CHAPTER I

INTRODUCTION

Capital market is the financial market in which corporate equity and long term debt are issued and traded. Capital market works as a conduct for demand and supply of long term debt and equity capital. Capital markets are the means through which small and scattered savings of the investors are directed into productive activities of corporate entities. Capital markets are the barometer of the health of the economy. A well-organized and regulated capital market facilitates sustainable development of the economy by providing long-term funds in exchange of financial assets to investors.

The history of Indian capital market dates back to the eighteenth century when East India Company securities were traded in the country. Until the end of the nineteenth century securities trading was unorganized and the main trading centers were Bombay and Calcutta, of the two Bombay was the chief trading center wherein bank shares were the major trading stock during the American Civil War (1860-61). Bombay was an important source of supply for cotton. Hence, trading activities flourished during this period, resulting in a boom in shares prices. This boom, the first in the history of the Indian capital market lasted for half a decade.
Trading was at that time limited to a dozen brokers; their trading place was under a banyan tree in front of the town hall in Bombay. The stock exchanges in Calcutta and Ahmadabad, also industrial and trading centers, came up later. The Bombay stock exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925.

The capital market was not well organized and developed during the British rule because the British government was not interested in the economic growth of the country. As a result many foreign companies depended on the London Capital Market for funds rather than in the Indian Capital Market.

Many technological innovation and stock trading systems remade Wall Street before computers.

We think that the overwhelming influence of computers remarking the landscape around Wall Street today is something new, but a pair of before and after photographs show an even more dramatic technological invasion. Before telegraphy, in the 1850s, the sky over Wall Street was open and clear.

After technological changes the Stock Exchange at Bombay was consolidated. In the same way, gradually with the passage of time number of exchanges was increased and at currently it reached to the figure of 27 Stock Exchanges.
**Stock Market**

Stock exchanges to some extent play an important role as indicators, reflecting the performance of the country’s economic state of health. Stock market is a place where securities are bought and sold. It is exposed to a high degree of volatility; price fluctuate within minutes and are determined by the demand and supply of stocks at a given time. Stock brokers are the ones who buys and sells securities on behalf of individual and institutions for commission. The securities and Exchange Board of India (SEBI) is the authorized body, which regulates the operation of stock exchange, banks and other financial institutions.

The past performance in the capital markets especially the securities scam by Harshad Mehta has led to tightening of the operations by SEBI. In addition the international trading and investment exposure has made it imperative to better operational efficiency. With the view to improve discipline and bring greater transparency in this sector, constant efforts are being made and to a certain extent improvement have been made.

**Equity Market**

Equity market or stock market is a system through which company shares are traded. The equity market offers investors an opportunity to participate in a company’s success through an increase in its stock price. With
enhanced opportunity; however, the equity market usually carries greater risk than debt markets. The U.S. equity market focuses on the New York Stock Exchange, with its large trading floor and system of specialists. The other major component of the U.S. equity market is the NASDAQ, a computerized system of brokers/dealers with no physical trading space. The U.S. equity market also comprises trading on the American Stock Exchange, regional stock exchange, so-called ECNs, the Over the counter Bulletin Board, and the Pink Sheets. The worldwide equity market grew rapidly in the late 20th century, rising from $1 trillion in market benefited from freer markets, government privatization, and companies seeking an alternative to debt.

RETAIL INVESTORS

A retail investor is an individual who purchases securities for his or her own personal account rather than for an organization. Retail investors typically trade in much smaller accounts than institutional investors such as mutual funds, pensions or university endowments.

RETAIL INVESTMENT

Small investors saving their monies in various financial product in small be understand that the investors particularly the individuals investing their personal savings could be called as retail investment. This is in contrast to
the institutions like mutual fund, Puffs, hedge funds…etc investing money on investment category, individuals investing their monies in small sums.

**Equity share capital**

Equity share capital is also referred to as ordinary shares and in Indian context it is defined by sec.85 (2) of the Companies Act 1956. They are the real risk takers and care takers of the company and they enjoy the right of voting.

**Authorized equity capital**

It is the capital mentioned in the memorandum of understanding and association of the company when it is formed.

