk aversion. Other factors like education, the number of children or the social statute (married or unmarried) are less relevant to pure risk. Based on regression, the model claimed that Hispanics and Blacks are consistently less adverse to pure risk and that Judaism is the only religion with significant effect on risk aversion.

Dwyer and Others (2002) explained “Gender Differences in Revealed Risk Taking: Evidence from Mutual Fund Investors” investigated whether investor gender is related to risk taking as revealed in mutual fund investment decisions. It was found that women exhibit less risk-taking than men in their most recent, largest and riskiest mutual fund investment decisions. More significantly, it was found that the impact of gender on risk taking is significantly weakened when investor knowledge of financial markets and investment is controlled in a regression equation. This

Table 1. Individual Wealth Forecast

| (Cr) | FY12      | FY13      | FY14      | FY15      | FY16      |
|------|-----------|-----------|-----------|-----------|-----------|
| INDIVIDUAL wealth beginning of the year | 86,49,764 | 1,06,86,786 | 1,31,99,536 | 1,63,00,441 | 2,01,28,839 |
| Return generated on invested wealth | 9,28,274 | 11,65,620 | 14,66,762 | 18,49,022 | 23,39,396 |
| Household financial n saving to be invested | 11,08,749 | 13,47,130 | 1,63,41,44 | 19,79,375 | 23,94,252 |
| Total | 1,06,86,786 | 1,31,99,536 | 1,63,00,441 | 2,01,28,839 | 2,48,62,487 |

[Source: World Wealth Report, 2011]
result suggests that the greater level of risk aversion among women, that is frequently documented in the literature can be substantially, but not completely, explained by knowledge disparities.

Rajeshware TR and Rama Moorthy VE (2002) studied the financial behavior and factors influencing fund/scheme selection of retail investors by conducting factor Analysis using Principal Component Analysis, to identify the investor’s underlying fund/scheme selection criteria, so as to group them into specific market segment for designing of the appropriate marketing strategy.

Rob Euwals, Angelika Eymann and Axel Börsch-Supan (2004) analyzed attitudes of household members towards saving for old age and household saving and portfolio choice behaviour, using a panel of households with a husband and a wife drawn from the Dutch CentER Savings Survey 1994–1997.

Our three main findings are: (1) the major determinant of both husbands’ and wives’ attitudes are the husbands’ mandatory pension rights; (2) households with husbands who consider saving for old age as important have larger amounts of discretionary wealth and are more likely to hold stocks and whole life insurance; and (3) the importance of wives’ attitudes for household saving and portfolio choice behavior increases with their income share in total household income

3. Scope of the Study

In a developing country like India, the emphasis on domestic savings and its mobilization by the organized sector cannot be belittled and is an important one not only from the individual point of view but also from the point of view of the economic development of the nation. But many agencies both private and government such as bank, NBFCs, Private financial instructor, chit funds, mutual fund compete with each other for mobilizing the household savings through various attractive schemes. Hence Government of India have also introduced certain financial instrument like shares debenture and bonds etc, to mobilize the saving.

The present study is a beginning towards this end and in this study an attempt has been made to find out the level of awareness and attitude of the individual towards investment in various financial instruments, besides eliciting their opinion about the features of the various saving instruments. Further an attempt has also been made to suggest an effective mechanism to government for executing the schemes more effectively and to the fullest satisfaction of individual saving in financial instrument.

Finally it would also make an evaluation on the trend of saving instruments, so as to relate the same to the opinion of individual investor to draw some useful conclusions. It is hoped that discussion made in this study would not only help the Government, but also the official agents and public in understanding the problems faced by the individual investors. Such an understanding will to a larger extent be useful in the removal of investment problems and for the
better and effective operation on the part of official and agents. Some of the suggestions given at the end will help
the smooth growth of the savings through various financial instruments in future. Besides, it will also provide
chances for further research work in this field.

4. Objectives of the Study

1. To find the influence of demographic variables with risk taking ability of respondent.
2. To identify the popular perception of individual investors towards selected investment avenues and the
   predominant factors which influence individual to go for savings in that instrument.

5. Methodology

The present study consists of all those individuals who invest and those who intend to invest in financial instrument
in near future. This study is based on sample survey method. This study mainly assesses the level of awareness, to
know the perceived opinion and to measure the attitude of individual investors toward financial instruments.

The subjectively decided sample size of 500 investors/respondents has been taken from the “targeted relevant
population segment “based on the purposive random sampling covering different gender, income, education, age
and occupation.

