

Perspective of Individuals on Personal Financial Planning

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Abstract: *Planning for a secure financial future is not easy. Most individuals are aware that financial planning is critical, yet don't they have time or the expertise to develop a plan and make the needed financial decisions. Financial planning is about developing strategies to help individuals manage their financial affairs and meet their life goals. By investing in different investment avenues one can take the advantage of diversification and can earn more with less risk. The number of financial products and their complexity has increased considerably. The financial service providers are generating a plethora of information on personal finance issues which need analysis from the viewpoint of risk, liquidity and appropriateness apart from comparison within and across classes of such products. The cost of living and aspirations have gone up putting pressure on income, which has to generate the best return under the given circumstances. The increasing complexity of financial products makes it imperative for an individual to seek expert opinion in managing one's finances in a disciplined manner.*

Key Words: *Financial Literacy, Financial Planning, Risk, Objectives*

1. INTRODUCTION:

Assuming investors have well-defined goals, they can take one of two major paths to achieve them. One is to acquire the knowledge needed to do one's own financial planning and investing. Another is to use the services of an investment professional such as a financial planner or adviser who already has the requisite knowledge, skills, and abilities to carry out these important tasks. Both options involve trade-offs, but each offers the potential for long-term success. Successful financial planning and investing are much more than crunching numbers, listening to popular opinion, and understanding the latest market trends. As much as people need to know about financial markets and investments, they also need to know about themselves. A large part of investing involves investor behavior. Emotional processes, mental mistakes, and individual personality traits complicate investment decisions.

2. FINANCIAL LITERACY OF INVESTORS:

Financial literacy of investors depends on investors' ability to **understand the key financial products viz.** stocks, bonds, mutual funds, various saving plans etc. and **basic financial concepts viz.** compound interest, investment return, risk, diversification etc. Based upon this ability, individual investors **take financial decisions about saving, spending and managing debt.** Singer and Singer (1985) differentiated between two sets of decision makers: economists and psychologists. Economists seek to explain the aggregate behavior of markets, psychologists try to describe and explain actual behavior of individuals. (1985, p. 113) Even scholars from behavioral finance do not necessary focus on the individual decision maker for instance; De Bondt and Thaler (1994, 1995) focus their review on financial decision-making on markets and firms rather than on the individual i.e. the professional investor.

In regards to the decision-making process, standard financial theory makes the assumption that investors behave rationally and that under most conditions of risk, people make financial decisions based on their own approach towards risk and to the actual degree of risk. However, several academic studies have shown that this investment decision-making process is not yet thoroughly significant to describe financial decision behavior. Behavioral finance assumes a vital aspect of the investment decision-making is the subjective aspect of perceived risk by the investors rather than the objective risk emphasized by standard finance scholars.

Thus, by recognizing the subjective nature of an individual's own perception of risk as a supplement to the traditional measures of objective risk broadens the understanding and improves the overall area of risk judgment (measurement). Finance scholars as well as investment professionals recognize that how individuals perceive risk might influence stock prices. According to Farrelly and Reichenstein (1984), it is individuals' perception of, and ultimately their reaction to, risk that affects stock price. (p. 6). In other words, actual risk is not the only aspect how investors perceive and react to that risk is also a significant factor.

3. INVESTORS' PERCEPTION OF RISK:

Risk is a distinct attribute for each individual for the reason that what is perceived by one person as a major risk may be perceived by another as a minor risk. Risk is a normal aspect of everyone's daily lives; there is no such thing as a judgment with zero risk or without a degree of uncertainty. Risk perception is the way people see or feel

regarding a potential danger or hazard. The concept of risk perception attempts to explain the evaluation of a risk situation (event) on the basis of instinctive and complex decision making, personal knowledge and acquired information from outside environment i.e. different media sources. Sitkin and Weingart (1995) defined risk perception as an individual's assessment of how risky a situation is. Victor Ricciardi: 'A Risk Perception Primer 18' explained risk in terms of probabilistic estimates of the degree of situational uncertainty, how controllable that uncertainty is, and confidence in those estimates. (p. 1575). Human judgments, impressions and opinions are fashioned by our backgrounds, personal understanding, and professional experiences. There are a substantial number of factors that influence an investor's risk perception and there has been an ever-growing body of research that has attempted to define risk, categorize its attributes and comprehend these various issues and their specific effects (Slovic, 1988). In some academic circles, it has been acknowledged that perceived risk might be of more significance than actual risk within the decision making process.

4. RESEARCH METHODOLOGY:

The research framework of the study comprises of objectives, hypothesis, methodological framework, analysis and interpretation of the data.

5. RESEARCH OBJECTIVES:

- To find out the relation between demographic factors (e.g. education) and level of risk taken by the investors.
- To find out individual preference of investors for the investment objectives.
- To find out the opinion of the investors for personal financial planning.

