SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS
CHAPTER 6

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

Every individual has a unique portfolio of spending and saving of income. The investment culture is influenced by the investor’s attitude, perception and willingness to place their savings in various financial assets most popularly known as securities. The study is thus intended to focus on the savings and investment pattern of different class of stock investors coming from different sectors of engagement in the State of Kerala. This descriptive study is primarily to find out the savings and investment habits of different class of stock investors in Kerala, to find the determinants of investment decisions among the investor class, to observe the level of awareness about the capital market operation, perceptions and preferences for various investments, to examine the methods preferred by the investors to evaluate and assess the risk and to bring out meaningful suggestions to the topic based on the study. The geographical coverage of the study will be the revenue districts of Kerala and the period of coverage would be 2005-12.

The objectives of the study are:

1. To study the savings and investment habits of different classes of stock investors in Kerala
2. To study the determinants of investment decisions among the investor classes.
3. To study the trends in capital market and understand the awareness of and preferences for various investments.
4. To examine the assessment, perception and evaluation of risk associated with investments.
5. To make suggestion based on the study, to bring about better programmes and awareness in the education of investors.
This chapter carries details of the attempt made to recapitulate and summarize the findings emerging from the study of stock investors’ savings and investment pattern in the state of Kerala.

6.1. Capital Market

a) The stock market indicators reflect the growth of the capital market over the years both in the number of listed companies, volume of trade and turnover ratio.

b) The growth of market capitalization, inflow of foreign funds and the investment of FII in the Indian market have gone up.

c) The growth of financial intermediaries has facilitated to bring down the cost of transactions basically through increased turnover and standardization of investment products.

d) As a barometer of the economy, it supported the regulators to gauge the developments in the capital market, particularly to frame policies.

e) The dominance of the capital market has pushed the growth to 6 per cent by the end of 2012, from the path of a slow growth observed during four decades prior to 1990s.

f) A reversal in trend, since 1990, was the dependence of many corporate on capital market rather than the financial institutions.

g) 53.23 per cent growth in the total number of securities issued in 1993-’94, was observed in the capital market based instruments.

h) The mutual funds raised Rs. 61 lakh million by the end of 2012-13.
i) There was substantial increase in the fiscal deficit financing through the instruments in the securities market. The central government share of fiscal deficit financing has increased to more than 103 per cent, with the issue size of Rs. 60,000 crores and the benefits availed by various state governments came to Rs. 15,000 crores.

j) The total resource mobilization from the primary market came to Rs. 75,900 crores by the end of 2012-13, the share of public and rights issue being Rs.42,000 crores.

k) It is observed that out of 89 per cent of the gross domestic saving invested by the households in India, only 4 per cent has been in the securities market.

l) The number of investors directly participating in the equity market increased from 7.6 per cent in 1998-'99 to 24.11 per cent by 2011.

m) The preference of the household towards mutual funds was 43 per cent, and 22 per cent for the secondary market.

n) The capital market of the country, with a history of more than 150 years, has witnessed radical changes since 1990, with the opening up of the economy and allowing private equity participation in public sector.

o) With a population of more than a billion, only 1.1 per cent actively invests in the capital market.

6.2. Profile of stock investors in Kerala

This section is intended to sum up the major findings in relation to the socio economic scenario of Kerala state. The basic idea is to gain an insight into
the socio economic factors on the perceptions and behavior of stock investors in Kerala.

The major findings are as follows:

a) Based on the Human Development Index, Kerala is ranked number one, with an index of 0.79 as against the national average of 0.605, reflecting the high standard of living of the people.

b) The state of Kerala is culturally and scenically diverse in its characteristics with distinct geography, covering 28 per cent of the area with woodlands. 56 per cent agricultural land and 10 per cent non agricultural land.

c) The density of population in Kerala is high with 819 people per sq. km and the rate of growth in population is the lowest in India. The rate of growth population has declined over the years. It is presently at 4.86 per cent in 2011, as against the national average of 17.64 per cent.

d) When the primary and secondary sectors have shown a dismal growth, much progress was observed in the service sector.

