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Investment Choices and Returns: Insights on Indian Student Investors

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Abstract: This research paper explores the investment behaviors, choices, and returns of individual students, by creating a balance between present financial needs and future wealth creation. With growing awareness about financial planning, students are increasingly engaging in investment activities. The paper talks how various investment options available and types of investments preferred by various groups. Further it analyses the investments preferences and choices by segregating students based on various demographic factors. Drawing from both global and Indian contexts, the paper analyses how economic conditions, emerging technologies, and post-pandemic uncertainties have shaped investment preferences. The study seeks to understand how individual investors-particularly students-manage short-term expenses while aiming for long-term financial returns, offering insights into effective and sustainable investment strategies. It also explores how different financial theories effect student mindset and influence decision making. Ultimately, this study contributes to a deeper understanding of how student investors can make informed decisions to optimize their returns while balancing present consumption and future financial goals.

INTRODUCTION

Money has taken a significant place in the life of human beings. Merely, earning money is not sufficient, it is important to manage money appropriately hence investment has become an important concern for a human being. Every individual has a propensity to invest for many reasons. According to Rau (1980), "Savings form the basis of capital formation, and the formation of capital is an important determinant of economic growth. According to Iyer and Bhaskar (2012), investment is defined as the purchase of goods that are not consumed today but to create wealth in the future. In other words, it's the employment of funds on assets to earn income or capital appreciation. The individual who invests is known as the investor. In financial terms, investment is allocating money to assets to gain profit over time.

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According to Conventional Finance Theory, individual investors are perfectly rational in investment activities. Recent studies have argued that Prospect Theory (Kahneman & Tversky, 1979) and Mental Accounting (Thaler, 1985), apart from several other psychological biases, provide possible explanations for investor behaviour (e.g. the disposition effect) and for outstanding asset pricing anomalies such as the equity premium puzzle, the value premium, and the momentum effect. The essential quality of an investment is that it involves something for reward. It is the commitment of resources that have been saved in the hope that some benefits will accrue in future. This complex balance between "the expense of the present"-the resources we must commit today-and "the need for the future"-the aspirations and goals that guide tomorrow's growth-forms the crux of modern investment strategy and our research paper.Taking into consideration the theory of irrationality, researchers have shown that investors across financial markets do not act in purely rational manner, rather their investment decisions are influenced by a number of factors which also include psychological biases, heuristics, social affiliation, demographic factors and so on (Kumar and Lee, 2006; Baker and Wurgler, 2007; Gärling et al, 2009; Barnea et al, 2010).

Investors are often faced with competing priorities like funding innovative ventures with high initial costs, adapting to sustainability demands, or bolstering sectors to address global challenges. The swift and unprecedented spread of the COVID outbreak also made the financial markets extremely volatile, leaving investors with huge losses in a short timeframe (Zhang et al., 2020).Meanwhile, advancements in artificial intelligence, renewable energy, and biotech are expanding opportunities, yet require huge investments today for rewards that may only materialize years later. There exist a close association between individual investor behaviour and their own investment methods and also, each individual investor is different, some are more risk averse than others, and some have more resources than others. These premises beg the questions over the relevance of traditional theories like the prospect theory, mental accounting, efficient market hypothesis and modern portfolio theories (Kahneman & Tversky, 1979; Thaler, 1985; Von Neumann & Morgenstern, 1944).

According to Fogel & Berry (2010) there are two different approaches for understanding the human behaviour in their investment decision - Traditional finance and Behaviour finance. This research delves into how individual investors can analyse and manage the expenses of the present while safeguarding future growth. By examining current investment trends, financial frameworks, and case studies, this research seeks to uncover strategies that enable individual investors to invest effectively for the future without compromising their current needs. In a world where both present thinking and future planning are crucial, understanding this balance is essential for sustainable for impactful investment. General research questions, to what extent does financial knowledge and awareness impact investment decision-making and portfolio performance. How do individuals with varying income levels prefer different types of investments in terms of balancing risk and return.

LITERATURE REVIEW

Chita et al. (2011) conducted a study on “Does personality traits influence the choice of Investment” analyses the psychological and personality characteristics of investors while investing their money in the stock market. The study analyzed the influence of seven personality traits emotional stability, extraversion, risk, return, agreeability, conscientiousness and reasoning-on the choice of investment pattern. The results of the study showed that these personality traits of the investors have an impact on the individual while taking decisions and also have a strong influence on determining the method of investment. Further following which Dharmaja et al. (2012) conducted a study on the topic “Factors Influencing the Individual Investor Behaviour”. The study aims at identifying the most and the least influencing factors of the individual investor behaviour.

