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DOES FINANCIAL PLAN IMPACT INVESTMENT DECISIONS?

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Abstract

Discipline is the bridge between goals and accomplishments and good financial habits bring discipline in financial decision making and have profound impact on the investment choices. This study proposes to study core financial habit of making financial plan adopted by individual investors while doing their investment planning and its impact on the investment preferences and objectives. In this study, survey approach has been adopted using a structured questionnaire with 559 sample size. The study has been taken within the geographical area of Indore and Ujjain district in Madhya Pradesh State of Central India. It has been found from the analysis that financial habits of investors play a crucial role in their investment preferences and objectives. Analysis has been done using Mann Whitney U test.
The results of the research paper would contribute in developing understanding of the impact of financial habits on investment behavior and choices and thus serves an important insight to investors, financial planning professionals and other stakeholders linked to financial planning.

Keywords: Financial Habits; Investor; Investment Preference; Objectives; Central India.

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1. Introduction

Nothing is stronger than habits. The strong foundation of financial prosperity can be built on right financial habits. Financial habit of making a financial plan may have profound impact on the quality of financial decisions as it lays down the financial goals and its pathway clearly.

Financial theories have evolved from the ancient times to modern times taking the journey from rationality to finance behavioral theories. The behavior of investor impacts the decision making process and its outcome. Investment decisions are very complicated as many investment options are available in market with different level of risk and returns, tax treatments, cost of transaction etc. A clear financial plan can provide clarity to many important aspects and expectations related to investments. A good financial plan would have several steps to following from assessing the current financial position, identification and setting the financial goals (long term, medium term

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and short term), the investment plan to achieve the set goals based on desired risk and return. The investment planning with a plan will be more result –oriented and suited to the needs of the individual. The plan will be customized based the financial goals and needs.

The research focuses to study the impact of habit of making financial plan on the investment preferences and objectives of the investors. For the research nine different investment avenues are ranked in order of preference by the respondents namely saving bank account, fixed deposit, small saving scheme, life insurance, mutual fund, shares, capital market debt instrument, real estate and gold/silver ranging from traditional products to modern day financial products. To further, study the impact of the habit on the investment objectives of the investors, six objectives namely safety of principal, regular income, capital appreciation, quick returns, tax benefit and ease of liquidity are considered.

The research primary aim is to make investors aware and motivate them towards healthy financial habits and explore the association of financial habits and the selection of investment avenues and investment objectives of the investors.

The knowledge pools of investment theories and researchers have evolved over the time and it is a well-accepted fact that financial behavior and attitudes have a major impact on the financial decision of every individual. Core behaviors impact the financial decisions during the entire lifetime of the individuals.

V.K. Thomas (2005) in his article "Tax Saving Avenues to the Salaried Class" deduced that an optimum plan of saving schemes will generate maximum return and lesser tax burden to the tax payers.

Maheshwari P (2014) in the research paper "Role of Planning in the Financial Decision Making of Individuals" concluded that there is significant difference between various age groups and their financial planning habits. Younger age group 20-30 years did not do proper planning, 30-40 years age group do financial planning of elementary level, investors in age group 40-50 years and 50 years and above make proper financial plan and recorded what is invested and compare planned with actual investments.

Chattopadhyay and Dasgupta (2015) identified factors like age, marital status, gender, monetary planning, income, employment, education have significant impact on the risk tolerance of investors.

As per the 8th Annual Fidelity New Year Resolutions Study 2016, it is found that American's top 3 resolutions for 2017 remain as save, pay down debts and spend less. 50% of the survey respondents took a financial resolution to save more, 28% to pay down the debts and 16% to spend less. Overall 36% of the respondents plan to make financial resolution in 2017. Among the respondents planning to save more for long term, 64% want to save for retirement and more that 50% plan to increase retirement saving. Among the short term saving planners, 72% need an emergency fund. The past three years of study revealed the positive impact of these financial resolutions as the people who made these resolutions grew more optimistic (52% strongly felt they would be financially better in 2017), more debt free (45% were less in debt compared to last

