CHAPTER I

INTRODUCTION
1.1 INTRODUCTION

The capital market plays a major role in the development of any economy through acceleration of industrial growth. The Indian capital market is one of the oldest capital markets since it has been in existence from the 19th century and in terms of number of listed companies, it is the second largest in the world (Tripathi, 1994). Yet, the activities in the market were not significant mainly due to the stringent rules and regulations that were in existence, which curtailed the growth of the market thereby depriving the Indian economy of the role of capital market which should have acted as a propeller to the pace of industrial growth. The capital market in India, which was a dormant segment of the financial system, has undergone a metamorphic transformation from the mid-eighties involving multi-dimensional growth. The magnitude of growth has been rapid and high in terms of funds mobilised, amount of market capitalisation and expansion of investor population. In order to effectively tackle the problems associated with the massive growth, the regulatory framework of the capital market has been strengthened and streamlined (Misra, 1998).

India is one of the few developing countries with a long history of stock exchanges, the oldest one being established in Bombay as early as in 1875. During the pre-independence period, stock exchanges had a chequered career. But development in the corporate sector as well as stock exchanges gained momentum with India going in
for a planned economy since 1951 (Nadkarni, 1989). It was during the 1990s the process of economic reforms got a thrust. A survey conducted by the Securities and Exchange Board of India (SEBI) in 2000 reveals that the 1990s was the decade of reforms in the Indian economy (SEBI, 2001). It was a period of transformation of the Indian securities market and it was the age of the emergence of the securities market from the backwaters to the mainstream of the Indian financial system.

The balance of payment crisis in 1991 and various other factors compelled the Government at the centre to introduce far reaching economic policy changes. The reforms introduced include abolition of industrial licensing except for a short list of industries, reduction in the reservation for public sector undertakings, abolition of asset ceiling for companies covered by Monopolies and Restrictive Trade Practices (MRTP) Act, formation of Securities and Exchange Board of India (SEBI) to protect the interest of the investors, allowing 51 per cent foreign ownership of equities and also permission to Foreign Institutional Investors (FIIs) to invest in securities traded in Indian capital market. These reforms were primarily considered to be responsible for the boom in the market and the heavy speculation, noticed during the year 1991–1992 (Gopalswamy, 1994).

The financial sector reforms, especially the free pricing regime that followed the abolition of the Controller of Capital Issues Act in 1992, seem to have encouraged the corporates to rely on the securities market. This is evidenced by a significant increase in the number of issuers accessing the securities market. The number of issues was a meagre 405 involving Rs.5,477 crores in 1992, being the year of abolition of the
Controller of Capital Issues. After abolition, the number of issues as well as the amount of capital raised registered a tremendous growth and in 1995 there were 1,445 issues amounting to Rs. 14,577 crores (Sanjiv Agarwal, 2000).

The securities scam that rocked the stock market during 1992-98 resulted in siphoning off the funds from the banks, which virtually stalled the growth of the capital market. At a time, when the capital market activities were thriving, India witnessed a stock scam that involved an amount to the tune of Rs. 3542 crores. While describing the stock scam, the report of the Joint Parliamentary Committee (JPC) rightly pointed out that the scam was basically a deliberate and criminal misuse of funds. This led to the erosion of investor faith in the capital market. Gupta, (1998) observes that a majority of the investors do not have much confidence in the regulatory agencies.

In spite of many ups and downs, the equity cult in India has grown at a rapid pace and has spread even to the remotest part of the country. Contrary to the popular belief that investors include only the middle income group from the urban area, it is found that even lower income group as well as the less educated belonging to rural area participate in the capital market activities. The Securities and Exchange Board of India’s (SEBI) Survey (2000) confirms that the investor households have increased at a compounded growth rate of 22 per cent between 1985-86 and 1998-99. The rural investor households have increased at a compounded growth rate of 30 per cent compared to 19 per cent for urban investor households. The other major reason for development of capital market comes from the side of stock exchanges. The spread of
trading terminals throughout the country brought the stock exchanges closer to the investor (SEBI, 2000).

All investments have an element of risk. The investors are bound to take all precautions to protect their interests. If they invest in any security without a proper evaluation of the risk, they may have to blame themselves only. But if there are malpractices by companies / brokers, they have every reason to complain. Such grievances have been increasing in number in recent years. In order to safeguard the interest of investors, the Securities and Exchange Board of India (SEBI), the Company Law Board (CLB), the Reserve Bank of India (RBI) and the Stock Exchanges confer on the investors several rights that they can exercise in order to protect themselves from the perils of the stock market. The SEBI as well as the other bodies associated with the affairs of the corporate sector not only put a check on the malpractices of the securities market but also take effective steps to educate the investors to keep themselves aloof from the onslaught of the stock market irregularities. In spite of all these positive developments, there has been a greater concern for the need for increased protection to the investor community.

