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Changing Paradigm of Investment Habits

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Abstract: *The change in lifestyle of the people is not just about changing their spending habits or change in consumption but also there has been a major change in the way people save and invest nowadays. Here in this study we will refer to a comparison between the difference that has surfaced between the Investment habits of the people born before 1990 and the ones born after this particular year, which we are referring to as changing paradigm of investment habits. In what aspects are these changes occurring, what are the possible reasons for these changes and how technology has influenced this drift in the pattern of investment over the years, forms the basis for this study.*

Key Words: *Paradigm=Pattern , Equity Market=Market where shares of companies are traded, Risk averse=Reluctant to take risk, BFSI=Banking Financial Services and Insurance, Investment=Parking funds to earn returns, Derivatives=Market where price of an asset is based on an underlying asset, Mutual Funds=Pooled funds from a number of investors to earn returns in proportion to their investment, Crypto Currency=Digital Currency, Entrepreneur=An individual who starts a business to earn profits, Venture Capitalist=Investors in new potential businesses.*

1. INTRODUCTION:

This is a qualitative study in which comparative analysis is done between the spending habits of the people based on their age marked by the year 1990. Qualitative research helps us in understanding the opinion of people like “what” they think about a particular thing and also “why” they think so. The objective of this study is to understand the changing paradigm of investment habits of the people with time and technological advancements and also trying to understand the reasons for these changes. Since the data was primary and was collected on phone call interviews we can put this in the category of empirical research.

2. LITERATURE REVIEW:

Abhinandan, Aiman AL-Asbahi, Ebrahim AL-Gamal in their analysis explained how the investment pattern of people is governed by their class more effectively as compared to their age . The classes of people have been identified in researches that have been conducted earlier .

Dr. Yasmeen Ansari explains how the profile of investors are classified based on the goals and targets of the investors that they strive to achieve through investment. Ansari also talks about the risk tolerance level of different investors and how it affects their investment .

Narayannan in 2003 investigated that the South Indians are generally considered to be risk averse while making investment decisions. He also talks about the people of Gujarat who have been into different positions in investing directly in shares , equity and the bond market.

Sivakumar in 2008 assessed how the global economic market swings from one crises to another and how it affects the Indian market, the impact of Foreign Direct Investment on the Indian Stock Market .

Newsroom study in 2008 found that the Initial Public Offerings (IPOs) of the public sector units can revive the trust and confidence of investors after any financial crises to strengthen the markets again.

Rajarajan in 1999 talked about the investors from Chennai and how the life cycle stage of individual investors has proved to be a significant factor or rather variable in finding out the size of the financial assets and what percentage is in risky category and how much is invested in risk free assets .

CafeMutual in its study tells us a lot about the Indian households , how their Investment patterns are different from the rest of the world . It explains that people in India are more fond of physical assets and hence the invest majority of their income in real estate.

Vidya Bala in an article during the Covid 2019 explains that people should be careful while investing their surplus during these tough times and depending upon their goals and targets and also their risk appetite should investment in a balanced way where in diversifying their portfolio will save them from losses and should dump their additional earnings if any into risk free assets too.

In another article from Mint reveals that people who are more well off invest more in equities and believe strongly in diversification as compared to those who cannot afford to take risk and hence they tend to be more attracted by Mutual Funds and other safer options .

Vasagadegar Priya conducted a study on women working in Pune specially in the industrial sector examined that these women preferred safer options in investment like Post office savings schemes and fixed deposits in banks rather than going for equity market and other mutual funds schemes.

3. METHODOLOGY:

Looking at the trends, the market players in BFSI can move gradually to products that will be more appropriate and suitable in the near future and which can cater to the growing needs and demands of people in times to come. This study is conducted based on the primary data collected from personal interviews on phone calls of a hundred individuals out of which fifty are born before 1990 and the remaining half after the year 1990, and then analysing the patterns and comparisons made according to the responses of the people so as to be more precise . The data collected is majorly from the people residing in the Northern parts of India which includes states of Uttar Pradesh , Rajasthan , Madhya Pradesh , Bihar and also from the states of Maharashtra , Gujarat and Karnataka . The primary data collected is based on a specific questionnaire to understand the personal attributes of people as well as the way people look at savings and investment, and also keeping their identity anonymous so that they could be more comfortable in sharing what they actually feel which will help in making this study more accurate.

They were asked a set of questions during the phone call interview, these questions were drafted in the form of a questionnaire and it helped us in gathering information from our target population and in understanding the reason behind any decision that they take which was very relevant for this study. Some of the questions asked are as follows:-

- What is your age?
- What is your profession?
- Which city are you currently working in?
- What are your educational qualifications?
- What range does your annual income lie in?
- How often do you invest?
- Where do you prefer investing?
- Do you set targets for your investments?
- Are you insured?
- Do you prefer online modes of transactions?

