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Do Socio-Economic factors really Influence risk taking Behavior of individual Investors?

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Abstract

Individuals belonging to different socio-economic classes exhibit varying risk taking behaviors. In this paper, it has been examined that the risk taking behavior considers various socio-economic characteristics like income, age, gender, occupation, education and marital status. This study is carried across different communities (i.e., Ismaili, Memon, Hindu, Sheikh, Delhi Sodagran, Chinioiti, Behari and others). Survey method is used to collect the primary data through snowball sampling. 200 respondents participated in the survey. For hypothesis testing chi-square test is applied in SPSS and results reveal that marital status, age, income, education and occupation is significantly associated with risk taking behavior whereas gender has no association with risk taking behavior. Further, it is also explored that risk taking behavior across the communities is not significantly different.

Keywords: Communities, risk taking behavior, socio-economic characteristics, investment behavior.

Introduction

Previously, a plenty of studies have been conducted with reference to investors' characteristic and investment behavior in Western and European countries. Recently, many of Indian researchers have indulged themselves into the investigation of investors risk tolerance and investment choice behavior studying investors' demographics. However, sufficient studies have not been carried out in Pakistan in this respect. Pakistan is an emerging economy and people have become more aware about the stock markets, commodity markets and other investment options available to them. Investment banks, mutual funds and investment brokerage houses are playing very important role in mobilizing the savings of the households. At the same time, these institutes also give consultation to their clients about investment decisions but face difficulties to understand complex behavior of the clients regarding investments. Therefore, this study aims to examine the investors' investment behavior with respect to investors' socio-economic characteristics such as income, education, community, age, gender, occupation, marital status and employment status. The specific objective of the study is to explore the different communities *(Memon, Chiniotee, Shaikh, Ismaili, and Hindu)* of investors and its impact of investment choice and risk tolerance.

There are several implications of having better understanding of different communities and their investment behavior for financial advisors, investment banker and individual investors as well. If the investment behavior of different communities varies across different investment choices (Stocks, Real estate, Bank Account, Commodity and Foreign Currency) and risk tolerance levels (risk taker and risk averters) then financial education and awareness programs should be designed towards specific communities.

Literature Review: Behavioral finance has got importance in last two decades; therefore researchers are curious to know the role of behavioral aspect in individual investor's investment decision making process. Lutfi[1] revealed a significant association between investor's demographics (gender, marital status, age, income, education, and number of family), choice of financial products (bank products, physical assets and capital market instruments) and risk tolerance of an investor (risk seeker and averse). The study showed the significant connection between investors' investment choice and risk tolerance.

James Farrell[2] investigated the association between gender/race and investors' risk tolerance. He found that blacks and women take investment decision more conservatively whereas whites and men take high risk and seek higher returns. Michael S. Gutter[3] studied the racial difference in investment behavior by using financial, attitudinal and socioeconomic data of individual investors from Survey of Consumer Finance. He suggested that ethnic variances in asset ownership are described by ethnic variances in the individual determinants of risk in race itself.

Gutter M.S. and Fontes[4] developed a 2-staged "investment decision making model" with an objective to explore the relationship between race and investment behavior. This study showed that Whites are more likely to own stock than Blacks. Once the ownership takes place, there is no significant

distinction in portfolio allocation. The study also indicated that barrier to investment markets and difference in information exposure attributes to racial disparities in risky asset ownership.

Korniotis, G.M., and A. Kumar[5] also examined older investors to find their decisions making dynamics. Many researcher of psychology agree that decision making capabilities deteriorate as people get older depending upon the mental health of individuals. In the same study[5] it is found that experienced investors are less likely to take effective investment decisions. Older investors have greater knowledge but they exhibit worse investment skills particularly belonging to minorities, lower income and are less educated segment. It was concluded that influence of aging rules the positive influences of experience.

