

Behavioural Shift In The Investment Paradigm

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Citation: Mr. Sangeeth C Cherian, et al (2024), Behavioural Shift In The Investment Paradigm, *Educational Administration: Theory and Practice*, 30(6), 2032-2039, Doi: 10.53555/kuey.v30i6.4774

ARTICLE INFO

ABSTRACT

Rising Inflation become one of the nightmares of world economy, however, per capita income and GDP growth have improved a lot in Indian economy from 2010, but investors are much aware about the precarious situation of inflation and eagerly applying some remedy to overcome the situation. They are striving to save the time value of their savings, as far as inflation eats their savings and investment quickly. Converting the money from savings to investment is only one and one remedy for the inflation, government might take some measures through monetary policies. Corporate and households income have buoyant and turned upward trajectory, which is good sign of economic growth but expenditure part also have increased drastically. In olden days parking the funds in to Gold, FD & Property were the only remedy against inflation, no matter what goals and object they set behind such investment plans, majority people converted the money in to real estate and land rather than keeping it in a liquid form, especially to save the purchasing power of the money as to fulfil their objects, later this could be liquidated as and when they required. Nowadays there is a behavioural shift happened in the emotional intelligence part of investors, the long term perception of investment has been moved to short term and every investors are eager to have everything in a most liquid form of assets.

Keywords: Inflation, GDP, Gold Price and Fixed Deposit and Property

1.1 Introduction

Rising Inflation become one of the nightmares of world economy, however, per capita income and GDP growth have improved a lot in Indian economy from 2010, but investors are much aware about the precarious situation of inflation and eagerly applying some remedy to overcome the situation. They are striving to save the time value of their savings, as far as inflation eats their savings and investment quickly. Converting the money from savings to investment is only one and one remedy for the inflation, government might take some measures through monetary policies. Corporate and households income have buoyant and turned upward trajectory, which is good sign of economic growth but expenditure part also have increased drastically. In olden days parking the funds in to Gold, FD & Property were the only remedy against inflation, no matter what goals and object they set behind such investment plans, majority people converted the money in to real estate and land rather than keeping it in a liquid form, especially to save the purchasing power of the money as to fulfil their objects, later this could be liquidated as and when they required. Nowadays there is a behavioural shift happened in the emotional intelligence part of investors, the long term perception of investment has been moved to short term and every investors are eager to have everything in a most liquid form of assets. Nowadays entire world economy has been in turmoil of inflation and most of the countries are tightening their monetary policy by increased the interest rate. Pre economic crisis period of 2010, the finance field has experienced paradigm shifts. The evolution of behavioural finance completely correlated to psychology & econophysics, which begins with Edward Lawrence butterfly effect, traditional finance was the dominant paradigm, as they have always insisted on the conventional theory, this new paradigm has become part of the financial industry. Traditional financial concept completely focuses on peoples decision making methodologies where behavioural finance guide the investors, How do they developed the constructive decision. Behavioural finance applies insights from the social sciences, economics & psychology for a better understanding on investor behaviour. Some of the empirical studies shows that the subprime crisis of 2007-2008 has made a drastic change in the paradigm shift in investment, which has likely to affect their investment behaviour as well, specifically regarding their risk tolerance and willingness to invest in stocks.

1.2 Statement of the Problem

Huge cash flow investment into ETF, Mutual funds and direct equity, at the same time ROI and liquidity of these instruments have made a strong impact on the perception of traditional way of investment, certain heard behaviour and cognitive developments through the awareness, ultimately these all factors directly and indirectly changed the behavioural shift of parking the money in to passive and active investment of equity, which is spreading like a wild fire. The other side of the coin is some investors are being subjugated in to crypto currencies and investments, where they do not have proper transparency in deployment and asset allocation. Investors must aware about the level of risk he or she takes in each and every asset allocations and that would be the major task of capital market investment, if that dissemination goes erroneous, the return on investment would be be depleted. The ultimate yield of investment is totally depends up on the economic, geopolitical and corporate governances, so the investors have to set their riskometer accordingly .Indicpleine way of investment and misguidance may lead the investors in to deep capital erosion and the returns will be insurmountable, so investors have to analyse their risk capacity before taking the investment decisions.