The changing landscape where investments have spread over a vast body of international research focused on understanding investor behaviour, preferences, and strategies in diverse economic contexts. Statman (2004) examined behavioural finance and highlighted that individual investor often fall prey to cognitive biases such as overconfidence, loss aversion, and mental accounting. His study suggested that investors do not always follow traditional rational models like Modern Portfolio Theory but are significantly influenced by emotions and psychological factors.. Similarly, Benartzi and Thaler's (1995) empirical study of the United States indicates the "myopic loss aversion" phenomenon whereby investors tend to overreact to temporary market volatility, often at the expense of long-term wealth creation. In European markets, a study by Shefrin and Statman (2000) emphasizes the role of mental accounting, where investors bargain their money, which results in inefficient investment choices.

Furthermore, studies on emerging technologies in Europe (Barras et al., 2020) emphasize how advancements in AI and renewable energy have redefined investment opportunities, though they come with significant initial costs and long gestation periods. The global COVID-19 pandemic has led to a surge in research on investment volatility and resilience. Zhang et al. (2020) document how sudden market disruptions disproportionately affected small-scale investors.

There is very little research and studies done on how investors choose investment options based on risk tolerance and their financial goals. While general investment behavior as a whole has been explored, there is little insight into why investors prefer certain alternatives over others. Although, age and income are recognized variables in investment research, there is a gap in comparative research on how different demographic groups, such as young professionals and retirees, or businessmen rank investment choices.

In the averse of understanding these differences financial advisors and policymakers design better investment products tailored to specific investor needs and could design investment plans effectively. There is a lack of empirical evidence regarding the ways in which individuals change strategies in response to these changing circumstances, but several of the macroeconomic conditions which are instrumental in determining investment strategies include inflation, interest rates, and political stability. Investors may shift between asset classes based on economic trends, but there is little data on these behavioral adjustments. Similarly, though behavioural finance models such as Prospect Theory and Regret Theory and few psychological biases, research on real Indian investors' experience and response to biases such as loss aversion or regret avoidance is scarce. A deeper understanding of these behavioral influences could help investors in making more rational and informed decisions.

Table 1. Literature Review

Previous Studies	Key Findings	Limitations	Research Gap Addressed
Rau (1980)	Savings contribute to capital formation and economic growth.	Does not explore how individuals allocate savings across different investment alternatives.	Lack of insights into investor preferences for various investment alternatives.
Kahneman & Tversky (1979) (Prospect Theory)	Investors are influenced by biases like loss aversion and risk perception.	Focuses on general investor behavior but lacks application to specific investment choices of individuals.	Gaps in behavioral finance application to individual investors.
Thaler (1985) (Mental Accounting)	Investors mentally categorize money, affecting financial decisions.	Does not examine how different demographic groups apply mental accounting in investment choices.	Limited analysis of demographic influences on investment choices.
Baker & Wurgler (2007)	Market sentiment drives investor decision-making.	Focuses on market-wide trends rather than how individuals adjust investments based on changing economic conditions.	Insufficient understanding of economic and political impact on investment decisions.
Barnea et al. (2010)	Demographic factors influence investment preferences.	Does not offer comparative research on how investment priorities differ among groups (e.g., young professionals vs. retirees).	Limited analysis of demographic influences on investment choices.
Fogel & Berry (2010)	Traditional finance and behavioral finance provide two approaches to understanding investment decisions.	Lacks a detailed analysis of how behavioral finance theories (e.g., loss aversion) influence real-life investor behavior, especially in India.	Gaps in behavioral finance application to individual investors.

