CHAPTER - 3

RESEARCH METHODOLOGY

3.1 INTRODUCTION

Wealth creation is not an art. It is an attribute of one’s attitude towards money.

Many people consider investing to be a complex activity. They are confused by the excess wealth and rise of investment alternatives, nervous by the fluctuations in financial prices, overwhelmed by the presence of strong and great institutional investors, confounded by unusual instruments and complicated investment strategies, confused by the particulars of the tax system, and frustrated by the financial scams that periodically rock the market.

In today’s world everybody is running for money and it is considered as a root of happiness. For secure life and for bright future people start investing. Every time investors are confused with investment avenues and their risk return profile. So, even if people focus on past, present or future, investment is such a topic that needs constant upgradation as economy changes. The research study was designed in such a manner that it would be helpful for the investors to choose proper investment avenue and to create profitable investment portfolio.

3.2 PROFILE OF MUMBAI

Mumbai is located on the west cost of India having peninsular shape. It is extremely busy southern tip carries intense economic activities as large number of offices, banks, financial institutions. It is the richest city of India too, with highest GDP growth boosts as the financial and commercial hub of the country and has a principal port on the Arabian Sea. Two terminals of central and Western railway are located in the city. The population of the city, as per 2011 census, is approx 1.25 crores. Its area is 437.7 square km’s. Mumbai contributes large amount by way of income tax to the national exchequer. It is the oldest and the most important financial market and commercial
center of the country. Three stock exchanges are located in the city, namely, Bombay stock exchange, National stock exchange and the Over the counter exchange of India. Multi Commodity Exchange of India Limited (MCX) in Mumbai is also an independent and de-mutualised exchange recognized by the Government of India. It is a towering importance as the home of massive number of individual equity shareholders accounting for the country’s total number of shareholding individuals therefore; the present study concentrates on individual investors in Mumbai.

3.3 DEFINING THE PROBLEM

Many people consider investing to be a complicated activity. They are confused by the excess wealth and rise of investment alternatives, nervous by the fluctuations in financial prices, overwhelmed by the presence of strong and great institutional investors, confounded by unusual instruments and complicated investment strategies, confused by the particulars of the tax system, and frustrated by the financial scams that periodically rock the market.

Common problems faced by the individual investors while thinking of investment are Lack of awareness and knowledge, Blind faith, Lack of Financial Inclusion, Traditional thinking, Emotional attachment to money, Fear of loss and many more.

Investor’s education is a task which is performed by the financial service providers and regulatory bodies. But all the people are not aware of how and when these guidelines are being communicated. There are various TV shows, investments web sites, wealth management firms, news papers, magazines, journals are available, which provide guidelines on investment of hard earn money. Still many people are not putting their funds in proper investment avenues. Investment is not considered as a need but it is considered as a tool for tax planning. In order to provide detailed knowledge to all investors regarding Investment avenues, the role of investment portfolio managers in creating profitable investment portfolio, Benefits of investment portfolio and Strategies to create profitable portfolio with proper Tax planning; After considering the review of literature the problem of the study is defined as follows:
3.4 OBJECTIVES OF THE STUDY

The objectives of the study are as follows:

1) To identify the portfolio and investment pattern that has to be managed, monitored and controlled by the individual investors.
2) To identify a sense of general awareness about portfolio management.
3) To know the contemporary trends and issues in designing portfolio.
4) To study the impact of investors attitude on the profitability of investment portfolio.
5) To identify the major types of investment avenues available in India and how one can invest in it.
6) To understand the problems faced by various income groups due to not proper diversification of funds.
7) To identify the role played by investment advisor and certified financial planner (CFP) in managing individual’s investment portfolio.
8) To suggest measures for creating profitable investment portfolio.

3.5 HYPOTHESIS

The hypothesis for the study is as follows:

H0 – There is no significant difference in investment portfolio of investors in Mumbai.

H1 – There is a significant difference in investment portfolio of investors in Mumbai.

3.6 RESEARCH METHODOLOGY

The population for the study consisted of Individual Investors from Mumbai. A sample of 500 respondents was selected on random basis. To meet the objective of the study, primary data and secondary information were collected. Primary data was collected
through a pre-designed, structured and non-disguised questionnaire. The questionnaire included close-ended and open-ended questions. To study the each questions based on the scores, respondents have been categorized on the basis of level of awareness i.e. highly aware, moderately aware and low level of awareness. Various statistical tools like Percentage mean score, and rank score were applied for the analysis.

