



## BEHAVIORAL MARKETING: A STUDY OF CONSUMER BEHAVIORAL INVESTMENT PATTERNS IN THE REGION OF GARHWAL, UTTARAKHAND

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### ABSTRACT

*People's earning, investing and saving is a very wise decision and a very important part of human life, it doesn't matter that the particular person's earning is how much, less or more. How much one is rich or poor? The investment decision of any consumer is the based on many considerations for their financial assets. If we see theoretically , it is like making a balance between current and future consumption and taking the wise decision for investment where they can have safe and secured value of today's asset in the future in best possible manner.*

*Each one of us has our own life style and entirely different, the way one think of investment and getting the result, may not match with very next person of his reference group. So future goals are transformed into investment goals. We have been witness of last many years, when people had very less investment option available and the awareness level they had toward the key investment decision, today we have realized that not only the awareness and willing of people towards investment is more but also where to invest, we have several venues to invest in. Now consumers can opt to invest in stock of company in variety of form available and derivatives or may not, but the basic objective behind investment remains the same which can be told in simple form Positive returns resulting into wealth creation. However it is not easy always to invest and*

*have positive returns unless one monitors the performance of the investment instrument and has clear objects in mind. One cannot forget one very important factor – Inflation. Inflation has a direct impact on the value of money and if proper investments are not done or investments are not monitored then the core object of investing (i.e. Positive returns – wealth creation) cannot be achieved for. Therefore it is very important that people should be aware and well versed with the various investment instruments and should do proper financial planning. Gold is one of the oldest precious metals known to man & for years it has been valued as a global currency, an investment, a commodity and an object of beauty and India is not an exception to this. India's love affair with gold is timeless spanning over centuries and millennia. In India, Gold is not just another precious metal but it is a part of our culture, an inseparable part of our belief system and a matter of pride.*

*Individuals even if they are siblings, are different in nature and so do are their financial needs, financial planning, investment decisions and risk patterns. Different financial instruments provide different kind of security, if we take an egg. insurance provide kind of security against different unforeseen event while savings accounts provide security against other types of contingencies and equity in private or governmental pension funds generate retirement income.*

*Traditional models of Marketing assume that the investors are totally rational. They take their investment decision to maximize their expected utilities. Efficient Market Hypotheses suggests that all the markets are fully efficient. In efficient markets investors demonstrates the self-control on their decisions. They react on each and every piece of information and that to rationality. There is no role of emotions feelings and other behavioral factors. But this assumptions no longer work as the number of researchers have found the evidence that the emotional and behavioral factors also plays an important role in decision making and investors not always rational as the feeling of loss, winner's pride etc also effect the decision making.*

*Behavioral Marketing is an emerging field which deals with the irrational nature of investors. Efficient Market Hypotheses suggest that all the market information are immediately incorporated in security prices and that security prices are the best estimated and accurate prices all the time. But Behavioral Marketing denies this assumption and suggest that there are*

number of evidence such as January Effect, Weekend effect, Seasonality etc. through which it has proved that markets are not efficient all the time and investors often travel from rationality to irrationality in perhaps a predictable manner. The investment decisions are influenced to some extent by our emotions, feelings and perceptions.

*Behavioral Marketing is the application of psychology research to Marketing. It studies how investors behave while taking any financial action. Researches in context of behavioral Marketing have shown that financial markets are not fully efficient. Anomalies of prices and returns are usually seen and identified. The reason for that these are due to investor's mental biases. Behavior Marketing makes an attempt to study the irrational behavior of investors in the market based on the said mental bias. It also explains the factors responsible for such behavior. The established Marketing seeks to understand financial markets using models in which agents are "rational". Rationality for that purpose means when investors receive new information, they update their viewpoint on any financial action efficiently. This traditional framework is theoretically simple, but **Sheller (2000)** advocates that stock markets are strongly governed by the market information, which directly influence the investment behavior of the investor. It can be concluded that individual trading behavior cannot be understood in established traditional Marketing structure. **Clark (1918)** rightly mentioned that the economist may attempt to ignore psychology, but it is sheer impossibility for him to ignore human nature.*

