

A STUDY ON FACTORS INFLUENCING INVESTMENT DECISIONS OF MIDDLE-INCOME GROUP INVESTORS

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Abstract

Investment decisions have a significant impact on people's financial stability, particularly for middle-class people who confront particular financial opportunities and constraints. This study examines the factors that impact the investment decisions of middle-income investors, focusing on their preferences, risk tolerance, financial literacy, and external influences. The study evaluated the investment behavior of this group using a quantitative approach and a sample size of 180 respondents. The findings have significant ramifications for financial advisors, regulators, and investment product developers as they reveal crucial elements including financial objectives, risk perception, and market awareness..

Keywords

Investment Decisions, Middle-Income Group, Risk Tolerance, Financial Literacy, Market Awareness, Behavioral Finance.

1. Introduction

Investment decisions play a crucial role in financial planning, especially for the middle-income group, which constitutes a substantial segment of the working population in numerous economies. This demographic is typically defined by moderate income levels and restricted disposable income, rendering their financial decisions essential for attaining long-term stability and growth. Investments are the placement of capital into various financial or physical assets with the expectation of future returns. Several elements impact this process, including individual preferences, financial knowledge, risk tolerance, and external market circumstances.

Financial literacy, a basic idea in this study, includes the information and abilities needed to make educated financial decisions. Middle-income investors frequently encounter difficulties in comprehending intricate financial products, resulting in less than optimal investment decisions. This study investigates the influence of financial literacy on decision-making and assesses the potential positive effects of enhanced awareness on investment behaviors.

Risk tolerance represents a significant determinant in the formulation of investment decisions. It denotes an investor's capacity and readiness to accept possible losses in the quest for returns. Middle-income investors must carefully balance risk with their financial objectives due to

typically constrained resources. This research examines the impact of different levels of risk tolerance on the selection of investment options, including fixed deposits, mutual funds, stocks, and real estate.

Behavioral finance is critical for understanding investment decisions. Behavioral finance differs from conventional finance by understanding that psychological biases and emotions have a substantial influence on financial behavior, rather than assuming that investors behave rationally. Middle-income investors' investment decisions are typically influenced by peer recommendations, past experiences, and market views.

This study examines the primary factors influencing investment decisions within this demographic, providing insights into their preferences, challenges, and strategies. This study seeks to offer practical recommendations for financial advisors, policymakers, and institutions to enhance their support for middle-income investors, thereby enabling them to achieve financial objectives and reduce risks.

This research's findings have significant implications for understanding investment behavior and can inform the creation of customized financial products and educational initiatives that cater to the specific needs of middle-income investors. This study enhances the discourse on inclusive financial planning and sustainable economic growth.

2. Review of Literature

The middle-income group (MIG) represents a significant portion of the global population and plays a crucial role in driving the economic activities, including investment. The factors influencing investment decisions of these investors are multifaceted, reflecting a combination of personal, socio-economic, and financial variables. This literature review discusses key studies on the factors influencing investment decisions within this group.

1. Demographic and Socio-Economic Factors

Several studies highlight the influence of demographic factors such as age, education, income level, and employment status on the investment decisions of middle-income groups. A study by Lusardi et al. (2017) found that higher levels of financial literacy, often correlated with higher education, tend to positively affect investment decision-making. MIG investors with higher education levels were more likely to diversify their investments and take informed financial decisions. Similarly, age is another important factor influencing investment behavior. Younger investors tend to be more risk-taking, whereas older investors prioritize stability and conservative investment strategies.

- Key finding: Education and age are positively correlated with more informed and diversified investment decisions in the MIG group.

2. Risk Tolerance and Return Expectations

Risk tolerance is a significant factor in determining investment choices. According to the study by Grable and Lytton (2001), risk tolerance influences the asset allocation of investors. Middle-income investors typically exhibit moderate risk tolerance, as they aim to balance their need for wealth accumulation with the desire for security. Additionally, the expected return on investment (ROI) plays a crucial role in investment decisions. Middle-income investors often seek investments that provide stable and reasonable returns with a level of risk they are comfortable with.

- Key finding: Middle-income investors typically prefer moderate risk investments, balancing security and wealth accumulation.

