SYNOPSIS
A STUDY ON THE PROBLEMS OF
EQUITY INVESTORS IN CHENNAI

1. Introduction

Investment is the deployment of fund with the aim of achieving additional augmented income or growth in capital value. Investment is an interesting activity that attracts all people irrespective of their occupation, education and social status. The financial investment is the obligation of money to assets that are expected to yield some gain over a period of time. If a person has more money than his current needs he can deposit his surplus money in the bank account to earn a fixed rate of interest or buy gold or purchase shares or invest in any other instruments. In other words investment is the allocation of monetary resources to assets that are expected to yield some gain or positive return over a given period of time. These assets may range from safe investments to risky investments.

The nature of investment in the financial sense differs from its use in the economic sense. To the Economist, `Investment' means the net additions to the economy's capital stock which consists of goods and services that are used in the production of other goods and services. In this context, the term investment, therefore, implies the information of new and productive capital in the form of new construction, new producers' durable equipment. Inventories and human capital are included in the economist's definition of investment.

Traditionally investment is distinguished from speculation in three ways namely risk, capital gain and time period. The word `risk' refers to the possibility of incurring a loss in a financial transaction. If purchase of securities is preceded by
proper investigation and analysis and review to receive a stable return over a period of time it is termed as investment.

In India the investors have the dual advantage of free enterprise and Government control. Freedom, efficiency and growth are ensured from the competitive forces of private enterprise. On the otherhand, being a mixed economy, Government control exerts discipline and curtails some element of freedom. A combination of the public sector controlled by Government and Private Sector left free to operate, hope to achieve the benefits of both socialistic and capitalist forms of government which are not without their disadvantages. In India, the political climate is conducive to investment as Government controls lands stability to the capital market.

The ultimate objective of the investor is to derive a variety of investments that meet his preference for risk and expected return. The investor will select the portfolio which will maximise his utility. Securities present a wide range of risk from risk-free instruments to highly speculative shares and debentures. From this broad spectrum, the investor will have to select those securities that maximise his utility. The investor, in other words, has an optimization problem. He has to choose the security which will maximise his expected return subject to certain considerations. The investment decision is an optimization problem but the objective function varies from investor to investor. It is not only the construction of a portfolio that will promise the highest expected return but, it is the satisfaction of the need of the investor.

An individual also makes indirect investment, for retirement benefits, in the form of provident fund and pension, Life Insurance Policy, Investment Company Securities and Securities of Unit Trust of India. Individuals have no control over these investments. They are entrusted to the care of the particular organisation. The organisations, like Life Insurance Corporation or Unit Trust, Provident Funds are managed according to their investment policy by a group of trustees on behalf of the
The main aim of an investor is capital appreciation and regular returns. The capital appreciation occurs when an investment is sold out at a higher price as compared to the original purchase price of an instrument. The regular return from investment is derived in the form of interest or dividend. Before making an investment the investors are considering different factors. It includes easy liquidity, safety of their investment, the various tax-benefits, the inflation rate and low risk.

Generally the investors are adopting two different portfolio strategies namely active portfolio strategy where the investor tries to earn superior risk adjusted return by adopting to correct market timing of purchasing and selling of securities and a passive portfolio strategy on the otherhand means holding a diversified portfolio and maintaining a pre-planned risk exposcer. In the selection of instruments, the investors analyse the post movements of share price, volume of transaction, ability of the company and the like. Now the investors have wide range of investment opportunities such as equity shares, fixed return securities deposits, tax benefitted savings schemes, units, mutual funds, insurance schemes, gold and real estates.

Out of various investment opportunities available for benefits of investors, the investment on equity shares is considered to be a more rewardable and more risky
investment. Therefore many investors in India are coming forward to invest their hard
earned money in equity. In this context, the present study highlights the various
problems faced by the equity investors in Chennai.

2. Statement of the Problems

In the past, the equity investment was considered to be risky investment and
hence only rich and business class people have entered in the stock market transaction.
But now the picture has completely changed, the equity investment has become a
household word and even middle class people have also been actively involved in
equity investment operations with the results that the total investments on equity
capital in various companies in India has increased tremendously.

Investment in share is a serious business and hence factors however minor,
must be analysed and considered. The investment made with the help of rumors and
tips may erode off the amount invested. As there is a general attitude prevailing that
making money out of stock market is easy, many enter the stock market without prior
knowledge and get their finger burnt.