6. METHODOLOGICAL FRAMEWORK:

Research Design: Descriptive (using survey method)
 Source of Data : Primary Data
 Research Tool : A structured questionnaire
 Sample Selection and Sample Size: Convenience sampling is used to get information from 300 individual investors.

Table 1: Education Qualification of Respondents

Qualification	No. of Respondents	% of Total Respondents
Under Graduate	90	30
Graduate	75	25
Post Graduate	75	25
Above Post Graduate	60	20
Total	300	100

Table 2: Level of Investment Risk Taken by Respondents

Level of Risk	No. of Respondents	% of Total Respondents
High	90	30
Medium	81	27
Low	69	23
Zero	60	20
Total	300	100

Research Hypothesis 1:

H0: Education Qualification and Level of Risk taken by respondents is independent of each other.

Ha: Education Qualification and Level of Risk taken by respondents is dependent on each other.

Education Qualification	Level of Risk				Total
	High	Medium	Low	Zero	
Under Graduate	36	21	18	15	90
Graduate	21	21	18	15	75
Post Graduate	18	24	18	15	75
Above Post Graduate	15	15	15	15	60
Total	90	81	69	60	300

$$\begin{aligned} \text{Degree of freedom} &= (c-1)*(r-1) \\ &= (4-1)*(4-1) \\ &= (3)*(3) = 9 \end{aligned}$$

So, table value at 5% significance level is 16.919

f_o	f_e	$f_o - f_e$	$(f_o - f_e)^2$	$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$
36	27	9	81	3
21	24.3	-3.3	10.89	0.45
18	20.7	-2.7	7.29	0.03
15	18	-3	9	0.17
21	22.5	-1.5	2.25	0.1
21	20.25	0.75	0.5625	0.028
18	17.25	0.75	0.5625	0.033
15	15	0	0	0
18	22.5	-4.5	20.25	2.25
24	20.25	3.75	14.0625	0.69
18	17.25	0.75	0.5625	0.033
15	15	0	0	0
15	18	-3	9	0.5
15	16.2	-1.2	1.44	0.089
15	13.8	1.2	1.44	0.104
15	12	3	9	0.75
$\sum = 300$				$\sum \chi^2 = 8.227$

As the tabulated value 16.919 is more than the calculated value 8.227 null hypothesis is accepted. So we can say there is no relation between education qualification and level of risk taken by the individuals.

Table 3: Preference for Investment Objectives

Most preferred Investment Objective	No. of Respondents	% of Total Respondents
Safety of Principle Amount	89	29.67
Growth in Amount Invested	63	21
Generate Income	85	28.33
Tax Exemption	47	15.67
Liquidity	16	5.33
Total	300	100

Research Hypothesis 2:

H₀: There is no specific difference among the investment objectives of the investors.

H_a: There is specific difference among the investment objectives of the investors.

There are 5 categories, so the degree of freedom is $k-1 = 5 - 1 = 4$

Expected frequency (f_e) = $\frac{300}{5} = 60$

So, table value at 5% significance level is 9.488

Most preferred Investment Objective	f_o	f_e	$\chi^2 = \sum \frac{(f_o - f_e)^2}{f_e}$
Safety of Principle Amount	89	60	14.016
Growth in Amount Invested	63	60	0.15
Generate Income	85	60	3.75
Tax Exemption	47	60	2.816
Liquidity	16	60	32.266
Total	300	300	52.998

As the tabulated value 9.488 is less than the calculated value 52.998 null hypothesis is rejected. So there is specific difference among the investment objectives of the investors.

Table 4: Opinion for Personal Financial Planning

Opinion for Personal Financial Planning	Always	Mostly	Sometimes	Rarely	Never	Total
Do you achieve your financial goals by your personal financial planning?	159	45	53	25	18	300
Do you find that your financial situation is out of control?	64	34	142	14	46	300
Is your investment decision matched with your financial needs?	136	89	34	33	8	300
Do you use professional services for tax planning?	177	66	20	24	13	300
Are you satisfied with your personal financial planning?	42	165	29	47	17	300

7. CONCLUSION:

Understanding fundamental human tendencies can help financial planners and advisers recognize behaviors that may interfere with their clients achieving their long-term goals. Although individuals cannot prevent all behavioral biases, investment professionals can advise clients how to reduce their influence during the financial planning process. This requires gaining an understanding of the clients' psychological biases, resisting the inclination to engage in such investor behaviors, and establishing and implementing

disciplined investment strategies and trading rules. An important strategy is to invest for the long-term, identify the client's level of risk tolerance and risk perception, determine an appropriate asset allocation strategy, and rebalance the investment portfolio on a yearly basis.

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