6. Basic reasons for selecting investment avenues

The investors in the inflated globalized economy in India required better return with less risk, within shortest span of
time. They are very meticulous about the factors, like capital appreciation, liquidity and safety of the investment.
They take special care for regular income, affordability, less transaction cost. It also perceived that the risk
protection phenomenon and prestige value predominantly occupy the mind set of investors in Chennai city.

In this research work respondent extracted their opinion towards the four major investment avenues encountered in
this study. In this juncture one sample t-test with the test value 3 is applied to exactly determine the opinion of
investors towards bank deposits, shares, mutual fund and insurance.

Hypothesis 1. Demographic variables of investors do not predict their risk taking attitude.

Hypothesis 2. There is significant difference in the perception of investors among various investment avenues
7. Analysis and Interpretation

ASSOCIATION BETWEEN DEMOGRAPHIC CHARACTERISTICS AND RISK TAKING CAPACITY OF THE INVESTORS

Risk tolerance, a person’s attitude towards accepting risk, is an important concept that has implications for both financial service provider and consumers. The tolerance for risk is a very personal characteristic that may be difficult to determine and may change over time.

Table 2. Relationship between Genders with Risk Taking Capacity of the Respondents

| Gender   | Indifferent | willing to take risk | calculated risk | low risk | averse to risk | Total |
|----------|-------------|----------------------|-----------------|----------|---------------|-------|
|          | F           | %                    | F               | %        | F             | %     | F       | %     |
| MALE     | 73          | 18                   | 36              | 09       | 235           | 56    | 45      | 11    | 27    | 06   | 416   | 83   |
| FEMALE   | 15          | 18                   | 8               | 09       | 51            | 61    | 6       | 07    | 4     | 05   | 84    | 17   |
| Total    | 88          | 18                   | 44              | 09       | 286           | 57    | 51      | 10    | 31    | 06   | 500   | 100  |

Table 3. Chi-Square Tests Results of Between Genders with Risk Taking Capacity of the Respondents

|                  | Value | df | Asymp. Sig. (2-sided) |
|------------------|-------|----|-----------------------|
| Pearson Chi-Square | 1.544(a) | 4  | .819                  |
| Likelihood Ratio  | 1.651 | 4  | .800                  |
| Linear-by-Linear Association | .473 | 1  | .492                  |
| N of Valid Cases  | 500   |    |                       |

Null Hypothesis ($H_0$): There is no significant relationship between gender and respondents risk taking capacity.

Alternative Hypothesis ($H_1$): There exists significant relationship between gender and respondents risk taking capacity.
It is concluded from the above table that there is no significant relationship exists between gender and risk taking capacity of the respondents. Since the analysis revealed that the asymptotic significance level was more than .05 accept $H_0$ and reject $H_1$.

Table 4. Relationship between Ages with Risk Taking Capacity of the Respondents

| Age    | Indifferent | willing to take risk | calculated risk | low risk | Averse to risk | Total |
|--------|-------------|---------------------|-----------------|---------|---------------|-------|
|        | F | % | F | % | F | % | F | % | F | % |
| Below 35 | 41 | 14 | 36 | 13 | 168 | 58 | 22 | 07.6 | 21 | 07.4 | 288 | 57.6 |
| 35 - 55  | 27 | 17 | 8 | 06 | 91 | 59 | 21 | 14 | 8 | 05 | 155 | 31 |
| Above 55 | 20 | 35 | 0 | 0 | 27 | 47 | 8 | 14 | 2 | 04 | 57 | 11.4 |
| Total    | 88 | 18 | 44 | 09 | 286 | 57 | 51 | 10 | 31 | 06 | 500 | 100 |

Table 5. Chi-Square Tests results of between Ages with Risk Taking Capacity of the Respondents

|                      | Value        | df  | Asymp. Sig. (2-sided) |
|----------------------|--------------|-----|-----------------------|
| Pearson Chi-Square   | 30.544(a)    | 8   | .000                  |
| Likelihood Ratio     | 33.438       | 8   | .000                  |
| Linear-by-Linear Association | 2.098 | 1 | .147                  |
| N of Valid Cases     | 500          |     |                       |

Null Hypothesis ($H_0$):
There is no significant relationship between age and respondents risk taking capacity.

Alternative Hypothesis ($H_1$):
There exists significant relationship between age and respondents risk taking capacity.

