CHAPTER 2

OBJECTIVES AND METHODOLOGY

2.1 INTRODUCTION
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 level of equity market participation of the retail investors has been increasing over the past few years. The increasing participation in the capital markets, also resulted in raising problems of the small investors. 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 is planned to investigate the retail investors preferences and their problems in Visakhapatnam city. The results of the study can serve as a major input to the policy makers for the development of capital market operations of India in general and of Visakhapatnam city in specific.

2.2 OBJECTIVES OF THE STUDY
The study mainly aims at the 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.

2.3 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 increase 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.

2.4 METHODOLOGY OF THE STUDY

2.4.1 Selection of Sample :

The data needed for the study is collected from the select target respondents of Visakhapatnam city. The target respondents are adults of age 18 or over who had traded any RISK products in the past two years. Risk investment products include stocks and derivatives listed on BSE and NSE, Mutual Funds and Equity Linked Saving Schemes (ELSS).
2.4.2 Data Collection:
The data needed for the study is collected from both primary and secondary sources. The Secondary data is collected from published and unpublished reports and records of different capital market institutions. The Data related to the retail investors in Visakhapatnam City is collected from the institutions like, Karvy Consultants Ltd., Steel City Securities Ltd., India Bulls, Anagram Securities, India Infoline.Com, Way 2 Wealth etc. The primary data is collected with the help of a well structured, pilot tested schedule.

2.4.3 Sampling Design:
The stratified random sampling technique is used to collect information from the target respondents. The population from which the sample is drawn is divided into different stratas based on different factors like Age, Education, Income, Occupation and stage of life cycle.

2.4.4 Sample Size:
The sample size is 1215. A brief profile of the sample collected for the present study is Table 2.4
### TABLE - 2.4
A BRIEF PROFILE OF SELECT SAMPLE OF RETAIL INVESTORS

<table>
<thead>
<tr>
<th>Age</th>
<th>Male</th>
<th>Female</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 30 Years</td>
<td>279 (25.8%)</td>
<td>63 (46.7%)</td>
<td>342 (28.1%)</td>
</tr>
<tr>
<td>31-40 Years</td>
<td>450 (41.7%)</td>
<td>63 (46.7%)</td>
<td>513 (42.2%)</td>
</tr>
<tr>
<td>41-50 Years</td>
<td>189 (17.5%)</td>
<td>0 (0.0%)</td>
<td>189 (15.6%)</td>
</tr>
<tr>
<td>51-60 Years</td>
<td>90 (8.3%)</td>
<td>9 (6.7%)</td>
<td>99 (8.1%)</td>
</tr>
<tr>
<td>Above 60 Years</td>
<td>72 (6.7%)</td>
<td>0 (0.0%)</td>
<td>72 (5.9%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1080 (100.0%)</td>
<td>135 (100.0%)</td>
<td>1215 (100.0%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Education</th>
<th>Male</th>
<th>Female</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 10th Class</td>
<td>9 (0.8%)</td>
<td>0 (0.0%)</td>
<td>9 (0.7%)</td>
</tr>
<tr>
<td>Below Graduation</td>
<td>171 (15.8%)</td>
<td>9 (6.7%)</td>
<td>180 (14.8%)</td>
</tr>
<tr>
<td>Graduation</td>
<td>522 (48.3%)</td>
<td>72 (53.3%)</td>
<td>594 (48.9%)</td>
</tr>
<tr>
<td>Post Graduation</td>
<td>378 (35.0%)</td>
<td>54 (40.0%)</td>
<td>432 (35.6%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1080 (100.0%)</td>
<td>135 (100.0%)</td>
<td>1215 (100.0%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Occupation</th>
<th>Male</th>
<th>Female</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaried Employee</td>
<td>675 (62.5%)</td>
<td>117 (86.7%)</td>
<td>792 (65.2%)</td>
</tr>
<tr>
<td>Business</td>
<td>207 (19.2%)</td>
<td>0 (0.0%)</td>
<td>207 (17.0%)</td>
</tr>
<tr>
<td>Professional</td>
<td>81 (7.5%)</td>
<td>9 (6.7%)</td>
<td>90 (7.4%)</td>
</tr>
<tr>
<td>Retired</td>
<td>117 (10.8%)</td>
<td>9 (6.7%)</td>
<td>126 (10.4%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1080 (100.0%)</td>
<td>135 (100.0%)</td>
<td>1215 (100.0%)</td>
</tr>
<tr>
<td>Income Level</td>
<td>Male</td>
<td>Female</td>
<td>TOTAL</td>
</tr>
<tr>
<td>-------------------</td>
<td>----------</td>
<td>----------</td>
<td>----------</td>
</tr>
<tr>
<td>Upto 10000</td>
<td>441 (40.8%)</td>
<td>36 (26.7%)</td>
<td>477 (39.3%)</td>
</tr>
<tr>
<td>10000-15000</td>
<td>351 (32.5%)</td>
<td>54 (40.0%)</td>
<td>405 (33.3%)</td>
</tr>
<tr>
<td>15001-20000</td>
<td>108 (10.0%)</td>
<td>27 (20.0%)</td>
<td>135 (11.1%)</td>
</tr>
<tr>
<td>Above 20000</td>
<td>180 (16.7%)</td>
<td>18 (13.3%)</td>
<td>198 (16.3%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1080 (100.0%)</td>
<td>135 (100.0%)</td>
<td>1215 (100.0%)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage in Life Cycle</th>
<th>Male</th>
<th>Female</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried</td>
<td>216 (20.0%)</td>
<td>36 (26.7%)</td>
<td>252 (20.7%)</td>
</tr>
<tr>
<td>Married: having no children / children below 6 years</td>
<td>477 (44.2%)</td>
<td>72 (53.3%)</td>
<td>549 (45.2%)</td>
</tr>
<tr>
<td>Married: having grown up children</td>
<td>315 (29.2%)</td>
<td>27 (20.0%)</td>
<td>342 (28.1%)</td>
</tr>
<tr>
<td>Age old and children settled</td>
<td>72 (6.7%)</td>
<td>0 (0.0%)</td>
<td>72 (5.9%)</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1080 (100.0%)</td>
<td>135 (100.0%)</td>
<td>1215 (100.0%)</td>
</tr>
</tbody>
</table>

