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A Study on Middle Class Investor Behaviors Towards Capital Market with Refence to Maharashtra State

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Abstract

The authors carried out a study on A Study on Middle Class Investor Behaviors Towards Capital Market with Refence to Maharashtra State surveying the Middle-Class investors in the context of capital market investment. The aim of the study concentrated on saving aspects of middle class as the role of saving is one of the key factors in economic growth of the country. Saving is a strategic variable in the theory of economic development. Saving at the national level refers to the removal of funds that might otherwise support economic investment. Classical economists such as Adam Smith, Ricardo, and Mill have stressed the importance of saving as a driver of economic progress. For an individual, accumulating greater wealth allows him to protect against future contingencies, providing him with a cushion of security. Therefore, the authors carried out this study.

Keywords: Middle Class investors, Maharashtra state, saving, investment,

Introduction

Investment culture is required, and financial planning is difficult for most people in the country because resources are finite and needs are unending. Financial security, like most challenges, requires comprehending concepts, organizing information, and devising an effective procedure. As a result, financial planning, investment, and savings should be a set of measures that allow us to easily achieve our financial goals in the future. The cultural background combines mass savings and investment. It is natural for humans to spend their money. Nonetheless, the need to preserve or safeguard future demands compels humans to save for the future, and this culture of saving and allocating savings to productive investments is influenced by the quantity and level of financial planning undertaken. Investment culture implies that individuals/institutions have varied attitudes, views, and readiness to direct their savings into various financial instruments/security. A study of the savings and investment patterns of their perceptions and preferences so takes on a broader significance in the design of policies for the development and regulation of the securities market in general and the protection

The Indian capital market has achieved significant progress since independence, which has been noteworthy. The structure and functioning of the Indian securities market have undergone substantial changes, particularly after the implementation of the Industrial Policy in 1992. The Indian capital market expanded rapidly. Since the middle and late 1970s, growth has been steadily increasing, however it should be highlighted that this increase was not due to major transactions. The fundamental reason was a partial or complete absence by investors due to a lack of understanding among the general people. This was combined with a weak investor climate, lack of confidence among current investors due to inefficiencies, and insufficient institutional infrastructure.

It is critical for the government to understand that investment in a country is largely determined by the amount of capital mobilized, but also by the feelings and degree of understanding among investors. Understanding the investor's perception of their perception, preferences, and current and future concerns regarding the capital market.

Investing in corporate securities is now regarded one of the most widely accepted ways to manage savings. A considerable portion of the country's savings make their way to the stock markets. Investment in corporate securities generates income in the form of dividends and interest, as well as capital appreciation. A prudent investment in stocks also provides liquidity. Investing, however, is risky, but sensible and prudent investment selections can moderate it. In India, the current bleak corporate environment and extremely unpredictable capital markets have elevated risk management to the forefront of investment decisions. The more acute and astute investors can make the appropriate investment decisions to reap additional benefits. This chapter attempts to explore the criteria for investment decisions made by Indian investors.

Need for the study

Traditional finance theory assumes that investors make all decisions using an objective lens of risk and return. It also presupposes that humans are guided by reason, logic, and autonomous judgment. However, the area of behavioral finance acknowledges and demonstrates that emotions and herd instincts play an important role in influencing decisions. Individual investors, unlike institutional investors, are more likely to engage in such psychological behavior when making investments. When these psychological biases combine with low levels of financial knowledge, they can cause chaos in the investment game. As a result, traditional economic theory's claim about stock market efficiency is frequently shown incorrect.

In this context, an investor must be aware of his or her own psychological biases and how to overcome them while investing. Investor behavior is characterized by excessive eagerness and reactivity. Herd instincts, overconfidence, and anchoring are examples of proven psychological preferences. A herd instinct refers to an investor's tendency to follow the crowd rather than make individual conclusions. It is a mentality defined by a lack of individuality, leading people to think and act like the overall population. The herd impulse explains why people copy others. When a market moves up or down, investors are fearful that others know more or have more knowledge.

