ABSTRACT

In Today’s world Investment in stock market through securities become as one of the best choice of investors with an objective of return optimization. Earlier only 2% of the populations are investing in shares but the perceptions of investors are changing, currently almost double i.e 4% of the population is investing in shares shows the changing perception of investors while investing in shares. The uncertainty of expected return is a vital part of the investment option in stock market. The variations share prices and in returns from the expectations of the investors lead to risk and the subjective analysis of various attributes helps for the minimization or the avoidance of the risk. The risks in stock market are poised of the demands threat bring variations in the return of income. The uncontrollable external risks have a greater impact on the volatility of returns on the investment and they are of systematic in nature. The return is the yield plus capital appreciation and risk is the variability of return or loss, which is inherent in any investment. Theoretically, risk and return go hand in hand, i.e., the higher the risk, the more the return. However, the risk-return perceptions of the investors on various investments may differ from one another. In this paper an attempt is made to study the changing role of today’s investors and their perception towards risk-return of investment and also to find the impact of investors’ demographical factors towards risk.

Keywords: Stock Market, Investment Avenues, Securities, Share Prices, Risk, Return.

INTRODUCTION

Investment in stock market through securities has become one of the best choices of investors with an objective of return optimization. The uncertainty of expected returns is a vital part of the investment option in stock market. The variations in the anticipated returns and actual returns lead to the possible consequences of the decision related to selection of stock market investment. The risks in stock market are poised of the demands threat bring variations in the return of income. Market price and interest rate play a significant role on the risk associated with the stock markets securities which are being influenced by the various internal and external considerations. The uncontrollable external risks have a greater impact on the volatility of returns on the investment and they are of systematic in nature. The risk on stock market securities emerges from proceedings comprising political, social and economic variables. The attitude and expectations of the stock market investors and their subsequent reactions in the investment portfolio determine the amount of risk. Any stock market investor to safeguard his/her hard earned money and to maximize the appreciation is expected to have through knowledge about the various factors contributing the risk. The investors should update the performance of their portfolio components with the changing capital market conditions that enables them for the consistent growth in their returns. The variations in the returns from the expectations of the investors lead to the risk and the subjective analysis of various attributes helps for the minimization or the avoidance of the risk.

CHANGING PERCEPTION OF INVESTORS ON SHARE PRICES, RISK – RETURN IN INDIAN STOCK MARKET AND THEIR INVESTMENT OPTIONS – A SCIENTIFIC ANALYSIS.

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return is the yield plus capital appreciation and risk is the variability of return or loss, which is inherent in any investment. The risk-return perceptions of the investors on various investments may differ from one another. These perceptions have important implications in the financial markets and have a significant impact on the asset allocation decisions of the investors.

STATEMENT OF PROBLEM

The author has examined the literature and noticed the gap in terms of various asset classes available for investment and their risk return factors which gives more scope for investment to small retail investors but their perceptions are constants. Accordingly, the problem to be studied the changing perception of today’s retail investors while investing in the various classes of assets is significant or not. To study reasons for changes in thoughts and perceptions of investors and also their risk –return expectation. To suggest the strategies for selecting the best class of assets in order to minimize their risk and maximizes their return.

LIMITATION OF THE STUDY

The present study is focusing only small retail investors and is limited Mumbai. The investors in the present study is limited to Mumbai suburban district and do not include other district from Mumbai city. The sample size is limited to 150 retail investor’s only.

REVIEW OF LITERATURE

Selvam M, (2008), in their study entitled, “Equity Culture in Indian Capital Market’, examined the need for promoting equity culture, which deserves special attention for the development economic growth. The study discussed in detail the current trend of equity culture, its implications and its revival and remedial measures.

Maruthu Pandian P, Benjamin Christopher S, (2007), conducted a study entitled, “A Study on Equity Investor Awareness” in order to study the stock market literacy of the investors about the company, stock exchanges as well as capital market regulatory bodies. The study also revealed that awareness differs among different groups of investors.

Security Exchange Board of India (SEBI) along with National Council of Applied Economic Research (NCAER), (2007), conducted a comprehensive survey of the Indian investor households entitled, “Survey of Indian Investors”, in order to study the impact of the growth of the securities market on the households and to analyze the quality of its growth.


OBJECTIVES

Against this background, the study has been undertaken more specifically with the following objectives:

1. To know the investors’ perception towards Share Prices, risk-return of investment.
2. To find out the impact of investors’ demographical factors towards risk.
3. To make appropriate suggestions to the retail investors to maximize the return on the investment in the stock market.

HYPOTHESIS

H0 : The demographic factors like investors’ age, gender, family income, type of investor, category of investor and market experience of the investor have no significant influence on the risk – return factors of small retail equity investors.
H1: The demographic factors like investors’ age, gender, family income, type of investor, category of investor and market experience of the investor have a significant influence on the risk – return factors of small retail equity investors.