In Indian stock market, the majority of the investors are investing their money
in shares based on their own assumptions and others' decision. It is better to invest in
shares after careful study. A systematic evaluation is needed like economy, industry
and company analysis to be better off. Many investors neglect these evaluation due to
inefficiency or lack of knowledge of the importance of such analysis. As a result they
enter the market without adopting any systematic approach and they are not able to
predict the future movements, and that is why they lose more when the market turns
bearish.

Even though Government of India has established many supervisory bodies to
look over the various operations of stock market, the stock market has not yet attained
stability. The irrational investors enter the market and buy shares as per their own wish and pleasure. They do not mind whether it is worthy to invest or not in the particular company's share. As a result the market loses its stability, when a large number of irrational investor plays in the stock market. Ultimately when the stock market loses the stability, the flow of funds into capital market slows down and affects the economic growth.

In order to serve the equity investors, the various intermediaries are actively involved in stock markets. The intermediaries include stock exchanges, brokers, sub-brokers and the like. At present there are 23 Stock Exchanges that are recognised by the Government of India. As a result, there has been a phenomenal growth in the operation of the stock market in India, particularly in the last 10 years or so.

Chennai is the capital city of Tamil Nadu. Since it is on urban based city, the vast number of people are actively involving in the stock market operations through different brokers and sub-brokers. At present more than 250 brokers and sub-brokers are actively participating in share trading business in Chennai.

The majority of the equity investors of Chennai belong to middle class category. Therefore, they are unaware about the technical aspects of stock trading and hence they are continuously facing serious problems. In this situation, there is a necessity to study the various problems faced by investors of Chennai and hence this study.
3. **The Scope of the Study**

The present study is devoted to equity investors of Chennai. For the purpose of the study, the investors belonging to Chennai city have been selected. The study has been approached from the standpoint of investors who have invested in equity only. It does not include any other individual and institutions which are directly or indirectly associated with equity investment.

4. **Objectives of the Study**

The following are the main objectives of the present study.

4.1 To review the various functions of stock exchanges in India.
4.2 To analyse the various problems faced by the equity investors in Chennai.
4.3 To study the equity investment pattern of investors in Chennai and analyse the relationship between the factors of investment and the level of problems of equity investor.
4.4 To offer suitable suggestions to the equity investors of Chennai to improve their strategy in equity investment.
5. **Significance of the Study**

In spite of a number of studies available in the field of general finance and investment, no study has been undertaken in the field of equity investment especially the problems of equity investors. The present study is focused to study the problems of equity investors in Chennai. Results of this study will help the investors in general and equity investors in particular to decide their investment pattern and also help the various agencies involving in capital market to decide various policies associated with the investor.

6. **Construction of Questionnaire**

In order to collect the primary data from the equity investors in Chennai, a comprehensive questionnaire was prepared. For preparing the questionnaire, the researcher had a trial interview with many equity investors. Based on both the response from selected investors and the objectives of the present study the questionnaire was constructed. The questionnaire thus constructed was handed over to the experts for their critical evaluation and revised in the light their comments. Then, a pre-test was conducted with 25 equity investors in Chennai. After the pre-test the questionnaire was revised and final draft was prepared for collecting the primary data.

7. **Sampling design**

The study area namely Chennai city is the capital of State of Tamil Nadu. In this city there are number of brokers actively involving in the stock broking business and thousands of investors engaging in the investment activities. With the help of the stock brokers, a list of equity investors was obtained. From this list, a random sample of 300 equity investors were selected with help of Tippett's random numbers. Thus the sample consisted of 300 equity investors of Chennai city.
8. **Field work and collection of data**

The required primary data were collected from the equity investors through the questionnaire by the researcher himself. The questionnaire was circulated to the respondent during the months of April 2003 to June 2003 and the sample respondents were asked to submit their filled in questionnaire to the broking offices. The Researcher has visited the broking offices daily basis and collected the filled in questionnaire from the broking offices. Moreover the Researcher has also visited some of the respondents houses to get quick response from the investors.

9. **Data processing**

After the completion of the data collection, the filled up questionnaire were edited properly to make them ready for coding. A master table had been prepared to sum up all the informations contained in the questionnaire. With the help of the master Table, the information was coded and then transcribed on transcription cards and with the help of the transcription card classification tables were prepared. The classification tables were used for further analysis.