It is less than or equal to the co.’s capital at any point of time. It is maximum capital a company can achieve at any point of time but the good thing is it can be changed after approval from the board of director.

**STATEMENT OF THE PROBLEM**

The Indian equity market is more popularly known as Indian Stock Market. The Indian equity market has came after China and Hong Kong in the Asian region. According to the latest report by ADB, it has a market capitalization of around $ 600 million. As of March 2009 the market capitalization was around $598.3 billion (Rs.30.13 lakh crore) which is one-tenth of the combined valuation of the Asian region. The market was slow since early 2007.
A stock exchange has been defined by the Securities Contract (Regulation) Act, 1956 as an organization, association or body of individuals established for regulating and controlling of securities.

The stock market in India does namely private equity fund and venture capital fund. It also deals in transaction which are based on the two major indices – Bombay Stock Exchanges (BSE) and National Stock Exchanges of Indian Ltd. (NSE).

The market also include the debt market which is controlled by wholesalers dealers, primary dealers and banks. The equity indexes are allied to countries beyond the brokers as common calamities affect markets.

The equity market is also affected through trade integration policy. The country has advanced both in foreign institutional investment (FII) and trade integration since 1995. This is a very attractive field for making profit for medium and long term investors.

The Indian equity was not well organized or developed before independence. After independence, new issues were supervised. The Timing Floatation’s costs, interest rates, pricing were strictly controlled of capital (CII). For four and half decades companies were demoralized and not motivated from going public due to the rigid rules of the government.
The investor’s attitude towards equity market has been gauged with the factors of investment and the behavior of the investors in the security market. It is a well-established fact that in India, the household savings have a dominant role in the capital formation in the country. The fund mobilization by various companies in equity market in India has been on the increase since their inception.

Further, keeping in tune with the objective of New Economic policy of 1991, the equity market was thrown open to the public during 1993, in India. Since then, the investment trend shifted in favor of the equity market. The investment in equity stocks is given significance and preference by the investors after 2005 that is increasingly constant. Hence the researcher has adopted a new dimension of study on a retail investor’s behavior on equity shares in Trichy city.

**SCOPE OF THE STUDY**

The research would be useful in the following respect.

✓ This will help the investors to know the taste of masses and turn it towards equity market.

✓ This will help the investor, how to make the investment in the equity market with the high awareness.
✓ This will help the investor to frame effective Investment Strategy as well as select the right avenue.

✓ This will also help to select right medium for trading in equity market.

**OBJECTIVES OF THE STUDY**

1. To find investors’ involvement in equity market.

2. To find out the sources of investment information and making decision.

3. To determine the investor’s preference to invest in equity market.

4. To find the level of return from equity market with the risk levels.

5. To find the level of satisfaction from the investment in equity market.

6. To offer suggestions for the improvement of investment in equity market.

**RESEARCH METHODOLOGY**

**RESEARCH DESIGN**

It is a conceptual structure within which research should be conducted. Thus the preparation of such as design facilitates research to be as efficient as possible and will yield maximal information.
SOURCES OF DATA

The task of collecting data begins after a research problem has been defined and plan is chalked out. This study pertains to collection of data from primary and secondary sources related to the retail investor’s behavior on equity shares.

PRIMARY DATA

Data are collected for the first time for a specific purpose in mind using the questionnaire method. Questionnaire through personal contact and personal interview.

SECONDARY DATA

The data which already collected and published are referred through web sites.

INSTRUMENT DESIGN

Designing and collecting the response for the question, is one of the most interesting and challenging tasks of conducting research and analysis.

QUESTIONNAIRE

This method of data collection is quite popular, particularly in case of big enquiries adopted by the research workers, private and public organizations and even by government. In this method, a questionnaire is sent administered to the persons concerned with the request to answer the questions and return
the questionnaire. A questionnaire consists of number of questions printed or typed in a defined order on a form.

The researcher has used questionnaire for the following purposes:

- For analyzing the objective of investment.
- To study about the interest of investments among people.
- To know about the different types of sectors respondents are interested to invest.