e) The inward foreign remittances have gone up over the years.

f) Problems like high degree of resource scarcity, failure of public enterprises, growing fiscal deficit, escalating interests, and increased cost of administration are the major reasons which made the state less investor friendly.

g) The financial service sector in Kerala has shown progressive growth. Out of the total number of commercial banks in the country, 5.1 per cent are in Kerala.

h) The Gross State Domestic Product increased to 9.5 per cent in 2011-'12 from 8.05 per cent in 2010-'11.
i) The Per capita Income in the state came to 8.75 per cent in 2011-‘12 as against 7.26 in 2010-‘11.

j) The revenue receipt was 12.3 per cent of the Gross State Domestic Product as against the revenue expenditure of 13.2 per cent, resulting in a revenue deficit of 0.9 per cent. This appears to be high when compared to other southern states in the country.

k) The fiscal deficit was 2.7 per cent of the Gross State Domestic Product as against 2.1, which is the all state average in the country.

l) The development expenditure was at 8.7 per cent of the Gross State Domestic Product as against the average of other states (10.2).

m) The social sector expenditure came to 5.5 per cent of the Gross State Domestic Product, as against the average of other states (6.4).

n) In 2010-‘11 the state had a high debt status (13.7 per cent), comparatively high internal debt (62% of the total debt) and repayment of past debts consumed Rs.28,330 crores.

o) The state has 4.2 per cent of the commercial bank networks in the country, marking a growth of 3.1 per cent in advances, 3.14 percent in deposits in 2011-‘12.

p) When the total deposits grew by 22 per cent in 2012, NRE deposits increased by 28 per cent.

q) The growth in manufacturing sector came to 13.5 per cent, as against the national average of 9.9 per cent during 2011-‘12.
r) The Micro, Small and Medium Enterprises which have grown substantially, contributed 45 per cent of the manufactured output and 40 per cent of the total exports in the country.

s) During 2012, the Khadi and village industries recorded a progressive growth by generating revenue of Rs.31.37 crores. The coir industry has accounted for 80 per cent of the country’s coir exports. The sales turnover of cashew industry grew at 39 per cent, and that of mineral industry at 22 per cent.

t) Engagements in a multitude of vocations in different sectors had direct impacts on the income generation capacity of the people in the state.

u) Workers’ participation rate came to 56 per cent, as against the national average of 55 per cent.

v) The state of Kerala has witnessed large scale emigration to foreign countries.

w) Employment in the organized sector has declined to 11.2 per cent over the past 10 years.

x) Employment in the unorganized sector has been high. The self-employed class came to 38.4 per cent of the total workers, in comparison to 23 per cent for the salaried and regular wage workers.

y) The rate of unemployment in Kerala is 9.9 per cent, the 4th highest in the country.
It is thus observed that, though much ahead of other states in terms of education and welfare measures, the state of Kerala is lagging behind other states in production and productivity. The demographic characteristics of the state are unique, and in no way comparable to that of other states. A large portion of the working class represents either the self-employed category or those seeking employment outside the country. It is also observed that the demographic features and the economic conditions are likely to influence the level of perception and awareness of the investor class in the state.

6.3 Socio-economic profile of the stock investors

The findings pertaining to the evaluation of the socio-economic profile of the stock investors, oriented to assess the impact of age, gender, education, marital status, religion, social class, family size, earning capacity, occupation and income on the savings and investment pattern of the investors are presented in this section.

a. Representation of the respondents is more from the age group 31-60 years, emphasizing the fact that youngsters are more actively participating in the stock market operations in Kerala.

b. More than 68 per cent of the respondents are males, for the culture of the state of Kerala entails more economic independence for investment decisions to the males than the females.

c. 90 per cent of the respondents were graduates or post graduates, underlining the fact that those having higher educational qualification have more awareness than others.
d. 89 per cent of the respondents are married, indicative of the chance that married persons are more motivated to search for better investment options than others.

e. In terms of religious beliefs, more respondents were from the Hindu community than Muslims and Christians, with an upper hand to the forward castes.

f. 93 per cent of the respondent families consisted of one to two adult earning members, highlighting the incidences of small family households dominating the field.

g. Majority of the respondents were from the full-time salaried class followed by the self-employed, for the simple reason of having positive investment culture and thus enjoying the privilege of better disposable income.

h. 61 per cent of the respondents are from the income bracket Rs. 25000 and above per month asserting more chances to invest when the number of earning members in the family being more.