1.3 Review of Literature

- In the study of **Arrow (1971)** 46 in his study “Essays in the theory of risk-bearing” explains that the theoretical reasons that pertained to risk versus wealth increases with age ,smaller percentage of wealth can be parked in risky assets based on the gap between wealth and age.
- In the study of **Werner F. M. De Bondt December 3, 2015** it describes the changes from the normal view that financial decision is always depends up on the rational factors to a behavioural approach based on judgmental heuristics, biases, mental frames, and latest developments of choice under risk. The latest asset pricing models, which adds behavioural elements to the normal framework,
- In the study of **Werner F.M.De Bondt Richard H.Thaler** Some of the pragmatic empirical study given an idea about behavioural decision making factors which lied down with investors mainly three driving forces driving the decisions in financial markets which are demand for completing , lowering transaction coast, redcing the monitory cost.
- In the study of **Frat Demr -2008**, Numerous availability and openness of alternative investment opportunities in financial markets can become a big contribution in directing actual sector savings to short-term financial investments instead of accumulating the capital formation in a long term perception and thus lead to deindustrialization.
- In the study of **R. Glenn Hubbard April 1997**,Over the last many years many research scholars have extended conventional model of fixed investment connected to financial constrains in determining the investment . The asymmetric information in capital may lead the investors in to trouble. He has explained the empherical challenges in the research part of alternative investment options.
- In the study of **Bernard S Black- March 1998** , bank-centered financial market always augment this structure and to nurture a long term goals of equity market with long-term planning, while a equity-centered capital market is said to encourage short-term expectations by investors and responsive short-term strategies by managers. . He has clearly distinguished the nature of US stock market Which is an enormous market with huge volume but weak intermediaries, there is a huge gap between banks and nonfinancial firms.
- **Bandgar P.K (1999)** He has escalated some of his 8 surveys about a middle calss investors which is pertained to his “Financial Instruments in Greater Bombay”, disclosed that ,most of the investors always prefer their own study and practical observation as an important factor for their investment decision and many investors having so many impediments during the voyage of buying and selling the instruments and finding difficulties to set the proper pricing. He has emphasied one interesting fact is that ,the lack of knowledge of middle class people and the right valuation of stocks may leads them in to unsafe investment.
- **Gupta (1993)** He has conducted a study on mutual funds and asset performance of household investors in India. According to him after the liberalisation, there is a drastic change happened in the behaviour of investors especially in the middle class Households, who have newly started the investments in mutual funds. This particular change is one of the best examples of behavioural shift of investors into alternative asset class.
- **Malayendu Saha (2012)** 45 carried out a study on “Indian Economy and Growth of Financial Market in the Contemporary Phase in the Globalization Era”.india will have to face lot of challenges despite the fact that the economy in a booming period but the defence mechanism required a strong push from the side of Government to over the impediments of political and bureaucratic control. Reforms are inevitable part of this economic growth, however, policy makers have to accelerate the growth by changing the policies. This has to cover up the entire area of fiscal and monitory policies, this would be the bolstering part of macroeconomic stability is the another fact, which he has mentioned in his report that, these reforms would definitely streamline a proper incentive system and accountability.
- **Mathivannan.S and Selvakumar.M (2011)** 41 according to his study on “Savings and investment pattern of school teachers in Sivakasi Taluk, Tamil Nadu”. The empirical data distinguished clearly about

the value of money based on the person's prestige and worth. Seemed to be that, most of the teachers are saving their money for their children's education and marriage not for their personal needs.

- **Shanmugsundaram.V and Balakrishnan.V** (2011) in their study entitled "Investment decisions-influence of behavioural factors" "one of the most interesting point of their study is heuristic bias on each judgement, such rationality help us to take decision so easily rather than ruminating the same questions for long time, most of our decision are the rational and which is being influenced by different government policies and business opportunities. Some time we need to take some quick decision based on time demands, a heuristic approach is always good in such circumstance based on the past experience and garnered information pertained to the subject.

Herd behaviour also is another influential factor in decision making, these decision making culture has been imbibed in the society over a period of time.

