# INVESTMENT ATTITUDE OF RURAL INVESTORS

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## ABSTRACT

*Being saturation of urban markets, recently rural markets are being targeted by the corporate for pooling the funds. Present study aims at investigating the rural investor's behavior towards purchasing the financial instruments. Five variables i.e. risk, return, peer's influence, self efficacy, financial advisor's influence, have been taken into account as determinants of investment decisions of rural people. Being the population large, constructs have been scaled down and validated with the help of Principal Component Analysis. Data has been analyzed using correlation and regression coefficients. Study reveals that all of the rural investors consider the risk and return on investment and most of them are also dependent on financial advisor's opinion because of lacking the depth knowledge of market.*

***Key Words:*** *Rural Investors, Influence, Investment, Decision-making.*

## INTRODUCTION

Generally rural people are known for making investments in real estate and in animals such as cows, buffaloes, bullocks, horses etc because there investments are taken as riskless and giving good returns. They hardly think about investing in stocks markets, derivatives and insurance products, unless they have any specific business in mind. They are risk averse and hence, look for investments that offer high returns and low risk. A number of portfolio management theories like Markowitz Portfolio Utility Theory (Markowitz 1952, 1959), Sharpe Single Index Model (Sharpe 1963) and CAPM (Markowitz 1952, 1959), have offered optimal portfolio taking only risk and return as major factors in its determination, whereas some of other theories (e.g. Alexander et al, 1997; Capon et al, 1994) revealed that risk and return are just two of the factors to be considered in investment decision. In fact, risk and return should be seen as a part of the framework of investment decision making. Moreover, a rural investor usually does not have any access to these financial theories to make an investment decision, nor they are aware of making such elaborated and complex calculations required in the above mentioned theories. Other factors, such as peer influence (including close friends, relatives, social groups etc), recommendations financial advisors (like promoter/seller of investment product) and market trends play an eminent role in investment decision of rural investor. In practice, it is supposed that being low educated and unaware of facts, rural investor

does not make any elaborate financial planning with the utilization of such theories, to make an investment decision. His behavior is found similar to as stated in theories of social psychology e.g. theory of reasoned action, theory of planned behavior. So, financial instrument seller should consider these theories in conjunction with the financial theories to collect the funds from rural markets. Now question arises, in practice what factors or theories whether financial or social psychological or composition of both, have the impact on investment decision making of rural investors. Need to answer this question initiated the researcher to make a study on this topic. The results of the study would enable rural investors to make sound investment decisions as well as financial product seller to make more targeted offerings to their customers.

### Objectives of the Study

❒ To study the rural investor's behavior with reference to financial product/instruments.

❒ To know the factors which are considered by rural investors in their investment decisions.

## RESEARCH METHODOLOGY

### Research Design

Being the study exploratory in nature, it will go through sampling, data collection, and its analysis

### Data Collection

This study is mainly based on secondary data gathered from various newspapers, magazines, journals, and websites. In addition to this primary data has also been collected through a snap survey using the questionnaire designed for this purpose to know the rural investors' attitude towards purchase of financial instruments.