Research design is the conceived plan and structure of investigation to obtain answers to the research questions. This research was organized in the following manner. Initial step is to analyze the past and present investment. Where Investors invest their hard earn money and how investment portfolio is constructed.

A] RESEARCH DESIGN USED:-
In this case, a Descriptive Research and Casual Research Design study was used to study the relationships in question. Descriptive research facilitates the study to obtain accurate and complete information regarding a concept or a situation or a practice. Therefore, survey method was followed for the study.

B] DATA COLLECTION:-
Here, both Primary and Secondary data were considered.

Primary Data were gathered using questionnaire as a tool for data collection. The data was collected through personal contact with the help of a well designed structured and pretested questionnaire given in Appendix. The questionnaire was drafted in order to study the preferences of individual investors and collected relevant information about their Investment portfolio and investment behavior. The first draft of the questionnaire was tested among selected respondents which helped in eliminating ambiguous and irrelevant questions. The final questionnaire was re-drafted with certain modifications. The questionnaire were distributed among the respondents by the researcher personally and also through the mail. The respondents found the topic and the questionnaire very interesting. The researcher was required to explain the purpose of the research and investment avenues to the respondents. Some respondents refused to complete the questionnaire because of an inquiry into their personal income. The
researcher assured the respondents to use the information strictly for research purposes. Therefore, the questionnaires, duly filled in, were collected within a period of six months i.e. July 2011 to January 2012.

**Secondary Data** were collected from books, journals, magazines, reports and websites. For this purpose the library and internet were used.

**C] SAMPLING TECHNIQUE:-**

**Sampling Population:** The respondents were selected from Mumbai. Therefore, the population of sample was the Individual investors in Mumbai.

The population of the study comprises Families in Mumbai who are literate and who are either job employed or self employed. The sampling unit is taken as an individual. The study relates to individual investors living and working in Mumbai which is the capital of Maharashtra state. The territory of Mumbai is made up of a portion of south Mumbai and Eastern and Western suburbs. It is located on the west coast of India having peninsular shape. As on 31st March 2011, the total population of Mumbai was approx 1.25 crores. It is divided between two districts i.e. Mumbai city and Suburban Mumbai.

**SAMPLE SIZE:** Total 500 respondents were surveyed in Mumbai.

Having limited resources and time, the researcher used the stratified random method of sampling from certain indentified strata of the population units. The respondents accessible at ease, at the right time and place were selected. The sampled units were selected on the basis of ‘Stratified Random Sample’. The researcher made a sampling plan to contact the respondents from different locations so as to spread the sample over broad socio-economic classes, like upper, middle and low income groups. The researcher also planned to contact respondents to cover a wide range of age, sex, occupation, education and employment wise groups in order to ensure representativeness. Thus, Stratified random sampling method was used for selection of respondents.
D) DATA ANALYSIS:-

The Data thus collected were coded as per directions given by the Research Department of Tata Institute of Social Sciences (TISS), Deonar, Mumbai. Data collected through questionnaire were tabulated using excel and SPSS software, Interpretation of data were based on tabulation and analysis. Statistical methods were used for data analysis, such as Mean, percentage, standard deviation, correlation etc. Both Parametric and Non-Parametric tests were applied on uni-variate and bi-variate tables prepared for the study. The statistical conclusions thus drawn have been followed by logical interpretation. The hypothesis was tested with the help of statistical technique, such as CHI-square test. The conclusions were drawn on the basis of data analysis. A few suggestions were made at the end for better management of Individual investor’s portfolio.

3.7 SCOPE AND SIGNIFICANCE OF THE STUDY

Portfolio management is an art of putting money in fairly safe, quite profitable and reasonably in liquid form. An investor’s attempt to find the best combination of risk and return is the first and usually the foremost goal. In choosing among different investment opportunities the following aspects of risk management should be considered:

A. The selection of a level or risk and return that reflects the investor’s tolerance for risk and desire for return, i.e. personal preferences.

B. The management of investment alternatives to expand the set of opportunities available at the investors acceptable risk level.

