CHAPTER VI

SUMMARY OF FINDINGS, CONCLUSION
AND SUGGESTIONS

An investor while operating in corporate securities has to face various types of risks associated with those transactions. He has to identify and manage these risks properly to maximise his returns. A clear perception of risk is necessary to have a control over them. Risk is the potential loss a portfolio is likely to suffer. As most losses proceed from ignorance, they could be avoided by understanding them properly. Risk management aims at identifying and understanding the various risks an investor has to face. Future return is an expected return and may or may not be actually realised. Risk management measures the various probabilities that may arise in a particular investment. It can show the strengths and weaknesses of an investment.

The emphasis on risk management is increasing with globalisation and the economic liberalisation process altering the way risks are perceived. The competitive market scenario and the progressive opening up of the economy leading to global linkages point to multiplicity of risks and risk management processes. The spread of the equity cult and the dawning of the information age have also contributed to the increasing dimensions of risk management. The investors now have to explicitly identify and deal with all the risk
components, as investors have to be accountable to themselves in terms of the risk-return implications of their behaviour.

At present the future outcomes of a business environment are unpredictable and risk has become an integral part of it. Risk can be defined as the volatility of expected future outcomes. The greater the volatility of expected returns, the greater is the risk. The essence of risk management is to reduce the volatility of future outcomes. Returns depend on the ability of the investor to bear risk. The value maximisation involves both returns and risks and a balance between the two. Prudence lies in the reduction of the area of uncertainty within which an investor is operating. Because of the growing complexity in stock market operations, investors would have to rapidly equip themselves with a variety of information, intensive skills and appropriate techniques of risk management. To strengthen the risk bearing capacity of an ordinary investor, the present problems of the investors should be identified and analysed. This study covers the problems of the investors as well as their needs, aspirations, attitudes and expectations related to investment in corporate securities. The methods adopted by them to reduce the risk in the capital market are also critically analysed in this study.
The major objectives of the study are recapitulated below:

1. To study the nature and significance of various corporate securities.

2. To study and evaluate the existing theories and techniques of evaluating securities.

3. To study the various types of risks and hazards of investing in corporate securities.

4. To study and evaluate the methods and practices adopted by investors to counter total risk and its factors.

5. To study the role of Securities and Exchange Board of India (SEBI) and Stock Exchange in protecting the interests of investors and redressing their grievances.

6. To study the criteria for investment decisions.

7. To make recommendations on the basis of the study.

**Methodology of the study**

The sample comprised of 300 investors selected from the state of Kerala representing the three zones namely the north, the central and the south zones. Respondents were selected at random from the three districts - Kozhikode, Ernakulam and Thiruvananthapuram selected respectively from the three zones. The researcher with the help of an interview schedule interviewed the respondents.
In the foregoing chapters an attempt was made to assess the process of risk management by the capital market investors in the state of Kerala. The criteria applied and the precautions taken by them while investing in the primary and the secondary markets were put under review. This chapter is divided into three sections. Section A contains the summary of the findings of the study, Section B contains the conclusions of the study and Section C contains the suggestions emanating from the findings and conclusions of the study.

Section A

Summary of Chapters

The first chapter is the introductory chapter, which encompasses the objectives of the study, hypotheses set, the variables studied, the methodology adopted for data collection and survey design of the study. A brief account of the nature and significance of corporate securities is also given in this chapter.

The second chapter describes risk management, its objectives and importance and risk management in the Indian scenario. It also gives an overview of the existing theories and techniques of evaluating securities.

An account of the available literature on risk management is given in the third chapter.
The next two chapters i.e., chapter IV and chapter V comprise the analysis of primary data, collected through a field survey. The results are interpreted in these chapters. The main focus of these chapters is the various risks and hazards of investors and the steps taken by them to manage these risks. Chapter V specially focuses on the investment decisions of investors and their impact on risk management.

The sixth and last chapter contains the findings of the study; the conclusions arrived at by the researcher and the suggestions made on basis of the findings and conclusions of the study.

Findings

The major findings of the study are summarised below:

I. Beneficiary Profile

1. Eighty three per cent of the investors are above the age of 36, of which 48% are in the age group of 36-45.

2. Women investors form about 13% of the total number of investors.

3. The capacity to bear risk, to a large extent, depends on the gender.

II. Occupational analysis of investors

1. Sixty two percent of the investors have regular income apart from the investments in the capital market, as they are either permanent employees or professionals.
2. Ten percent of the investors are share brokers and the only source of income is the investment in the capital market.

