# CHAPTER – I

## INTRODUCTION

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>Introduction</td>
</tr>
<tr>
<td>1.2</td>
<td>Financial Literacy</td>
</tr>
<tr>
<td>1.3</td>
<td>Investment Avenues at a Glance</td>
</tr>
<tr>
<td>1.4</td>
<td>Individual Investors in Indian Capital Market</td>
</tr>
<tr>
<td>1.5</td>
<td>Retail Investors in India</td>
</tr>
<tr>
<td>1.6</td>
<td>Scope of the Study</td>
</tr>
<tr>
<td>1.7</td>
<td>Statement of the Problem</td>
</tr>
<tr>
<td>1.8</td>
<td>Objectives of the Study</td>
</tr>
<tr>
<td>1.9</td>
<td>Key Definitions</td>
</tr>
<tr>
<td>1.10</td>
<td>Limitations of the Study</td>
</tr>
<tr>
<td>1.11</td>
<td>Chapter Scheme</td>
</tr>
</tbody>
</table>
CHAPTER – I
INTRODUCTION

“To invest successfully over a lifetime one does not require a stratospheric IQ, unusual business insights or seaside information. What’s needed is a sound intellectual framework for making a decision and the ability to keep emotions from corroding that framework” - Warren Buffet.

1.1 INTRODUCTION

Excess of income over expenditure by any economic unit is called savings. A person saves money by somehow putting it aside for consumption at a later time. When savings is employed with an aim of achieving additional income or growth in value it is called investment. The essential quality of an investment is that it involves waiting for a reward (Jones P., 2004).

Every investment decision has two key aspects: time and risk. While the sacrifice occurs in the present and is certain, the benefits come in the future and are uncertain. The economic well being of an individual in the long run depends on how wisely or foolishly he invests.

One needs to invest to earn a return on idle resources and generate a specified sum of money for a specific goal in life and make a provision for an uncertain future. One of the important reasons why one needs to invest wisely is to meet the cost of inflation. Inflation is the rate at which the cost of living increases. The cost of living is simply what it cost to buy the goods and services one needs to live. Inflation causes money to lose value because it
will not buy the same amount of a good or service in the future as it does now or did in the past. Savings, when not invested will gradually lose its value due to inflation or rise in price level. Hence if a person saves, investment becomes a compulsion and not an option. The sooner one starts investing the better. By investing early we allow our investments more time to grow, whereby the concept of compounding increases our income, by accumulating the principal and the interest or dividend earned on it, year after year.

The three golden rules for all investors are:

- Invest early
- Invest regularly
- Invest for long term and not for short term

With savings invested in various options available to the people, the capital formed acts as the driver for growth of the country. Capital is a crucial factor in the development of an economy. The pace of economic development is conditioned, among other things by the rate of capital formation. The role of the financial system is to act as a link between the surplus sectors and deficit sectors to increase the level of investment.

As the income level increases in all developing nations the savings of the people also increase gradually. Various studies confirm the fact there is a correlation between rate of savings and investment (Sinha, 2002). India is no exception to this phenomenon. This is evident from the following table which shows the growth in Gross Domestic Savings and the investments in physical and financial assets over the years.
**TABLE – 1.1**

GROSS DOMESTIC SAVINGS AND INVESTMENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount in Rupees crore</th>
<th>Per cent of GDP at current market prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Household Sector Savings</td>
<td>7,16,874</td>
<td>8,64,653</td>
</tr>
<tr>
<td>a) Financial Assets</td>
<td>3,17,546</td>
<td>4,20,974</td>
</tr>
<tr>
<td>b) Physical Assets</td>
<td>3,99,328</td>
<td>4,43,679</td>
</tr>
<tr>
<td>2. Gross Domestic Savings (GDS)</td>
<td>9,97,873</td>
<td>12,28,086</td>
</tr>
</tbody>
</table>

**Source:** SEBI Annual Report, 2008-2009.

The above table shows that there is a gradual increase in the Gross Domestic savings from 31.68 % to 37.68 % of the GDP during the years 2004-2005 to 2007-2008. The proportion of savings in physical assets is greater than the financial assets. Physical assets are represented by real assets like real estate, gold and silver, precious stones etc. The savings in the economy should be channelized towards financial assets so as to provide for capital formation and economic development. The current trend in India is that people prefer bank deposits and real assets to other forms of financial assets.