*Hence, Behavioral Marketing is a new approach to financial markets that has emerged in the 1980s in response to the difficulties faced by the traditional models which are blamed for the lack of realism in the assumptions on human behavior. It examines financial phenomena of investment through the dual lenses of Marketing and of psychology. It is a field of Marketing that proposes psychology-based theories to explain stock market anomalies. There have been many studies that have documented long-term historical phenomena in securities markets that contradict the efficient market hypothesis and cannot be captured plausibly in models based on perfect investor rationality. Behavioral Marketing attempts to fill the void. **Lintner (1998)** defines behavioral Marketing as being 'the study of how humans interpret and act on information to make informed investment decisions'. **Olsen (1996)** asserts that behavioral Marketing does not try to define 'rational' behavior or label decision making as biased or faulty; it seeks to understand and predict systematic financial market implications of psychological*

*decision processes. It may be argued here that some financial phenomenon can be better understood using models in which some agents are not fully rational.*

*Behavioral Marketing is expected to look into the following possible behavioral patterns in financial markets:*

- *Reaction of a investor to a price change*
- *Reaction of a investor to a news*
- *Extrapolation of past trends into the future*
- *Focus on some popular stocks and lack of attention to fundamentals*
- *Seasonal price cycles etc.*

**Key words:** Investment, market, earning, Consumer, Product

### **Objective of this Study:-**

Therefore the objective of this study is To identify the factors influencing the consumer's investment behaviour, to examine which of these factors i.e. Risk and return, Market information, Motives, Security, Opinions and Benefits, have significant impact on the different age group, income group, education group and gender. The main purpose of this research is to study the investment behavior of two type of trader's personality viz. the calculative mind of persons and the creative personalities. The criteria for deciding the personality is the profession in which they are involved with the assumption that the people choose the profession as per their liking. To achieve this purpose the following objective would be set:

To study the relationship of demographic factors and investment behavior for Professionals.

To find out the difference between the investment behavior of Professionals.

To analyze the factors of differentiation.

### **Scope of this Study:-**

This study would help to understand the investment behavior and human flaws and the variation in the same as per their profession. If these can be predictable then it can be exploited for profit. If professional investors come to know about the behavioral traits, biases and errors of individual investors, they can attempt to “get on the other side of the trade” and simply can earn profits at the cost losses of the individual investors.

Moreover such information can be useful for financial services firms in the process of their product development and in defining their marketing strategies.

This information can be very helpful to regulators as well while formulating different policies and regulations they can apply such knowledge to better educate the investors and to mitigate the biases to improve the welfare of individual investors.

Moreover the individual investors themselves can learn from their mistakes and behavioral biases by identifying the cognitive biases and errors in financial decision making process individual and can improve their investment behavior and can make optimal investment decisions.

By understanding the human behavior, attitude and psychological mechanisms involved in financial decision-making, standard financial models may be modified to better explain the reality in today’s developing markets.

### **Research Methodology:**

Sampling: A sample size of 200 respondents will be taken and it will be convenient sample of working executives.

Variables of Study: By carrying out factor analysis factors influencing influence investment behaviour specifically Indian consumers.

Variable are taken as Motives, Market information, Risk and Return, Security, Opinions Benefits, sentiments with market fluctuations.

Research tool:

Questionnaire which mainly related to demographics of Research tool the respondents and on the above six factors based on Likert scale.

Unit of Analysis: Professionals (such as writers, poets, sales executive, people working in advertising agencies, painters) investors having accounts with the brokerage companies, trade either in NSE or BSE.

**Geographical Area of Research:** Garhwal Region of Uttarakhand Sate, INDIA

**Sampling Technique:** Convenience Sampling

**KMO and Bartlett's Test of Sphericity:** to know the adequacy of sample and to check the validity of responses.

**Correlation coefficient:**

**AHP:** To know which bias differentiates Professionals from non Professionals.

**Two Way ANOVA:** To know whether the difference exist between Professionals and non Professionals is significant or not.

**Cross tabulation:** To get the analytical tool friendly data.

**Logistic Regression:** to measures the relationship between a categorical dependent variable (biases) and one or more independent variables (socioeconomic factor) with reference to Professionals.

**Factor Analysis:** To extract the most important biases, among the biases studied, which affect the investment behavior.

**Principal Component Analysis:** To reduce the different biases that effect the investor behavior to essential principal component (bias) and then to simplify the modeling and concluding.

**Data collection:**

Data would be collected through a well structured questionnaire, which would be served to investors either online or face to face.

