

Selection of Investment portfolio for long term

(A study with reference to young retail individual investors in Andhra Pradesh)

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Abstract:

This study aims to investigate young retail individual investors' preferences in selection of long-term investment avenues. Since each and every person is an independent, logical being with limitless needs and wants. It is quite difficult for him to satiate such requirements and desires on his meager wage. As a result, everyone wants to use their money to make plans for the future. These savings will be allocated to other investment opportunities. This study looks at the investment strategy that young retail individual investors choose over the long term. With the help of this study, we can determine the criteria used to select these investment options as well as the elements that draw investors to the most popular options. In this study i have used data from primary source and presented it in descriptive manner. The findings of the study will let us know about the preferences of young retail individual investors in selection of long term investment avenues and the driving factors for selection of those investment avenues.

Key words:

Investment: It is an act of investing money, time or resources into assets in the hope of making a profit or income in the future. Stocks, bonds, property, mutual funds, ETFs are examples of these assets.

Investment avenue: Investment Avenue is any of the several choices or chances that people have to invest their money in order to earn income or profits. It includes broad spectrum of financial products, assets or means by which investors can allocate their money in the hope of accomplishing particular financial objectives.

Retail investors: Retail investors are people who use brokerage houses or online investment platforms to directly invest their own capital in financial assets like stocks, bonds, mutual funds and other securities etc., Compared to institutional investors they usually make smaller investments.

Introduction:

Investment is a tool or an asset used to generate appreciation over a period of time. It is the dedication of money to attain an increased value over a period of time. As a rational individual we came across several kinds of needs and wants in our day-to-day life. In order to satisfy those needs and wants we use several kinds of resources. Among all the resources monetary resources will have a specific importance. As all our needs will change from time to time therefore in order to satisfy those needs, we should be prepared with the required monetary resources. With our limited earnings we might not get all our needs get satisfied. Every rational individual always tries to get more satisfaction with in the limited resources range. Therefore, with the limited monetary resources we should plan accordingly and try to get more needs get satisfied.

Invested money always have an earning capacity over a period of time. Money gets appreciated with the investment tools. But, here the amount of appreciation or reduction will depends upon the investment avenue and it's respective risk and return aspects. Like different people have different needs and wants we have several investment avenues and we have to select the best investment avenue in according to our requirement. In this study I would like to focus on selection of investment portfolio for long run by young retail individual investors.

Long run investment avenues:

Long run investment avenues are investment options which are held for long term usually more than a year. The main purpose of these long run investment avenues is to generate income and financial growth for a long period of time. Following are some of the examples of long run investment avenues:

1. **Bonds:** A bond is a debt investment tool issued by government or corporations. When it is issued by government it is termed as Treasury Bond whereas when it is issued by corporations it is named as Debentures. These Bonds or Debentures generate fixed incomes for the investors in the form of interest. The risk is comparatively low in bond investments.
2. **Shares:** Share are identified as unit of ownership in a corporation. Here, the value of securities is determined by the issuing company. And this value will be fluctuated by the market forces like demand and supply conditions in the market. Investment in shares is considered as a high risky avenue. Because the value of share is based on market forces and it is highly volatile.
3. **Mutual Funds:** Mutual funds are pool of money collected from many investors and these funds will be managed by professional fund managers. Here, the funds will be invested in diversified stocks like equity, debt and money market instruments. The main objective of this investment avenue is to manage the funds with the professional fund managers and secure the funds with diversified investment.
4. **Bullion (Gold and silver):** Investment in gold and silver is termed as bullion. Here, the gold and silver of high purity is often kept in the form of bars, ingots and coins.
5. **Real estate:** It is a kind of investment under which an immovable property is purchased as an investment rather than a primary residence. Its objective is to gain monetary appreciation over a period of time.

6. Exchange traded funds(ETFs): ETF's are pooled investment securities. Under which there are many underlying assets such as equity, bonds, indexes, currencies, commodities etc., These ETF's will trade in stock market just like normal securities. These are pooled funds acquired and it's main objective is to diversify risk.
7. PPF's: Public Provident Funds are one of the secure long term investment and savings scheme. People use it as a tool to build a corpus by putting aside sum of money regularly. Over a long period of time the set amount will be grown along with its stipulated interest. Investors will get tax benefits for their investment in accordance with tax laws.
8. Fixed deposits: Fixed deposit is a risk-free investment tool and generates a fixed rate of interest for the investment or deposit made for a stipulated time period. Here, the interest will varies based on the time period.
9. National pension scheme (NPS): It is a government backed investment avenue. Under which employees will invest their funds and those funds will be invested in bonds, stocks and other government securities. Here, the length of the lock in period will varies on the basis of age of investor. Investor will get tax benefits for their investment.

