CHAPTER 6

SUMMARY and CONCLUSIONS

This chapter provides a discussion of the results of this study. The purpose of this research work was to find out the factors and other aspects which determine the attitude and behavior of the investors in capital market in particular with reference to the retail investors residing in Mangalore City Corporation area. The detailed information was collected on the investor awareness on the various investment instruments, their preferences, their experiences and risk attitudes etc. The factors which influenced the investor behaviour was further analysed on the basis of gender, age, marital status, occupation, education and experience with investment activities.

6.1 Summary and Conclusions

The present study is organized into six chapters including the present chapter. A summary of each chapter is presented as below:

Chapter 1. Introduction

The way the investors understands and evaluates the stock market goes a long way in determining the security prices as well as the future development of the capital market. Indian capital markets aided by the rapid changes in the economy and the advancement in technology have over the last couple of decades evolved from a relatively slumber to a rapidly evolving and active market. The modernization of the Indian securities market especially the secondary market increased investor interest in Indian financial market. As the markets have become more inclusive the need to understand, educate and protect the interests of the large number of small individual investors has become pronounced. The need to identify the investment behavior of these individual investors assumes urgency as the Indian Financial system has been slowly integrating itself to the international markets.

An indepth theoretical framework on investor behaviour is provided by the Efficient Market Hypothesis (EMH). The EMH stipulates that stock prices move in accordance with the change in valuation and there is a unique price at each given moment that represents the value. Since a large number of participating traders are aware of this value, and eager to exploit any deviations from it, these deviations are
not only temporary, but also random. If the deviations were biased in a particular way, the knowledgeable traders, argue the EMH theorists, would be aware of the bias and seek to exploit it, thereby eliminating it. In recent years, a new set of ideas, known as Behavioral Finance (BF), is proposed as an alternative to EMH by stipulating that systematic biases exist in market dynamics. One aspect of this is that individual investors as well as experts are subject to the behavioral biases. Behavioral finance is a relatively new field which draws upon theories of Psychology and social sciences to explain investor behaviour. Advocates of behavioral finance believe that investors are not rational and are influenced by the information structure as well as their own unique personal characteristics. The aversion of the traditional approach to understand and explain the decision processes of investors was the main reason to trigger the emergence of behavioral finance as an approach which tries to identify and understand the meaning of psychological decision processes for financial markets (Ricciardi and Simon, 2000). Behaviour finance is based on two fundamental blocks namely the "limit to arbitrage" and investor's cognitive psychology. Limit to arbitrage is based on the fact that while financial assets are often mispriced it is not always possible to make abnormal profits off this mispricing. These mis-pricings are of two types: those that are recurrent or arbitrage able, and those that are non-repeating and long-term in nature. For the recurrent mis-pricings, trading strategies can reliably make money. The investors decision making is influenced by not just the intrinsic values of the stock or performance of the companies rather the psychological process of decision making create biases like Heuristic, Availability, certainty, representativeness. Overconfidence, loss aversion, risk aversion and gamblers fallacy are some of the other psychological factors that influence investor's attitude and behaviour.

Often capital markets are influenced by factors which is not linked to observed changes in macroeconomic bases or other fundamental bases, but it is only the result of the investors behavior or other financial agent's behavior. This is caused by "irrational" behavior, such as financial panic, the effect of collective behavior (herd), loss of trust and increased aversion to risk. However, clearly, the study of the behaviour or the development of financial markets could benefit of a more complete image, if it would be known how investors actually behave and how they react to the same information depending on the differences between
them (behavior conduct). As investors are influenced by the psychological biases which are a function of their demographics, experience and risk attitude. This study tries to understand the underlying characteristics of the investors which determine their psychological biases and consequent attitude and behavior towards various instruments of the capital market. The role of the Securities Exchange Board of India (SEBI) is quite critical as it has been mandated with the responsibility of safeguarding investor interest in the Indian stock market. SEBI has been quite aware of the fact that retail investors in the primary market may be crowded out by the big ticket investors. Hence it has reserved certain portion of the initial public offerings for the retail investors.

Methodology of the Study

Need for the study

It is very clear from the review of literature that most of the studies on investor behavior has focused on financial data provided by the stock indices and other investment indicators very few studies have focused exclusively to study the perceptions, preferences, attitude and behavior of the retail investors, a very crucial area in the formulation of policies and procedures for the orderly growth and development of capital markets in any nation. The study of retail investor, which is the only surplus sector of the economy, has implications for the financial development of the economy, fund managers, issuing companies and the marketers. We have very little information on the profile of retail investors, not only on their sheer numbers, but also of their objectives and motivation of investing as also the frequency of their trading. Without authentic data on retail participation in the capital market, there will not be a clear picture about the preference, attitude, risk perception and behavior of retail investors. Therefore it becomes all the more important to study and analyze the investor preference, investment behavior and risk profile. This may help the policy makers in evolving suitable strategies to get retail investors into the capital market operation. Hence, the present investigation is an attempt in that direction. The issues investigated in the present study include awareness of Investment instrument, investment behavior, objectives and motivation as also the risk attitude and risk perception of the retail investors.
Statement of the problem

It is evident from the review of literature relevant to the research issues that the retail investors constitute a vital segment of the Indian capital market. The behaviour of these investors' is very vital in the policy formulation as well as on development and regulation of the capital markets. The relationship between various cognitive, socio-economic, demographic and behaviour factors and investment behaviour of the individual investors has been studied by researchers but a majority of these studies were conducted in the developed world particularly the United States of America, Canada and Europe. A limited number of studies have focused on the Asian investor even in Asia the focus has been on China and Japan. Thus here is a need to understand the individual retail investor in the Indian context. Despite the growing interests of researchers in this upcoming and relatively new stream popularly known as behavioural economics, very few studies in India have been undertaken with reference to the behaviour of retail investors. Individual investors are said to be influenced by sociological, demographic and psychological factors. These factors tend to affect their behaviour in financial decision making and subsequently their investment behaviour in capital market.

The present study attempts to investigate the factors influencing individual retail investor attitude and behaviour in Indian Capital Market. An important factor determining the need to study the individual retail investor is that most of the studies have focused their attention on the institutional investor rather than the individual investor. Hence, in the current research work, an attempt is made to study the impact of the socio-economic and demographic profile of the retail investors of Mangalore on investment behaviour. The present research work also provides a foundation of facts relating investors' behaviour towards various types of instruments and assessment of investment risk. It is very important for the investors to know their risk appetite and investment objectives for better decision-making.

The preceding discussions coupled with an extensive literature review help to identify the following research gaps:

i. Identifying and confirmation the awareness level of retail investors regarding various investment instruments of investment

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ii. Examination of the extent to which Indian individual investors’ perceptions of the investment instruments tend to be influenced by their objectives and motives of investment;

iii. Understanding the individual investor behaviour may further lead to development of better risk assessment of the investors which will in turn aid development of better balanced financial instrument for investment.

Objectives of the study

The framework of this study requires clear definitions in critical realist terms of the objects of analysis. The formal research objectives will help to fill the gaps identified from the detailed literature review. The present study bases its analysis with following objectives:

i. To assess the impact of demographics and nature of investment instruments on the awareness, attitude and experience of retail investors in the study area.

ii. To study the objectives, perceptions and the resultant behavior of the investors in the study area.

iii. To examine the different determinants of investment decisions of the retail investors in the study area.

iv. To find out the factors influencing the risk perception and attitude of the retail investors in the study area.

