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INVESTORS BEHAVIOUR AND THEIR RISK EVALUATION OVER INVESTMENT

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Abstract:-A decision-making process that is based on making choices that result in the most optimal level of benefit or utility for the individual. Most conventional economic theories are created and used under the assumption that all individuals taking part in an action/activity are behaving rationally.

In the Study it was observed that the primary motive of investment among the small and individual investors is to earn a regular income either in the form of interest or dividend on the investments made. Information furnished in the below Table proves this fact. It may be observed from the table that 146 out of a total of 650 sample respondents, constituting 22.6 percent of the total sample, stated that their principal motive of investment is to earn interest/dividend income.

Keywords: Investors Behaviour, Risk Evaluation, economic theories.

INTRODUCTION

INVESTORS' BEHAVIOUR

An understanding of the small investor's behaviour constitutes the focal point for evolving suitable and effective strategies for development of securities markets in any country. The investor behavior needs to be studied and analyzed from the dimensions like - What motivates a small investor to make an investment? How frequently he prefers to make investment? In whose name the investor would like to hold the investment? In this context, an attempt is made to study and analyze the behavior of investors in terms of motives of investments, periodicity of investments, factors influencing the investment decisions, and methods of evaluation of the investments. For this purpose, the sample-investors are asked, a number of questions relating to the various aspects stated above and their responses to such questions are tabulated and analyzed. The results of this exercise are likely to depict the investment behavior of small and individual investors of a backward region of the country.

MOTIVES OF INVESTMENT

To identify the major motives of investment among the sample investors, five major motives such as - earning interest/ dividend income, tax savings, capital gains, speculative profits, and other motives consisting of education and marriage of children, are placed before them and asked to indicate their preference in the descending order. An analysis of the responses of the sample investors towards principal motives of investment revealed the following:

INCOME – THE DOMINANT MOTIVE

The primary motive of investment among the small and individual investors is to earn a regular income either in the form of interest or dividend on the investments made. Information furnished in the below Table proves

this fact. It may be observed from the table that 146 out of a total of 650 sample respondents, constituting 22.6 percent of the total sample, stated that their principal motive of investment is to earn interest/ dividend income.

Objectives:

- (i) To study the investors behaviors towards investments.
- (ii) To examine and study the determinants of investment decision and the methods of assessment of investment risks by the investors;

REVIEW OF LITERATURE

Stovic Paul (1972) in his study entitled “Psychological Study of Human Judgment: Implications for Investment Decision Making” examined the use of psychological approach in the field of financial decision making. According to him many decisions were made not by individuals but by groups. The ultimate finding was that decisions made by groups were riskier than the average of the individual member’s decision.

Fama (1972) in the study titled “Components of Investment Performance” analyzed the Investment and introduced two terms “Selecting” and “Timing” which were more important compared to risk and return. Further, he suggested methods for measuring the efforts of foregone diversification when an investment manager decides to concentrate his holdings in which he thinks that there are only a few winners. Eventually he was successful in presenting a multi period model that allowed evaluation both on period by period and on a cumulative basis.

Lease Ronald C, et.al. (1974) carried out a study entitled “The Individual Investor Attributes and Attitude” studied the demographic characteristics, investment strategy patterns, informative sources, assets holdings, market attitudes and perception of investors. The study also analyzed the records of portfolio position and realized investment returns of the group. The samples of the study which comprise 990 investors stratified according to the geographical distribution of all the American shareholders as reported by the “New York Stock Exchange” were surveyed. The data for the study were collected through a questionnaire and it was processed with the help of a cluster analysis and automotive interaction detection analysis. The study revealed that there was a significant positive correlation between.

- a. Individual income and total wealth
- b. Age and percentage of portfolio invested in income securities
- c. Analyzing the investment strategies of the selected group, the study found that long term capital appreciation was the prime investment concern with dividend and intermediate term gains running second and short term gains ranking third in the list.

A significant negative correction existed between annual income and percentage of portfolio invested in income securities.

Lewellen Wilbur, G. et.al, (1977) in their study “Pattern of Investment Strategy and Behaviours among Individual Investors” ascertained the portfolio decision process of individual equity investors. Data was collected from 972 individual investors residing in the U.S. The result shows that age has a strong influence on the portfolio goals of the Investors. Older Investors have interest in long term capital gains and young investors have a desire for short-term capital gains. Age and risk taking propensities were found to be inversely related. Women Investors were found to be broker reliant unlike men.

- 1. James R.F. Gay (1978) in his article “The performance of the British Investment Trust Industry” evaluated the risk adjusted performance of the UK Investment Trusts through the applications of the Sharpe and Jensen measure. The study concluded that no trust and exhibited superior performance compared to the London Stock Exchange Index.

