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Investor Behaviour Towards Various Investment Products And The Impact Of The Global Pandemic

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Abstract

Investment in financial products is by retail investors are guided by several factors which determine the time and type of investment and the investment horizon. By far the most dominant or the most common objective driving every individual is maximisation of return from their investment and minimization of the risks involved. Which is why all investors seem to observe some kind of caution and discipline in their investment activities. Investments by definition are risky as they involve money and time factors. It involves parting with one's own resources with the objective of reaping a profit in the future. This means that risk is inherent in investments. Hence all investor would display different behaviour and attitude towards different investments according to their risk appetites.

This article focuses on the retail investors who have emerged as a significant source of liquidity for the capital markets. However, at the onset it has been acknowledged that the investors do not follow the Von Neumann–Morgenstern type rational behaviour delineated in the Expected Utility Theory which emphasises that the investors will always make the optimal decision following rational bahaviour. This article will research behavioural aspect of investors and try to determine that factors that influence the allocation of funds towards long term and short term investment products and how this investor behaviour has been impacted by the COVID19 pandemic using literature review and secondary data analysis as the research methodology. The objective is to unearth any new trend that may be emerging and lay the foundation for further research.

Key Words: Investor Behaviour, Covid-19, retail investor,

1. Introduction

Investors invest with what is called 'investment intention' (Sashikala V. & Chitramani, 2018). Divided into short term and long term, investment intention explains the rationale behind an investment decision. This again is guided by investment behaviour which forms the crux of behavioural finance theories. It is assumed by economic and financial theories that an individual investor would act rationally and take into consideration each and every one of the available information in the process of making the investment decision (Njuguna & Namusonge, 2016). However, studies show that the investment decisions are governed more by the psychological attributes of the investor than by rational thinking (Deo & Sundar, 2015). This article concentrates on retail investors or non-professional investors (Anugraha G, 2020)who do not have formally defined investment objectives. Retail investors buy securities in their individual capacities and usually their trade value is significantly lower when compared against institutional investors (ET Markets, 2019). Nevertheless, this category of investors is growing in importance (First Citizens Bank, 2021) and present an excellent opportunity for studying investor behaviour.

Research Objective

Traditionally Indian retail investors, comprising of household and high net worth individuals, had been comfortable with parking their monies in bank deposits and life insurances. But with changing needs and lifestyles, the need for superior returns have also emerged pushing the Indian investors to riskier zone of equity and mutual fund investing. Among these two, Mutual Funds receive more favour from retail and household investors. This article will delve into investors' behavioural realm and try to determine what factors guide the allocation of funds towards long term as well as short term investment products. The objective of this research is to understand the difference in investors' stance while choosing a long-term and a short-term product and determine the factors that govern these differences and hence the allocation of funds to these investment products, with special emphasis on mutual funds and the COVID Situation.

Rationale

Individual or retail investors now comprise a substantial part of the investment market (First Citizens Bank, 2021). Securities markets got institutionalized over time side by side with the steady growth in the number of individuals and household investors and the quantum of their investment (Langevoort, 2008). However, the transformation has in no way reduced the importance of the retail investors. They continue to make important investment decisions, which are different from institutional investors (First Citizens Bank, 2021). It is a fact that all investors possess the same objective of risk minimization and maximization of return (Gordon, 2020), only the purposes differ. Of late, an increasing number of retail investment decisions are getting directed in favour of investment in a mutual fund or insurance product (Langevoort, 2008). Besides developing the mutual fund market this decision is influencing the growth of the secondary market such as the stock market. Therefore, it becomes crucially important to comprehend the attitudes and preferences of these individuals and the things that make them tick (First Citizens Bank, 2021).

Research Questions

Following are our research question

- How does investor attitude differ between short-term and long-term investments?

- Which factors determine an investor's choice of short-term and long-term investments?
- Why do retail investors invest in mutual funds and which variant do they prefer most?
- How has the COVID situation impacted choice of investment?

2. Literature Review

2.1. Retail Investor

The word investor refers to a person or an organisation which injects money into commercial schemes with the anticipation of reaping a profit over a period of time (Gordon, 2020). A retail investor, unlike an institutional investor, is quite small in stature and trades in the cash segment and derivatives segment of the securities market, in mutual funds, and/ or in exchange traded funds (ETFs) with the help of one or both types of brokerage firms, conventional and online, or using any other kind of investment accounts that may be available (ET Markets, 2019).

Figure 1: Differences between institutional and retail investors (Gordon, 2020)

	Institutional Investor	Retail Investor
Whose money do they invest?	Invest and manage other people's money	Invest their own money
How often do they trade?	Trade more frequently	Trade less frequently
How much do they invest?	Deal with large amounts of money that has the ability to affect the stock market.	Invest relatively small amounts
How much are their fees?	Brokerage fees are less as are trading more frequently with bigger amounts.	Brokerage fees and commission fees are high.
How knowledgeable are they?	Specialist knowledge, research and available resources.	Fewer skills and knowledge
How much access to information do they have?	Access to any information available on the market.	Only access to retail specific information.

One of the key reasons why retail investors have started gaining importance in investment market is that retail investors have the propensity to invest for a longer duration compared to institutional investors. Consequently, this group of investors provide a long standing and nearly constant source of investment funds thus playing a critical part in developing a country's stock market and its economy (Gordon, 2020). This means that protecting the interest of retail investors is necessary to impart stability to the business and to help the economy grow and develop (Gordon, 2020).

Up to August 2003, as per the SEBI (Disclosure and Investor Protection) Guidelines, 2000, a retail investor in India was delineated to be an individual investor who applies for allotment of a maximum of 10 marketable lots of a fixed issue or a maximum of 1000 units in a book building offering of shares. The prices of equity share values in initial public offers (IPOs) usually vary from firm to firm. Hence such a definition on the basis of "number of shares applied for" fails to capture the volume of investment made by individual investors which is an important parameter that distinguishes between investors' dispositions (Chandrasekhar, Malik, & Akriti, 2016). That is why, the definition was later updated to delineate the value of investment. SEBI law now describes retail individual investor to be an investor who makes application or bids for securities amounting to Rs 2,00,000 or less, in an IPO, and purchases or holds shares in a stock that amounts to Rs 2,00,000 at the most. In case of commodities no such limit has been imposed for defining a retail investor (Economic Times, 2019) (SEBI, 2009).

2.2. Investment Behaviour

Investment behaviour of an investor refers to the ways in which the investor explores, envisages, evaluates and reviews the complete process of making investment decisions, which takes into account the investment psychology, collection of information, delineation and perception of investment concepts, research of investment options and assessment of strategies (Alfredo & Vicente, 2010). It can also be construed as portfolio procedures, investment habits, predilections, risk perceptions, risk appetite, investment intentions, pattern and choice of investment made by the investors (Dr. Veena M, 2020).

Investment behaviour is derived from the uncertainty involved in what lies ahead and hence is risky. Both news and rumours influence investors. Hence the extent to and the speed with which the information is obtainable have significant bearing on investment decisions and markets. Risk propensity or appetite, risk tolerance, and attitude towards risk are the key constructs of and rationalisations behind investment behaviour (van Raaij, 2016). According to the Von Neumann–Morgenstern's Expected Utility Theory, the investment decision of an individual represents a trade-off between urgent present consumption and future consumption or consumption that can be delayed (Gass & Harris, 2001). Psychological heuristics and biases are two important factors that govern behaviour of individual investors (Chandra & Kumar, 2012).

