A Study of Factors affecting the Investment pattern of Individuals with special reference to Investors in Belagavi City

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Abstract

Investment behaviour is shaped as much by circumstance and psychology as by pure financial calculation, and this study set out to understand how a group of individual investors in Belagavi actually go about deciding where to invest their money. A structured questionnaire was administered to 107 respondents who are either active investors or otherwise participate in financial markets, covering their demographic background, the instruments they currently hold, and psychological drivers such as risk tolerance, loss aversion, and reliance on advice. Chi-square tests were used to check whether age, income, and educational qualification are associated with an investor's self-reported knowledge of different financial instruments. The results describe a fairly young, moderately risk-averse investor base that still leans heavily on Fixed Deposits even as interest in equity and mutual funds grows, and one that mostly prefers taking advice over deciding on its own. Age, income, and qualification were each found to be significantly associated with investor knowledge of specific instruments, which suggests that financial literacy is unevenly spread across this population and that more targeted investor education could meaningfully improve decision-making.

Keywords: investment behaviour, behavioural finance, risk tolerance, financial literacy, investor psychology

Introduction

India has long been described as a saving-oriented economy, where households plan their spending around income and accumulated savings rather than around a wider set of investment options. Recognising this, policymakers have repeatedly pushed for greater awareness of modern investment avenues among retail investors. SEBI set up the National Institute of Securities Markets (NISM) in 2005 specifically to educate and train market stakeholders and to support research in the capital markets space, and it later ran the Securities Market Awareness Campaign to build investor understanding more broadly. Despite these efforts, participation remains thin: a 2019 survey found that only about 2.5 percent of the Indian population invests in the stock market and just 1.5 percent in mutual funds, which is part of why AMFI's "Mutual Fund Sahi Hai" campaign was launched to widen the reach of these avenues.

Investment is best understood as a core part of financial planning, the process by which individuals commit resources to asset classes such as equities, bonds, real estate, or mutual funds in the hope of generating future returns. Making sense of how people actually invest, and why they invest the way they do, is useful not only academically but practically, since it feeds directly into how financial products are designed and how investor education is delivered.

The decisions people make about their money are rarely driven by a single factor. Economic variables such as interest rates, inflation, and prevailing market trends interact with personal characteristics like risk tolerance, financial literacy, and income level, while external forces including technology, regulation, and global events add further pressure on individual choices. This study looks at this mix of factors as it plays out among a sample of individual investors in Belagavi, with the aim of identifying patterns that could be useful to policymakers, financial advisors, and product designers seeking to encourage more informed participation in financial markets.

Objectives of the Study

- To analyse the investment patterns of individuals and identify the most popular investment vehicles across different age and income groups.
- To examine the factors that influence investment decisions, with particular attention to risk tolerance, financial literacy, and demographic characteristics.
- To explore the psychological and social factors that shape individual investment decisions and behaviour.

Review of Literature

Investment Patterns and Demographic Segmentation

A fair amount of research has looked at how investment choices shift with age. Younger investors, especially those in their twenties and thirties, tend to gravitate toward riskier instruments such as stocks and equity mutual funds, largely because a longer time horizon lets them absorb short-term volatility (Barberis & Thaler, 2003). As investors approach retirement, this appetite for risk typically declines, with older investors favouring safer, income-generating options such as bonds, fixed deposits, or annuities (Finke et al., 2011); Bodie (1992) similarly documents this shift from risk-seeking to risk-averse behaviour with age. Lusardi and Mitchell (2011, 2014) add a useful qualification here, showing that risk tolerance among younger investors also depends heavily on financial literacy and educational background, with more financially literate young adults tending to build more diversified portfolios even early in life.

Income has its own independent effect on investment behaviour. Higher-income individuals are more likely to hold diversified portfolios spanning equities, real estate, and international markets (Goetzmann & Kumar, 2008), and are also more likely to venture into alternative assets such as private equity or venture capital (Cheng, 2018). Lower-income individuals, by contrast, are often constrained to safer and more liquid instruments such as savings accounts, government bonds, or low-risk mutual funds (Lusardi & Mitchell, 2011). In developing economies specifically, higher income tends to correlate with greater participation in formal financial markets and a stronger capacity for long-term investing (Klapper et al., 2012).