Anderson, Torben M. Bhattacharya, Joydeep[6] studied the investment behavior of employees of OIL India Limited and found that four demographic variables (designation, gender, qualification and age) are important in guiding investment decision and in particular, age was significant indicator to influence equity investment decision. Gender influences present investment decision whereas designation and qualification play no role in equity share decision making. Further studies reveal that demographics of investors play significant role in selecting different investment portfolios and willingness to take risk.

Mittal, M., and Vyas, R.[7] investigated the role of variables such as gender, education, age, income and occupation on the investment choice in India on a sample of 428 investors. The study provided evidence that the investment preference relies on investors' personal attributes such as gender, occupation, income, education and age. They[7] propounded that an investor may be a household, small businessman, an investment banker or head of a big company. A good investment decision taken by an individual can change his/her fate but a good investment decision taken by head of a company can change the fate of the organization. In 2007, Kannadhasan M, and Dr. R Nandagopal[8] conducted a research on financial professionals (GMs, CFOs, and VPs) of listed automobile companies in India. This study examined how risk analysis in "strategic investment decisions" (SIDs) is influenced by decision makers' characteristic (demographics). The study revealed that the risk propensity of the Finance Professionals is positively associated with risk analysis in SIDs.

Weiping Liu and CHEN Chong[9] examined the financial behavior of households in China. Psychometric and demographic variables (household wealth, per capita income, education, marital status, employment status and investment in housing) were used to collect the data of individual households through a survey using questionnaire. The study found several factors that influence the preference of households' portfolio allocation and willingness to opt for investment activities. The study showed that household wealth, per capita income, education and employment status has significant impact on portfolio allocation of individual investors. However the marital status plays no role in determining the resource allocation of investors in China. In contrast, Chavis, Larry W. and Klapper et al..[10] found that Martital status transition plays a significant role in influencing the investment choice special in case of being divorced and widowed. Same study[10] also suggested that change in marital status and having children has some importance to investment choice.

Along with other demographic variables, the role of gender has been researched in behavioral finance. Yash Pal Davar, Suveera Gill[11] investigated the underling dynamics of investment choices for both male and female investors. The results of the study suggested that males have higher level of awareness and satisfaction than females for various investment venues. The study also emphasized the role of familiarity and opinion as underlying dynamics of investment choice for both male and females.

Lucy F. Ackert[12] investigated portfolio allocation decision of demographically diverse respondents. The study concluded that asset allocation decision vary across home ownership, gender, net worth and psychological orientation. However, when it comes to portfolio investment decision in equity market only age of investor plays a vital role. Moreover this study exposed psychological orientation role in investors' ability to explain asset allocation decision.

Grable, J. E.[13] examined investors' risk tolerance with respect to investors' socio-economic characteristics to classify individual investor in risk tolerance categories. The study, using discriminant analysis identified that education, professional occupation status, income, gender, marital status, and racial background are significantly correlated with willingness to take risk. The study also concluded that examined demographics explained 20 percent of the variance in risk tolerance levels.

Based on preceding literature, Alexander, G. J., Jones, et al[14] worked to reveal the hidden pattern of mutual fund investment based on investor's demographics. This study recorded the responses of 2000 investors of mutual funds and their demographics including age, income, education, and gender. The Researchers identified that young investors are more likely to choose mutual fund. Furthermore, the results indicated that investors having more than $58,800 of income invest in mutual funds and are likely to have higher educational qualification.

Methodology

The objective of the study is to explore underlying relationship between socio-economic factors, risk taking behavior of individual investors belonging to different communities in Karachi. A Survey method deemed appropriate to get responses from the participants of the study. A close ended questionnaire

is designed that contained questions related to socio-economic variables, risk taking behavior and investment choice. Snowball sampling method is used and the sampling unit of the study is an individual who invests, educated, and has knowledge of different investment options. 280 questionnaires were distributed (40 questionnaires for each community) and 200 questionnaires were appropriately filled and used for the analysis. Frequencies, descriptive statistics and chi-square test is applied to test the study hypothesis.