As a result, investors have a strong desire to do what others are doing. Anchoring is the tendency to cling on to a belief even when it is not supported by evidence. Overconfidence is defined as relying too heavily on their own experience and overestimating their forecast. Identification of all such biases in an investor is beneficial for sound investing. Aside from psychological concerns, demographic factors can also influence financial decisions. The rise in the market capitalization of India's two largest stock exchanges, the Bombay Stock Exchange and the National Stock Exchange, demonstrates the capital market's expansion. At the international level, these stock exchanges are also among the top in terms of market value and quantity of securities traded. The previous decade has seen a tremendous surge in the influx of capital from foreign institutional investors. When the stock market grows, every individual investor should benefit from its growth and profits. However, data from numerous agencies plainly suggest that individual investors, particularly retail investors, are avoiding the capital market. As a result, there is a need to investigate investor behaviour towards the capital market in Maharashtra

Statement of the Problem

Investors are the backbone of the capital market. A developing economy, such as India, requires an increasing amount of savings to flow into business enterprises. In recent years, retail investors' engagement in the equity market has increased significantly. Investment refers to the flow of capital employed for productive purposes. There is a strong emphasis on investment as the primary driver of economic growth and development in a country. There are several financial products accessible nowadays. Some are marketable and liquid, whereas others are unmarketable and illiquid. Some instruments are exceedingly dangerous, while others are nearly risk-free. The investors select routes based on their unique needs, risk tolerance, and financial investment. The purchase of a physical asset, such as a building or equipment, is a commercial investment. Economic investments help to increase a society's net capital stock. Financial investments, on the other hand, include investments in financial instruments such as stocks, bonds, insurance policies, mutual fund units, and so on. Financial investments contribute to the creation of the country's capital stock. Long-term investment is critical for increasing productivity and economic competitiveness. This study attempts to analyze the Investor Behaviour toward the Capital Market in Maharashtra.

Scope of the Study

The current study on Investor Behaviour towards Capital Market in Maharashtra seeks to determine its impact on factors such as Savings Objectives, Investment Preferences and Strategies, Financial Decision Making Process, Financial Adviser, Mutual Fund Selection, Qualities in a Scheme, Investors Perception about Capital Market, Level of Investor Awareness, and also compares Investor Behaviour to one another. The current study's scope is limited to investor behaviour in the Maharashtra capital market.

Objectives of the Study

The restricted aims of the current investigation are:

1.Analyze the factors influencing various aspects of investor behavior.
2.Examine how respondents' demographics affect their level of investor awareness.
3. Examine opinions on various aspects of investor behavior towards the capital market.

Hypotheses

Ho - There is no significant variation in respondents' demographic profiles with regard to the Financial Decision Making Process.

Ho - There is no significant difference in respondents' demographic profiles with respect to Financial Adviser.

Ho - There is no substantial difference between the respondents' demographic characteristics in terms of mutual fund selection.

Ho - There is no substantial difference in respondents' demographic profiles in terms of investor awareness.

Research Methodology

Research technique is a scientific and methodical approach to issue solving in research. The research methodology is concerned with research methods and takes into account the reasoning behind the procedures. In all, the study's research methodology includes research design, a sampling framework, data collecting, an analytical framework, and constraints.

Research Design of the Study

The conceptual framework for doing research is known as the research design. It provides a framework for data gathering, management, and analysis. The current study's research design is descriptive in nature, as it describes the phenomenon of investor behavior in Maharashtra’s capital market. Aside from that, the current study includes certain aims and a predetermined approach. It is just descriptive in nature.

Profile of the study area

Maharashtra (ISO: Mahārāṣṭra; Marathi: is a state in the western peninsular area of India. It occupies a significant chunk of the Deccan Plateau. It is bounded by the Arabian Sea to the west, the Indian states of Karnataka and Goa to the south, Telangana to the southeast and Chhattisgarh to the east, Gujarat and Madhya Pradesh to the north, and the Indian union territories of Dadra and Nagar Haveli and Daman and Diu to the northwest. Maharashtra is the second most populated state in India.