It is thus observed that the majority of the respondents in the age-group of 31-60 years, originating from small families with two or more earning members, holding better educational qualification had better awareness and preferences for various investment avenues.

The following section would deal with the findings relating to various investments made by different classes of stock investors discussed earlier, particularly focusing on perception, preferences, level of awareness and perception of risk towards the various investment avenues available.
The major findings are recapitulated here.

6.4. Awareness of Investment Products/avenues.

a. High awareness was seen with real estate (44.54 per cent), bank deposits (41.92 per cent), mutual funds (39.30 per cent) and bullion (34.64 per cent).

b. Average level of awareness with equity shares (66.52 per cent), Bullion (40.47 per cent), Bank Deposits (37.85 per cent) and Mutual funds (36.24 per cent).

c. Low awareness of small saving schemes (30.86 per cent), company deposits (28.56 per cent), Life Insurance schemes (25.33 per cent) and corporate securities – Debentures (26.64 per cent).

d. Unawareness of company deposits (43.23 per cent), Corporate Securities – Preference Shares (46.87 per cent), corporate security – debentures (47.02 per cent) and life insurance schemes (43.23 per cent).

e. It was found that the awareness of investments was dependent on the demographic variables age, gender, occupation, education, income and social class of the respondents.

It is found that majority of the investors in Kerala were quite unaware of company deposits, corporate securities like preference shares and debentures and life insurance schemes but high level of awareness was shown in regard to bank deposits, real estate, and bullion. Among the modern instruments a fair level was exhibited with respect to mutual funds and equity shares.
6.5 Investor Preferences toward Investment Avenues.

When arranged in the order of preferences first position goes to bank deposits, which is followed by equity shares, mutual funds schemes, bullion, life insurance schemes, real estate, small saving schemes, company deposits, debentures and preference shares.

a. A review of rank scores of different investment products indicated the priority of bank deposits (5998 points). This was followed by Equity shares (5572 points), mutual funds (5470 points), Bullion (4114 points), Life Insurance scheme (3654 points), Real Estate (3299 points), Small Saving schemes (3226 points), Company Deposit (2812 points), debentures (2508 points) and preference shares (2111 points).

b. The correlation between awareness of investment avenues and their preferences by investors was high and the relation was significant for a positive ‘r’ value of 0.8994.

c. 92 per cent of the respondents had bank deposits, 85 per cent had equity shares, 82 per cent had Mutual fund. Investment avenues like preference shares(82 per cent), company deposits (77 per cent) and debentures (81 per cent) were not attractive to respondents.

d. In future, 86 per cent of the respondents are willing to invest in mutual funds, 85 per cent in equity shares and company deposits, 82 per cent in bank deposits. Investment avenues like preference shares and debentures attract (76.4 per cent each) real estate (71.1 per cent) small savings (67.3 per cent) and bullion (66.9 per cent, except company deposits, which showed a reversal in trend.
e. There is a positive correlation in the responses given by the investors between the investment they hold and the investments they are willing to make. The correlation value ‘r’ is tested to show the significance of the relation between experience and willingness to invest.

f. Concerning the objectives of investment, 62.36 per cent had it for safety, 49.05 per cent for extra income. These two objectives were followed by tax benefits, liquidity and marketability, capital appreciation and diversification in descending order. This shows that respondents prefer to invest in those products that offer them safety and income.

g. When safety of investment is the prime objective of the investors (3661 points), extra Income (3257 points), Liquidity and marketability (2295 points), Tax benefits (2250 points), and capital appreciation (1899 points) and diversification (1337 points) are the objectives.

