Chapter - I

METHODOLOGY OF THE STUDY
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1.1 Introduction

The economic development of a country depends mainly on the sustained growth of the industrial and service sectors. It requires vast resources and a major part of which is to be mobilised from domestic savings. In India, household sector is the major contributor to domestic savings. But savings of the household sector are held mainly in physical assets and conventional forms of financial assets like currency, bank deposits, post office savings bank, chit funds, and insurance funds and provident and pension funds. If those savings can be channelised into the business sector it will facilitate the development of the country through the development of industrial and service sectors. This calls for the existence of an efficient capital market.

The capital market is an agency or conduit through which small and scattered savings of investors are directed towards productive activities of business enterprises. With this end in view, capital market instruments like share, debentures and mutual funds are offered to investors.

Investors can select the suitable avenue according to their desired level of risk, return and liquidity. Investment in securities of capital market can be made through primary market or secondary market. In the primary market corporate entities offer new securities directly to the investors and mobilise the funds needed for their development. The secondary market provides continuous liquidity to the securities by trading them in the stock exchanges. The investors can buy or sell the existing securities at the prevailing market prices in the stock exchange through stockbrokers.

Indian capital market is one of the oldest and largest capital markets in the world. The first instance of organized trading in securities in India started with the trading of securities of East India Company in the 19th century. The establishment of Bombay Stock Exchange, the first in India, as early as in 1875 gave momentum to the capital market operations in the country. The rapid
industrialisation in the country since independence has given vitality to the capital market. The market reforms initiated as part of liberalization measures in the Nineties like dematerialisation of securities, screen based trading and rolling settlement and establishment of Securities and Exchange Board of India, National Stock Exchange and Depositories added vigor to the growth of Indian Capital market. At present there are 24 stock exchanges in the country.

1.2 Need for the Study

The individual investors numbering millions constitute the backbone of Indian capital market. Their active involvement in the capital market helps the corporate sector to mobilise sufficient funds required for development and ensures continuous liquidity in the capital market. This necessitates ensuring confidence in the minds of individual investors about capital market investment.

But the individual investors are experiencing a number of difficulties from different market participants. Their widespread geographical distribution, unorganised nature and lack of awareness about capital market investment have instigated unscrupulous market participants to exploit them.

It is believed that India’s economic transformation is irreversible. Hence, a greater efficiency in financial intermediation is required to support investment and growth, but this will require structural changes in India’s Public finance and dismantling of unwieldy regulations.

Otherwise it will adversely affect the mobilization of resources through capital market by corporate bodies, which may ultimately affect the economic development of the country. Therefore it is felt necessary to study the difficulties encountered by investors and examine the growth of Capital market in the context of liberalization, analyse the supply (bonds, equities, and derivatives) and demand conditions of household and institutional investors.
1.3 **Overall objective of the study**

The overall objective of the study is to review the growth of capital market in India, particularly in the context of liberalization measures and the various factors influencing the preferences of investors in the Capital Market Instruments in Tiruchirappalli District.

1.4 **Specific objectives of the study**

The following are the specific objectives of the study:

1. To Analyse the level and pattern, diversification and size of capital market investment.
2. To identify the mode of investment preferred by investors and the factors influencing the choice of mutual fund schemes.
3. To study the overall experience of investors in the capital market investment.
4. To find out the options of investors from moving out of capital market investment and the reason for it and
5. To Make recommendations/suggestions for improving the attractiveness of capital market investment.

1.5 **Hypotheses of the study**

The following hypotheses have been formulated on the basis of objectives of the study.

1. There is no significant regional difference in the saving pattern of investors in financial assets.
2. There is no significant regional difference in level of diversification in shares.
3. There is no significant regional difference in size or the amount of investment in shares.
4. Educational qualification, Occupational status, Annual income and the Period of market experience have a significant influence on the level of diversification in shares.
5. Educational qualification, Occupational status, Annual income and the Period of market experience have a significant influence on the size of investment in shares.

1.6 Methodology

The study is conducted in two phases. In the first stage, secondary data from the publications of Government of India, Government of Tamil Nadu, Central Statistical Organisation, Reserve Bank of India, Stock Exchanges, Securities and Exchange Board of India and from relevant reports, periodicals and news papers are collected and analysed.

In the second stage, primary data have been collected from individual investors through a sample survey. A sample of 300 individual investors from Trichy has been selected for this purpose. A structured interview schedule was used to elicit information on the level and pattern of savings and investment in capital market instruments of investors, mode of investment preferred by investors, and the factors influencing the choice of mutual fund schemes of investors. Discussions have also been held with share brokers, portfolio managers, officials of SEBI and officials of stock exchanges to get an insight into the problems of capital market investment.