METHODOLOGY

The present study is an empirical in nature based on survey conducted. The primary data relating to the small retail equity investors were collected from the equity investors (150 respondents) with the help of questionnaire. The secondary data relating to the capital market developments and the trends in retail investors participation were obtained from the various published/unpublished records, annual reports, manuals, bulletins, journals, magazines, etc. Lastly, the author held discussions with the officials of regional stock exchanges, stock broking houses, depository participants, etc. The Investors were asked to rate the various investments by risk and return on a 4-point scale. In order to examine the validity of the hypothesis, a test for paired differences has been employed and the results are tested at 5% level of significance.

DISCUSSION AND RESULTS

The risk-return perceptions of equity investors on various investments avenues like Shares, Debentures / Bonds, Stock Futures and Options, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, Gold / Silver and Others.

The study analyses the results of the survey as a whole and based on selected socio-economic and investments profile factors such as investors’ age, gender, family income, type and category of investors, and market experience of the investor to determine whether there are any differences in their risk-return ratings in the stock market investments.

RISK-RETURN PERCEPTION

The below mentioned table no. 1 shows the data on the various forms of investment in the stock market and paired differences between return and risk. The entire set of data has been considered to determine the risk– return perceptions of the retail equity investors as a whole. It can be seen from the data that all the investments other than stock futures and other investments show a positive significant mean difference, which implies that these investments generate greater return than relative risk. The stock futures and others show negative mean differences, which implies that these investments are more risky than their counter return. Further, it is also observed that the results of 9 out of 10 asset classes as shown in table-1 are significant at 5% level.

<table>
<thead>
<tr>
<th>Investments</th>
<th>Mean difference</th>
<th>t values</th>
<th>P-values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed deposits</td>
<td>0.55</td>
<td>15</td>
<td>.00*</td>
</tr>
<tr>
<td>NSC/PPF/PF</td>
<td>0.56</td>
<td>14</td>
<td>.00*</td>
</tr>
<tr>
<td>Insurance polices</td>
<td>0.74</td>
<td>17</td>
<td>.00*</td>
</tr>
<tr>
<td>Gold/silver</td>
<td>0.78</td>
<td>13</td>
<td>.00*</td>
</tr>
<tr>
<td>Debentures / Bonds</td>
<td>0.22</td>
<td>6.3</td>
<td>.00*</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>0.47</td>
<td>11</td>
<td>.00*</td>
</tr>
<tr>
<td>Shares</td>
<td>0.13</td>
<td>3.3</td>
<td>.00*</td>
</tr>
<tr>
<td>Stock futures</td>
<td>-0.054</td>
<td>-1.3</td>
<td>0.19*</td>
</tr>
<tr>
<td>Real estate</td>
<td>0.96</td>
<td>16</td>
<td>.00*</td>
</tr>
<tr>
<td>Others</td>
<td>-0.056</td>
<td>-1.45</td>
<td>.00*</td>
</tr>
</tbody>
</table>

Source: Compiled from the collected data. * Significant at 5% level
It is a fact that the perception of investors depends on their demographic, social and economic factors. In the present analysis, it is also examined the impact of these factors on their return-risk perceptions in the stock market investments.

1. Age and Risk-Return Perception: The age-wise risk return perceptions of the equity investors in terms of mean differences are obtained to ascertain whether age might make a significant difference in risk-return ratings. It revealed from the data that all the investments other than Stock Futures and other investments show a positive mean difference in all age groups, which implies that these investments generate greater return than relative risk. The Stock Futures and others show a negative insignificant mean difference in all age groups, which implies that these investments are more risky than their relative return. Further, the real estate, gold/silver and insurance policies have high significant mean differences in all age groups, which can be said that these assets generate very high returns compared to others.

2. Gender and Risk-Return Perception: The gender-wise risk-return perceptions of the equity investors are also considered in the study. The real estate, gold/silver and insurance policies have a high significant mean difference in case of both male and female investors, which implies that these assets generate very high returns compared to others.

3. Monthly Income and Risk-Return Perception: The monthly family income-wise risk-return perceptions of the equity investors are also analyzed. The stock futures and others show a negative insignificant mean difference in all age groups, which implies that these investments are more risky than their relative return. The results of 8 asset classes other stock futures and others are significant at 5% level in case of low and medium income investors. The results of 7 assets classes are significant at 5% level in case of high-income investors. The mean difference of investment in shares, stock futures and others stand insignificant. The real estate, gold/silver and insurance policies have high significant mean differences across the various income groups, which imply that these assets generate very high returns compared to others.

4. Type of Investor and Risk-Return Perception: The type of investor-wise risk-return perceptions of the equity investors is also presented in the analysis. It indicates that the mean differences are positive for all investments except other investments in the case of hereditary investors. The new generation investors fall in line with hereditary investors with a difference that Stock Futures and other investments indicate a negative mean difference. A positive mean difference implies greater return than relative risk and a negative mean difference implies greater risk than relative return. The results of 6 asset classes except investment in shares, debentures/bonds, stock futures and other investments are significant at 5% level in the case of hereditary investor and the results of 8 asset classes except stock futures and other investments are significant at 5% level in the case of new generation investors. The real estate, gold/silver and insurance policies have high significant mean difference across various types of investors, which imply that these assets generate very high returns compared to others.

