9.1 INTRODUCTION

Capital Markets are the means through which small and scattered savings of the investors are directed into productive activities of corporate entities. 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.

Indian capital market is one of the oldest and largest capital markets of the world. Its history can be traced back to the 19th century. The first instance of organized trading in corporate securities in India is related to the trading in securities of East India Company. In 1875, Dalal Street in Mumbai became prominent with the instigation of Bombay Stock Exchange (BSE), the first organized stock exchange in India. The National Stock Exchange was inaugurated in 1994. At present there are 23 stock exchanges in India of which four stock exchanges were derecognized.
Visakhapatnam city is one of the ten fastest growing cities in the
world economically and geographically. The growth of equity culture in the
city started with the establishment of Steel City Securities Limited in 1995.
Most of the major stock broking firms have started their branches in Visakhapatnam city. The city presently has more than two lakhs investors
who are trading in the capital market. With the increasing participation of retail investors in the capital markets, it is extremely important for the policy makers of capital markets to understand the small investors worries and concerns about the capital markets. In this context the present study investigates the retail investors’ perspective on capital market in Visakhapatnam city.

The study mainly aims at analysis of Indian Capital Market from the point of view of retail investors. Specifically the objectives are:

- To study the socio economic profile of retail investors.
- To analyze the factors influencing the investment behaviour of retail investors.
- To examine the trading practices of retail investors in equity markets.
- To identify the factors influencing the risk taking ability of retail investors.
- To present the problems of retail investors in the capital market.
To elicit the opinion of the retail investors’ on the policy issues of capital markets,

To suggest certain measures to the policy makers for the protection of retail investors.

9.2 HYPOTHESIS

Having identified the objectives, the study was also focused on identifying the characteristics of the high risk takers and moderate risk takers using Discriminant analysis. The Age, Education, Occupation, Income and Stage of life Cycle are considered to discriminate the two groups viz., the high risk and moderate risk takers. It is assumed that age, level of education and income are negatively associated with risk. It is assumed that investors who are into business/professional occupations have more ability to take higher risk when compared to others. It is further assumed that as the dependents increase, preference to take risk declines as responsibilities increases with family life. From the analysis it is noted that the groups are distinctly different from each other as the f-value, 55.64 is found to be statistically significant at 1% level of significance.
9.3 INVESTMENT BEHAVIOUR OF RETAIL INVESTORS IN VISAKHAPATNAM CITY

a) Around 80% of the investors in the capital market are educated above graduation.

b) 65.2% of the investors are salaried employees.

c) 73% of the investors are in the income group of below Rs.15000.

d) 65.9% of investors in the capital market are unmarried or married having fewer responsibilities.

e) All the investors are aware of bank deposits and corporate securities as an investment alternative.

f) Most of the investors (92.1%) in the age group of below 30 are aware of post office saving schemes as an investment alternative followed by gold and silver (70.2%).

g) Among the corporate securities, 99.3% of the investors considered equity shares as an investment alternative followed by mutual funds (73.3%).

h) Majority of the investors (90.4%) considered the safety of their investments as a major factor influencing their investment decisions followed by capital appreciation (85.9%).

i) Around half of the investors do not consider tax benefit as an important factor for taking investment decisions.
j) A good number of investors (57.5%) consider equity share investments as risky.

k) The majority of the investors (83.0%) had invested upto 40% of their savings in the capital market instruments.

l) The majority of investors (80.0%) who are educated below graduation had invested upto 40% of their savings in capital market instruments and only 11.7% invested more than 60%.

m) Most of the investors (85.2%) in the salaried employees category had invested upto 40% of their savings in capital market instruments and only 6.1% invested more than 60%.

n) The majority of investors (79.3%) in the income group of below Rs.10,000 invested upto 40% of their savings in capital market instruments and only 5.7% invested more than 60%.

o) Most of the investors (72.7%) in the income group of above Rs. 25,000 invested upto 40% of their savings in capital market instruments and only 13.6% invested more than 60%.

p) 8.9% of the female investors have invested more than 60% of their savings in capital market as against 5.8% of female investors.

q) The majority of investors (62.2%) preferred to take medium risk and only 15.8% preferred to take high risk.

r) A good number of investors (62.1%) in salaried employees category preferred to take medium risk followed by low risk (23.5%).
s) 16.4% of male investors preferred to take high risk as against 11.1% of female investors.

t) The majority of the investors (50.1%) invest for acquiring fixed assets and 47.7% invest to face future uncertainties.

u) The majority of investors (93.3%) have invested in equity shares followed by mutual funds (59.8%). Only 13.58% of the investors have invested in debentures/bonds.

v) Investors from all the age groups are actively investing in the risky instruments i.e. equity shares and mutual funds.

