Investor Confidence Test for Hni Segment in India – A Study to Measure Whether Indian Hnis Follow Sentiments or Technical Methods

[1]Bikramaditya Ghosh ,[2]Dr Padma Srinivasan,
[1]Research Scholar, Jain University
[2]Research Guide, Jain University

ABSTRACT: *High Networth Investors or popularly called entity HNIs are a growing race in Indian Economy. By definition, HNI is a person having more than 1 Million USD as Investment Portfolio. As per the Asia-Pacific Wealth Report, released by Merrill Lynch Global Wealth Management and Capgemini, India's HNI population grew to 1,53,000 in 2010 compared with 1,26,700 in 2009. "India was among the eight of the 20 fastest-growing Asia Pacific markets in HNI population including Hong Kong, Vietnam, Indonesia and Sri Lanka," the report said. So, India's HNI population in FY09 to FY10 grew by 21%, which is an important factor from the point of view of studying the buying behaviour of this segment, from the point of view of investment vehicles. The most commonly quoted figure for membership in the high net worth "club" is $1 million in liquid financial assets. HNI segment demands more personalized banking, investments & Tax assistances apart from using an important tool called Estate Planning. According to Mr. Anish Behl, Strategy & Wealth Management, Consumer Banking, IndusInd Bank HNIs keep 20-30% of their Portfolio is for exotic products, where 70-80% goes to classical products like Mutual Funds, Bonds & Equities. However he didn't threw any light on their pattern of investment from a research perspective. In fact it was more of an opinion rather than a research backed statement. This study is based on that specific gap area. This study is planned for identifying the psyche of the Indian HNIs, while purchasing different asset classes.*

KEYWORDS : *Investor Confidence Test, HNI, ASIA Pacific Wealth Report, Exotic Products, Asset Movement, Investment Horizon.*

I. REVIEW OF LITERATURE

Though similar work of research has not been carried out in India so far, but similar body of work has been found while searching for the topic. An Analytical Study on Investors' Awareness and Perception Towards the Hedge Funds in Gujarat JJ Talati, R Sanghvi Wealth management: An opportunity for the Indian public sector banks, E James, MS Roy Indian Primary Markets Can Be Chaotic at Times-NTPC FPO, ARSS IPO, Infinite IPO-Feb, 2010
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Research Methodology: Currently in India the total number of HNIs are 1, 53,000 (as par 2012 December) , which is a growing segment with an approximate growth rate of 20% & above. So, the defined Universe is defined on the 2013 report on Asia Pacific, by Merrill Lynch Global Wealth Management and Capgeminias 1, 53,000. Once the strata is defined, random stratified method has been applied on this pan India based Universe & 50 respondents are chosen.

Stage1. Setting the Universe i.e. Asia Pacific HNI Report, defining Strata
Stage2. Random Stratified Sampling- From Asia Pacific HNI Report, Platform (Strata)
Stage3. Fixation of Variables, developing Questionnaire
Stage4. Data Collection
Stage5. Qualitative input to Quantitative input using Likart Scale
Stage6. Multiple Regressions

The study was over two months, namely March & April 2014. Likart scale conversion took place immediately after that. Post which Multiple Regression has been used with 95% & 80% Confidence levels.

The Study-

Regression Statistics	
Multiple R	0.91410124
R Square	0.835581078
Adjusted R Square	0.547847964
Standard Error	0.420629359
Observations	23

ANOVA						
	df	SS	MS	F	Significance F	
Regression	14	7.193263	0.513805	2.904014	0.066836	
Residual	8	1.415432	0.176929			
Total	22	8.608696				

	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%
Intercept	4.149901138	1.424228154	2.91379	0.019476	0.865625	7.4341771
X Variable 1	0.276882686	0.179643761	1.541288	0.161816	-0.13738	0.6911419
X Variable 2	-0.01612319	0.175773783	-0.09173	0.92917	-0.42146	0.3892119
X Variable 3	0.122425527	0.348931496	0.350858	0.734755	-0.68221	0.927063
X Variable 4	0.011498182	0.416311874	0.027619	0.978642	-0.94852	0.9715151
X Variable 5	0.135352136	0.261172037	0.518249	0.618309	-0.46691	0.7376159
X Variable 6	-0.34245962	0.142726471	-2.39941	0.043216	-0.67159	-0.013332
X Variable 7	-0.23151289	0.197434924	-1.1726	0.274686	-0.6868	0.2237729
X Variable 8	0.484670932	0.307735454	1.57496	0.153914	-0.22497	1.1943102
X Variable 9	-0.01701511	0.294274528	-0.05782	0.95531	-0.69561	0.6615832
X Variable 10	-0.36070346	0.245259693	-1.4707	0.179577	-0.92627	0.2048664
X Variable 11	-0.15944847	0.24695685	-0.64565	0.536579	-0.72893	0.4100351
X Variable 12	0.190861596	0.246831891	0.773245	0.461611	-0.37833	0.760057
X Variable 13	-0.45219548	0.322284126	-1.4031	0.198188	-1.19538	0.290993
X Variable 14	0.00579491	0.206627797	0.028045	0.978313	-0.47069	0.4822795