5. Category of Investor Risk-Return Perception: The category of investor-wise risk-return perceptions of the equity investors are presented here. It reveals that all the investments except stock futures and other investments show a positive mean difference in case of long-term investors. The results are significant in 8 out of 10 asset classes except investment in shares and stock futures. All the 10 investments show a positive mean difference in the case of day traders. The results are significant in 7 out of 10 asset classes except investment in shares and stock futures. The investors, who are both long-term investors and day traders indicate positive mean difference for all the investments except stock futures. The results are significant in 8 out of 10 asset classes except stock futures and other investments.

6. Market Experience - Risk-Return Perception: The market experience-wise risk-return perceptions of the equity investors are presented. It reveals that all the investments other than stock futures and other investments show a positive mean difference irrespective of the investors’ market experience.
which implies that these investments generate greater return than relative risk. The stock futures and other investments show a negative insignificant mean difference in all cases. The mean difference of investment in Shares is insignificant in low as well as high experienced investors. The real estate, gold/silver and insurance policies have high significant mean difference in all categories of investors, which implies that these assets generate very high returns compared to others.

**Test of Hypothesis**

The analysis states that the investors are expected to assign similar risk and return ratings for each type of investment is disproved. It can be concluded that the investors assign different risk and return ratings for each type of investment and the ratings vary with age, gender, family income, type and category of investors and market experience of the investor.

**FINDINGS**

1. It is found that Shares, Debentures/Bonds, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, Gold/Silver generate greater relative return than relative risk in all category of investors irrespective of their age. Out of the above, young and middle aged investors perceive investment in Real Estate as the best, followed by Gold/Silver and Insurance Policies whereas old investors perceive investment in Gold / Silver as the best, followed by Real Estate and Insurance Policies.

2. It is observed that Shares, Debentures/Bonds, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, Gold/Silver generate greater relative return than relative risk in all categories of investors irrespective of their gender. Out of the above, Real Estate is perceived as the best asset followed by Gold/Silver and Insurance Policies by all the investors as a whole.

3. It is also found from the analysis that Shares, Debentures/Bonds, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real estate, Gold/Silver generate greater relative return than relative risk in all categories of investors irrespective of their monthly family income. Out of the above, the investors of low income group perceive investment in Real Estate as the best followed by Gold/Silver and Insurance Policies. Investors of medium and high income group perceive investment in Real Estate as the best followed by Insurance Policies and Gold / Silver.

4. The analysis also revealed that hereditary investors perceive all the investments except other investments to generate higher return than their relative risk. New generation investors perceive all the investments except Stock Futures and Other investments to generate higher return than their relative risk. Hereditary investors rank Insurance Policies as the best investment followed by Real Estate and Gold/Silver. New generation investors perceive investment in Real Estate as the best followed by Gold/Silver and Insurance Policies.

5. It is known from the analysis that according to the long-term investors and investors who are both long-term investors and day traders, all the investments except Stock Futures generate higher return than their relative risk. In the case of day traders, all the investments are high return generators than their relative risk. Out of the above long-term investors and investors who are both long-term investors and day traders perceive investment in Real Estate as the best followed by Gold/Silver and Insurance Policies. Day traders perceive investment in Real Estate as the best followed by Insurance Policies and Gold/Silver.

6. It is further found from the study that Shares, Debentures/ Bonds, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, and Gold/Silver generate greater relative return than relative risk in all categories of investors irrespective of their market experience. Investors with low market experience perceive investment in Real Estate as the best followed by Insurance Policies and Gold/silver. Investors with moderate and high market experience perceive investment in Real Estate as the best followed by Gold /Silver and Insurance Policies.
SUGGESTIONS
The small retail investors are expected to assign similar risk and return ratings for each type of investment is not allowed and the investors assign different risk and return ratings for each type of investment and the ratings vary with the factors. It is suggested to the Government or regulatory bodies like SEBI may create awareness among retail investors and to encourage them in equities to become greater part of the development of economic system for making investment on long term basis. It is imperative to understand the risk return perception of small equity investors in investment and savings because most of the investors may invest after considering the risk factor, it is very helpful to the society which consists of different sections of the people to make better investment. The investors care only about the expected return and risk of their overall investment. They prefer more wealth to less wealth and they are never confused about the present-value and future-value forms that money can take. It became common to assume that investors seek to put investment which minimizes risk for an expected level for return that maximizes the expected rate of return for a given level of risk. The government policy makers need to remember that it is always best to allow stock markets to operate free from onerous regulation. Normal retail investors can become affected by cognitive biases and emotions. Such biases can cause investors to consider each of their stocks in solution and somewhat distinct from their overall investment. Emotions such as hope, fear, and regret can also cause normal investors to differentiate between paper losses and realized losses, hard earned money and a windfall. The returns expected by retail investors are sometimes influenced by more than anticipated risk levels. The analysis is confined to Mumbai Suburban district only; there is a scope for further research in other districts of Thane district, Raigad district and others areas in financial Management.

REFERENCES

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