6.6 Investor Behaviour

a. Concerning the preferences of motives for investment, majority of the respondents gave income the first preference. This was followed by tax benefits, capital appreciation, speculative profits and other personal needs in descending order.

b. When the motives for investment was ranked instrument wise, income was ranked one (5727 points), followed by tax savings (2568 points), other personal (2438 points), capital gains (2087 points) and speculative profits (1386 points)
c. The frequentness of investment observed was monthly investments (43.2 per cent), annual (25.5 per cent), half-yearly (22.4 per cent) and quarterly (8.9 per cent). Respondents belonging to all categories of income indicated the least preference to Quarterly investments.

d. Regarding the Occupation of the respondents, it is found that irrespective of the category, the trend is more towards investment obligations recurring on monthly basis. However, half yearly and annual investments are found to be more appreciated by the respondents than that recurring on a quarterly basis.

e. Evaluation of frequentness with the monthly income also revealed that monthly investment was the most preferred across all classes of income earning respondents, followed by the yearly pattern.

f. As regards the Ownership pattern of Investment, majority of the respondents choose joint investments with their spouse, followed by investments in their own name. Hence the self-employed, salaried and retired class needs protective shields for settlement of future claims and tax liabilities.

g. Concerning the basic nature of the respondents, 38.28 per cent were objective in their outlook, 28.09 per cent were rather cautious, 19.07 per cent were optimistic and 14.56 per cent were rather competitive in outlook.

h. Towards the Investment Strategy, respondents are highly distinct in their investment strategies and it evinces that investors are divided among the frontiers of growth and stability.
i. Assistance towards Investment Decision made it clear that 85 per cent of investors didn’t insist on any expert advice from external body before making an investment decision.

j. Towards the role of Consultants and External Agents, Concerning the Expected Change in Income, 83.2 per cent have an optimistic outlook towards substantial increase in their future income. Though the services of financial consultants are available, high majority of the investors are not tuned to it.

k. Concerning the Expected Change in Income, 83.2 per cent have an optimistic outlook towards substantial increase in their future income.

l. For the Saving Pattern of Investors, 64 per cent of the respondents save regularly from their annual income and it places them in a favourable position to divert their savings to investment.

m. About Investment Monitoring, Observation and Follow up, when 44.60 per cent focus the attention on the well doing instruments, 21.20 per cent focus their attention on the long term progress of their investments; 19.70 per cent to overall portfolio and 14.50 per cent concentrate on low performing individual instruments.

n. Concerning the Investment Activity, 97 per cent are fully active in the investment arena, indicating effective participation arising from the optimistic behaviour of the respondents.
o. Regarding the Net Additions / Reduction, 67.3 per cent have made either substantial or moderate additions to their holdings and 21.2 per cent have made net reduction to their investment holdings.

6.7 Assessment of Investors’ Risk

a. Investors’ Attitude towards Risk

When 48 per cent dislike the risk factor, 29 per cent liked it, while considering investment.

b. Respondents’ perception of Risk Tolerance

When 37 per cent take lower risk, moderate risk is acceptable to 35 per cent and high risk to 28 per cent.

c. Respondents’ willingness to take calculated risk

A larger group tends to indulge in taking calculated risk in their investment decisions.

d. Investors’ Perception of Market Risk

Market risk is a significant factor to the respondents, since it affects the investments.

e. Investors’ Perception of Inflation Risk

Inflation as a risk is very much considered by the investors during the investment process.

f. Investors’ Experience with Risk

A good majority of the respondents are familiar with and has observed fluctuations in the value of their investments.
g. Investors’ Reaction towards Risk

It is found that among the respondents the degree of sensitivity is equally
distributed. There is a positive correlation between respondents’ experience
and reaction towards risk.

The direction of movement of the curves indicates that both move in the
upward direction. The $r^2$ value of 0.8861 indicates that the frequencies best
fit the trend line and exhibits a linear relationship between the respondents’
experience of risk and reaction to risk.

The inference is that when some of the investors’ tend to react sharply with
the decline in the value of their investments, investors with risk bearing
attitude are not found to react soundly.

