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A study on the investment pattern, preference and investment decisions of salaried individuals in Coimbatore district

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Abstract

The salaried individuals are expected to shoulder investment risks and commitment to beat inflation and reap taxation benefits. The factors weighed by an individual before choosing the investment avenues are risk, return, time horizon, convertibility, time value of money and the expected tax benefits. Salaried class of today are more risk takers, defying the norms of conservatism and they venture their funds in stock markets and in those investment avenues. In order to throw light on the pattern of investment and preference of salaried class, 150 respondents from four taluks have been randomly selected using Simple Random Sampling Technique in Coimbatore District. The sample size constitutes 600. Reduction of Income tax burden and the role of friends and relatives are the predominant factors contributing the for the selection of investment sources by the salaried individuals.

Keywords: Salaried investment behavior, risk, returns, tax benefits, Coimbatore

Introduction

The additional income and future capital gains are targeted by the salary individuals by gradually sacrificing their salary income. The salaried individuals are expected to shoulder investment risks and commitment to beat inflation and reap taxation benefits. An individual has to plan his/her disposable income in such a way as to how much of it could be appropriated for current consumption needs and how much could be channelized towards making investment, depending upon his current and future financial commitments. After setting aside an amount for making investment, he/she has to evaluate various investment avenues, keeping in mind the risk and inflated return involved in each option. The factors weighed by an individual before choosing the investment avenues are risk, return, time horizon, convertibility, time value of money and the expected tax benefits. Bank deposit schemes, real estate, precious metals, Government Bonds and Treasury bills are some of the most popular investment avenues chosen by the salaried individuals.

Statement of the Problem

Everyone wants to avail the benefits of money and enjoy life. Money attitude become common parlance in the industrial era. Ethical earning way of money is not overnight exercise. It needs hard work and sincere efforts to earn and invest in appropriate avenue suitable for the prevailing economic scenario of the Nation. Investment is like a seed at the present but which would give yield in future. Savings and investments tighten the financial commitment of an individual in the long run. Modern technological advancements, new industrial era and Standard of living of the people are together moving the financial commitment forward. Outlook of savings and investments changed the attitude of salaried class and middle class people. They started to realize the value of investments and obtain exposure and knowledge about the investment. Therefore, it is pertinent to study the investment pattern and risk taken level of salaried individuals.

Investment avenues and in this respect, bank deposits and Government bonds are their most preferred investment choice. As per the recent RBI Report, most of the people in India have strong appetite for depositing their hard earned money in banks and have been doing so from the time immemorial, considering safety, liquidity and profitability. But in the recent times, people are risk takers as seen in their investment behavior in stock markets and other risky

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financial instruments, expecting more returns above what they would have received, if they choose banks.

Salaried class of today are more risk takers, defying the norms of conservatism and they venture their funds in stock markets and in those investment avenues, which yield them higher return in course of time, realizing the logic that more returns are associated with more risk. Of all the factors which materialize investment decision of a salaried individual, the tax benefits are linked to various investment opportunities ranging from bank deposits to share market. The chief reason for this is that, in India, tax on income is higher, compared to other countries in the world and the individual is trying his best to maximize returns on investment and minimize his/her tax outgo.

Objectives of the study

- To know the demographic profile of the respondents
- To examine the investment pattern and preference of the respondents
- To analyse the various sources of investment avenues chosen by the respondents

Research Methodology

The study was formed based on survey method. Coimbatore

is the main industrial hub of Tamil Nadu State and people are industrious. Purposive sampling technique was adopted and 4 taluks have been duly selected out of 11 taluks of the district based on its geographical location. 150 respondents have been randomly selected from each taluk based on the Simple Random Sampling Technique. The sample size constitutes 600.

Analysis and Discussion

The demography of salaried individuals is crucial in categorizing them for study purposes. It is used to characterize a population-based on size, distribution and structure. These factors have a significant impact on tax planning and investing patterns. These variables are important in assessing the characteristics of investors and their attitudes towards financial products. Age, gender, education, marital status, employment status, income, and the number of family members are all important factors in determining the behavioural elements of choosing an investment avenue and achieving investment goals. In light of this, the current analysis focuses on the demography of salaried individuals. Simple percentage, Arithmetic mean and Chi-square test were used to analyze the data.