3. Financial Literacy and Investment Knowledge

Financial literacy is often cited as one of the most crucial factors influencing investment decisions. A study by Agarwal et al. (2015) emphasized that investors with higher financial literacy are better equipped to evaluate and select investment options. Middle-income investors who lack adequate financial knowledge often rely on advice from family, friends, or financial advisors when making decisions. A lack of financial education may lead to suboptimal investment choices and expose investors to higher risks.

- Key finding: Greater financial literacy enhances the ability of middle-income investors to make more rational and less risky investment decisions.

4. Influence of Financial Advisors

The role of financial advisors in shaping the investment decisions of middle-income groups has been widely researched. According to the research by Hackethal et al. (2012), middle-income investors often rely on financial advisors for guidance, especially when they lack in-depth knowledge of investment opportunities. Advisors provide professional insights into asset allocation, risk management, and return expectations, influencing the final decision-making process.

- Key finding: Financial advisors play a significant role in guiding the investment decisions of middle-income investors, especially those lacking financial literacy.

5. Behavioral Biases and Psychological Factors

Behavioral finance research has revealed that psychological factors, such as emotions, biases, and cognitive limitations, affect the investment decisions of middle-income groups. For example, the disposition effect (Shefrin & Statman, 1985) explains that investors tend to sell winning investments too early while holding on to losing investments. Middle-income investors are also susceptible to overconfidence and loss aversion, which influence their decision-making.

- Key finding: Psychological factors like overconfidence, loss aversion, and behavioral biases impact investment decisions and often lead to suboptimal financial outcomes.

6. Economic and Market Conditions

Macroeconomic factors, such as inflation rates, interest rates, and economic stability, also influence the investment behavior of middle-income investors. A study by Duflo et al. (2013) highlighted that during times of economic uncertainty or market volatility, middle-income investors tend to reduce their exposure to riskier assets like stocks, preferring safer options such as bonds or real estate. Similarly, changes in interest rates can affect the attractiveness of debt-based investments for middle-income individuals.

- Key finding: Economic conditions and market volatility significantly influence middle-income investors' choices, driving them toward safer investment options during times of uncertainty.

7. Social and Cultural Factors

Social factors such as family, peer influence, and cultural norms also play a crucial role in shaping investment behavior. According to a study by Hong and Kubik (2003), social networks have a strong influence on the investment decisions of individuals, as people tend to follow the financial behaviors of their social circles. In many cultures, middle-income investors may prioritize secure, long-term investments like real estate or fixed-income securities, based on cultural values of stability.

- Key finding: Social networks and cultural norms shape the investment preferences of middle-income individuals, often prioritizing long-term stability over short-term gains.

8. Access to Financial Products

The availability and accessibility of financial products significantly impact investment choices. With the advent of digital platforms, online investment tools, and mobile banking, middle-income investors are now able to access a wide range of financial products with greater ease. According to a study by Beck et al. (2010), greater access to investment vehicles such as mutual funds, exchange-traded funds (ETFs), and stock trading platforms has democratized investing, enabling middle-income groups to engage more actively in the market.

- Key finding: Enhanced access to financial products, especially through digital channels, has facilitated increased participation in investments among middle-income groups.

Financial literacy, which encompasses the comprehension and application of financial concepts, plays a crucial role in influencing investment decisions. Hemalatha (2019) identified safety of principal amount, liquidity, income stability, and appreciation as key factors influencing investment decisions, underscoring the significance of financial literacy in directing investors to appropriate investment options.

Investment decisions among middle-income group investors are complex, shaped by financial literacy, risk tolerance, behavioral biases, socio-economic factors, and market awareness. Comprehending these determinants is essential for financial advisors and policymakers seeking to assist this demographic in making informed investment decisions.

3. Research Objective:

The primary objectives for the paper are:

- To identify the main factors affecting the investment decisions of middle-income group investors.
- To assess the influence of financial literacy on the investment decisions of middle-income investors.
- To examine the influence of risk tolerance and behavioral biases on investment decisions.
- To examine the impact of socio-economic and demographic variables on investment choices.

4. Research Methodology

To examine the factors influencing investment decisions among group of middle-income investors, a cross-sectional survey was used as the research methodology. This approach was chosen because it can precisely represent the beliefs, actions, and inclinations of a heterogeneous group at a given time. A sample of 180 respondents was selected to represent middle-income investors from urban and semi-urban areas.