9.4 EQUITY TRADING PRACTICES OF RETAIL INVESTORS IN VISAKHAPATNAM CITY

a) The majority of investors (65.4%) in Visakhapatnam city had entered into the equity markets after the year 2001. Only 9.4% of the investors have entered into the market prior to 1995.

b) The majority of the investors (73.6%) trade through broker firms followed by broker firms and banks (16.3%).

c) Only 6.2% of the investors trade through the friends/relatives.

d) The majority of investors (73.9%) in salaried employees category trade through broker firms followed by broker firms and banks (14.0%).
e) The majority of investors (58.5%) gather information for taking investment decisions from newspapers followed by personal analysis (50.9%).

f) All the investors in the age group of below 30 years gather information from friends/relatives and investment websites.

g) Only 23.2% of the investors visit the investment websites to collect information for taking investment decisions.

h) The majority of the investors (36.1%) purchase the scrip based on its worthiness followed by shares recommended by experts (35.3%).

i) Only 17.5% of the investors purchase shares for averaging the purchase price.

j) A good number of investors (42.1%) in the age group of below 30 purchase shares when bullish conditions prevail in the market followed by shares recommended of the experts (30.7%).

k) The majority of investors (53.6%) sell the shares after getting desired rate of return and around 27% sell the shares when the market touches new high.

l) Nearly 50% of the investors in the age group of below 30 sell the shares after getting desired rate of return followed by 26.3% who sell the shares when market touches new high.
m) Only 15.8% of the investors sell shares when they are in need of money.

n) Most of the investors (44.4%) assess the value of their portfolio daily followed by 27.9% who access the value on monthly basis.

o) More than half of the investors (51.4%) hold the shares for less than 2 months. Only 15.1% hold the shares for more than 12 months.

9.5 FACTORS INFLUENCING THE RISK TAKING ABILITY OF INVESTORS - STATISTICAL ANALYSIS

a) Retail investors in this study are classified into two categories (group) i.e. high risk takers and moderate risk takers in such a manner that each group is more or less homogeneous and quite distinct from the other group. The low risk takers are eliminated from this analysis. An attempt is made to identify the characteristics of moderate risk investors and high risk investors using Discriminant analysis.

b) The factors age, education, occupation, income and stage of life cycle are considered to discriminate moderate risk taker and high risk taker. With the increase in age the risk taking ability of the investors decreases. Higher the level of education higher is the level of cautiousness to take risk i.e. risk avertness increases as
the level of education increases. Investors who are into business/professional occupations have more ability to take higher risk when compared to others. Similar to education, the avertness to risk increases as income increases. As the dependents increase, preference to take risk declines.

The groups are distinctly different from each other as the f-value 55.64 is found to be statistically significant at 1% level of significance. Out of 534 investors classified in Group 1 as moderate risk investors, 393 (74%) are predicated to belong to the same group and the remaining 141 (26%) have more probability to belong to Group - 2 i.e. high-risk investors. It is also observed that out of 462 investors classified in group 2 as high risk investors, 306 (66%) are predicted to belong to the same group and the remaining 156 (34%) have more probability to belong to Group - 1 i.e. moderate risk investors.

