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A STUDY OF FINANCIAL PLANNING NEED ANALYSIS

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ABSTRACT

This research paper is focused on importance of financial planning analysis. A financial plan sometimes refers to an investment plan, which allocates savings to various assets or projects expected to produce future income, such as a new business or product line, shares in an existing business, or real estate.In general usage, a financial plan is a series of steps or goals used by an individual or business, the progressive and cumulative attainment of which are designed to accomplish a final financial goal like elimination of debt, retirement etc. This often includes a budget which organizes an individual's finances and sometimes includes a series of steps for spending and saving future income. In this research paper we highlighted the pattern in which individual allocates his savings, whether investor are having awareness about the financial planning & it's importance.

KEY WORDS : *Financial planning, saving habits, financial need analysis, investment*

INTRODUCTION

The saving behavior has been changed considerably over the last couple of years. The savings rate in India is comparatively higher than various other countries. Earlier the trend of saving was in terms of physical assets but it has started to shift now to financial instruments. This trend partially reflects the relentless expansion of the various branch networks of the financial institutions into the country's rural areas and partially holds the increasing trend of the easy accessibility of the alternative investment opportunities. Today corporate securities have become a part of household's savings where in retail individuals prefer to invest his savings in security market. The reason cited for this are the growth seen in the stock market and a low interest rate and return offered by traditional instruments. Also the growing income of working class has also contributed largely to the changing pattern of savings in India.

The household savings in India can be broadly categorized into the following types:

1 Savings in physical properties
2 Savings in financial instruments or financial household savings

Financial household savings in India may include the following:

1 Savings deposits with banks
2 Life insurance policies

3 Provident funds
4 Pension funds
5 Liquid cash of households
6 Deposits with non-banking financial institutions

LITERATURE REVIEW

There is behavioral differences between male and female managers suggests that investors preferring moderate and stable investment styles should invest in female managed funds, while more daring investors interested in funds that take more active bets should choose male managed funds(Peggy and Dwyer,2001).

Earlier studies have been carried out to determine the pattern of Institutional investors Investment but Studies dealing with Investment pattern of individual investors are very few. Previous Studies mainly concentrate on Differences in individual investing pattern on the basis of Gender. Differences on the basis of Age in Investment pattern is new avenue for research. Earlier studies conclude that women invest their asset portfolios more conservatively than their male counterparts. Women's investment has historically been lower than men's for several reasons, including Social and various demographic concerns. However the differences continue to be significant even after controlling for individual Characteristics (Schmidt & Sevak, 2006).In making any investment Decision Risk Aversion and Financial Literacy is a major factor. Although different literature available on risk define it variedly but in common the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities(Lopes,1987).

There is evidence that Women are more risk averse then men in general and this translates to investing in less risky assets in their investment plans. Differences in financial literacy between men and women may also explain differences in their investment decisions. There is some research on individual investors for e.g. Langer (1975) finds that self-reported risk tolerance does the best job of explaining differences in both portfolio diversification and portfolio turnover across individual investors.

Dunham (1984) admits that although personality factors can change over an extended period of time, the process is slow and tends to be stable from one situation to another. Therefore, these factors are expected to influence the decision making behavior of an individual. Barnewall (1987) finds that an individual investor can be found by lifestyle characteristics, risk aversion, control orientation and occupation. Barnewall (1988) suggests the use of psychographics as the basis of determining an individual's financial services needs and takes one closer to the truth from the customer's perspective of need to build a marketing program.

Statman (1988) observed that people trade for both cognitive and emotional reasons. They trade because they think they have information, when in reality they make nothing but noise and trade only because trading brings them joy and pride. Trading brings pride when decisions made are profitable, but it brings regrets when they are not. Investors try to avoid the pain of regret by avoiding realization of losses, employing investment advisors as scapegoats and avoiding stocks of companies with low reputations. Harlow and Brown (1990) observes that psychologists tend to believethat an individual's choice is primarily determined by factors unique to the particular decision setting, whereas economists assume that there is some individual-specific mechanism playing a common role in all economic decisions.

Warren et al. (1990) and Rajarajan (2000) predict individual investment choices (e.g., stocks, bonds, real estate) based on lifestyle and demographic attributes. These investors see rewards as contingent upon their own behavior (Rajarajan, 2002). Gupta (1991) argues that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. Risk tolerant investors behave as though they can control risk. This suggests that risk tolerance serves as a proxy for an 'illusion of control' and thus overconfidence [Madhusoodanan (1997); Odean (1998); Barber and Odean (2001); Benartzi and Thaler (2001); Gervais and Odean (2001); and Daniel and Huberman (2003)].

Barber and Odean (2000) explored the impact of intuitive thinking on investment preference to study the experience of actual investors. The ET Retail Equity Investor Survey (2004) in the secondary market identified different categories of investors based on their characteristics and attitude towards secondary market investments. A study by on 245 Kuala Lumpur Stock Exchange individual investors from Kula Lumpur and Petaling Jaya, reveal that there are some differences between active and passive investors in terms of demographic and psychographics, investment characteristics as well as investment behavior.

Karthikeyan (2001) has conducted research on Small Investors Perception on Post office Saving Schemes and found that there was significant difference among the four age groups, in the level of awareness for kisan vikaspatra (KVP), National Savings Scheme (NSS), and deposit Scheme for Retired Employees (DSRE), and the Overall Score Confirmed that the level of awareness among investors in the old age group was higher than in those of young age group. NO differences were observed among male and female investors except for NSS and KVP.

