



An introduction to correlation between investment choice and risk factor

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Abstract

Today's investor has a variety of options to choose from while making his/her investment decision. Saving and investment behaviour has always been an area of interest to the researcher. The economic cycles of boom, recession, depression and recovery not only effect the level of GDP but also the income of the households and hence the saving ratio and investment behavior. Keeping pace with the changing times and under the liberalized financial sector regime, the financial institutions are also decorated with innovative instruments to meet the growing demand of modern investors. But this innovative and diversified financial system could not lost the appeal of traditional means of investment. The rationale behind choosing this study topic is the premise that the middle class in India has gained attention of the economists, policy makers and the marketers, as still there remains a considerable untapped potential in this income class of India. The study has been conducted to answer few important questions on the preference of the investment instruments and investment pattern of the middle class households, to know the various objectives of investment of the middle income class households and to know whether there has been any increase in their savings and the reasons for the same. Investment is one of the major issues of the middle class families as their small savings of today are to meet the expenses of tomorrow. This study also examines the risk tolerance capacity and investment horizon along with factors governing investment decisions. It is further observed that all age groups marked highest preference towards bank deposits and insurance investment so as to provide the benefit of safety and security of their life and investment. Similar feeling of preference towards investment in Bank deposits and insurance is also observed by all the respondents with different income slabs. It was found that majority of the respondents said that they look for tax advantage and high returns while investing in any instrument. Slight variations are also observed when respondents are classified on age and income groups.

Keywords: Investor's behaviour, middle income class, perception of investors, risk tolerance

Introduction

The financial globalization of the world economy has led to the integration of various financial markets of the world. Deeper financial markets and strengthened prudential regulation of financial institutions help to enhance saving and investment opportunities by offering a wider variety of financial instruments to channel savings and also by providing more security by effective regulation to investors. Investment markets are becoming riskier and each and every passing day makes investors behave differently upon different market dynamics. The basic methods of market analysis (Fundamental, Technical and Quantitative) though are playing an important role in investment decisions, the behavior of the investors has become more important and hence the study "Behavioral Finance" emerging and becoming the topic of various researches and studies. Behavioral finance began as an attempt to understand why financial markets react inefficiently to public information. Structural changes have followed the transformation of India in 1991 from a highly regulated and inward oriented to an outward looking economy. Consequently, the state domination in many spheres of activity is giving way to private sector. The service sector in general and financial sector in particular has to play an important role in this change. It is the development of the financial system, which resulted in a sea change in financial transactions and transformed economics from stagnant and backward position to dynamic and vibrant ones. This fact is also applicable in case of state economy either in the form of high standard of living and low inflation rate. In the various

studies on the financial markets, it is observed that the share of rural and semi-urban areas in both money and capital market are too low. All of them suggested that for the balanced development of financial market, taping of rural and semi-urban savings is necessary. The regulatory and the development agencies are continuously trying to tap the unexplored capital of these areas. In fact, some positive changes occur during the years in these aspects. With the varied options available, investment is like a cafeteria approach where one can choose as per the individual need. This has resulted in more specialized products coming up in the market targeting various sections of income group. Nevertheless, with these innovations, the charm of investment in banks and property has not lost its vain.

Research objectives

The purpose of the analysis is to determine the investment behaviour of investors and investment preferences for the same. Keeping some specific considerations, the study has the following objectives

1. To know the preference of the investment instruments.
2. To know the various objectives of investment.
3. To know the factors that governs investment decision.
4. To know whether there has been any increase in savings and reasons for the same.

Review of literature

George and Alok (2011) ^[5] found that older and experienced investors 'intent to diversify, trade less frequently, exhibit weaker disposition impact and familiarity bias, and their

trading activities are more sensitive to taxes. Sharma, Vivek; Hur, Jungshik; Lee, Heiwai (2008) ^[15] designed a metric to measure the net buying and selling by institutions and individual investors and found that from the year 1980 to 2004 institutional investors were net buyers of growth stocks and net sellers of value stocks and net sellers of glamour stocks. Alok Sonya Seongyeon Lim (2008) ^[6] found that investors who execute more clustered trades exhibit weaker disposition effects and hold better diversified portfolios and the degree of trade clustering is related to investors' stock preferences and portfolio returns. Collectively, the evidence indicates that the choice of decision frames is likely to be a vital determinant of investment decisions.