1.4 Theoretical framework

Savings & Investment

People have started to think about the difference between investment and savings, there were hardly only few traditional options available in the market before, stereotype investment such as Post office savings and FD, acquiring the yellow metal was a traditional habit of the people in India. Some of the investors have converted their money into Real estate, as far as predilection to land investment was one of the safe and predominantly yield producing element through agricultural commodities. Later the scenario has been again changed from agricultural purpose to property trade i.e. buying and selling the property in a certain marginal difference. Subprime real estate crisis has made an impact in real-estate sector which changed investors' mind from blind buying to actual investment, investors started to realise the illusionary pricing and inorganic growth, some of the exogenous factors also affect the market from the previous condition, it has given a clear conviction to all investors to choose the investment according to their object rather than taking some intuitive decision for their alternative assets class investments. This realisation has changed the investors' behavioural thought, to be distinguished savings to investment options. These cognitive developments must be one of the reasons for the paradigm shift of investment from traditional assets to alternative asset classes. Capital market awareness through the current educational system might have generated millions of new investors, to have a clear idea about alternative asset classes. This would be really helpful to know the pros and cons of the assets and risk elements etc. people are much bothered about exponential returns and time frame. These two factors empirical experiences have given lucid explanation about alternative asset classes. The risk is always high in equity investment based on the prevailing economic condition but investors are very vigilant and cognitive developments and lot of deep study on the fundamental and technical part and deploying fund ultimately into these assets.

Inflation worries

People's standard of living has been changing on time to time both in the rural and urban area, however, they couldn't afford the rising expenditures through the traditional way of savings and investments. Some of the investors are not believe in very long terms return concepts, so these type of behavioral shift have made an impact in the investment current scenario, investors have been shifting from gold and FD to Equity investments and other alternative asset classes. Inflation is a natural phenomenon, which is being part of an emerging economy based on persisting demand in each product and due to many exogenous factors, inversely people spending also increases dramatically but there is no alternative remedy to meet or to set the budget against it unless controlling it through the government monetary policies. Now people attitude have been turning towards aggressive investments such as alternative assets like equity bond and derivative products

Herd mentality

Its common behavioral science of any decision making, herd mentality is an influential factor in changing the investment pattern from traditional way to contemporary model based on prevailing the economic conditions. Perhaps awareness may be one reason and peers comparison might be another reason, this is commonly known as indirect awareness from mouth to, which makes significant changes in the investment pattern and paradigm. Peers comparison in terms of return and investment effect the investors to channelize the funds from traditional investment to alternative assets. Perhaps some behavioural changes might have affected the people's aptitude in terms of investment selection from gold to Nifty bees, Fixed deposit to Mutual funds, Physical Gold to Gold ETF etc. In our daily life we may compare many things with what's happening in our surrounding society, however, this may influence in a certain level in our decisions as well. So herd mentality also have an vast role in decision making of investments in risky assets. Market survey and proper communication would be one of the key factors of awareness that may lead the investor from traditional asset classes to alternative assets.

Digitalization move

One of the key elements of digitalization is quick information, transparency, easily execution, these things have invigorated and multiplied the the numbers of equity investors in last three years. In the beginning people had an attitude to park the funds in to insurance products as an investment but later they realized that, the difference between insurance and investment. These changes has reflected in the number of participants, those who are actively doing the investment through online and activated the demat account in CDSL since last 5 years. Another interesting report is that, most of the investors are doing their investment through online platform after the digitization move, So the liquidating assets also became very easy and faster after this move. New cutting edge technologies have changed the phase of investment platform from downtrodden level to upfront. Perhaps an asymmetric information or lack of information would be one of the failures of stock market investment .An efficient market means market should be fully informative otherwise investors will be have situation to take decision, while they park the funds in to alternative assets like equity and debt. upto certain level digitalization world .

- Equity investment is one of the most liquid assets which can be transformed in to cash mode as faster than other assets. As an emerging market, India will be one of the leading equity markets in international level, flexible monetary policies and investor friendly environments attract foreign investors compare with other Asian countries.
- Tremendous change in the paradigm shift of investment from other investment classes to equity. The awareness and technological changes may be the major reason for this new flow.
- Cognitive developments and behavioural changes could be the cause of this move from conventional methodology to risky asset investment. Digitalisation move may be bolstering part of this euphoria, to divert the investment rom fixed deposits and real estate to Risky bets like Equity and digital currencies.
- Stock Market may not be a conducive environment for short term investors. Short terms investment and trading are always risky such awareness is imperative for stock market investment.
- Government has increased their investment allocations and participation in equity market.
- The liquidity part of Indian stock market has been drastically increased.FIIs and DIIs participations as well as investment volume enhanced year to year
- An efficient market is fully informative market-Lack of information may be root cause of all investment failures.
- Knowing about the company is the most important element of stock market investment.

1.5 Significance of the Study

The main idea behind the study was to understand in detail about the behavioural shift in investors among various asset classes.

1.6 Objectives of the Study

2. To find out the behavioural shift in investment alternatives.
3. To describe what factors influencing the investors to think differently
4. To identify investors motivation behind all investments.