Factors Influencing Investment Decisions

Risk tolerance is perhaps the most extensively studied psychological driver of investment behaviour. It is usually measured through structured questionnaires or scenario-based assessments, and research consistently finds that it varies by age, financial circumstance, and personality (Grable & Lytton, 1999): younger people generally show higher risk tolerance, while those near or in retirement show markedly less (Finke et al., 2011). Guiso et al. (2002) find that socio-economic factors also matter here, with higher education and income levels associated with a greater willingness to take on risk, a pattern echoed by Bodie et al. (1992), who link comfort with financial markets to greater willingness to pursue higher, riskier returns.

Financial literacy is another recurring theme. Lusardi and Mitchell (2014) found that individuals with higher financial literacy are more likely to diversify their portfolios, steer clear of high-fee products, and plan more effectively for retirement, whereas those with lower literacy tend to underinvest or hold concentrated, less optimal portfolios (Van Rooij et al., 2012). Financial education programmes appear to help close this gap:

Cole et al. (2011) found that such programmes can meaningfully improve participation in long-term savings and investment, and Lusardi and Mitchell (2011) link financial literacy directly to better retirement planning and greater use of tax-advantaged instruments.

Demographic traits beyond age and income also shape investment choices. Barber and Odean (2001) found that men tend to display more confidence and risk tolerance in their investment decisions than women, while Miller and Noulas (2013) note that more highly educated individuals are more likely to self-direct their investing and diversify. Family circumstances matter too: married individuals and those with children often lean toward safer, longer-horizon investments to protect their family's financial future (Moffitt, 1992), while single individuals without dependents tend to show more risk-seeking behaviour (Haliassos & Bertaut, 1995).

Psychological and Social Factors in Investment Behaviour

Behavioural finance has identified a number of biases that distort otherwise rational investment decisions. Overconfidence is a well-documented example, where investors overestimate their own ability to forecast market movements, often leading to excessive trading and underestimation of risk (Odean, 1998). Loss aversion is another central bias: Kahneman and Tversky (1979) showed that people feel the pain of a loss more sharply than the pleasure of an equivalent gain, and Shefrin and Statman (1985) found that this tends to make investors hold on to losing positions longer than is rational, in the hope of eventually recovering their losses.

Social dynamics play a role too. Herd behaviour, the tendency to follow the actions of a larger group, has long been documented in financial markets and is often blamed for asset bubbles and panic-driven selling during periods of instability (Bikhchandani et al., 1992). This effect has arguably intensified with social media, where individuals increasingly base investment decisions on trending advice or influencer opinions without fully grasping the underlying risk (Venturelli & Croce, 2020). Cultural context matters as well: Guiso et al. (2002) note that in more collectivist societies, an individual's investment decisions are often shaped by family dynamics rather than made in isolation.

Finally, professional advice has its own complicated relationship with investor outcomes. Hackethal et al. (2012) found that financial advisors can help investors overcome emotional biases and take a more objective, long-term view of their portfolios. At the same time, Baker and Nofsinger (2010) caution that reliance on advisors introduces its own bias, since investors often trust expert opinion more readily than the evidence warrants.

Research Methodology

Research Design

This study follows a quantitative, empirical research design, allowing for the systematic collection, analysis, and interpretation of data on investor psychology and decision-making among the sampled population.

Sample Design

The population for the study consists of individuals interested in investing in stock markets and financial securities in Belagavi city. The sample frame was drawn from people actively participating in financial markets, whether through stocks, bonds, or other instruments. Given the practical constraints of the study, a convenience sampling method was used, with respondents selected based on their accessibility and their relevance to the research questions.

The sample size was arrived at using a standard formula that accounts for confidence level, margin of error, and population size, as shown below.

Parameter	Value
Margin of error	7%
Confidence level	93%
Population size	7,00,000
Response distribution	50%
Sample size	107

Source: raosoft.com sample size calculator.