It is concluded from the above table that there is significant relationship exists between gender and risk taking capacity of the respondents. Since the analysis revealed that the asymptotic significance level was zero, accept $H_1$ and reject $H_0$. 
Table 6. Relationship between Educational levels with Risk Taking Capacity of the Respondent

| Risk - taker       | Indifferent willing to take risk | calculated risk | low risk | averse to risk | Total |
|-------------------|---------------------------------|-----------------|----------|----------------|-------|
| Educational Level | F %                             | F %             | F %      | F %            | F %   |
| Less than UG Level| 22 10                           | 18 08           | 146 65   | 18 08          | 19 09 | 223 4 |
| PG Level          | 46 24                           | 26 14           | 84 45    | 27 14          | 5 03  | 188 37.6 |
| Professional      | 20 22                           | 0 0             | 56 63    | 6 7            | 7 8  | 89 17.8 |
| Total             | 88 18                           | 44 09           | 286 57   | 51 10          | 31 06 | 500 100 |

Table 7. Showing Chi-Square Tests Results of between Educational Levels with Risk Taking Capacity of the Respondents

|                      | Value       | df | Asymp. Sig. (2-sided) |
|----------------------|-------------|----|-----------------------|
| Pearson Chi-Square   | 46.879(a)   | 8  | .000                  |
| Likelihood Ratio     | 55.659      | 8  | .000                  |
| Linear-by-Linear Association | 6.006  | 1  | .014                  |
| N of Valid Cases     | 500         |    |                       |

Null Hypothesis ($H_0$) : There is no significant relationship between educational qualification and respondents risk taking capacity.

Alternative Hypothesis ($H_1$): There exists significant relationship between educational Qualification and respondents risk taking capacity.

It is concluded from the above table that there is significant relationship exists between educational qualification and risk taking capacity of by the respondents. Since the analysis revealed that the asymptotic significance level was zero, accept $H_1$ and reject $H_0$. 
Table 8. Showing the Relationship between Family Sizes with Risk Taking Capacity of the Respondents

| FAMILY SIZE | Indifferent | willing to take risk | calculated risk | low risk | averse to risk | Total |
|-------------|-------------|----------------------|-----------------|----------|----------------|-------|
|             | F   %      | F   %                | F   %           | F   %    | F   %          | F    %|
| 1 – 2       | 26 24      | 8 07                 | 60 56           | 14 13    | 0 0            | 108 21.6 |
| 3 – 4       | 46 16      | 31 11                | 172 59          | 22 07    | 22 07          | 293 58.6 |
| 5 – 6       | 16 16      | 5 05                 | 54 55           | 15 15    | 9 09           | 99 19.8 |
| Total       | 88 18      | 44 09                | 286 57          | 51 10    | 31 06          | 500 100 |

Table 9. Showing Chi-Square Tests results of between family sizes with Risk Taking Capacity of the Respondents

| Value              | df | Asymp. Sig. (2-sided) |
|--------------------|----|-----------------------|
| Pearson Chi-Square  | 20.562(a) | 8 | .008 |
| Likelihood Ratio   | 26.870 | 8 | .001 |
| Linear-by-Linear Association | 7.069 | 1 | .008 |
| N of Valid Cases   | 500 | |

**Hypothesis** (H₀): There is no significant relationship between family size and respondents risk taking capacity.

**Alternative Hypothesis** (H₁): There exists significant relationship between family size and respondents risk taking capacity.

It is concluded from the above table that there is significant relationship exists between family size and risk taking capacity of the respondents. Since the analysis revealed that the asymptotic significance level was less than .05, accept H₁ and reject H₀.
Table 10. Showing the Relationship between Occupations with Risk Taking Capacity of the Respondents

| Occupation  | Indifferent willing to take risk | calculated risk | low risk | averse to risk | Total |
|-------------|---------------------------------|-----------------|---------|---------------|-------|
|             | F  | %    | F  | %    | F  | %    | F  | %    | F  | %    |
| Government  | 22 | 13   | 18 | 10   | 101 | 57   | 30 | 17   | 5  | 03   | 176 | 35.2 |
| Private     | 43 | 18   | 18 | 07   | 139 | 57   | 21 | 09   | 23 | 09   | 244 | 48.8 |
| Profession  | 18 | 24   | 8  | 11   | 46  | 61   | 0  | 0    | 3  | 04   | 75  | 15   |
| Retired     | 5  | 100  | 0  | 0    | 0   | 0    | 0  | 0    | 0  | 0    | 5   | 01   |
| Total       | 88 | 18   | 44 | 09   | 286 | 57   | 51 | 10   | 31 | 06   | 500 | 100  |

Table 11. Showing Chi-Square Tests results of between Occupations with Risk Taking Capacity of the Respondents

|                              | Value   | df | Sig. |
|------------------------------|---------|----|------|
| Pearson Chi-Square           | 53.477(a) | 12 | .000 |
| Likelihood Ratio             | 54.190  | 12 | .000 |
| Linear-by-Linear Association | 11.011  | 1  | .001 |
| N of Valid Cases             | 500     |    |      |

Null Hypothesis ($H_0$): There is no significant relationship between occupation and respondents risk taking capacity.