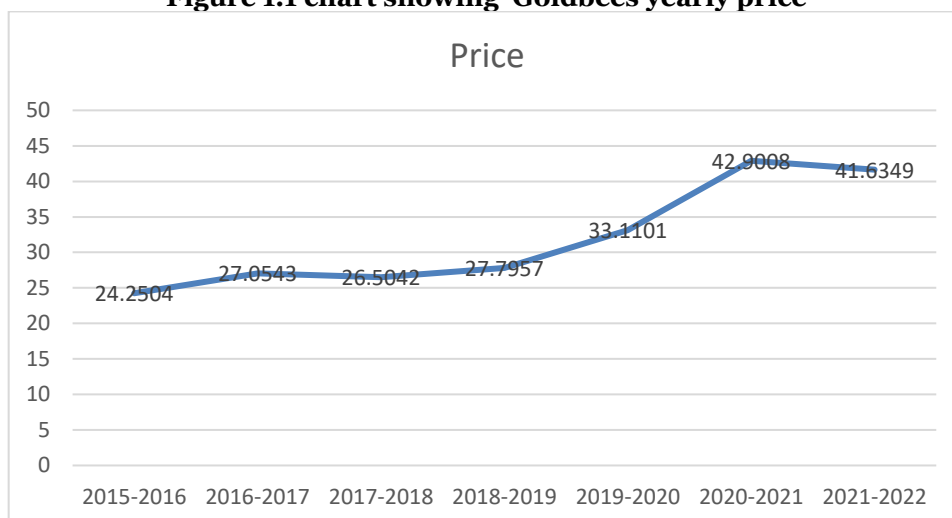
1.7 Research Methodology

Secondary data is the data that have been already collected by and readily available from other sources. Such data are cheaper and more quickly obtainable than the primary data and also may be available when primary data cannot be obtained at all. In this study data like nifty bees & gold bees price and aum history are collected from various sources including government publications, industry analysis offered by various media, websites.

1.8 Analysis and Interpretation

Table 1.1 showing Goldbees yearly price.

Year	Price
2015-2016	24.2504
2016-2017	27.0543
2017-2018	26.5042
2018-2019	27.7957
2019-2020	33.1101
2020-2021	42.9008
2021-2022	41.6349

Figure 1.1 chart showing Goldbees yearly price**Table 1.2 showing Niftybees yearly price.**

Year	Price
2015-2016	80.6219
2016-2017	86.6137
2017-2018	103.7696
2018-2019	114.3704
2019-2020	120.7722
2020-2021	128.7908
2021-2022	179.8549

Figure 1.2 chart showing Niftybees yearly price**Table 1.3 showing Index fund quarterly Aum.**

Period	AUM (Cr)
2019 Apr-Jun	5719
2019 July-Sep	6571
2019 Oct-Dec	7903
2020 Jan-Mar	8089
2020 Apr-Jun	11168
2020 July-Sep	12581
2020 Oct-Dec	15259
2021 Jan-Mar	19164
2021 Apr-Jun	24946
2021 July-Sep	33824
2021 Oct-Dec	45429
2022 Jan-Mar	68675

