

## **CHAPTER I**

### **INTRODUCTION**

India is a fast-developing economy. The wise capital investment made at the proper time will enhance the country's economic development. Investment is sacrificing today's monetary value for gain in the future, and the target is to get wealth. In other words, the allocation of money to assets is anticipated to produce some gain over time. An investment will be made in any investment avenue selected from different investment avenues like bank deposits, real estate, shares, insurance schemes, gold, small savings arrangements, bonds and debentures. Each avenue is associated with some risk along with a return. Investors must know the investment options thoroughly to select the investment avenue from the different options. Individual investors may use their limited knowledge and competency to make investment decisions.

#### **1.1. BACKGROUND**

##### **1.1.1. Investment**

Investment is an economic activity in which every person is engaged in one way or another. It involves the creation of funds or the exchange of funds for profit. It is the use of funds to gain additional income or increased value. There are three dimensions to gain from Investment: time, today's sacrifice, and potential gain (Feldman et al., 2016). The fund can be converted to cash or a claim for future reimbursements. The return is a reward for refraining from current spending, giving up money or liquidity, and taking risks.

##### **1.1.2. Investment Behaviour**

Investment behaviour is the behaviour of investors related to their investment decisions and actions. Individual investors' Investment behaviour is based on ambiguity about the forthcoming changes and is risky. Updates and gossip, as well as the swiftness and accessibility of information, play an imperative role in the investment environment. Risk appetite, predilection, and attitude are the foremost perceptions and descriptions of investment behaviour (Van Raaij, 2016). Individual investors are increasingly careful about monetary investments, which makes it challenging to formulate marketing strategies for financial service providers after several financial crises (Mak & Ip, 2017). Investors are constantly faced with the dilemma of where to invest their money to get maximum returns. Several investment opportunities are available to investors, and they must decide on their portfolio from the available investment options (Singh et al., 2019).

Upon Investment, emotive dispositions, deep-rooted thought patterns, mental prejudices, and other aspects may disturb the investment behaviour of individuals. The published information may affect the behaviour of individual investors in the stock market in terms of heuristics, markets, and herding behaviour. However, it does not affect the herding behaviour of individual investors in the stock market in West Bengal in an analysis (Sarkar, 2017). Substantial predictors of Investment are investors' demographic, sociological, and psychological factors. Financial service providers can predict the individual investor's portfolio selection using regression equations (Mak & Ip, 2017). Among individual investors' socio-economic factors, psychological factors, risk perception, and risk perception are the most critical variables influencing their investment behaviour and information availability. After that, the level of knowledge, individual and societal conditions, and general aspects affect individuals' investment behaviour (Com. et al., 2018).

This study explores investment patterns, investment preferences, investment decision-making of government employees, and the influence of personality traits and intelligence on these variables.

### **1.1.3. Investor**

An investor is a person who secures (or uses) money or resources in a company or corporation or any other avenue with the expectation of financial or other benefits. An investor is an individual or company that makes wealth to obtain a financial return. Investors often produce revenues by depositing money as an investment in equity or debt. Investments in equity require a shareholding as the owner in the form of corporate funds that can pay dividends in addition to the production of capital. The debt investment can be as a loan offered to another person or company or in the form of buying bonds issued by a government or corporation.

An institutional investor is an organisation, such as a financial institution or fund, that builds a significant portfolio of stocks and other financial instruments. They are often able to raise cash from smaller investors (individuals and/ or companies) to get a more considerable investment. Individual investors rely on various investment methods, such as real estate or financial instruments, to raise interest rates. They want to achieve important financial goals such as retirement savings, wealth creation, employment, children, or future protection.

Individual investors are from different interest groups and might have different risk tolerance levels, methods, options and frequencies. Some investors may prefer high risk and take additional risks to make more profits. At the same time, some of them prefer low-risk investments that lead to conventional goods, such as stock certificates and certain bond

products. Investors can invest in cash, emerging markets or stocks, all of which face the daily roller coaster of investment patterns for various reasons.