These objectives were tested with the set of hypotheses as outlined below:

Hypotheses

H$_1$: The demographic characteristics of investors and the type of the investment instrument significantly influence investor awareness and preferences.

H$_2$: There is a significant difference between the present and future investment preference of the retail investors based on their goals of investment.

H$_3$: There is a significant impact of investment experience on retail investor’s satisfaction with their investments.
H4: There is a significant influence of gender and age on investor's motives for investment.

H5: Investors risk perception and attitude is significantly influenced by their demographic characteristics.

Profile of the study area

The Mangalore City Corporation is considered for the study purpose as it is a commercially growing urban city with larger number of investors in the different segments of the Capital Markets. The different types of the investors are inclined to take up new initiatives and ventures even in risky speculative trading. It has a tradition of banking and is often referred to as cradle of banking industry. The Mangalore stock exchange (MgSE) was started in the year 1984 as a public limited company and got recognized by the Central Government of India under the Securities Contracts (Regulation) Act, 1958. However on August 21, 2004, Securities Exchange Board of India de-recognized the Mangalore Stock Exchange. Derecognition of stock exchange has not affected the trading habit as technology has enabled online trading in Mangalore. In fact Mangalore is a major hub of online trading and all major brokering houses of India have an office here. Many of the brokers are today members of National Stock Exchange, Bombay Stock Exchange and the commodities exchange which are the dominant exchanges in India today. Most of the regional exchanges have lost relevance as technology has enabled people to trade irrespective of any geographical barriers.

The Securities Exchange Board of India has mandated that individual Indian citizens can trade in listed stocks or debentures only in electronic form, known as “demat” (dematerialized) account rather than paper. It is an account registered with an investment broker with whom shares and securities are held electronically instead of physical certificates. The account number is quoted for all transactions to enable electronic settlements of trades to take place. The number of such accounts in India according to the Indian Equity Investors Survey is around 1.8 percentage of the population. Therefore the number of demat account holder in Mangalore City Corporation area is around 10000 given that the population of the city corporation area as per census data of 2001 is 398745. A demat account has to be opened with a depository participant. A depository participant (DP) is an institution holding a pool
of pre-verified shares held in electronic mode that offers efficient settlement of transactions. A DP is typically a financial organization like a bank, broker, financial institution, or custodian acting as an agent of the depository to make its services available to the investors. Each DP is assigned a unique identification number known as DP-ID. The number of DP participants in Mangalore is around 40 as of March 2010.

**Data Sources**

Present study is mainly based on primary data and is behavioral in nature. However, secondary data was also used at places wherever it was required particularly regarding the various policy initiatives by the government, RBI and the market regulator SEBI. The primary data was collected through a structured questionnaire designed keeping in mind the objectives of present research work and it was pre-tested by means of a pilot study. The survey questionnaire consisted of four parts, one each for investor profile, investor awareness, behaviour and risk attitude. This information has helped to draw some conclusion on the basis of demographic profile of investor respondents. Second segment, i.e., investor awareness, attitude and experience includes questions covering awareness of various investor Instruments, objectives and preferences for these Instruments their attitude towards investment in these instruments and their experience as well as satisfaction with existing investments. Third segment deals with investor behaviour and seeks answers about the motives of investment, strategy of investment, monitoring behaviour and sources of information. Whereas the fourth segment deals with risk assessment in terms of the risk attitude and risk preference of the retail investors in the study.

In the survey instrument, the first segment needs personal and demographic information about the respondents; but the next three segments uses a mix of ranking and five point Likert scale to gather investor responses. The sample respondents were given different statements to which they were asked to mark their response in a range from 1 (Strongly disagree) to 5 (strongly agree). The ranking were in the descending order of preferences for various investment instruments or strategies.

The relevant secondary data was gathered from the reports, books, journal, periodicals, dailies and magazines, and websites. The data and the information
collected with the help of schedule were processed and analyzed using SPSS software.

**Sampling Design**

The universe of the study comprises of all the investors in the Mangalore City Corporation limits. Since demat account is a regulatory requirement for participation in the capital markets the study has defined the investor as any resident of Mangalore City Corporation area who has such an account with one of the two registered depositories namely National Securities Depository Limited and Central Depository Services (India) Limited. An investor with a demat account and living in Mangalore is considered as a sampling unit. Since the population of Mangalore City Corporation is 398745 as per 2001 census and the total number of demat account holders were 7000. These 7000 accounts are held in the 40 depository participants operating in Mangalore city corporation area. Out of the 40 depository participants 10 were randomly selected and 45 respondents from each were again selected on a random basis. Accordingly the number of respondents of the study should be 450. But, some of the respondents did not respond to all the items of the questionnaire the final number of respondents were 400.

**Tools of Analysis**

The statistical tools used to carry out the analysis of the collated data were the mean scores, frequencies and percentages. The nature of distribution of the variables examined in the study could be assessed from mean scores and standard deviations of the same. For selected variables, based on the scores given by the respondents, ranks are also awarded in order to know their level of significance in the decision process. Independent sample mean t test, ANOVAs and factor analysis have also been used to establish the relationship between variables.

**Scope and limitations of the study**

The present study aimed to analyze the investment behaviour of individual investors with special reference to Mangalore City Corporation of Karnataka. Hence, the scope of the present study is confined to the study of perceptions, preferences and behaviour of retail investors in Mangalore City Corporation. A study of this kind
which was essentially based on primary data has its own limitations. The investors are normally reluctant to part with information relating to their personal financial decisions. Instilling confidence and stressing the academic nature of the study did to some extent reduce the reservation of the respondents and the objectives of the study was not adversely effected. A major observation and handicap experienced during the survey was the prevailing nature of investor's personal bias. Further, the findings and conclusions of this study may not generalize because the investor's behavior towards investing in share markets is influenced by different conditions and circumstances. Finally, the study provides ample insight and policy implications. It also enhances the various dimensions of investors' behavior, significantly contributing the existing literature in this area of investigation of immense importance.

Chapter 2: Review of literature

"It is hard to follow the developments in financial economics in a single direction because the schools of thoughts are overlapped and the theories and empirical research are lagged, and the technology has greatly changed the ways of thinking and doing research" Li (2003). Many institutions and individuals have conducted several studies to interpret financial market prices that are of interest for public policy and investor welfare in general. These studies were broadly related to capital market with a special attention on various instruments of the capital market, shareholding patterns, new issue market, merchant banking, market efficiency, dividends, bonus and right issues, rates of return, performance and regulation of mutual funds, investor behaviour towards capital market instruments and the movement of stock prices

In the present study we have reviewed the work done on understanding investor behaviour from a standard financial economics perspective followed by developments in behavioural finance and latter a survey of the studies on Indian investor attitude, preferences and behaviour.

Walras (1874) was the first to formulate a model in which the agents interact indirectly and the impact of an individual member agent is small in relation to the market, so that every one is a price taker.

John Hicks (1939) formulated conditions for multimarket stability and extended the
applicability of the static method of analysis to several periods. He also presented a celebrated aggregate general equilibrium model with four markets - commodities, labor, credit and money - the so-called IS-LM model widely used in macroeconomic analysis and modeling.

**Arrow and Debreu (Arrow, 1951, Debreu, 1952, Arrow-Debreu, 1954) (Arrow 1963) (Debreu 1952) (Arrow and Debreu 1954)** generalized the Hicks equilibrium theory mathematically and showed that the economic model under certainty could be adapted to incorporate uncertainty in a complete market by a two-state model under Pareto optimality of general competitive equilibrium.