3. Investors do not depend wholly on the capital markets for their livelihood.

III. Experience of investors in the stock market operations

1. Seventy four per cent of the investors in Kerala have less than 10 years of experience in the stock market. Only 7% of the investors have an experience of more than 15 years.

2. There is substantial decrease in the number of investors with the increase in experience.

IV. Participation of Investors in Stock Market Operations

Fifty five per cent of the investors are not actively operating in the stock market. Twenty four percent of the investors pointed out political instability as the major reason for this. For 19% of the investors, deceitful practice by unscrupulous promoters is the reason for inactivity.

V. Loss due to political reasons

1. Seventy-three percent of the investors suffered loss due to political reasons.
2. Seventy percent of the investors follow a 'wait and watch' policy when there is a political uncertainty. Panic selling is resorted to by only 9% of investors.

3. There is a high degree of positive correlation between experience in stock market operation and the precaution, 'no activity' to cover political risk.

4. The correlation between experience in stock market operations and the 'wait and watch' policy as a precaution to cover political risk is highly negative.

5. There is a low negative correlation between experience in stock market operations and 'panic selling'.

6. There is no gender difference in the matter of dealing with political risk.

7. Even if political risk is taken into account while making the investment decisions, the investor may suffer loss.

VI. Risk of bad delivery and delayed delivery

1. Fifty-five percent of the investors have experienced bad delivery of which 90% were rectified.

2. Thirty-five percent of the investors have experienced delayed delivery of which the brokers cause 55%.

3. Thirty-eight percent of the investors have experienced delayed payment. In 14% of these cases the delay exceeded 3 months.
VII. Forged share certificates and loss of share certificates and odd lots.

1. Twelve percent of the investors received forged share certificates of which 83% got it rectified.

2. Six percent of the investors lost their share certificate by theft of which 29% could not be recovered. 17% of the investors lost their share certificates in transit, of which 40% could not be traced.

3. Thirty Three percent of the investors hold odd lots. Of these 71% are retained as odd lots itself.

4. Response of investors – Many investors are reluctant to complain about the hazards. The investors complained 49% of the cases of bad delivery and 72% of the cases of forged share certificates. Also, the victims brought 72% of the cases of delayed delivery and 41% of the delayed payment to the notice of the authority. The remaining cases of bad delivery and delays were left unnoticed.

VIII. Dematerialisation

Many investors are yet to warm up to the dematerialisation of their shares. Thirty four percent of the investors have not yet converted their shares into the electronic form.
IX. Market Risk & Default Risk

1. Eighty percent of the investors have suffered loss due to market risk.

2. Sixty six percent of the investors follow the ‘wait and watch’ policy when faced with market risk. Policies of ‘no activity’ and ‘panic selling’ are resorted to by 17% each of the investors.

3. Eighteen percent of the investors have met with the default risk. Of these only 22% were rectified later.

X. Holding securities of vanished companies

Sixty one percent of the investors hold shares in companies, which have vanished. Surprisingly, 8% of investors own shares in 10 or more of such companies. Further, more than 500 shares of such companies are held by 34% of investors.

XI. Finance

More than half of the investors have met with financial difficulties while operating in the stock market. Thirty six percent of the investors had to avail of loans to meet their financial difficulties.

XII. Short sale

About 50% of the investors have effected short sale and just half of them resulted in net gain.
XIII. Evaluation of Budgets

Budgets presented in the Parliament are regularly evaluated by 60% of the investors.

XIV. Diversification

1. Remarkably, 81% of the investors diversify their portfolios.

2. Chi-square test proves that there is close association between portfolio diversification and attainment of expected rate of return.

XV. Application of theories of evaluating securities

1. Sixty four percent of the investors are aware of the theories of evaluating securities of which technical analysis is the most commonly applied.

2. Applying stock evaluation theories is effective in attaining a reasonable rate of return.

3. The survey reveals that only 46% of the investors evaluate securities regularly. Though 58% of investors revise their portfolios regularly, many of them are not based on scientific evaluation.

XVI. Seeking advice from brokers

1. Sixty four percent of the investors regularly consult brokers or experts for their investment decisions.
2. Only 13% of the investors believe that the advice of brokers or experts is helpful and 15% believe that it is of no help.

XVII. Investor Protection

1. Thirty four percent of the investors are not satisfied with the brokers, as they do not get timely services from them.

2. It is astonishing to note that only 4% of the investors, who complained to SEBI or stock exchange, got timely redressal of their grievances.