Individual investors are the investors who have different paces of Investment, like passive investors and active investors. Passive investors tend to buy and hold components in different market indices. They can improve their value in certain asset classes based on principles such as optimising the mean-variance of Modern Portfolio Theory (MPT) (Markowitz, 1959). Others may be shareholders who use funds based on a fundamental analysis of a company's financial statements and rates - these are active investors.

#### **1.1.4. Intelligent Investor vs Behavioural Investor**

Investment decision-making is an essential factor in investment behaviour. Decision-making is a difficult task and is done after evaluating and selecting, among other options. It is also said to be formulating options, selecting and executing actions from other options, and evaluating and predicting satisfactory or repeatable outcomes. There are two types of decision-makers in the case of Investment: Intelligent Investor and Behavioural Investor.

The term intelligent investor was propounded by Graham B. in his book "The Intelligent Investor" in 1973. "To invest intelligently in securities, one should be forearmed with an adequate knowledge of how the various types of bonds and stocks have behaved under varying conditions – some of which, at least, one is likely to meet again in one's own experience." (Graham, 1973).

There are three stages in intelligent Investment: the Identification phase, the Development phase and the Selection phase. In the first phase, the problem or the possibility is accepted. Problems or opportunities are also tested. The second phase involves finding an existing standard method and solution or introducing a new standard solution at this stage. Solution design can be based on trial and error methods. The third phase involves the Judgement of the investor based on experience, analysis of alternatives, and bargaining. (Mintzberg et al., 1976)

"Behavioural investor takes a sweeping tour of human nature before arriving at the specifics of portfolio construction. It is only if we come to a deep understanding of 'why' humans make decisions in the way we do that we are left with 'how' we ought to invest". (Crosby, 2019)

In his book "The Behavioural Investor", Crosby, 2019 explained the sociological, neurological and physiological impediments to sound investment decision-making. He studied the four primary psychological tendencies that impact investment behaviour: ego, conservatism, attention, and emotion.

Intelligent Investment is made after fundamental and technical analysis. Fundamental analysis includes Company analysis, Industry analysis and Economic analysis. Technical analysis includes analysis of price movements. An intelligent investor should possess patience, contrary thinking, composure, flexibility and decisiveness (Sulphey, 2014).

This research study investigated the investment behaviour of government employees in Kerala and tried to identify the intellectual and behavioural aspects of the employees in relation to Investment.

## **1.2. STATEMENT OF THE PROBLEM**

A state's economy is to be contingent on the reuse, reproduction, and review of the money entered into the economy. The money in the market is reinvested by the persons engaged in it to augment its value. Indeed, speculation venturing or association of money received by individuals or institutions with the object of getting an economic return is vital to the economic development of the state (Banerjee & Duflo, 2019). The financial and commercial progress is made up of Investment. Sensible Investment is key for the achievement of financial or commercial goals. Investments of a state, organisation or person are different in perspectives and goals. (Nakajima, 2021). How investment activities are made up is truly a problem and needs to be analysed.

The primary allocation of the state budget in Kerala, around 51 per cent, is for committed expenditures like revenue expenditure for salaries and pensions (Kerala budget analysis, 2023-24). In 2022-23, the amount spent in this head is Rupees 41,980.86 Crore. In 2022, payments were made to government employees, who make up 2% of India's total population, as per data from the Unique Identification Authority of India's Aadhar database. Thus, reinvestment of the income by government employees is important to the state's economic development.

Individuals' Investment activities differ from that of an institution, association of persons or state. Individual behaviour related to Investment is key to the financial success of individuals, families, social classes and the economy.

Individual investment behaviour is the behaviour related to the activity of investment planning, implementation and evaluation.

Investment behaviour is a highly dynamic subject; it talks about various activities in the everchanging economic environment, where adaptation is vital. Research in such a subject helps a person survive in this environment by regularly updating the knowledge about the many methods and strategies in the field (Haskel & Westlake, 2023).