1.7 Survey Design

For the purpose of the study Tiruchirappalli district is divided into three geographical regions- the Southern region, the Central region, and the Northern region. The southern region consists of the following places Manikandam, Ramji Nagar, Enamam Kolathur, Navalpattu, and Manaparai. The central region consists of the following places in Trichy city like Central bus stand, Puthur, Thillai Nagar, Chathiram bus stand, Srirangam and BHEL. The northern
region consists of places like Tolgate, Samayapuram, Lalgudi, Jeeyapuram, Musiri, and Thottyam. A sample of 100 investors have been collected from each of the sample region on simple random basis from the list of investors supplied by the broker firms and mutual fund agents.

In Tiruchirappalli an official estimate of the numbers of investors, their geographical distribution and their investment characteristics not available. Hence the assistance of share broking firms and mutual fund agents has been sought for identifying the investors. There are 115 sub brokers of National stock exchange and 7 sub brokers of Bombay stock exchange. Majority of them have membership in National Stock exchange. Some of them have membership in Inter connected Stock Exchange and Chennai Stock Exchange and Coimbatore Stock Exchange. These member brokers together with their business house associates and franchises have opened a wide network of business houses. They cover a wide geographical area of the district. Some of the member firms and mutual agents were sought to provide the total members of their client investors in the district. A total of 154784 investors’ names and addresses were been received. This include 90280 investors from central region, 33754 investors from southern region and 30750 from the northern region. Out of these a sample of 100 investors were been selected on a simple random from each region by the list supplied by broker firms and mutual fund agent and the investors visiting share broking centres at Tiruchirappalli.

1.8 Reference Period

Secondary data used for the study have been collected for a period of 15 years from 1990-91 to 2005-2006.

Primary data relating to income, savings, savings in financial assets etc. of investors were collected for a period of 6 months from 12 August 2008 to January 2009.
1.9 Concepts and Definitions

The main concepts and definitions used in the study are listed below.

1. Capital Market

Capital Market is a market for long term financial instruments consisting of shares, debentures and mutual fund schemes. It covers both primary market and secondary market.

2. Primary Market

Primary market is that segment of capital market where new financial instruments like shares, debentures and mutual fund schemes are offered to investors for cash which are issued at par, at premium or at discount. It includes initial public offering, subsequent issues and private placement.

3. Private Placement

It is a method of primary market operations in which new financial instruments are offered directly to investors on a private basis without complying with all legal formalities including the issue of prospectus.

4. Secondary Market

Secondary market is that segment of capital market where existing instruments are listed in the stock exchanges, which facilitate buying and selling of the securities. It includes any off-market transactions entered through a stockbroker.

5. Security

The term security means a capital market instrument, which may be a share, debentures or mutual fund scheme.
6. **Share**

A share is a form of capital market instrument, which evidences fractional ownership of a corporate body and includes both equity shares and preference shares held in physical or electronic form.

7. **Debenture**

It is a credit instrument issued by a corporate body including a public sector undertaking whether convertible into shares or not and which carries a fixed rate of interest.

8. **Mutual fund scheme**

A mutual fund scheme is a capital market instrument, issued by a mutual fund organization, whether open-ended or close-ended and includes any type of scheme.

9. **Individual Investor**

Any individual employing his funds for personal investment in the capital market with the objective of receiving future benefits and who takes the financial decisions of his own. It includes a person who owns any capital market instrument through inheritance.

1.10 **Pilot study and finalisation of interview schedule**

The interview schedule prepared was tested through a pilot study covering a sample of 30 investors in Trichirappalli district. It was finalized after making necessary modifications based on the pilot study results and used for the field survey.
1.11 Collection of Data

The primary data for the purpose of the study were collected personally by interviewing investors with the help of the structured interview schedule. Which took about four months i.e. from, 1st October 2008 to 31st January 2009 for the filed survey for the researcher.

1.12 Tools of Analysis

The data collected for the study have been analysed with the help of computer keeping in view the objectives of study. Simple statistical tools like percentages and averages are extensively used in the study. Apart from this, other mathematical and statistical tools like Compound growth rate, ANOVA, Rank correlation co-efficient, Chi-square test and Kolomogorov – Smimov (K.S.-test) were used for analysis.

1.13 Limitations of the Study

The study suffers from the following limitations.

1. Official records relating to the details of individual investors in Trichirappalli are not available. Hence only the details of investors supplied by broker firms and mutual fund agents are used for the selection of samples.

2. Statistics relating to capital market investment in Trichy is virtually absent. Non-existence of vital data has forced the investigator to depend solely on the information collected through field survey.

3. The investors in general do not properly keep records of their income, saving and investment. Therefore the information furnished by them from their memories have to be relied upon.

Inspite of the above limitations, the highlights of the study can help the policy markers and the investing community at large to frame suitable policies for the betterment of capital market investment.
1.14 Chapter Scheme

The report of the study is presented in Five chapters

Chapter – I  Deals with the methodology of the study
Chapter – II  Presents the review of literature on capital market investment
Chapter – III  Gives the profile of the study area and the sample of investors
Chapter – IV  Analyses the data and interprets the results
Chapter – V  Lists the summary of findings, conclusions and the recommendations based on the study