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RISK MANAGEMEN - INVESTMENT PREFERENCES TOWARDS EQUITIES

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ABSTRACT

Financial system intermediates with the flow of funds between those who save a part of their income to those who invest in productive assets. The major assets traded on the financial system are money and monetary assets. An important feature of the financial market is the depth and breadth of public participation (i.e. Individual investors) in the market. Millions of households and individual investors provide a pool of capital and diversity of decision making that creates liquidity in markets and makes it dynamic. Investor's perception refers to the selection, purchase and consumptions of goods and services for the satisfaction of their wants. Investors vary from small individual investors to large institutional investors. Further they can be classified as experienced investors, middle aged investors, wealthy investors, active investors and so on. The study mainly tries to find out whether the perception of the investors towards investment in equity market based on their self-monitoring have any effect on their selection of portfolio and their risk and returns.

Keywords: Financial system, monetary assets, Productive assets, financial market, Individual investors, Investor's perception, Institutional investors

I. INTRODUCTION

The economic development of any country depends on the existence of a well developed financial system. It is the financial system which supplies the necessary financial inputs for the production of goods and services that in turn promote to the well being and standard of living of the people of a country. It intermediates with the flow of funds between those who save a part of their income to those who invest in productive assets. The major assets traded on the financial system are money and monetary assets. The responsibility of the financial system is to mobilize savings in the form of money and monetary assets and invest them in productive ventures. A financial system is a complex, well-integrated set of sub-systems of financial institutions, markets, instruments, and services which facilitate the transfer and allocation of funds, efficiently and effectively. These four subsystems do not function in isolation. They are interdependent and interact continuously with each other. Their interaction leads to the development of a smoothly functioning financial system. It performs the essential economic function of transfer of surplus funds from lenders (households, business firms, Government and foreigners) to who (households, business firms, Government and foreigners) have shortage of funds.

Financial institutions or intermediaries mobilize savings by issuing different types of financial instruments which are traded in financial markets. To facilitate the credit allocation process, they acquire specialization and render specialized financial services.

Investor's perception refers to the selection, purchase and consumptions of goods and services for the satisfaction of their wants. There are different processes involved in the investor perception. Initially the investor tries to find what securities he would like to invest, and then he selects only those securities that promise greater utility.

Investor's perception towards investment depends on the factors like risk, the company to which investment made by the investor, the objective of the investment, selecting the best alternative from among the investment alternatives, source of funds by the investor and the returns associated with the investment instruments.

After selecting the security, the investor makes an estimate of the available money which he can spend. Lastly, the investor analyzes the prevailing prices of security and takes the decision about the security he should invest to get better returns.

At the macro level the perception of individual saving and investments is primarily related to the nation's marginal propensity to consume, which in turn depends upon the level of income of the investor, secondly it can considerably influence incentive structure provided by the authorities, fiscal or otherwise.

At the micro level, the perception of the individual investor saving and investments is a very complex phenomenon and can only be determined through the study of various factors.

II. NEED FOR THE STUDY

Investors vary from small individual investors to large institutional investors. One may prefer low risk while another may prefer high risks. One may seek advice of experts to invest while another may invest on his own. The study mainly tries to find out whether the perception of the investors towards investment in equity market based on their self-monitoring have any effect on their selection of portfolio and their returns.

III. OBJECTIVES OF THE STUDY

- To analyze the risk and return perception and investment preferences of investors
- To determine the factors influencing investment evaluation and decision.

IV. RESEARCH METHODOLOGY

The present study is mainly based on two sources of data: primary data and secondary data.

The secondary data pertaining to the theoretical concepts of capital markets and SEBI was collected from the official websites.

The survey method was employed for the collection of primary data from the selected sample respondents. The sample respondents here are collected from investors in Hyderabad city. Convenience sampling technique is used to collect data from sample size of 516 various brokerage (trading) houses in Hyderabad city.

V. REVIEW OF LITERATURE

Pandey and Kathavarayan (2015) examined the investment preferences towards commodity market, other investment options and also deal with investment preference from commodity market, equity market, debenture and mutual fund. It is based on the level of preference in the process of investment in commodity market, the perception and involvement in commodity market and awareness of commodity market, using the multiple regression technique. The results of the analysis significance among are of investor's awareness, perception and involvement and preference, also there was a highly significant relationship between age, education and annual income. It proved that the majority of the respondents are having full awareness about commodity market and most of the respondents prefer to invest in commodity market.

