

Equity Investor's Behavior and Investment Pattern of Retail Equity Investors in Chennai city - An Empirical Study

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Introduction

The Individual investors can provide funds to the Industry either by participating in its equity or by subscribing to its debt instruments. This participation may be either direct, or indirect, through mutual funds. Whatever be the form, their participation is absolutely necessary for the Industry. If the savings of the individuals are not trapped in a proper manner, then it may find its way into unproductive channels such as investment in Gold or it may lead to unscrupulous rise in the consumption pattern, both of which are not good for the economy. Hence there is a right need to tap the savings of the Individuals for productive investment.

The growth of securities market changes the quantum and composition of savings and asset of the households. The availability of yield-bearing securities induces people to consume less and invest more in high elastic, divisible, liquid securities. A strong domestic stock market show forms the basis for the well performing domestic corporate to raise capital in the international markets. The securities market facilitates the internationalization of the economy by linking it with the rest of the world. This relationship happens through the inflow of capital in the form of portfolio investment. Financial markets across the globe are undergoing reflective, unprecedented and fast-paced changes. Knowledge has revolutionized the processes and order explosion has sparked off remarkable changes in the way the world market has been operating. Change has become unexpected experience.

Background of the study

The capital market is used as the main tool to activate funds for the economic growth of the country. The renovation of saving for the household, investing on institutions, formation of financial assets and growth of asset-related products are the essential function of the capital market. For the constant growth of economy in any country, well-functioning of security market is needed; the security market provides a bridge between critical savers and ultimate investors, the chance to position the investments of the careful at the disposal of the original, thus hopeful to raise the total level of investment and growth. It allocates scarce savings to the enterprises and forces them to focus on their performance, which is continuously evaluated through share prices in the market. It thus converts a given stock of invested funds to a large flow of goods and services.

Statement of the Problem

The stock marketplace is one of the vital and dynamic sectors in the financial system making an important contribution to the economic development of a country. Investors are the backbone of the capital market and they are not comparable. Institutional investors are accomplished of understanding the intricacies involved in the stock market activities but the retail investors lack adequate awareness about it. As the bulk of the savings of the country generally emanate from the households, and the retail investor is still the major source of risk capital to upcoming enterprises, to undertake new industrial activities, the capital market cannot grow without their participation, directly or indirectly.

Scope of the Study

The present study has collected the investment pattern among survey to retail investment in equity shares. This study opens beautiful vistas over investor's preference and awareness of various major objectives. This also paves the way to study the pre and post investment approval in an intensified manner. It also focuses exact problems related with equity investment of retail equity investors in Chennai city

Objectives of the Study

1. To study the investment pattern of retail equity investors in Chennai.
2. To examine the sources of information consider and investment selection of retail investors.
3. To classify the various investment preferences and investors awareness on risk and return.
4. To find the association between demographic variables of investors and their investment objectives, decision and satisfaction.

Research Methodology

This study is the retail individual investor's behavior on equity shares both analytical and descriptive in nature. It depends upon both primary and secondary data.

Sampling method

This study was used by the simple random sampling method. This sampling research on the relationship between individual investor's behavior and pattern of investment variables, in the present study were selected mainly on the basic of various factors that significantly influences in the equity investors evaluation of equity share investments and make a judgment of the post investment satisfaction of various classes of investors and investors' confidence as a whole. The study is based on various socio-economic and investment profile factors.

Sample Size

The research adopted simple random sampling method. The respondents chosen from an age group ranging from more than 20 years to 65 years in Chennai city including different strata of investors like student, Investment & Fund Managers, Retired salaried class, businessmen, Stock Brokers, and Investment Advisors. Initially 250 questionnaires were distributed to the investors spread over in Chennai city. But only 215 respondents returned the filled up

questionnaires out of 250. In which 200 of them are found usable. Hence, the accurate sample of the study is 200.

Research Hypotheses:

- There is no significant difference between level of risk and returns of investors.
- There is no significant difference between investment objectives and approval.