Variable Details-
Variable X1 is about Quantum of Investments in Variable Securities
Variable X2 is about Liquidity Aspect from Investments
Variable X3 is about Post withdrawal spending aspect
Variable X4 is about Investment Horizon in Equities
Variable X5 is about Investment Horizon in Bonds
Variable X6 is Alternate Investment Vehicles preferred
Variable X7 is about Investor behaviour in Bearish Stock Market
Variable X8 is about Investor Behaviourtowards Fixed Income
Variable X9 is about the Asset movement in a down market
Variable X10 is about Investor behaviour in Bearish Bond Market
Variable X11 is about Following Technical Analysis for Investments in Stocks
Variable X12 is about Preference within Equity Asset Class
Variable X13 is about Preference within Debt Asset Class
Variable X14 is about Preference on Exotics over Conventional Products

Analysis & Findings-If significant value is very less, then from "F" point of view this test is significant. Degree of freedom or df is the number of independent variable, here it is 14. In case of Multiple Regressions R^2 is not as important as many variables are there. So, Adjusted R^2 is more relevant.P Value higher than 0.5 may not be that significant

Critical t stat has to be determined for all variables post sorting. In this caset critical is found to be 2.144.

If P value is zero outside the level of t-stat plot and fall in the tails, then Ho is rejected and Ha is accepted.If the probability is with 95% confidence, then X6 could be considered.None of the other could be considered.If the probability is with 80% confidence, then X1, X6, X8& X13 could be considered.

95% Confidence Level   Only X6 qualifies here

If X variable coefficients are positive then that has got a positive correlation with Y, if negative then it has got a negative correlation with Y.

Ho & Ha for X6 are

Ho - Gold is the only alternative Investment Vehicle for Indian HNIs

Ha- Gold is not the only alternative Investment Vehicle for Indian HNIs

Interpretation- Gold is not the only alternative Investment Vehicle for Indian HNIs

80% Confidence LevelX1, X8 &X13 too qualifies here

Variable X1

Ho- Quantum of Investments from HNI s in India is insignificant in variable securities

Ha- Quantum of Investments from HNI s in India are significant in variable securities

Interpretation-HNIs do invest significant money in variable securities

Variable X8

Ho-Less Risky securities are in preference for the Indian HNIs

Ha-Less Risky securities are not in preference for the Indian HNIs

Interpretation- Indian HNIs do not prefer less risky securities

Variable X13

Ho- Long Term Bonds gets preference from Indian HNIs in the Debt segment

Ha- Long Term Bonds doesn't get preference from Indian HNIs in the Debt segment

Interpretation-Indian HNIs do not prefer long term Bond as a segment to invest

This behaviour of HNIs may seem quite surprising but true. It is an evidence of their logical investment policy, by which they prefer to invest in other alternative avenues rather than an old "safe heaven" called GOLD. However it has also been noticed during the study that lot of other important parameters such as Investor behaviour in bearish stock market as well as bearish bond market could not lead the study convincingly enough. Since HNI segment has emerged as one of the bigger buyers in Mutual Funds in India, this study proves that focusing on Gold based funds will be not be enough to lure the Indian HNIs. Instead, they have to try at alternate Mutual Funds strategy.

II.   CONCLUSIONS & RECOMMENDATIONS-

In this study it has been observed that Gold is not the only Investment Vehicle for Indian HNIs. They do strongly prefer other avenues too. Interesting point to be noted here is when Regression has been performed with 95% confidence level only one variable is shown to be significant. But when the same regression has been carried out with 80% confidence level, some other very important parameters do come alive. Such as X1, X8, X13 variables will be also become significant (with Coefficients) enough. But even then the opinion stated by Mr. Anish Behl, that HNIs prefer exotic products over conventional proved to be untrue. With 80% Confidence it has been found that the quantum of investments by Indian HNIs are significant in variable securities, they also do not prefer less risky assets & long term Bonds as investment vehicle.

Limitations of the Study-This study is done on the basis of the Asia Pacific HNI Survey December 2012. So, by this time HNI population will be significantly high. Then international events such as Crude Oil price, USD Vs. INR movement, political stability in the country, Fiscal Deficit & Current Account Deficit could be the cardinal factors for the HNIs to look for. This study is defined for 50 HNIs under the specified HNI universe as of 2013 (i.e. 1, 53,000) in India. If thestrata are bigger and the sample size is more then there could be variations in the outcome. Keeping that in mind two confidence levels are considered 80% & 95%.Number of variables could be more than 14, if the same study is carried out in a different period.

Further Scope of research- Further work could be carried out on the current available strata post 2013 of Indian HNIs. Sample size of more than 50, could yield different results.Macro-economic data are not taken in to consideration while considering the set of variables. Taking those in to account could lead to additional findings. Comparative study between Indian HNIs investment behaviour with its BRIC peers could be another plausible possibility.

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Teaching Notes-
What are the possible factors to note when we study HNI investments
[1]   How they invest
[2]   What is the pattern of investment
[3]   What is the behaviour is bull & bear market
[4]   Do they really prefer Exotic Products
[5]   Do they really prefer Gold as an asset class

Key Take Away- The HNI segment in India is growing more than 20% & they do not only prefer Gold as an alternate Investment vehicle. Gold may be the flavour of alternate investment avenue with some other segment, but not with the HNIs.