Note: Figures in the parenthesis indicate percentages to the column total.

2.4.5 Statistical Tools:

1. The entire data collected is coded and computerized in Excel sheets and Bi-Variate analysis is applied.
2. Index numbers and Compound Annual Growth Rates (CAGR) are used to explain growth in the capital markets in India.
3. Discriminant analysis is a well known statistical tool which helps to identify the factors behind identified groups which are homogeneous within themselves and heterogeneous with others. In the present study an attempt is made to identify the characteristics of moderate risk takers and high risk takers using Discriminant analysis.
2.5 LIMITATIONS OF THE STUDY

❖ The Sample being systematic random sample, it may not be a true representative of the actual population, to minimize the sampling error the researcher had tried to take large sample. The sample taken here is only 1215. It may not be a perfect representative of total investors of Visakhapatnam. However, care was taken to see that the sample becomes representation in character as different criteria viz., age, education, income, occupation and frequency of trading was considered in selecting sample investors.

❖ Another Limiting factor is the geographical location that is southern India and confined to the city of Visakhapatnam alone. People in south are generally known to be risk-averse and equity culture is not as pervasive as in the western and northern parts of the country. However, Visakhapatnam is a mini cosmopolitan city, people from various places in India had settled in Visakhapatnam and hence the behaviour of investors of Visakhapatnam also holds good to the normal behaviour of investors in India.

❖ One of the general drawbacks could be the tendency of the respondents to filter, amplify or hide the information. However care was taken in structuring schedule taking this limitation into account.

2.6 CONCEPTS USED IN THE STUDY

Adviser
A financial planner or financial intermediary who offers advice on personal financial matters. Advisers may be paid an upfront or an ongoing commission for the investments that they recommend.

Asset Allocation
The process of determining the optimal division of an investor's portfolio among different assets. Most frequently this refers to allocations between debt, equity, and cash.
Bear
A pessimist market operator who expects the market price of shares to decline. The term also refers to the one who has sold shares which he does not possess, in the hope of buying them back at a lower price, when the market price of the shares come down in the near future.