### Sampling

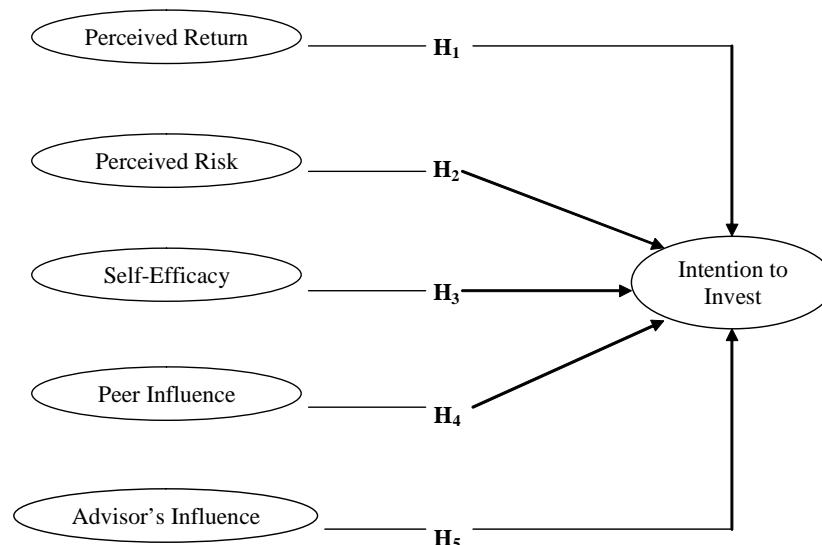Size: 100 rural investors

Type: Deliberate/ Purposive

### Research Method

Study is based on sampling not the census method which limits its universality.

### Research Model

Following research model has been developed for the purpose of present study:-

### Figure 1: Research Model

**Hypotheses:** Various variables which will provide some conclusions about the statement of problem, have been hypothesized as below:-

$H_1$: Perceived return has a positive impact on the intention to invest.

$H_2$: Perceived risk has significant negative impact on the intention to invest.

$H_3$: Self-effacacy has a significant positive impact on the intention to invest.

$H_4$: Peer's influence has a significant positive impact on the intention to invest.

$H_5$: Advisor's recommendations has a significant impact on the intention to invest.

## PARAMETERS OF THE STATED VARIABLES:

| Variables | Items | Scale | Sources |
|---|---|---|---|
| Intention to invest | $I_1$ | I want to invest in risk financial instruments rather than riskless one. | Mathieson (1991) |
| | $I_2$ | My intentions are to invest in risk financial instruments rather than riskless one. | |
| | $I_3$ | If I could, I would like in risky market instruments. | |
| Perceived Return | $R_1$ | Investment in risky market instruments is beneficial for me. | Venkatesh & Davis (2000) |
| | $R_2$ | By investing in risk instruments, I can earn more money than by investing in riskless market instruments. | |
| | $R_3$ | Investments in risky market instruments will give me higher returns. | |
| | $R_4$ | Investments in risky market instruments will increase my overall wealth. | |
| | $R_5$ | Investments in risky market instruments will be of good value. | |
| Perceived Risk | $PR_1$ | It is risky to invest in a Risk Market Instrument. | Dinev & Hart (2006) |
| | $PR_2$ | I may loose substantial amount of money by investing. | |
| | $PR_3$ | My savings would be in danger if I invest them in a Risky Market Instrument. | |
| Self-efficacy | $SE_1$ | I know how to plan my wealth well. | Meenakshee Sharma & Dr. Sumit Gupta |
| | $SE_2$ | I don't need the help of any financial planner to manage my wealth. | |
| | $SE_3$ | I am skillful in managing my wealth. | |
| Peer Influence | Norm1 | I prefer the advice of my friends on investing in RMI. | Venkatesh & Davis (2000) |
| | Norm2 | Most people who influence my decision think that I should invest in RMI. | |
| | Norm3 | My peers advice me to invest in RMI. | |
| Advisor's Influence | FAIN1 | For investment decisions, I consult finance planners (e.g. share brokers, CA etc) | Venkatesh & Davis (2000) |
| | FAIN2 | Financial Planners influence my decision to invest in RMI. | |
| | FAIN3 | Financial Planers play a significant role in my decision to invest in Risky Market Instruments. | |
| | FAIN4 | I prefer to follow the advice of financial planners to invest in Risky Market Instrument. | |