Results and Discussion

Results: To test the hypothesis of the study, help has been taken from sophisticated software Statistical Packages for Social Sciences (SPSS). The socio-economic variables are in categorical in nature and risk taking ability is also summarized in for categories (i.e., low, moderate, high and very high risk taker). To check the association between two categorical variables, chi-square test was deemed suitable to test the hypothesis according to previous studies. Table 1 explains the frequencies of responses of participants based on socio-economic indicators.

Frequencies table shows that total 200 respondents participated in the survey. It also indicates that there are more numbers of male participants (161) as compared female participants. Pakistani society is male dominated society, so males are more aware and exposed to investment opportunities. Further, it states that 152 unmarried (single), 44 married, 3 divorced and 1 widowed gave their responses. The table also exhibits that majority of participants belongs to below 25 age group (142). Based on monthly income, we can see that 142 participants belong to less than Rs. 25000, 41 belong to Rs 25100-50000, 17 participants belong to Rs 50100-75000, 9 participants belong Rs 75100-100000 and other 9 belong to more than 100,000 income group. Similarly, if we see occupation wise most of the participants are student but other occupation has sufficient number of representatives. Looking at education of the participant, it reveals that 24, 87, 70, and 19 participants having education of intermediate, graduation, post-graduation and doctorate participated in the survey respectively.

Conclusion

Considering the above analysis, it can be concluded that investors belonging to different communities in Karachi Pakistan shows similar risk taking behaviors. The perception that few communities like Memons, Chinoiti and Dehli Merchant take higher risk than other can be rejected in this study. It may be due to current political and economic conditions of Pakistan. Investors are uncertain about the future market condition hence feel reluctant to take risk and invest in less risky assets. Similarly, gender of the investor has no association with level of risk taken by the investor. However, other socio-economic characteristics have significance association with risk taking behavior. Married people are unlikely to take risk as compared to unmarried investors. Similarly, it is also shown that young investors are risk taker and aged investors show risk averse behavior. Results revealed that investors with high income prefer more risk than investors with less income. Finally, it is also been exhibited in the analysis that people with high level of education prefer higher risk than investors low level of education.

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Appendix

Characteristic.s		**No. of Respondent.s**	**Percentage**
Total No. of Respondent.s		**20.0**	**10.0**
Gender	Male	1.61	80.5
	Fe.male	39	19.5
	Total	**20.0**	**10.0**
Marital Status	Unmarried	15.2	7.6
	Married	4.4	2.2
	Divorced	3	1.5
	Widow	1	0.5
	Total	**20.0**	**10.0**
Age Group	Be low 25 Year s	14.2	7.1
	25-35 Year s	3.4	1.7
	3 5-4 5 Year s	1.1	5. .5
	4 5-5 5 Year s	7	3.5
	55 Year.s and Above	6	3
	Total	**200**	**100**
Average In.come (Per Month)	Below Rs 25 000	124	62
	R s 25 000 - R s 50 000	41	20.5
	R s 51 000 - R s 75 000	17	8.5
	R s 76 000 - R s 100 000	9	4.5
	R s 100 000 an d Abov e	9	4.5
	Total	**20.0**	**10.0**
Occupation	Service	4.6	23
	Profes.sional	19	9.5
	Student	10.1	5.0.5
	Busi.ness	2.1	1.0.5
	Others	13	6.5
	Total	200	100
Educational Qualification	Intermediate	24	12
	Graduate	87	43.5
	Post Graduate	70	35
	PhD	19	9.5
	Total	200	100
Community	Memon	29	14.5
	Chinioti	35	17.5
	Hindu	17	8.5
	Dehli Merchants	18	9
	Shaikh	28	14
	Behari	26	13
	Ismaili	14	7
	Others	33	16.5
		200	100
Source: Primary Data from the questionnaire administered			