Pradeep (2007) ^[10] found that investors who were in the middle age group, had higher qualifications, held fewer securities in their portfolio, most invest for the long term, use all the share index to compare performance and feel that they could achieve a much higher return on their investment than previously. Bailey, Warren, Alok and David (2007) ^[1] found that wealthier, more experienced investors enjoy an informational benefit and, thus, are more likely to invest abroad and experience good portfolio performance; other investors appear to venture overseas for the wrong reasons. Sharma and Sharma (2004) ^[14] indicated that they are young, well informed, and also trade regularly. Lipe (1998) ^[7] revealed that respondents perceived different levels of variance as well as covariance of returns although they usually employed only VaR in risk assessment.

According to Raju, N & Patra, Anita. (2020) ^[12], the developments in the financial markets around the globe are providing a wide variety of markets and investment options to the investor's. This in turn makes the investment decision process more complex. Research has been done to identify the factors influencing the investor's attitude towards investment. Primary data is collected through questionnaire. The average value of the top five highly influential factors according to the investors' were what the company does, valuation of the company's Stock, company's 10-Q annual reports, Price to earnings ratio, Is the company profitable. The five factors which were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks were Revenue/ profit patterns of the company was considered to be the lowest influencing factors among the five, customer/ client reviews about the company, vision and mission of the company, risk factors involved in the nature of business, debt-to-equity ratio.

Raju, Jk & B R, Manjunath & Sachin, Mr. (2018) ^[13], mutual fund as an investment avenue provides a platform to the investor who do not want to take high risk on their hard-earned investment. In India, mutual fund industry is growing rapidly and this industry has emerged as an important segment of financial market of India, especially in channelizing and mobilizing the savings of millions of individuals into the investment in equity and debt instruments. Mutual fund investment is less risky than investing directly in stocks and is therefore a safer option for risk averse investor. A competent fund manager should analyze investor behavior, perception, and attitude and understand their needs and expectations to gear up the performance to meet investor expectations and requirements. Investment in mutual fund is affected by the attitude of investors and hence the objective of the study is to identify the investor's attitude on mutual fund as an

investment avenue and the major findings reveal the factors that influence buying behavior of mutual fund investors. The study aims at finding out the attitude of the investors towards investment on mutual funds in Davangere city with 100 respondents who are likely to be an investor.

According to Boobalan C. and Selvavinayagam K. (2019) ^[2], in recent days' investment in stock market through securities has become as one of the best choice. Every day the attitude of investor has changed the uncertainty of expected return and risk. Investors have taken more risk and they get more in return. The risk and return attitude of the investor on various investments might differ from one another. The research design which are used for descriptive research design. The sampling technique adopted is random sampling and sample size of 150 investors is selected for the study. Primary data is collected through online survey and secondary data is collected from website, printed material, books and etc. During the period from September 2018 to Jan 2019, the tools are used simple percentage, correlation and t- test. Most of the investors' have preferred cash market because they are investing in medium term and long term. It leads to minimization of the risk. The table value is more valued than the calculated value. So, the null hypothesis is accepted. There is no significant difference between gender respondents and expected rate of return of investor. In present study the investors should be follow stop loss, estimation of target and make portfolio management, then only reduce risk and increase return on investment.

Rekha D. M & Yashaswini. S. (2019) ^[11] found that Investment in stock market helps to mobilize which in turns helps in development of the economy. Investment in shares will be started from primary market through the purchase of Initial Public offering and further will be traded in secondary market. The investors can buy and sell the existing share at the market price in the stock exchange. An equity share is considered as the ownership capital of the company. Equity instruments are traded based on the movement of price which will be depended on the demand and supply. Investment will generally be done by investors through their direct control on buy and sell of the securities or will be managed by fund managers like brokers. The main aim of investors is to get capital appreciation and returns. The capital appreciation occurs when shares are sold more than purchase price. The returns will be in the form of dividend. The study concentrates on Investors' attitude towards investment decisions in equity market and their risk bearing attitude based on their gender, age, income, education and occupation. This study analyses and concludes by classifying investors as conservative, moderate and aggressive.

According to Nagaraja N. & Sree Krishna K. S. (2016) ^[9], "Be fearful when others are greedy and greedy when others are fearful" one of the famous adages, it attributes the attitude of retail investors in one of the important market situations i.e., bearish market. Efficient Market Hypothesis attributes the attitude of investors is depending on the information availability and accessibility concerned to stocks and stock market. Attitude of investors cannot be measured easily in the stock market in view of the fact that investors act according to the market situation. With the core objective to study the investment made by individual investors in various avenues and to study the volume of investment made by individual investor in various avenues

this study has taken up and it has been studied based on the data collected from secondary sources. Study has been revealed that the Indian investors are facing attitudinal problems such as, Emotions, Fear, Greed and Hope (EFGH) while making investment decisions in stock markets. Finally, Indian investors are irrational and panic investors. Therefore, Indian investors need to be rectified their attitudinal mishaps and must be rational while making investment 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 behaviour (Rajarajan, 2002). Gupta (1991) argues that designing a portfolio for a client is much more than merely picking up securities for investment.

