

A Study on Factors Influencing the Choice of Individual Interest in Investment Portfolio

Mr. Naveen Kumar. A

MBA (Finance and Marketing) Student, Reg.No:43410523,

School of Management Studies,

Sathyabama Institute of Science and Technology, Chennai, TamilNadu.

Dr. Rajeshwari

Assistant Professor

School of Management Studies,

Sathyabama Institute of Science and Technology, Chennai, TamilNadu.

ABSTRACT

This study focuses on understanding how people decide where to invest their money and what factors affect those decisions. Choosing the right investment is very important for anyone who wants to reach their financial goals, whether it's saving for the future, buying a house, planning for retirement or growing wealth over time. The study explains that investment choices are not the same for everyone they depend on many personal factors. Some of the main things that influence how a person invests include their age, how much money they earn, how much risk they are willing to take, how much they know about financial matters, and how aware they are of what's happening in the market. For example, a young person who has just started working might be open to taking more risks because they have time to recover from any losses, while an older person nearing retirement might prefer safer investments. Similarly, someone with a high income or good financial knowledge may be more confident in making complex investment decisions, while someone with limited income or financial education may be more cautious. Because everyone is different, the study says it is very important to create an investment plan or portfolio that matches each individual's personal situation, goals, and comfort with risk. A one size fits all approach does not work well in investing. The study combines both ideas from theory and practical advice to help regular investors and financial planners make better decisions. By understanding these influencing factors more clearly, people can choose smarter investment options that are more likely to help them reach their financial goals in a safe and effective way.

Keywords: Investment portfolio, Investment decisions, Financial goals, Risk tolerance, Income level, Age, Financial literacy, Market awareness, Individual preferences, Demographic factors, Psychological factors, Economic factors, Social factors, Personalized investment, Investment strategy.

INTRODUCTION

Investments play a major role in both personal financial planning and the overall growth of the economy. Every individual makes investment decisions based on their own background, financial situation, future expectations, and personal goals. No two investors are exactly alike, and the way people choose to invest their money is shaped by a combination of many personal and external factors. In today's world, where financial products are becoming more complex and the market is often unpredictable, choosing the right investment portfolio has become even more important and challenging. There are now many different types of investment options available, ranging from traditional and familiar choices like gold and fixed deposits to newer and more modern alternatives such as stocks, mutual funds, and crypto currencies. Each of these options carries different levels of risk and potential return, which makes it necessary for

individuals to carefully evaluate what suits their needs best. Factors such as age, income level, profession, how much risk someone is willing to take, their past experience with investments, understanding of the market, and long-term financial goals. As more and more people get involved in investing, it becomes very important for financial advisors and policymakers to understand what drives these investment decisions. Knowing the psychology behind how people choose their investments can help in designing better financial plans, policies, and advice that match the real needs and behavior of investors. The main aim of this study is to explore all these influencing factors in depth and help bridge the gap between how investors behave and how well their investments perform, leading to smarter and more effective financial decisions.

OBJECTIVES OF THE STUDY

1. To determine the most important demographic factors that influence each person's investment preferences

This objective focuses on identifying which personal background details such as age, gender, education, occupation, and marital status have the greatest impact on how individuals make investment choices. It helps us understand how different groups of people tend to behave differently when it comes to managing their money and selecting investment options that suit their life stage and responsibilities.

2. To comprehend how portfolio choices are influenced by risk tolerance

This part of the study aims to explore how willing or unwilling a person is to take financial risks, and how that willingness shapes the kind of investments they prefer. For example, people who are comfortable with high risk might go for stocks or crypto currencies, while those who are more cautious may stick with fixed deposits or government bonds. Understanding this helps in designing portfolios that match each person's comfort level with financial uncertainty.

3. To determine how investment decisions are affected by financial literacy

This objective examines the role of financial knowledge and understanding in investment behavior. People who are financially literate are more likely to make informed and confident investment decisions. The study looks at whether knowing basic financial terms, how markets work, and how to compare investment options gives individuals an advantage when planning their portfolios.