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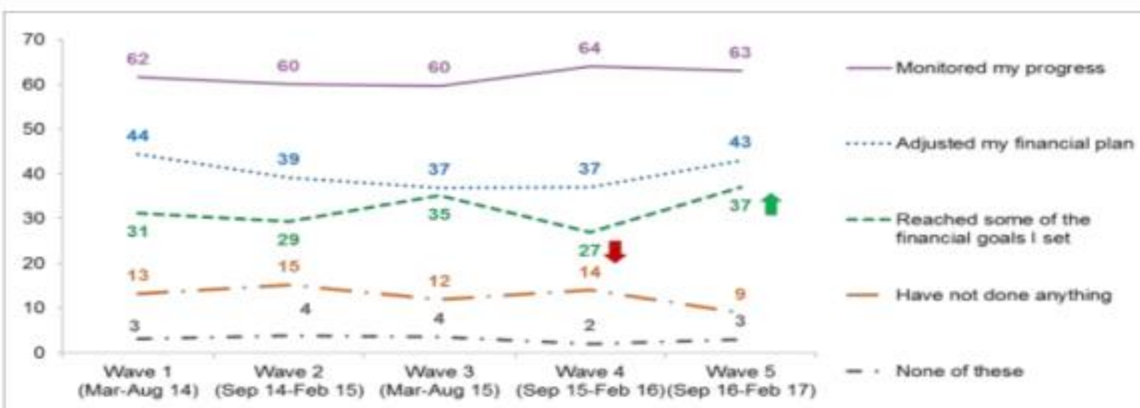
year) and more financially secure (52% were in better financial situation as compared to last year). The results of the survey clearly indicate the need of proper financial planning and impact of right financial habits to the financial prosperity.

As per Survey of Financial Behaviors and Financial Habits of Young Working Malaysians 2016, majority of young Malaysians manage their finances poorly. 30% of the respondents of the survey had no saving. Only 49% had some form of insurance, 31% had investments and 69% had no investments. Retirement planning is considered important but 37% of the respondents never thought of retirement. About 46.8% had high debt obligations. 61.3% of the respondents rated them very poor in managing finances. The survey also revealed that bad financial habits led to difficulty in understanding the financial products and resulted in poor decision making.

As per Manulife Survey (2017) on eight Asian countries on millennial investors, it is found that property and cash are most preferred investment avenues for group of millennial investors in age group 18 to 34 for retirement similar to their parent's pattern of investment. Thus, evident those habits have a profound impact on the investment selection.

As per Australian Financial Attitudes and Behavior Tracker Wave 5 2017, 58% of Australian reported to be confident in managing money, however 36% find dealing finances stressful. 79% of the respondents had a budget. Only 44% have short-term financial plan and 23% long term financial plan. Out of the respondents who made a long term plan, 37% reached some of the financial goals set in the plan. Figure 1.1 depicts the progress of long term planners.



Source: F8. Which of the following have you done on your 15-20 year financial plan in the last 6 months? (multiple response)
Base: Respondents with a 15-20 year financial plan Wave 1 (Mar-Aug 14), n=352; Wave 2 (Sep 14-Feb 15), n=330; Wave 3 (Mar-Aug15), n=338; Wave 4 (Sep 15-Feb 16), n=372; Wave 5 (Sep 16-Feb 17), n=360
Statistically significant difference to previous Wave

Source: Australian Financial Attitudes and Behavior Tracker Wave 5

Further, only 32% of the respondents felt confident of their investment ability and understanding risk/return concept. Females (23%) reported to be less confident in comparison to males (42%). Also, 21% of the respondents had no saving.

As per Parents, Kids and Money Survey (2017) conducted by T. Rowe, parents attitude and behaviors are associated with kids' financial habits. Positive money habits of kids are associated with parent's modeling good financial habits. Troubled financial habits are observed when parents model poor financial behavior. The habit of discussing finances by parents make

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financially smart kids. Thus, it is evident financial habits have a strong association to quality of financial decisions.

As per Northwestern Mutual's Annual Planning and Progress Study (2017), Americans having financial advisors feel well-prepared for retirement and more confident. 70% of respondents using financial advice feel their retirement plan is better designed to meet market ups and down compared to just 30% of respondents without financial advice. The study suggests that good financial habits are main reason for investors feeling less anxiety about financial matters and managing emergencies.

1.1. Objectives

- To study impact of financial plan making habit on the investment preference of the individuals.
- To study association of financial plan habit and the investment objectives of the investors.