Data Sources and Analysis Tools

Primary data was collected through a structured online survey distributed to the selected sample of investors, covering demographic information, investment behaviour, and psychological factors such as risk tolerance, overconfidence, loss aversion, and herd behaviour. Google Forms was used for survey creation, data collection, and initial analysis; SPSS was used for the chi-square hypothesis testing; and frequency tables and pie charts were used to visualise the data.

Hypotheses

The following hypotheses were tested using the chi-square test of independence:

- H1a: Age is significantly associated with an investor's knowledge of mutual funds.
- H1b: Age is significantly associated with an investor's knowledge of bonds and debentures.
- H1c: Age is significantly associated with an investor's knowledge of government schemes (PPF, NSC).
- H1d: Age is significantly associated with an investor's knowledge of real estate.
- H2: Educational qualification is significantly associated with an investor's knowledge of bonds and debentures.
- H3: Annual income is significantly associated with an investor's knowledge of mutual funds.

In each case, the null hypothesis (H0) states that no such association exists.

Data Analysis and Interpretation

Demographic Profile of Respondents

Of the 107 respondents, 80 (74.8%) were male and 27 (25.2%) were female, indicating a sample weighted considerably toward male investors. The age distribution skewed young: 82 respondents (76.6%) fell in the 20-30 bracket, with much smaller shares below 20 (1.9%), between 30-40 (9.3%), between 40-50 (5.6%), and 50 and above (6.5%). In terms of qualification, 51 respondents (47.7%) were undergraduates and 48 (44.9%) were postgraduates, with only 8 (7.5%) below graduate level, suggesting a well-educated sample overall.

Demographic Variable	Category	Frequency	Percent
Gender	Male	80	74.8%
	Female	27	25.2%
Age	Below 20	2	1.9%
	20-30	82	76.6%
	30-40	10	9.3%
	40-50	6	5.6%
	50 and above	7	6.5%
Qualification	Below Graduation	8	7.5%
	Under Graduate	51	47.7%
	Post Graduate	48	44.9%
Occupation	Business	20	18.7%
	Professional	29	27.1%
	Services	10	9.3%
	Student	48	44.9%
Annual Income	Less than ₹2.5L	58	54.2%
	₹2.5L - ₹5L	27	25.2%
	₹5L - ₹10L	14	13.1%
	Above ₹10L	8	7.5%

Occupationally, students made up the largest group (44.9%), followed by professionals (27.1%) and business owners (18.7%), which fits with the young age profile of the sample. Income levels were correspondingly modest: over half the respondents (54.2%) earned less than ₹2.5 lakh annually, and only 7.5% earned above ₹10 lakh. Read together, these figures describe a sample dominated by young, relatively early-career individuals, many still in education or in the early stages of their working lives — a group whose investment choices are likely still forming rather than fully settled.

Investment Experience and Holdings

Investment experience among respondents was relatively limited: 47.7% had been investing for less than one year and 35.5% for between one and three years, while only 8.4% had more than seven years of experience. This is consistent with the sample's youth and suggests that most respondents are still fairly early in their investing journey.

Duration of Investing	Frequency	Percent
Less than 1 year	50	46.7%
1-3 years	38	35.5%
4-7 years	10	9.3%
More than 7 years	9	8.4%

Fixed Deposits were the most commonly held instrument (33.3%), followed by Stocks (28.2%) and Mutual Funds (25.0%), while Gold (6.4%), ETFs (5.8%), and Bonds (1.3%) made up smaller shares of the portfolio. This points to a fairly cautious portfolio mix overall — a continued reliance on the safety of Fixed Deposits even as equity and mutual fund investing gain ground, likely reflecting both the sample's youth and the well-documented Indian preference for guaranteed-return instruments.

When asked how they knew about various instruments, respondents reported the greatest familiarity with Bonds/Debentures (23.1% of responses) and Real Estate (21.3%), followed by Government Schemes such as PPF and NSC (16.9%), Equity (14.4%), and Commodities such as Gold and Silver (13.8%); Mutual Funds (6.3%) and Fixed Deposits (4.4%) were comparatively less recognised as distinct instruments in this framing, even though Fixed Deposits were the most widely held product — an inconsistency that may simply reflect how familiar and unremarkable Fixed Deposits feel to most respondents, rather than genuine unfamiliarity with the product.

