INVESTMENT PATTERN OF EQUITY INVESTORS IN INDIAN CAPITAL MARKET

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ABSTRACT

The experiences from the Indian capital market are now the history for many market participants due to the dramatic changes in the investment pattern of small equity investors. The investor can make the share trading as a beneficial investment area. The business firms issue the shares of their firms and mobilize funds from the individual savers. Equity share is a part of the ownership of a company and the holder of such a share is a member of the company and eligible to get benefits from the company. Trading in stocks is quiet simple that possess some basic knowledge of the security trading. Investment pattern refers to a regular sequence of actions followed by the investment decisions of investor. Understanding the investment pattern of small equity investors in investment decision making is important in stock trading. The attitude of the investors has been changing due to the changes in the stock market scenario. When the investors avail the accurate and reliable information, then he can enjoy the taste of success from the share market. The authorities, like SEBI, NSDL etc., should organize more seminars and awareness programs for these under privileged retail investors.

Keywords: Share Trading; Corporate Securities; Equity Share; Investment Pattern

INTRODUCTION

The experiences from the Indian capital market are now the history for many market participants due to the dramatic changes in the investment pattern of the small equity investors. The investor can make the share trading as a beneficial investment area, which is purely based upon the investor’s awareness towards stock trading. When the investor gets more and more information about the changes in the investment environment, he/she can make right investment decision at right time. Due the process of industrialization, the size and scale of operations of business houses increased and it requires large magnitude of capital. The business organizations issue the securities of their firms and mobilize funds from the individual savers. Corporate securities emerged as attractive source for the investors, who are expecting higher returns and ready to bear the risk.

Equity share is a part of ownership of a company and the holder of such a share is a member of a company and eligible to get benefits from the company. Equity is a means of finance
known to provide a magic of win-win formula, which satisfies investors with higher returns and firms with lower cost of funds. Share market fascinates each and every individual, who is expected to make more money. Trading in stocks is quiet simple and possess some basic knowledge of the security trading. Investment pattern is formed through the investment environment, which changes frequently due to the changes of investor expectations. Investment pattern refers to a regular sequence of actions followed by the investment decisions of an investor.

OBJECTIVES OF THE PAPER

To be precise, the study has undertaken with the following objectives:

- To know the investment pattern of small equity investors.
- To study the common portfolio practices of small equity investors in investment design, and;
- To make appropriate suggestions to small equity investors to make their investment decisions effectively.

METHODOLOGY OF THE STUDY

The study is based on a survey conducted and the primary data relating to the equity investors were collected by interviewing the equity investors (500 respondents) with the help of schedule. The secondary data relating to the capital market developments and the trends in retail investors participation in capital market India were obtained from the various published/unpublished records, annual reports, manuals, bulletins, booklets, journals, magazines, etc. Lastly, the authors held discussions with the officials of regional stock exchanges, stock broking houses, depository participants, etc. These discussions were helpful to the authors to know the common portfolio of the equity investors in investment design.

REVIEW OF LITERATURE

Bhagawati Prasad, Subhas M.S, (1991), in their study entitled, “Problems Faced by the Investors”, have examined the problems faced by the investors. The study reveals that majority of the investors were very active belonging to the middle income group. High returns motivated them to invest in capital markets and majority of the shareholders were satisfied with the content of the published information.

Shanmugam, R. and Muthuswamy, P, (1998), in their study entitled, “Decision Process of Individual Investors”, studied the views of individual share investors on their investment objectives, basic approach to investment decisions and the nature of their equity portfolio. The study revealed that educational level of investors had its impact on the use of technical analysis and the occupational category had impact on the use of fundamental approach.

In a survey conducted by ORG-Marg, a research organization (1999), “Investors Choices over the Investment Avenues”, had been elicited. The study revealed that majority of investor’s favored fixed deposits in Banks. Post office Savings Schemes, Insurance Schemes, Bonds issued by government. Equity Shares were preferred by investors in the order. The survey report concluded with the remark that awareness was still lacking towards mutual funds and it suggested to promote awareness towards mutual fund schemes.

Arun Lawrence and Dr.Zajo Joseph (2013) in their study entitled “Factors leading stock Investment: An Empirical Examination” had been elicited that friends and media play a key
role in influencing the investors share trading decisions. The experiences of the Indian capital market are now history for many market participants due to the change in the attitude of the investor.

P.V.Durga Rao, et.al (2013) in their study entitled “Demographic variables influencing in the retail investors investment - A Scientific Analysis” had elicited how the demographic variables influenced in the investment of retail investors and suggested that the government and regulatory bodies like SEBI creates lot of awareness and encourage in retail investors in equities to become greater part of development of economic system for making investment on long term basis.