**Modigliani and Miller theorem (Modigliani and Miller 1958)** states that in a perfect market the value of a firm is the same regardless of whether it finances itself with debt or equity, and the rate of return on equity grows linearly with the debt ratio. According to the theorem the distribution of dividends only changes only the mix of equity and debt in the financing of the firm and not the firm’s market value.

The assumption of rationality underlies most of the theoretical constructs making up modern economics. The basic assumption is that all human beings, when faced with a decision problem, act in a rational manner under all circumstances so as to maximize the intrinsic utility obtainable from the outcome of such decision. All financial behavior is reduced to the normative concepts of rationality that define homo economicus, i.e., expected utility maximization, risk aversion.

**Daniel Bernoulli in 1738 (Bernoulli, 1954)** proposed that the value of an item must not be based on its price, but rather on the utility it yields. He further hypothesized that the utility of additional sums of money to an individual must be in some way inversely proportional to the amount of his initial wealth position. It follows that more initial wealth a person has the less is the utility of additional amounts of money.

**John von Neumann and Oskar Morgenstern (1944, 1947)** have shown that unlike in Bernoulli’s paradigm agent where the agent’s preference is for the final outcome in fact the agent’s focus is on objective probabilities. They show that if an agent has preferences defined over lotteries, then there is a utility function that assigns a utility to every lottery that represents these preferences, which provides a descriptive way of modeling people’s choices under risk.

**Joan Robinson (1962)** famously criticized utility for being a circular concept: "Utility is the quality in commodities that makes individuals want to buy them, and
the fact that individuals want to buy commodities shows that they have utility”.

Savage (1954) advanced a theory of decision making under uncertainty and used that theory to define choice-based subjective probabilities. He intended these probabilities to express the decision maker’s beliefs, thereby furnishing Bayesian statistics with its behavioral foundations.

Markowitz (1959) noted that the assumption that the utility function is defined over ultimate wealth levels is not consistent with the observed tendency of individuals of all wealth levels to purchase insurance and lottery tickets. He hypothesized that change in wealth causes the utility function to shift horizontally so as to keep an individual’s wealth at or near his “customary” level of wealth. Markowitz constructed a micro theory of portfolio management of individual wealth holders. His portfolio theory extended conventional point optimization (maximum utility and minimum risk) into an optimal curve, mean-variance efficient frontier.

Sharpe (1964) and Lintner (1965) add two key assumptions to the Markowitz model to identify a portfolio that must be mean-variance-efficient. The first assumption is complete agreement: given market clearing asset prices at time \( t - 1 \), investors agree on the joint distribution of asset returns from time \( t - 1 \) to time \( t \). And this distribution is the true one—that is, it is the distribution from which the returns we use to test the model are drawn. The second assumption is that there is borrowing and lending at a risk-free rate, which is the same for all investors and does not depend on the amount borrowed or lent. This was the foundation of what came to be known as Capital Asset Pricing Model (CAPM), the model says that the expected return of a security or a portfolio equals the rate on a risk-free security plus a risk premium.

Samuelson (1965) stated that, “in an informationally efficient market price change must be unpredictable if they are properly anticipated by all market participants”.

Fama (1970) has shown that “markets are frictionless without trading cost.”

Le Roy (1973) and Lucas (1978) show that “stock returns are not completely random because of the trade-off between risk and expected return”.

Grossman and Stiglitz (1980) argue that “perfectly efficient markets are impossible, because if markets are perfectly efficient there would be no need to gather information. Then there would be no trading and no markets. Because of this
inefficiency of markets the profit opportunities arises, and the cost of trading and cost of information).

Leon Festinger (1956) states that "when two simultaneously held cognitions are inconsistent, this will produce a state of cognitive dissonance. Because the experience of dissonance is unpleasant, the person will strive to reduce it by changing their beliefs".

Kahneman and Tversky (1979) showed empirically that "people underweight outcomes that are merely probable in comparison with outcomes that are obtained with certainty; also that people generally discard components that are shared by all prospects under consideration. According to them in prospect theory, value is assigned to gains and losses rather than to final assets; also probabilities are replaced by decision weights.

Thaler (1980) argues that "failure of economists to distinguish between normative models of consumer behaviour and descriptive or positive models leads to systematic, predictable errors in describing or forecasting consumer choices".

Herbert Simson (1957) observed that "Systemic, predictable differences between normative models of behavior and actual behavior occur due to Bounded Rationality"

Bondt and Thaler (1985) discovered that "people systematically overreact to unexpected and dramatic news events results in substantial weak-form inefficiencies in the stock market".

Tversky and Kahneman (1986) argue that, due to framing and prospect theory, "the rational theory of choice does not provide an adequate foundation for a descriptive theory of decision making".

Samuelson and Zeckhauser (1988) found that "individuals exhibited significant status quo bias across a range of decisions".

Fernandez and Rodrik (1991) have shown how uncertainty regarding the identities of gainers and losers can lead to status quo bias.
Banerjee (1992) found that “people will be following what others are doing rather than using information they possess to arrive at a decision therefore the resulting equilibrium is inefficient”.

Tversky and Kahneman (1992) predict that investors are “Risk aversion for gains and risk seeking for losses of high probability; Risk seeking for gains and risk aversion for losses of low probability”.

Max-Neef (1992) show that “people may not mainly invest for higher returns, but also for striving to satisfy social and intellectual needs. Investors may even simultaneously satisfy multiple needs”.

Fisher and Statman (1997) found that “most - investors have preferences that go beyond expected returns and risk. They cite the investor preference for stocks of socially responsible companies as an example”.

Csikszentmihalyi (1997) suggests the “stock trading may offer an investor so-called ‘flow experiences’”

Wermers (1999) studied herding by mutual fund managers and found “the highest levels in trades of small stocks and in trading by growth-oriented funds”.

Thaler (1999) summarizes the literature on mental accounting and concludes that “mental accounting influences choice, that is, it matters”.

Odean (1999) demonstrates that “excessive trading volume in equity markets is due to overconfidence and disposition effect”.

Barber and Odean (2001) found that “men trade 45 percent more than women and there by reduce their returns more so than do women and conclude that this is due to overconfidence”.

Grinblatt and Keloharju (2001) identify the “determinants of buying and selling activity and find evidence that past returns, reference price effects, tax loss selling and the fact that investors are reluctant to realize losses are all determinants of trading”.

Indian Income and Savings Survey (2006) revealed that, “investor choices and preferences are a product of many complex and interactive factors. Relative rates of return and risk appetites, while important, are the tip of the iceberg only”.

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Hoffman (2007) has studied the social dimensions of investor behavior. He has argued and empirically proved that “for many investors, investing is much more than simply weighting the risks and expected returns of all possible investments opportunities. Rather, besides financially oriented needs, some (or most) investors may also have more socially oriented needs, or they may simply consider investing to be a nice free time activity”.

Guerrien and Gun (2011) shows that the markets were not always efficient and there was no perfect informational symmetry existing in the market. While the normal distributions of stock returns have been contradicted in previous studies there is no evidence of a plausible explanation of the type of distribution exhibited by the stock returns. On several occasions, stable Pareto distribution and Student t-distribution have been found to be better approximations than the normal distribution.

Merli and Roger (2012) highlight the role played by individual’s attributes. They demonstrate that the level of individual herding depends on the “investor sophistication degree (trading derivative assets, for instance)”. Furthermore, based on a dynamic panel data analysis, they show a link between investors’ portfolio performance and herding behaviour.