**Investment behaviour (Some unanswered Questions)**

**Do people make investment decisions that are too conservative to meet their intended objectives?**

The research evidence indicates a widespread lack of knowledge and understanding about investment choice. In addition, consumers (and women in particular) are generally found to be risk averse. In keeping with this, consumers have been found to focus more on minimizing financial losses than maximizing financial gains, even when making decisions about long-term investments such as a investment.

Faced with complex investment choices, there is evidence that people use what are called ‘naïve diversification strategies’ (e.g. they may divide their investment contribution equally among the number of funds offered by a plan), which may result in sub-optimal decisions (i.e. less favorable or desirable decisions) with regard to their potential income in retirement. Individuals’ investment decisions are also strongly influenced by the number and mix of investment choices that are offered (known as framing effects), highlighting the importance of investment plan design in achieving desired outcomes.

Giving people investment fund choice appears to encourage investment in equity funds and international evidence from mandatory individual account investment schemes reveals a general preference among participants for equity funds. This may result from factors such as framing

effects, the use of ‘rules of thumb’ by consumers to make investment decisions or the professional advice that consumers receive.

Other research indicates that the picture regarding participants’ apparent preference for equities is not clear cut. There is evidence that allocation to equities is polarized between those participants who have no allocation to equities and those who have invested entirely in equities. Moreover, allocation to equities has been shown to decrease with the number of investment options offered.

In recent qualitative research conducted with people in the target group for automatic enrolment under the Government’s workplace investment reforms, participants mainly expressed interest in investing in lower-risk investment funds .

While there is evidence of a positive link between income and equity asset allocation in investment plans (with higher equity allocations among higher earners), studies indicate that the differences are not great. This suggests that some participants on lower incomes may have poorly diversified portfolios and be overexposed to risk. One explanation might be that these participants expect to have other resources in retirement, such as a state guaranteed minimum income, and so have little to lose by taking risks. Similar behavior has been seen among people who have a defined benefit investment plan as well as a defined contribution plan.

**What is the likelihood of investment scheme members switching investment funds over time? Is there any evidence that people switching between investment funds do not make sensible investment choices, given their personal and household circumstances?**

The evidence shows a general trend of low levels of investment fund switching by investment plan participants. Evidence indicates that fewer than two in ten investment plan members switched funds on at least one occasion.

There is some evidence to suggest that providing information does little to encourage fund switching or rebalancing.

There seems to be very little data about whether or not people make sensible choices when switching funds. One study highlighted problems with the advice provided to superannuation scheme members around fund switching, which involved advice to switch to higher fee funds with no countervailing benefits or the loss of important insurance cover.

**In the context of the personal accounts scheme, what is the evidence around individuals' likelihood of making an active investment choice rather than staying in the default fund?**

There is considerable variation in levels of active decision making between countries that operates mandatory individual account investment schemes. On the whole, international evidence seems to support the notion that a large number of investment options can cause information overload, resulting in confusion among scheme participants and greater use of default funds. As a result countries that offer limited investment choice seem to have much higher levels of people making an active choice. In contrast, countries offering a wide choice of investment funds tend to have lower levels of people making active choices and correspondingly higher proportions of people enrolled in the default options.

One study found that between 65 and 87 per cent of new participants saved at least temporarily in the default fund and at the default contribution rate, and a significant proportion continued to do so three years later. The generally conservative nature of default investment funds combined with low default contribution rates has raised concerns about the possible sub-optimal outcome for these plan members.

Overall figures show that much per cent of investors have made an active choice, but this masks a rapid decline in the proportion doing so over time, from 67 per cent when the scheme was introduced to 1.6 per cent. It is notable that during this period, the default fund performed better than an average of all funds that could be actively chosen, and was considerably cheaper. The continued decline in active decision making between 2006 and 2007 is partly attributed to a change in the communications strategy, whereby scheme members no longer automatically receive information about their investment fund options.

Evidence also suggests that default funds that have low charges and perform well can result in low levels of active investment choice.

In Research proposed investment reforms, most participants said they would personally want to make an active investment choice if they were automatically enrolled into a workplace investment scheme. This was largely driven by a desire to have personal control over the level of investment risk. Adequate information was considered crucial if individuals were to make an investment choice, including clear explanations of the different levels of risk associated with investment funds.

