

An Empirical Research on the Investment Behavior of Rural and Urban Investors Towards
Various Investment Avenues: A Case Study of Moradabad Region

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ABSTRACT

Research in behavioural finance is relatively new. Within behavioural finance it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. There are lots of investment alternatives where investor can invest such as Gold, silver, real estate, bank deposits, PPF, shares, derivatives, etc. For studying the savings and investment patterns of an individual it is very important for the researchers to figure out the settlement area of the individual because the area where he resides determines the social and economic surroundings. Urban settlement is characterised by better opportunities for employment with potential in growth of income, enhanced saving capacities, better access to quality and higher education and more access to information which exposes the individuals to better investments options while rural settlement is characterised by limited employment opportunities with limited chances in growth of income thereby decreasing saving potential not only this comparatively lower level of education and limited access to information restrict their approach to selective investment alternati

present paper tries to find out the investment pattern of rural and urban investors regarding various investment alternatives. The paper tries to study the attitude of rural and urban investors towards different investment avenues. The researchers have selected 50 rural investors and 50 urban investors from Moradabad region. The study uses ANOVA and mean scores to test the hypothesis. The paper concludes that investors whether belonging to rural areas or urban areas should look in all avenues while investing their funds. Some investments are risky and some are not, so as per the age of investors they should decide about risky or less risky investments.

Key words: *Financial Planning, Financial Products, Investment, Risk*

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INTRODUCTION

The advent and evolution of behavioural finance has brought with it a revolution in the finance industry. Investors do not act rationally in taking decisions relating to investment. They have certain weaknesses like cognitive and emotional which take a predominating role in taking investment decision of individuals. They have behavioural biases in the event of taking investment decision. They simply react to the information available with them and accordingly react to the environment. Investment decisions also depends on the types of investors, risk tolerance capacity, education, occupation, age, sex, income, marital status, family back ground, living area and environment and attachment with the financial advisor etc. Despite all the resources and infrastructure, investors adopt some avenues after analyzing different factors which are influenced by internal and external environments.

The various interdisciplinary fields which have contributed or have been the foundation pillars in the development of behavioural finance are:

- **Finance:** Finance is the discipline which is concerned with the acquisition, allocation and management of financial resources.
- **Psychology:** Psychology is the discipline which studies the behaviour and the mental process of the subject under study and how these processes are affected by individuals' mental, physical state and external environment.
- **Sociology:** Sociology is the discipline which studies the human social behavior and groups. The field focuses on how the individuals' social relationships affect its attitudes and behavior.

Various investment alternatives

There are lots of investment alternatives available to investors depending upon their criteria. The important ones are mentioned herein below:

- Gold/Silver
- Shares
- Bonds/Debentures
- Derivatives
- Mutual Funds
- Bank fixed deposits

- Post Office Savings (MIS, NSC)
- Insurance
- Public Provident Fund
- Real Estate

Rural or Urban Settlement and Investor behaviour

The settlement (.i.e. area of living) of an individual can be categorised into rural or urban. For studying the savings and investment patterns of an individual it is very important for the researchers to figure out the settlement area of the individual because the area where he resides

determines the social and economic surroundings. Urban settlement is characterised by better opportunities for employment with potential in growth of income, enhanced saving capacities, better access to quality and higher education and more access to information which exposes the individuals to better investments options while rural settlement is characterised by limited employment opportunities with limited chances in growth of income thereby decreasing saving potential not only this comparatively lower level of education and limited access to information restrict their approach to selective investment alternatives. Not only this, the differences in cultural, regional and religious disparities in urban and rural settlements are quite evident and these disparities magnifies itself when area of study is in developed and underdeveloped countries. Amu (2008) in his investment behaviour of rural families in the Ho Municipality of Ghana found that the savings and investment among rural families in the municipality were low and rural households in the Municipality preferred informal forms of savings to the formal forms of savings. Kumar & Mukhopadhyay (2013) in their study found that populations shared a similar practice of diversifying portfolios of savings, borrowing and insurance products. At the same time, the research found evidence of diverse financial needs of the rural and urban poor.