Table 1: Demography of the respondents

Category		Frequency (N = 600)	%
Age	Below 30	231	38.5
	31-40	217	36.2
	41-50	112	18.7
	Above 50	40	6.7
Gender	Male	318	53.0
	Female	282	47.0
Educational Qualification	Up to HSC	126	21.0
	Diploma/Technical	65	10.8
	Undergraduate	149	24.8
	Post Graduate	161	26.8
Marital Status	Professional	99	16.5
	Married	432	72.0
	Single	168	28.0
Size of the family	2	103	17.2
	3	160	26.7
	4	245	40.8
	5	40	6.7
	Above 5	52	8.7
Status of Employment	Government	56	9.3
Occupation	Private	544	90.7
	Sub staff	98	16.3
	Clerical	65	10.8
	Managerial	131	21.8
	Teaching	188	31.3
	Technical	118	19.7
Monthly income	Up to ₹20,000	168	28.0
	₹20,001-40,000	156	26.0
	₹40,001-₹60,000	86	14.3
	₹60,001-₹80,000	118	19.7
	Above ₹80,000	72	12.0

Source: Primary Data

The above table depicted that most of salaried individuals were in the age groups of below 30 years (38.5%) and 31-40 years (36.2%). Though the sample consisted of both male and female respondents, male members were found more (53%). They have different educational qualification engaged in different occupations. However, Undergraduates

(24.8%) and Post graduates (26.8%) were abounding in the sample. 72 percent of them were married. 40.8 percent of them had 4 members in their family. Private employment was the main source of income for 90.7 percent of the respondents.

One-fourth of the employees were working as either sub

staff members or clerical staff members. 31.3 percent of them were teachers and rest of them was managerial and technical cadre employees. Most of them had earnings upto Rs.20000 and Rs.20001-Rs.40000 constituting 28 percent and 26 percent respectively.

To sum up, middle age category of male respondents were found more in the sample. The respondents have good educational background and most of them were earning below Rs.40000. Most of them were teachers, managers and technical cadre employees engaged in private jobs.

Investment Pattern of Salaried Individuals

Investments have been made with the goal of achieving a consistent return on investment by putting money into various investment avenues. Generally, investments are

made by the people for getting passive income. It is the sacrifice of certain present value for the uncertain future reward. It requires making multiple investment and disinvestment decisions, such as kind, mix, quantity, time, and grade, etc. Keeping this in view, investment pattern of salaried individuals was framed as the first objective of the research and it has been focused in the areas of investment avenues, amount invested, nature of investment, investment time horizon, criteria for selection of investment avenues and sources of information. Descriptive statistics was used to present optional type questions relating to demography and investment pattern. Friedman's test was used to find the variation in the basis for the selection of investment avenues, preferred investment avenues and information sources.

Table 2: Investment Pattern of the respondents

Category		Frequency (N = 600)	%
Position in dealing with investment avenues	Beginner	335	55.8
	Knowledgeable	198	33.0
	Experienced	67	11.2
Proportion of Investment (in %)	Below 10	241	40.2
	11-20	221	36.8
	21-30	96	16.0
	31-40	16	2.7
	41-50	17	2.8
	Above 50	9	1.5
	Average Amount Invested (p.a.)	Below ₹25000	356
₹25001-50000		138	23.0
₹50001-75000		64	10.7
₹75001-1 lakh		25	4.2
Above ₹1 lakh		17	2.8
Nature of Investment	Short-term	215	35.8
	Medium-term	266	44.3
	Long-term	119	19.8
Investment Time Horizon	Save as per plan	217	36.2
	Save every month	242	40.3
	Save the surplus after meeting expenses	40	6.7
	Not save regularly	101	16.8

Source: Primary Data

The above table indicated that 55.8% of the sample salaried individuals were in the beginner level in dealing with investment avenues. They were maintaining only savings bank account. 33% of the respondents came under the knowledgeable category. They are dealing with banks, shares, bonds, Mutual Funds, PPF etc. Only 11.2% had experience in trading stocks, commodities, options, futures and real estate. 40.2% of the salaried individuals have invested 10% of their income, and 36.8% were parked between 11%-20% from their income. 59.3% of the salaried individuals have invested below ₹25,000 annually. 23% of

the salaried class individuals invested between ₹25001-50000. 35.8% of the investors preferred short-term investments and 44.3% of the investors were preferred medium-term investments. 36.2% of the investors preferred to save as per investment plan and 40.3% of the salaried individuals saved monthly.