4. To find out how a person's level of income influences which investment options they choose

Here, the study investigates how much a person earns and how that affects the type and size of their investments. Generally, higher-income individuals may have access to a wider range of investment products and may be more willing to take risks. On the other hand, people with lower incomes may prefer safer and more stable investments.

5. To investigate how investor psychology affects portfolio management

This point aims to study the emotional and mental aspects of investing, such as fear, overconfidence, regret, or herd mentality. These psychological factors can strongly influence how investors react to market movements and manage their portfolios. By understanding these patterns, better strategies can be developed to help investors avoid emotional decisions and manage their investments more effectively.

6. To determine how investment decisions are influenced by market conditions and trends

This objective focuses on how current market situations, economic conditions, and financial trends impact investment decisions. For instance, during a market boom, people may be more willing to invest in stocks, while during a downturn; they might switch to safer options. The goal is to understand how external conditions shape investor behavior and

decisions over time.

SCOPE OF THE STUDY

This study is focused on understanding the investment behavior of individual investors across a broad spectrum of backgrounds, taking into account differences in age, income levels, occupations, and educational qualifications. It includes participants from both urban and semi-urban areas to ensure a more diverse and representative perspective on how different segments of the population approach investment decisions. The study doesn't limit itself to just traditional forms of investment; it covers a wide range of financial instruments such as stocks, bonds, mutual funds, Systematic Investment Plans (SIPs), fixed deposits, Public Provident Fund (PPF), real estate, and also explores emerging options like crypto currencies. By doing so, it provides a comprehensive overview of the choices available to modern investors and how they evaluate these options. The core aim is to explore how personal preferences, perceptions, experiences, and beliefs shape the way people manage their money and make financial choices. While the geographical focus is on Indian investors, the study also draws insights that can be relevant to understanding investor behavior on a global scale, especially in similar developing economies. Both the measurable (quantitative) aspects like investment amount, frequency, and risk level and the personal, psychological (qualitative) factors such as motivation, trust, and confidence are taken into account to paint a complete picture of investor behavior. The ultimate goal of the study is to provide useful findings that can help financial advisors, banks, mutual fund companies, and educational institutions better understand their clients' needs. By doing so, they can design more personalized financial products, offer better advice, and create educational programs that empower investors to make smarter, more informed decisions that align with their goals and life situations.

REVIEW OF LITERATURE

Harry Markowitz (1952) laid the foundation of Modern Portfolio Theory, which is still widely used in investment planning today. His work introduced the idea that investors don't need to put all their money into the highest-return asset. Instead, they can build a diversified portfolio that balances both risk and return. According to this theory, by carefully selecting a mix of investments that respond differently to market conditions, investors can reduce their overall risk without giving up potential gains. This concept of diversification remains a cornerstone in portfolio management.

Shefrin and Statman (1985) were among the first to explore the impact of human psychology on financial decision-making. They introduced the concept of mental accounting, which explains how people treat money differently based on subjective categories like spending bonuses more freely than salary, even though money is fungible. Their work marked a major shift toward behavioral finance by showing that emotions, habits, and cognitive biases often lead people to make irrational investment choices.

Grable and Joo (2004) found that people's willingness to take financial risks isn't random it's strongly influenced by their personal characteristics. Things like age, gender, income level, and education can all shape how much risk someone is comfortable taking with their investments. For example, younger people may be more open to high-risk investments like stocks or crypto, while older individuals nearing retirement often prefer safer options. Their study helps financial advisors better tailor investment strategies to suit each client's profile.

Lusardi and Mitchell (2007) discovered that individuals with higher financial literacy are more likely to plan effectively for the future and make informed choices about where to invest their money. Their findings stress that education and awareness aren't just helpful they are essential tools for successful long-term financial planning, especially in complex markets with many options.

Michael Pompian (2006) introduced a unique way of understanding investors by classifying them into four main behavioral types: preservers, followers, independents, and accumulators. Each type has different attitudes toward risk, decision-making, and financial goals. For example, preservers tend to be very cautious and avoid risk, while accumulators are growth-focused and more aggressive. This framework helps financial planners match investment strategies to the investor's personality and emotional tendencies.