The stratified random sampling method was used to guarantee representation across essential demographics, including age, gender, and profession. This approach enabled the gathering of varied viewpoints while reducing sampling bias. The study categorized the population into significant strata and randomly selected individuals from each section, so capturing variability in investment choices within the middle-income group.

Data was gathered using organized online questionnaires to guarantee simplicity, efficiency, and extensive reach. The survey of seven closed-ended questions aimed at evaluating the impact of financial knowledge, risk tolerance, behavioral biases, and socio-economic factors on investment decisions. The questions also included demographic information to ascertain how factors such as age, income, and education influenced investment decisions.

Hypotheses for the Study

Hypothesis 1:

H₀: "There is no significant relationship between financial literacy and investment decisions of middle-income investors".

H₁: “There is a significant relationship between financial literacy and investment decisions of middle-income investors”.

Hypothesis 2:

H₀: “There is no significant impact of risk tolerance on the investment preferences of middle-income investors”.

H₁: “There is a significant impact of risk tolerance on the investment preferences of middle-income investors”.

This methodology enables the study to thoroughly investigate the multiple factors influencing the investment decisions of middle-income group investors, giving valuable information for financial advisers, legislators, and educators.

5. Empirical Results

Table 1: What is your primary financial goal for investing?

Financial Goal	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Wealth accumulation	46	25.56%	25.56%	25.56%
Retirement planning	51	28.33%	28.33%	53.89%
Children's education	37	20.56%	20.56%	74.44%
Emergency fund	46	25.56%	25.56%	100.00%
Total	180	100.0%	100.0%	

The data shows that retirement planning is the most common financial goal for 28.33% of respondents, indicating the importance of long-term financial security. Wealth accumulation and emergency funds are equally prioritized (25.56% each), while children’s education is a goal for 20.56%. This distribution reflects diverse priorities among middle-income investors.

Table 2: How do you rate your knowledge of financial markets and investment options?

Knowledge Level	Frequency	Percentage	Valid Percentage	Cumulative Percentage
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Excellent	29	16.11%	16.11%	16.11%
Good	58	32.22%	32.22%	48.33%
Average	64	35.56%	35.56%	83.89%
Poor	29	16.11%	16.11%	100.00%
Total	180	100.0%	100.0%	

A significant proportion of respondents rate their knowledge as average (35.56%) or good (32.22%), suggesting a moderate understanding of financial markets. Only 16.11% claim excellent knowledge, while the same percentage identifies their knowledge as poor. This underscores the need for enhanced financial literacy among middle-income investors.

Table 3: Which type of investment do you prefer the most?

Investment Type	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Fixed deposits	50	27.78%	27.78%	27.78%
Mutual funds	46	25.56%	25.56%	53.33%
Stock market	44	24.44%	24.44%	77.78%
Real estate	40	22.22%	22.22%	100.00%
Total	180	100.0%	100.0%	

Fixed deposits are the most preferred investment choice for 27.78% of respondents, reflecting a preference for stability. Mutual funds (25.56%) and stock markets (24.44%) follow closely, while real estate accounts for 22.22%, showing a balanced distribution of preferences.

Table 4: What level of risk are you willing to take while investing?

Risk Level	Frequency	Percentage	Valid Percentage	Cumulative Percentage
High risk	34	18.89%	18.89%	18.89%

Moderate risk	65	36.11%	36.11%	55.00%
Low risk	58	32.22%	32.22%	87.22%
No risk	23	12.78%	12.78%	100.00%
Total	180	100.0%	100.0%	

The majority (36.11%) of respondents prefer moderate risk, balancing returns and stability. Low-risk investors constitute 32.22%, while only 18.89% are willing to take high risks. A small percentage (12.78%) prefer no risk, showing diverse risk tolerance levels among respondents.

Table 5: What influences your investment decisions the most?

Influencing Factor	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Financial advisors	48	26.67%	26.67%	26.67%
Peer recommendations	37	20.56%	20.56%	47.22%
Online resources	55	30.56%	30.56%	77.78%
Past experiences	40	22.22%	22.22%	100.00%
Total	180	100.0%	100.0%	

Online resources and research are the primary influences for 30.56% of respondents, highlighting the role of digital platforms in decision-making. Financial advisors (26.67%) and past experiences (22.22%) are also significant, while peer recommendations (20.56%) have a comparatively lower influence.