REVIEW OF THE LITERATURE

Bajtelsmit and Bernasek summarize the literature that explored risk taking differences between men and women, attempting to reach a consensus on why women invest differently. They find that the literature supports the argument, both through experiments and field data, that women make more conservative decisions than men and that they make more conservative decisions with respect to investments (Bajtelsmit & Bernasek, 1996). Hinz, McCarthy and Turner find that the female effect persists after demographic controls showing that men are more likely to invest in risky assets (Hinz, McCarthy, & Turner, 1997). Not only is the level of human capital important for investment decisions, but also the correlation. Fortunately, company stock is not an option for FRS participants, so correlation issues between the expected returns and expected

income should be minimal. The difference in investment preference across genders has received much attention. The responsibility for the difference has been placed on both men and women by the research. Most of the research reports that women invest more conservatively than men (Bajtelsmit & VanDerhei, 1997; Croson & Gneezy, 2009). But the reasons for the differences are more diverse. The potential for overconfidence in the valuation of securities may push men to choose riskier strategies or make them more likely to rebalance away from default investments. On the other side of the gender argument, Croson and Gneezy summarize the research covering gender differences in investments and argue that it is women's level of risk aversion that pushes them to choose the less risky portfolios (Croson & Gneezy, 2009). Volpe et al. (1996) assessed the knowledge of personal investment among 454 college students and the relationship between investment literacy level and gender, academic discipline and experience. They used exam type questionnaire that covered variety of personal investment topics including risk, diversification, financial advisor, tax planning, stock market valuation, business mathematics, bond and mutual fund performance, global investing and interest rate. The results indicated that in general college students were illiterate about personal investment specifically in the topics about global investing, stock market valuation, impact of interest rate changes and tax planning. The results demonstrated that female students were significantly less knowledgeable about personal investing than male students specifically in the areas of stock valuation, mutual fund performance, business mathematics and global investing. Control is the key factor of investor behavior. Many behavior researchers found the relationship between individual investor behavior and control. Individual investors that trade quickly and watch their investment carefully they have high level control about their investment decision. Investor involvement and control increase the confidence and choice of investor behavior (Langer and Roth, 1975). Rayan and Zaichkowsky (2010) found that there is a significant relationship between investor behavior and their investment control. Grable and Lytton (1999) examine whether demographic factors would be good predictors of financial tolerance based on a university survey from 1997 that includes both faculty and staff. Grable and Lytton highlight the role of financial education in determining risk taking, with the more financially educated participants more likely to take risk (Grable &

Lytton, 1999).

OBJECTIVE OF THE STUDY

The present paper aims at the following objectives:

- To know the investment pattern of rural and urban investors in different investment alternatives.
- To study the attitude of rural and urban investors towards different investment avenues

RESEARCH METHODOLOGY

Research Type	: Empirical
Type of Sampling	: Convenience Sampling
Sampling Unit	: Individual persons
Sampling Universe	: Region Moradabad, Uttar Pradesh
Sample size	: 100 (rural respondents 50 and urban respondents 50)
Data Type	: Primary as well as Secondary Data
Data Source	: Survey through questionnaire
Tools	: ANOVA and mean scores have been taken for the data taken on a five point likert scale.
Scope of the study	: The scope of study is related to persons in different areas, occupations and having different levels of income in region Moradabad (Uttar Pradesh). The scope of the research shall be in reliance with the methods and instruments of research used in this study. Special attention has been given to carry out the research in a manner such that it contributes to the overall study of use of behavioural finance. Opinion of various experts in Moradabad city of Uttar Pradesh has been taken about the trend towards investment. Their views have been incorporated in this paper. The

paper also takes the references of various articles written by various experts on behavioural finance.

HYPOTHESIS

Researchers have framed ten hypothesis. The details are mentioned herein below:

Hypothesis 1

H_{1o}: There is no significant difference between the investment pattern in Gold/silver among rural and urban investors.

H_{1a}: There is a significant difference between the investment pattern in Gold/silver among rural and urban investors.

Hypothesis 2

H_{2o}: There is no significant difference between the investment pattern in Shares among rural and urban investors.

H_{2a}: There is a significant difference between the investment pattern in Shares among rural and urban investors.

Hypothesis 3

H_{3o}: There is no significant difference between the investment pattern in Bonds among rural and urban investors.

H_{3a}: There is a significant difference between the investment pattern in Bonds among rural and urban investors.

Hypothesis 4

H_{4o}: There is no significant difference between the investment pattern in Derivatives among rural and urban investors.