2.3. Rationality and Investor Behaviour

According to traditional theories in finance, depict investors as rational beings but they cannot explain speculation by investors in financial markets (Yurttadura & Ozcelik, 2019). Fresh studies on behaviour of individual investor have revealed that individual investors barely act in a rational manner. Instead, their behaviours are influenced by a host of factors (Chandra & Kumar, 2011). For an individual investor, the investment process and hence investment decision are prejudiced by numerous variables (Yurttadura & Ozcelik, 2019) that are interdependent and are determined by twin mental systems, that interact to contribute towards narrow rational behaviour of the investors where he uses a range of exploratory problem-solving techniques and is likely to demonstrate biased behaviour (Lovric, Kaymak, & Spronk, 2008). Many a time their investment decisions are governed by sentiments than actual knowledge of the investment products (Nasage & Agyemang, 2019).

At times retail investors display irrational behaviour leading to weak-ness in decision making (SRIVASTAVA, 2018). While traditional theories fail to explain such behaviour, psychological science indicate that the irrational behaviour of the investors are the outcome of biases and tend to dictate their choice of investments (Yurttadura & Ozcelik, 2019). Findings from researches are suggestive of the possibility of biases of individual investors having a significant bearing in the determination of satisfaction derived by individual decision maker from a financial product (Sahi, 2017). Individuals have different biases amongst which are the bias of overconfidence, the bias of self-control and the bias of budgeting tendency. These 3 biases are believed to be extensively associated with the satisfaction that the investors derive from financial products (Sahi, 2017). On the other hand, it was observed that the bias emanating from the dependence on expert, categorisation tendency (habit of classifying investment products into peer groups) (Brooks, Cunha, & Mosley, 2015), and socially responsible investing bias or the habit of clubbing individual values and social apprehensions together with investment decisions (Berry & Junkus, 2012), were significantly responsible for influencing financial satisfaction in a number of control conditions (Sahi, 2017).

Several scholars believe that large stakes, competition and most importantly experience have the ability to consistently and dependably do away with biases (Pope & Schweitzer, 2011). A large majority of the investors desire to make such investments that will enable them to extract sky-high returns within the quickest time possible, that too with no risk of loss of the initial capital or the principal money invested (Dhawan, 2021). Ironically, risk and return go hand in hand (Modigliani & Pogue, 1973) and these investors are either unaware of it or simply act naïve.

2.4. Investment Objectives and Investor Behaviour

Investor Behaviour determines the process that an investor tends to use in order to satisfy his/her needs and achieve his / her objectives by displaying his / her choices (Dr. Veena M, 2020). For an individual investor, his / her ability to efficiently and realistically manage his / her societal and quantifiable desires and wants would necessitate the proficient management of the pecuniary resources that they possess (Sahi, 2017). Hence, investments are determined by the objective with which they are being made. These may be short-term (to be realized within 2 to 3 years or so) or long-term (realizable over 5 years or more). Future goals such as savings for retirement, kids' college expenses, expenses for their higher studies, children's marriage, purchasing a house, retirement planning, etc. According to SEBI, among the reasons behind investing, reaping the benefits of capital gains tops the list, while plans for lifestyle improvement is a close second (Press Trust of India, 2019).

Risk and volatility are the two inherent features of the domain of financial investment that warrants a lot of caution before venturing out. As such survival and avoidance of any unpleasant surprises requires a meticulous analysis and critical evaluation of the risks involved in investment and the returns expected from them (ZongMing, Prince, & Guoping, 2017). This is the reason why market experts advise undertaking appropriate research before making any investment as there is no one size that fits all. What suits one investor may not be suitable for another as it may not match the overall investment goals and purposes of the other investor (Nasage & Agyemang, 2019).

Emergencies can and do happen and when they do individuals should have enough liquidity to tide over the situation. Financial planning experts suggest parking part of the investible funds in liquid assets such as cash and short duration assets that can be of help in these situations (Wall Street Journal, 2021). Inflation eats into value of money if it is kept idle (Padmavathi & Saranya, 2018) which makes it necessary to invest to preserve this value. For investors whose objective is to preserve their capital, and who are satisfied with modest return on the investments they make, short term investments are ideal. However, if the investment objective is capital appreciation, in that case investment in long term investment avenues is the usual practice (Cleartax, 2021).

Table 1: Investment Characteristics

Investment	Type	Return Potential	Potential to Beat Inflation	Risk Involved
Direct Equity	Active	Very high	Very high	High
Mutual Funds	Both active and passive	Moderately High	Very high	High
Fixed Deposits	Passive	Moderately low	High	Little or No risk
Recurring Deposits	Passive	Moderately low	Low	Little or No risk
Public Provident Fund	Passive	High	Low	Little or No risk
Employees' Provident Fund	Passive	High	Moderately High	Little or No risk
National Pension System	Both active and passive	Moderately High	Moderately High	Moderate

2.5. Availability of Choices and Investor Behaviour

In the present investment milieu, the consumers of financial products are spoilt for choice. They have a wide range of investment opportunities in front of them that offer an option to park their saving in. However, not all of them are well equipped to assess the plethora of opportunities available, that can help them maximize their financial wellbeing. That is the reason why individual investors must make use of a number of judgment processes and be affected by emotions and psychological motivations in a bid to make an investment choice that suits them (Sahi, 2017).

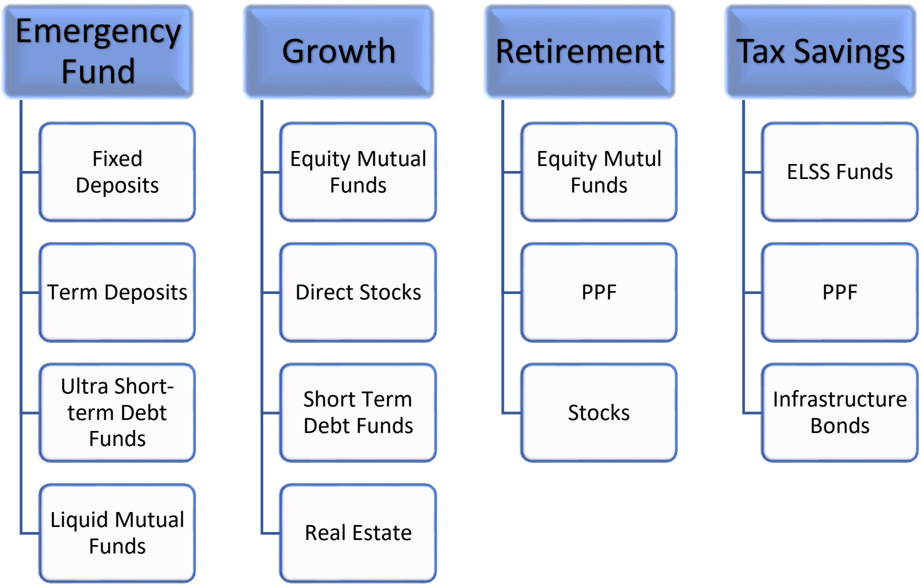
In India, the following 10 investment avenues are the most popular.

a) Public Provident Fund (PPF)
b) Bank Fixed Deposits (FD)

c) Direct Equity
d) Equity Mutual Funds
e) Debt Mutual Funds
f) National Pension System (NPS)
g) Senior Citizen's Saving Scheme
h) Pradhan Mantri Vaya Vandana Yojana (PMVVY)
i) Real Estate
j) Gold.

(Dhawan, 2021).

Figure 2: Some of the Best Investment Options in India for Certain Long-Term Investment Objectives



2.6. Risk Appetite, Investor Perception and Investor Behaviour

3. The investor's objectives are to get some return from the
The objective of any investor is to receive some return from his investment in the future. Due to the fact that expected return is achieved at a future date, there is always a likelihood that factual return received from an investment deviates from what the investor expected as return on the investment (Rustagi, 2003). Risk refers to this probability of variation in expected return. In simple terms, therefore, risk is delineated to be a circumstance in which the likelihood of occurrence and non-occurrence of an event can be enumerated and hence calculated (Rustagi, 2003). It goes without saying that risk involves a possibility of loss. Hence many investors will like to avoid it.