Investment behaviour here included the rational and irrational behaviour of investors concerning their decision-making, preferences of different avenues, and patterns of Investment. The pattern is the outline of the investment preference, the mental state of the employees, and decision-making, which is the action to be taken for economic return. Investment decisions are made by using the rational and irrational behaviour of the person, which are led by reasoning and intuition, respectively.

In Kerala, economic concerns, middle-class people, and semi-urban areas are more extreme than those ends. The middle-class household's Investment might also be important in the growth of the economy (Sauvaget et al., 2011). The government employees are representatives of middle-class families in Kerala. During the disasters in the state, the role of government employees is commendable, and they voluntarily contribute their salary to the Chief Minister's Disaster Relief Fund (CMDRF). Government employees in Kerala are forefront fighters at the time of Covid pandemic, and they are ready to contribute one month to the CMDRF as per the order GO(P)No. 53/2020/Fin Dated 30/04/2020. The government employees are representatives of middle-class households in Kerala and are treated as role models for the financial decisions of the unorganized sector workers.

Thus, the individual investment behaviour of government employees in Kerala has to be studied as a research problem.

Research on the investment behaviour of Government employees is very little to date. In this research study, the analysis of the investment behaviour of employees and their relationship with the cognitive and behavioural aspects is explored. Intelligence is the essential cognitive aspect of thinking, reasoning and decision-making. Here, the study focuses on multiple intelligences and their relationship with the investment behaviour of government employees. Personality refers to individual differences in characteristic thinking, feeling, and behaviour patterns. Here, the Big Five Personality Trait theory is used to study the behavioural aspects of investment decision-making.

The problem stated here is the “investment behaviour of Government employees in Kerala.” In this research, the investment patterns, preferences, and investment decision-making of the government employees are taken as dimensions of Investment-related behaviour. The influences of behavioural aspects are studied by personality traits and cognitive aspects by intelligence attributes. If the investment behaviour is not rational, wise investments will not be made in the economy. This may affect economic development. Hence, investment behaviour is a problem to be analysed to find out a solution to achieve wise investments in the economy. In this background, the study has raised the following research questions.

### **1.3. RESEARCH QUESTIONS**

1. Is there any relationship between Investors' intelligence or personality and investment patterns?
2. Do investment preferences have any relationship with investors' intelligence and investors' personality?
3. Do the investment preferences have any relationship with investment decision-making?
4. Do the Investment preferences have any relationship with the investment pattern of Government employees?
5. Is there any relationship between Multiple Intelligence and investment decision-making?
6. Is there any relationship between Big Five Personality Traits and investment decision making?
7. Does the demographic profile of the employees influence the investment behaviour of government employees?

The study's focus, significance, and objectives are framed to satisfy this research question.

### **1.4. OBJECTIVES**

The study aims to analyse the investment behaviour of Government employees in relation to their cognitive and behavioural aspects like intelligence and personality. The objectives specifically placed for analysis:

1. To study the Investment Pattern in relation to the intelligence and personality of select Government employees in Kerala
2. To find out Investment Preferences of select Government employees in Kerala concerning their intelligence and personality
3. To identify the Investment Decision Making behaviour of select Government employees in Kerala (Rational and irrational behaviour)
4. To assess the influence of the demographic profile of the select Government employees on investment behaviour and
5. To examine the effect of intelligence and personality of Government employees on their investment behaviour