Source: Data Processed

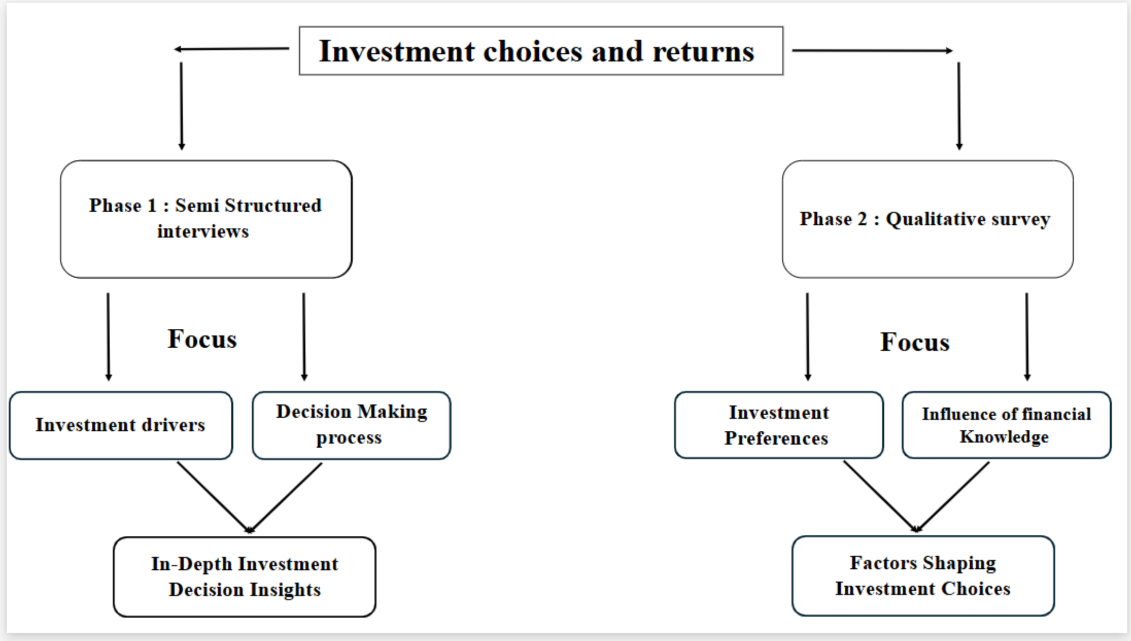

Figure 1. Research Design

METHODOLOGY

This study focuses on a qualitative research approach to explore individual investment choices and returns. The research follows a two-phase design, incorporating semi-structured interviews and qualitative survey responses to gain deeper insights into how individual investors make decisions. The research talks about how an investor thinks, evaluates and rationalizes on an investment decision while choosing a particular investment vehicle. It also talks why one investment vehicle is preferred over the other. The important aspect is that it embeds the investor approach in a descriptive way to uncover science behind investment.

FINDINGS AND DISCUSSION

This chapter presents the analysis and interpretation of the collected survey data on investment choices and returns among individual investors. The study examines investment preferences, risk tolerance, investment horizons, sources of financial knowledge, and key concerns affecting investment decision.

Table 1. Demographic Profile of Respondents

Category	Count	Percentage (%)	Interpretation
Gender			
Male	10	52.63%	Slightly more males participated than females.
Female	9	47.37%	The gender distribution is nearly balanced.
Age Group			
Below 25	17	89.47%	Most investors are young, indicating early interest in financial planning.
36-50	1	5.26%	Very few middle-aged individuals participated.
Above 50	1	5.26%	Older investors are significantly fewer.
Annual Income			
Below ₹2 Lakhs	10	52.63%	Most investors are in the lower income bracket, likely students.
₹2-8 Lakhs	2	10.53%	Few investors have moderate earnings.
Above ₹20 Lakhs	1	5.26%	Only one high-income investor participated.

Source: Data Processed

Table 2. Investment Preferences

Investment Option	No. of Investors	Percentage (%)	Interpretation
Stocks	7	36.84%	Stocks are the most preferred investment option.
Mutual Funds	3	15.79%	Mutual funds have moderate popularity.
Fixed Deposits	4	21.05%	Fixed deposits are preferred for security.
Gold/Silver	3	15.79%	Some investors prefer gold as a safe asset.
Real Estate	1	5.26%	Real estate is the least preferred option.

Source: Data Processed

Table 3. Investment Horizon

Investment Duration	No. of Investors	Percentage (%)	Interpretation
Short-term (2-3 years)	7	36.84%	More than one-third of respondents prefer short-term investments.
Long-term (> 3 years)	10	52.63%	Most investors prefer long-term wealth-building.

Source: Data Processed

Table 4. Purpose of Investment

Purpose	No. of Investors	Percentage (%)	Interpretation
Wealth Accumulation	4	21.05%	Many invest to grow their wealth over time.
Passive Income	3	15.79%	Some seek additional income from investments.
Financial Security/Stability	2	10.53%	Few invest for financial stability.
Just to Save & Earn Future Returns	8	42.11%	Nearly half invest with a basic saving mindset.