1.2. Hypotheses

H1 the investment avenues preferred by the investor are independent of the habit of having a financial plan.

H2 the investment objectives of investors are independent of the habit of having a financial plan.

2. Material and Methods

Research methodology adopted aims to study association of habit of financial planning and the investment preference of the investors and its impact on the investment objectives of the investors. In this study, hypotheses of research problem are tested using Mann Whitney U Test and mean rank method. At an initial stage, the study is conducted based on structured questionnaire to study the financial habits and preferences of diversified set of individual investors. The respondents were furnished with questions on their financial planning behavior and preferences. The target population for the study is investors from Indore and Ujjain district in state of Madhya Pradesh, Central India

2.1. Sampling Design

The target respondents include investors from varied backgrounds of age, qualification, occupation, income level, who are active investors and are involved in individual financial planning decisions. Judgmental sampling with a sample size of 559 respondents is used in the research.

2.2. Data Collection

The primary data for the study is collected through structured questionnaire containing questions related to the financial habits of individual investors and their preferences and objectives of

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investment. The questionnaire consists of close-ended as well as open ended questions on the financial behavior of individuals. The responses are gathered online or physically through a hard copy. The data collection went for period of seven months during the month of February 2017 to August 2017. Secondary data has been collected from academic research papers, web portals and financial surveys both nationally and internationally.

3. Results and Discussions

The distribution of investors based on their habit of making and not making a financial plan is depicted in Table 3.1.

Table 3.1: Distribution of Investors based on the Habit of Financial Plan

Financial Plan	Frequency	Percent
Yes	281	50.3
No	278	49.7
Total	559	100.0

Out of the total 559 respondents, 50.3% make a financial plan and 49.7 % denied of making any financial plan.

Each investor has an investment portfolio comprising of preferred investment instruments. Under the study investors preference of the nine investment avenues namely saving account, fixed deposit, small saving scheme, life insurance, mutual fund, shares, capital market debt instruments, real estate and gold/silver were ranked in order of preference from top rank as 1 and lowest as 9. The table 3.2 and table 3.3 depict the ranking preference of investors based on their habit of making the financial plan and not having a financial plan.

Table 3.2: Ranking Preference of Investment Avenues for Investors making Financial Plan

Rank Factor	Number of Investors									
	1	2	3	4	5	6	7	8	9	Total
Saving Account	58	16	18	16	30	22	24	41	56	281
Fixed Deposit	35	74	29	24	24	16	33	32	14	281
Small Saving Scheme	18	30	81	34	24	22	30	32	10	281
Life Insurance	23	21	34	70	35	42	22	6	28	281
Mutual Fund	64	38	20	24	65	24	14	14	18	281
Shares	36	38	24	24	16	58	27	19	39	281
Capital Market debt	4	6	26	22	26	42	80	37	38	281
Real Estate	28	32	25	29	28	28	23	66	22	281
Gold/Silver	15	26	24	38	33	27	28	34	56	281

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Table 3.3: Ranking Preference of Avenues for Investors not making Financial Plan

Rank Factor	**Number of Investors**									
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**Total**
Saving Account	79	19	18	44	34	14	25	14	31	278
Fixed Deposit	46	81	40	34	20	20	12	15	10	278
Small Saving Scheme	25	36	77	26	25	30	27	18	14	278
Life Insurance	14	34	38	69	30	38	11	24	20	278
Mutual Fund	32	19	17	20	51	45	32	42	20	278
Shares	10	11	19	6	28	61	40	38	65	278
Capital Market debt	12	14	19	22	27	24	88	44	28	278
Real Estate	38	34	14	14	40	20	22	53	43	278
Gold/Silver	22	30	36	43	23	26	21	30	47	278

Further, six investment objectives of the investors are studied under this research namely safety of principal, regular income, capital gain, quick returns, tax benefit and liquidity which are ranked in order of preference from top rank 1 to lowest rank 6. The table 3.4 depicts the distribution of investors based on their habit of having and not having financial plan and the preference towards investment objectives.