Bear Market
A weak or falling market characterized by the dominance of sellers.

Bond
A negotiable certificate evidencing indebtedness - a debt security or IOU, issued by a company, municipality or government agency. A bond investor lends money to the issuer and, in exchange, the issuer promises to repay the loan amount on a specified maturity date.

Book building process
A process undertaken by which a demand for the securities proposed to be issued by a corporate body is elicited and built up and the price for such securities is assessed for the determination of the quantum of such securities to be issued by means of a notice, circular, advertisement, document or information memoranda or offer document.

Boom
A condition of the market denoting increased activity with rising prices and higher volume of business resulting from greater demand of securities. It is a state where enlarged business, both investment and speculative, has been taking place for a sufficiently reasonable period of time.

Broker
A member of a Stock Exchange who acts as an agent for clients and buys and sells shares on their behalf in the market.

Brokerage
Commission payable to the stockbroker for arranging sale or purchase of securities. Scale of brokerage is officially fixed by the Stock Exchange. Brokerage scales fixed in India are the maximum chargeable commission.
Bull
A market player who believes prices will rise and would, therefore, purchase a financial instrument with a view to selling it at a higher price.

Bull Market
A rising market with abundance of buyers and relatively few sellers.

Business Day
A day on which the Stock Exchange is open for business and trading in securities.

Cash Market
A market for sale of security against immediate delivery, as opposed to the futures market.

Closing Price
The rate at which the last transaction in a security is struck before the close of the trading hours.

Common stock
Units of ownership of a public corporation. Holders of common stock typically have voting rights and receive dividends, but there is no guarantee of dividend payment.

Correction
Temporary reversal of trend in share prices. This could be a reaction (a decrease following a consistent rise in prices) or a rally (an increase following a consistent fall in prices).

Debentures
Bonds issued by a company bearing a fixed rate of interest usually payable half yearly on specific dates and principal amount repayable on a particular date on redemption of the debentures.

Dividend
Payment made to shareholders, usually once or twice a year out of a company's profit after tax. Dividend payments do not distribute the entire net profit of a company, a part or substantial part of which is held back as reserves for the company's expansion. Dividend is declared on the face value or par value of a share, and not on its market price.
Equity
The ownership interest in a company of holders of its common and preferred stock.

Initial Public Offering (IPO)
The first public issue by a public limited company.

Insider trading
Practice of corporate agents buying or selling their corporation's securities without disclosing to the public significant information which is known to them but which has not yet affected the price.

Listing
Formal admission of a security into a public trading system

Market capitalization
The market value of a company, calculated by multiplying the number of shares issued and outstanding by their current market price.

Market Price
The last reported sale price for an exchange traded security.

Mutual Funds /Unit Trusts
Mutual Fund is a mechanism for pooling the resources by issuing units to the investors and investing funds in securities in accordance with objectives as disclosed in offer document.

Net Asset Value (NAV)
The current market worth of a mutual fund's share. A fund's net asset value is calculated by taking the fund's total assets, securities, cash and any accrued earnings, deducting liabilities, and dividing the remainder by the number of units outstanding.

Option
The contractual right, but not obligation, to buy (call option) or sell (put option) a specified amount of underlying security at a fixed price (strike price) before or at a designated future date (expiration date).

Portfolio
A collection of securities owned by an individual or an institution (such as a mutual fund) that may include stocks, bonds and money market securities.
Price Earning Ratio
The ratio of the market price of the share to earnings per share. This measure is used by investment experts to compare the relative merits of a number of securities.

Secondary Market
The market for previously issued securities or financial instruments.

Sensitive Index
A share price index based on 30 active scrips developed by the Bombay Stock Exchange with 1978-79 as the base year.

Unit Holders
Investors in unit trusts / mutual funds.

Volatility
Volatility equates to the variability of returns from an investment.

2.7 STUDIES RELATING TO CAPITAL MARKETS
The behaviour of investors in the capital market is influenced by various factors. Many researchers have done extensive study to identify the factors which influence the participation of investors in the capital market. An attempt is made to review most of the prominent studies on capital markets from investors' perspective.