Source: Data Processed

Table 5. Risk Appetite

Risk Tolerance	No. of Investors	Percentage (%)	Interpretation
Prefer Stable Returns (Low Risk)	6	31.58%	One-third prefer low-risk, stable investments.
Invest Cautiously (Moderate Risk)	5	26.32%	Some are open to moderate risk-taking.
Take Calculated Risks (High Risk)	4	21.05%	A smaller segment is willing to take high risks.

Source: Data Processed

Table 6. Sources of Investment Decision

Source of Decision	No. of Investors	Percentage (%)	Interpretation
Self-research	5	26.32%	Many rely on their own research for investments.
Parents	4	21.05%	Family influences a significant portion of investors.
Friends/Colleagues	4	21.05%	Peer influence plays an important role.
Financial Advisors	2	10.53%	Few seek professional financial advice.

Source: Data Processed

Table 7. Investment Challenges

Challenge	No. of Investors	Percentage (%)	Interpretation
Lack of Financial Knowledge	4	21.05%	Many investors feel they lack financial literacy.
Market Unpredictability	3	15.79%	Market volatility is a concern for some.
Insufficient Funds to Invest	5	26.32%	A major challenge is not having enough money to invest.
Fear of Losses	2	10.53%	Some are hesitant to invest due to fear of losses.

Source: Data Processed

Most of them are young scholars with limited resources or who are reliant on family income, the demographic analysis and data indicate a keen interest to invest at a young age regardless of financial constraint. The superior rate of male participation indicates women need to learn more about personal finance in order to encourage a higher level of investment activity.

a. In terms of investment preferences, stocks (30%) are the most preferred asset, followed by fixed deposits (20%), gold/silver (20%), and mutual funds (15%). This suggests that while some respondents seek high returns, a significant portion still prioritizes stability in income and may be lower yet consistent returns. The low preference for real estate (5%) indicates that young investors may find it inaccessible due to high capital requirements. Action Needed: Introducing low-capital investment options such as fractional ownership in real estate or REITs (Real Estate Investment Trusts) could make property investments more accessible.
b. The investment horizon is balanced, with 45% opting for short-term investments and 55% choosing long-term investments. This reflects an awareness of wealth accumulation but also indicates that nearly half of the respondents may not yet prioritize long-term financial security. Action Needed: More awareness campaigns on the benefits of long-term investing and how long term can be a safer option to manage risk and volatility as well as how compounding should be conducted to encourage sustained investment strategies.
c. In terms of risk appetite, only 30% of respondents are risk-averse, remaining 35% take moderate risks, and another 35% are high-risk investors. This distribution suggests that there is a need for better financial planning tools that are applicable to all risk profiles. Action Needed: By offering personalized investment guidance, through robo-advisors or financial literacy programs or personalized one to one mentoring sessions, can help investors align their choices with their risk tolerance.
d. The sources of financial knowledge indicate that while 25% of respondents rely on self-research, another 25% have no financial awareness, which could lead to poor investment decisions. Action Needed: Institutions and financial platforms should promote structured financial education, possibly integrating investment basics into academic curricula or offering workshops.

e. Key investment concerns among investors is the include unpredictability in the market (25%), lack of proper financial knowledge (20%), inflation (15%), fear of losses (10%), and insufficient funds (20%). These challenges indicate hesitation to invest especially those who are new investors. Action Needed: Financial service providers should focus on educational initiatives, introduce beginner-friendly investment options, and create awareness about inflation-proof investment strategies.

CONCLUSION

This conclusion specifically negates those findings. Besides giving a theoretical explanation of many behavioral biases among Indian investors, the findings of the survey allow us to conclude the significance of traits such as overconfidence, mental accounting, and regret aversion, and behavioral biases such as anchoring, availability bias, and representativeness bias, in individual investment decision-making. Most investors are very worried about the safety of their capital. They want more reliability and security. Current trend and easy access is not affected the investor as much as safety and reliability. Most of the earning people invest their income up to different level in any sector, so investment company have also very much scope of gaining business. Equity market is also popular among investors due to higher return, but due to uncertainty and lack of proper knowledge investors do not invest in that sector. But investors who have proper knowledge and willingness to take risk up to some extents are investing in Equity market. Thus, Indian individual investors should not be left behind as an isolated batch in the financial markets, rather they should be made aware of heuristics-based decision-making processes and learn how to incorporate them, along with fundamentals, in their investment strategies.

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