Chandra & Kumar (2011) in an unpublished paper titled “Determinants of Individual Investor Behaviour: An Orthogonal Linear Transformation Approach” collected survey responses and used univariate and multivariate analysis to reveal the five underlying psychological axes that drive the Indian individual investor behaviour. These five pertinent axes were named as prudence and precautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction.

Shaikh& Kalkundarikar (2011) analyzed the Retail Investor’s Behaviour in Belgaum District of Karnataka State and found that the level of investment knowledge significantly leverages the returns on the investments.
Chapter- 3: The Demographic Profile and Its Impact on the Retail Investors

Mangalore is a city with a higher socio-economic profile compared to the national average. The major occupation of people in Mangalore is agriculture, trading, hotels, banking and information technology. The city is growing at a rapid pace with expansion of the infrastructure and has become a prominent Tier-II city in the information technology space in India. The growth of the city has been accompanied by increased income and social needs which has aided the growth of investment climate in Mangalore. The investors' behaviour is influenced by various factors like, age, income, education, marital status and gender. This demographic aspect of the investors plays an important role in determining investor behaviour. The relation between age of the investor and investment behaviour is important in determining the objectives and consequently tends to influence his choice. The study throws light on the fact that investors are most active during their earlier earning years through to their middle ages when their earning capacity is the maximum and they are likely to take greater risks. The gender of the investor is an important variable as previous studies have shown that women tend to be conservative in their willingness to take risk and as a consequence they tend to earn much lesser compared to male investors. We find confirmation of the fact that women are comparatively less involved in activities involving decisions under conditions of uncertainty. Similarly the women investors in India are constrained by socio-economic and religious factors; affecting their participation in the investment decision process. The marital status of investors has been studied in literature as a determining factor in influencing investment behaviour. There have been evidence that single men tend to be greater risk taker in comparison to married men and it has been linked to evolutionary sociology where the need to look for mates in future tend to make single male more risk taking. The education level of the investors is an important factor that determines the attitude and behaviour of the investors. Investors with lesser education levels tend to be ignorant of the opportunities offered by the capital market. Often their attitude is to look at the capital market as a lottery to make some easy money which unfortunately is not true.

The occupation of the investor is a major contributor to his investment decisions as it has a direct impact on the income, savings capacity and the objectives of investment.
Chapter-4: Investor Objectives and Preference

The investors usually look for investment opportunities wherein the returns are commensurate with the risk that they are willing to take. It has been established that investor's investment objectives are a function of their personal characteristics' like age, income, sex, occupation, education and experience. The impact of demographic profile of the investors on their preference for different investment instruments have been evaluated by first measuring and ranking the level of preference and then analyse the relation between demographic factors like age, income, education and occupation with the preferences expressed by the respondents using one way ANOVA. The roles of demographic factors on investment preferences have been the focus of recent literature. The goal has been to identify what demographic factors affect sample respondents investment preferences. There are quite a few instances in past literature where it has been shown that demographic factors like age, gender, income, education and experience have a role in determining the type of investment instruments the investors would prefer. Thus we find that there is a significant influence of age on investor preference for various instruments of investment. Further we find that the difference between age groups was more pronounced for derivatives, corporate deposits and bullion. Income of the investor does not reveal too much difference in the ranking of preference but statistical analysis reveal that there exist a significant difference between income groups particularly for derivatives, corporate deposits, mutual fund and bullion.

The occupation of the investor has a direct bearing on the investor's preference for various types of investment instruments. The weighted preference for various Instruments according to the category of employment of the respondents reveals that in the case of self employed the most preferred Investment instrument is Equity shares, second rank was assigned to mutual fund, third rank was debentures, and fourth rank was for preference shares. In the case of salaried the ranking was in the order equity shares, mutual funds, debentures, preference shares, ULIP, Derivatives and Bullion. For those who were retired the ranking was in the order equity shares, debentures, preference shares, mutual fund, corporate deposit, derivatives, ULIP and Bullion. An ANOVA of the relation between occupation and investor preference for various investment instruments show that there is significant
difference between the investor preference of salaried investors when compared to the self employed and retired investors in the study area.

The general literacy level has a profound impact on all aspects of human decision making. Literacy level often determines ability of an individual to process information and takes optimal decisions. Studies have shown that education helps to mould individual beliefs and attitudes. The study reveals that there is not much difference between the post-graduates and Graduates while it comes to the preference for various Instruments. On the other hand there is a quite a strong difference between the respondents whose education level was PUC and SSLC. Thus there is a similarity between the preference of those who have had college education compared to those whose education is at PUC or SSLC level.

Chapter- 5: Risk and Investment Behaviour

Risk is a constant element present in the human evolutionary domain; life-history theory has always assumed that individuals make specific tradeoffs at different times in life. Studies have shown that the risk attitudes of human beings vary according to content area. Risk is in fact the uncertainties associated with the outcome of an activity say the investment made by an individual therefore, risk and uncertainty play a vital role in almost every major economic decision. As a consequence, understanding retail investor attitudes towards risk is intimately linked to the goal of understanding and predicting economic behavior. Retail investors form an important segment of the capital markets as they contribute to the capital formation in the country. As such it is important that we understand the retail investors in terms of their motivation for investment in a particular instrument, their assessment of the risk associated with a particular investment. For this a number of questions were asked and the respond to the various items in the questionnaire. The questionnaire had a ten item scale to identity motives of investment of the respondents. The study found that there is not much difference between young and old investors motivation for investment. It was also found that the male and female investors are motivated by the need to go with the flow and so try to invest in instruments which are similar to what others are investing.

Financial risk is an attitudinal input into the investment decision-making process particularly true given the economic uncertainties present in the capital
market. Risk perception is subjective in nature and differs from individual to individual. Risk perception is linked to the returns expected by the investors.

To know the risk perceptions of investors about various investments indicated in the study, the sample respondents are asked to rate each investment on a five-point scale ranging from absolutely safe; reasonable safe; somewhat unsafe; very unsafe; and don't know. Thus it was seen that the retail investors in the study area have shown a high level of understanding of the various Instruments of investment and the risk associated with it. They have shown a willingness to invest in most instruments other than derivatives which they consider to be unsafe. Investors, with their own unique experience, face various different risk scenarios and their attitude to risk, and risk awareness results in varying decision-making behavior. The risks people are prepared to take are related to their attention, and interpretation and memory processes. Some of the factors which impact an investor’s risk attitude are related to the personal characteristics of the individual investor. In this study an attempt is made to understand the effect of demographic variables like age, gender, experience and marital status in investor’s risk attitudes. The sample respondents where administered a test with nine items which expressed different attitude to risk. The sample respondents were asked to indicate their agreement or disagreement with the various items on a five point Likert scale. An independent sample t-test was carried out for the various demographic variables like gender (male, female); Age [(young investors’ age below 40, old investors’ age above 40)], Marital status (married, unmarried) and investment experience [less experience(less than 5 years), More experience (more than 5 years)] and the agreement of the respondents with the various items in the scale.

6.2. Major Findings of the Study

a. Findings based on Primary Sources

1. The relation between age of the investor and investment behaviour is important in determining the objectives and consequently tends to influence his/her choice. The study throws light on the fact that investors are most active during their earlier earning years through to their middle ages when their earning capacity is the maximum and they are likely to take greater risks.
2. The gender of the investor is an important variable as previous studies have shown that women tend to be conservative in their willingness to take risk and as a consequence they tend to earn much lesser compared to male investors. The study shows that women are comparatively less involved in activities involving decisions under conditions of uncertainty. Similarly the women investors in India are constrained by socio-economic and religious factors; hence the presence of greater percentage of men in the study is representative of the characteristics of the respondent investors.

