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RISK BEARING ABILITY OF INVESTORS IN INDIAN STOCK MARKET

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Abstract: *There are different investment avenues with varying degrees of risk and return. The advent of the capital market has offered a number of investment choices to the investors. Investment in the capital market need not be a nerve-racking experience provided the decisions are taken on the basis of analysis and reasoning. This necessitates the investor to set the investment goals, and to work towards his target on the basis of sound analysis of market information. The real world of investment is so lively and unstable that it attracts the investor, the speculator and gambler. No investor wants to lose money. Capital gains and dividends are the important ingredients that investors regard as return on investment. To avoid wrong decisions, one may need expert and professional guidance. The research primarily aims at evaluating the risk bearing ability of investors in equity market. The secondary objectives were to identify the investor's perception towards Indian Stock Market, to know the investment pattern of Indian equity investors in general and investment preference viz. risk-return perception to a limited level, to find the part of savings that an investor is ready to invest in stock market out of his income, to analyze the level of importance assumed by the retail equity investors on various investment objectives based on the socio economic variables and selective demographic profile of investors. The survey was done through questionnaire amongst 303 investors of Indian Equity Market using convenience sampling method. It was discovered that majority of the investors are normal traders who were not ready to take more risk and lack of knowledge about market was the real challenge faced by investors in equity market.*

Key words: *Risk, Return, Investment, Equity and Savings*

INTRODUCTION

The capital market witnessed good growth between April 2014 and March 2015 on the back of good GDP growth, encouraging results, the government intent to invest heavily in infrastructure, strong rupee and mounting foreign exchange reserves. There was a mild volatility whenever there was news about interest rates. There has been a higher volatility more recently because of two things-concerns over fiscal deficit and inflation and raising interest rates in the key world economies. There could be

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inflationary pressures and rising trade deficit, particularly in developing countries. As for the emerging scenario, India's GDP growth promises to be better than was it earlier. Indian corporate continues to show good growth and robustness. The monsoon is expected to be good as also the agricultural growth. The rupee seems to be holding fine while the foreign exchange reserves remain comfortable. The balance sheet of Indian banks is getting stronger. The market now seems to be waiting for the Government's moves on the economic front. The equity markets are bound to witness a big rally. If this does not happen then the market could see a choppy period ahead. On the debt side there are indications that the interest rate must rise. It is now fairly well established that making investment in only one channel does not yield the desired result. Diversification and asset allocation is new mantra. An investor needs to diversify for optimum results. This will involve putting money in equities-choosing the type of equity fund and that most suits the risk/return profile and also some money in debt funds. The combination of equity and debt will depend upon the factors viz. risk orientation, quantum of return expected, time horizon and objective of making the investment.

INDIAN CAPITAL MARKET

The Indian Capital Market has undergone phenomenal changes. The magnitude of growth could be gauged in terms of massive jumps in funds mobilization, the turnover on the stock exchanges. The amount of market capitalization and the expansion of invest population. The regulatory framework has been strengthened and streamlined in order to tackle effectively the problems associated with the massive growth of the market. The main components of Indian capital market are guild-edged market and the industrial securities market. It is further classified as primary and secondary market. Guilt edged market also known as 'Government Securities Market' is the market for government and semi government securities. An important feature of the securities traded in this market is that they are stable in value and are much sought after banks. The fresh issue of securities takes place in primary market. Primary market is also known as new issue market. Equity investors first enter capital market through investment in primary market.

TRADING PATTERN OF INDIAN STOCK MARKET

Trading in Indian stock market is limited to listed securities of public limited companies. They are broadly divided into two categories, namely, specified securities (forward list) and non-specified securities (cash list). Equity shares of dividend paying, growth-oriented companies with a paid-up capital of at least Rs. 50 million and a market capitalization of at least Rs. 100 million and having more than 20,000 shareholders are, normally, put in the specified group and the balance in non-specified group. Two types of transaction can be carried out on the Indian stock exchanges:

(i) Spot delivery transactions 'for delivery and payment within the time or on the date stipulated when entering into the contract which shall not be more than 14 days following the date of the contract'.

(ii) Forward transaction 'delivery and payment can be extended by further period of 14 days each so that the overall period does not exceed 90 days from the date of the contract.'

The latter is permitted only in the case of specified shares. The brokers who carry over the outstanding pay carry over charges which are usually determined by the rates of interest prevailing. A member broker in an Indian stock exchange can act as an agent, buy and sell securities for his clients on a commission basis and also can act as a trader or dealer as principal, buy and sell securities on his own account and risk, in contrast with the practice prevailing on New York and London Stock Exchanges, where a member can act as a jobber or a broker only. The nature of trading on Indian stock exchanges are that of age old conventional style of face-to-face trading with bids and offers being made by open outcry. However, there is a great amount of effort to modernize the Indian Stock exchange in the very recent times with dematerialized on line trading system.