A survey conducted by Prime Data Base, a private agency in the year 2007 revealed the following findings related to the investor population and their preferences.
### TABLE 1.2

**NUMBER OF INDIVIDUAL RETAIL INVESTORS AGED 18-59 (IN MILLIONS)**

<table>
<thead>
<tr>
<th>Type of Investments</th>
<th>Number of Investors in Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>141.07</td>
</tr>
<tr>
<td>Postal Savings</td>
<td>35.77</td>
</tr>
<tr>
<td>Life Insurance</td>
<td>105.35</td>
</tr>
<tr>
<td>Mutual fund</td>
<td>5.3</td>
</tr>
<tr>
<td>Equal Market</td>
<td>3.54</td>
</tr>
<tr>
<td>Gold</td>
<td>18.72</td>
</tr>
<tr>
<td>Chit Fund/NBFC</td>
<td>30.05</td>
</tr>
</tbody>
</table>

*Source: Prime Data Base, 2007.*

As indicated above investment in bank deposits are the most preferred method of investing. Life insurance policies are preferred by nearly 105.35 million investors. The preference for equity shares is as low as 3.54 million of the population. Mutual funds have more participation than the equity shares. The most preferred form of investment is bank deposits even though it has the lowest rate of interest.

A nationwide survey (India Financial Protection Survey) of 60,000 households conducted in 2007 by NCAER (National Council for Applied Economic Research) and Max New York Life has revealed the investment preferences of household investors. The main findings of the survey are: Most Indians prefer keeping 65 percent of their savings in liquid assets like bank or post office deposits and cash at home, while investing 23 percent in
physical investments like real estate and gold and only 12 percent in financial instruments. The survey also reveals that 96 percent of the households cannot survive beyond a year on their current savings in case of loss of income due to some eventuality such as death or disability of the chief earner. However, a majority of those surveyed expressed confidence in their financial well-being. These surveys highlight the lack of financial security and awareness about the various modes of savings and their importance.

1.2 FINANCIAL LITERACY

Financial literacy is the process by which investors improve their understanding of financial markets, products, concepts and risks. A widely accepted definition of financial literacy is one formulated by the U.K. National Foundation for Education Research which describes financial literacy as “the ability to make informed judgments and take effective decisions regarding the use and management of money.” Participation in modern finance throws up a number of questions and choices for investing. A clear understanding of the different avenues of investments will help an investor to make a wise decision based on his investment goal. The financial market offers a wide variety of investments which differ from one another with respect to the return, risk and the waiting period. An investor has to be aware of the merits and limitations with respect to each investment channel so as to decide a course of investment plan.

When the financial literacy level increases, the investors may take an informed decision about his investment portfolio which will benefit both the country as well as the individual investor.
1.3 INVESTMENT AVENUES AT A GLANCE

There are numerous avenues of investment available today. Investing has been an activity confined to the rich and business class in the past. This can be attributed to fact that availability of investible funds is a pre requisite to the deployment of funds. But, today with the growing income level of the public investment has become a household word and is popular with people from all walks of life. Brief descriptions of the investments are given below.

Dr. Prasanna Chandra in his book “Investment Game” has rightly classified various investment avenues into four groups.

a) Financial Securities
b) Non-securitised Financial Assets
c) Mutual Fund Schemes
d) Real Assets.

Financial Securities: Financial securities include equity shares, preference shares, convertible debentures, non-convertibles debenture, public sector bonds, savings certificates, etc. equity shares and public sector bonds are the most common investment avenues among the financial securities for the common man.