Bodie, Kane, and Marcus (2014) offer strong evidence that investor behavior isn't fixed; it changes based on what's happening in the economy and how people perceive market risks. When the economy is doing well, investors may feel more confident and take bigger risks. But in times of uncertainty or market crashes, many become cautious or pull back from investing altogether. Their findings highlight the need for flexible investment strategies that adjust with the market climate and investor mood.

Meir Statman (2010) argued that emotions, social influences, and lifestyle choices often guide how people invest, even more than logic or data. For instance, someone might invest in a brand because it aligns with their values or is popular in their social circle, rather than because it's financially sound. He pointed out that these non-financial motivations can lead to irrational investment behavior, but they also reflect the personal meaning people attach to money and wealth.

Chandra and Kumar (2011) focused on Indian investors and revealed how deeply cultural and social factors impact investment behavior. The researchers found that peer pressure, family influence, and employment type all play a major role in shaping where and how people invest their money. For example, many investors are influenced by their colleagues or relatives rather than relying solely on financial advice or analysis. Their work highlights the unique behavioral patterns seen in emerging markets like India.

RESEARCH METHODOLOGY

The research utilizes a mixed-methods approach, incorporating both primary and secondary data to provide a comprehensive analysis of investment behavior. To collect primary data, the study used a structured questionnaire that was distributed to 150 individual investors across various regions, ensuring that a wide range of demographic backgrounds and investment experiences were represented. The survey was designed to gather detailed insights into the key factors influencing investment decisions, including variables such as age, income level, occupation, education, financial knowledge, and the types of investment instruments preferred by participants. These variables were selected based on their relevance to understanding how individual profiles impact investment choices. In addition to the primary data collected through surveys, secondary data was gathered from reputable sources such as academic journals, books, market reports, and online investment portals. These secondary resources provided a broader context and helped inform the analysis of current trends and behaviors in the investment landscape. The study employed a stratified sampling technique to ensure that the sample reflected the diversity of the investor population, with different strata based on factors like income level, age group, and geographical location. The data analysis was conducted using SPSS, statistical software that facilitated advanced analysis techniques. Chi-square tests were applied to identify significant relationships between categorical variables, such as age or income level, and portfolio preferences. Additionally, regression analysis was used to explore deeper correlations and the impact of multiple factors on investment behavior. This combination of quantitative methods allowed for a nuanced understanding of how various demographic and psychological factors influence the way individual investors select and manage their investment portfolios.

OVERVIEW OF THE STUDY

1. Financial Planning and Investment Goals

Investment decisions are deeply rooted in an individual's financial planning objectives. Some investors focus on wealth accumulation, while others aim for retirement savings, child education, or emergency funds. The time horizon of investment short, medium, or long-term directly impacts the asset allocation strategy. A well-structured investment portfolio aligns with personal financial goals and risk capacity, ensuring a balance between safety and returns.

2. Macroeconomic Influences

Economic factors such as inflation, interest rates, GDP growth, and currency fluctuations significantly impact investor choices. For example, high inflation often leads investors to choose inflation beating instruments like equities or real estate, while lower interest rates may prompt a shift from fixed deposits to mutual funds or bonds. The overall health of the economy builds or erodes investor confidence.

3. Cultural and Regional Preferences

Cultural background and regional traditions play a role in shaping investment behavior. For instance, in some regions, gold is traditionally seen as a safe and auspicious investment, while others may prefer real estate or business ventures. Social norms and inherited investment practices also influence how individuals allocate their funds across different asset classes.

4. Digital Transformation in Investing

The availability of online trading platforms and mobile investment apps has revolutionized the investment landscape. Investors can now execute trades, monitor portfolios, and access market information instantly. This convenience has increased participation, especially among younger demographics that are more tech-savvy and open to digital first financial experiences.

5. Regulatory Environment

Regulatory frameworks, especially those laid out by SEBI and RBI in India, play a crucial role in maintaining investor confidence. Transparent rules, grievance redressal mechanisms, and guidelines for mutual funds, IPOs, and other instruments ensure that investors are protected from fraud and market manipulation, thereby fostering a safer investment environment.