**SAMPLE DESIGN**

A sample plan is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure the researcher would adopt in selecting items for the sample.

After deciding the research approach and instrument, the next stage is to design a sampling plan. The selected respondents from the total population constitute what is technically called a “Sample” and the selection process is called “Sampling technique”.

**POPULATION**

The first step in the sampling process is the definition of the population, which can be defined in terms of elements, sampling units, extent and time. For the present study undertaken the population was salaried, self employed and professionals.
SAMPLING FRAME

A sample frame is a means of representing the elements of the population. Some of them are direct contact and telephone directory.

SAMPLE SIZE

The sample size selected for the survey is 500.

SAMPLING DESIGN

Sampling design is to clearly define the set of objectives, technically called the universe to be studied. The universe can be finite or infinite. The nature of the universe studied for this survey is finite.

Using the Simple Random Sampling method 500 respondents are selected. Simple Random Sampling is also known as probability sampling, under this sampling every item of this universe have inclusion in the sample the results arrived from this is assured in terms of probability i.e., we can measure the errors of estimation from a random sample. As considered the universe or population as whole it also known as census inquiry.

DATA ANALYSIS

The data is analysed using statistical package for social science (SPSS) and other computer packages. The following statistical tools are used in the study.
Chi-square
ANOVA
F-test
t-test

LIMITATION OF THE STUDY

The limitations of the study are as follow:

Personal Bias

Individuals may have personal bias towards particular investment option so they may not give correct information and due to which the conclusion may be derived.

Area

The area was limited to Trichy city only, so it cannot be known the degree of the literacy outside the city regarding the equity market.

OPERATIONAL DEFINITION

A. Investment

The use of capital is to create money, either through income producing vehicles or through more risky ventures designed to create capital gains.
B. Equity share

Share capital of a company is divided into a number of small units of equal value is called shares.

C. Retail investors

Retail investor typically trade in much smaller accounts than institutional investors.

D. Retail investment

Small investors particularly the individuals investing their personal savings could be called as retail investment.

E. Primary market

A market where corporate directly issues securities i.e, where initial public offering is made.

F. Secondary market

A market where the already issued securities are traded.

G. Dematerializations

Conversion of physical certificate to electronic form benefits investors immensely.

H. Portfolio

A basket of different securities held by investors.
I. Mutual fund

Small investors, Collective investment scheme

J. Derivatives

Financial contract, whose value depend upon the characteristics and value of some underlying assets typically commodity, bond, equity, currency, index ….etc.

K. Bonus shares

Shares in addition to the cash dividend to the existing share holders without any cash payment.

L. Screen Based Tradings

The trading is done through the computer and participant can trade with each other through the computer network.

M. Stag

Neither buys nor sells securities, but merely applies for shares of a new company as if he were genuine investors.

N. Market capitalization

The market value of a company found by multiplying the number of ordinary shares outstanding with its current market price.
O. Clearing and T+2 Rolling settlement

Clearing is the process by which all the transactions between members are settled. T+2 rolling settlement is the system where trades executed during the day are settled based on the net obligation for the day. The maximum time that may be taken for settlement is T+2 (ie) Trading day + 2 working days.

P. Fundamental analysis

Methods of predicting the behavior of company stock by looking at fundamental information about the company such as financial health, sales, earnings and dividends.

Q. Technical Analysis

Technique of predicting share price behavior by studying the price movements and trading volumes using charts.

R. Circuit Breakers

It is an investor’s protection measure by SEBI to curb excessive price volatility. It brings about a nation-wide co-ordination halt in trading on all equities.

CHAPTER SCHEME

Chapter-I

Introduction- deals with a brief study of equity shares, objectives of the study and research design.
Chapter-II

Review of literature-relevant to the present study, characteristics of equity share and capital market and investment preference are included in this chapter.

Chapter-III

Profile of the study area and overview of the equity market – Explain the growth of the market, trends in various years and certain important overview.

Chapter-IV

Analysis and interpretation of investment satisfaction—with Statistical analysis of the primary data.

Chapter-V

Summary of findings, suggestions and conclusions- summarise the findings along with the suggestions to the investors.