KAVITHA (2015) INSPIRED BY THE PERSISTENT LACK OF LOCAL INVESTOrs participating on the National Stock Exchange (NSE), the wide spread ignorance about financial assets and the continuous purchase of stocks with no information known about them by most people in the country plus the wide gap between the rich who invest in stocks and the poor who continuously make losses in the real investment industry. It was guided by objectives with a purpose of tracking investor's attitudes and perceptions towards stock market investments. It made several recommendations among which to increase investor awareness as a means of encouraging local investors to list on the stock exchange.The regulatory authorities should improve on their performance in order to increase the confidence of local investor. Further, there is a significant relationship between the local investor's perception of stock market regulations and their intention to participate at NSE.

Hemandra (2015) identified investment in equity as always been considered as risky investment by investor and its high volatility and fear of erosion of principle has evaded many investors from venturing into it. Many Asset management companies and financial planners have been advocating the investing systematically in equity market for getting high and safe return from equity market. It also tries to evaluate whether there is any significant difference in volatility and return while investing monthly thus taking benefit of rupee cost averaging rather than investing lump sum. It can be concluded that investing systematically through SIP or doing monthly regular investment has not shown a substantial difference in return and neither in reducing risk.

Parimalakanthi and Ashok Kumar (2015) aimed to find the behavior of individual investors from Coimbatore city towards available investment avenues in Indian financial markets. This also analyzes factors affecting the investment decision and to find out the risk tolerance level of individual investors with respect to demographic variables. It also concluded that safety and capital appreciation was also a foremost preferred aspect in fixed income and investment for safety. Additional income was the most preferred aspect on liquidity investments. The factors namely gender and investment ratios in real estate do influence the investment behavior.

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DATA ANALYSIS AND INTERPRETATION

TABLE – 1.1: CHI – SQUARE TEST FOR TESTING THE SIGNIFICANCE BETWEEN THE AGE AND INVESTMENT PREFERENCES WITH RISK

S No	Comparison of variables (Investment preferences)	Chi-square values	d.f.	P value	Significant
1	Age and National saving certificate	195.911	12	0.000	Insignificant
2	Age and post office schemes	52.494	12	0.00	Insignificant
3	Age and provident fund	250.298	12	0.000	Insignificant
4	Ages and Chits	265.216	12	0.000	Insignificant
5	Age and insurance schemes	218.180	12	0.000	Significant
6	Age and Mutual fund schemes	145.626	12	0.000	Insignificant
7	Age and Bank fixed deposits	122.329	12	0.000	Insignificant
8	Age and Saving bank account	44.719	12	0.000	Insignificant
9	Age and company fixed deposits	29.347	12	0.015	Significant
10	Age and shares	104.230	12	0.000	Significant
11	Age and Bonds/Debentures	30.125	12	0.001	Insignificant
12	Age and Exchange traded funds	52.494	12	0.000	Insignificant
13	Age and purchases of real estate/fixed assets	250.298	12	0.000	Insignificant
14	Age and Gold/Silver	265.216	12	0.000	Insignificant
15	Age and Derivation	218.180	12	0.000	Insignificant

The above table 1.1 reveals that Age and National Saving Certificate the degrees of freedom is 12 at 5% significant level Chi-Square Value is 195.911 and the p value is 0.000. Hence, it can be concluded that if the value of p is < 0.05, there is no association between Age and National Saving Certificate.

Hence , it can be concluded that there no association between Age and investment preferences with risk of National Savings Certificates, Post office Schemes, Provident fund, Chits, insurance schemes, Mutual fund schemes, Bank fixed depots, Savings accounts, company fixed deposits, shares, Bonds/debentures, exchange traded funds, real estates, gold /silver and derivations.

Table – 1.2: Chi-Square Test for Testing the Significance between the Education and Investment Preferences with Return

S. No	Comparison of Variables (Investment Preferences)	Chi-square Value	d.f.	P Values	Sig.
1	Education and National saving certificates	91.038	20	0	Insignificant
2	Education and post office schemes	71.232	20	0	Insignificant
3	Education and provident fund	70.678	20	0	Insignificant
4	Education and Chits	65.324	20	0	Insignificant
5	Education and Insurance schemes	82.428	20	0	Insignificant
6	Education and mutual fund schemes	62.22	20	0	Insignificant
7	Education and Bank fixed deposits	61.113	20	0	Insignificant
8	Education and saving bank account	80.335	20	0	Insignificant
9	Education and company fixed deposits	94.569	20	0	Insignificant
10	Education and shares	91.038	20	0	Insignificant
11	Education and bonds/Debenture	71.232	20	0	Insignificant
12	Education and Exchange traded funds	70.678	20	0	Insignificant

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13	Education and purchase of real estate/fixed assets	65.324	20	0	Insignificant
14	Education and Gold/Silver	82.428	20	0	Insignificant
15	Education and Derivatives	62.22	20	0	Insignificant

The above table 1.2 reveals that in Education and National Saving Certificate, the degree of freedom is 20 at 5% significant level, Chi-Square Value is 91.038 and the p value is 0.000. Hence, it can be concluded that if the value of p is< 0.05, there is no association between Education and National Saving Certificate.