## **Other key findings**

### **Understanding of and attitudes to investment risk**

- Attitudes to risk depend on a wide variety of factors including age, income and wealth, gender, marital status, personality, educational attainment, and level of financial knowledge and experience.
- There is fairly consistent evidence that women are more risk-averse than men in their attitudes and behaviors towards investment decisions. Some studies argue that factors such as marital status, wealth and income, play a bigger role than gender in explaining these different attitudes to risk.
- Attitudes to risk change over time. Willingness to take financial risk tends to decrease significantly among people at or near retirement. Research on measuring investors' appetite for risk suggests that it falls sharply during economic crises.

### **Number of investment fund options**

- The extent of investment fund choice varies widely across the mandatory individual account investment schemes that operate worldwide.

- Evidence indicates that increased investment fund choice reduces rather than increases the likelihood of participation in retirement savings plans, which supports the notion of choice and information overload.

- In Research with the target group for automatic enrolment, participants considered that between three and five investment funds was a manageable number to choose from.

### **Information and education**

Though previous research indicates that people tend to be overly optimistic about taking action.

- Evidence suggests that information provision and financial education has a limited impact on individual behavior in relation to making investment fund choices and fund switching.

- However, the communications strategy adopted by the mandatory investment scheme seems to have had a considerable impact on levels of active decision making.

- While many people may rely on professional financial advice to make investment purchase and investment decisions, research has highlighted concerns about the quality of advice provided to individuals.

### **Investment savings adequacy**

- Many adults are not confident that they are saving enough for their retirement and these concerns are borne out by analysis of actual investment savings adequacy.

- On the whole, individuals with a private investment are likely to have greater levels of investment wealth or other financial resources to fund their retirement than those who do not.

The specific research questions for the review are as follows:

1. What literature has been written about individuals' behavior when making investment choices?

2. What are the key findings from this literature (in summary)?
  
3. What does the literature tell us about people making investment decisions that are too conservative to meet their intended objectives? For example is there evidence that:
  - a. People do not take enough risk to achieve their desired outcome; or
  - b. People do not take into account other assets they may hold when making investment decisions?
  
4. Is there any evidence that people switching between investment funds do not make sensible investment choices given their personal and household circumstances?
  
5. In the context of the schemes, what is the evidence around individuals' likelihood of actually making an active investment choice versus staying in the default fund, and whether they will switch funds during their time as a member of the scheme?

The main focus of the review is investment behavior in relation to investments, and this is reflected in the research that was identified.

As the timetable for the review was short, a systematic literature review was not feasible. Instead a brief research review was conducted to identify key research findings relevant to the specific research questions.

In total, around 80 items were identified as being relevant to the aims and objectives of this review. Most of these items were investment-specific, while the rest relate to financial risk or investments more generally.

As we might expect, most of the research literature comes from the discipline of economics. In particular, there is a considerable body of work on individual investment behavior from the field

of behavioral economics. Study data was by far the most common type of research evidence, and included both continuous studies.

### **Understanding of and attitudes to investment risk**

Recent Research found that most consumers had a basic understanding of the risk-reward relationship (i.e. higher risk meant potentially greater rewards; lower risk meant they stood to lose less but in turn the rewards would be less). Beyond this, however, understanding was limited. Most did not have a clear idea of what these risks actually were and many felt that long-term investments wereriskier, mainly because they would not be able to access their money in the case of unexpected events.

There seems to be considerable confusion. Consumers about the levels of risk associated with different investment products and fund types. Most consumers in a recent qualitative study believed (wrongly) that there was no capital at stake in low risk investments. The Baseline Study of Financial Capability indicates that some risk-averse consumers may take out investment products unaware that there is any financial risk involved.

Research in consistently shows that people's knowledge and understanding of investments is generally poor. Many participants in a recent qualitative study were unaware that investment funds were invested on the stock market, and instead tended to view them as long-term savings accounts. A random study of the population found that investment plan participants were often ignorant of the basic structure of different types of retirement savings options and the risks associated with them. The study found that almost half of respondents with an occupational investment scheme were not sure if they had a defined benefit or a defined contribution investment plan.

### **Attitudes to risk**

Research carried out indicates that attitudes to investment risk depend on factors such as personality, circumstances, educational attainment, level of financial knowledge and experience, and extent of financial product portfolio.