## DATA ANALYSIS AND RESULT

## Principal Component Analysis (PCA):

### Table 1: Principal Component Analysis using SPSS 16.0

|  | μ | σ | α | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|---|---|
| IINT1 | 3.81 | 1.96 | 0.90 | 0.36 | 0.23 | **0.74** | -0.31 | -0.01 | 0.03 |
| IINT2 | | | | 0.44 | 0.21 | **0.69** | -0.22 | -0.04 | 0.08 |
| IINT3 | | | | 0.25 | 0.04 | **0.88** | -0.06 | -0.02 | 0.04 |
| RTRN1 | 4.30 | 1.44 | 0.91 | **0.76** | 0.02 | 0.44 | 0.07 | 0.03 | 0.05 |
| RTRN2 | | | | **0.71** | 0.06 | 0.39 | -0.05 | -0.13 | 0.23 |
| RTRN3 | | | | **0.73** | 0.20 | 0.30 | 0.19 | 0.06 | 0.13 |
| RTRN4 | | | | **0.90** | 0.06 | -0.01 | -0.09 | 0.02 | 0.15 |
| RTRN5 | | | | **0.86** | 0.15 | 0.12 | -0.16 | 0.01 | 0.13 |
| RISK1 | 5.10 | 1.47 | 0.81 | -0.13 | 0.06 | 0.09 | **0.83** | 0.19 | 0.03 |
| RISK2 | | | | -0.04 | -0.16 | -0.17 | **0.83** | 0.06 | -0.004 |
| RISK3 | | | | 0.11 | -0.04 | -0.37 | **0.78** | 0.12 | 0.03 |
| EFCY1 | 4.43 | 1.41 | 0.82 | 0.04 | 0.200 | 0.10 | 0.14 | **0.86** | -0.09 |
| EFCY2 | | | | 0.04 | -0.15 | -0.17 | 0.15 | **0.85** | -0.02 |
| EFCY3 | | | | -0.07 | -0.31 | -0.001 | 0.06 | **0.81** | -0.09 |
| NORM1 | 3.76 | 1.34 | 0.83 | 0.08 | 0.15 | 0.12 | 0.18 | -0.18 | **0.83** |
| NORM2 | | | | 0.17 | 0.24 | 0.14 | 0.05 | -0.003 | **0.85** |
| NORM3 | | | | 0.29 | 0.14 | -0.14 | -0.20 | -0.03 | **0.77** |
| FAIN1 | 3.42 | 1.57 | 0.92 | -0.05 | **0.86** | 0.21 | 0.11 | -0.15 | 0.05 |
| FAIN2 | | | | 0.15 | **0.88** | 0.06 | -0.20 | -0.09 | 0.19 |
| FAIN3 | | | | 0.20 | **0.84** | 0.05 | -0.13 | -0.01 | 0.18 |
| FAIN4 | | | | 0.14 | **0.86** | 0.04 | 0.02 | -0.01 | 0.15 |
| **Total Eigen Values (Rotated)** | | | | **6.60** | **2.93** | **2.69** | **1.94** | **1.42** | **1.12** |
| **% of Variance (Rotated)** | | | | **31.44** | **13.94** | **12.81** | **9.22** | **6.74** | **5.34** |
| **Cumulative %** | | | | **31.44** | **45.39** | **58.19** | **67.41** | **74.15** | **79.29** |

The Principal Component Analysis was made with VARIMAX rotation to test convergent and discriminated validity (Table 1). Five factors with Eigen-value more than 1.0 were taken into account in the initial solution without (rotation). The scales show good reliabilities with all Cronbaoh's alphas greater than 0.70. The ratio of observations to variables is 5:1, which is within acceptable limits (75:1).

Also the sample size of 100 is adequate for computation of correlations between variables.

All the items were loaded on a distinct factor and explained a total variance of 79.29%. So constructs were found valid for convergence and discrimination.

### Regression/Correlation Analysis

Table 2 shows the Pearson Correlation Analysis. Most of the correlations are significant and the below 0.6 which loose the chances of multicollinearity.