Hence, it can be concluded that there is no association between Education and investment preferences with Return of National Savings Certificates, Savings accounts, company fixed deposits, shares, post office Schemes, insurance schemes, Bank fixed depots, Bonds/debentures, exchange traded funds, derivatives Provident fund, real estates/fixed assets, Chits, Mutual fund schemes, and gold /silver.

SUGGESTIONS AND CONCLUSIONS

The economic prosperity of a country ultimately depends upon its financial system. As long as its financial system is well managed and maintained efficiently, effectively and on sound lines, the country's economy would maintain its upward swing and sustain all round growth. Mobilizing adequate resources for development and for being self-reliant such channelizing is very necessary. The effective functioning of the two important constituents of the financial system viz., financial institutions and Markets, decide the development of the economy, particularly in the developing countries like India. Therefore effective management of financial institutions and financial markets has assumed greater importance all over the globe. These have become key areas to decide a country's reputation and progress.

Findings:

- Age is considered as a prime factor in understanding the profile and it has an important bearing on social phenomena. The study found that 41.5% of the respondents are in the age group of 31-40 years, 29.8 percent are in the age group of below 30 years. Further, 19.4 percent are in the age group of 41-50 years and 9.3 percent are aged above 51 years.
- There is no difference in the perception of satisfaction in investment objective based on education.
- Age has association with risk in investment preferences in insurance schemes, shares and company fixed deposits.
- Age has no association with risk in investment preferences in national saving certificate, post office schemes, provident fund, chits, mutual fund schemes and bank fixed deposits, saving bank account, bonds/debentures exchange traded funds, purchase of real estate/fixed assets, gold/silver and derivatives.

- Education has an association with risk in investment 2 chits, insurance schemes, mutual fund schemes, bank fixed deposits, saving bank account, company fixed deposits, shares, bonds/ debentures and exchange traded funds, purchase of real estate/ fixed assets and derivatives.
- Age has no association with return in investment preferences in national saving certificate, post office schemes, provident fund, insurance schemes, mutual fund schemes, bank fixed deposits, saving bank account, company fixed deposits, shares, bonds/debentures and exchange traded funds, purchase of real estate/fixed assets, gold/silver and derivatives.
- Education has an association with return in investment preferences in exchange traded funds and purchase of real estate/fixed assets.
- Education has no association with the return in investment preferences in national saving certificate, post office schemes, provident fund, chits, insurance schemes, mutual fund schemes, bank fixed deposits, saving bank account, company fixed deposits, shares, bonds/debentures, gold/silver and derivatives.

Suggestions:

Majority of the respondents were found to be in the age of below 40 years. Investors have different perceptions about importance of safety as investment objective based on age. They have different perceptions about satisfaction of investment objectives in safety, liquidity and meet contingencies. Age has an association with risk in investment preferences in insurance schemes, shares and company fixed deposits. It has no association with return in investment preferences.

Investors above 40 years are generally risk averse to invest in stock market. In order to increase their participation they can take advice from the intermediaries to invest in equity market to minimize the risk and maximize the returns. It is suggested to create the environment to instill confidence on investing public with regard to the safety of their investment schemes.

Investors are depending on the friends and relatives on their investment information. SEBI and companies should provide reliable information to the existing share holders to continue their investment in equity market.

It is suggested that the SEBI has to develop the transparent payment procedure and IPO application with important easily readable information.

The Government should take proper steps to regulate the market operations and protect the investors from the unethical and illegal activities of the actors of the stock market and other financial companies.

CONCLUSION

There are different investment avenues with varying degrees of risk and return. To avoid wrong decisions, one may have to improve knowledge, need expert and professional guidance.

Individual investor perception can influence the development of stock market and this in turn can influence the state of the economy. So the players and regulators should endeavor to protect the interests of individual investors and create confidence in their mind. The task of the regulators has been to establish a vibrant capital market where financial assets are fairly priced on their intrinsic value so that they release the right signals for

right investment decisions. The protection of the interests of the investors especially the individual investors is an imperative for the development and smooth functioning of the capital market.

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