The very risk-averse investor might choose to invest in mutual funds. The more risk-tolerant investor might choose shares, if they offer higher returns. Portfolio management in India is still in its infancy. An investor has to choose a portfolio according to his preferences. The first preference normally goes to the necessities and comforts like purchasing a house or domestic appliances. His second preference goes to some
contractual obligations such as life insurance or provident funds. The third preference goes to make a provision for savings required for making day to day payments. The next preference goes to short term investments such as Mutual fund units and post office deposits which provide easy liquidity. The last choice goes to investment in company shares and debentures. There are number of choices and decisions to be taken on the basis of the attributes of risk, return and tax benefits from these shares and debentures. The final decision is taken on the basis of alternatives, attributes and investor preferences.

For most investors it is not possible to choose between managing one’s own portfolio. They can hire a professional manager to do it. The professional managers provide a variety of services including diversification, active portfolio management, liquid securities and performance of duties associated with keeping track of investor’s money.

The Research report is mainly focusing on ‘how to design profitable portfolio’ for individual investors. Some suggestions for profitable portfolio are suggested in this research thesis, which will help investors for their investment decision.

**UTILITY OF THE STUDY**

This research report will be helpful to the organizations/institutions and individuals. It will help organization to explain the various investment avenues available in India and how individual investors should create profitable investment portfolio.

Individual investors will come to know about, types of investment avenues available and according to their income group how and where they should invest their funds. And ultimately this research report will help investor to construct there portfolio in such a way, that they can meet there all other liabilities as well as by systematic investment the investor may earn good amount of return with minimum risk.
This research was done in such a way that the individual investors will be able to manage their investment portfolio by using suggestions given in the research report. Strategy may be the following:

Income is divided in three parts:

1) Investment – 30%
2) Food consumption – 30%
3) Repayment of loan with Interest – 20%
4) Other expenses – 20%

If monthly or yearly income of an individual is utilized by using above mentioned strategy, then investor will have a balanced portfolio which will help investor to use their hard earn money in proper way.

The research project has been prepared in such a manner that even a first timer should be able to understand the basic aspects of “Investment”. It has been an attempt at simplifying the topic as far as possible. The Research project covers all the major aspects that need to be known by the investors while designing Investment portfolio.

3.8 LIMITATIONS OF THE STUDY

A. The study was restricted to Mumbai city only with sample size being 500 in number. As Mumbai is financial capital of India, the sample may be different from other parts of India.

B. The study is focused on investment portfolio of investors, which include all kind of assets.

C. Study is restricted to the hypothetical study that states investors have same tendency to invest in all income groups.

D. Limited group of errors as there may be deviations in data for same income group when statistical formulations applied on data collected from questionnaires.
E. Study is limited to yearly income and investment avenues where the Individual investors can invest.

F. The research study is restricted to Individual investors in Mumbai.

3.9 PRESENTATION OF THE REPORT

The study has been divided into five chapters as under:-

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3.10 CONCEPTS

The concepts which are used in the study are explained as follows:

1) Investment
   Investment is the application of money for earning more money.

2) Portfolio
   Portfolio means combined holding of many kinds of financial assets. A collection of investments all owned by the same individual.

3) Investor
   Investor means person who saves money and employs the same with the aim of achieving additional income or growth in value.

4) Return
   The return is the reward in the form of capital gain or losses which arises by the increase or decrease in the value of invested asset.

5) Risk
   The quantifiable likelihood of loss or less-than-expected returns. Risk is the chance of loss due to variability of returns on an investment.

6) Liquidity
The ability of an asset to be converted into cash quickly and without any price discount.

7) Tax saving investments
The investments which offer tax exemption are known as tax saving investments. A fee charged (levied) by the government on a product, income or activity is known as tax.

8) Diversification
A portfolio strategy designed to reduce exposure to risk by combining a variety of investments. The goal of diversification is to reduce the risk in a portfolio. Diversification reduces both the upside and downside potential and allows for more consistent performance under a wide range of economic conditions.

9) Riskless
An asset whose future return is known with certainty is known as riskless. However, even these assets are subject to inflation risk.

10) Risky
An investment with a return that is not guaranteed is known as risky. Assets carry varying levels of risk.