3. The marital status of investors has been studied in literature as a determining factor in influencing investment behaviour. It is because marriage brings in certain responsibilities and induces financial constraints which in turn are reflected in their investment motives and preferences.

4. The education level of the investors is an important factor that determines the attitude and behaviour of the investors. Investors with lesser education levels tend to be ignorant of the opportunities offered by the capital market. Often their attitude is to look at the capital market as a lottery to make some easy money which unfortunately is not true.

5. The occupation of the investor is a major contributor to his investment decisions as it has a direct impact on the income, savings capacity and the objectives of investment. For the purpose of analyzing the impact of occupation on investor attitude and behaviour the sample investors have been classified into three categories based on their occupation, namely, self employed persons consisting of professionals like doctors, chartered accountants and businessmen, salaried individuals and retired persons. The present study has an overwhelming majority of respondents who are salaried (272) while the self employed respondents where 122 which translates to 30.5 percent of the total respondents and retired were only 1.5 percent.

6. Among the various investment Instruments the sample respondents indicated the highest awareness for Mutual Funds, Equity, Bullion (, ULIP (24.75), Debentures/Bonds, Derivatives, Corporate Deposits, and Preference shares, in that order. The analysis of data indicate that the investors in Mangalore are quite aware of the various Instruments of investment like equity shares, preference shares, debenture, derivatives, mutual funds, ULIP and bullion.
Further the study shows that people in the study area of Mangalore have a marked preference for Mutual funds as it is ranked first in awareness followed by equity at second rank, followed by debentures/bonds, preference shares, at third and fourth rank, corporate deposits at fifth, Bullion at sixth rank, Derivatives at seventh rank and ULIP at eighth rank. The ranking of ULIP at eighth is a surprising result as the sample respondents have indicated a balanced approach to investments as they have balanced risk, equity and debt in their portfolio.

The study indicates that the awareness level of investment Instruments is much more among the Middle Aged. Youngsters tend to be aware of instruments of higher risk while in the older group the preference is for long term stable instruments. It indicates that at higher age levels the preference is for stability than high risk instruments with uncertain returns.

It is seen from the study that among sample respondents who had poor awareness of investment Instruments that there is a market preference for ULIP, Bullion and Debentures/Bonds followed by Equity, Mutual funds, corporate deposit, derivatives and preference shares, mutual funds, equity shares across the various age-groups. It is interesting to note that those below 30 years of age tend to focus on bullion, derivatives and ULIP for their investments. It indicates that the younger investors are influenced by the promise of higher returns and tend to ignore the risk associated with it.

A one way ANOVA was used to test if there is a significant difference in the awareness of investment Instruments among investors with different age groups and the statistical significance was established. It was found that in the case of individual investment Instruments the significant difference was pronounced between those below 40 years and those above 40 years; in particular the difference was very significant for those in 51-60 years age group. Thus younger investors are more aware of investment opportunities in comparison to older investors particularly in the case of risky investments like equity, preference and derivatives.

In order to access the impact of gender in determining the awareness of investors an ANOVA was conducted. The results show that the difference in awareness level due to gender is significant in the case of investment Instruments like corporate deposit, mutual funds, debentures and preference.
shares. At the same time it was found that the difference is not statistically significant in case of equity shares, derivatives, ULIP and bullion. Thus we find that we have to reject the hypothesis that the difference in awareness due to gender is significant.

12. It was also observed that married investors who reported high awareness levels ranked mutual funds, equity, ULIP as their top Instruments while single investors also ranked mutual funds, Equity, debentures, Corporate deposits and ULIP as their top Instruments. Thus the there is no significant difference in awareness level due to marital status. However a closer look shows that married investors tend to be more conservative as they have more awareness of Instruments like bullion. An Anova of the difference in awareness of various investment Instruments among the married and unmarried respondents helps to understand the fact that the difference is significant only in the case of two investment Instruments namely ULIP and bullion. In the case of all other investment Instruments the difference are not significant.

13. An analysis is made on the basis of the ranks that was allotted to different Instruments by those respondents who showed good awareness clearly shows that among respondents who had very good awareness and were self employed Mutual funds had the first rank followed by Equity, bullion, derivatives, corporate deposit, Debentures, ULIP and preference shares in that order. In the case of self employed respondents also the first ranked investment avenue happens to be mutual fund followed by equity, ULIP, Debentures, Preference shares, Corporate Deposit, Bullion and Derivatives.

14. A one-way ANOVA followed by Tukey post-hoc comparison identifies the difference between salaried respondents and retired respondents are significant for Equity shares, it also establishes that there is significant difference in all categories for corporate deposits and derivatives. Thus we find that for investment Instruments with higher uncertainty there is significant difference between self employed, salaried and retired investors. On the other hand in the case of Instruments like mutual funds, debentures/bonds, bullion and ULIP the difference between people of various occupations are not significant.
15. The one-way ANOVA conducted to test the existence of significant difference in awareness level due to educational qualifications show that the difference is indeed significant. This indicates that education has a direct bearing on awareness of investment Instruments.

16. A close scrutiny of the results of the one way Anova reveal that the awareness level of the sample investors vary significantly with their income. The data shows that there is a significant difference in all Instruments except in the case of ULIP where the income seems not to affect the awareness levels.

17. Most of the investors preferred mutual funds as their first choice of investment out of the 8 investments products placed before them. Out of a sample of 400 investors, as high as 177 (37%) have shown their first preference towards mutual funds. Next to mutual funds, equity shares with 65 out of 400 investors marking it as the most preferred investment product. Unit linked Insurance Policy (ULIP) was the third highest preferred investment product followed by Bullion and Debentures while Derivatives and Preference shares were the seventh and eight most preferred investments among the sample respondents. It is evident from the preferences expressed by the sample investors, that they prefer products with low to medium risk and avoid high risk products like Derivatives.

18. A one-way analysis of variance confirms the hypothesis that there is a significant difference in preference due to the age of the respondent. It was further found that the difference was significant in the case of the entire instrument except ULIP and equity shares. Thus we confirm the finding in previous literature where age has been a major element in determining investors' preference for a particular kind of investment instrument. Age does not have a strong influence on preference for equity shares which means that irrespective of the age of the respondents the preferences are same they all consider equity to be a relatively risky instrument with potential for higher gains. Similarly ULIP as an investment avenue is preferred across age as a safe avenue.

19. An investigation of ranks allotted does not reveal much difference between the investor preferences for various Instruments but a one-way Anova conducted to determine the difference between the investor preferences reveal
that higher income is associated with an affinity to invest in higher risk products.

20. Overall there is not much difference between the investment preferences of the sample respondents due to their occupation even a one-way Anova reveal that there is no significant difference between the preferences of people who are salaried, self employed and retired. But significant difference is noted in the case of preference for derivatives and debentures/bonds. We find that in the case of debentures the salaried respondents had a higher mean preference compared to retired respondent similarly in the case of derivatives self employed respondents had a higher mean preference than respondents in other occupations. This is because salaried people tend to invest more in government bonds and debentures as it helps to save taxes deducted at source while in the case of derivatives self employed people are entrepreneurs with an appetite for risk and hence they are more willing to invest in a high risk instrument like derivative. Overall we find that there is a significant difference between the investor preferences of the retail investors based on their occupation.