DISCUSSION AND RESULTS

Investment pattern refers to a regular sequence of events happened due to the investors in investment decision-making. It is a repeated investment decisions. A study on the investment pattern throws light on the general nature and common portfolio practices of the investors based on the following:

- Type of investor
- Category of investor
- Type of market operated
- Various investments in the investor’s portfolio
- Various sectoral stocks held
- Market experience
- No. of companies in which investment is made
- Approximate size of investment in shares
- Sources of investment information
- % of investors’ savings invested in shares
- Reliability of investment information
- Trading volume
- Indices frequently referred

The investment pattern of the equity investors has been identified and analyzed with the help of descriptive analysis and average rank analysis.

**Type of Investor:** Investors have been classified into two groups based on their type as ‘Hereditary investor’ and ‘New generation investor’. It is observed from the collected data that 20% of the investors are hereditary investors and 80% of the investors are new generation investors.

**Category of Investor:** Investors have also been classified into three groups based on their category i.e., period of holding stocks as, ‘Long term investor’ ‘Day trader’ and ‘Both’ who invest as well as trade. It is evident from the data that 45% of the investors are long term investors, 11% of the investors are day traders and 44% of the investors are both long term investors as well as day traders.
**Type of Market Operated:** Investors have been classified into three groups based on the type of market in which they operate as ‘Primary market operators’, ‘Secondary market operators’ and ‘Both’ Primary as well as Secondary market operators. The distribution of investors based on the type of market operated by them shows that 12% of the investors are primary market operators, 50% of the investors are secondary market operators and 38% of the investors are both primary as well as secondary market operators.

**Various Investments in the Investors’ Portfolio:** Investments have been classified into 10 categories for the analysis, viz., Shares, Debentures/Bonds, Stock Futures and Options, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, Gold/ Silver and others. The computed data of the various investments in portfolio of investors reveals that 60% of the investors have invested in shares, 58% of the investors in insurance policies and 48% of the investors in mutual funds.

**Various Sectoral Stocks Held:** The sectoral stocks that have been considered for the study are IT, Banking Sector , FMCG, PSE, MNC, Energy, Pharma, Infrastructure, Capital Goods industry and others. It is obvious from the computed data that 76% of the investors have invested in banking sector stocks, 54% of the investors have invested in IT industry stocks, 50% of the investors have invested in infrastructure, capital goods and pharma sector.

**Investors Market Experience:** Investors have also been classified into 3 categories based on their market experience as ‘Low’ (less than 1 year) ‘Moderate’ (1 – 3 years) and ‘High’ (3 years and above) for the analysis of the study. The distribution of investors based on their market experience indicates that 20% of the investors have low experience, 30% of the investors have moderate experience and 50% of the investors have high experience in the market.

**No. of Companies in which Investment is made:** No. of companies in which investment is made has been classified into 3 groups such as ‘Less’ than 10, ‘10 – 20’, and ‘20 and above’. The No. of companies in which investment made by the investors indicates that 56% of the investors have invested in less than 10 companies, 33% of the investors have invested in 10 – 20 companies, and 11% of the investors have invested in 20 or more than 20 companies.

**Approximate size of Investment in Shares as on date:** Another classification of the investors is based on the size of investment, it has been categorized into three classes as ‘below Rs.1 lakh’, ‘Rs.1 lakh – Rs.2 lakhs’ and ‘Rs.2 lakhs and above’ for the study. The investors’ approximate size of investment in shares as on date revealed that 55% of the investors have invested below Rs. 1 lakh, 23% of the investors have invested between Rs. 1 lakh - 2 lakh and 22% of the investors have invested Rs. 2 lakh and above.

**Sources of Investment:** Sources of investment have been classified as ‘Own savings’ ‘Borrowings’ and ‘Both’ own funds and borrowings. It indicates that 75% of the investors invest from their own funds, 6% of the investors borrow and invest, and 19% of the investors invest their own savings as well as borrowings.

**% of Savings Invested in Shares:** Percentage of savings invested in shares is another way of classification of investors into three classes, viz., ‘Less than 15%’ , ‘15 %– 30%’ and ‘30%’ and above’ for the study. It observes that 45% of the investors invest less than 15% of their savings in shares, 40% of the respondents invest 15%-30% of their savings in shares and 15% of the respondents invest 30% and above of their saving in shares.