Decision-Making, Goals, and Risk Behaviour

A clear majority of respondents (62.6%) said they prefer to take advice when making investment decisions, compared to 37.4% who prefer deciding independently. This lines up with the literature on financial advisors discussed earlier, and suggests that most investors in this sample still see themselves as needing external guidance rather than acting purely on their own judgement.

Short-term gain was the most commonly cited investment goal (44.1%), followed by education (25.0%), income tax reduction (14.0%), retirement (8.8%), and home purchases (8.1%). The dominance of short-term thinking, especially among a sample this young, hints at either limited long-term planning horizons or simply a stage-of-life effect, where retirement and home purchases are not yet pressing concerns.

On return expectations, 49.5% of respondents described their expectations as moderate, 23.4% as low, 22.4% as high, 2.8% as very high, and 0.9% as very low — a fairly conservative distribution overall, with very few investors expecting outsized returns.

Risk aversion showed up clearly in responses to a hypothetical choice between a guaranteed 5% return and a riskier option offering a potential 10% return with a chance of a 5% loss: 59.8% chose the guaranteed return, while 40.2% were willing to take on the risk. On loss aversion specifically, half the sample (50.5%) said they sometimes hold on to losing investments hoping for a recovery, while 14.0% said they do so very often and 11.2% said always — together suggesting that a meaningful share of investors, well over a third, are prone to this bias at least some of the time.

Hypothesis Testing (Chi-Square)

Chi-square tests of independence were run to examine whether age, qualification, and income are associated with investor knowledge of specific instruments. The results are summarised below.

Hypothesis	Variables Tested	χ^2 Value	df	p-value	Result
H1a	Age × Mutual Fund knowledge	33.726	16	.006	Significant
H1b	Age × Bonds/Debentures knowledge	37.553	16	.002	Significant
H1c	Age × Govt. Schemes knowledge	38.106	16	.001	Significant
H1d	Age × Real Estate knowledge	34.483	16	.005	Significant
H2	Qualification × Bonds/Debentures knowledge	24.439	8	.002	Significant
H3	Annual Income × Mutual Fund knowledge	23.070	12	.027	Significant

In every case, the p-value fell below the 0.05 threshold, so the null hypothesis of no association is rejected across all six tests. Age turned out to be significantly associated with knowledge of mutual funds, bonds and debentures, government schemes, and real estate alike, indicating that an investor's stage of life shapes not just their appetite for risk but also which instruments they understand well. Similarly, both educational qualification and income level were significantly linked to investor knowledge — qualification to knowledge of bonds and debentures, and income to knowledge of mutual funds — reinforcing the broader literature finding that financial literacy tracks fairly closely with socio-economic standing rather than being evenly distributed across the investor population.

Key Findings

- The sample is young and male-skewed, with over three-quarters of respondents between 20 and 30 years old and roughly three-quarters male.
- Most respondents are relatively new to investing, with close to half having less than a year of experience in financial markets.
- Fixed Deposits remain the most widely held instrument, ahead of Stocks and Mutual Funds, pointing to a continued preference for capital safety over higher potential returns.
- A majority of investors prefer taking advice over deciding independently, reflecting continued reliance on external guidance.
- Short-term gain is the leading investment goal, ahead of education, tax planning, retirement, and home purchase, which may partly reflect the sample's youth.

- Return expectations are largely moderate, and when faced with a risk-return trade-off, a clear majority chooses the safer, guaranteed option over the riskier one with higher potential upside.
- A meaningful proportion of respondents show signs of loss aversion, holding on to losing investments at least some of the time in the hope of recovery.
- Age, educational qualification, and income are all significantly associated with investor knowledge of specific financial instruments, confirming that financial literacy varies systematically across demographic groups rather than being randomly distributed.