The state is organized into six divisions and 36 districts, with Mumbai, India's most populated city, as the state capital and Nagpur as the winter capital.The Godavari and Krishna rivers are the two largest rivers in the state, and forests cover 16.47 percent of its land area. The state is home to six UNESCO World Heritage Sites: Ajanta Caves, Ellora Caves, Elephanta Caves, Chhatrapati Shivaji Terminus (formerly Victoria Terminus), The Victorian Gothic and Art Deco Ensembles of Mumbai, and The Western Ghats, a heritage site comprised of 39 individual properties, four of which are in Maharashtra. The state is the single largest contributor to India's economy, accounting for 14% of total nominal GDP.Maharashtra's economy is the largest in India, with a GSDP of ₹42.5 trillion (US$510 billion) and GSDP per capita of ₹335,247 (US$4,000).[8] The service sector dominates the state's economy, accounting for 69.3 percent of total national output. Agriculture employs roughly half of the state's inhabitants but accounting for only 12% of its GDP.

Sampling Framework for the Study

The study's sampling framework includes the determination of the sample size as well as the sampling technique. The assessment of sample size is critical since excessively large samples can waste time, resources, and money. Samples that are too tiny may produce erroneous results. According to (Saunders et al., 2000), researchers often operate with a 95% degree of assurance. This means that if 100 samples are drawn, at least 95 of them will accurately reflect the population's features. The margin of error describes the precision with which the population is estimated. In most business and management studies, a researcher evaluates the population's characteristics by adding 3 to 5 percent of its true values

The researcher has applied the following formula to determine the sample size.

$$\text{Sample size } n = (ZS/E)^2$$

where

Z = Standardized value corresponding to a confidence level of 95% = 1.96 S = Sample SD from Pilot study of 100 samples

E = Acceptable Error =5% = 0.05

$n = (1.96*.6091/0.05)^2$

Sample size = 570.09

In this study, the researcher took 570 samples from the population[1]

The current study is totally based on primary data. The primary data was acquired individually using a standardized questionnaire. Secondary data obtained from books, journals, magazines, and websites were used to develop the study's theoretical framework and conduct a literature review.

Study Construct Development

The current study is entirely based on primary data acquired from the sampled respondents regarding the capital market in Maharashtra. The questionnaire was carefully developed. The questionnaire was broken into eight parts. The first portion of the questionnaire comprises the respondents' demographic information. They include gender, age, marital status, educational qualification, occupation, experience, monthly income, monthly savings, family type, family size, house location, and number of properties owned. The second section of the questionnaire includes twenty-five factors related to savings objectives, investment preferences, and strategies. The variables are measured using a five-point Likert scale. The third portion of the questionnaire comprises six variables related to the financial decision-making process. The factors are measured using a five-point Likert scale (SA = Strongly Agree, A = Agree, N = Neutral, DA = Disagree, and SDA = Strongly Disagree).

The fourth section of the questionnaire contains seven variables about financial advisers. The fifth component of the questionnaire contains five variables for mutual fund selection. The sixth section of the questionnaire has sixteen variables of attributes organized in a scheme. The seventh portion of the questionnaire contains sixteen factors about investors' perceptions of the capital market. The questionnaire's eighth and final section contains twelve factors measuring Level of Investor Awareness. The relevant factors for the aforementioned ideas were derived from a review of prior studies. A pilot research was done in Maharashtra on the behaviour of 100 investors in the capital market. Certain alterations, additions, removals, and simplifications were made in response to pretest input. A draft questionnaire was created to collect data on investor behavior towards the capital market in Maharashtra.

Framework of Analysis.

Data analysis is critical in research since it interprets, justifies, and proves hypotheses and suggestions. The careful selection of analytical methods influences the research outcomes, making it highly objective and scientific. In this context, the tools for analysis have been correctly chosen as Descriptive Analysis, t - Test, Analysis of Variance (ANOVA), One Sample t Test, and Chi Squared Test.