6.8 Investors’ Preference for Risk and Return

The direct relation of risk and return affects investors’ decision making in
selecting investment avenues. The investors’ preference towards varying degrees
of risk and return, while making their investment decisions is encapsulated below.

a. Investor’s Perception of High Risk – High Return

There is clear indication that majority of the respondents are willing to take
higher risks, if compensated accordingly, establishing that big majority of
the respondents are virtually risk takers.

b. Investors’ Preference for Low risk with known yield

It is evident from the survey that majority of the respondents favoured low
risk investments. There exists a linear relation between those willing to
accept high risk and low risk. The trend line indicates the clustering of the frequencies around it. The \( r^2 \) value of 0.893 indicates that the respondents who are willing to accept risk and those not willing to accept risk are interrelated in the sample distribution.

The correlation coefficient is positive (0.9920) between willingness and unwillingness to take high risk and tested to be significant

c. Unknown Returns and Capital Growth

A major faction of respondents are willing to invest in instruments that have unknown returns with an edge for long-term return.

6.9 Risk perception of various instruments

The deliberations of the respondents on their perception of risk and expectations from various instruments are summarized:

a. Bank Deposits as investment.

98 percent of the respondents know about bank deposits, 95 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 4 per cent.

b. Company Deposits as Investment

69 percent of the respondents know about company deposits and about 42 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 27 per cent.

c. Small Savings Schemes as investment

99 percent of the respondents know about small savings schemes and 85 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 16 per cent.
d. **Life Insurance Schemes as investment.**

96 percent of the respondents know about life insurance schemes and 87 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 8 per cent.

e. **Mutual Fund schemes as Investment.**

77 percent of the respondents know about mutual fund schemes and 58 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 19 per cent.

f. **Bullion as Investment**

93 percent of the respondents know about bullion and 81 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 13 per cent.

g. **Real Estate as Investment**

94 percent of the respondents know about real estate and 77 per cent regarded it as a safe avenue of investment as against the unsafe rating by about 83 per cent.

h. **Debentures (Corporate Security) as Investment**

64 percent of the respondents know about debentures of corporate sector only about 13 per cent regarded it as a safe avenue of investment as against the unsafe rating by 51 per cent.

i. **Equity Shares (Corporate Security) as Investment.**

96 percent of the respondents know about equity shares of corporate sector and only about 18 per cent regarded it as a safe avenue of investment as against the unsafe rating by 79 per cent.
j. **Preference Shares (Corporate Security) as Investment**

51 percent of the respondents know about preference shares of corporate sector and only about 17 per cent regarded it as a safe avenue of investment as against the unsafe rating by 15 per cent.

6.10 **Ranking of Investment Avenues based on Risk Assessment:**

Bank Deposits, Life Insurance, Small Savings Schemes are considered to be investments with ‘low risk’ and respondents placed it in the first three ranks respectively. Bullion, Real Estate, Equity Shares and Mutual Funds are listed under the category of ‘risky investments’. Company Deposits, Debentures and preference shares are labelled as High Risk instruments with lesser scores and occupied eighth, ninth and tenth positions respectively.
CONCLUSION

This study was about the saving and investment pattern of the sample respondents towards all the investment avenues available for an investor.

For satisfying the first objective of the study, the demographic details of the respondents were collected and analyzed. The demographic details collected helped to group the stock investors into different classes based on their age, gender, education, occupation, religion, caste, place of domicile, income, and size of family.

For satisfying the second objective, namely, to determine the determinants of investment decisions among the investor class, the demographic profile was used to understand their investing pattern. It was found that age, education, gender, income, social class and occupation had varying proportions of influence on their investment decisions. Age and gender had minimum significance in relation to their investment decisions, while income, social class and education have significant relation in determining their investment decisions.

For satisfying the third objective, to observe the level of awareness, perception and preferences for various investments and to study the trends in capital market, the level of awareness and preferences for various investments avenues and their perception towards the same was carried out by testing the respondents' level of awareness on 10 distinctive and popular investments avenues and the same is presented below.