Figure 1.3 showing Index fund quarterly Aum

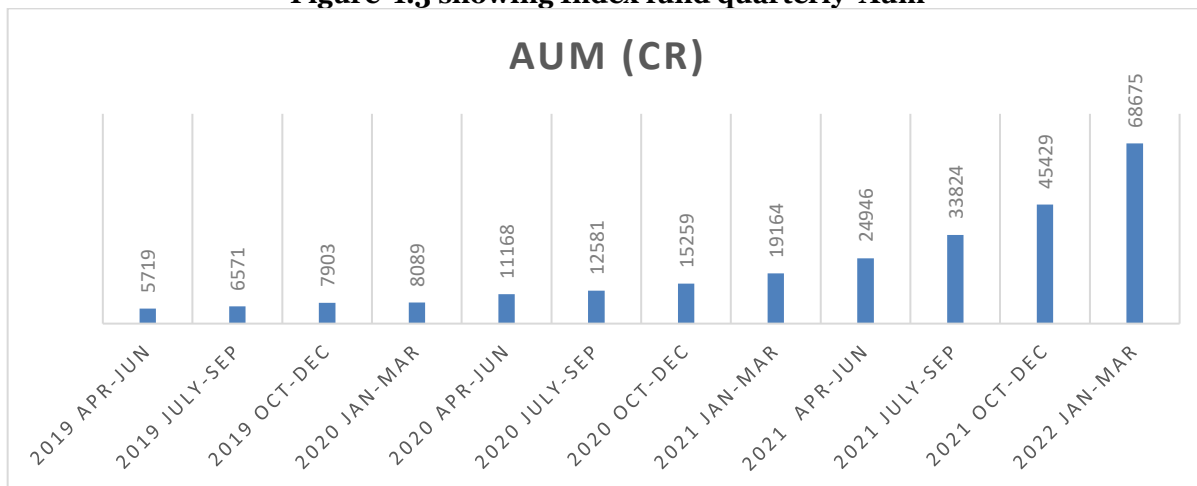
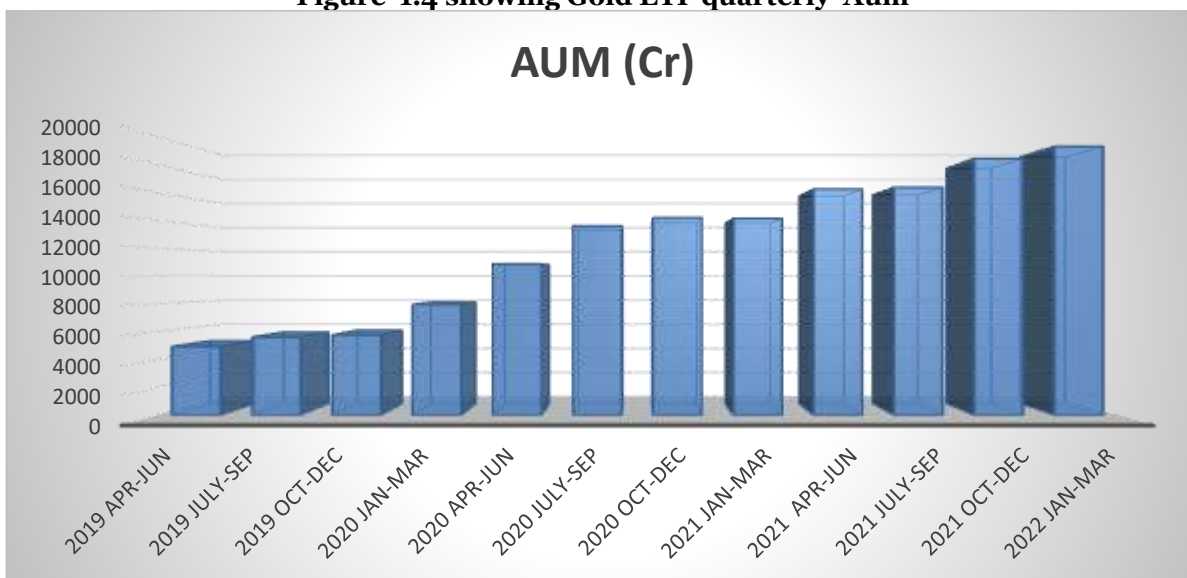


Table 1.4 showing Gold ETF quarterly Aum.

Period	AUM (Cr)
2019 Apr-Jun	4930
2019 July-Sep	5613
2019 Oct-Dec	5767
2020 Jan-Mar	7949
2020 Apr-Jun	10857
2020 July-Sep	13589
2020 Oct-Dec	14173
2021 Jan-Mar	14122
2021 Apr-Jun	16225
2021 July-Sep	16336
2021 Oct-Dec	18405
2022 Jan-Mar	19280

Figure 1.4 showing Gold ETF quarterly Aum



1.9 Findings

Goldbees Price: Price move and variations of yellow metal is imperative, since it is one of the major components of currency reserves and a Risk mitigating tools of world currencies volatility. Gold is one of the ancient asset class and investment tool, where people used to accumulate it as much as they could as a reserve. More accumulation and less liquidation is another important factor of yellow mettals .In an economic point of, view price may shoot up time to time based on the demand and scarcity. Major developed countries are scaling up their gold reserve status in a competitive way Many people are eager to buy the gold

as an ornamental and prestigious status, these all factors are pushing-up the price of gold from 24.2504 (2015-16) to 41.6349(2021-22).

Niftybees Price: The price of Nifty bees increasing from 80.6219(2015-16) to 179.8549(2021-22) dramatically after each exogenous corrections, that just because of the liquidity and major investment flow. Since India is an emerging economy, Sectorial growth also bolstering the price of Nifty bees day by day. Nifty become one of the leading index of Asian economy compare with Shanghai (China) and Nikkei (Japan) market. Price move is entirely depends on the domestic and world economic performance rather than buying and selling.