21. The study reveals that there is not much difference between the postgraduates and Graduates while it comes to the preference for various Instruments. On the other hand there is a quite a strong difference between the respondents whose education level was PUC and SSLC. Thus there is a similarity between the preference of those who have had college education compared to those whose education is at PUC or SSLC level, a further analysis of the data using ANOVA and post hoc comparison reveal that there is a statistically significant difference between in the investor preferences due to their level of education. These results confirmed conclusions from other researchers who have found that individuals who have less than a college degree were less likely to hold risky assets such as stocks, compared to individuals with at least a college degree (e.g., Haliassos & Bertaut, 1995; Sung & Hanna, 1996b; Zhong & Xiao, 1995). Thus education seems to encourage risk taking, because increased levels of education allows individuals to assess risks and benefits more carefully than someone with less education.
22. A weighted score of the respondents' preference was obtained by multiplying the highest preference with 8, second highest preference by 7 and so on. The resultant weighted score is used to rank preferences of male and female respondents. Thus we find that mutual funds are ranked number one by male and female respondents in the study, while equity was ranked second by both male and female respondents, male respondents ranked debentures/bonds at third position while female respondents ranked it at fourth. ULIP were ranked third by female respondents while male respondents ranked it fourth. In the case of preference shares both category ranked at fifth position, male respondent ranked corporate deposits at seventh position and bullion at eighth while for female respondent it was Bullion at seventh and corporate deposits at eighth position. An analysis of the ranking show that unlike what literature suggest there is not much difference between male and female investor in terms of their preference of investment Instruments. The findings were confirmed by an independent sample t-test which revealed that there is no significant difference between the investor preferences of the retail investors based on their gender.

23. The weighted score of the investment Instruments chosen by married and unmarried respondents reveal that married investors ranked mutual funds as their first preference while unmarried investors ranked it at second position. In equity shares married investors assigned second preference while for unmarried investors the rank is three. Debentures are ranked third by married investors and fourth by unmarried investors, for derivatives the ranks are same i.e. sixth. For preference shares the rank was fifth for married but first for unmarried investors. Thus we find that the ranks to indicate minor variances. To further clarify the effect of investors marital status an independent sample t-test was conducted the test confirmed that the independent sample t test reveal that significant difference exists only in the case of debentures and corporate deposits in all other investment Instruments there is no significant difference between married and unmarried investors.

24. It was found that as high as 86.8 percent of the sample investors stated that they have actually made investment in the Equity shares and 88.2 have also made investments in Mutual funds. The percentage of people who invested in ULIPs is 76 while 227 people have invested in bullion. However it is
observed that in the case of Bullion which people ranked as the least preferred option is actually in the fourth position as far as actual investment is concerned. It is also observed that 75 percent of the people have not invested in Preference shares, 65 percent has not invested in derivatives and 54.8 percent have not invested in corporate deposits.

25. To ascertain the investment objectives influencing the investor preferences and their investment behavior, sample investors are asked to indicate their choice for various investment objectives in the descending order of their preference. For this purposes six objectives such as safety, liquidity and Marketability, Income, Capital Appreciation, Tax benefits and Diversification of portfolio were placed before them. The most important objectives in selecting an investment instrument are safety of their investment followed by income, capital appreciation, Liquidity, tax benefits and Diversification of portfolio. Thus most of them have shown preference for low risk and safe Instruments like mutual funds, debentures, bonds and ULIP.

26. Investment is a continuous and long term process hence investment attitude and behaviour tend to evolve on the basis of past experience and changing objectives of the investors. The retail investors are no exception to this as they are also influenced by their past experience, the developments in the economy, capital market and the information available to them. Therefore it is important to understand not only the past behaviour of the investor but also the future attitude to investment in the various Instruments. The financial, economic and social goals might change and cause a change in the objectives of investment. For example, an investor who was investing only to save taxes was more of a forced investor but experience and exposure to investor education might create a better awareness of the need to plan one's finances for the future hence he might change the priority of the objectives. Similarly higher income might result in greater ability to save and invest thus increasing the ability to take higher risks. The study found that 96.2 percent of the respondents are willing to invest in equity shares, 87.5 percent are willing to invest in ULIP, 86 percent in mutual funds, 68.5 percent in bullion. In case of derivatives 52.5 percent said they were willing to invest, 52 percent said they are likely invest in corporate deposits, 51.5 percent in debentures and bonds and 51 percent in preference shares.
27. The results show that investors are more inclined to take higher risks when the decision is to be made in the future. This is probably because people are more optimistic of their future and at the same time the fact that they need not actually make a financial commitment might have given them the confidence to take bigger risks.

28. We find that the most satisfied investors are those who have invested mutual funds, debentures/bonds, and ULIP and equity shares. This tells us that familiarity with the Investment Avenue and easy access to the investments goes a long way in improving the satisfaction levels.

29. A one-way Anova and post-hoc comparison confirm the hypothesis that investment experience has a significant impact on investors' satisfaction levels. The satisfaction level of the respondents and their experience was statistically significant in the case of equity shares, preference shares, debentures/bonds, derivatives, mutual funds, corporate deposit, bullion and ULIP. It was found there was a statistically significant difference between respondents whose investment experience is only since 1 year and those with greater than 10 years of experience, those with 3-5 years and 5-10 years experience also had also indicated difference in satisfaction levels. Thus we find that one's satisfaction with investments tend to vary with experience as more mature investors get better understanding of the dynamics of investing and the period of the their investment might have helped them to have a better results than those who have been invested in the market for a shorter period of time.

30. Thus we find that in the present study demographic factors like Age, Income, Occupation, Education has a significant influence on investor's preference for various Instruments. It was found that the actual behaviour of the investors was influenced by their stated objective of investment. The study also finds that the satisfaction of investors with their investments is related to their investment experience.

31. It is found that on an average the investors agree with the proportion that they invest because of the potential for financial gain. But most respondents were non committal on saving tax as a motive for investment. The responses indicate that retirement goals and securing the children's future figure prominently in the investor's motivation of investment motive. The need to
analyze problems, look for new constructs and learn did not find much support among the respondents. The available data also reveal that the average of investors who agree that they seek the approval of others is significant. Similarly, those who described their motive were to have a nice free time activity were less. This is on expected lines as the social and other motives of investment is not very well articulated or expressed by investors in Indian context. The need for affiliation is also a major motive for investors in the study area.

32. The study also indicates analysis of problems, investments as a free time activity, participating in investment related conversations, respondents, approval of others regarding motive for investments. The analysis shows that except in the case of saving taxes in all other motives for investment there is statistically significant difference between various respondents.

33. The study tries to determine if any difference in motives of investment for the respondent. The independent sample t-test conducted to compare motives for investment between male and female investors reveal that: There was no significant difference in the score for male and female investors for financial gain in investments, to save taxes, to save for their retirements, need to save for their children's education and marriage as also to analyse problems and arrive at new constructs and learn. The test also shows no significant difference in the motives as a free time activity taken up for leisure, to engage in conversation with others, to affiliate with others or gain.

34. We find that the male and female investors are motivated by the need to go with the flow and so try to invest in instruments which are similar to what others are investing. We also find that the effect of gender in determining the motives of investment are not very pronounced as it was found that in general the investors male and female investors exhibited similar motives for investment.

35. The relative difference in the age of investors needs to be studied to understand the differences in their motivations for investments. The goals of the young and old investors might differ. A factor analysis was conducted to identify the existence of a smaller number of underlying and more general types of motives for investments. The factor analysis identify the first factor as social motives which included five items to participate in investment
related conversations, identify with others, people approve of stocks that I buy, to affiliate with other investors and as a free time activity. The second factor was security motives with three items namely education and marriage, analyse problems and save taxes. The third factor was financial motives with two items that is financial gain and to safeguard retirement.