Non-Securitised Financial Investment: Unlike a financial security, non-securitised financial investment is not transferable or negotiable. Post-office Saving Deposits and fixed deposits like National Saving Certificates, Kisan Vikash Patra, etc. Saving bank accounts and fixed deposit in banks, provided fund schemes, fixed deposits in companies, Life Insurance etc. are some of
the non-securitised financial investment. The post-office and savings banks deposits, recurring deposits and fixed deposits are most common and important among the non-securities financial investment.

Deposits in post offices and nationalized commercial banks are regarded as the least risky investment avenues. However the rates of return in those investment avenues are comparatively less. The rate of return in a fixed deposit in a bank is as high as 13% in the year 1991 which has come down to less than 5% in the year 2008-2009.

Mutual Funds Schemes: Instead of directly buying financial securities, one can invest in mutual funds. Those mutual funds managed by professionals decide where to invest, when to invest, how much to invest and when to disinvest so that the mutual funds scheme would be able to give a profit to its investors.

Real Assets: For the bulk of the investors the most important asset in their portfolio is a residential house. In addition to a residential house, the more affluent investors are likely to be interested in the following types of real estate:

- Agricultural land
- Semi-urban land
- Time share in a holiday resort

1.4 INDIVIDUAL INVESTORS IN INDIAN CAPITAL MARKET

Investors in the capital market may be institutions or Individuals. In the capital market the role of individual investors can not be ignored since
households savings account for the lion’s share of the gross savings in the country. Even though Foreign Financial Institutions play a major role in the Indian capital market, the participation of Individual investors will be a great boost for the development of the capital market and for reducing the volatility in the stock market. The market fluctuations arise mainly due to the sudden exit or entry of FIIs in the Indian capital market. The capital market regulators should not ignore the individual investors whether they are retail or high net worth individuals since their aspirations, attitudes, perceptions and expectations are going to have a long term effect on the growth of stock market in India.

There are many studies relating to the participation of individual investors in the Indian Capital Market. A Reserve Bank of India study of ownership of shares in 1978 covered 361 companies listed on various stock exchanges. The total paid up value of Rs.1390.85 crore of the shares of these 361 companies were held by 30,16,000 accounts of which individuals held 99.3 per cent Value-wise, individual holdings accounted for 37.58 percent, joint stock companies 33.77 per cent, financial institution 25.68 per cent, government and semi-government bodies 1.49 per cent, and 1.48 per cent was held by trusts and charitable institutions (RBI Bulletin, Feb. 1983).

An Industrial Development Bank of India (IDBI) study of 1986 gave the pattern of equity shares of 575 companies. Total paid-up capital of the 575 companies was Rs. 2755.5 crore in terms of value. It was owned by 76,28,598 account holders. The largest numbers of accounts, 99.5 per cent,
were held by individuals. In terms of value their holdings accounted for 36 per cent of total equity. Joint stock companies accounted for 25.9 per cent, financial institutions 22.6 percent, government and semi-government organizations 14.4 per cent, and 1.1 per cent was held by trusts and charitable institutions (The SE Official Directory).

The number of listed companies in India has gone up from 2,225 in 1980 to over 9,000 in 1997. As on 31 March 1997, there were 9,890 companies listed on the Indian stock exchanges (India, 1998). According to a survey by Securities and Exchange Board of India (SEBI) in 1996, there are more than 17 million individual shareholders and 72 per cent of them are in the middle income group.

**TABLE – 1.3**

**NUMBER OF INDIVIDUAL INVESTORS IN INDIA**

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Individual Investors (in Lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>24</td>
</tr>
<tr>
<td>1985</td>
<td>60</td>
</tr>
<tr>
<td>1990</td>
<td>90</td>
</tr>
<tr>
<td>1992</td>
<td>130</td>
</tr>
<tr>
<td>1994</td>
<td>160</td>
</tr>
<tr>
<td>1996</td>
<td>190</td>
</tr>
</tbody>
</table>

*Source: Gupta, L.C., 1991.*

The number of share-holding population has been increasing in India. This increase can result in the transformation of trading capital to industrial
capital. Though India witnessed the spread of the equity cult in the 1980s, wild gyrations and extreme volatility in stock prices do cause worries.