9.6 PROBLEMS OF RETAIL INVESTORS IN VISAKHAPATNAM CITY

a) The majority of investors (77.3%) felt that too much volatility is the major worry in the stock market followed by too much price manipulation (39.3%).

b) Only 19.5% of the investors worry about the fraudulent company promoters/ managements.
c) All the investors who are educated below 10th class felt that too much price manipulation is the major concern followed by that too much volatility (66.7%).

d) 71.4% of investors in the retired category felt that too much volatility is the major worry in the stock market followed by too much insider trading (45.2%).

e) The majority of the investors (55.6%) felt very satisfactory regarding the clearing and settlement services offered by trading channel.

f) Majority of the investors (93.6%) are satisfied regarding handling orders on timely basis.

g) Around 34% of the investors are not satisfied with the investment advises provided by the trading channels.

h) The majority of the investors (92.9%) are satisfied with investment in shares, 89.3% of the investors with mutual funds and only 76.4% of investors are satisfied with investment in bonds/debentures.

i) In the new issue market, 78.0% of the investors are not satisfied with the method of share allotment and 27.4% with the late refund on unsuccessful applications. Only 15.3% of the investors are dissatisfied with the complicated application procedures.

j) The majority of investors (74.3%) are comfortable with present T+2 settlement system.
k) Only 55.6% of the investors are aware of investor education programmes sponsored by SEBI and Department of Company Affairs.

iii) Only 30.7% of the investors have attended investor education programmes. Most of the investors (56.5%) feel that investor education programmes are helpful.

**9.7 POLICY ISSUES - PERCEPTION OF RETAIL INVESTORS’**

a) Around 87.0% of the investors opined that overall regulation of the capital market is good.

b) Only 42.2% of the investors felt that book building method is better than fixed price method.

c) Nearly half of the investors opined that buy back of shares is beneficial to the investors.

d) The majority of investors (55.8%) are aware of classification of default companies shares into ‘Z’ category by Bombay Stock Exchange. Among the investors who are aware of ‘Z’ category 62.8% feels that creation of ‘Z’ category is a punishment to the companies.

e) Only 59.3% of the investors are satisfied with the measures taken by SEBI for investor protection.
9.8 SUGGESTIONS

From the findings presented above on the study relating to “Retail Investors’ Perspective on Capital Market - A study on retail investors in Visakhapatnam city, Andhra Pradesh” the following suggestions are offered.

For Policy Makers and other regulatory authorities

1. Integration of Capital Market with Banking Sector: Effective and efficient capital markets require a stable and strong payment, settlement and clearing systems. India’s banking system is yet to come up with good Electronic Fund Transfer (EFT) solutions. EFT is important for solving problems such as those related to direct payment of dividends to bank accounts, eliminating counterparty risk, and facilitating investments of foreign institutional investors. The integration of capital market with the banking sector provided better services to the investors in the capital market.

2. Enhancement of Investor Awareness: A very less percentage of retail investors are attending the awareness programmes organized by Securities and Exchange Board of India. Hence SEBI has to take necessary measures to conduct such programmes more frequently all over India and especially in South India where the equity culture is less. The increased awareness about the capital market will attract more number of retail investors to the capital market.
3. Control Volatility of the Markets: As majority of the investors opined that volatility of the stock market is the major concern, the regulatory authorities should take necessary measures to control the volatility of the market to protect retail investors. The stock exchanges should also frame more effective regulatory strategies to control the rapid movements in the price of stocks.

4. Strengthening of Equity Markets: Based on the results of the statistical analysis on the risk taking ability of the investors, it can be suggested to the regulatory authorities that a suitable drive and education about the equity market will help in its strengthening. The investors who are willing to take high risk can be molded as equity investors and the investors with moderate / low risk taking ability can be retained in equity and mutual fund markets with due proportion of investments in equity.

5. Restricting Insider Trading: More than 30% of the retail investors still believe that insider trading is the major concern in the Indian Capital Market. Inspite of measures taken by the Securities and Exchange Board of India in prohibiting the insider trading in the stock markets, still the retail investors are getting severely affected by the cases of insider trading. This is evident as more than 39 insider trading cases were identified in the capital market in the last two years out of which the major one was involving Reliance Industries Limited which is
alleged of insider trading in shares of erstwhile group firm RPL. Hence the regulatory authorities should take more adequate measures to control insider trading thereby protecting the retail investors in the capital market.

6. **Regulatory Mechanism for Mutual Fund Companies**: SEBI has been continuously amending the SEBI (Mutual Funds) Regulations 1996 to strengthen the operations on mutual funds in India. To further support the growth of mutual fund in India it is suggested that the operators and distributors of mutual funds need to be regulated / licensed. And also the distributors of units of mutual funds should be brought within the regulatory fold.