36. In order to evaluate the various strategies adopted by the investors in the study area they were presented with five statements and were asked to indicate the strategy that according to them best described their approach to investments in the capital market. The data collected show that the sample respondents are not very coherent about their own investment strategy. In fact the three major strategies favoured by the sample investors are to increase portfolio value with less chance of loss, strong asset growth with moderate value fluctuations and to maximise returns with high chance of value fluctuation. It indicates the most of the respondents have an aversion to loss as most preferred a less risky method for their portfolio growth.

37. An overall analysis of the data show that the respondents in the study were more inclined towards investment which could give growth with moderate risk. This is probably due to lack of clarity about their investment strategies as even those who said they are optimistic and competitive tended to prefer moderate risk.

38. It is important for individual investors that they are aware of not only which instruments to invest in but also to know how they are performing. The monitoring behaviour can influence the overall behaviour of individual investors as it defines which type of instruments the investor will hold on to, for how long and the readiness to take risk. To assess the how the investors monitor their investments the sample respondents were asked to indicate the factors they focus on while evaluating the performance of their portfolio. It was observed that the majority of the respondents i.e. 46.8% had a long term outlook of my investment portfolio, while 29.8% of the respondents focused on the recent results of the overall portfolio followed by 22% who preferred to focus their attention on the individual instruments that are doing well. It explains the fact that most of the respondents had a long term outlook of investment portfolio which will help in beating fluctuations in the market. Those who focused on the overall portfolios confirms to what Kahneman and
Tversky observed that investors who look at their net wealth tend to do better than those who focus on individual investments.

39. In order to understand the trading activity of the individual investors the sample respondents were asked to indicate whether they were buyers or sellers in the market during the last one year. The data shows that 41.2 percent of the respondents bought as well as sold their investments in the last one year, while 31.8 percent only bought, 8 percent said they only sold their investments and finally 19 percent maintained status quo by not dealing in the stock markets. Therefore we find that the sample investors are very active in the capital markets as 81 percent of them had some or the other trading in the markets.

40. In order to determine the relation between monitoring behaviour of the individual investor and recent trading activity, a comparison was made between the monitoring behaviour of the sample respondents and their investments in the last one year. This was done to determine whether the monitoring behaviour has an impact on the trading activity of the individual investors. It is expected that the monitoring behaviour should have an impact as people who are closely watching the performance of their investments tends to be proactive in their trading behaviour at the same time over monitoring might lead to hasty decisions. We find that there is a significant relation between the monitoring behaviour and trading activity of the sample respondents.

41. It was observed that the respondents are very poorly equipped in terms of analytical skills required to understand the performance of an organization. The study shows that the overall performance of the market and the information from the company, recommendation from professionals and past performance of the market, all move in the same direction. Similarly there exists a significant positive correlation between “Recommendation of the Professional” and “Own intuition about future performance”, as also between “Past Performance of the market” and “Information from newspapers/TV/Internet”. The relation between “Discussion with personal friends” and “Information from colleagues as well as “Own intuition about future performance” are also positively correlated.
42. We also find a negative correlation between “information from the company” and “Recommendation of the professionals, “Discussion with personal friends”, “Information from colleagues at work”, “Own intuition about future performance”. The spearman’s correlation between “Recommendations of the professionals” is significantly negatively correlated with “discussion with personal friends”, “Information from colleagues at work”. We find that those respondents for whom professional advice is important tend to give less importance to information from more informal channels but at the same time they give importance to their own intuitions. “Past Performance of the market” has a significant negative correlation with “Discussion with personal friends”, “Information from colleagues at work”, “Own intuition about future performance”

43. Thus we find that investors faith in the news media is overwhelming and they tend to override information from personal friends, colleagues at work and even their own intuition when it is in conflict with those of the newspapers/TV and Internet.

44. It was seen that the retail investors in the study area have shown a high level of understanding of the various Instruments of investment and the risk associated with it. They have shown a willingness to invest in most instruments other than derivatives which they consider to be unsafe.

45. The investor’s risk perception is a function of the personal characteristics of the individual investor like age, gender, experience and marital status.

46. Investors, with their own unique experience, face various different risk scenarios and their attitude to risk, and risk awareness results in varying decision-making behavior. The risks people are prepared to take are related to their attention, and interpretation and memory processes. Some of the factors which impact an investor’s risk attitude are related to the personal characteristics of the individual investor. In this study an attempt is made to understand the effect of demographic variables like age, gender, experience and marital status in investor’s risk attitudes.

b. Findings based on Secondary Sources

1. The Indian capital markets constitutes a very major source of finance for the corporate sector in India at the same time the retail investors have been
attracted to the capital markets due to various factors like growth in the
economy more transparent regulatory framework and advancement in
technology.

2. Today there are 22 stock exchanges in India, the first being the Bombay
Stock Exchange (BSE), which began formal trading in 1875, making it one of
the oldest in Asia. In terms of the number of companies listed and total
market capitalization, the Indian equity market is considered large relative to
the country’s stage of economic development. The two major exchanges of
India are the Bombay Stock Exchange (BSE) and National Stock Exchange
(NSE) but other commodity exchanges namely, United Stock Exchange of
India (USE), Multi Commodity Exchange (MCX), Over the Counter
Exchange of India (OTCEI) and Inter-connected Stock Exchange of India
(ISE).

3. Computerized online trading of securities, and setting up of clearing houses
or settlement guarantee funds have aided online trading and facilitated better
penetration and participation in the stock markets by the citizens in far flung
area. Online trading systems have made trading much more transparent and
quicker than in the past.

4. The Securities and Exchange Board of India (SEBI) Act, 1992 was enacted
empowering SEBI to regulate the primary and the secondary markets. The
abolition of the Controller of Capital Issues enabled companies to realize fair
prices for their equity offerings. The greater transparency faster settlement
got many foreign institutions investors (FIIs) interested in the Indian market.
Subsequently the FIIs were permitted to invest in Indian Stock markets in
1992 simultaneously; Indian Companies were allowed to raise capital from
abroad through the issue of Global Depository Receipts (GDRs) and Foreign
Currency Convertible Bonds (FCCBs). The participation of foreign
institutional investors and others helped to develop the primary and
secondary market at a rapid pace.

5. Indian stock market 18% Compounded annual growth rate (CAGR), making
it one of the best performing emerging markets of this decade. Market
capitalization of the listed Indian companies expanded fourteen times over
the decade. In terms of market capitalization, India is now ranked 8th
globally compared to its 17th position a decade ago.
6. SEBI has taken several measures to improve the integrity of the secondary market. Legislative and regulatory changes have facilitated the corporatization of stockbrokers. Capital adequacy norms have been prescribed and are being enforced. A mark-to-market margin and intraday trading limit have also been imposed. Further, the stock exchanges have put in place circuit breakers, which are applied in times of excessive volatility. The disclosure of short sales and long purchases is now required at the end of the day to reduce price volatility and further enhance the integrity of the secondary market.

7. SEBI has grouped securities into various categories on the basis of liquidity and volatility. The grouping has been done to fix margins for the same. The margin requirements are different for different groups. A security which is highly volatile attracts a high percentage of margins. A security which is illiquid again calls for a high percentage of margins as there are more chances of defaults.