National Council of Applied Economic Research (NCEA) (1961) 'Urban Saving survey' noticed that irrespective of occupation followed and educational level and age attained, households in each group thought saving for the future was desirable. It was found that desire to make provision for emergencies were a very important motive for saving for old age. Securities and Exchange Board of India (SEBI) and NCEAR (2000) 'Survey of Indian Investors' had been report that Safety and Liquidity were the primary considerations which determined the choice of an asset. In this paper we are trying to find out the Factors which influence individual investment decision, the difference in the perception of Investors in the investing process on the basis of Age and the difference in perception of the Investors on the basis of Gender.

OBJECTIVES OF STUDY

1. To study pattern in which individual allocates his savings.
2. To understand the awareness of investor about investment avenues.
3. To study factors influencing investment decision.

RESEARCH METHODOLOGY

Research Design

A Research design is purely and simply the framework of plan for a study that guides the collection and analysis of data. The study is intended to find whether Awareness of financial planning & Investment distribution in various asset classes. The study design is descriptive in nature.

Sampling Methods

Primary data questionnaire

Sample design

Sample was decided on socio demographic factors such as income and age group etc. The numbers of respondent were restricted to 350. Respondents were selected randomly from Parel,Mumbai.
Secondary data has also been collected from external resources to find out the financial planning and awareness among investor.

Parameters

The various parameters on which the research was to be conducted are:
1. Awareness of financial planning
2. Alignment of life goals and financial goals
3. Willingness of Investment in various asset classes
4. Satisfaction level of investor

Data collection

I Primary data – collected through structured questionnaire.
II Secondary data – collected from website, records, manuals, etc.

DATA ANALYSIS

Table.1.Age distribution of the respondents.

Age distribution of the respondent	No. of respondent %
25-34	34
35-54	36
55-60	22
Above 60	8
Total	100

Interpretation :

70% of respondent was from age group 25-54 yrs. this is considered to be most active age group. During this age, life of an individual income flow is continuous so there is need of proper financial planning. Ultimately the investment decisions are more based on the willingness to take the risk rather than the ability to take risk.

Table2. Income distribution of the respondents.

Income	%
Up to 300000	36
300001-500000	26
500001-700000	18
700001-900000	12
Above 900000	08
Total	100

Interpretation :

62% of respondents are in income range of 0-500000 and 30% of the respondents belonging to income group i.e. 500000 – 900000 & remaining 8 % in above 900000 income range.

Table.3 Number of respondents willing to take risk according to age

Age group	High	Moderate	Low	Total
25-34	80	30	10	120
35-54	75	25	26	126
55-60	07	15	55	77
Above 60	02	05	20	27
Total				350

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Interpretation :

From the above table respondents in the age of 25 – 54 are ready to take risk as compare to respondents those are in age of 55 and above.

Table.4 Investment made by respondents in various investment avenues

Avenue	%
Life insurance	100
Fixed deposits	62
Mutual funds	58
Equity	28
Gold	12
PPF	82
Post office deposits	48

Interpretation :

From above analysis 100 % respondents invest in Life insurance though it has a low risk-low returns but preference is given for family Protection .82% people again like to invest in the PPF because it growing investment &62% respondents choose to go for fixed deposit because in this investment option they get fixed rate of return .Respondents also invest in mutual funds, equity, gold &post office deposits.

Table.5 Satisfaction level of respondents on their previous investments

Satisfaction	%
Yes	30
No	56
Neutral	14
Total	100

Interpretation :

56% respondents are not satisfied with previous investment made by them because of following reasons
Inadequate knowledge about the instrument in which investments was made
Misguided by the agent of financial company
Charges applicable were not disclosed initially
Unplanned investments

Table.6 Investment objectives of respondents

Investments objectives	%
Principal safety	18
Maintain standard of living	34
Meet future expense	36
Safeguard against contingencies	12
Total	100

Interpretation :

From above table it indicates that 70% respondents are investing to meet future expenses and maintain standard of living.

Table.7 Respondents frequency of investment

Preferred frequency of investment	%
Monthly	42
Quarterly	8
Half yearly	10
Annually	22
Single\one time	18
Total	100

Interpretation :

42% respondents preferred to invest on monthly basis & 22 % like to invest on annual basis because investment decision is based on disposable income &willingness of respondents.

Table.8 Financial literacy of respondents

Financial literacy	%
Very good	30
Good	24
Average	30
Poor	12
Total	100

Interpretation:

The purpose behind knowing the financial literacy is to get to know how better the respondents can take investment decision individually. 30% of respondents stated that they have very good knowledge of investment avenues & 30 % say that their knowledge about investment is average. The findings indicate that, while most respondents feel both that financial planning is important and that they are interested in developing a financial plan, very few feel that they have the necessary knowledge to prepare their own plan.

LIMITATIONS

1 **Lack of response from respondent**: It is also said as access to resource of information. As the method adopted was questionnaire hence face to face discussion is not possible.

2 **Unwilling to reveal financial position**: Few respondents kept the financial information field blank.

3 **Time limitation :** As researcher had stipulated time in-depth information could not be collected

RECOMMANDATIONS

1) People need to be educated and informed about financial planning and this will provide a greater opportunity to financial distribution.
2) Individual investment goal should be properly divided into short, medium and long term. Proper allocation should be done in various instruments according to time period and goal.
3) Investments through SIP should be encouraged. A little amount regularly invested for long period can create a greater wealth.
4) One should try to keep the investments simple and invest only into those schemes which are well understood by them. The investor should ensure diversification in the investments however should not make it much complex.

CONCLUSION

1) The investment decisions are more based on the willingness to take the risk rather than the ability to take risk.

2) Following are some reasons for not undertaking financial planning are:
1 Will start financial planning later
2 Waiting to have money to do financial planning
3 Lack of knowledge
4 Misguide earlier under name of financial planning
5 Believing financial planning is only for rich
6 No priority given to personal finance management
7 No clear or specified financial goals
8 Relying on lousy advisors

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