H_{4a}: There is a significant difference between the investment pattern in Derivatives among rural and urban investors.

Hypothesis 5

H_{5o}: There is no significant difference between the investment pattern in Mutual Funds among rural and urban investors.

H_{5a}: There is a significant difference between the investment pattern in Mutual Funds among rural and urban investors.

Hypothesis 6

H_{6o}: There is no significant difference between the investment pattern in Bank Fixed Deposits among rural and urban investors.

H_{6a}: There is a significant difference between the investment pattern in Bank Fixed Deposits among rural and urban investors.

Hypothesis 7

H_{7o}: There is no significant difference between the investment pattern in Post Office Savings Schemes among rural and urban investors.

H_{7a}: There is a significant difference between the investment pattern in Post Office Savings Schemes among rural and urban investors.

Hypothesis 8

H_{8o}: There is no significant difference between the investment pattern in Life Insurance Schemes among rural and urban investors.

H_{8a}: There is a significant difference between the investment pattern in Life Insurance Schemes among rural and urban investors.

Hypothesis 9

H_{9o}: There is no significant difference between the investment pattern in Public Provident Fund among rural and urban investors.

H_{9a}: There is a significant difference between the investment pattern in Public Provident Fund among rural and urban investors.

Hypothesis 10

H_{10o}: There is no significant difference between the investment pattern in Real Estate among rural and urban investors.

H_{10a}: There is a significant difference between the investment pattern in Real Estate among rural and urban investors.

ANALYSIS AND INTERPRETATION

(A) GENERAL DETAILS

Questions were asked from the respondents about their perceptions regarding various variables relating to investment. We get the following data:

Table 1: General details of rural and urban respondents making investments in different alternatives

S. No.	Variables	Responses	Rural	Urban	Total
1	Respondents		50	50	100

2	Age in years	18 – 25	6	7	13
		26 – 35	14	12	26
		36 – 50	14	18	32
		51 – 60	11	8	19
		Above 60	5	5	10
3	Marital Status	Married	36	30	66
		Unmarried	14	20	34
4	Occupation	Business	19	13	32
		Service	5	20	25
		Professional	2	10	12
		Farmer	20	1	21
		Others	4	6	10
5	Gender	Male	33	27	60
		Female	17	23	40
6	Income Level	< 100000	12	7	19
		100000-300000	14	8	22
		300000-500000	20	21	41
		500000-1000000	3	11	14
		> 1000000	1	3	4

7	Investments Made	< 25000	9	7	16
		25000-50000	9	13	22
		50000-75000	2	6	8
		75000-100000	1	6	7
		100000-200000	27	17	44
		> 200000	2	1	3

Source: Survey

(B) TESTING OF HYPOTHESIS

Table 3: Average descriptive score of rural and urban investors

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean	
						Lower Bound	Upper Bound
Gold/Silver	Rural	50	25.50	15.826	2.238	21.00	30.00
	Urban	50	20.38	12.787	1.808	16.75	24.01
	Total	100	22.94	14.543	1.454	20.05	25.83
Shares	Rural	50	6.26	6.975	.986	4.28	8.24
	Urban	50	10.76	5.909	.836	9.08	12.44
	Total	100	8.51	6.817	.682	7.16	9.86

Bonds	Rural	50	2.32	3.899	.551	1.21	3.43
	Urban	50	7.04	6.679	.945	5.14	8.94
	Total	100	4.68	5.935	.594	3.50	5.86
Derivatives	Rural	50	3.12	5.033	.712	1.69	4.55
	Urban	50	8.62	6.928	.980	6.65	10.59
	Total	100	5.87	6.628	.663	4.55	7.19
Mutual Funds	Rural	50	3.24	4.396	.622	1.99	4.49
	Urban	50	5.86	6.240	.882	4.09	7.63
	Total	100	4.55	5.529	.553	3.45	5.65
Bank Fixed Deposits	Rural	50	19.84	12.397	1.753	16.32	23.36
	Urban	50	15.46	11.149	1.577	12.29	18.63
	Total	100	17.65	11.934	1.193	15.28	20.02
Post Office savings schemes	Rural	50	18.34	11.028	1.560	15.21	21.47
	Urban	50	9.04	6.509	.920	7.19	10.89
	Total	100	13.69	10.149	1.015	11.68	15.70
Life Insurance	Rural	50	5.80	5.834	.825	4.14	7.46
	Urban	50	6.50	5.997	.848	4.80	8.20
	Total	100	6.15	5.897	.590	4.98	7.32
PPF	Rural	50	2.30	4.970	.703	.89	3.71
	Urban	50	5.12	5.670	.802	3.51	6.73
	Total	100	3.71	5.491	.549	2.62	4.80
Real estate	Rural	50	13.28	14.652	2.072	9.12	17.44
	Urban	50	11.22	11.185	1.582	8.04	14.40
	Total	100	12.25	13.010	1.301	9.67	14.83