**State-wise Share-owner Distribution**

Among the states, Maharashtra accounts for nearly one third of India’s share owning population. A comparison of state-wise distribution of shareowners for 1984 and 1992 shows the emerging trends in the Indian capital market.

Table 1.4 shows that the share of the top 5 states, viz., Maharashtra, Gujarat, West Bengal, Tamil Nadu and Karnataka, came down from 82.6 per cent in 1984 to 74.7 per cent in 1992. Gujarat stands as an exception, which increased its percentage share from 16.2 in 1984 to 19.4 in 1992. The shareholding habit in Gujarat has spread among the people of small towns and villages.
# TABLE – 1.4

**STATE-WISE SHARE-OWNER DISTRIBUTION**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>State/Union Territory</th>
<th>Population as per 1991 Census</th>
<th>No. of Individual Share owners</th>
<th>Share-owner incidence (No. of shareowners per 100 persons)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>1984</td>
</tr>
<tr>
<td>1.</td>
<td>Gujarat</td>
<td>4,11,74,343</td>
<td>24,21,225</td>
<td>1.43</td>
</tr>
<tr>
<td>3.</td>
<td>W. Bengal</td>
<td>6,79,82,732</td>
<td>11,78,275</td>
<td>0.57</td>
</tr>
<tr>
<td>4.</td>
<td>Tamil Nadu</td>
<td>5,56,38,318</td>
<td>6,67,313</td>
<td>0.39</td>
</tr>
<tr>
<td>5.</td>
<td>Karnataka</td>
<td>4,48,06,468</td>
<td>4,99,463</td>
<td>0.31</td>
</tr>
<tr>
<td>6.</td>
<td>Punjab</td>
<td>2,01,90,795</td>
<td>1,83,463</td>
<td>0.17</td>
</tr>
<tr>
<td>7.</td>
<td>Rajasthan</td>
<td>4,38,80,640</td>
<td>3,66,350</td>
<td>0.20</td>
</tr>
<tr>
<td>8.</td>
<td>Haryana</td>
<td>1,63,17,715</td>
<td>1,27,988</td>
<td>0.16</td>
</tr>
<tr>
<td>9.</td>
<td>Kerala</td>
<td>2,90,32,828</td>
<td>2,14,525</td>
<td>0.09</td>
</tr>
<tr>
<td>10.</td>
<td>Andhra Pradesh</td>
<td>6,63,54,559</td>
<td>4,00,663</td>
<td>0.12</td>
</tr>
<tr>
<td>11.</td>
<td>Uttar Pradesh</td>
<td>13,90,31,130</td>
<td>5,39,958</td>
<td>0.10</td>
</tr>
<tr>
<td>12.</td>
<td>Madhya Pradesh</td>
<td>6,61,35,862</td>
<td>2,31,075</td>
<td>0.07</td>
</tr>
<tr>
<td>13.</td>
<td>Bihar</td>
<td>8,63,38,853</td>
<td>1,90,288</td>
<td>0.03</td>
</tr>
<tr>
<td>14.</td>
<td>Assam</td>
<td>2,22,94,562</td>
<td>44,363</td>
<td>0.02</td>
</tr>
<tr>
<td>15.</td>
<td>Himachal Pradesh</td>
<td>51,11,079</td>
<td>10,425</td>
<td>0.05</td>
</tr>
<tr>
<td>16.</td>
<td>Jammu &amp; Kashmir</td>
<td>77,18,700</td>
<td>13,263</td>
<td>0.02</td>
</tr>
<tr>
<td>17.</td>
<td>Orissa</td>
<td>3,15,12,070</td>
<td>38,913</td>
<td>0.02</td>
</tr>
<tr>
<td>18.</td>
<td>Delhi (UT)</td>
<td>93,70,475</td>
<td>10,37,425</td>
<td>4.60</td>
</tr>
<tr>
<td>19.</td>
<td>Chandigarh (UT)</td>
<td>6,40,725</td>
<td>66,225</td>
<td>2.40</td>
</tr>
<tr>
<td>20.</td>
<td>Goa</td>
<td>11,68,622</td>
<td>33,163</td>
<td>0.27</td>
</tr>
</tbody>
</table>