Limitations of the Study

The study is limited to Chennai city only. Therefore the conclusion may not be comprehensive for the other parts of the city. The study is appropriate to the retail equity investors only. Institutional investors remain excluded. The limitations associated with the statistical tools are related for the tools in work in this study. Period of the study commenced from December 2014 to January 2015

Review of the study

1. **Dr. RutaKhaparde Investors' Perception towards Impact of Macroeconomic Performance on Stock Market Behavior (2014)** The study included a lot more number of other categorical variables and value based variables which have not been included, restricting the scope of the study to some limited objectives. With some selected macroeconomic factors and categorical variables, it was observed by the simplest means that the perception of the investors does differ towards the impact of macroeconomic performance on stock market behavior with respect to different individual factors like age and years of market investment experience. The study had been a possibility as more and more investors are doing market study before investing. Moreover, a study of this kind would be definitely of great help to fund management companies and for financial planners who will seek this to understand the awareness level of the investors and would be able to build investment strategies accordingly
- **Joshua Aroni; Prof. G. Namusonge (2014)The Effect of Financial Information on Investment in Shares - A Survey of Retail Investors in Kenya, International Journal of Business and Commerce**This thesis concludes that financial information acquisition has the potential to improve investors' decisions resulting on improved overall portfolio

performance. Both the stock market regulators and financial advisers should therefore educate investors to improve their financial analysis knowledge, economic, and commercial skills as a means to encourage more. To this end it is recommended that Brokerage firms should establish capacities in their respective institution to be able to continuously train investors and whenever necessary assist them to interpret key financial indicators to support in informed decision making. The Managers of listed companies should deliberately endeavor to avail financial information to the public in a timely manner, preferably by posting the annual reports on the website as announcement updates. This will avoid information asymmetry and ensure the market operates in near perfect competition which will enhance confidence, and make market participants to fully appreciate the role of financial information in investment decision making.

Analysis of the study

DESCRIPTIVE ANALYSIS

It provides in order to the character of a particular group of individuals. In this research the researcher assessed the respondents by their demographic characteristics, investments size, investment features, income, diversifications of the portfolio, time spend for investing activity, leveraging in investment and experience in stock market. The percentages were found and the analysis was done as under

Association between Gender and Various Behavioral Issues

GROUP BEHAVIOUR

Group instincts are a psychological bias in investing. Instead of relying on any analysis or basic information people tend to herd together i.e. just follow other investors or market sentiments. This often results in irrational ups and downs in the market not supported by any technical or fundamental valuation. This may be due to over reaction to any market information. The behavior of the investors is analyzed based on the responses from the Rating scale used for the respondents. The following table V-38 is provided for the purpose of analysis.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.969 ^a	2	.002

The results of the chi square tests revealed above prove that there is no significant relationship between herding and the gender.

ii) PREFERENCE FOR SHORT TERM GAIN

The investment time frame of the investors is either short term or long term. Short term denotes the holding period of less than one year and long term is more than one year. Choosing between short term gain and long term gain is a very important decision taken by every investor.. Hence this tendency is analyzed in this study. The following table is provided for the purpose of analysis.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.113 ^a	2	.047

RISK TOLERANCE

Risk tolerance is a very important attribute in investing which decides the choice of investment of an individual. It also determines the rate of return earned by the investor. There is a reward for risk taking. The attribute of risk tolerance is analyzed in this study and the factors which influence risk taking especially demographic factors are analyzed with the help of the following table The results of the chi square test reveals that risk tolerance varies between male and female

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.763 ^a	2	.152

INVESTOR AWARENESS

Investor Awareness is the process by which investors improve their understanding of financial markets, products, concepts and risks. Financial literacy helps an investor to make an informed judgment about investments keeping in mind the specific goals of investing. Financial literacy levels of the respondents are analyzed using the responses given by the respondents in the questionnaire. It was found that a majority of them have a high level of financial literacy. In this part of the study, the relationship between demographic factors and financial literacy is analyzed. The following table is provided for the purpose of analysis.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	2.498 ^a	2	.287

The value obtained in the chi square test signifies that there is a significant relationship between gender and the investor awareness.