6. Rise of Ethical and ESG Investing

With growing awareness of environmental and social issues, many investors now prefer sustainable or ESG (Environmental, Social, Governance) investments. These portfolios include companies that adhere to ethical practices, green initiatives, and good governance, reflecting a shift from purely profit-driven investing to value-based investing.

7. Behavioral Influence from Past Experiences

Past investment experiences, whether positive or negative, greatly influence current decision-making. An individual who incurred losses in stocks may shift to safer instruments like fixed deposits or gold, while someone who gained from mutual funds might continue investing in them. This behavioral pattern creates long-term habits and biases in investment strategy.

8. Fintech Innovations and Portfolio Management

Fintech companies have introduced tools like robo-advisors, AI-based recommendations, and automated portfolio rebalancing to simplify investment management. These innovations are especially helpful for novice investors, offering

personalized suggestions based on their risk profile and financial goals. They also promote financial inclusion by making investing accessible to a wider audience.

KEY BENEFITS

1. Customized Wealth Building

An investment portfolio allows individuals to personalize their wealth-building strategy. Based on their income, financial goals, and risk appetite, investors can choose specific instruments like stocks, bonds, or mutual funds that align with their desired outcomes. This customization leads to more targeted and effective financial growth over time.

2. Capital Appreciation over Time

One of the prime benefits of investing is the potential for capital appreciation. Assets like equity shares and real estate tend to increase in value over the long term. An intelligently managed portfolio captures this appreciation, helping investors significantly increase their net worth over the years.

3. Protection against Financial Emergencies

A well-diversified investment portfolio provides a safety net during financial emergencies. Liquid assets like savings, fixed deposits, and short-term mutual funds can be accessed quickly without compromising long-term investments. This flexibility is essential for managing unexpected expenses such as medical emergencies or job loss.

4. Retirement Security

Investing in long-term instruments such as Public Provident Fund (PPF), National Pension Scheme (NPS), and retirement mutual funds ensures financial independence during old age. Portfolios designed for retirement offer stable income, capital protection, and peace of mind during non-earning years.

5. Ability to Beat Inflation

Keeping money idle in a savings account often results in loss of value due to inflation. Investment portfolios, particularly those with equity exposure, tend to offer returns that outpace inflation. This helps maintain the purchasing power of money and ensures future expenses are covered effectively.

6. Encourages Regular Savings Habit

Systematic investment plans (SIPs) and recurring deposits instill financial discipline among individuals. By committing a fixed amount periodically, investors develop a consistent savings habit, which not only builds wealth but also instills financial responsibility and planning culture.

7. Professional Management of Funds

Investors who opt for mutual funds, ULIPs, or PMS (Portfolio Management Services) benefit from expert fund managers making informed decisions on their behalf. This professional oversight helps optimize portfolio performance, especially for individuals with limited financial knowledge or time to track the market.

8. Access to a Range of Investment Avenues

Investment portfolios provide access to various financial instruments across sectors and geographies. From domestic stocks to international mutual funds, government securities to digital assets like crypto currency, a diverse portfolio allows investors to explore multiple avenues of growth, maximizing opportunity while minimizing concentrated risk.

MAJOR OBSTACLES

1. Individuals' lack of financial knowledge

The lack of comprehension of financial concepts is a major obstacle for many investors. Individuals may have difficulty comprehending the various types of investments, their risks, and how to construct a balanced portfolio if they lack sufficient financial literacy.

2. Market volatility causes anxiety and uncertainty

Investors frequently experience anxiety and uncertainty as a result of market volatility, which is defined as the frequent and improbable shifts in asset prices. This can cause people to make decisions that are driven by panic, like selling investments during a downturn or avoiding certain assets altogether out of fear of losing money.

3. Financial agents selling fake goods

Sadly, not all financial agents and advisors are interested in the investor's best interests. Product misselling is the practice of recommending products that are not appropriate for the investor's requirements or risk tolerance. This frequently occurs when the agent receives incentives or commissions tied to particular products.