Alternative Hypothesis ($H_1$): There exists significant relationship between occupation and respondents risk taking capacity.

It is concluded from the above table that there is significant relationship exists between occupation and risk taking capacity of the respondents. Since the analysis revealed that the asymptotic significance level was zero, accept $H_1$ and reject $H_0$. 
Table 12. Showing the Relationship between Different Range of Income with Risk Taking Capacity of the Respondents.

| Monthly income | Indifferent willing to take risk | calculated risk | Low risk | Averse to risk | Total |
|----------------|-------------------------------|----------------|---------|---------------|-------|
|                | F    | %    | F    | %    | F    | %    | F    | %    | F    | %    |
| Less than 25,000 | 55   | 21   | 16   | 06   | 156  | 60   | 30   | 11   | 4    | 02   |
| 25,000 - 50,000 | 22   | 15   | 23   | 16   | 62   | 44   | 15   | 10   | 22   | 15   |
| Above 50,000   | 11   | 12   | 5    | 05   | 68   | 72   | 6    | 06   | 5    | 05   |
| Total          | 88   | 18   | 44   | 09   | 286  | 57   | 51   | 10   | 31   | 06   |

Table 13. Showing Chi-Square Tests Results between Different Range of Income with Risk Taking Capacity of the Respondents

|                          | Value       | df | Sig.  |
|--------------------------|-------------|----|-------|
| Pearson Chi-Square       | 55.126(a)   | 8  | <.000 |
| Likelihood Ratio         | 52.979      | 8  | <.000 |
| Linear-by-Linear Association | 5.205      | 1  | .023  |

Null Hypothesis ($H_0$): There is no significant relationship between income and respondents risk taking capacity.

Alternative Hypothesis ($H_1$): There exists significant relationship between income and respondents risk taking capacity.

It is concluded from the above table that there is significant relationship exists between income and risk taking capacity of the respondents. Since the analysis revealed that the asymptotic significance level was zero, accept $H_1$ and reject $H_0$.

The result revealed that there is association between demographic variables with various risk taking capacity. But only in case of gender with respondents risk taking capacity there is no significant relationship
Hypothesis 2. There is significant difference in the perception of investors among various investment avenues. The following results of one sample t-test are useful in ascertaining the opinion of investors towards bank deposits.

Table 14. Showing Respondent’s Perception towards Factors in Bank Deposits

| Bank Deposit       | N   | Mean | SD  | SE  | T      | Sig  |
|--------------------|-----|------|-----|-----|--------|------|
| Cap. Appreciation  | 500 | 4.05 | .642| .029| 36.722 | .000*|
| No Depreciation    | 500 | 3.23 | .775| .035| 6.575  | .000*|
| Liquidity          | 500 | 3.26 | .737| .033| 8.008  | .000*|
| Safety             | 500 | 3.91 | .743| .033| 27.515 | .000*|
| Regular Income     | 500 | 3.45 | .877| .039| 11.474 | .000*|
| Less Transaction cost | 500 | 3.24 | .617| .028| 8.837  | .000*|
| Risk Protection    | 500 | 3.05 | 1.123| .050| .956   | .339 |
| Less Procedure     | 500 | 2.87 | 1.025| .046| -2.924 | .004*|
| Affordability      | 500 | 4.20 | 1.064| .048| 25.297 | .000*|
| chance for continues savings | 500 | 3.38 | .924| .041| 9.198  | .000*|
| Long term investment | 500 | 2.96 | 1.098| .049| -.855  | .393 |
| Prestige Value     | 500 | 2.55 | 1.536| .069| -6.579 | .000*|

* @ 5 % significant level

One sample “t” test results that capital appreciation and affordability are very strongly accepted by respondent. The factors such as no depreciation, Liquidity, safety, regular income, less transaction cost and chance for continuous savings secured mean values from 3.23 to 3.45 exhibits that respondents are moderately agreeable towards these factors. Prestige value and less procedure which secured less than 3 revealed respondents disagreement to these factors in the bank deposits investment.