L.C. Gupta (1992)\(^1\), in his recent book opined that, a) Indian stock market is highly speculative; b) Indian investors are dissatisfied with the service provided to them by the brokers; c) margins levied by the stock exchanges are inadequate and d) liquidity in a large number of stocks in the Indian markets is very low.

The investment decision making process of individuals has been explored through experiments by Barua and Srinivasan (1991)\(^2\). They conclude


that the risk perceptions of individuals are significantly influenced by the skewness of the return distribution. This implies that while taking investment decisions, investors are concerned about the possibility of maximum losses in addition to the variability of returns. Thus the mean variance framework does not fully explain the investment decision making process of individuals.

Mahabaleswara Bhatta H.S. (2009)\(^3\) made an attempt to throw light on the investors' biases that influence decision making process. The researcher opined that the studies on the unpredictable human behavior would help the investors to critically inspect their investing decisions.

S.Balaji and R. Kumar Bhaskar (2001)\(^4\) opines that, a) People learn by observing and analyzing the market psychology and use it to accomplish results. b) Indian markets are directed and controlled by few players who have information unavailable to others. c) Market activity is concentrated in few scrips and psychological factors do play an important role in market.

L.C.Prasad (2008)\(^5\) conducted a survey to find out the preferences of household investors and the relevant findings of the study are as follows,

a. The household investors most preferred type of investment was found to be shares;
b. Systematic Investment plan (SIP) is the most popular type of scheme among various types of mutual funds;
c. The too much price fluctuations was found to be the major worry of the investors in the stock market.

---


Madhusudhan K (2001) suggests that Life Insurance Policy is found to be most popular investment avenue. Other assets selected by majority of investors include recurring deposits in post office, recurring deposits in banks, bank fixed deposits, etc. The study suggests that investors are in general are risk – averse. Very few investors who are educated and belong to high-income categories only have invested in shares and debentures. He opines that risk aversion appears to decrease with education and income. He also finds that the investors gave highest priority for safety while taking investment decision.

Anshuman and Chandra (1991) examine the government policy of favoring the small shareholders in terms of allotment of shares. They argue that such a policy suffers from several lacunae such as higher issue and servicing costs and lesser vigilance about the functioning of companies because of inadequate knowledge. They suggest that there is a need to eliminate this bias as that would lead to a better functioning capital market and would strengthen investor protection.

Pandya (1992) observes that as a regulatory and development body, SEBI's efforts in the direction of investor protection are varied and unlimited. The measures brought in by SEBI broadly cover measures for allocative efficiency in the primary market with fair degree of transparency, reforms in the secondary market for visible and mutual funds, regulation of various market intermediaries and above all for the protection of the investing public.

---

Fieldstein and Yitzhaki (2000)\(^9\) have presented evidence to suggest that the corporate stock owned by high-income investors appreciate substantially faster than stock owned by investors with lower incomes. They have indicated that high-income individuals have larger portfolios and can therefore denote more time or resources to their investments, thus resulting in higher returns.

Stout (2002)\(^10\) has indicated that investors have adaptive but not rational expectations. Adaptive expectations result in both trust and mistrust in securities market based on past actions.

Murali (2002)\(^11\) has indicated that new issues market focuses on decreasing information asymmetry, easy accessibility of capital by large sections of medium and small enterprises, national level participation in promoting efficient investments, and increasing a culture of investments in productive sector. In order that these goals are achieved, a substantial level of improvement in the regulatory standards in India at the voluntary and enforcement levels is warranted. The most crucial steps to achieve these goals would be to develop measures to strengthen the new issues market.

Lewellen, Lease and Schlarbaum (1977)\(^12\) found that the risky asset fraction of the portfolio to be positively correlated with income and age and negatively correlated with marital status. They also found that risks are more regularly undertaken as income rises. They found support to the folklore that investors with many dependents adopt a conservative investment stance. Smaller the size of the household, more will be the disposable income available for investment and consequently the risk

---


\(^11\) Murali (2002), "Restoring investor confidence", July 18, on line edition of India’s national newspaper, The Hindu.

bearing capacity. Larger the size of the household, lower may be the available disposable income and reduction in the risk bearing capacity.