**Table 2: Pearson Correlation between Latent Variable**

|  | IINT | RTRN | RISK | EFCY | NORM | FAIN |
|---|---|---|---|---|---|---|
| IINT | 1 | 0.614** | -0.38** | -0.11** | 0.221* | 0.316** |
| RTRN | 0.614** | 1 | -0.109 | -0.035 | 0.387** | 0.285** |
| RISK | -0.36** | -0.109 | 1 | 0.284** | 0.004 | -0.145 |
| EFCY | -0.121 | -0.032 | 0.275** | 1 | -0.177* | -0.179 |
| NORM | 0.218* | 0.371** | 0.004 | -0.176* | 1 | 0.377** |
| FAIN | 0.329** | 0.277** | -0.125 | -0.191* | 0.389** | 1 |
| **\*: Correlation is significant at the 0.01 level (2-tailed).**<br>**\*\*: Correlation is significant at the 0.01 level (2-tailed).** | | | | | | |

With the integration of finance and psychological theories, it has been found that perceived risk, perceived return both have significant impact on investment intension of a rural investor. Further study also reveals that advisor's influence is also there but less in comparison to friend's influence. Self-efficacy was found as uninfluencing factor on investor's investment intension of a rural investor which indicates that are usually not confident of their abilities to take investment decisions. Generally rural investors prefer the expert advice instead of friends and peers; they take the suggestions from them but not necessarily need to the advice of them. This refers that applying TPB to decision making involving a risky decision, subjective norm is important only when the norm is based on experts and not on any novice or friend etc. So corporate seeking funds, should put the financial advisor particularly agents, share brokers etc to persuade the rural investors towards its securities.

### Hypothesis Testing

Multiple regression analysis with SPSS 16.6 was used to test the set hypotheses stated in Figure 2.

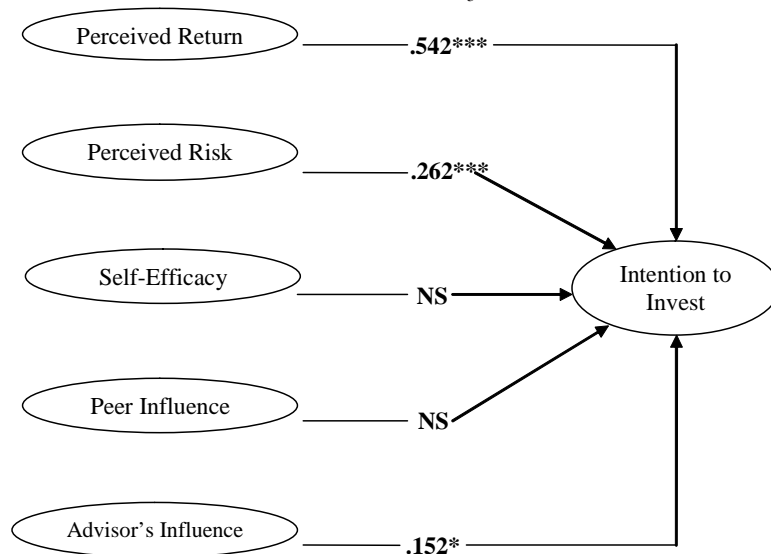Figure 2: Results of Hypotheses Tests ($H_1$ to $H_5$)

Figure 2 reveals that perceived return, perceived risk and financial advisor. These three factors influence the rural investor's decision significantly that proves the $H_1$, $H_2$ and $H_5$ true. Whereas self-efficacy and friend's impact on rural investor's investment intention was found insignificant that rejects the $H_2$ and $H_4$.

## CONCLUSIONS

In present study five factors i.e. risk, return, peer's influence, advisor's influence and friend's influence, were taken into account with the combination of finance theory and psychological theory, to determine the rural investor's decision process regarding their investment. It has been found that all of the rural investors consider the risk and return on investment and most of them are also dependent on financial advisor's opinion because of lacking the depth knowledge of market. But generalization of the study is subject to its limitations like unwillingness of respondents, limited period of time, lack of literacy of rural investors etc. It is concluded that psychological theory planned behavior reflects in rural people's investment decisions along with a finance theory is concepts i.e. risk and return equilibrium/trade off.

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