Table 15. Showing Respondent’s Perception towards Factors in Shares

| Shares              | N   | Mean | SD  | SE  | T      | Sig  |
|---------------------|-----|------|-----|-----|--------|------|
| Cap. Appreciation   | 500 | 4.55 | .832| .037| 41.638 | .000*|
| No depreciation     | 500 | 2.38 | 1.493| .067| -9.319 | .000*|
| Liquidity           | 500 | 4.04 | 1.167| .052| 19.854 | .000*|
| Safety              | 500 | 2.14 | 1.300| .058| -4.761 | .000*|
The one-Sample ‘t’ test analysis, revealed respondents strongly agree to the factors Cap. Appreciation (M=4.55) and liquidity (M=4.04). They moderately agreed to the factors of chance for continuous savings (M=3.26), and prestige value (M=3.72); Remaining factors like no depreciation, Safety, Regular Income, Less transaction cost, Risk protest, Less procedure, and affordability which secured less than 3 express the respondents disagreeable to the these factors involved in shares investment.

Table 16. Showing Respondent’s Perception towards Factors in Mutual Fund

| Mutual Funds                     | N   | Mean | SD   | SE  | T    | Sig  |
|----------------------------------|-----|------|------|-----|------|------|
| Cap. Appreciation                | 500 | 3.98 | .713 | .032| 30.727 | .000* |
| No depreciation                  | 500 | 3.91 | .629 | .028| 32.502 | .000* |
| Liquidity                        | 500 | 3.49 | .789 | .035| 13.880 | .000* |
| Safety                           | 500 | 3.88 | .745 | .034| 26.330 | .000* |
| Regular income                   | 500 | 3.86 | .687 | .031| 27.854 | .000* |
| Less transaction cost            | 500 | 3.28 | .628 | .028| 9.970  | .000* |
| Risk protection                  | 500 | 3.97 | .624 | .028| 34.605 | .000* |
| Less procedure                   | 500 | 3.11 | 1.179| .053| 2.124  | .034* |
| Affordability                    | 500 | 3.54 | .801 | .036| 15.189 | .000* |
| chance for continuous savings    | 500 | 3.93 | .708 | .032| 29.238 | .000* |
| Prestige value                   | 500 | 3.87 | .843 | .038| 23.079 | .000* |
| Appreciation                     | 500 | 3.97 | .637 | .028| 33.914 | .000* |

*@5% significant level
The analysis of one sample t test related to the factors in mutual fund selection exhibits that all 12 factors taken for the study secured the values from 3.11 to 3.98. This shows that respondents moderately accept all the factors in mutual fund.

Table 17. Showing Respondent’s Perception towards Factors in Insurance

| Insurance                  | N  | Mean | SD  | SE  | T      | Sig  |
|-----------------------------|----|------|-----|-----|--------|------|
| Cap. Appreciation           | 500| 3.97 | .773| .035| 28.041 | .000*|
| No depreciation             | 500| 3.32 | .902| .040| 7.879  | .000*|
| Liquidity                   | 500| 3.38 | .966| .043| 8.707  | .000*|
| Safety                      | 500| 4.31 | 1.061| .047| 27.661 | .000*|
| Regular income              | 500| 4.35 | .934| .042| 32.267 | .000*|
| Less transaction cost       | 500| 4.28 | 1.017| .045| 28.093 | .000*|
| Risk protection             | 500| 4.32 | 1.074| .048| 27.567 | .000*|
| Less procedure              | 500| 3.83 | .785| .035| 23.767 | .000*|
| Affordability               | 500| 3.86 | .777| .035| 24.798 | .000*|
| Chance for continuous savings| 500| 4.31 | 1.034| .046| 28.411 | .000*|
| Long term investment        | 500| 4.43 | .924| .041| 34.542 | .000*|
| Prestige value              | 500| 4.37 | .987| .044| 30.950 | .000*|

*@ 5% significant level

It is revealed from the table that the factors that are relevant to insurance investment. With the help of mean values and level of significant calculation it is observed that respondents strongly agree to the factors of cap. Appreciation, safety, regular income, less transaction cost, risk protection, less procedure affordability, chance for continuous saving, long term investment and prestige value. They show their moderate opinion to the factors of no appreciation and liquidity.

General perception of the respondents towards investment avenues factors revealed that capital appreciation factor strongly accepted commonly by all four avenues, but particularly in bank deposit affordability factor, shares liquidity factor, mutual fund safety and security factors are strongly accepted by the investors.

8. Conclusion

The study traces the investor’s perception relating to financial investment avenues. Earlier investors stuck to one particular avenue, but there is a remarkable change in the investment avenues. This is because of establishment of
different financial institution, creditable source attractive return, good capital appreciation, and tax concession

From the investors point of view changes in demographic factor such as age, income, education, and occupation have an influence in the investment avenue preference.

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