Investors who have strong desire towards avoiding risk are likely to be more interested in investing in bank deposits, gold, etc., where the risk of loss is absent or at best, minimal. It has been observed that risk averse investors generally like to invest their money in capital market. The investors who have higher appetite for taking risk are more interested in putting their money into venture capitals or Initial Public Offers (IPOS) while the ones who are interested in taking calculated risks find it more appealing to invest their money in the secondary market (Kannadhasan, 2011).

4. e quantified and measured”

Risk aversion though is contrary to risk tolerance, is an essential phenomenon that explains important economic and everyday life choices made by the investor (Irandoust, 2017). An investor’s attitude towards risk, his risk preferences, and risk tolerance, are not only huge in number but also multi-faceted and complex which makes it difficult to assess risk (So, 2021). Investors at some point tend to match their choice of investment with their risk appetite, of course with the help of qualifies professionals. According to the prospect theory (Kahneman & Tversky, 1979), investors weigh up perceived losses in a different manner than perceived gains and their investing decisions are rooted in these perceived gains. These decisions revolve around what is called the ‘decision domain’ which evaluates gains against losses as also weighs the implicit non-monetary considerations against the obvious finance perspective from which a risky investment decision looked at (Razen, Kirchler, & Weitzel, 2020).

A study found that by nature investors, especially retain investors, are generally risk averse (Langat & Rop, 2019). More often than not these investors, especially the small ones, consider investing via the mutual funds route to be a safer option for parking their investible funds. A key reason behind this is their size, employment of professional management expertise, and superior knowledge of the fund managers about the financial markets (Gupta, 2008). Investors believe that mutual funds (fund managers to be specific) understand the market much better that the individual investors and hence make superior investment decisions. Also, at times of high markets volatility and downturns when the investors are more likely to lose money on the bourses, the mutual funds appear to be a better investment avenue. These investment channels promise safety and a decent return on investment (Gupta, 2008). To the investors who are risk-averse, fixed deposits are one of the most common and widely held investment products while Gold has wide acceptance as one of the supreme hedging tools available to investors as protection against inflation (Shetty, 2020).

In general, investment decision makers are more likely to display loss aversion (Pope & Schweitzer, 2011). However, a study revealed that investors were mare open to taking higher risks when the alternative investments were projected as losses (Razen, Kirchler, & Weitzel, 2020). There are other researches that provide an indication that there in a correlation between risk tolerance and other attributes such as age, gender, marital status, employment and profession, income level, the level of academic knowledges and financial education achieved, and amplified economic expectations (Grable , 2000). Households, individuals, high net-worth individuals (HNIs) as well as corporates play with or invest their own money which gives them a great amount of freedom about where to put the money and tends to make them significantly more aggressive (and make them take far more leverage) compared to institutional investors (Shenoy, 2021). Risk aversion amongst investors changes with variation in age, i.e., older investors tend to be less aggressive and more risk averse. For the investors who place higher value on present consumption than future consumption this risk aversion tends to increase and this risk aversion differs from individual to individual (RBI Bulletin, 2020).

5. Research Methodology

The diagnostic analysis of an array of methods, ideas and hypotheses related to a collection of data and evidences is called the research methodology. It dispenses with the ideologies ethics that are necessary for the preparation, planning, development, and conduct of a research (Mohajan, 2017). Philosophy, concept, statistical model, chapters, qualitative as also quantitative analytical approach, to the problem, are amongst the key terms involved in research methodology. This research has adopted Realism as its philosophy which uses qualitative or quantitative information available on the subject matter because the multitude of data makes it nearly impossible to identify every single investment objective guiding a retail investor in his/ her investment**.** It supports using research techniques that can avoid the argumentative issues pertaining to truth and reality (Feilzer, 2009). Instead, it converges on matters that will work best in favour of the research (AlGhamdi, 2013).

5.1. Literature Review

Within business research, knowledge creation has picked up strong pace despite remaining incoherent and versatile. Constant addition to this knowledge pool makes it difficult to remain up-to-date and be at the forefront of research, and evaluate the shared depositions and evidences in specific areas of business research. This is why literature review is considered to be a more relevant research methodology (Snyder, 2019). As the name suggests this methodology involves reviewing the existing written works and other materials on the subject matter that are in place for arriving at a conclusion. The literature review studies and assesses books, scholarly articles, together with any other resources that may be considered relevant to the subject matter of research, or theory, and in so doing, present a description and a combined yet summarized appraisal of the works consulted in order to fulfil the stated objectives of the research (Fink, 2014).

5.2. Secondary Research using Data Analysis

This research project has adopted secondary research or desk research as its methodology and utilizes the data that has been extracted from existing research data. The available secondary data has been abridged and organized in order to improve the overall effectiveness of this research. The research draws on research material make public through research reports and similar documents, granted access through public libraries and websites, data from plethora of Government and nongovernment agencies, and insightful reports printed in local newspapers, journals, magazines, for meeting the research objectives. Secondary research provides an important way to deepen the understanding of the prevailing issues thus ameliorating the process of making better and more effective recommendations having higher chances of success (Tajima, 2019).

Secondary data analysis revolves round the application of academic knowhow in consort with the theoretical sharpness with the intention of extracting the best possible information from the existing data that can reinforce the claims made and the conclusions done in the research (Johnston, 2014).

Data analysis refers to the process that involves assessment of data through the application of rational and diagnostic analysis, arguments and discussion in order to judiciously scrutinize every constituent of the data gathered (Perez, 2019). The research is based on secondary data collected from numerous publications released by dependable agencies including Securities and Exchange Board of (SEBI), NSE (National Stock Exchange of India), AMFI (Association of of Mutual Funds in India) and Statista, that are available across public domain. Various types of charts and diagrams have been to reveal useful trends and other information.

5.3. Research Design

The research design has been used for this study is 'Descriptive'. Such design has been employee with the purpose of gaining a clearer and more improved understanding of the behaviour of individual or small or retail investors. This research design is expected to be of great assistance in the investigating investor behaviour.

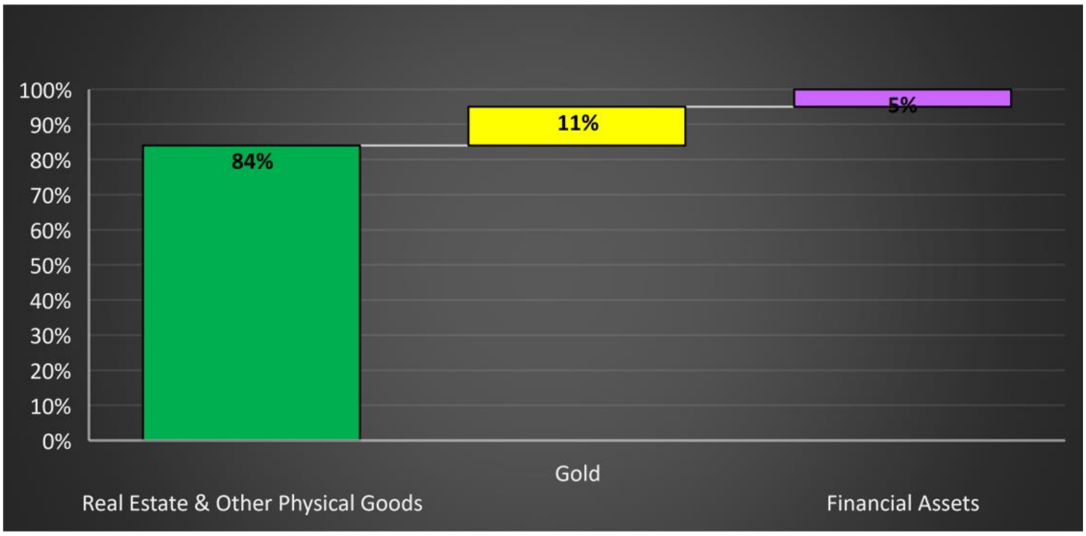
5.4. Research Ethics

We have chosen the secondary approach as our research methodology. It is, therefore, extremely necessary that we draw the data together from the most reliable of the accessible sources in order to maintain the authenticity and integrity of the collected data. We have ensured that the data is free from personal bias so that it is be able to expose trends in demand for various financial products that are usually chosen by small investors. The data must also provide helpful information regarding the effects of government policies and novel Corona virus outbreak on the Indian economy and the investors. Hence, we have ensured that the data is collected from renowned sources to safeguard the authenticity of the data.