1.2 STATEMENT OF THE PROBLEM

An investor has various alternative avenues of investment in which he can invest his money. Savings are invested in assets depending on their risk and return characteristics. There are lots of difficulties in taking an appropriate decision on how to go about in investing in the various financial instruments available in the market. An investor should educate himself about the developments in the capital market.
environment. Newspapers, magazines, television and Internet are some of the sources of information available to an investor. What are the sources an investor uses to gather the necessary information?

The motive of investors differs and their risk perception may not be the same. Institutional investors employ qualified experts to procure, analyse and interpret financial information whereas individual investors generally lack the necessary knowledge, competence and experience to make the best use of the available information. In order to play safe, an investor has to take necessary precautions in choosing the securities. This being the situation, what is his investment behaviour? An investor is enticed by advertisements and tempted by brokers’ advice. It is claimed that he confronts with the problems of delay in executing orders, delay in delivery and delay in getting back the amount whenever shares are not allotted. Is this really so?

The Companies Act, 1956, confers on an investor several rights which he can exercise. The stock exchanges in India have undergone several changes and now the stock market transactions can be done online also. They do have their own system for redressing the investor grievances. The Securities and Exchange Board of India (SEBI) has been instituted to regulate both the companies and the stock exchanges. Against this backdrop, it becomes imperative to know (a) what is his level of awareness? and (b) what factors influence his level of awareness?
1.3 OBJECTIVES

The study makes an attempt to seek solutions to the questions raised above. Accordingly, the following objectives have been framed:

1. To examine the investment information seeking behaviour of equity investors
2. To ascertain the investment behaviour of investors and problems faced by them
3. To find out the factors associated with the level of awareness and
4. To suggest suitable measures to enhance the level of awareness of investors and to formulate measures to protect the interests of the investors.

1.4 METHODOLOGY

The data required for the study is primary in nature. Questionnaire method has been used to collect the data.

1.5 SAMPLING

Four hundred and eleven investors randomly chosen from the lists of investors obtained from stock brokers and investor forum form the sample of the study.
1.6 FRAMEWORK OF ANALYSIS

Data collected have been analysed making use of different statistical tools. The tools used include (i) Chi-square test (ii) Analysis of Variance (ANOVA) (iii) Simple Correlation (iv) Multiple Regression (v) Step-wise Regression and (vi) Path Analysis.

1.7 SIGNIFICANCE OF THE STUDY

The findings of the study will be of immense use to regulatory bodies, stock exchanges, investor forums, investors and brokers as well. Stock exchanges and regulatory agencies can take steps to plug the loopholes in the regulatory mechanism to ensure that the innocent investors are not exploited by the operators in the capital market. The results of the study will be a sort of feedback to the investor forums as to what extent the investor education programmes have reached the investors. Programmes can be redefined and investment rudiments may be refined facilitating the investors to insulate themselves against the shocks of the stock market. Investors get enlightened about the sources of investment information and the various protective measures the government has initiated. Brokers get an insight into the capital market behaviour of investors, which will help them tune their activities in accordance with the preferences of the investors.
1.8 LIMITATIONS OF THE STUDY

The study is based on the data collected from equity investors residing in Coimbatore district alone. Hence, while generalising the results caution may have to be exercised. Any limitation that pertains to an opinion survey is bound to be applicable to this study as well.

1.9 CHAPTER SCHEME

The report of the thesis is presented in nine chapters.

The first chapter introduces the theme of the study. The statement of the problem, objectives of the study, methodology, sampling procedure and the framework of analysis are presented here.

Second chapter is devoted to an overview of the capital market in India. The developments that have taken place in the capital market over the years and the protective measures taken by the regulatory authorities for safeguarding the interest of investors are discussed in detail.

Review of related studies forms the third chapter. The results of the studies carried out in India and abroad are brought out in this chapter.

In chapter four, the research methodology employed for carrying out the study is described. The method of data collection, sampling procedure and purposes for which the various statistical tools are used have been explained in this chapter.
Chapter five portrays the socio-economic profile of the sample investors.

Sources of investment information and the information seeking behaviour of the investors are dealt with in chapter six.

The behaviour of equity investors and the factors influencing their behaviour are the thrust areas in the seventh chapter.

The level of awareness is measured in chapter eight. The determinants of investor awareness are identified here.

The last chapter summarises the findings of the study. This apart, suggestions for improving the level of awareness of the investors as well as the protective measures to be taken by the regulatory authorities are included.
REFERENCES


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