XVIII. Ratings of publications about new equity issues.

1. Ratings of unofficial publications about new equity issues are relied upon by 59% of the investors.

2. Eighty three percent of the investors who follow the ratings say that they are fruitful to the extent of 50%. It is interesting to note that only for 2% of the investors who rely on ratings, it is 100% correct.

XIX. Stress Management by Investors

Forty six percent of the investors have experienced stress in risk management. Surprisingly, 38% of these investors do not follow any special method for reducing stress.

XX. Attending company meetings

1. Only 27% of the investors used to attend company meetings.
2. The main reason for not attending company meetings is that it is conducted at far away places.

XXI. Investment in shares

1. Sixty two percent of the regular investors have invested less than 50% of their savings into the capital market. It is worth noting that 32% of them have invested less than 25% of their savings. 27% of the investors have invested more than 75% of their savings into the capital market.

2. There is a low negative correlation between experience in stock market operations and investment in shares.

3. Seventy three percent of the investors have directed more than 50% of their investment in the capital market into the secondary capital market.

4. Investors have lost confidence in the Equity Market.

5. There is no gender difference in the matter of investment in the secondary market.

6. There is a very low negative correlation between age and investment in the secondary market.

7. Capital appreciation is the main objective for investment in shares. Seventy six percent of the investors make investment in shares expecting capital appreciation.
XXII. Deciding factors of Investment in shares

1. There is an almost perfect positive correlation between experience in stock market operations and efficiency of management of the company as the deciding factor of investment.

2. A low positive correlation exists between experience in stock market operations and the preference for Earnings per share (EPS) as the basis for investment decisions.

3. Dividend is not an important deciding factor for experienced investors.

4. A very significant negative correlation exists between experience of investors and their preference for track record as the deciding factor.

5. The correlation between the experience of investors and 'price' as deciding factor is highly negative.

6. Twenty four percent of the investors consider all the five deciding factors together for their investment decisions.

XXIII. Type of shares selected by investors

1. Sixty two percent of the investors select shares on the basis of the volatility in their prices.

2. The correlation between the experience of the investors in the stock market operations and the tendency to buy highly volatile share is very low and negative.
3. A low negative correlation exists between experience in stock market operations and the selection of growth shares.

4. A highly negative correlation exists between experience of investors and the tendency to buy less volatile shares.

5. The correlation between the experience of the investors and their appetite for income shares is low.

XXIV. Diversion of funds from the stock market

1. Fifty five percent of the investors have diverted funds from the stock market.

2. The main reason for diverting funds from the stock market by investors is their bitter experiences of the past. Higher risk in equity is the reason for diverting funds for 25% of investors.

3. There is no significant association between the objectives for which the investment is made and the diversion of funds from the capital market.

4. There is no difference between the primary market and the secondary market in the matter of diversion of funds.

5. There is significant association between the diversion of funds from the stock market and the type of share in which investment is made.

XXV. Involvement in Speculation

1. Seventy one percent of the investors indulge in speculation. It is interesting to note that less than a quarter of the speculative
transactions result in profit in the case of 53% of the investors who indulge in speculation.

2. Also, most of the speculative transactions of 77% of the investors result in loss.

3. For majority of investors, their speculative transactions did not result in net gain.

4. There is strong negative correlation between the age of investors and the tendency to involve in speculative business.

5. The correlation between experience of investors in stock market operations and their involvement in speculative activity is highly positive.

6. The diversion of funds from the capital market is very much dependant on the investors’ involvement in speculative business.
Section B

Conclusion

The findings summarized in the previous section has lead to the following conclusions:

1. Youngsters in the state of Kerala are reluctant to enter into the capital market, partly because of low income and partly due to their reluctance to risk.

2. The male investors dominate the Capital market.

3. After incurring losses most of the investors exit the market, consequently, the number of experienced investors declines.

4. There is waning interest of investors in the capital market

5. As the investors gain experience in the stock market operations, they can keep themselves away from the market during a crisis.

6. Long run investing is the safe and sure path to wealth creation.

7. Those who are fresh to the capital market are in favour of following a ‘wait and watch’ policy when there is a crisis.

8. Most of the investors are aware of the merits of diversification of portfolios.

9. Diversification helps in attaining the expected rate of return.

10. Most of the investors decide their portfolios without a scientific evaluation.

11. Increase in experience will not bring in additional investment in shares.
12. The Indian capital market is not providing sufficient support, encouragement and safety to the investors. So the investors are wary of locking up their savings in the capital market.