6. Data Analysis

A sizable portion of household income in India is saved. Over 50 per cent of this savings makes its way into physical assets such as gold and housing, the remaining part is usually put into financial assets, which then become available for investments by corporations and the government (Patnaik & Pandey, 2019).

Figure 3: Wealth distribution of average Indian household (Household Finance Committee, 2017)



Financial savings generated by the Indian household sector comprises the key source of funds that can be invested in the economy (Patnaik & Pandey, 2019) pushing growth and development.

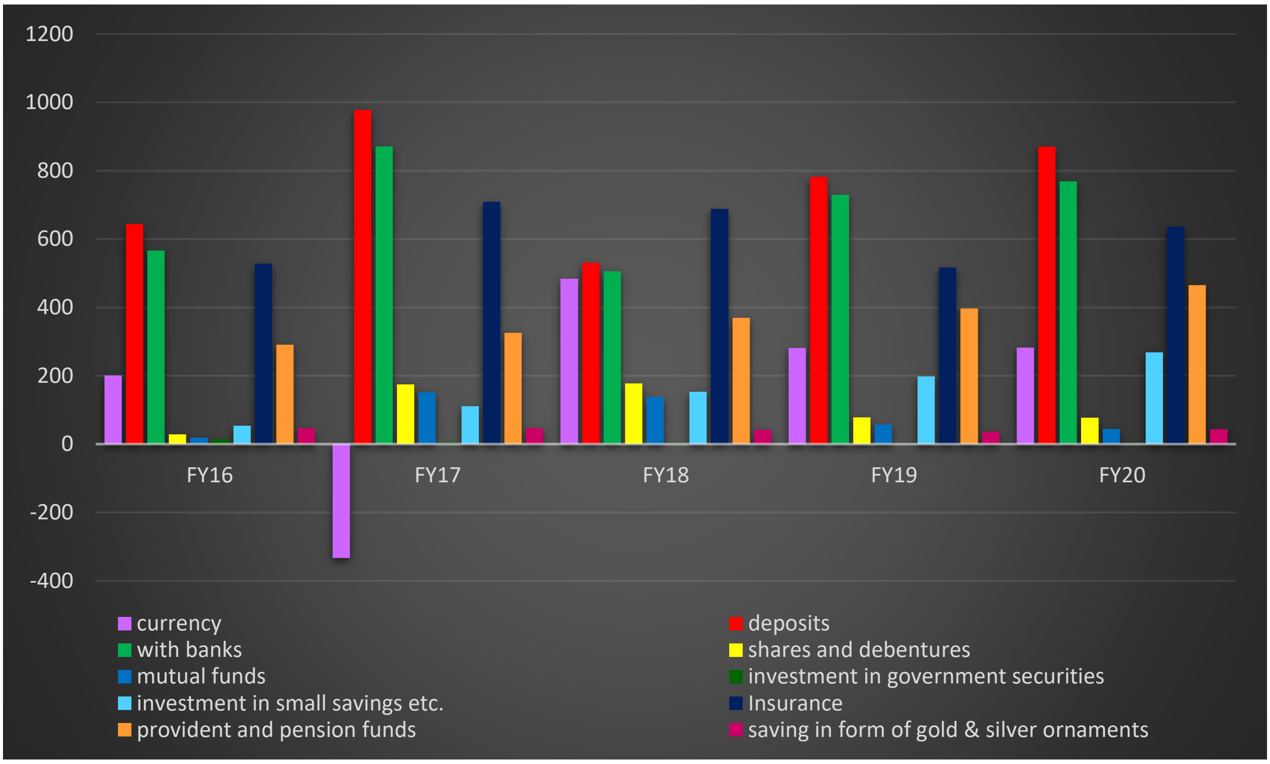
Table 2: Household Financial Savings (RBI, 2021)

Rs lakh crore	**FY 19**				**FY 20**				**FY 21**	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2 F
Net Household Savings	2.57	2.23	2.08	6.68	2.02	4.85	4.2	5.14	8.16	4.92
As a % of GDP	5.6	4.8	4.3	13.9	4.0	9.8	8.1	9.8	21.0	10.4
Flow of Financial Assets	3.49	4.77	3.46	9.62	3.38	5.65	5.51	7.86	7.38	7.47
As a % of GDP	7.6	10.3	7.1	20.0	7.7	11.4	10.6	15.1	19.0	15.8
Flow of Financial Liabilities	0.91	2.55	1.38	2.94	1.81	0.80	1.31	2.72	- 0.78	2.55
As a % of GDP	2.0	.5.5	2.8	6.1	3.6	1.6	2.5	5.2	-2.0	5.4

Q1of 2020-21 witnessed real GDP contraction of 24.4 per cent. This was accompanied by financial savings rate of 21.0 per cent clocked by the Indian household sector. In the following quarter real GDP saw a moderation in contraction to 7.3 per cent which corresponded with the slowdown in household financial savings rate to 10.4 per cent (RBI Bulletin, 2021).

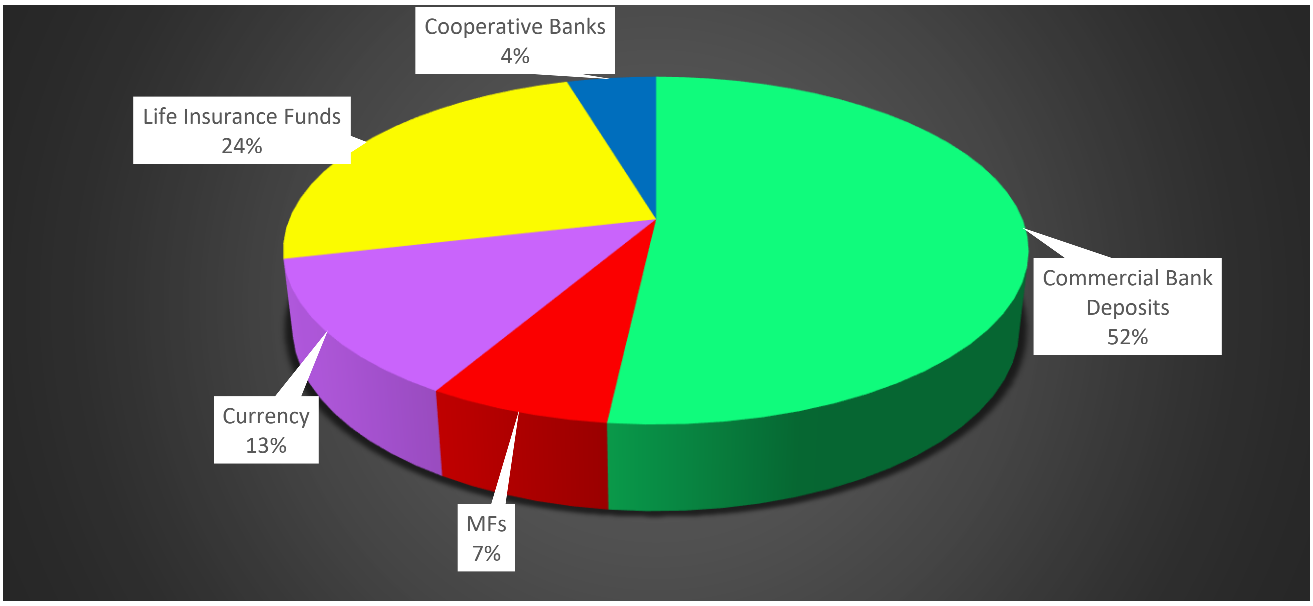
According to a SEBI survey (2015) majority of Indian households, over 95 per cent, prefer to keep their hard-earned money in bank deposits. Lower than 10 per cent of the households choose to invest in mutual funds or stocks (Press Trust of India, 2019). For the general Indian population, the most accepted standard long-term saving instrument for consistent or systematic contribution is life insurance while post office savings schemes come a close second in terms of acceptance as an easy method of capital formation (SEBI, 2015) .

