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The factors influencing given investment choices of individuals

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Abstract

This study aims to examine the effects of several factors such as demographics (i.e., gender, age, education and marital status), investment decision criteria (i.e., risk, repay, corporate data and society criteria), and financial literacy level (i.e., basic and advanced literacy) on more preferred investment alternatives in Turkey (e.g., foreign currency, bank deposit, bond, stock and mutual fund). Through survey method, the study sample consists of 112 participants working in finance sector or being able to make financial investments. Results indicate that age, marital status and society criterion (i.e., considerating socially beneficialness of an investment) make no difference in the choice of all investment alternatives. In explaining preferability of each investment alternatives, different factors play role at varying levels. This study provides notable insights towarding into understanding investment choice behavior of individuals.

Keywords: Investment instruments, investment decision criteria, financial literacy, demographics.

1.Introduction

From the viewpoints of financial researchers and market participants, for what reason and which investment alternatives individual savers preferred has been the phenomenon of interest. The identification of these factors, deemed as determinants of investment choice, could enable financial behavior to be fully understood. Within this scope, we intend to identify the effects of demographics (i.e., gender, age, education and marital status), investment decision criteria (i.e., risk, repay, corporate data and society criteria) and financial literacy (i.e., basic and advanced literacy) on preferability of certain investment alternatives (i.e., foreign currency, bank deposit, bond, stock, and mutual fund). For that purpose, the effects of relevant factors have been investigated on individually each investment alternatives and individuals' motives for those particular alternatives have been manifested.

While foreign currency has a negative relation to all other investment alternatives, those other alternatives have no association with each other. This points out that participants represent small savers without the idea of creating a portfolio. Also, participants moderately have the basic and advanced financial literacy level. Besides, participants generally work in finance sector and they are able to make financial transactions. These have been useful in terms of the study findings.

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When age, marital status and society criterion excluded, each factor has impact on -at least- one investment alternative. The finding that different factors have impact on different alternatives at varying levels contributes greatly to manifestation of the divergency between investment alternatives in the study.

Amidst these factors, risk criterion for investment decision and financial literacy level of individuals have been relatively important factors on investment instrument choice. As an interesting finding, the results show that no factor has effect on mutual fund preference. When it is considered that this instrument has a relatively small size in Turkish markets, this finding indicates, in deed, small savers are not familiar to mutual fund as an investment instrument.

This paper proceeds in that manner. In the second section, we communicate the previous research explaining the financial behavior and describing the role of factors on investment decision. Third section provides the description of dataset and variables in this research and the presentation of analyses and results. In the last section, we summarize the results and their implications and conclude with limitations of the study and suggestions for future research.

2.Literature Review

2.1. Investment Decision Criteria

It is argued that individuals' financial knowledge (Usul and Bekci, 2001), age (Kucuksille, 2004), expectations (Sayilir et al., 2012), income level and psychological state (Usul et al., 2002) could influence their investment decisions. Usul and Bekci (2001) state that, compared to managers and bank employers, housewifes do not have the ability enough to appraise financial reports of the firms and hence to make wise financial decisions. Similar to knowledge, education level makes a difference in making investment decisions. Those postgraduate individuals have the enough information which could direct them to analyse financially. Kucuksille (2004) manifests that younger people have a tendency to invest in stock and long term assets and to take more risks. As for elder people, they do not make long term investment planning since they think that they have no more time for its payback. Sayilir et al. (2012) express that individual investors erroneously believe that firms with better corporate reputation would become good investment opportunity, produce higher investment returns. They also have a tendency to consider firms' social responsibility and environmental control level while making investment decisions. Usul et al. (2002) mention about that any investor with higher income relative to country average could invest in long term assets more. Because they have less expectation to become hard up for money due to their investments' relatively small size in their income. Additionally, individuals' needs, motives, personality traits, perceptions and learning capacities could make an influence on their investment preferences. While directing their savings to investment alternatives, they also act more compatible with their personality traits.

On the other hand, Pasewark and Riley (2010) determine individuals' criteria for their investment decisions. Accordingly, they assert that individuals consider the risk, repay, corporate data, society and health effects of an investment alternative while making investment decisions. Yet, in this study, we will employ only risk, repay, society and corporate data criteria.

2.2.Financial Literacy

From the viewpoints of both academicians and also policy makers, financial literacy has been phenomenon of interest. Nowadays, individuals are more responsible and active for their individual retirement plans. It is more difficult to allocate individuals' excess funds across possible investment instruments than before. This hardness might be arisen due to the fact that they are confused with these complex and multiplexed products (or services). This seems more valid especially for the inexperienced or the unsophisticated (Van Rooij, Lusardi and Alessie, 2011). It is reported that a vast quantity of households have not been acquainted with most primary economical notions and making plausible investment decision suffers from this serious illiteracy (Lusardi and Mitchell, 2007a/b). Financial literacy is suggested to be relevant to risk perceptions and investment decisions. It is proposed in a study (Lachanse and Tang, 2012) that trust promotes people's intentness of taking risk while investing and it is enhanced by some financial literacy. A study of Chen and Volpe (1998) provides evidence that highly financially illiterate participants have an inclination to make implausible decisions in terms of managing their personal finance.