According to Mak, M. K., & Ip, W. (2017) ^[8], the financial industry plays a significant role in Mainland Chinese and Hong Kong economies and has aroused increasing managerial and academic interests in recent decades. Individual investors are becoming more cautious towards financial investment which makes it difficult for financial service providers to formulate marketing strategies after experiencing several financial crises. Prior research has suggested that financial investment behaviour would be affected by various factors, including the demographic characteristics of individuals; however, they seldom study the differences in financial investment behaviour between Mainland Chinese and Hong Kong investors or provide an easy-to-use approach for practical usage. This exploratory study aims at filling the identified research gap by proposing linear regression models of the financial investment behaviour of Mainland Chinese and Hong Kong investors. Based on the results of regression analyses, (i) there exist significant differences in financial investment behaviour between Mainland Chinese and Hong Kong investors, and (ii) investors' psychological, sociological and demographic factors are significant predictors of their investment behaviour/preferences. Thus, financial service providers are able to predict the investment behaviour/preference of its customers and formulate marketing and strategic decisions, such as customizing the financial investment portfolio of customers on the basis of regression models built.

According to Campus, Multan & Floor, Th & Center, Khan & Road, Abdali & Pakistan, Multan & Awan, Hayat & Awan, A & Hayat, M & Hayat, & Zara, Zara & Faiz, Rafia & Ghufra, D & Bushra, (2017), efficient market hypothesis (EMH) holds that the recent stocks prices reflect all the available information, so the proponents of EMH suggest a passive investment tactics of indexing that makes no attempt to beat the market. This research investigates the determinants of investment behavior of individual investors and their relative importance in shaping overall investment behavior. The impact of investment behavior on investment decisions is also examined. Primary data was collected in two phases: first, preliminary interviews were conducted with 25 brokers listed with Pakistan Stock Exchange (PSX), and then quantitative data was collected from 246 individual investors having their brokerage accounts maintained with brokers listed with PSX. Categorization of individual investors was done on the basis of investment objectives, level of investment and demographics. Statistical analysis reveals that the investment behavior has significant relationship with decision making process. These results

also suggest that the dimensions of investment behavior "Involvement and Overconfidence" are significantly related with the "Market Sentiments", "Involvement" with "Technical Analysis" and "Risk attitude and Overconfidence" with the "Fundamental Analysis". Implications: These results hold significant implications for the brokers and individual investors in their decision making in increasing the rationality by considering the factors of individual behavior in the stock market.

According to Warne, D.P. (2012) ^[16], the individual investor plays an important role in the stock market because of their big share of gross savings in the country. The Regulators of the stock market cannot ignore the behaviour of individual investor. The study attempts to understand the behaviour of individual investor in stock market, specifically their attitude and perception with respect to the stock market. A survey is conducted to attain the objectives of the paper. Respondents are classified in to different categories on the basis of income, profession, education status, sex and age. Primary data is collected from a sample around 50 investors of Ambala District. Finally, there are different factors which affect the investment behaviour of individual investors such as their awareness level, duration of investment etc.

The present study conducted by Jeet Singh and Preeti Yadav (2016) ^[4] tries to find out the factors that have major influence on the share investment decisions of a sample of 100 investors in Moradabad city of Uttar Pradesh. Revolution in the finance industry is brought about through the advent and evolution of behavioural finance. Investors hardly act rationally in taking decisions while investing. Investors simply react on the available information possessed by them and react accordingly. Lots of consideration is required to be dealt with before investing in the equity market. Ratio analysis is required to be considered. Technical and financial analysis of the company along with the fundamental analysis of the economy is to be considered while investing in the capital market. The present paper tries to find out the perception of male and female investors regarding various considerations to be kept in mind while investing in the equity market. The paper tries to cram the attitude of male and female investors towards variety of investment alternatives. The researchers have selected 60 male investors and 40 female investors from Jaipur and Moradabad cities. The study uses independent t-test, mean scores to test the hypothesis. The paper concludes that investors should as far as possible try to make fundamental, technical and financial analysis before investing in the shares. Investors whether male or female, should look in all avenues while investing their funds in different assets. Investors should look in all avenues while investing their funds. Some investments are risky and some are not, so as per the age of investors they should decide about risky or less risky investments.