Figure 4: Financial Assets of the Household Sector (MOSPI, 2021)



According to a recent research report published by CRISIL in December (2020), as of March 2020, investment by Indian households making way into mutual funds amounted to ₹11.60 lakh crore. This makes up close to 7 per cent of total investments of Indian households and amounted to ₹167.20 lakh crore (Cafemutual, 2021).

Figure 5: Components of Household Financial Assets as of Sep 2020 (RBI Bulletin, 2021)



The CRISIL (2020) report on mutual funds indicates that investment in mutual funds had been rising steadily in the post demonetization period. The MF investments stood at ₹13.8 lakh crore or 8.5 per cent of total Indian household investments by the end of financial year 2018 (CRISIL, 2020). But it has come down in FY 2020, showing a consonance with the equity markets which started correcting at almost the same time (MOSPI, 2021). This indicates similar kind of attitude or outlook of the investors towards these investment avenues.

Bank deposits had always been the most favoured vehicle for parking savings of the Indian households. As of March 2020, Indian households held more than half (56.5 per cent) of their total assets or ₹94.40 lakh crore in the form of bank deposits. In terms of popularity life insurance funds feature second on the list with an investment of ₹38.80 lakh crore from the household sector which forms 23 per cent of their total assets (CRISIL, 2020, p. 11). Currency holdings featured third on the list amounting to ₹22.30 lakh crore and constituting 13.4 per cent of Indian households' total assets (CRISIL, 2020).

Table 3: Outstanding Position of Household Investment (CRISIL, 2020, p. 11)

Rs lakh crore	**FY 18**				**FY 19**				**FY 20**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank deposits	74.1	76.5	75.9	79.9	79.2	82.2	82.3	87.3	86.8	89.6	90.6	94.4
Life insurance funds	29.4	30.4	31.7	32.1	32.7	33.6	34.1	35.6	36.5	36.9	37.9	38.8

Currency funds	13.8	14.2	15.3	16.7	17.8	17.5	18.5	19.5	20.1	19.8	20.7	22.3
Mutual funds	9.5	10.2	10.6	10.7	11.9	11.5	11.9	12.4	12.7	12.8	13.9	11.6

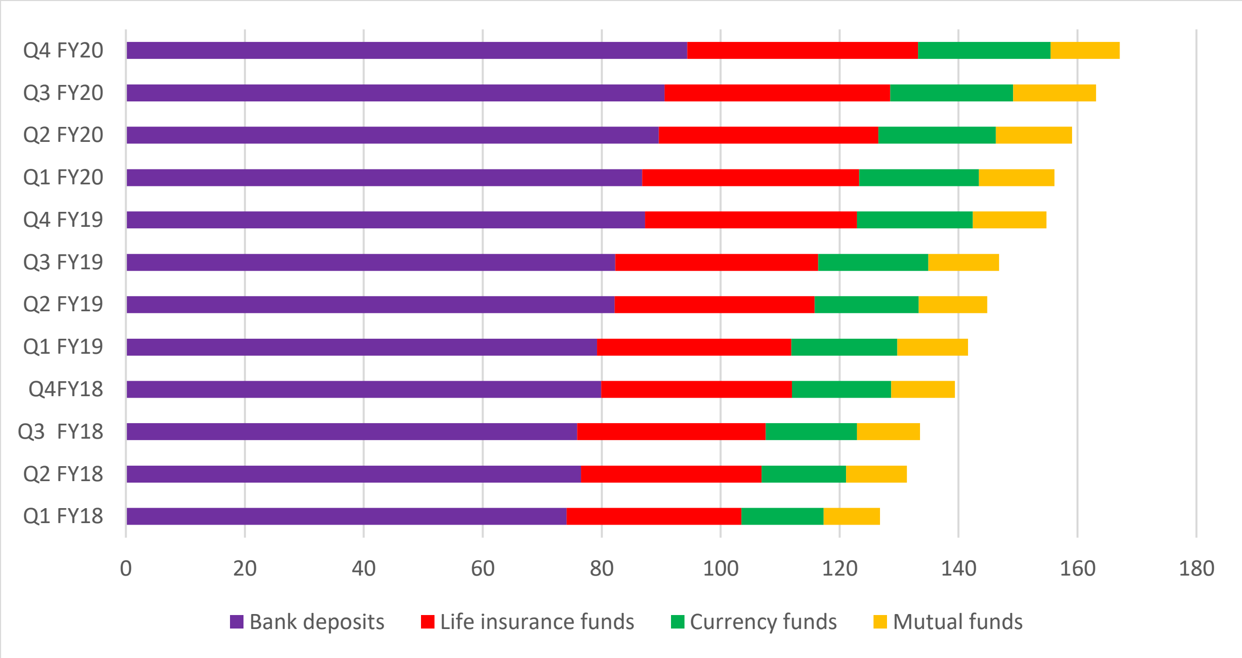
Table 4: Allocation (Percentage) of Resources by Indian Household

(Based on Data given in Table 2)

Rs lakh crore	**FY 18**				**FY 19**				**FY 20**			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Bank deposits	58.4	58.3	56.9	57.3	55.9	56.8	56.1	56.4	55.6	56.3	55.5	56.5
Life insurance funds	23.2	23.2	23.7	23.0	23.1	23.2	23.2	23.0	23.4	23.2	23.2	23.2
Currency funds	10.9	10.8	11.5	12.0	12.6	12.1	12.6	12.6	12.9	12.4	12.7	13.3
Mutual funds	7.5	7.8	7.9	7.7	8.4	7.9	8.1	8.0	8.1	8.0	8.5	6.9

Indian households have consistently parked more than half of their investible resources into bank deposits with life insurance occupying the second position as had been seen in SEBI Investor Survey (2015). Bank deposits, another important form of household financial savings had grown significantly during the second quarter (Q2) of fiscal 2021. The share of various components of financial instruments comprising the asset side of the portfolio of Indian households had remained fairly stable through first quarter (Q1) of 2018-19 to Q2 of 2020-21. However, currency holding as a percentage of the household financial assets had increased during Q1 of 2020-21 which indicates a flight of the investible funds towards cash pushed by extreme uncertainty ensuing from the COVID pandemic. In Q2 this has moved back up and has returned to its pre-pandemic levels as economic activities resumed after the countrywide lockdowns (RBI Bulletin, 2021).