**Reliable Sources of Investment Information:** The computed data reveals that out of the total investors, 22.8 % of respondents have given high priority (Rank1) for newspapers,
journals and magazines, followed by 20.0% of investors for technical analysis, and 18.00% of investors for investment related websites. Further, it is identified that 22% of investors have given priority for the newspapers, journals and magazines, 21.4% investors for TV channels and so on. It is also found from the analysis that the least preference is given to investor forum and other source of information for their investment decisions. It can be concluded from the discussion that, among the various sources of investment information, newspapers, journals and magazines have been considered as more reliable sources of information by the investors than others.

**Trading Volume Per Month:** Trading volumes have been classified for the long-term investors as ‘less than Rs.1 lakh’, ‘Rs 1lakh – Rs 2 lakh’, and ‘Rs. 2 lakh and above’. For the day trader it has been classified into ‘less than Rs.50 lakh’, ‘Rs.2 lakh and above’. It is clear that 60% of the long-term investors trade for less than Rs. 1 lakh, 23% of the long-term investors trade between Rs. 1 lakh-Rs 2 lakh and only 17% of the long-term investors trade for Rs. 2 lakh and above per month.

**Indices Frequently Referred:** The indices that have been considered for the study are - Sensex, S&P CNX Nifty, CNX Nifty Junior, CNX 100, S&P CNX 500, CNX Midcap and CNX Midcap 200. The indices frequently referred by the investors found that 90% of the investors frequently refer Sensex and 60% of the investors used S&P CNX Nifty as reference followed by others.

**FINDINGS**

1. It is found from the analysis that majority (80%) of the investors are new generation investors. It is also observed that about fifty percentage of the investors are long term investors and operate in secondary market.

2. It is identified that majority of the investors have invested in Shares, Insurance Policies and Mutual Funds. It is also found from the analysis that majority of the investors have invested in Bank, IT, Infrastructure, Capital Goods Sector and Pharma sector stocks and half of the investors have High market experience.

3. It can be concluded that majority (56%) of the investors have invested in less than 10 companies. It is found that more than half of the investors have invested below Rs. 1 lakh as on daily trade of business.

4. It is known that one third of the investors invest from their own savings, about 6% of the investors borrow and invest, and 19% of the investors invest their own savings as well as borrowings.

5. It is also found from the analysis that 45% of the investors invested less than 15% of their savings in shares, 40% of the respondents invest 15%-30% of their savings in shares and 15% of the respondents invest 30% and above of their saving in shares.

6. It can be concluded from the study that among the various sources of investment information, newspapers, journals and magazines have been considered as more reliable sources of information by the investors than others. It is also found that the least preference is given to investor forum and others.

7. It is also observed from the data that about two-thirds of the long-term investors trade for less than Rs. 1 lakh per month and one-fourth of the day traders trade for Rs.1 lakh – Rs.2 lakh and the rest are trade for more than 2 lakh per month. Further,
it is also found that majority of the investors frequently refer Sensex and S& P CNX Nifty.

SUGGESTIONS

It is mainly suggested that to improve the awareness among the equity investors about stock trading and let them benefit from investment in securities. Thus, it is purely based upon the investors' awareness towards share trading and stock investments can be improved. When the investors avail the accurate information then one can enjoy the taste of success from the share trading in the stock market. The authorities, like SEBI, NSDL etc., may consider the following suggestions.

1. To create confidence in the hereditary investors' section also.
2. To increase the number of customers both in day trading and long term trading.
3. To enhance the knowledge of the investors regarding primary market operations.
4. To improve the awareness regarding the avenues of investment on the investors side.
5. To make the availability of different sectors of shares so as to make the portfolio of investors goal oriented.
6. To induce more number of investors, who have low and moderate market experience.
7. To make use of the investment opportunities properly, so as to increase the amount of investment.
8. To conduct investment awareness campaigns regarding stock market operations through seminars, lectures, etc.
9. To increase the availability of sources of investment information from different means to reach the investors properly.
10. To provide the knowledge not only on indices like Sensex and S& P CNX Nifty but also about other indices.

Understanding the investment pattern of small retail equity investors in Investment decision is important for the entire stakeholder involved in stock trading. The present study is confined to a limited area only; there is a scope for further research in other regions of the country.

CONCLUSION

The Indian stock market is subject to many unexpected fluctuations but at the same time for tactful and foresighted investors, it provides huge gains in terms of returns and capital appreciation. The attitude of the investors has been changing due to the changes in the stock market scenario. The investor can make the share trading as a beneficial investment arena. It is purely based upon the investors' awareness towards the share trading and stock investments. When the investors avail the accurate and reliable information, then he can enjoy the taste of success from the share market. The authorities, like SEBI, NSDL etc., should organize more seminars and awareness programs for these under privileged retail investors.
REFERENCES