*Source: Gupta, L.C., 1994.*
1.5 RETAIL INVESTORS IN INDIA

An individual who purchases securities for his/her own personal account rather than for an organisation is a retail investor. SEBI defines a retail shareholder as presently listed companies making public issues can make reservation on competitive basis for its existing shareholders who, as on the record date, are holding shares worth up to Rs. 50,000/-. However, no limit has been set on the value of the application that can be made by such shareholders. It has now been decided to define the term “Retail Individual Shareholder” to mean a shareholder (i) whose shareholding is of value not exceeding Rs. 1,00,000/- as on the day immediately preceding the record date, and (ii) who makes application or bids in a public issue for value not exceeding Rs 1,00,000/- (www.sebi.org).

Retail investing activity occurs through any of the following channels;

- The investor directly invests
- He acts through an agent or broker
- His accounts are managed by his D/P
- He joins an investment group - friends, colleagues, family members etc. (though unofficially)

A retail investor comes from a middle class family. Retail investing activity takes place in the shadow of institutional investing activity. There is every chance that their interest might be affected because of the smaller size of their holding and the resultant voting power.
A typical small investor or a retail investor in India is not a speculator who does day trading but a pure investor who buys shares when prices are likely to go up and sells when the prices are likely to come down. Such an investor is a rational investor who does what is generally expected. His information level is very low and he mainly relies on the brokers.

In many countries it is common to find all people, and not just those belonging to the middle class, investing a part of their savings in stock market. In the 80s in Singapore even a cab driver had parked his funds in shares/debentures etc. But in India the so called equity culture started only from the 90s. Reliance Industries Limited in particular wooed the middle class—salaried, professionals, small business persons and traders and well-off farmers to subscribe to the company’s share issue. Many did and were handsomely rewarded.

The small investor today seems to disappear slowly from the market in a phased manner. In spite of the 24 hour channels on business news and hyped information about IPOs the small investor does not want to take any risk. The Swarup Committee Report 2009 shows that the retail investor population has shrunk to less than half since 2000-01.

In 2003, SEBI and the National Council of Applied Economic Research (NCAER) estimated that 21 million individuals had invested in equity or debentures while 19 million had invested in mutual funds. The reference period for this study was 2000-01.
The SEBI-NCAER survey further said that the number of equity investor ‘households’ in India had halved from 12.1 million in 1998-99 to 6.1 million in 2000-01. Now, the Swarup Committee says that the number of individual retail investors too has shrunk to just eight million. This is clearly a frightening situation.

The retail shareholders participation in the primary issues is also decreasing gradually compared to the earlier period as evident from the table given below.

**TABLE – 1.5**

**IPOs AT GLANCE IN 2009**

<table>
<thead>
<tr>
<th>IPOs</th>
<th>Subscribed by Number of Times</th>
</tr>
</thead>
<tbody>
<tr>
<td>DEN Networks</td>
<td>0.1</td>
</tr>
<tr>
<td>Godrej Properties</td>
<td>0.37</td>
</tr>
<tr>
<td>MBL Infrastructure</td>
<td>0.4</td>
</tr>
<tr>
<td>JSW Energy</td>
<td>0.4</td>
</tr>
<tr>
<td>Raj Oil Mills</td>
<td>0.77</td>
</tr>
</tbody>
</table>

*Source: Business Line, 2009*

If this trend continues it will definitely undermine the government’s plan for disinvestment.