The preferences for investment avenues revealed that majority of the respondents preferred bank deposits as their first choice, followed by equity shares, mutual funds, bullion, life insurance schemes, real estate, small saving schemes, company deposits,
debentures and preference shares in the chronological order. The study also attempted to bring out an understanding on the investors’ experience towards the investment avenues and it was found that most of the respondents had better experience in investing with bank deposits, equity shares, mutual funds and least experience in investing with preference shares, debentures, bullion, real estate, life insurance and company deposits.

The objectives of investment were also studied as they had considerable influence on determining the pattern of investments chosen by an investor. Thus the basic objectives of safety, liquidity and marketability, income, capital appreciation, tax benefits and diversification were tested on the respondents and the response showed that safety was considered as the most important objective of investment followed by income, tax benefits, liquidity and marketability, capital appreciation and diversification. It was important to note that diversification was the least preferred objective of the majority of the respondents.

The behaviour of the respondents towards the various investment avenues was analyzed using several variables like motive, frequency of investment, ownership pattern, basic nature of the respondents, investment strategy, assistance sought in investing, expectations of future income, saving pattern of the investors, their monitoring and observation practices, level of investment activity and net additions/reduction made in investments.

To satisfy the fourth objective to examine the methods preferred by the investors to evaluate and assess the risk, an attempt was made to assess the attitude of the investors towards risk, their perception towards risk tolerance and their reaction to risk.
Thus, to sum up, the respondents’ had sufficient awareness of the investment avenues chosen and their preference for investment avenues were based on their awareness, after having a fair idea of the risk aspects associated with those investments. The factors like age, gender, education, occupation, and social status had influence on their awareness, perception of risk assessment. Thus it suggested that investment avenues like corporate securities, debentures and preference shares needed more awareness in the stock market and investments like small savings and life insurance policies need to be marketed well because, in spite of the fact that the respondents’ having awareness in those avenues did not invest in the same. Hence, a revival of those instruments to add more benefits can be suggested in the light of the findings made.

**Recommendations and suggestion for future research**

1. There has been a drastic change in the investment culture of the middle class families owing to the nuclear size and multiple number of earning members in the family. It is suggested to make the investment field filled up with novel and attractive products, so that more members could be attracted to the investors’ bracket. It is necessary to vitalize the conventional investment avenues in the light of the fact that those investment avenues should match the investment objectives of giving higher returns and better tax benefits so that those instruments would be included more in the portfolio of the investors.

2. It is clearly observed that most of the respondents have lack of awareness. Moreover, they are not getting complete awareness of all instruments present in the market. Hence, it is suggested that the print and electronic media be strengthened to disseminate information among the general public.
3. It was observed in the last few decades that respondents were concentrating on equity shares and mutual funds for investment. Based on the facts emerging from this study, it is suggested that investments like debentures and preference shares shall be made popular, common and accessible to prospective investors.

4. The study made it clear that investment objective of diversification was annexed lower in preference by the respondents, and it is thus suggested to provide effective and adequate mode of educating the investors about the benefits of diversification as a tool for risk management.

5. It is desirable to disseminate the information about appropriate and feasible avenues of investment to those in different employment categories. This will enable the investors to identify high performing investment options and to discard the instruments with poor performance.

6. The capital market in India has progressed well and the growth was beyond the expectations, given the fact of the rich diversity in culture that exists among the large population in India. The capital market should step up their focus to create more awareness and devise a system which shall provide equal access to all investments at any point of time. The aid of the electronic media should be used effectively.

7. Investor education programmes should be strengthened by the regulators so as to help the investors’ grow in confidence while they consider investing in various investment avenues.

8. Investors have lost their confidence over many instruments owing to their inability to assess and quantify risk. Apart from the rating mechanism, steps should be taken to include more quantitative measures and so as to make information available to the
investors with much ease. The simplified and contextual knowledge on risk aspects involved with an instrument would help the investor to relate risk with their investment objectives, which would help them think and also arrive at meaningful conclusions.