10. **Methodology of the study**

This study is based on both primary and secondary data. The primary data were collected from equity investors of Chennai with the help of a questionnaire (vide appendix A). The secondary data were collected from offices of brokers who are involved in stock broking business in Chennai, visiting different investment related website and different financial related news papers, magazines, journals and brochures.

11. **The Measurement of Variables and Constructions of Scales**

This study involves the measurement of the level of problems faced by the equity investors and the identification of the factors influencing such problems. The
level of problems has been considered as dependent variables and the factors as independent variables.

The dependent variable namely the level of problems of investors who are actually involved in an equity investment has been notified with the help of scaling technique. For this purpose, 10 major problems have been identified. The problems include the problems connected with Companies, problems connected with Brokers, problems connected with Stock Exchange, problems connected with Fellow-Investors, Government Agencies, Availability of Information, SEBI, New Issues, Government Policies and problems connected with other General Matters. For every problems, 10 major issues have been identified and thus the total number of issues identified in this study were 100. For every issue, two point scale ‘yes’ or ‘no’ has been applied and for ‘yes’ response ‘one’ score has been allotted and ‘no’ response ‘zero’ score has been assigned. If an equity investor gives positive response (yes) to all the issues he will be given maximum of 100 scores. Thus the score secured by sample respondent range from ‘0’ to ‘100’. On the basis of scores obtained, the equity investors were classified into three categories namely 'High Level problem faced investors' [(Mean (X̄) + SD(S)], Medium Level problems experienced investors [(Mean (X̄) - SD(S)] and Low Level problem faced investors [(Mean (X̄) - SD(S)]. This classification of the equity investor was used for further analysis.

The Mean (X̄) of the respondent was calculated with help of the following formula

\[ \bar{X} \]
\[ \tilde{X} = \frac{\sum X}{N} \]

\[ \tilde{X} = \text{Average score of the sample investors} \]

where `'X' is the total score of the sample investors and `'N' is the total number of respondents.

The Standard Deviation (S) of the respondent was collected from the help of the following formula

\[ S = \frac{\tilde{X}^2}{N-1} \]

where \( S = \text{Standard deviation} \)

\[ 'X' = \tilde{X} - \bar{x} \]

\[ N = \text{Total number of sample equity investors} \]

12. **Frame work of analysis**

The factors identified have been taken as independent variable. The relation between dependent variable (the level of problems of equity investors) and independent variable (factors) has been analysed with help of `Chi-square' test \((\chi^2)\). The `Chi-squares' value is computed based on the following formula;

\[ \chi^2 = \frac{(O-E)^2}{E} \]
where ‘O’ is the Observed Frequency and ‘E’ is the hypothesised Expected Frequency

On the basis of the analysis, it is found that out of 300 equity investors selected for the study, the maximum number of 161 (53.67%) investors are in the category of Medium Level of problems. 85 (28.33%) investors have come under the category of Low Level of problems and a minimum of 54 (18%) investors belong to High Level of problems. Hence it is concluded that 215 (71.67%) respondents are having problems either at High Level or Medium Level in the process of their investment in equity capital.

With the help of analysis it is also found that out of 12 factors identified in this study, 7 factors namely, Size of the Family, Duration of the Investment, Gross Monthly Income, Occupation, Educational Status, Types of Family and Size of the Investment have significant relationship with the level of problems of equity investors in Chennai. But the factors namely Sex Group, Marital Status, Age Group, Average Savings and Social Group of equity investors do not have any relationship with the level of problems of equity inventors in Chennai.

13. Limitations of the Study

The present study is mainly focussed on the problems of equity investors of Chennai. As the study deals with attitudes of the investors, they find it difficult at times to recall the problems faced and experienced by them in the yester years of their investment.

14. Scheme of the Report

The Thesis consists of Five Chapters.


The Third Chapter *"Level of Problems of Equity Investors in Chennai"* analyses the various Problems Connected with Equity Investment. It covers the Level of Problems of Equity Investors in Chennai Component-wise Analysis, Over All Impact of Components and Level of Problems of Equity Investors in Chennai.

The Fourth Chapter, *"Equity Investment Pattern of Investors in Chennai"* analyses the various factors influencing the level of problems of equity investors in Chennai. It covers Sex Group of the Investors, Marital Status of the Equity Investors, Agewise Classification of Equity Investors, Size of the Family of the Equity Investors,
The Fifth and Final Chapter, "Summary of Findings, Problems and Suggestions and Conclusion" highlights the concludatory aspects of the present study. It covers the Summary of Findings, Problems and Suggestions and Conclusion.