Review of literature:

- Future is always uncertain and needs and wants will change from time to time. In order to satisfy those needs and wants one has to be prepared with the required resources. Among all the resources monetary resources will have a specific importance. As these are scarce means for an individual. As Robbins L. (1932) define economics as "Economics is a study of the allocation of scarce means, capable of alternative uses, among competing ends for the attainment of a maximum result in the achievement of these ends." (Robbins, 1932)
- Future is always uncertain and in order to protect our investments from future contingencies we have to keep our investments in a diversified manner. The investor has to consider various investment avenues and distribute his savings among these diversified avenues. (s, 2020)
- Extrinsic decision-making types of investors are mainly relying on risk bearing abilities, which involved security towards on their investments. Selection of investment product by the investor through their convenience, which connected to high involvement in dynamic decision making through the rules and regulations of the government. (AS, 2019)
- The benefits of investing in various alternatives and building a well-balanced portfolio that will allow them to maximize profit and minimize risk should be explained to investors. The economy will benefit from this as well. (Swapna, 2016)

Objectives:

- I. To examine different investment avenues for long term.
- II. To study the driving factors in selection of investment avenues for long term by young retail individual investors.

- III.** To identify the most opted investment avenue for long term by young retail individual investors.

Research Methodology:

Research Design: In the present study I used descriptive research method to describe the young retail individual investors preferences in selection of long term investment avenues and the criteria they set to choose those investment avenues.

Descriptive Research Method:

Methodically collecting data to describe a population, situation, or phenomenon is the aim of descriptive study design. More specifically, it entails answering the questions that the research problems ask about what, when, where, and how rather than why.

Scope of the study:

The phrase "scope" in research refers to a study's dimensions and range, including its exact objectives, target audience, variables, and limits. This facilitates focus and provides researchers with a clear understanding of the topic under investigation.

The boundaries of the current study are as follows:

Why: The main purpose of this study is to examine the preferences of young retail individual investors in selection of long-term investment avenues.

What : The variables that are considered for the study are a) Independent variables: Demographic forces (Gender, age group, income and educational qualification), b) Dependent variables: Factors affecting investment decision (Return, Safety, Tax benefits, Protection against inflation, Growth of the stock, Market factors)

Where: For the purpose of data collection, I have confined my study up to the geographical boundaries of Andhra Pradesh.

Who: Young Retail individual investors who are born after 1981 who are usually called as Millennials (people born between 1981-1995) and Gen Z (People born between 1996 -2010).

How: Descriptive study was conducted with the help of well-structured questionnaire to analyse and interpret the data.

Significance:

India is a most populated country and under which major portion of the population is covered with youngsters. These youngsters are playing a crucial role in economic development of the country with their through participation in economic activities in the form of investments and revenue generating activities. By studying their nature in selection of investment avenues we can assess the most opted investment avenues and how they are segregating their savings among different investment avenues. On a long term view we can assess on what dimension these investments are moving and how these investments will influence the economic growth of the country.

Limitations:

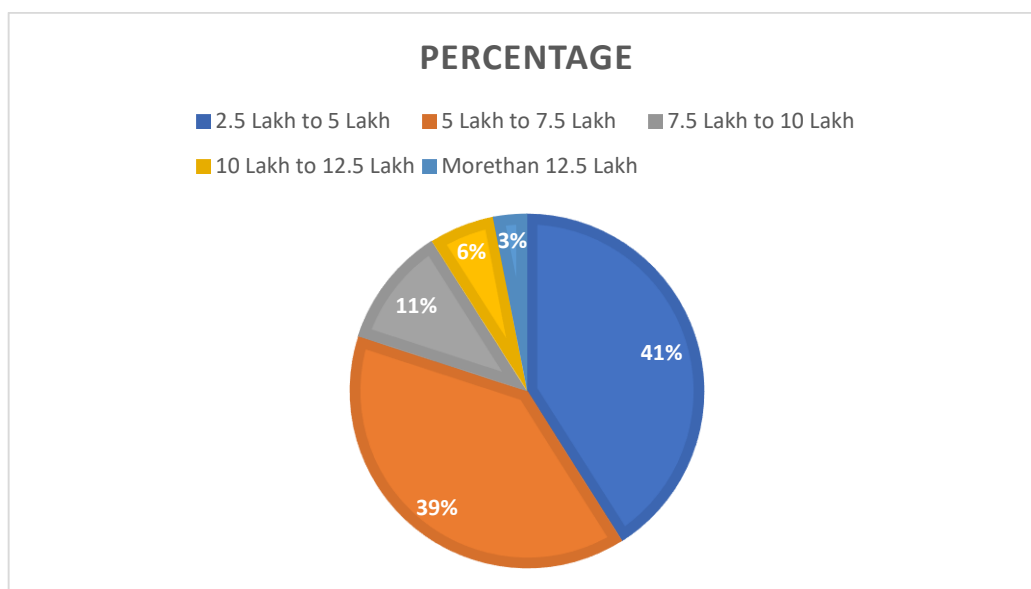
- The scope of this study is only limited to young retail individual investors in Andhra Pradesh.
- Only selection of long-term investment avenues got covered in this study.