Findings and Discussion

"Books" is the top-ranked Financial Decision Making Process factor with a mean value of 3.83, "Family and Friends" is the second-ranked Financial Decision Making Process factor with a mean value of 3.23, "Investment websites" is the third-ranked Financial Decision Making Process factor with a mean value of 3.10, "Business News Channels like CNBC, NDTV Profit" is the fourth-ranked Financial Decision Making Process factor with a mean value of 2.97, and "Professional Advisers"

"Boo Maximizing Return" is the top ranked Financial Adviser factor with a mean value of 3.87, "Handling Problems" is the second ranked Financial Adviser factor with a mean value of 3.83, "Brand name of the adviser" is the third ranked Financial Adviser factor with a mean value of 3.80, "Protecting Capital" is the fourth ranked Financial Adviser factor with a mean value of 3.67, "Trust and Confidentiality" is the fifth ranked Financial Adviser factor with a mean value of 3.63, “Fee structure”, is the sixth ranked Financial Adviser factor with a mean value of 3.43 and “Experience” is the seventh ranked factor with a mean value 3.30.

“Index Schemes” is the top ranked Selection of Mutual Funds factor with a mean value of 4.00, “Balanced Schemes” is the second ranked Selection of Mutual Funds factor with a mean value of 3.53, “Tax Saving Schemes” is the third ranked Selection of Mutual Funds factor with a mean value of 3.43, “Growth Schemes” isthe fourth ranked Selection of Mutual Funds factor with a mean value of 3.23 and “Income Schemes” is the fifthranked Selection of Mutual Funds factor with a mean value of 3.00.

“Liquidity” is the top ranked Qualities in a Scheme factor with a mean value of 4.20, “Diversification” is the second Qualities in a Scheme factor with a mean value of 4.03, “Flexibility” is the third ranked Qualities in a Scheme factor with a mean value of 3.90, “Professional Management” is the fourth ranked Qualities in a Scheme factor with a mean value of 3.87, “Good Return” is the fifth ranked Qualities in a Scheme factor with a mean value of 3.80, “Fund Reputation or Brand name”, is the sixth ranked Qualities in a Scheme factor with a mean value of 3.80, “Sponsors reputation”, is the seventh ranked Qualities in a Scheme factor with a mean value of 3.73, “Capital Appreciation”, is the eighth ranked Qualities in a Scheme factor with a mean value of 3.73 “Disclosure of NAV”, is the ninth ranked Qualities in a Scheme factor with a mean value of 3.73, “Scheme Portfolio”, is the tenth ranked Qualities in a Scheme factor with a mean value of 3.70, “Safety”, is the eleventh ranked Qualities in a Scheme factor with a mean value of 3.63, “Tax Benefits”, is the twelfth ranked Qualities ina Scheme factor with a mean value of 3.60 “Fund Performance”, is the thirteenth ranked O Qualities in a Schemefactor with a mean value of 3.57 “Fringe benefits like credit card etc”, is the fourteenth ranked Qualities in a Scheme factor with a mean value of 3.57, “Rating given”, is the fifteenth ranked Qualities in a Scheme factor with a mean value of 3.40 and “Investor services”, is the sixteenth ranked Qualities in a Scheme factor with a mean value of 2.67.

When it comes to maximizing return, protecting capital, experience, and the adviser's brand, there are notable differences between men and women. Regarding the aspects of handling issues, fee structure, and trust and confidentiality, there are no appreciable differences between men and women. When it comes to the dimensions of growth schemes, balanced schemes, tax-saving schemes, and income schemes, there are notable differences between males and females. In terms of Index Scheme dimensions, there is no discernible variation between males and females. When it comes to the areas of financial decision-making, financial advice, mutual fund selection, investors' perceptions of the capital market, investor awareness levels, and scheme characteristics, there are notable differences between males and females. Regarding the dimensions of savings objectives, investment preferences, and strategies, there is no discernible difference between males and females. When it comes to the business news channels such as CNBC, NDTV Profit, investment websites, professional advisers, family and friends, magazines, newspapers, and books, there is a noticeable difference between married and single people.

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