## 1.5. HYPOTHESES

1. H<sub>0</sub>: There is no significant relationship between select Government employees' intelligence and investment pattern
2. H<sub>0</sub>: There is no significant relationship between select Government employees' personality and investment pattern
3. H<sub>0</sub>: There is no significant relationship between the intelligence and personality of select Government employees and their investment preferences
4. H<sub>0</sub>: There is no significant relationship between select Government employees' intelligence and their investment decision-making
5. H<sub>0</sub>: There is no significant relationship between select Government employees' personality and their investment decision-making
6. H<sub>0</sub>: There is no significant relationship between the investment pattern and investment preferences
7. H<sub>0</sub>: There is no significant relationship between investment preferences and Investment decision making
8. H<sub>0</sub>: There is no significant relationship between the investment pattern and investment decision-making
9. H<sub>0</sub>: There is no significant difference in investment behaviour among government employees according to their demographic profile like gender, age, marital status, income level and volume of savings
10. H<sub>0</sub>: There is no significant inter effect of intelligence and personality on the investment pattern, preferences and decision-making

All the hypotheses have sub-hypotheses as they combined use intelligence and personality and subdimensions of investment behaviour. The sub-hypotheses are represented as 'a', 'b', 'c' and 'd' for different sub-dimensions of variables like H<sub>01a</sub>, H<sub>01b</sub>, H<sub>01c</sub> and H<sub>01d</sub>.

## 1.6. SIGNIFICANCE

Investors' behavioural and cognitive aspects are studied in relation to investment patterns, preferences, and decision-making regarding Investment. The study facilitates the awareness of behavioural bias and prudence in the investment decision-making of Kerala government employees. This study specifically selected Kerala government employees, a distinct group representing the community. The demographic features of the state included three and a half crores of people with a literacy level of ninety-six percent. Forty-seven per cent of the

population dwells in the urban area, and the education facilities and school qualities are good in the state. The economic contribution of NRIs is much higher than that of the primary and secondary sectors. The majority of the population is middle-class households. Grade II Government employees represent the upper middle-class population of the state.

The research data for the study was collected during the pandemic situation. During that period, only the Government sector paid regular salaries to the employees. Even though there is a compulsory contribution to the Chief Minister's Disaster Management Fund (CMDRF), the government employees are managed to get regular income. Their Investment is vital in developing the state economy at that time.

The results of this research add knowledge about investors' cognitive and behavioural aspects concerning their Investment and thus will lead to wise decision-making on Investment.

The research result will add to the understanding of behavioural finance and encourage further research in the domain. Financial advisors and consultants generally assess the profile of their clients but ignore the psychological aspects like personality traits and intellectual attributes that govern their financial decisions. This research study will give financial advisors insight into the role of psychological aspects in investors' decision-making. The result surely helps the investors to be aware of their psychological characteristics and their effect on Investment. The research result helps the Government of Kerala to know the pattern and preferences in Investment from the salary payment they give to employees and its impact on the economy. The government can help employees make sound investments and thus provide wise inputs for the nation's economic development.

### **1.7.LIMITATIONS**

1. In this research study of investment behaviour, psychological aspects other than intelligence and personality are not considered.
2. Even though behavioural biases itself is now a wide area for research, here it is taken as a subdimension of irrational decision-making.
3. The research study did not consider the investment behaviour of businessmen and professionals.

## 1.8 CHAPTER SCHEME

The thesis has been arranged into five chapters, including this introduction chapter; the details about the chapters are presented below.

1. **The first chapter** presents the study's introduction and the statement of the problem, objectives, significance and limitations. It also gives an outline of the various chapters proposed in the study.
2. **The second chapter** consists of the Psychological theories related to individual investors' cognitive and behavioural aspects and investment concepts relevant to this study. It provides a brief description of the Big Five personality traits, multiple intelligences, and factors of rational and irrational decision-making, as well as a description of different investment avenues that influence investment behaviour. It also included the compilation of the previous research studies related to the topic of study, which is reviewed for the present study.
3. **The third chapter** explains the methodology applied in the study under the heading research design, development of the conceptual framework, the profile of Government employees, sampling design, details of the research instrument, Pilot study and the framework for data analysis.
4. **The fourth chapter** discusses the analysis of data collected concerning the study's objectives and includes the hypothesis testing, discussion and results obtained.
5. **The final chapter** provides the summary of findings and conclusion of the study, along with suggestions and scope for future research.