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Equity Linked Savings Scheme: A Study on the Effect of Demographic Factors of Gender and Age on Investment Decisionswith Special Reference to Kottayam District.

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Abstract: *An average Indian investor is risk averse and not willing to think beyond the traditional investments avenues such as fixed deposits, property, gold etc. Thefinancial markets in the country has grown by leaps and bounds in the last few yearsand has witnessed the introduction of a large number of innovative investment options with varied risk and return profilesto suit the requirement of different classes of investors.*

Prominent among them is the Equity Linked Savings Schemethat offers to the investor among other things tax savings under Section 80C of the Income Tax Act. Despite the numerous advantages and benefits of investing in ELSS, the volume of investment seems low.

This study was carried out to find out investor perception towards ELSS and whether investment in ELSS was influenced by demographic factors such as gender and age.

The study concluded that males are more open to investing in ELSS than females and youngsters invest more in ELSS than elders. .The study has also come up with a conclusion regarding the reason forthe above which are as follows: Majority of the females were found to be risk averse while the males were risk lovers and youngsters were more aware of the benefits of ELSS than elders.

Keywords: *Equity linked savings scheme, mutual funds,demographic factors.*

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I Introduction

Combining tax savings and wealth creation needs planning and an awareness of how money can work for itself. When it comes to tax-saving options, there is plenty to choose from such as PPF, insurance policies, provident fund and equity-linked saving schemes (ELSS). The sooner one starts investing in ELSS, the easier it is to accumulate wealth in the long run. Not only do investments in this product save taxes, it also earns good returns and builds wealth in the long run.

For the uninitiated, ELSS is a type of mutual fund investment that qualifies for tax deductions. It is like any other mutual fund, but invests at least 80 per cent of its assets in equity and equity-related products to qualify for tax deductions under Section 80C of the Income Tax Act. ELSS schemes are typically open-ended. Investors can subscribe to the fund on any day. These investments come with a three-year lock-in and the returns from the scheme, i.e. dividends and capital gains, are tax-free. With markets on a high, investments in ELSS to save taxes could just turn your wealth creation dream into reality.

ELSS an ideal tax saving instrument –Equity Linked Savings Scheme (ELSS) offers an easy option to obtain tax benefits and an opportunity to harness the potential upside of investing in the equity market.

Tax-saving benefits of ELSS funds:

- Income tax benefits :- Investment made in ELSS scheme are eligible for deduction from taxable income under section 80C of the Income Tax Act.
- Lower lock-in-period :- In comparison to traditional investment avenue like PPT,NSC under section 80Cof the Income Tax Act ,ELSS funds have the shortest lock in period of 3 years.
- Tax free dividend/capital gains :- Dividend declared under the ELSS scheme during the investment period are tax free. The profit on the sale of ELSS units are treated as long term capital gain, and are not subject to tax.
- Higher return potential :- ELSS funds invest a large part of fund in equity, which despite short- term volatility has the potential to build wealth over the long period.

The following people can invest in ELSS funds:-

- Investors looking for wealth creation over the long term.
- Investors looking for tax deduction under section 80C.
- Investors having a time horizon of 3 years or more.

There are several other inherent advantages with ELSS that makes it a preferred choice among tax-saving options.

➢ Diversification

ELSS being an equity mutual fund is well diversified, making it a suitable option for every investor looking to save taxes and also invest in equities.

➢ Lock-in

ELSS has the shortest lock-in of three years under Section 80C, which makes it the most liquid among tax-saving options. In comparison, the fixed return PPF has a 15-year lock-in with the flexibility of partial withdrawals from year six.

➢ Flexibility

There is a natural convenience built into investing in ELSS: You can invest by filling up a simple form or even online with direct debit from your bank account. Like other mutual funds, you can invest diligently through SIPs, which help you stagger your investments.

➢ Equity exposure

Compared to other options available under Section 80C, ELSS is the only equity-oriented tax-saving option. This is perhaps the most underrated benefit of ELSS, especially when taken into account the fact that equity is the only asset class that beats inflation in the long run and builds real wealth.