Psychological features play an important role in the individual investment decision process. The psychological characteristics like risk taking ability and mental accounting relate to households' expectations, their self-reported financial risk taking behaviour and their self-reported risk aversion are some of the important variables having an impact on the investment decision of an individual. An understanding of household portfolio allocation may additionally go some way helping policymakers estimate the likely impacts of various policy decisions such as change in

the welfare payments and the introduction of a consumption tax as evidenced by Dilnot (1990) and Freebairn (1991). Somasundaram (1998) has found that bank deposits and chit funds were the best known modes of savings among investors and the least known modes were Unit Trust of India (UTI) schemes and plantation schemes. Tamilkodi (1983) has stated that small savings schemes have a psychological appeal and it provides an opportunity for ordinary men, women, and even children to invest their savings. Jayaraman (1987) has stated that instead of issuing special bonds for unearthing black money the Government of India can encourage investment of black money in various small savings schemes. He further stressed the need to draft the assistance of voluntary agencies at the school and college level for further mobilization of savings. Arangasami (1992) has observed that more and more dependence on mobilization of resources through small savings will ensure and promote self-reliance. The study by Mukhi (1989) has revealed that NSC has been one of the most popular tax savings instruments in this country. He has stated that contractor and others who have to provide security while bidding for contracts finds it extremely convenient to buy NSC and pledge these to the appropriate authorities while earning 12 per cent per annum on the pledged securities. Rajarajan (1999) studied the behaviour of Chennai investors and found that life cycle stage of individual investors is an important variable in determining the size of the investments in financial assets and the percentage of financial assets in risky category. Gavini and Athma (1999) found that social considerations, tax benefits, and provision for old age were the reasons cited for saving in urban areas, whereas to provide for old age etc. was the main reason in rural areas. Among the post office schemes, Indira Vikas Patra (IVP), KVP and Post Office Recurring Deposit Account (PORD) were the most popular, in both urban and rural areas. SEBI-NCAER (2000) study found that households' investment in Shares and Debentures and in Mutual Funds ranges from 7% to 9%. Majority of the Equity investor households portfolio was found to be undiversified and of relatively small value of less than Rs. 25000. It also found that one set of households, in spite of their lower income and lower penetration level of consumer durables, are in the securities market, while another set of household with higher income and higher penetration level of consumer durables do not have investments in securities market. Rajarajan (2000) in his study revealed that there was an association between the lifestyle clusters and investment related characteristics. Karthikeyan (2001) conducted study on small investor's 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 Vikas Patra (KVP), National Savings Scheme (NSS), and Deposit Scheme for Retired Employees (DSRE). The overall score confirmed that the level of awareness among investors in the old age group was higher than in those of younger age group. No differences were observed among male and female investors. Swarup (2003) studied on the decisions taken by the investors while investing in the primary markets. In her study she indicated that investors give importance to their own analysis as compared to their broker's advice.

Outlook Money-C fore survey (2004) of income tax payers in six Cities-Bangalore, Chennai, Delhi, Hyderabad, Kolkata and Mumbai found that only one-third of the respondents favoured the option of pension funds investing in equity and an equal number if the government guarantees the higher returns. The rest one-third rejected the option, as it is 'too risky'. Kaneko (2004) focused on investment trusts and debated the behaviour of individual investors and found that investment trusts are only the means of managing assets.

Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation. Past experience of successful investment increases investor tolerance of risk. Inversely, unsuccessful past experience leads to reduced tolerance to risk. Therefore past investment behaviour affects future investment behaviour. Corter and Chen (2006) studied that investment experience is an important factor influencing behaviour. Investors with more experience have relatively high risk tolerance and they construct portfolios of higher risk. The review of earlier studies focuses mainly on subject of performance of Mutual Funds and Portfolio of Mutual Fund. The existing "Behavioural Finance" studies are very few and very little information is available about investor perceptions, preferences, attitudes and behaviour. All efforts in this direction are fragmented.

Conclusion

The awareness of investment knowledge is not much high. People are helped by financial portals, financial news channels, financial newspapers; various markets related T.V. shows, Expert talks, magazines. For Indian public money is everything. So they are more sensitive about their money. They will think hundred times before investing in any market and will expect more than that. They feel that they are having enough money, time, resources and opportunities with them for investing. Though they are having some knowledge of financial market and economic condition of India yet they lack the edge above the others as this field is very unpredictable and volatile hence they must be backed up by a financial planner. Encouragement should be given to invest for the long term. "Financial literacy campaign" should be organized time to time as many people are still unaware of stock market and in India there is youth which is untapped. Also Banks and financial services do the financial inclusion. People give more importance to savings so as per their likings more opportunities should be provided. Many times it may happen that people land up in mess or huge losses due to not proper information or guidance, and if they want to know where they are going? A financial planner would do a world of good to them.

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