Source: Calculations

Table 4: Analysis of Variance

		Sum of Squares	df	Mean Square	F	Sig.
Gold/Silver	Between Groups	655.360	1	655.360	3.166	.078

	Within Groups	20284.280	98	206.982		
	Total	20939.640	99			
Shares	Between Groups	506.250	1	506.250	12.116	.001
	Within Groups	4094.740	98	41.783		
	Total	4600.990	99			
Bonds	Between Groups	556.960	1	556.960	18.624	.000
	Within Groups	2930.800	98	29.906		
	Total	3487.760	99			
Derivatives	Between Groups	756.250	1	756.250	20.627	.000
	Within Groups	3593.060	98	36.664		
	Total	4349.310	99			
Mutual Funds	Between Groups	171.610	1	171.610	5.890	.017
	Within Groups	2855.140	98	29.134		
	Total	3026.750	99			
Bank Fixed Deposits	Between Groups	479.610	1	479.610	3.451	.066
	Within Groups	13621.140	98	138.991		
	Total	14100.750	99			
Post Office savings schemes	Between Groups	2162.250	1	2162.250	26.372	.000
	Within Groups	8035.140	98	81.991		
	Total	10197.390	99			
Life Insurance	Between Groups	12.250	1	12.250	.350	.556
	Within Groups	3430.500	98	35.005		
	Total	3442.750	99			
PPF	Between Groups	198.810	1	198.810	6.994	.010
	Within Groups	2785.780	98	28.426		
	Total	2984.590	99			
Real estate	Between Groups	106.090	1	106.090	.624	.431
	Within Groups	16650.660	98	169.905		
	Total	16756.750	99			

Source: Calculations

The researchers have used ANOVA and mean scores to test the above stated hypothesis.

Hypothesis 1

On average, rural respondents have almost similar investment pattern in Gold/Silver ($M = 25.50$,

$SE = 2.238$) as urban respondents ($M = 20.38$, $SE = 1.808$), $F = 3.166$, $p > .05$ Null Hypothesis is accepted and alternate hypothesis is rejected. We can conclude that there is no significant difference between the investment pattern in Gold/silver among rural and urban investors. Both types of respondents have gold/silver in their portfolio.

Hypothesis 2

On average, rural respondents gave lesser importance to investment in shares ($M = 6.26$, $SE = 9.86$) as compared to urban respondents ($M = 10.76$, $SE = 0.836$), $F = 12.116$, $p < .05$ Null Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in shares among rural and urban investors.

Hypothesis 3

On average, rural respondents gave lesser importance to investment in bonds ($M = 2.32$, $SE = 0.551$) as compared to urban respondents ($M = 7.04$, $SE = 0.945$), $F = 18.624$, $p < .05$ Null Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in bonds among rural and urban investors.

Hypothesis 4

On average, rural respondents gave lesser importance to investment in derivatives ($M = 3.12$, SE

$= 0.712$) as compared to urban respondents ($M = 8.62$, $SE = 0.980$), $F = 20.627$, $p < .05$ Null

Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in derivatives among rural and urban investors.

Hypothesis 5

On average, rural respondents gave lesser importance to investment in mutual funds ($M = 3.24$,

$SE = 0.622$) as compared to urban respondents ($M = 5.86$, $SE = 0.882$), $F = 5.89$, $p < .05$ Null Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in mutual funds among rural and urban investors.

Hypothesis 6

On average, rural respondents have almost similar investment pattern in Bank deposits ($M = 19.84$, $SE = 1.753$) as urban respondents ($M = 15.46$, $SE = 1.577$), $F = 3.451$, $p > .05$ Null Hypothesis is accepted and alternate hypothesis is rejected. We can conclude that there is no significant difference between the investment pattern in Bank deposits among rural and urban investors. Both types of respondents have bank deposits in their portfolio.