Figure 6: Distribution of Savings Amongst Various Investment Heads



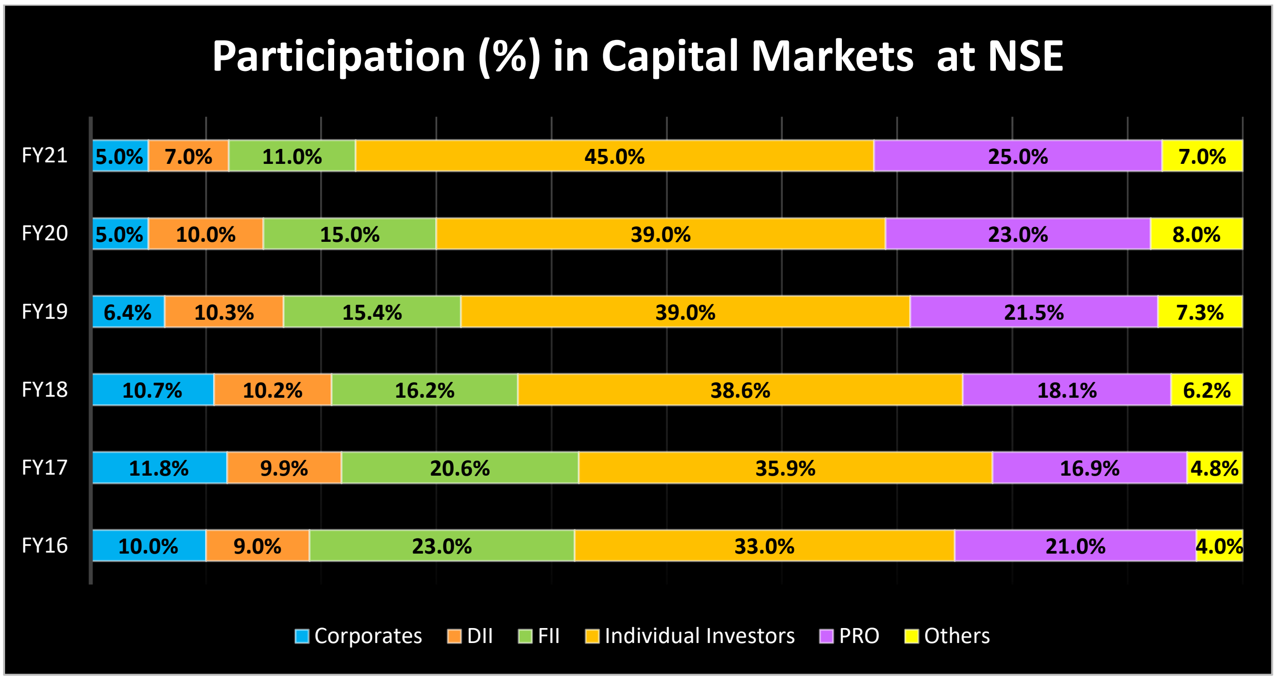
Commissioned in the year 2015 the survey continued for 3 years and got completed in 2018 and the results of the survey were released by the capital markets regulator SEBI in 2019. This survey had been conducted and the data collected had been analysed by Nielsen, a global leader in primary research (Press Trust of India, 2019). The survey conducted panned across rural and urban regions of the country. The results reinforced that life insurance is among the most preferred investment avenues for the Indian households, coming second only to bank deposits. Precious metals such as gold and silver, post office savings and real estate are also among the top-five investment vehicles preferred by Indian households (Press Trust of India, 2019).

Notwithstanding the moderation in economic growth, the rate of subscription to insurance funds by households continued to be elevated, suggesting that the pandemic has resulted in proliferation of awareness about life insurance among the household investors in Q2 of financial year 20-21. From being merely a tax-saving instrument for an average tax-payer, insurance policies have graduated to occupying an important position in almost every households due to rising cost of medical care, especially in times of health emergency, and more so in times of pandemic (RBI Bulletin, 2021).

According to the SEBI Survey, among the investment channels for the households from urban regions, mutual funds occupied the sixth position (9.7 per cent), next in line was stocks (8.1 per cent), followed by pension schemes, company deposits (CDs), debentures, derivatives and commodity futures (1 per cent) (Press Trust of India, 2019). Of the households from rural India, less than 1 per cent of the survey respondents actually invested, and the awareness regarding mutual funds and equities stood dismally low at just 1.4 per cent (Press Trust of India, 2019). However, except for a mere 5 per cent of rural survey respondents, all of them had bank accounts, nearly half (47 per cent) have life insurance cover, 29 per cent put their money in post office deposits while 11 per cent saved their money in the form of precious metals (Press Trust of India, 2019). (Press Trust of India, 2019).

Most of the Indian investors avoid investing their hard-earned money in equity markets. As a matter of fact, there are just about 18 million investors from a population of 1.3 billion, who put their money in the equity market. The scenario is quite similar for the Indian mutual fund market with as low as 2 crore investors who constitute less than 1.5% of the domestic population (IIFL, 2020). Nevertheless, contemporary events have highlighted the gradually amplifying role of retail investors in the Indian equity markets. The data also indicates growing importance of the retail investors in this segment. Indian capital markets, as of now, are ruled by individual investors, who presently account for as much as 45 per cent of trading turnover at the Indian bourses. Data from the National Stock Exchange or NSE, India's largest exchange, reveals that the share of individual investors in the market have slowly but steadily increased over time to 45% in 2021 from a 33% market share since 2016, as shown in Figure 7 (Shenoy, 2021) (NSE, 2021). From less than one third, they have now come to command close to half of the market.

Figure 7: Growing retail participation in the Indian capital markets



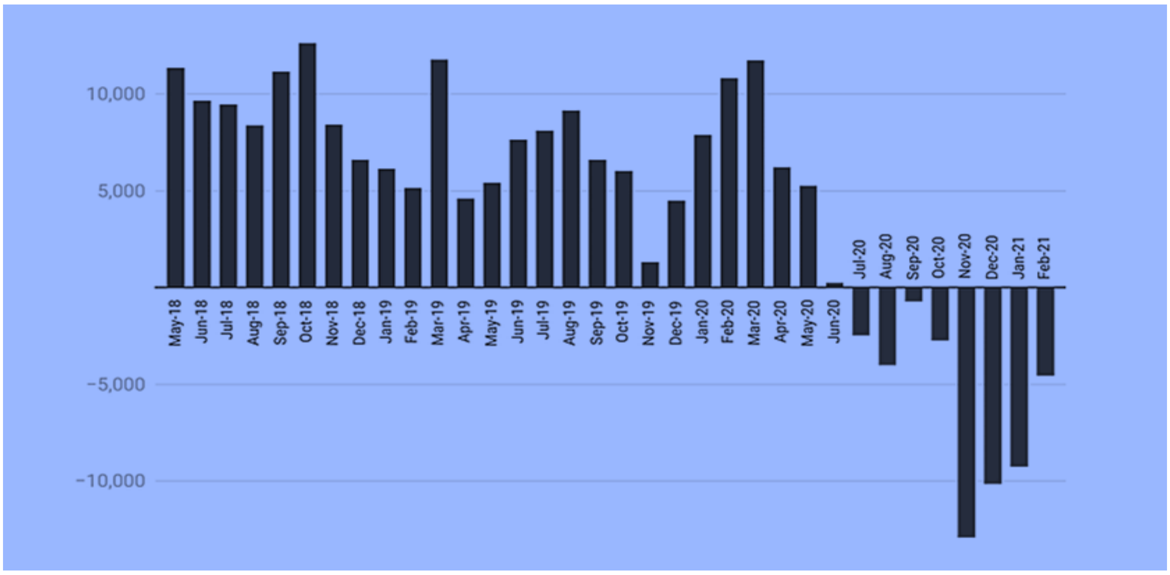
Source: National Stock Exchange (NSE)

These investors fuel enlargement of trading volumes. Additionally, they use leverage, take part in speculation on different companies through purchase and sale of options, and rest their faith on social media platforms in order to interact with each fore align ordinating their portfolio strategies (Aramonte & Avalos, 2021). Their adaption of mutual funds as a trusted avenue for investing in the stock market has resulted in mutual funds emerging as another key supplier of liquidity since 2014 (SK, 2021).

The financial years of 2017 and 2018 the mutual fund industry witnessed robust net inflows on the back of strong equity inflows and higher issuance of corporate bonds. However, the next two financial years of 2019 and 2020 saw moderation in the net inflows into mutual funds (CRISIL, 2020). The industry also suffered due to the non-banking financial company (NBFC) crisis occurring in fiscal 2019 and a big jolt from the Covid-19 pandemic that followed in fiscal 2020 (CRISIL, 2020). Net inflows dipped sharply from a high of ₹ 3,430 billion achieved in fiscal 2017 to a low of ₹ 870 billion in fiscal 2020, as a result of the major outflow witnessed in the last quarter of the fiscal. The sharp outflows in Q4 of fiscal 2020 was led by liquid funds and was the consequence of the sharp rise in redemptions that were triggered by the global pandemic (AMFI, 2021; CRISIL, 2020).