ANALYSIS

Investors Experience

Investment Avenue	Invested		Not invested	
	Number of Respondents	percent	Number of Respondents	Percent
Bank Deposits	375	57.7	275	42.3
Real Estate	368	56.6	282	43.4
Small Savings Schemes	358	55.1	292	44.9
Life Insurance Policies	354	54.5	296	45.5
Bullion	352	54.2	298	45.8
Corporate Securities Debentures	349	53.7	301	46.3
Company Deposits	349	53.7	301	46.3
Mutual Funds	346	53.2	304	46.8
Corporate Securities Equity Shares	341	52.5	309	47.5
Corporate Securities Pref. Shares	328	50.5	322	49.5

An attempt is made hereunder to trace out the actual experience of the sample investors in the light of the preferences expressed by them towards different investment products with a view to analyse to what extent the investor preferences influenced their investment activity. The data pertaining to the investments made and also not made by the sample investors in various investment alternatives is shown in table 29. From the above it is clear that the investors have more experience towards traditional investment avenues like Bank Deposits (57.7%), Real Estate (56.6%), Small Savings Schemes (55.1), Life Insurance Policies (54.5%) and Bullions (54.2%).

Investors have less experience towards modern investment avenues like Corporate Securities Debentures (53.7%), Company Deposits (53.7%), Mutual Funds (53.2%), Corporate Securities Equity Shares (52.5%) and Corporate Securities Pref. Shares (50.5%).

INVESTMENT OBJECTIVE

To ascertain the investment objective influencing the investor preferences and their behaviour, sample investor are asked to indicate their choices for various investment objectives in the descending order of their preferences. For this purpose, six objectives, such as, safety, liquidity and marketability, income generation, capital appreciation, tax benefit and diversification were placed before them. The obtained information is presented and analysed in table

INVESTORS INVESTMENT OBJECTIVES

Preference	Safety	Liquidity & Marketability	Income	Capital Appreciation	Tax benefits	Diversification	Total
1	157	152	153	151	148	144	905
2	122	130	116	109	141	119	737
3	96	106	111	116	97	100	626
4	102	97	95	100	93	96	583
5	99	95	98	88	95	96	571
6	74	78	78	86	76	86	478
Total	650	650	650	650	650	650	3900

INVESTORS BEHAVIOUR AND THEIR RISK EVALUATION OVER INVESTMENT

Information presented in the table reveals that most of the sample investors, i.e., 157 out of 650 which work out 24.2% of them, have indicated that ‘safety of the investment’ as their first objective in choosing the investment alternative. The second objective influencing the investor behavior and preferences in the selection of investment alternative is ‘income’ earned from the investments made. This is stated by 153 out of 650 which will work out to 23.5% of the total. The two objectives are followed by liquidity and marketability, capital appreciation, tax benefit and diversification benefits.

NEW AVENUE OF INVESTMENT

Preference	Safety	Liquidity & Marketability	Income	Capital Appreciation	Tax benefits	Diversification
1	22.2	22.0	22.2	22.0	21.8	21.5
2	19.4	18.8	19.1	18.6	18.2	17.7
3	17.1	16.6	16.9	16.0	15.8	15.4
4	16.0	15.8	15.8	15.8	15.1	14.3
5	16.6	15.4	15.5	15.4	15.1	14.8
6	13.1	12.2	12.2	12.0	12.0	11.7
Total	100	100	100	100	100	100

Information presented in the table reveals that most of the sample investors have indicated that ‘safety of the investment’ as their first objective in choosing the investment alternative. The second objective influencing the investor behavior and preferences in the selection of investment alternative is ‘income’ earned from the investments made. The two objectives are followed by liquidity and marketability, capital appreciation, tax benefit and diversification benefits.

CONCLUSION

There are several parameters that an investor will think before investing like return, flexibility etc., but the markets will face a question mark in knowing the pulse of an investor. So a study must be made on the demographics and psychographics of the investor such that the market can know the pulse of an investor and can act upon it. This states what would be a preferred portfolio of an investor at an age. This will be helpful to the stock brokers and portfolio managers so that they can offer better portfolios to their investors. This analysis will show the mentality of an investor and his preferences clearly and concisely. Investors mentioned that ‘safety of the investment’ as their first objective in choosing the investment alternative. The second objective influencing the investor behavior and preferences in the selection of investment alternative is ‘income’ earned from the investments made. The two objectives are followed by liquidity and marketability, capital appreciation, tax benefit and diversification benefits.



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