Index fund Aum : The AUM of index fund drastically going up from 4930Cr(April-2019) to 19280Cr(March-2022) in the recent years, as the new investors and market participants are increasing time to time. This paradigm shift in the investment is happening just because of the cognitive development of the investors from conservative asset class to aggressive asset classes. This herd behaviour drives the number of investors from the current level to other heights, which may accelerate the entire economy from the mode of savings to investment.

Gold ETF Aum: Increasing the AUM of gold ETF from 5719Cr(April-2019) to 68675Cr(March-2022) is the natural phenomena, since India is one of the largest importers of gold. Inflation oriented or investment, in both terms, gold bees is best alternative asset class to park the funds. An enormous growth we could see in the volume of gold bees, where people had the propensity to park their savings in to yellow metal as a conventional strategy still these alternative investment options drive the market in terms of AUM. Still gold is an attractive alternative investment tool because of the riskless nature of the asset and less volatility.

Other Major Findings

- There is a tremendous change in the investment flow in equity investment through passive funds from March 2016, which has grown from Rs.22,409 Cr. to Rs.3,10,330 Cr. in March 2021, exactly this flow begins after the sub-prime crisis of 2007. Perception on investment have drastically changed and people have started to think differently from the traditional practice, this has amplified the market opportunities and deployment rather than depending on of actively managed fund houses. As per the data of CDSL, the ETF AUM has almost doubled from Rs 1.54 lakh Cr. at the beginning of FY21 to Rs 2.9 lakh Cr. at the end of FY21
- Another major finding we have observed on the empirical study is that, the incredible growth of the Nifty and Nifty bees, an example of alternative asset class growth trajectory. When we go through the last five years data of Nifty bees, we could see the remarkable changes in the price, as far as the price is much concerned factor for the investment growth.
- Another interesting data we found that is Index fund, which is an indicator of major blue-chip companies of Indian stock market and Equity investment. Apart from the contribution of foreign institution and domestic institutions, government itself encouraging everyone to be part of capital market, besides to that government has decided to pump enormous funds in to equity market through EPF and Post office savings. This robust growth signalling that, the flow of funds from traditional investment to alternative asset classes is soaring.
- Gold is one of the essential investment, where its price moving in an upward trajectory on year to year. The yield of investment is always attractive and soaring up as far as the price is concerned, the price of gold is always going up on each time just based on yellow metal demand and huge reserve competition. Another major findings of gold reserve, which we can observe in the growth of Gold ETF, is an indicator of gold investment and the sign of volume growth in terms of gold growth, apart from the Ornamental purchase as the traditional way of investment.

1.10 Suggestions

In this digital world, we should very vigilant as far as we follow the traditional investment methodologies, it's a transition period where we should update the market changes and alternative asset classes options. Inflation will be an imperative element in all emerging and developed economy, so there is no other alternative solution except parking the funds in to alternative asset classes rather than keeping in the bank account.

Capital market awareness is inevitable since there are lot of investment opportunities in this.

If we are not willing to accept any alternative investment options, we will have to confront the consequence of the inflation.

Systematic and profound observation may help you to develop alternative assets investments.

Always take prudent advisors help for developing such alternative asset classes such as Equity Bond & Gold.

1.11 Conclusion

Standard of living and modern life style have nudged the people to find an alternative investment solution to generate more quick income to afford the expenditure. Inflation is another threatening element standing just behind the threshold which could deplete the savings we generate regularly. We have to have a profound observation on the alternative asset classes that gives more returns than the conservative and conventional investment methodologies. We have collated certain data from different sources which gives an indication about the volume building up in Nifty bees and Gold bees compare with other asset classes. These modern cognitive and digital developments lead the market in a different direction in terms of volume and ROI. When we channelize the funds into such risky assets like gold and stock market, investors are getting the opportunity to amplify their return on investments as to save their time value. High Liquidity is another important advantage of these asset classes, which helps investors to save their transaction coast and physical impediments. The major reasons for the rapid growth of these asset classes are just because of the transparency, strong Governance, easy liquidity & compound growth. Inflation directly and indirectly affects the economic growth of the system simultaneously government may tighten the monetary policies up to certain level to mitigate the inflationary risk. There is no other permanent remedy to save the time value of the money rather than diversifying it in to multiple asset classes.

1.12 Limitations of the Study

- Only secondary data is used for analysis
- The study depends mostly on the information provided by the websites
- There is only a limited time period for the study

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