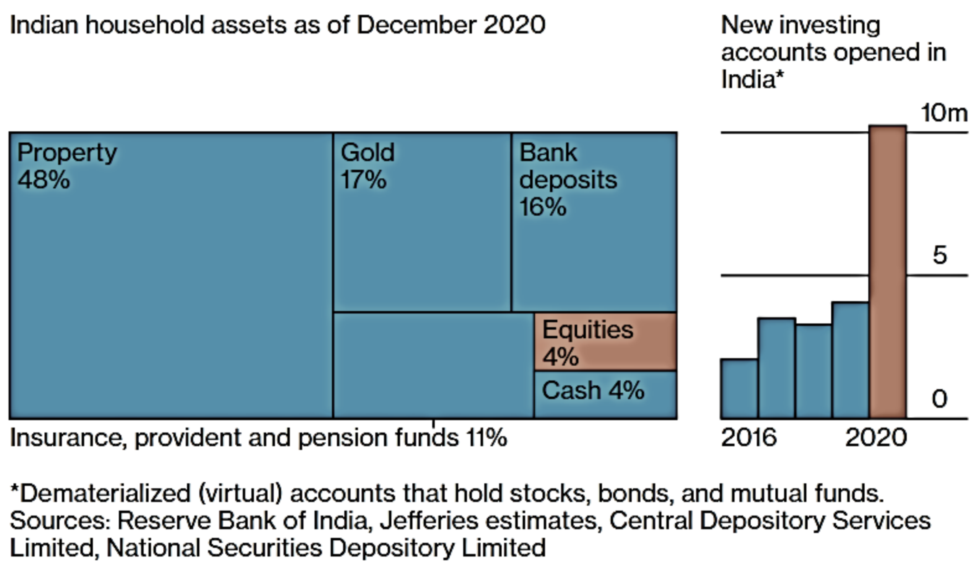
In an interesting turn of events, recent data drawn from capital markets suggest that the Indian retail investors are abandoning mutual funds in order to make direct investments into the stock markets, enticed by sky-rocketing share prices while the mutual funds continued to turn out monotonous low key returns during recent years (Reuters, 2021). Domestic investors have withdrawn ₹ 777 billion ($ 10.73 billion) from equity mutual funds in the last quarter of fiscal 2021, according data from the Association of Mutual Funds of India (AMFI), after unloading an aggregate of ₹ 377 billion in the corresponding quarter in fiscal 2020 (AMFI, 2021; Mathew, 2020). In the meantime, total number of 'demat' accounts, that store, in electronic format, retail investor holdings in securities, had gone up by 27 per cent last year and at the end of 2020, stood at 49.8 million (Reuters, 2021).

Figure 8: Net Equity Inflows (in ₹ Cr) (Fatakia, 2021)



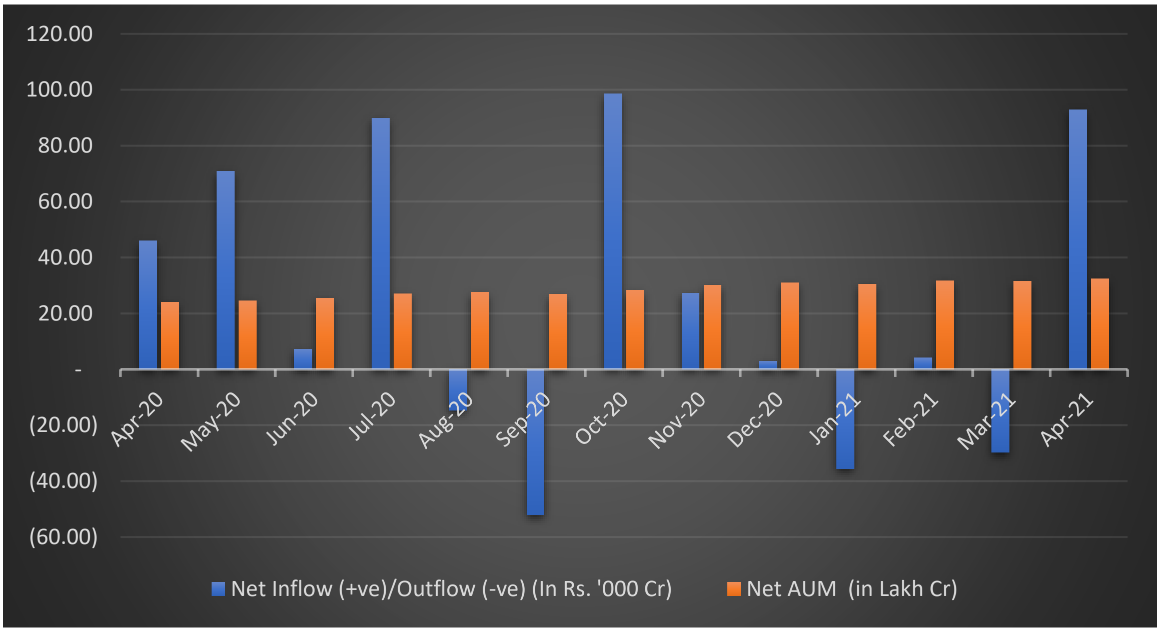
The data assembled by Jefferies, an international financial services company, showed that exponential upsurge in net inflows from retail investors into the stock markets during quarter ended March 2020 to quarter ended September 2020 coincided with the significant drop in net inflow into equity mutual funds from $3.7 billion in the quarter ended March 2020 to (-)$1.9 billion in the quarter ended September 2020. Data shows that net retail flow into domestic equities rose over 5 times from $1.2 billion in the quarter ended March to $6.8 billion in the quarter ended September (Singh, 2020).

Figure 9: Indian Household Assets as of Dec 2020 (Balwani, Mazumdar, & Acharya, 2021).



Data from India's 2 principal depositories (NSDL and CDSL) shows that there was a record 10.4 million rise in active investor accounts in 2020. Over 1,500 NSE-listed companies saw escalation in retail ownership (Balwani, Mazumdar, & Acharya, 2021).

Figure 10: Mutual Funds - Net Inflow and Net Asset under Management (last 13 months trend)



Source: AMFI (2021)

The beginning of fiscal 2021, saw the closure of a number of debt schemes by a mutual fund which resulted in additional outflow from debt funds. Liquid funds, however, witnessed a bounce back with a significant positive net inflow (CRISIL, 2020). The trend remained unabated in Q1 of fiscal 2022. On the contrary, equity funds performed well aided by the money inflow on account of the systematic investment plans (SIP). The Indian mutual fund industry amassed approximately ₹ 1 trillion in fiscal 2020 by way of SIPs, reflecting 8% year on year growth. As of September 2020, combined SIP asset under management (AUM) stood at ₹ 3.8 trillion (CRISIL, 2020).

7. Discussion

7.1. The Indian retail investor likes to play it safe

There is a plethora of literary work which indicates that financial decision makers are prejudiced by the domain, gain set against loss, that surrounds their financial decisions (Razen, Kirchler, & Weitzel, 2020). On paper, mutual funds mount up the savings of the small investors and employ their expert knowledge in order to invest in the assortment of securities that would help meet the stated objectives of the fund or schemes. This helps the mutual funds in diversification of the risk. Additionally, the small individual investors can reap the benefit of expert advice made available by the mutual funds to their clients (Gupta, 2008). The data reveals that debentures and bonds are not as popular among Indian household investors as equities and mutual funds despites them being less risky than these 2 investment vehicles. As has been found in various literatures, a large number of the investment decisions taken by retail investors are guided by lack of knowledge, awareness and experience. In case of Indian retail investors, lack of awareness about less popular instruments, has resulted in investors perceiving debentures and bonds to be of higher risk compared to mutual funds and equities. (Press Trust of India, 2019).