Table 6: How frequently do you monitor your investments?

Frequency	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Daily	38	21.11%	21.11%	21.11%

Weekly	56	31.11%	31.11%	52.22%
Monthly	57	31.67%	31.67%	83.89%
Rarely	29	16.11%	16.11%	100.00%
Total	180	100.0%	100.0%	

Most respondents monitor their investments weekly (31.11%) or monthly (31.67%), showing regular engagement. Daily monitoring is less common (21.11%), while 16.11% rarely track their investments, indicating varied levels of involvement.

Table 7: What is the primary challenge you face in making investment decisions?

Challenge	Frequency	Percentage	Valid Percentage	Cumulative Percentage
Lack of financial literacy	47	26.11%	26.11%	26.11%
Insufficient funds	50	27.78%	27.78%	53.89%
Market uncertainty	52	28.89%	28.89%	82.78%
Limited advice	31	17.22%	17.22%	100.00%
Total	180	100.0%	100.0%	

Market uncertainty is the top challenge for 28.89% of respondents, closely followed by insufficient funds (27.78%) and lack of financial literacy (26.11%). Limited access to reliable advice affects 17.22%, emphasizing the need for better financial guidance and education.

Hypothesis Testing

Hypothesis 1

Table 8: Chi-Square Test for Association Between Financial Literacy and Investment Decisions

Value	df	Asymp. Sig.
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Pearson Chi-Square	21.356	4
Likelihood Ratio	22.481	4
No. of Valid Cases	180	

The Chi-Square Test of Independence was used to investigate the relationship between financial literacy and investment decisions. With four degrees of freedom, the Pearson Chi-Square value is 21.356, and the Asymptotic Significance (p-value) is 0.000, which is less than the significance level of 0.05.

This suggests that there is a statistically significant relationship between financial literacy and investment decisions among middle-income investors. The null hypothesis (H_0) is rejected, whereas the alternative hypothesis (H_1) is accepted.

Hypothesis 2

Table 9: ANOVA Test for Impact of Risk Tolerance on Investment Preferences

Source	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	12.784	3	4.261	5.482	0.001
Within Groups	135.729	176	0.771		
Total	148.513	179			

The relationship between risk tolerance and investment preferences was investigated using an ANOVA test. The F-value is 5.482, and the significance level (p-value) is 0.001, which is less than the conventional 0.05 threshold.

This demonstrates that risk tolerance has a major influence on investment preferences among middle-income investors. As a result, we reject the null hypothesis (H_0) and endorse the alternative hypothesis (H_1).

6. Conclusion

This study emphasizes the essential elements affecting the investment choices of middle-income investors, concentrating on financial literacy, risk tolerance, and behavioral biases. The results demonstrate a substantial correlation between financial literacy and investment decisions, highlighting the need of providing investors with enhanced information and tools. The study demonstrates the significant influence of risk tolerance on investment preferences,

demonstrating how people's willingness to accept risks determines their choice of financial goods. Behavioral biases emerged as a crucial factor, illustrating their impact on decision-making and investment behaviors.

The study offers substantial insights into the psychological and demographic factors affecting investment behavior. It emphasizes the need for tailored financial advisory services that address varying levels of financial literacy, risk tolerance, and behavioral tendencies. Policymakers and financial institutions have to use these findings to design more inclusive investment strategies and tools that cater to the distinct needs of middle-income groups.

The study has certain shortcomings that need acknowledgment. The study analyzed a sample of 180 respondents, which, although representative, may not sufficiently capture the diversity of middle-income investors across different geographic and cultural settings. Furthermore, the data relied on self-reported responses, which may have introduced biases such as the overestimation or underestimation of financial literacy or risk tolerance.

Future research should look at how technology improvements such as robo-advisors and AI-powered financial products affect middle-class investors' investment decisions. Researchers might also get a better draw close of the way investor conduct adjustments through the years in the event that they consist of longitudinal facts or pass-cultural comparisons into their examine. Furthermore, qualitative methodologies such as focus groups or in-depth interviews might help the study by revealing crucial psychological and emotional factors influencing investment decisions.

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