Research carried out identifies a similar range of factors, including income, wealth, age, marital status, gender and level of education.

In general, it has been observed that women are more risk averse than men, the young are more risk seeking than the old, wealthier individuals manifest a greater willingness to invest in equities and the poor are risk averse.

One study (of faculty and staff working at a large university) found that a combination of education, financial knowledge, income and occupation explained the most between-group variability in risk tolerance. Even so, this model only explained about 22% of an individual's financial risk tolerance, suggesting that other factors might differentiate levels of risk tolerance more effectively, such as attitudinal or psychological factors.

Attitudes to risk change over time as needs alter and people's capacity to afford to lose varies. The evidence indicates fairly clearly that willingness to take financial risk decreases significantly among people who are retired or nearing retirement. In addition, work carried on the measurement of investors' risk appetite (which depends on their attitude to risk) suggests that it fluctuates within a relatively narrow gauge during 'normal' times, but falls sharply during crises.

On the whole, consumers have been found to be risk averse - particularly non savers and those on low incomes. In relation to investments, the majority of people in a recent national study believed that a private investment scheme linked to the stock market was too much of a risk. Similar views were expressed by consumers in qualitative research; given the choice, many people would opt for a low-risk investment fund, despite the likely lower rate of return. In another study, respondents were asked to rate, on scale of 1 to 5, a range of potential features of an investment scheme that they would value. Four in ten (37 per cent) gave a high rating (4 or 5) to the concept of a guaranteed minimum level of investment.

In a recent nationally representative study of the attitudes and likely behavior in response to workplace investment schemes of individuals who would be eligible for the reforms, 44 per cent of respondents were classified as risk averse based on a standard measure of risk preference.

About two in ten (17 per cent) were classified as being very mildly risk averse and 29 per cent were classified as risk loving.

It is studied that most participants were unwilling to take risks with their money, even over the long-term (five years or more). The most common reasons cited for being averse to taking risk included the responsibility of raising a family and taking on large financial commitments such as a mortgage. Consequently, they were mainly interested in being able to choose lower-risk investment funds.

### **Gender differences in attitudes to risk**

Research demonstrates fairly consistently that women are more risk averse than men in their attitudes and behaviors towards investment decisions, including those that relate to investments. A review of psychological studies suggests that this reflects a lower tolerance to risk among women generally, financial or otherwise.

A number of studies have variously controlled for age, education, income, wealth and marital status, and found a gender difference exists independently of the influence of these characteristics. For example, analysis of the Study of Consumer Finances found that the proportions of wealth held in risky asset classes grew more steeply for men with increasing wealth. A small-scale study of university academics also found that the lower levels of stocks in women's investment plans held true regardless of marital status (as well as financial decision-making responsibilities within couples).

Women have been found to be less likely than men to have a defined contribution Consistent with the finding that they tended to hold more conservative asset classes in their overall investment portfolios.

Some studies indicate that marital status and wealth play bigger roles than gender, in some cases supplanting the effects of gender. Analysis of the Study of Consumer Finances found that gender differences in investment fund allocations could only be understood in combination with marital status: other things being equal, single women and married men were less likely than single men

to choose "mostly stocks" (a riskier portfolio) and married women were more likely than single women to choose this. The tendency for women to invest in less risky asset classes than men appeared to be attributable to differences in wealth, as measured by net worth and expectation of an inheritance. A study concluded that, despite evidence of gender differences in risk preferences, lower income was the main contributor to lower projected retirement benefits among women.

Finally, the explanations for gender differences observed in research have been summarized with reference to gender inequalities in wealth and the different gender roles that impact on these inequalities. The author suggest that the explanations can be categorized in terms of outcomes (wealth, income and employment) and that these outcomes are caused by gender discrimination in labor and credit markets, investment advice and information on investment decision making, education, skills and training and responsibility for the care of dependents.

### **FINDINGS**

- ❖ Maximum person likes to buy the goods from their closest shop.
- ❖ Mostly people likes to purchase with low price goods.
- ❖ Almost all people like to purchase the trendy and fashionable goods.
- ❖ Maximum people likes to buy from that shop which offers the fair prices but few people are confused and disagree with the price and quality.
- ❖ People also like the good behavior of the seller but some people are confused about it.

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