ASSOCIATION BETWEEN DEMOGRAPHIC FACTORS INVESTMENT CHARACTERISTICS

The different characteristic features in the investments of the respondents namely diversification, and leverage in investing are separately associated with demographic factors namely age, annual income, occupation and qualification to explore any significant relationships between them. The following tables provide the results for the same.

DIVERSIFICATION VS ANNUAL INCOME

Annual Income determines many important factors in investing. Hence the relationship between annual income and diversification is tested. The table below shows the annual income of the respondents and the degree of diversification

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	6.952 ^a	6	.325
Likelihood Ratio	6.855	6	.334
Linear-by-Linear Association	.185	1	.667

The chi square test revealed that there is a significant relationship between income levels of the respondents and the extent of diversification.

DIVERSIFICATION OF PORTFOLIO Vs OCCUPATION

The occupations of the respondents are considered for evaluating its association with the extent of diversification. The table below shows the diversification of the respondents with respect to various categories of occupation

Chi-Square Test

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	3.739 ^a	6	.712
Likelihood Ratio	3.597	6	.731
Linear-by-Linear Association	1.252	1	.263

BORROW AND INVEST IN STOCK MARKET Vs ANNUAL INCOME

As the income increases the risk taking ability also increases. Hence the association between annual income and leveraging is analyzed with the help of the following table.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.314 ^a	3	.006

The results of the chi square test above ($P > 0.05$) indicates there is no significant relationship between the annual income and leverage in investment.

BORROW AND INVEST IN STOCK MARKET Vs OCCUPATION

The relationship between occupation of the respondents and leveraging is found in this analysis. The table below shows the extent of leveraging by respondents belonging to different occupations.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	9.729 ^a	3	.021
Likelihood Ratio	9.832	3	.020
Linear-by-Linear Association	9.435	1	.002

The results of the above test reveal a significant relationship between the occupation and the leveraging in investment.

BORROW AND INVEST IN STOCK MARKET Vs ACADEMIC QUALIFICATION

Academic qualification is an important demographic factor which increases the level of awareness of the population. This variable is analyzed with leveraging in investment to find out any relationship between the two.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	1.872 ^a	3	.599

The results of the chi square test mentioned above ($P > 0.05$) reveal that there is no significant relationship between the academic levels and leveraging in investing.

SUMMARY OF FINDINGS SUGGESTION AND CONCLUSION

This chapter is intended to present the findings of the research and suitable suggestions, profound conclusions and scope for further research. The microscopic cross examinations of the primary and secondary data reveal the following results. Primary and secondary data are explored completely to ascertain the important factors of the study, to identify the reasons of investors for investing in retail investment, impact of investment decision, relationship between financial sector reforms and equity retail investment. The changes in the attitude of investors were noticed after the latest developments in capital market in 1991.

To study the investment pattern of retail equity investors in Chennai

A maximum percentage of 32.5% of investors are in the age group of 25- 35 followed by the investors in the age group 35 to 45 which are 30.5%. Male investors are more passionate than females in equity shares investment. It is identified that most of the investors are working in self employed concerns or running their own business, that is 26.7% and 25.5 % of investors are employed in their agriculture concerns. The Government employees are not passionate more in equity shares. It is found that 12.3 % investors belong to the income groups of Rs. 1 - 2 lakhs and 29.3 % investors have the income less than Rs. 1 lakh, 16.8 % are in the income of groups of Rs. 2 - 3 lakhs. The number of dependents and investment are inversely comparative to each other. When the number of dependents is more in the family, they do not have ample money for investment in this present economic situation.

To analyses the information search and investment option of retail investors.