4. Overreliance on word-of-mouth or unofficial sources

In place of trusted, professional advice, many investors heavily rely on informal sources of information like friends, family, and online forums. Even though some of this advice may have good intentions, it frequently lacks the knowledge and context necessary to make sound financial decisions.

5. Emotional biases and irrational behavior

Investment decisions are heavily influenced by human emotions, which frequently result in irrational behavior. Herd mentalities, in which investors follow others without considering their own objectives, and loss aversion, in which investors avoid taking risks despite the possibility of higher returns, are two examples of common emotional biases.

6. Inadequate risk profile assessment of an individual

Identifying the investor's risk profile, or capacity and willingness to take risks, is one of the most crucial steps in selecting an investment portfolio. However, many people underestimate or overestimate their comfort level with risk, resulting in an inadequate risk tolerance assessment.

7. An excessive amount of information and intricate financial jargon

There is an overwhelming amount of information and complicated terminology in the financial industry. It can be difficult for someone who does not have a background in finance to comprehend terms like alpha, beta, asset allocation, and diversification.

8. Delay in making decisions as a result of a lack of confidence

Because they lack confidence in their ability to choose the right investments, many investors have difficulty making decisions. This can lead to analysis paralysis, in which they fear making a mistake and are overwhelmed by the number of options.

SUGGESTIONS

To enhance investment decision-making, it's essential to introduce financial literacy programs in schools and workplaces. These programs would help individuals develop a better understanding of how investments work, the risks involved, and how to align investment choices with personal financial goals. In addition, investment advisors should adopt a more customer-centered approach, focusing on understanding each client's unique financial objectives and risk

tolerance before recommending any financial instruments. This personalized strategy would ensure that the advice given is tailored to the individual, rather than offering generic solutions. Furthermore, financial institutions should take steps to simplify their communication by reducing the use of technical jargon. This would make investment options more accessible to the general public, enabling people to make informed decisions without feeling overwhelmed by complex financial terms. Additionally, strict regulations should be enforced to prevent fraudulent sales practices and protect investors from unethical behavior. Encouraging the use of robo-advisory services could also be beneficial, especially for those who are new to investing, as these platforms provide low-cost, automated investment advice that simplifies the investment process. Lastly, individuals should be encouraged to regularly review and assess their investment portfolios to ensure they are performing optimally and in line with their evolving financial goals. By setting clear, well-defined financial objectives and revisiting them periodically, investors can make adjustments to stay on track and achieve long-term financial success.

CONCLUSION

The preferences of individual investors are evolving alongside the changes in the investment environment. This research highlights that several interconnected factors shape the composition of an investment portfolio. While some investors prioritize security and the preservation of capital over the pursuit of high returns, these preferences are influenced by a variety of elements, including economic conditions, financial literacy, and emotional intelligence. To make informed decisions that align with their financial goals, both investors and financial service providers must understand these factors. As the investment landscape becomes more inclusive and accessible, providing individuals with the right resources and knowledge will empower them to make more informed choices, boosting their confidence and financial literacy. Ultimately, as the market continues to evolve, investors will become better equipped to navigate it effectively, making decisions that support their long-term financial success.

REFERENCES

1. Markowitz, H. (1952). Portfolio Selection. *The Journal of Finance*.
2. Shefrin, H., & Statman, M. (1985). The Disposition to Sell Winners Too Early and Ride Losers Too Long. *The Journal of Finance*.
3. Grable, J. E., & Joo, S. (2004). Environmental and Biopsychosocial Factors Associated with Risk Tolerance. *Financial Counseling and Planning*.
4. Lusardi, A., & Mitchell, O. S. (2007). Financial Literacy and Retirement Preparedness. *Journal of Financial Economics*.
5. Pompian, M. M. (2006). *Behavioral Finance and Wealth Management*. Wiley.
6. Bodie, Z., Kane, A., & Marcus, A. J. (2014). *Investments*. McGraw-Hill Education.
7. Statman, M. (2010). *What Investors Really Want*. McGraw-Hill.
8. Chandra, A., & Kumar, R. (2011). Determinants of Individual Investor Behaviour: An Orthogonal Linear Transformation Approach. *Journal of Financial Management & Analysis*.