**Barnewell** (1987)\(^{13}\) finds that individual investor can be predicted by lifestyle characteristics, risk aversion, control orientation and occupation.

**Rajarajan** (2003)\(^{14}\) identifies that a strong association exists between demographic characteristics and the risk bearing capacity of Indian investors. This study confirms the earlier findings with regard to the relationship between age and income and the risk bearing capacity of investors. He opines that information on risk bearing capacity of investors will help the financial product designers to develop products, which suit the risk characteristics of the investors. And also this information will help the financial product marketers to target the prospective investors for the products instead of approaching every individual with an array of products, which may not suit them at all.

**Avery, Robert and Elliehausen** (1986)\(^{15}\) found, while few families in any group indicated a willingness to take substantial financial risk, high income families were much more likely than the population as whole to report a willingness to take above average or average financial risk to earn higher returns.

**Gupta** (1991)\(^{16}\) argues that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. According to Gupta, investors in India regard equity debentures and

\(^{13}\) Barnewell M.M (1987), "Psychographic characteristics of the individual investor in asset allocation for the individual investor", Homewood, Ill.Dow Jones -Irwin


company deposits as being in more or less the same risk category, and consider mutual funds, including all equity funds, almost as safe as bank deposits.

Shanmugham (2000)\textsuperscript{17} conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions, and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

Goetzman (1997)\textsuperscript{18} states that there is evidence that investor psychology affects fund/scheme selection and switching.

SEBI – NCAER Survey (2000)\textsuperscript{19} was carried out to estimate the number of households and the population of individual investors, their economic and demographic profile, portfolio size, investment preference for equity as well as other savings instruments. This is a unique and comprehensive study of Indian Investors, for, data was collected from 3,00,000 geographically dispersed rural and urban households. Some of the relevant findings of the study are:

\begin{itemize}
\item[a.] Households preferences for instruments match their risk perception.
\item[b.] Bank Deposit has an appeal across all income class.
\item[c.] 43\% of the non-investor households equivalent to around 60 million households (estimated) apparently lack awareness about stock markets.
\item[d.] Compared with low income groups, the higher income groups have higher share of investments in Mutual Funds (MFs) signifying that
\end{itemize}

MFs have still not become truly the investment vehicle for small investors.

Madhusudhan (1996)\textsuperscript{20} conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buying decision and the factors influencing the choice of a particular fund. The study reveals among other things that Income Schemes and Open Ended Schemes are more preferred than Growth Schemes and Close Ended Schemes during the then prevalent market conditions. Investors look for safety of Principal, Liquidity and Capital appreciation in the order of importance; Newspapers and Magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Sujit Sikidar and Amrit Pal Singh (1996)\textsuperscript{21} carried out a survey with an objective to understand the behavioural aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self employed formed the major investors in mutual fund primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country then and other funds had not proved to be a big hit during the time when survey was done.

Gupta (1996)\textsuperscript{22} has indicated that from the angle of investor protection, the regulation of the new issue market is important for several reasons. The number of small investors in new issue market is massive. Most of new


investors make their first entry into equity investments via the new issue market. So retaining common investor confidence in primary markets is important.

Venkateshwar (1991)\(^{23}\) explores the relationships of the Indian stock markets as reflected by the Bombay Stock Exchange Index, vis-a-vis other prominent international stock markets. 23 international Stock indices are used over the period 1983-87. He concludes that there is practically no meaningful relationship between the BSE index and other international stock market indices, though the British and South Korean indices are inversely related to BSE.

Butler and Domain (1991)\(^{24}\) argues that deciding how to allocate funds in various investment assets in the portfolio is the most important financial decision facing individual and portfolio managers. He identifies that investors traditionally depend on the construction of and consideration of efficient frontiers of forecasted returns and risk. But due to many limitations of this approach, most investor prefer to rely on intuition in their asset allocation decisions.