A maximum of 15.8 % of investors get the information about the securities market through news papers followed by 14.8 % of investors get the information through television media, 14% of investors receive the information through the stock brokers. A major percentage of the investors are getting the information through news papers television and stock brokers. 14

percent of investors are investing their money after analyzing the financial performance of the companies and only 0.5 percent of investors are considering some other factors like present market condition and new production strategies.

Newspaper plays a crucial role in identifying all the industries except IT industry. It is found that the information through Journals and magazines is useful for investors to invest in banking, manufacturing, textile and automobile industries. Banking, steel and cement industry are concentrated by the investors with the help of information through TV channels.

To examine factors influencing investment evaluation and decision of investors.

The cluster analysis revealed that 42.16 percent investors express the opinion that they moderately agree on all the elements of capital investments and remaining 57.54 percent investors strongly agree with the investments in equity shares. The investors accept equally about the investments in secondary market, project details and their changes, and financial parameters. It is concluded that all the investments are important and they reflect the investments of equity shares. Investors' opinion on investments cannot be distinguished on their experiences with equity shares dealings. The retail investments are totally spread over all the investors equally independent of their number of years of dealings.

To evaluate investors level of satisfaction and their innovative perceptions towards retail equity investment.

It is found that the investors of equity market are distributed into three groups on the basis of investment pattern prevailing in India. The first group consists of 6.11 percent investors with minimum awareness on equities and 63.12 percent with high awareness on equity investments. Equity investments have affected the investment in the banking sector. More number of investors is enthusiastic in venturing into equity shares pertaining to banking sector. The investors have the knowledge about company management before they invest in FMCG sector. General information, company management, and details of present values, change of project details and financial parameters significantly affect the investment in pharmacy sector and PSE sector retail investment.

To find the relationship between demographic variables of investors and their investment objectives, decision and satisfaction

In this moderate awareness cluster age, gender, annual income and vehicle ownership of investors pave the way to know about general capital investments. The high awareness of investors is achieved through their age, marital status occupation, no. of dependents and percentage of investment. In this moderate awareness group of investors, nature of family and vehicle ownership help them to acquire knowledge about company management. It is concluded that the nature of family decides the investor's awareness on the company management. The annual income, no of dependents and vehicle ownership are useful for the investors to know the company management. It is concluded that income, vehicle ownership and number of dependents explain the awareness of investors on company management. Age, nature of family, and house ownership create a good impact on details of present values. In moderate awareness, clusters, the equity market awareness can be observed by the investors using their age, nature of family and house ownership.

SUGGESTIONS

Based on the study, the following suggestions have been made.

Corporate governance has to be applied in all stock exchanges. Advanced technologies like addition of stock exchanges, D-mat, online trading, creation of development of web pages must be brought in capital markets for its growth and to draw the knowledgeable investors. Strategies like hedging, index futures must emerge in capital market to reduce the market risk, and provisions must be made to return at least the primary amount of investors. Strategies must be employed to encourage women investors. Awareness programs have to conduct in all places. The competitions of capital market have come from instructional investors like mutual funds and real estate. So the companies must be careful enough in issuing their shares. Transparency must be made both in primary market and secondary market equally to help the investors to get their capital. Shares, Debentures and bonds are familiar to urban investors. But their counterparts in rural areas do not know anything about them. Investors are the hub of the capital market. Their satisfaction is the most important. So it should be done by providing safety, return and liquidity for their investments. Capital market should generate a higher level serious factors occupied for making investment decisions

Conclusion

The investors of to-day are more quickly informed than their predecessors of yesterday. So they are better informed and better treated. They want to be make safe when they aspire to become rich, wanted to save while they are tempted to spend, want to feel the joy of satisfaction and avoid the pain of regret. However every agency in the capital market should plan their strategies for profit to investors on a long term basis. The impending investor must be properly educated and guided in a manner that more idle resources or invested in other avenues will be unfocused to capital market. Conclusively the quantum of retail investment increased quickly as well as extremely, liberalization continues to blow retail market investment by adapting itself to new procedures practices and patterns with the entry of various players in the market; it is suspended to achieve unmatched levels of growth in the near future.