The first and the foremost reason is that investor has no confidence in the capital market. It stems from the fact that the Institutions and Systems in
the country are at present heavily loaded in favour of the FIIs and other large investors.

The minimum percentage of shares that has to be offered to the public has come down drastically over the years from 60 percent to even 10 per cent in some of the cases. The small investor is simply siphoned out. The total number of investors in India hovers around 4 per cent of the population. Now in June 2010, The Government has made amendments to the Securities Contracts (Regulation) Rules. The salient features of the amendment are as follows:

a) The minimum threshold level of public holding will be 25% for all listed companies.

b) Existing listed companies having less than 25% public holding have to reach the minimum 25% level by an annual addition of not less than 5% to public holding. This amendment is likely to increase the retail investor participation in the capital market in the years to come.

Traditionally Indian investors have always entered the capital market through IPOs, because they were reasonably assured of an attractive price and returns but now since the abolition of Controller of Capital Issues, the IPO is heavily priced and there are instances of vanishing companies. So the retail investor stays away from the traditional route to the capital market. The best example of an IPO disaster is the Reliance Power IPO where the investors lost. Because of the oversubscription the losses were minimized to some extent for retail investors.
Frequent Scams and resultant volatility also decreased the investor confidence in Stock Market as a small investor would have burnt his finger more than once. The first occasion was during the Harshad Mehta scam followed by Ketan Parek and many sundry problems. In the year 1999-2000 the stock market witnessed the dot com bubble followed by a bull run and then when the market was going steady, the major crash resulted in 2008 due to the subprime crisis.

Ms. Madhabi Puri Buch, Managing Director and CEO, ICICI Securities Limited says that it would be a pity if retail investors were not to participate in the markets now. She adds the stock market is a wonderful place for retail investors simply because if you look at a one year plus time frame the trend is distinctly upward and if the retail investors have a three to five year time frame, they will not be disappointed. (The Hindu Business Line, Feb. 2010).

When the stock market is experiencing a boom the retail investors can also enter and reap the rewards provided they don’t fall prey to either fear or greed and behave rationally. Any time is a good time to enter the market provided we have a long term perspective. The game of investing like any other game requires certain qualities and virtues on the part of investors.

1.6 SCOPE OF THE STUDY

Traditional finance theory presupposes that investors view all decisions through an objective lens of risk and return. It also assumes that people are guided by reason and logic and independent judgment. But the field of behavioural finance recognises and proves that emotions and herd instincts play an important role in influencing decision. Unlike institutional investors,
Individual investors are prone to such psychological behaviour while making investment choices. When these psychological biases are coupled with the poor financial literacy levels, it may create havoc in the game of investing. As a result, the argument of the traditional financial theory relating to the efficiency of the stock market is often proved wrong.

In this context, it is very important for an investor to be aware of the various psychological biases that he or she may have and the ways of overcoming such bias while investing. Investor behaviour is characterized by overexcitement and overreaction. Some of the psychological biases that are proved are herd instincts, over confidence, anchoring among others. A herd instinct refers to the behaviour of the investors to follow the crowd and not having independent judgments. It is a mentality characterized by a lack of individuality, causing people to think and act like the general population. Herd instinct explains why people tend to imitate others. When a market is moving up or down, investors are subject to a fear that others know more or have more information. As a consequence, investors feel a strong impulse to do what others are doing. Anchoring refers to the tendency to hold on to some belief even though it is not supported by information. Over confidence refers to relying too much on their own experience and over estimating their forecast. Identification of all such biases in an investor is helpful for proper investing. Apart from these psychological factors, the demographic factors too may influence the financial decision making process. Hence this study is made to analyse the various factors which in the investing behaviour of the investors.
The growth of capital market in India is evident from the rise in the market capitalization of the leading two stock exchanges in India namely Bombay Stock Exchange and the National Stock Exchange. At the international levels too these stock exchanges are one of the leading exchanges in terms of market capitalization and the number of securities traded. The last decade saw a huge increase in the inflow of funds from the Foreign Institutional Investors. When the stock market is growing every individual investors too should share in its growth and profit. But clearly the data revealed by various agencies show that individual investors especially retail investors are shying away from the capital market Hence there is a need to study individual investors and perceptions in the capital market.