Recommendations

- Education and awareness programmes: Targeted workshops, webinars, and online resources can help both novice and experienced investors better understand market dynamics, risk assessment, and investment strategy.
- Integration of behavioural finance into advisory services: Financial advisors who understand common biases such as overconfidence and loss aversion are better positioned to guide clients toward more rational decisions.
- Clearer disclosure practices: Simplifying the language and format used to describe investment products would help investors better understand risks and benefits before committing funds.
- Greater use of technology and analytics: Tools such as robo-advisors and real-time sentiment analysis can help investors navigate volatile markets with more personalised, timely insight.
- A shift toward long-term investment strategies: Products that reward patience, such as retirement accounts and index funds, should be actively promoted alongside investor education on the value of long-term horizons.
- Behavioural nudges: Default settings in retirement plans, for instance, could be designed to encourage higher contribution rates or more diversified portfolios.
- Investor communities and peer support: Spaces where investors can share experiences may help reduce isolation during downturns and encourage more disciplined behaviour.
- Regular feedback mechanisms: Systematic feedback from investors can help shape better-suited products and policy over time.
- Stronger investor protections: Regulatory frameworks that guard against predatory practices and ensure fair access to information can build the confidence needed to draw more individuals into formal investing.

Limitations of the Study

This study, like most work grounded in behavioural finance, is limited by the inherently subjective nature of investor behaviour, which makes it difficult to establish universally applicable principles. Behavioural factors are also notoriously hard to quantify and predict, which limits how confidently the findings here can be used to forecast future market movements. Unlike more traditional economic theories, behavioural finance does not offer a single testable model, so findings such as these should be read as descriptive rather than predictive. There is also a risk that models fitting this particular dataset well may not generalise cleanly to other populations or time periods, and the study does not fully capture the wide individual variation in investor behaviour that a larger, more heterogeneous sample might reveal. Finally, the use of convenience sampling and a modest sample size of 107 respondents, drawn from a single city, limits how far these findings can be generalised to the broader investing population.

Conclusion

This study set out to understand how a group of individual investors in Belagavi make investment decisions, and the picture that emerges is of a young, cautious, advice-seeking investor base still finding its footing in

financial markets. Fixed Deposits continue to dominate portfolios even as interest in equities and mutual funds grows, return expectations remain largely moderate, and a clear majority still favours certainty over higher potential returns when given the choice. At the same time, the significant associations found between age, income, qualification, and instrument-specific knowledge confirm what much of the existing literature has already suggested: financial literacy is not evenly spread across the population, and where an investor sits on these demographic markers has a real bearing on what they understand and, ultimately, on what they choose to invest in. Closing these gaps through more targeted, life-stage-appropriate financial education, combined with clearer product disclosure and better use of behavioural nudges, could go a long way toward helping individuals make more informed and confident investment decisions.

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Appendix: Questionnaire

Section 1: Demographic Information

- Gender: Male / Female
- Age: Below 20 / 20-30 / 30-40 / 40-50 / 50 and above
- Qualification: Below Graduation / Under Graduate / Post Graduate
- Occupation: Business / Professional / Services / Student
- Annual Income: Less than ₹2.5L / ₹2.5L-5L / ₹5L-10L / Above ₹10L

Section 2: Investment Behaviour

- How long have you been investing in financial markets? Less than 1 year / 1-3 years / 4-7 years / More than 7 years
- What types of investments do you currently hold? Stocks / Bonds / Mutual Funds / ETFs / Fixed Deposits / Gold
- Rate your knowledge of the following instruments (No Knowledge to Expert Knowledge): Equity, Mutual Funds, Bonds/Debentures, Fixed Deposits, Government Schemes (PPF, NSC), Real Estate, Commodities
- How do you prefer to make investment decisions? Independently / Take advice
- What is your primary investment goal? Short-term gain / Retirement / Education / Income tax reduction / Home purchase

Section 3: Psychological Factors

- What are your expected returns from investment? Very low / Low / Moderate / High / Very high expectations
- Given two investment options, one with a guaranteed return of 5% and another with a potential return of 10% but also a risk of losing 5%, which would you choose?
- Are you more likely to hold onto losing investments, hoping that they will recover? Never / Rarely / Sometimes / Very often / Always