➢ Tax-free returns

Investments in ELSS have dual tax benefits. First, investments of up to `1.5 lakh in a financial year qualify for tax deductions under Section 80C of the Income Tax Act. Second, after the mandatory three year lock-in, the gains from the investments are tax-free. Further the dividend income earned on ELSS investments is also tax-free.

➢ Transparent

Investments in ELSS are open, in the sense, each month the AMC releases the portfolio in which the fund has invested for one to know the type of stocks which their investments are in, the sectors, and the exposure in debt and cash. Mutual funds are regulated by the stock market regulator SEBI.

➢ Real-time management

The role of professional fund management ensures you do not face the task of making decisions. Mutual funds employ professionals who manage investments on a full-time basis with expert research resources.

II Statement Of The Problem

Despite the numerous benefits that mutual funds in general and Equity Linked Savings Schemes in particular, has to offer to investors, investments in this particular avenue of investment seems less. The study probes the reason for the lowinvestments in ELSS and tries to study whether demographic factors such as gender and age had any influence in making investments in ELSS.

III Scope Of The Study

The study aims to find out the investor’s perception towards ELSS. The data collection is restricted to Kottayam District. The data collected may vary based on the responses received. The sample size has been restricted to 60. The study has been carried out over a period of 6 months and its relevance may vary with time.

IV Objectives Of The Study

The study is undertaken with the following objectives:

1. To study investors perception towards Equity Linked Savings Scheme as mode of investment.
2. To study whether investment in equity linked savings scheme depends on gender classification.
3. To study whether investment in equity linked savings scheme depends on age classification.
4. To make suggestions and recommendations based on the study.

HYPOTHESIS

Based on the objectives following hypothesis are set:

H0 : There is no significant association between investment in Equity linked savings scheme and gender classification.

H1 : There is a significant association between investment in Equity linked savings scheme and gender classification

H0 : There is no significant association between investment in Equity linked savings scheme and age classification.
H1: : There is a significant association between investment in Equity linked savings scheme and age classification

V Research Methodology

Data Collection

Both primary and secondary data were used for this study. Primary data was collected through a pre-structured questionnaire, while secondary data were collected from various articles, books and also via internet relating to mutual fund scheme like ELSS.

Sample Design

The survey was carried out among 60 investors selected on the basis of convenience Sampling.

VI Limitations Of The Study

1. The study includes only 60 respondents, whose opinions are analysed. Thus it is possible that the study would limit to the sample itself and perhaps not beyond it.
2. The study includes investors of only Kottayam town of Kerala.

VII Review Of Literature

Rao, Narayan (1992) Evaluated the performance of Indian Mutual Fund Schemes in a bear market using relative performance index, risk-return analysis, Treynor's ratio, Sharpe's ratio, Jensen's measure, Fama's measure. The study finds that Medium Term Debt Funds were the best performing funds during the bear period of September 92-April 2002 and 58 of 269 open ended mutual funds provided better returns than the overall market returns.

Gupta L C (1992) attempted a household survey of investors with the objective of identifying investors‟ preferences for mutual funds so as to help policy makers and mutual funds in designing mutual fund products and in shaping the mutual fund industry. International Journal of Research in IT & Management

Shashikant Uma (1993) critically examined the rationale and relevance of mutual fund operations in Indian Money Markets. She pointed out that money market mutual funds with low risk and low return offered conservative investors a reliable investment avenue for short term investment.

Ansari (1993) stressed the need for mutual funds to bring in innovative schemes suitable to the varied needs of the small savers in order to become predominant financial service institution in the country.

Wermers (2000) Explained about the Mutual Funds performance taking different scheme for the different time period and they interpret about the different concepts of mutual funds.

Manuel Ammann, Stephan Kessler and JurgTobler(2006) Stated that for investors, it is important to know what trading strategies an asset manager pursues to generate excess returns. In this paper, they proposed an alternative approach for analysing trading strategies used in active investing.

B Phaniswara Raju and K Mallikarjuna Rao (2009) made a study on "Market Timing Ability of Selected Mutual Funds in India: A Comparative Study" and they analysed the market timing ability of selected fund managers, which is a vital aspect in the success of a mutual fund.