Hypothesis 7

On average, rural respondents gave more importance to investment in post office savings schemes ($M = 18.34$, $SE = 1.56$) as compared to urban respondents ($M = 9.04$, $SE = 0.920$), $F = 26.372$, $p < .05$ Null Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in post office savings schemes among rural and urban investors.

Hypothesis 8

On average, rural respondents have almost similar investment pattern in Life insurance ($M = 5.80$, $SE = 0.825$) as urban respondents ($M = 6.50$, $SE = 0.848$), $F = 0.350$, $p > .05$ Null Hypothesis is accepted and alternate hypothesis is rejected. We can conclude that there is no significant difference between the investment pattern in Life insurance among rural and urban investors. Both types of respondents are aware about the importance of life insurance.

Hypothesis 9

On average, rural respondents gave lesser importance to investment in PPF ($M = 2.30$, $SE = 0.703$) as compared to urban respondents ($M = 5.12$, $SE = 0.802$), $F = 6.994$, $p < .05$ Null Hypothesis is rejected and alternate hypothesis is accepted. We can conclude that there is a significant difference between the investment pattern in PPF among rural and urban investors.

Hypothesis 10

On average, rural respondents have almost similar investment pattern in Real Estate ($M = 13.28$, $SE = 2.072$) as urban respondents ($M = 11.22$, $SE = 1.582$), $F = 0.624$, $p > .05$ Null Hypothesis is accepted and alternate hypothesis is rejected. We can conclude that there is no significant difference between the investment pattern in Real Estate among rural and urban investors. Both types of respondents are aware about the rise in price of real estate within few years.

FINDINGS

The findings of this study are mentioned herein below:

1. We find that gold or silver is in the portfolio of nearly all the respondents. However, due to heavy fluctuation in the prices of gold many respondents have reduced the percentage of investment in gold.
2. Rural investors are not aware or have very little awareness about investments in shares, bonds, derivatives, mutual funds and public provident fund. Therefore, we find very less investment in these alternatives. Urban investors are inclined towards the shares, bonds,

derivatives, mutual funds and public provident fund as many share broking firms are established in the urban areas. Also, SEBI arranges lots of investors education programme which lead to higher investment in these alternatives.

3. Post office saving schemes is popular in rural areas. Rural people wants safe investments though return may be less. They avoid in taking risk. So they prefer bank deposits or post office deposits.
4. Due to scarce resource, real estate is the preference of all types of investors whether they belong to rural areas or urban areas. Real estate investment is treated as riskless investment with principal investment amount increases by leaps and bounds.
5. Public Provident Fund is very much popular among higher income tax payers. High income tax payers prefer PPF as tax deduction investment. This investment instrument is more popular in urban areas, though very less awareness in rural areas.
6. Life insurance is very essential for securing our life and our dependents. Many respondents treat it as an investment alternative though it should not be treated as investment alternative. It is a vehicle for securing the family of deceased from hardship for want of money. Life insurance companies are paying much more attention in rural areas also. So rural respondents are purchasing life insurance policies to cover their life and are not very far behind the urban investors. Life Insurance Corporation took the lead in rural areas as compared to private insurance companies.

SUGGESTION

Investors whether belong to rural or urban areas should look in all avenues while investing their funds in different assets. Some investments are risky and some are not, so as per the age of investors they should decide about risky or less risky investments. Old age investors should avoid risky investments while younger generation investors can take risk. There are lots of considerations while investing such as tax planning, future needs, safety of investments, recurring income, etc. So as per the requirement of individual investor he or she should consider these variables.

CONCLUSION

Investors irrespective to the area to which they belong, are very much inclined towards the investment in real estate. Investors believe that there may be fluctuations or ups and downs in the investment amount due to change in economic scenario but the real estate always shows an upward trend. Villagers in our survey were inclined towards purchasing agricultural farms. Many prefer to purchase plots and flats in urban areas. Recent decline in the interest rates by RBI will definitely boost the real estate sector in India. Recent fluctuation in gold and silver creates fear in the minds of investors so they reduced the amount of gold and silver in their portfolio. Nevertheless, gold and silver is the part and parcel of their investment portfolio.

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