**For Stock Exchanges**

1. **Strengthening Surveillance Mechanisms**: To protect, retain and motivate the retail investors, the Stock Exchanges should improve the surveillance mechanisms by adding manpower and training existing staff in the surveillance function at the stock exchange to carry out more compliance audits.

2. **Improving Awareness of New Products**: The major stock exchanges should also take necessary initiatives to strengthen the securities markets. The stock exchanges in addition to SEBI should also take
required efforts to improve the awareness and understanding of the various new products launched in the capital markets.

3. **Strengthening Corporate Governance Provisions**: The Stock Exchanges should strengthen the corporate governance-related reporting by companies and to include back-up information to explain compliance with key requirements of Clause 49 to enhance transparency. To protect the retail investors from the financial frauds by companies like Satyam, Enron etc., the stock exchange authorities should initiate stringent actions against errant companies (besides de-listing) by substantially increasing the cost of non-compliance.

4. **T+1 Settlement System**: The present study reveals that around 74% of the investors are comfortable with the present T+2 settlement system. As an initiate to provide better facilities to the investors, the stock exchanges have to migrate to T+1 settlement system to strengthen Indian securities markets.

**For Financial Advisors**

1. **Investment Strategies Commensurating with Risk**: The results of the statistical analysis on the risk taking ability of the investors also provide an input for the financial advisors to understand the characteristics of the low risk takers, moderate risk takers and high risk
takers. This helps the advisors to suggest proper investment strategies for the investors, which suit their risk appetite.

2. **Improving Financial Advising Abilities**: Almost one among three investors is not satisfied with the advice provided by the financial advisors. This really puts a question on the ability and efficiency of the financial advisors in providing suitable advice to the investors. To improve the financial advising abilities of the financial advisors, it is suggested that the financial advisors should consider the investment objective, time horizon and purpose of investment of the retail investors at the time of providing investment advise.

**For Investors**

1. **Equity as Long term Investment Alternative**: The analysis of the equity trading practices of the investors reveals that the majority of the investors sell the shares within two months from the date of purchase. This clearly indicates that the investors consider equity only as short term investment alternative. The investors should also consider equity investments as a long term investment alternative to protect themselves against the short term fluctuations in the market and also to get benefited from the growing Indian capital market.

2. **Exploring New Sources of Information**: The majority of the investors still rely on newspapers and the personal analysis for taking investment
decisions. To make profitable investment decisions, investors should explore other sources of information like the investment websites, business channels etc..

3. **Need for more investments into Capital Market Instruments**: The study indicates that most of the investors are investing less than 40% of their savings in capital market instruments. This reveals that majority of retail investors are investing major portion of their savings in non-capital market instruments like bank deposits, real estate, gold/silver etc. The retail investors should consider investing in various capital market instruments thereby benefiting from the growing Indian capital market.

4. **Mutual Funds - A better investment alternative**: Only 60% of the investors in the present study have invested in mutual funds. Mutual funds offer investors the advantages of a diversified portfolio and professional management at low cost. Mutual fund Companies offer different schemes with specific investment objectives ranging from pure equity schemes to pension plans. The retail investors should select the mutual funds that suit their investment goals.

5. **Rationale in Investment**: The retail investors have to keep in mind their own risk appetite and time horizon. The retail investors have to understand the risk profile of the various investment alternatives, which they are investing in. To make the rational decisions, the retail investors should evaluate a lot of information about the past
performance and the expected future performance of companies, industries and the economy as a whole before taking the investment decisions.

9.9 CONCLUSION

Capital markets are a barometer of the health of the economy. An efficient and a vibrant capital market facilitate sustainable development of the economy. A variety of development measures and the economic reforms are initiated in the past few years to protect the interests of all the stakeholders of the capital market. Investors are the backbone of capital market. A developing economy, like India, needs a growing amount of investor savings to flow to corporate enterprises. The present study is an attempt to provide inputs to policy makers, regulatory authorities and stock exchanges for sharpening their focus to suit to the needs of the retail investors and to improve the retail investors participation in the capital markets.