The spotlight of this study is on individual investors as buyers of corporate securities. In the context of a developing economy like India the market for corporate securities needs to be expanded so that the corporate sector can raise long term capital by issuing securities to the public. Individual investors have a strategic role in the smooth functioning of the capital market and in ensuring the capital flows into the most efficient hands. Given the high savings rate of households, the challenge before the policy makers and regulators is how to attract these savings into the capital market. Individual investors should take a pivotal role in corporate governance as well. Unlike institutional investors, individual investors have small holdings in capital and they are scattered. Hence there is a need to protect their rights. There is not much of shareholders activism in India especially in Tamil Nadu. Tamil Nadu
has only a few registered investors associations with SEBI, including the investor associations in Chennai and Coimbatore.

The state of Tamil Nadu is one of the developed states in India with a huge potential for participation in the capital market. Investor studies relating to state of Tamil Nadu is very limited. Hence this study is undertaken to gain an insight to the investor behavior.

1.7 STATEMENT OF THE PROBLEM

There are diverse players in the Indian Capital Market namely Individual investors, mutual funds and Foreign Institutional Investors. Individual investing activity takes place in the shadow of institutional investing activity. Indian capital market is dominated by Institutional Investors both domestic and foreign. There is every chance that the interest of the individuals might be affected because of the smaller size of their holding and the resultant vulnerability. There is a need to study the problems of the small investor. The stock market witnesses volatility due to the entry and sudden exit of Institutional Investors. In this context the researcher is motivated to study the investing strategies, preferences and perceptions of the individual investors in the capital market. Further there is a need to analyse the various demographic factors and psychological factors which influence the decision making process. Unlike institutional investors, individual investors are influenced by the various psychological and demographic variables. The psychological approach to investing is based on the premise that stock prices are guided by emotion rather than reason. The researcher is motivated to study this aspect of the investors. The study covers the savings and
investment behavior of the respondents with respect to Equity investments and Mutual Fund.

1.8 OBJECTIVES OF THE STUDY

1. To examine the demographic details of the respondents.
2. To analyse the investment pattern of the respondents with respect to different investment avenues, diversification, mode of transaction, leverage and return.
3. To examine the factors which influence the investment behaviour of individual investors in shares.
4. To examine the mutual fund selection behaviour of individual investors.
5. To evaluate the investors’ perception about capital market and,
6. To assess the awareness levels of investors with respect to the fundamental concepts in the capital market.

1.9 KEY DEFINITIONS

i) **Blue chips**: Shares of particularly well known and established companies which have shown consistent growth over the years, have bright future prospects and are expected to do well in the future.

ii) **Bonds**: An instrument of loan raised by Government or a company, at a specified rate of interest and date of repayment. Company bonds are more often called debentures.

iii) **Bonus shares**: When a company’s accumulated reserves are high, it may choose to issue bonus shares to existing shareholders in proportion to their shareholdings. Thus the reserves get converted into share capital but the number of shareholders will remain the same.
iv) **Capital Gain**: Rise in the value of a capital asset (e.g. shares) over and above the purchase price.

v) **Credit rating**: The credit rating system is designed to evaluate a borrower’s financial strength for repaying the money borrowed. The rating which takes the form of symbols is intended to indicate the probability of default by the borrower. Based on a borrowing company’s rating, the lenders decide whether to lend or not to the particular borrower and what interest rate to charge.

vi) **Debentures**: An instrument of loan issued by a company which carries fixed rate of interest is called debenture.