Thanks to the objective of the Indian governments and regulatory authorities of greater financial inclusion of retail investors by encouraging their higher market participation (SRIVASTAVA, 2018), the investor base in India is gradually getting bigger. This is evident from the data published through the SEBI Investor Survey (2015) report (Press Trust of India, 2019). According to the CRISIL (2020) report the domestic financial market is anticipated to continue on the grow trajectory at a robust pace on the back of strong drivers from both the demand-side and the supply-side including projected domestic economic growth, expansion in urbanisation and steady rise consumerism aided by increasing per capita incomes implying significant market growth potential for recognized financial service providers in India (CRISIL, 2020).

Indian household investors are more comfortable putting their money in bank deposits as is evident from Table 3 and Figure 5. It is also evident from the data analysis that mutual funds have gradually become a popular investment vehicle for the Indian retail investors. Since last few years, mutual funds have remained the prime investment candidate in the investment sector. The Indian investors have gradually started shunning investment in physical assets. Thanks to the slipping of real estate prices and the growing unattractiveness of the asset class such as gold that are considered to act as protection against inflation, the Indian retail investors are increasingly shifting towards mutual funds (Fincash, 2021). An increasing number of investors now understand and acknowledge the significance of putting their money into mutual funds for achieving their financial goals, both long term and short term (PTI, 2021). The industry is reaping the benefits of the consequent greater retail investor participation as a greater number of people have come to realise the benefits and potency of long term wealth creation by means of investment in mutual funds (PTI, 2021).

7.2. Influence of the Global Pandemic

The key trends in savings and their applications underwent a change due to the global pandemic caused by rapid spread on Corona virus. A series of lockdowns, closure of shopping malls, restaurants, cafes and cinemas, restrictions on travel and other activities that acted as key avenues for discretionary consumer spending, came to a halt. This generated substantial savings despite online shopping options remaining open. Households started spending only on essential items. It highlighted the fact that the household display a cautious stance under challenging circumstances. It is a reflection of their risk averse nature.

Growth in bank deposits during the pandemic reinforces this aspect of the household investors' behaviour reflected in the literary works. It also reflects the restoration of the safe haven status of these investments. The Indian banking system has remained resilient in the face of the COVID19 pandemic aided by rather strong capital and liquidity cushions created diligently as the repercussion of the worldwide financial crisis and pushed by several sagacious regulatory measures (RBI Bulletin, 2021).

As the Indian economy gradually started to reopen /unlock, households which had earlier constricted their spending to 'essentials only', started switching back their spending pattern to discretionary spending. As a consequence, there occurred a reversal in the households' financial savings which retracted from the peak that was attained in Q1 of fiscal 2021 (RBI Bulletin, 2021). The data again reinforces investors' behaviour of observing financial austerity at challenging times. On the face of it, the reverse relation between financial savings rate of the household sector and growth in GDP might seem faulty or illogical. However, studies have revealed that households have a tendency to save greater amount of money at times of economic slowdown when there is higher uncertainty surrounding income (Levanon & Franco, 2011). Recessions or any other periods of economic weakness require an engine of growth to break out of the situation. Increasing household saving rate in such an environment has the potential to pull back or slow down the pace of recovery because of the fact that by definition, savings is opposite of consumption. Therefore, when a household escalates savings, it brings down consumption thereby hampering the growth impetus (Levanon & Franco, 2011). This again clashes with the motives of the households who save with the purpose of creating buffer for challenging times. Among the household investors, salaried class investors tend to save money as bank deposits that can be their protection at times of financial downturn in an irregular future. The key avenues of making investment, in a manner that would maintain high liquidity, are the bank deposits and the key purpose of such investment are children's education, marriage, and security in post-retirement period (Dr. Muthumeenakshi & Manikandan, 2017) .

7.3. Interesting trend reversal

Psychological and behavioural aspects of non-institutional investors, rather than their prowess in fundamental analysis of specifics and numbers, have an important role to play when it comes to making investment decision (Kannadhasan, 2011). The actions of retail investors can be examined from their investment approach and their capacity to bear risk (Kannadhasan, 2011). Most of Indian investors sidestep investment in the equity markets due to their perception of the stock market as extremely investment avenue. This is reflected in the fact that a mere 18 million investors out of a population of whopping 1.3 billion, have actually entered the equity market. Even the mutual fund market in India is subject to same kind of bias. It has seen participation from only about 2 crore investors who comprise not even 1.5% of the entire population of the county (IIFL, 2020).

Most investors construe bank deposits to be the least risky and mutual funds to be better than direct equity investment. Both literature and data substantiate these standpoints. Retail investors prefer buying into mutual fund units to remain protected against market volatility and their own dearth of knowledge to form effective trading strategies. This is the normal practice. However, a reversal was noticed this year during the CORONA pandemic. The markets have seen a flight of retail investor funds from the mutual funds markets to direct equity investing. The proliferation of demat accounts has been the fall out of the millennials, facing stressful situations such as mounting medical care and other expenses, job losses and substantial pay cuts resulting from the desperate situations emerging due to COVID-19 pandemic. Individual investors tried their hands in the stock markets directly with the purpose of generating some additional income while staying at and working from home (Reuters, 2021).

Investors' aversion towards mutual funds has also been the consequence of the greater management fees and lower returns (Reuters, 2021) compared to equities and the fact that the investor has no control over the stocks bought or sold of even the timings of purchase and sale of shares. The Corona pandemic helped retail investors pick up stocks at rock bottom prices. Locked in their households due to work from home and the Covid-19 pandemic, millions of first-time investors joined the equity markets during April-October and helped bring billions of dollars in new money into the stock market (Chakraborty, 2021). Retail investors saw the corrections in the indices by over 24 per cent in March 2020 (Angel Broking, 2020; India Today, 2021; Singh, 2020) resulting from the commencement of the Corona pandemic as an opportunity comparable to the market crash witnessed at the time of the Global Financial Crisis of 2008-09 (Chakraborty, 2021). Data revealed that net flow of retail investments into the Indian equity markets increased by more than 5 times from $1.2 billion in the quarter ended March 2020 to $6.8 billion in the quarter ended September 2020 (Singh, 2020). While the retail investors pulled out sizable volume of funds from the mutual funds market in quarter ended September 2020, they injected similar kind of resources into the equity markets through direct purchase of stocks (Singh, 2020). The phenomenon received strong impetus from Indian broking organizations such as Zerodha who provide zero-broking services and from a host of other discount brokers who have not only simplified share purchase and sale but have also made admission into the stock market as simple and trouble-free as logging into incessantly accessed social networking websites such as Instagram or Facebook. This has actually allowed a new power to run free in the Indian capital market, belligerently referred to as 'Robinhood' (Chakraborty, 2021).

8. Conclusion

The fall in investment in equities and mutual funds at almost the same time indicates that the investors possess similar perception for these two categories of investment. The Indian investors have always construed equities and mutual funds to be risky investments and majority tend to avoid these avenues when it comes to investing their savings. Possibly lack of knowledge about trading strategies keep them away from equity markets. However, they also seem to possess same kind of attitude towards mutual funds despite the existence of several varieties of mutual funds that are neither purely equity nor purely debt instruments. However, the recent chain of events following the onset of the COVID19 pandemic and the resultant crash in the equity markets, job losses and economic uncertainty coupled with confinement at home have pushed the retail investors to display a different kind of behaviour. They turned more aggressive and developed higher risk appetite.

While this paper appears to be the first to analyse this kind of departure in investor behaviour from the conventional route and the quantum of funds flowing into and out of the direct equity markets and equity mutual funds during the COVID-19 crisis, creates significant scope for future research into investors' attitude. It would also be constructive to broaden our work to develop our cognizance and comprehension of the dependence of investors behaviour on investments of various duration in order to be able to survive and sustain under various economic conditions.