Findings:

Demographic findings:

- Out of the total responses collected 62% are male respondents and 38% are female respondents.
- Out of the total responses collected 42% of the respondents are in between the age group of 21-30. And 58% of respondents are in between the age group of 31-44. As I have taken millennial's as my population therefore, the maximum age is 44. (Millennials are People who born in between 1981 and 1996)
- It is observed from the responses that 41% of respondents are drawing annual income in between INR 2.5 lakh to INR 5 lakh. 39% of respondents are drawing annual income in between INR 5 lakh to INR 7.5 lakh. 11% of the respondents are drawing annual income in between INR 7.5 lakh to INR 10 lakh. 6% of the respondents are drawing annual income in between INR 10 lakh to INR 12.5 lakh. 3% of the respondents are drawing annual income more than INR 12.5.

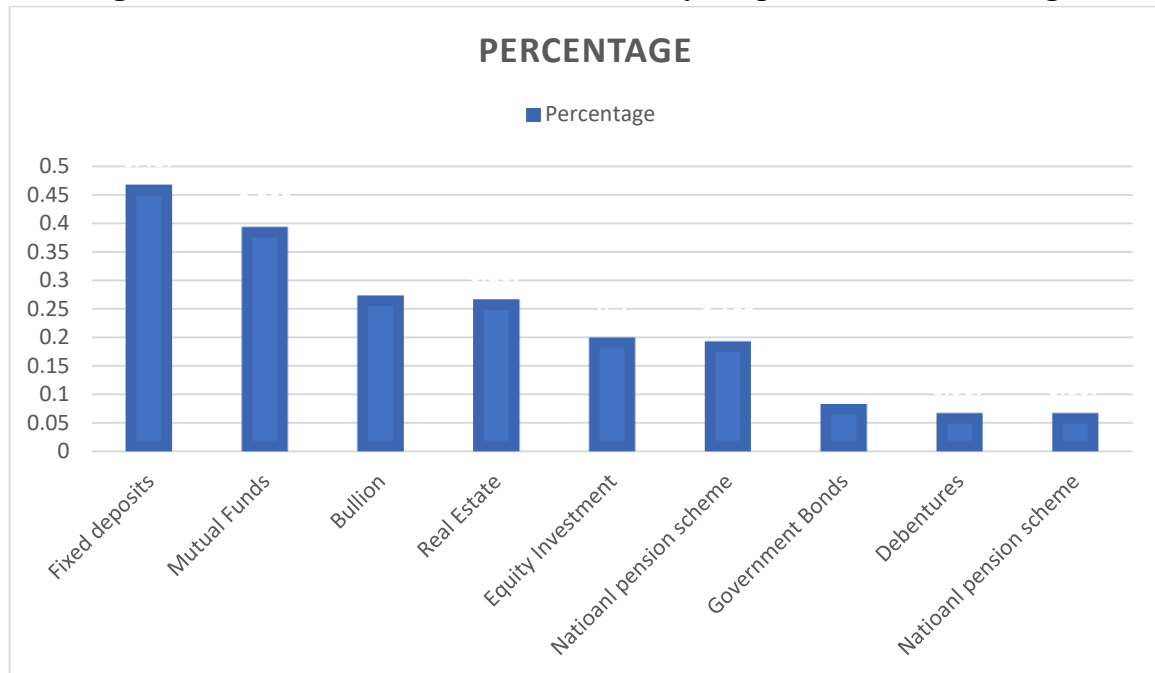
Figure 1: Annual Incomes of Respondents



- It is observed from the responses that 73.3% of the respondents are post graduates, 23.7% of the respondents are graduates, 3% of the respondents are doing their Ph.D.

Perception of investors:

- Nearly 52% of the respondents are aware of regulatory and legal framework in existence for protection of the investors in India. Rest of the 48% of the respondents are not aware of regulatory and legal framework for protection of investors.
- The most opted long term investment avenue by young retail individual investors is fixed deposits by 46.7% followed by mutual funds by 39.33% and Bullion by 27.33% each, other investment avenues secured following share in descending order. Real estate by 26.7%, equity investments by 20%, national pension scheme by 19.3%, Government bonds by 8.3%, Debentures 6.7%, public provident funds by 5.7%.

Figure 2: Selection of Investment Avenues By Respondents in Percentages

- After reviewing the comments, we discovered that the following, in decreasing order, are the most important deciding elements for choosing long-term investment avenues: Safety, return, tax advantages, Protection against inflation, stock growth, and market considerations. (Order of priority: 1–6)

Suggestions:

- Nearly 48% of the respondents are not aware of the regulatory and legal framework for the protection of investors in India. If they were aware of these regulatory and legal frameworks, they can address and ask for grievances in a better manner. Which will help them to invest their funds in a more secured and trust worthy environment.
- From the above analysis we came to know that the respondents are giving least priority to stock growth and market considerations. But, in reality these factors play a crucial role in deciding the selection of investment avenues. In order to understand the impact of stock growth and market considerations Investors need to understand the basic concepts of fundamental analysis.

Conclusion:

The main objective of conducting this study is to understand the young retail individual investors preferences in selection of long run investment avenues. After conducting the study we came to know that the most opted investment avenues are fixed deposits, mutual funds and bullion because of their risk and return proportions. The key factors that are influencing the decision of young retail individual investors are safety, return and tax advantages. And this study also suggested them to focus on factors like stock growth and market considerations before deciding the investment avenues.

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