In short, half of the sample respondents seem to be beginners dealing with investment avenues. They opted various types of investment avenues. Most of them preferred medium - term investments.

Table 3: Basis of Investment Avenue selection by the respondents

Variables	Mean Rank	χ^2	P.
Comfortable retirement life	3.74		
Educational expense of children	3.40		
Purchasing house / land	2.92		
Marriage of children	4.38		
Ensuring high growth in investments	4.34	900.254	.000
Expecting income to family in case of unexpected events	5.50		
Reducing income tax	5.92		
Asset creation to dependents	5.79		

Source: Primary Data

The above table exhibited that there was a significant variation in the basis of the selection of investment avenues since the ‘P’ value was significant at 5% level ($p < 0.05$) according to Friedman’s test. The mean rank revealed that reducing income tax (Mean Rank=5.92) was the prime

criterion for the selection of investment avenues followed by asset creation to dependents and expecting income to a family in case of unexpected events. Thus, the respondents mainly approached investment avenues to reduce their income tax burden.

Table 4: Preferred Investment Avenues of the respondents

Variables	Mean Rank	χ^2	P.
Real estate/ Residential house	8.13		
Gold, Silver, diamond and other precious metals	8.42		
Fixed Deposit Account	8.89		
Savings Account	6.56		
Equity shares	6.08		
Coporate deposits / Bonds / Debentures	6.54		
Govt. / PSU / Financial Institution bonds	6.07		
Employees Provident Fund Account	7.91	735.259	.000
NSC / PPF / Post office deposits / Other small savings	7.26		
Mutual Funds	6.11		
Finanical Derivatives	4.95		
LIC / Other Insurance Schemes	7.98		
Chit fund	6.15		

Source: Primary Data

The above table portrayed that there was a significant variation in the preferred investment avenues since its ‘P’ value was significant at 5% level ($p < 0.05$) according to Friedman’s test. The mean rank revealed that ‘fixed deposits’ (Mean Rank=8.89) was a highly preferred investment avenue followed by precious metals like gold, silver and diamond, real estate/ residential house, insurance and EPF. It was concluded that fixed deposit seem to be the most preferable investment avenue of the salaried individuals.

Table 5: Information Sources for the Investment Decisions made by the respondents

Variables	Mean Rank	χ^2	P.
Print / Electronic media	2.97	155.279	.000
Banks	3.58		
Financial advisor/brokers	3.84		
Friends and Relatives	4.36		
Own accord (Based on self-awareness)	4.27		

Source: Primary Data

The above table indicated that there was a significant variation in the information sources for making investment decisions by salaried individuals since the ‘P’ value was significant at 5% level ($p < 0.05$) according to Friedman’s test. The mean rank showed that salaried individuals were gathering information from friends and relatives (Mean Rank=4.36) followed by self-awareness (Mean Rank=4.27), financial advisors/ brokers (Mean Rank=3.84), banks (Mean Rank=3.58) and print/ electronic media (Mean Rank=2.97). To sum up, friends and relatives played a vital role in providing information sources for making investment decisions.

Conclusion

Investment decisions are always crucial for the investors. The salaried individuals like to play the investment game safely and they rely upon investment avenues providing fixed rate of return in the long run. The investment decisions had substantial influence on the demography of the individual salaried investors. Expected returns depend on

the level of risks associated with investment avenues. Overall risk tolerance and the potential to regain the lost funds depend on the calculation of appropriate risk-return trade-off. Safety of the investments, Reduction of Income tax burden and the role of friends and relatives are the predominant factors contributing the for the selection of investment sources by the salaried individuals.

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