13. Age has no significant influence on the investment in the secondary market.

14. Experienced investors look at the efficiency of the management of the company for making investment decisions.

15. With the experience in the stock market, the tendency to buy growth shares does not increase.

16. With increase in experience in the stock market, people tend to speculate.

17. There is a general tendency to divert funds from the stock market.

18. Even if the objectives for which the investments are made are not attained, the investors may not withdraw the amount from the stock market.

19. Diversion of funds takes place from both the primary market and the secondary market.

20. Most of the speculative transactions in shares result in loss.

21. As the investors age, the tendency to speculate weakens.
Section C
Suggestions

Based on the findings and conclusions drawn from the study, the following suggestions seem feasible for strengthening the capital market, especially the investors.

1. Investor protection continues to remain a dream despite a plethora of laws, rules and regulations and a host of regulators in the form of RBI, the Company Law Board and the SEBI. Investor protection should be the goal of the regulators. All the existing regulations and fresh regulatory proposals are to be reviewed, aiming at this goal. It is time to take stock of the realities and make drastic measures to ensure safety of investors.

2. Special regulation is needed to book the culprits in the case of vanishing companies. SEBI should be empowered to award interest, costs and damages to investors who have suffered on account of cheating by promoters. Provision should be made for personal liability of promoters, directors and concerned intermediaries involved in vanishing companies. SEBI should have the powers to attach the property of the defaulting company and then it should be allowed to sell the property to make good the losses suffered by the investors. Entrepreneurs setting up new companies should be asked to furnish more details to the
regulators, such as photographs, passport number etc. and at least three references so that they do not disappear into thin air.

3. There is a strong need for rating of public issues by authorized agencies like CRISIL, CARE, etc.

4. Investors should put forward their grievances to the regulatory bodies for redressal.

5. Appoint an Ombudsman for redressal of investor grievances.

6. Stock Exchange should remove inefficiencies and promote market access to be attractive to investors by improving both the trading and settlement process. Assure fair deal to investors.

7. Probe into irregularities and manipulations in all transactions. The regulators should be able to take quick corrective action, nip the problem in the bud, punish the guilty and plug the loopholes in the system.

8. Efforts should be made to revive the capital markets, both the primary and the secondary markets. Budget proposals should include tax incentives for investment in public issues.

9. Ensure stability and integrity of the market. Monitor excessive volatility in the market and take prompt action by imposing high margins. It acts as a 'brake' to excessive speed of volatility.

10. It is necessary to tighten our systems and procedures besides ensuring the surveillance mechanism across the stock markets in
line with the developed markets. Review the functions of the stock markets and stipulate policy issues on market operations.

11. More information and greater transparency in the disclosure of information is required to inspire greater investor confidence.

12. Wherever the regulator proposes to introduce a new system in the capital market it must allow sufficient transition time to ensure smooth sailing. Otherwise, investors are prone to lose money.

13. Investors need to investigate events of unrealistic boom in the share prices to control the damage of a scam that may happen.

14. Investors should try to attend company meetings to come to know about the policies of the company.

15. Diversification is a safe method of risk management. Diversify the portfolios, as it will help to reduce risks.

16. Investors should not run after hot tips. They should try to find out whether the price of a share is a real reflection of the earning capacity and future prospects of the issuer. He should understand that long run investing is safer. Investing requires caution; patience and hard work and the investor should never let greed judge his sentiment.

17. As a precaution against stress, practicing yoga would be advisable.
Stock markets provide an attractive opportunity for making money. There is no other form of investment as on today which can offer a better rate of return than that offered by shares. The other side of the picture is that the companies may not line up to the expectations of the investors. Selecting only those shares in which he has a high level of confidence regarding their stability and prosperity, can minimize the risk.

The Indian stock market has made rapid strides. Its role in the Indian financial system is getting transformed from being peripheral to becoming central. The stock markets' behaviour has a powerful influence on the course of economic activity. Everybody today accepts that economic growth requires rising levels of investment. India, with its vast investor base, strong capital market tradition and vibrant industry can optimally utilize the stock markets to raise resources cheaply and provide an impetus for economic growth. But this could be possible only when we learn to respect those investors who contribute to the stock markets' growth and help them to boost their confidence. In this era of scams, it is absolutely imperative that the investor embraces and manages properly the risks to make the extra buck, which bolsters his confidence.
Scope For Future Research

On the basis of the investigations made by the researcher, the following areas related to the study are identified for further research.

a. A detailed study on the role of the Regulators in protecting the interests of investors.

b. A study on profit maximization by investors.

c. Impact of dematerialisation on investments.

d. A study on share price movements.