Table 3.4: Ranking Preferences of Investment Objectives based on Financial Plan Habit

Objective		Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6	Total
Safety of Principal	Yes	123	42	44	26	24	22	281
	NO	147	48	28	20	19	16	278
Total		**270**	**90**	**72**	**46**	**43**	**38**	**559**
Regular Income	Yes	18	94	35	44	56	34	281
	NO	36	107	40	37	38	20	278
Total		**54**	**201**	**75**	**81**	**94**	**54**	**559**
Capital Gain	Yes	81	55	80	27	24	14	281
	NO	47	58	102	38	23	10	278
Total		**128**	**113**	**182**	**65**	**47**	**24**	**559**
Quick Return	Yes	14	20	28	82	46	91	281
	NO	18	18	30	84	43	85	278
Total		**32**	**38**	**58**	**166**	**89**	**176**	**559**
Tax Benefit	Yes	33	37	55	44	78	34	281
	NO	20	25	32	53	100	48	278
Total		**53**	**62**	**87**	**97**	**178**	**82**	**559**
Liquidity	Yes	12	37	39	56	51	86	281
	NO	10	24	44	46	55	99	278
Total		**22**	**61**	**83**	**102**	**106**	**185**	**559**

To test the hypotheses, Mann- Whitney U Test is applied. The table 3.5 depicts results of Mann-Whitney U test in relation to habit of financial planning and preference towards investment avenues.

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Table 3.5: Mann- Whitney U Test: Financial Plan and Investment Preference

	Saving A/C	**Fixed Deposit**	**Small Saving Scheme**	**Life Insurance**	**Mutual Fund**	**Shares**	**Capital Market debt**	**Real Estate**	**Gold/ Silver**
Mann-Whitney U	30713	33164	36840.500	38068	27858.500	26999.500	37852	37861	35008.500
Wilcoxon W	69494	71945	75621.500	76849	67479.500	66620.500	76633	77482	73789.500
Z	-4.424	-3.134	-1.179	-.525	-5.925	-6.384	-.644	-.633	-2.138
Asymp. Sig. (2-tailed)	.000	.002	.238	.599	.000	.000	.520	.527	.032

The results of Mann- Whitney U test suggest that habit of financial planning has significant association with investment avenues of saving bank account, fixed deposit, mutual fund, shares and gold/silver as the asymptotic significance is less that .05 and hence the null hypothesis is rejected and alternative hypothesis is accepted.

However, results of Mann- Whitney U test further suggest that financial plan habit has no significant association with investment avenues of small saving scheme, life insurance, capital market debt instruments and real estate and hence the null hypothesis is accepted.

To test the hypothesis of association between habit of financial plan and investment objectives, Mann Whitney U test is applied as depicted in table 3.6.

Table 3.6: Mann- Whitney U Test: Financial Plan and Investment Objective

	Safety of Principal	**Regular Income**	**Capital Gain**	**Quick Returns**	**Tax Benefit**	**Liquidity**
Mann-Whitney U	34641.500	32314.000	34643.500	37848.500	32117.500	36091.500
Wilcoxon W	73422.500	71095.000	74264.500	76629.500	71738.500	75712.500
Z	-2.467	-3.641	-2.381	-.655	-3.723	-1.598
Asymp. Sig. (2-tailed)	.014	.000	.017	.512	.000	.110
a. Grouping Variable: Fplan						

The results of Mann- Whitney U test suggest that habit of financial planning has significant association with investment objectives of safety of principal, regular income, capital gain and tax benefit as the asymptotic significance is less that .05 and hence the null hypothesis is rejected and alternative hypothesis is accepted.

However, results of Mann- Whitney U test further suggest that financial plan habit has no significant association with investment objective of quick return and liquidity and hence the null hypothesis is accepted.

4. Conclusion

The research study has deduced that financial planning habit has a significant association both with the choice of the investments and investment objectives of the investors. It is further

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deduced that preference to investment objective of safety of principal, regular income, capital growth and tax benefit of investors have significant difference among investors with habit of making and not making financial plan. However, investment objective of quick returns and liquidity has no significant relationship with the habit of making/not making financial plan. Also, the investment preference towards saving account, fixed deposit, mutual funds, shares and gold/silver of investors have significant difference among investors making and not making financial plan. However the investment avenues of small saving scheme, life insurance, capital market debt instruments and real estate does not have significant association to the habit of making/not making financial plan.

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