The interview revolved around these questions and each question was discussed in detail in order to understand the outlook of the person and to be able to comprehend the attributes of that person. In this study we have taken independent variables as class, educational qualification and age while the dependent variables are risk appetite, income and living standards. The impact of these variables on the investment habits of people and how it influences their decision making while investing is analysed while comparing the two generations.

4. ANALYSIS:

A comparative analysis was done of the two generations that are considered for this study wherein we came across a lot of disparity in the mindset and thought process of both the generations regarding investments. The older generation believe more in savings than investments. They save keeping their future generations in mind and invested mostly in assets like house, real estate, post offices, fixed deposits, etc. although there were a few who also invested in equity market but their percentage was almost negligible. They are not very goal oriented in whatever investments they make rather the goals they keep in mind while investing and saving are marriage of their children , education of their children, emergency funds for medical facilities, etc. On the other hand the new generation being younger tends to be more consumption oriented naturally and is more comfortable in living in the present and exploring life. They are not much worried about their future generations and are dependent on their previous generation in some way or the other financially as its not so long since they have settled in their jobs and some of them are even searching one. This generation however is more target oriented when it comes to investments, they believe in achieving their investment goals in fixed amount of time. The most popular investments among them are equity, mutual funds, Crypto currencies, commodities, gold, etc. When asked about their future investment goals if any, a very interesting point came up that some of them wanted to be venture capitalists, some angel investors while others showed keen interest in entrepreneurship and which is very much practical because the government policies today are promoting such investments and are in line with the same , while none from the older generation had any of these goals. Another point which came up while comparing the two generations is that the new generation understands the purpose of insurance and health covers as the cost of medical facilities can drain your savings and this generation is very much aware of it. While on the other hand those born before 1990 responded that some of them bought insurance because an agent insisted upon doing so or to save taxes but not what it is actually meant for. Here we can relate this with insecurity as it was mentioned by one of the respondents, since age is directly proportional to insecurities therefore the risk taking ability decreases with age because the number of years left to earn decreases with the increase in age, the chances of illness increases and thus financial insecurity pushes the individual to becoming risk averse which is why age is an independent variable and the dependent variable on age is risk appetite.

Technology has influenced the investment habits of individuals significantly and has acted as a fuel to this already changing paradigm of investment. Since internet has come up everything is moving towards digitization and in the past decade even more rapidly. Earlier there were no automated Exchanges to conduct the trades in the stock market and hence it was very difficult to invest in the same but now after dematerializing everything the number of investors in the stock market has increased manifold. The newer generation is more comfortable transacting online in these dematerialized securities and modes of payments and wants least human interaction and hassle free experience whereas the earlier generation does not trust the online mode so much and is not so comfortable in using or adapting to it.

5. KEY FINDINGS:

Key findings of this study are that those born after the year 1990 prefer online modes of investment , least human interaction ,and are more consumption oriented rather than focused on savings and investments. Mutual Funds is the most popular investment option for them as compared to equity , derivatives and gold, etc. Whereas the people born before the marked year tend to be more considerate about savings and investments, do not trust online modes of transactions much, and fixed deposit is the most popular investment option for them.

6. CONCLUSION:

Therefore on the basis of the comparative analysis done in this research we can say that those who are born after 1990 are more comfortable with technology, have a higher risk appetite, are more consumption oriented, prefer living in the present, goal and target oriented in investments, are more willing to spend than to save and want to be independent, as compared to the previous generation. The importance of insurance has increased a lot as the medical services are getting very expensive and lack of financial safety leading to insecurity among people while considering various hazards. This generation is more fascinated by investments like venture capitalists, angel investors and entrepreneurship and the Government is also promoting such investments by introducing new policies which support them. The recent data shows record hike in the number of new investors that have joined online investing platforms like Paytm Money and Zerodha and majority of them are young investors which tells us how popular investments are becoming nowadays and with the advent of the pandemic the digital segment of investment has got a sudden boom and is expected to grow henceforth. This sudden shift has defied the stereotypes of investment which was earlier supposed to be done by people belonging to financial background or having substantial knowledge of the same or with the help of financial consultants. The most recent development in online investment platforms and the cut-throat competition can be seen as some brokerage firms are even offering services like waving off brokerage charges on loss making transactions. All this indicates that this is the beginning of a new era where the investment habits of people have seen a remarkable shift in its patters and in going to witness more so and this pandemic has acted as a catalyst in facilitating this shift with the help of technologies such as machine learning and artificial intelligence, digital platforms and deep internet penetration at affordable prices by the telecom sector.

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