Bodla and Turan (2005)\(^{25}\) studies whether the retail investors' perception about risk of a security is consistent with the return perceived concerning that security. The study is based on primary data and the respondents were asked to rank 11 investment vehicles (Blue chip stocks, Small company stocks, Preference shares, Debentures/Bonds, Stock futures and Options, Mutual funds, NSC/PPF/PF, Fixed Deposits, Insurance policies, Real Estate and Gold/Silver) by risk and return on a 5-point scale. Some of the relevant findings are as follows

---


a. Most of the retail investors do not believe in the dictate of financial theory 'higher the risk, higher the return'.

b. The perceptions of the investors vary according to the income level of the investors.

c. The perceptions appear to be somewhat different between investors of various age groups.

d. The return and risk rankings for all the assets except one asset (Fixed Deposits) do not match each other. Specifically, the perceived returns of four assets i.e., blue chip stocks, debenture/bonds, NSC/PPF/PF and insurance policies, are higher than the risk attached to them.

Jaspal and Subhash (2003)\textsuperscript{26} made an attempt to read the back of the mind of the general investor as regards their expectations from mutual funds, taking into consideration their age group and the occupation they are in. The following are the findings of the study:

a. Majority of the investors belonging to salaries and retired categories and those in the age group of more than 60 years gave maximum weightage to “past record of the organization” before deciding about investment in mutual funds.

b. The analysis of options expected in a mutual fund reveals that the investors belonging to business category have given maximum weightage to the option of “repurchase of the units” by the fund followed by “easy transferability” option.

c. Age wise analysis reveals that the investors in the age group of 35-50 years also give more importance to “repurchase facility” and easy transferability”.

d. As regards the performance appraisal of mutual funds the respondents in the salaried category and in the age group of 35-50 years give highest importance to the “return provided on investment

by the fund" to be the best criteria of performance appraisal of a fund.

**Karmarkar and Kawadia (2002)**

Karmarkar and Kawadia (2002) examined the relationship between the stock market and the exchange rate. They found high correlation between US$/Rs. Exchange rate and Indian Stock Markets. Using different main as well as sectoral indices the paper concluded that when the rupee depreciates the stock market appreciates and vice-versa.

**Nandha and Sawyer (2002)**

Nandha and Sawyer (2002) in their study of the Indian IPO market examined the effect of market microstructure on the usually determinants of under pricing. They considered 381 issues, 261par and 120 premium, over the financial year 1994-95. The results show that initial returns in the Indian market in this period were higher than for other emerging markets. They are higher for par issues than for premium. It is also found that earning per share projections are significant determinants of under pricing, but size is negatively related to the under pricing.

**Jaspal and Subhash (2002)**

Jaspal and Subhash (2002) carried out an appraisal of mutual funds in India before and after liberalization. The following are the conclusions derived from the study:

- **a.** During the period of the study (1963-2001), positive growth was registered by mutual funds in terms of resource mobilization.
- **b.** Out of the total resources mobilized by all the mutual funds, UTI still holds maximum share. However, the trend was moved in favour of the private sector, more sharply since 1998-99.
- **c.** As per the scheme wise break down, out of the total schemes currently operative, Income/Debt schemes outnumber Growth and

---

Balanced schemes. Further open-ended schemes as against closed ones in all the three categories are more than the double in number.

d. It is peculiar to note that corpus size does not guarantee better fund performance.

Ogawa and Abe (1998)\textsuperscript{30} found that the motivation for savings depends on what life stage the household stands and each motivation is realized through a special form of savings. The choice of saving instruments i.e. composition of an investor's portfolio, was found to be largely determined by the age structure of the population.

Furqan Qamar (2003)\textsuperscript{31} analyzed the savings behaviour and investment preferences among average urban middle class of Delhi. The following are the relevant findings of the study:

- a. Despite financial sector reforms and entry of private, domestic and foreign banks into the country, the nationalized commercial banks seem to be the favourite choice of an average household.

- b. Capital market imperfections and associated risk have not been a deterrent for many households as they were found investing in debentures and shares either directly or indirectly.

- c. The saving behaviour and investment preferences of average urban household seem to be significantly influenced by the level of educational attainments and income of the respondents.