8. Despite the various efforts taken by the regulators and exchange, some problems do arise. A cushion in the form of Investor Protection Funds (IPFs) is set up by the stock exchanges. Investor Protection Fund (IPF) has been set up as a trust under Bombay Public Trust Act, 1950 under the name and style of National Stock Exchange Investor Protection Fund Trust and is administered by the Trustees. The IPF is maintained by NSE and the purpose of the IPF is to take care of investor claims, which may arise out of non-settlement of obligations by the trading members.

9. SEBI has been quite aware of the fact that retail investors in the primary market may be crowded out by the big ticket investors. Hence it defined Retail Individual Investor the one who invested upto Rs. 50,000/- which was later amended to Rs. 1,00,000/-. Most recently in October 2010 SEBI again amended the Disclosure and Investor Protection Guidelines and extended the monetary limit for retail investor to Rs.2, 00,000/- and the same forms part of ICDR, 2009.

10. SEBI has tried to develop awareness of mutual funds among the retail investors as it is a much safer and better way of investment by the small retail investors. Hence it has mandated an arm’s length relationship between the
fund sponsor, trustees, custodian, and asset Management Company. This is in contrast to the previous practice where all three functions, namely trusteeship, custodianship, and asset management, were often performed by one body, usually the fund sponsor or its subsidiary. FIIs registered with SEBI were permitted to invest in domestic mutual funds, whether listed or unlisted.

11. The primary function of SEBI is to regulate affairs of the securities market such as stock exchanges. It registers and regulates function of intermediaries which are associated with the capital market. These include stockbrokers, sub-brokers, merchant bankers, bankers and registrars to issues, underwriters, share transfer agents, portfolio managers, investment advisors, depositories, custodians of securities and foreign institutional investors (FIIs). Organizations such as rating agencies, which are not intermediaries, but are related to the capital market, are also regulated by SEBI. Collective investment schemes such as mutual funds and venture capital also come under the ambit of SEBI.

12. Capital adequacy standards foster confidence in the financial markets and should be designed to allow a firm to absorb some losses, particularly in the event of large adverse market moves, and to achieve an environment in which a securities firm could wind down its business over a relatively short period without loss to its customers or the customers of other firms and without disrupting the orderly functioning of the financial markets. The capital adequacy requirements for registered market participants in India are still much below desired levels. This has attracted a large number of market participants into the Indian market this large number participants pose a challenge to the ability of SEBI to effectively monitor them.

13. The debt market in India comprises mainly of two segments viz., the Government securities market consisting of Central and State Governments securities, Zero Coupon Bonds (ZCBs), Floating Rate Bonds (FRBs), T-Bills and the corporate securities market consisting of FI bonds, PSU bonds, and Debentures/Corporate bonds.

14. The Indian debt market also has a large non-securitized, transactions-based segment, where players are able to lend and borrow amongst themselves. This segment comprises of call and notice money markets, inter-bank market for term money, market for inter-corporate loans, and market for ready forward
deals (repos). Typically, short-term instruments are traded in this segment.
The market for interest rate derivatives like FRAs, IRSs is emerging to enable
banks, PDs and FIs to hedge interest rate risks.

15. There is a need to create better awareness among the investors so that
investments become well thought out decisions rather than speculative ones. 
Another major regulatory action required is in ensuring that there is a more 
accountability among the directors and issues of corporate governance are 
addressed. The recent past has also shown that the IPO pricing mechanism is 
not well calibrated as the prices tend to crash after listing, loosing money for 
the investors.

6.3. Conclusions

Several conclusions emerged from the findings and resulting discussion of this 
study:

- Firstly, the socio-economic profile and demographic profile of Mangalore is at 
  variance with the national average as Mangalore has a significantly higher 
  literacy rates, the coastal city has a tradition of trading and business 
  entrepreneurship hence they are generally more aware of investments in the 
  capital market. This is not necessarily the case across India hence a 
  generalization to the broader Indian population may not be possible unless the 
  above variations are factored in.

- Secondly, the study shows that the attitude and behaviour of the retail 
  investors can be explained as a function of investor awareness, investor 
  preference, and investor experience and risk attitude. Investor awareness of 
  various investment Instruments is essential to fully appreciate opportunities 
  and associated risks, take informed decisions. The statistical analysis of the 
  data collected shows that there was significant influence of age, educational 
  qualification and income on awareness of the investors about various 
  investment Instruments.

- Thirdly, the study shows that demographic factors like Age, income, 
  occupation, education have a significant influence on investor’s preference for 
  various Instruments. It was found that the actual behaviour of the investors 
  was influenced by their stated objective of investment. The study also finds
that the satisfaction of investors with their investments is related to their investment experience.

- Fourthly, the analysis shows that except in the case of saving taxes in all other motives for investment there is statistically significant difference between various respondents. We find that the effect of gender in determining the motives of investment are not very pronounced as it was found that in general the investors male and female investors exhibited similar motives for investment. Factor analysis reveal that the investors' motives are of three types' namely social motives, security motives and financial motives.

- Fifthly, the study reveals that the retail investors of Mangalore city have a good understanding of the various Instruments of investment and the risk associated with it. They have shown a willingness to invest in most instruments other than derivatives which they consider to be unsafe. It is quite wise as financially engineered products like "Derivatives" are quite complex and difficult to understand; moreover its prominence in world finance is also under attack due to the recent global financial turmoil.

- Finally, there is a significant influence of investment experience on risk attitude as we find that the gender, marital status and age of the respondents do not influence the investor's attitude to risk. It was found that the less experienced investors tend to ignore the possibility of erosion of their investment value due to inflation probably because it is not explicitly evident till much later. The impact of inflation is real as the real value of the investment portfolio comes down so when planning for a long term financial goal there is a need to keep the risk of inflation in focus.

6.4. Recommendations for Future Research

The following recommendations are suggested for future research in the field of investor attitude and behaviour. These recommendations are based on the results of this study.

i. Replicate the study using the larger nationwide sampling so that the potential for generalization of the study can be statistically established with a larger sample base.
ii. Replicate the study using only demographic characteristics found to be statistically significant in influencing attitude, preference and behaviour. Future research should use education, gender, self-employment status, and income as classification factors. Use of these demographic characteristics may lead to major improvements in understanding investor behaviour.

iii. Future empirical tests of investor risk attitudes and preferences also should include longitudinal studies. Previous research has tended to rely on cross-sectional assessments.

iv. Future research should explore the reasons why certain demographics are or are not effective factors in differentiating among levels of awareness, preferences, perceptions, risk attitudes and behaviour.

v. This study has reported only on the results of a quantitative test, and the results presented provide only a brief explanation how various factors like demographics, psychology and sociology effect individual investment behaviour. Qualitative methods would be an ideal way to examine the underlying reasons that make certain characteristics effective in differentiating and classifying factors.

vi. Future research should look into the relationship between investment behaviour and social styles of the individual investor.

6.5. Suggestions

i. There is a increase in the number of people looking at the capital market as an investment avenue. There is a need to educate these vast numbers of new investors particularly the middle class about the risk associated with investments in the capital markets by providing right information and knowledge about the investment instruments.

ii. There is a need to initiate steps to improve corporate governance norms so that the retail investors can be protected and given confidence to participate in the capital market with greater confidence.

iii. Today the retail investors are flooded with information from the various market participants but most of the investors have limited knowledge of reading the financial documents presented to them. There is an urgent need to provide this information in a simpler and lay man terms.
iv. SEBI should further strengthen the investor grievance redressal mechanism by establishing time bound grievance redressal programme.
v. The book building method of Initial Public Offer has impacted the ability of the retail investors to participate in the market. The price manipulations before an Initial Public Offer are a real problem and need to be addressed immediately.