VIII Data Analysis And Interpretation

Testing of Hypothesis- I

Ho: There is no significant association between investment in Equity Linked Savings Scheme and gender classification.
H1: There is a significant association between investment in Equity Linked Savings Scheme and gender classification.

TABLE 1.1 showing Gender-wise classification of investors

	Invested	**Not invested**	**Total**
Male	26	12	38
Female	6	16	22
Total	32	28	60

Source: primary data
$\chi^2 = \Sigma\ [(O-E)^2/E] = 9.478$
Level of significance=0.05.
Degree of Freedom = 1

Critical value : The table value of χ^2 at 5% level of significance with 1 d.f . is 3.84
Decision: Since the calculated value of $\chi^2$is greater than the table value the null hypothesis is rejected.
Therefore,

H1: There is a significant association between investment in Equity Linked Savings Scheme and gender classification.

Testing of Hypothesis-II
Ho: There is no significant association between investment in Equity Linked Savings Scheme and age classification.
H1: There is a significant association between investment in Equity Linked Savings Scheme and age classification.

TABLE 1.2 showing Age-wise classification of investors

	Invested	Not Invested	Total
20 – 29	13	4	17
30 – 39	9	4	13
40 – 49	6	5	11
50 – 59	2	4	6
60 – 69	1	5	6
Above 70	1	6	7
Total	32	28	60

Source: primary data
$\chi^2 = \Sigma\,[(O-E)^2/E] = 13.448$
Level of significance =0.05.
Degree of Freedom = 5
Critical value : The table value of χ^2 at 5% level of significance with 5 d.f . is11.070
Decision: Since the calculated value ofχ^2 is greater than the table value the null hypothesis is rejected.
Therefore,
H1: There is a significant association between investment in Equity Linked Savings Scheme and age classification.

TABLE 1.3 Correlation analysis between Age of investor and Investment in ELSS

Age	Mid value(x)	dx (x-44.5)/10	dx^2	Investment in ELSS(y)	dy	dy^2	dxdy
20 – 29	24.5	-2	4	13	7	49	-14
30 -39	34.5	-1	1	9	3	9	-3
40 -49	44.5	0	0	6	0	0	0
50 -59	54.5	1	1	2	-4	16	-4
60 – 69	64.5	2	4	1	-5	25	-10
70 -79	74.5	3	9	1	-5	25	-15
N=6		**∑dx=3**	**∑dx2=19**		**∑dy=-4**	**∑dy2=124**	**∑dxdy= -46**

Correlation coefficient (r) = $\dfrac{n\sum dxdy-(\sum dx)(\sum dy)}{\sqrt{n\sum dx^2-(\sum dx)^2}\sqrt{n\sum dy^2-(\sum dy)^2}}$

= - 0.955
r is -0.955 indicating a very high degree of negative correlation between age and investment in ELSS
This implies that as age increases, investment in ELSS decreases.
That is, **youngsters are more into investment in ELSS than elders**.

IX Findings, Suggestions And Conclusions

Findings:

The study which was conducted with the objective of studying investor perception towards Equity Linked Savings Scheme has come up with the following findings.

While chi-square tests were conducted to analyse if any association existed between investment pattern in ELSS vis-à-vis Gender and Age, it has come to light that:-

* There is a significant association between gender and investment in ELSS. It was noticed that while 68% of male invested in ELSS only 27% of females invested in ELSS.

* There is also a significant association between age and investment in ELSS. It has come to light that youngsters are more enthusiastic among investment in ELSS than elders. In fact a correlation analysis between age of investor and investment in ELSS yielded a co-efficient of correlation of −.955 which is a clear indication that age and investment in ELSS are highly negatively correlated.

Suggestions:

- Women oriented schemes may be launched to attract women investors towards ELSS.
- Pension oriented scheme may be highlighted to attracted older investors towards ELSS.

X Conclusions:

It may be concluded from the study that there is a bias towards investing in ELSS.

- Males are more open to investing in ELSS than females.
- Youngsters invest more in ELSS than elders.

  The study has also come up with a conclusion regarding the reason for the above which are as follows.
- Majority of the females were found to be risk averse while the males were risk lovers.
- Youngsters were more aware of the benefits of ELSS than elders.

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