vii) **Delisting**: A company may be prevented from being traded in the stock exchange if it fails to fulfil the requirements of listing. Sometimes a company management may voluntarily decide to get the company delisted by the demat system, the shares are held by the share owners in the electronic form in the Share Depository.

viii) **Dividend**: Payment made to shareholders, usually once a year, out of the company’s profits.

ix) **Foreign Financial Institutions**: These are institutional investors such as pension funds, insurance companies, mutual funds, foundations, endowments, and many other financial institutions based abroad and registered with SEBI for portfolio investment in India.

x) **Fundamental Analysis**: Fundamental analysis of a business involves analyzing its financial statements and health, its management and competitive advantages, and its competitors and markets.
xi) **Technical Analysis:** In finance, technical analysis is a security analysis discipline for forecasting the future direction of prices through the study of past market data, primarily price and volume.

xii) **Gross Domestic Product:** The value of total final output of goods and services produced within a country during a year.

xiii) **Inflation:** The annual percentage increase in the general price level.

xiv) **Listed Company:** It means a company whose shares are tradable on a stock exchange. Such a company has to fulfil a host of prescribed conditions intended to protect investors. Capital market regulations cover only the listed companies.

xv) **Listed Shares:** These are shares of a listed company.

xvi) **Nifty Index:** Share Price Index started by the National Stock Exchange in November 1996. It comprises 50 large and liquid stocks in the NSE.

xvii) **Primary Market:** This refers to the market for new issues. Once a new issue has been made, it begins to be traded in the secondary market.

xviii) **Rights Issue:** Issue of shares at par or at a premium by an existing company to its shareholders in a certain proportion to their holdings, as a matter of their right is known as rights issue.

xix) **Secondary Market:** The market in which existing shares are bought and sold among investors.

xx) **Securities and Exchange Board of India:** Statutory Regulatory Authority for the capital market in India created by the government in 1992.
xxi) **Sensex**: A short form for Sensitive Index, based on share prices of 30 leading companies in India. It was started by the BSE in 1978-79 and is the oldest index of India.

xxii) **Speculation**: The activity of buying and selling a commodity or financial asset usually with the aim of making quick profit from change in price.

xxiii) **Volatility**: The tendency of the market prices to fluctuate is termed as the market's volatility. Rise in volatility makes investing in shares riskier.

1.10 **LIMITATIONS OF THE STUDY**

1. The study is mainly based on the primary data collected from 300 respondents in the cities of Chennai, Madurai, Tiruchirappalli and Coimbatore. The inherent drawbacks of the primary data are applicable to the study.

2. The reluctance of the respondents to part with information relating to their income and investment made the data collection very difficult. Respondents did not want to reveal their income and savings in absolute terms hence the questionnaire had to be modified to get the data relating to the income level and savings level.

3. Some of the respondents are indecisive with respect to different investment related queries. They are not sure of their goals in savings and investments. The responses may not be valid.

4. There are various investment avenues in the capital market but the study confines mainly to the investment in shares and mutual funds.
5. The study covers only limited geographical area namely the four major cities in Tamil Nadu. Hence the findings may not be applicable to the rural parts of Tamil Nadu where there are negligible numbers of investors in the capital market.

1.11 CHAPTER SCHEME

The first chapter is an introduction to the study. It explains the savings and investment behaviors in India, Growth of capital market in India and the status of individual Investors. It also gives a brief outline of the importance of the study.

The second chapter describes the origin and growth of capital market in India.

The third chapter gives an account of the available literature related to the study and gives key definitions used in the study.

The fourth chapter describes the methodology adopted for the research and includes aspects such as the data used, tools of data collection. Sampling method, area of the study, reference period, the variables studied and the tools used.

The fifth chapter comprises of data analysis and interpretation. The various hypotheses are analysed and interpreted based on the results obtained from the statistical analysis.

The sixth chapter contains the major findings of the study and the suggestions for further research. This chapter concludes with the summary of the research.
END NOTES:


***************