Renu and Bosire (2003)\textsuperscript{32} analyzed the factors that influence the investors to choose various schemes of mutual funds. The following are the major findings of the study:


a. A drastic shift of interest towards private sector mutual funds was noticed in the study. 65% of the investors preferred private sector sponsored mutual funds, 20% preferred public sector and only 15% preferred foreign sponsored mutual funds.

b. Capital Appreciation was considered as a major influencing factor for selecting a scheme/fund, followed by regular and stable income.

c. The scheme proposed objectives influence the investor in choosing a particular scheme/fund. While past performance and nature of products offered hold same influencing affect upon respondents.

d. Most of the investors (90%) preferred open ended schemes over the closed ended schemes.

Kannadasan (2006)\textsuperscript{33} analysed the behavioural pattern of the Retail Investors, based on various dependent variables viz., Gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. The following are the major findings of the study:

a. Only 25 per cent of the sample respondents were aware of all the investment avenues available in the capital market. However all of them are aware of at least one avenue.

b. 90 per cent of the retail investors are not aware of the measures taken by the Government to protect the interest of the investors.

c. 79 per cent of the retail investors are interested to invest in Shares and Debentures as well.

d. The risk bearing capacity of the retail investors was not influenced by their age. The retail investors' age is not a criterion to decide their investment behaviour and investment option.

e. The investment strategy of the investors is influenced by their income level. The retail investors' income level is playing a predominant role to decide their investment behaviour and investment strategy as well.

f. The major attributes of risk in investment are dividend, redemption period and Value appreciation. Value appreciation is an important factor among the three.

Jasim Y Al-Ajmi\textsuperscript{34} explores the relationship between risk tolerance and the demographic characteristics of the investors. The study was conducted to investigate the effect of gender, education, age and wealth of the investors on their risk tolerance level. Major findings of the study are as follows:

a. Men are less risk averse than women.

b. Less educated investors are less likely to take risk.

c. The effect of age on risk tolerance is complex.

d. Wealthy investors are more risk tolerant than the less-wealthy investors.

Faten Zoghlami and Hamadi Matoussi\textsuperscript{35} carried out a study to identify the psychological biases that influence the Tunisian investors' behaviour. The following are the relevant findings of the study:

a. The over confident tendency seems not to be popular among the Tunisian investors.

b. The Tunisian investors seem to be under optimistic and very risk averse.

c. The Tunisian investors seem to be very sensitive to rumors.

d. Majority of the Tunisian investors (81\%) are conservative, they seem to conserve so long the past data and the past evidences and continue to react according to them ignoring the current data and

e. Most of the Tunisian investors (61\%) emit progressive reactions to news and they don't react fully and instantly to the current news.


Guven Sevil, Mehmet Sen and Abdullah Yalama\textsuperscript{36} examined the decision process of small investors on Istanbul Stock Exchange Markets. The major findings of the study are as follows:

a. 72.4\% of the investors indicated that they would sell the stocks which yielded a profit in the past.
b. Only 14.4\% of the investors purchase shares based on the suggestions from the friends.
c. Majority of the investors (71.1\%) believe that the shares of reputed companies are less risky than the shares of the new companies.
d. Only 7.8\% of the respondents indicated that intuition has no role in purchase decisions. This shows that the decision process of investors is far from being rational.

Muraleedhran. D\textsuperscript{37} analyzed the pattern of investment preference among the different income groups in physical and financial assets. The relevant findings of the study are as follows:

a. The composition of savings reveals that savings in financial asset (63.47\%) is higher than savings in physical assets.
b. Among the savings in financial assets savings in chit funds is the highest (44.58\%).
c. In physical assets, consumer durables are the highest (28.33\%).
d. For around 23.62\% of the households, the saving motive is the educational and marriage purposes of their children.
e. The average propensity to save shows that the level of savings is related to the level of income.

Most of these studies have found that various factors like income, level of education, risk preference influences the behaviour of investors. The Studies also found that the investors believe Indian capital market as one


of the most volatile markets in the world. Inspite of high volatility, the capital market of India has witnessed an increasing participation of retail investors. The number of investors participating in the capital market in the city of Visakhapatnam has also witnessed a significant growth over the past few years. The present study dwells on the investment behaviour, equity trading practices, problems of retail investors in Visakhapatnam city and their opinion on the various policy issues related to capital market. The study also aims at identifying the factors influencing the risk taking ability of the investors using statistical analysis.