IMPORTANCE OF STOCK MARKET

The prevailing economic conditions, both domestic and global, suggest the Indian stock market is poised to continue to rally in 2010 even though US and European market have yet to recover from recession effect. Key factor remains the impact of Q4 results and expected GDP growth of around 8%. However point of caution needs to be the phase wise withdrawal of financial support given by Indian government to the market. So far the recovery in India has been driven by domestic consumption and government expenditure. However, corporate investment is expected to surge in 2015 due to the strong GDP growth which will increase capacity utilization. Stock in the infrastructure and power sectors may be the front runners in 2015 as they receive strong policy support from the Indian Government. But one must be cautious that the interest rate cycle might start moving up with the strong GDP performance and relatively high inflation. If it does, banking stocks will be affected as it was seen in the past. We have witnessed a global financial crisis in 2008-09 which is still very much unforgettable incident and taught us good lessons. During the bull rally there was considerable exuberance. This was the time when interest rates were low. Credit was available and that too cheaply. Not just that, corporate profits were growing at a healthy rate. Stock markets were notching strong gains. But the global credit crisis changed all that. The abundant liquidity, not surprisingly, led to asset bubbles that finally burst. So if one learned a good lesson should go for companies with less debt, enough cash and strong return ratios. These are the ones who will be able to tide over the crisis and generate strong returns to shareholders in the long term beyond 2015.

EQUITY

Equities are no doubt high revenue earning investments but the market is always filled with risk, hence it's always advisable to trade safely with an experienced and trustworthy partner who has proved his credibility over the years.

OBJECTIVES OF THE STUDY

The research primarily aims at evaluating the risk bearing ability of investors in equity market. The secondary objectives were to identify the investor's perception towards Indian Stock Market, to know the investment pattern of Indian equity investors in general and investment preference viz. risk-return perception to a limited level, to find the part of savings that an investor is ready to invest in stock market out of his income, to analyze the level of importance assumed by the retail equity investors on various investment objectives based on the socio economic variables and selective demographic profile of investors.

RESEARCH REVIEW

R. Nagaraj in his study 'Indian capital market growth trends, explanations and evidence' documented India's capital market boom, and its proximate causes. What does it mean for the economy and private corporate sector? It is largely disintermediation: household sector substituted 'shares and debentures' for bank deposits, and corporate sector securitized its debt. There is no association between growth rates of the capital market mobilization and aggregate saving rate, corporate physical investment and value added. Long-term decline in the contribution of internal finance to corporate fixed investment and in profitability in 1980s were noted, despite a fall in ratio of corporate tax to gross profit. Laxmichand Rambhia (February 2012) in the study on 'Exploring Risk Anomaly in Indian Equity Market' envisaged that traditional theory opines that high returns of stock are associated with high risk, this paper shows that under certain conditions, a portfolio with low volatility stocks can yield higher returns than a high-volatility portfolio, a phenomenon known as 'risk-based anomaly'. The motivation behind this research paper is the relatively new phenomenon of 'Risk-based Anomaly', which has been extensively investigated in the US and a few other countries in the last few years; but not in emerging market, particularly India. Using a low-volatility portfolio Strategy over 11- year period (from 2001 to 2011) with rolling monthly iterations in the Indian market, the paper finds that as compared to a high-volatility portfolio, a low volatility portfolio produces not only higher absolute returns, but also higher risk-adjusted returns. The results have been consistent with those found by Roger Clarke (2006) for the US market. Giridhari Mohanta & Dr. Sathya Swaroop Debasish (2011) studied that investors invest in different investment avenues for fulfilling financial, social and psychological need. While selecting any financial avenue they also expect other type of benefits like, safety and security, getting periodic return or dividends, high capital gain, secured future, liquidity, easy purchase, tax benefit, meeting future contingency etc. E. Bennet, Dr. M.

Selvam, Eva Ebenezer, V. Karpagam, S. Vanitha (2011) concluded that the average value of the five factors, namely, Return on Equity, Quality of Management, Return on Investment, Price to Earnings Ratio and various ratios of the company influenced the decision makers. Further, other five factors, namely, recommendation by analysts, Broker and Research Reports, Recommended by Friend, Family and Peer, Geographical Location of the Company and Social Responsibility were given the lowest priority or which had low influence on the stock selection decision by the retail investors.

Syed Tabassum Sultana (2010) concludes that the individual investor still prefers to invest in financial products which give risk free returns. This confirms that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors prefer to play safe. The investment product designers can design products which can cater to the investors who are low risk tolerant and use TV as a marketing media as they seem to spend long time watching TVs. Dr. Vanita Tripathi (2008) examines the perceptions, preferences and various investment strategies in Indian stock market. Study reveals that investors use both fundamental as well as technical analysis while investing in Indian stock market. Most of the respondents strongly agree that various company fundamentals (such as size, book to market equity, price earnings ratio, leverage etc.) significantly influence stock prices and hence addition of these factors in asset pricing model can better explain cross sectional variations in equity returns in India. Gaurav Kabra, Prashant Kumar, Mishra, Manoj Kumar Dash (2010) from their study concluded that modern investor is a mature and adequately groomed person. In spite of phenomenal growth in the security market and quality Initial Public Offerings (IPOs) in the market, the individual investors prefer investments according to their risk preference. A majority of investors are found to be using some source and reference groups for taking decisions. Though they are in the trap of some kind of cognitive illusions such as overconfidence and narrow farming, they consider multiple factors and seek diversified information before executing some kind of investment transaction.

RESEARCH DESIGN

Descriptive research design was used to collect primary data from 303 investors of Indian Equity Market through structured questionnaire using convenience sampling method. The statistical tools used in analysis were One Way ANOVA, Percentage Analysis, Kruskal-Wallis H test and weighted average. The period of the study was from April 2014 to March 2015. A pilot survey was done with 30 investors for refinement of research process

RESULTS

Majority of the investors were normal traders who are not ready to take more risk. Lack of knowledge about market is the very big difficulty faced by investors in equity market. Few high end customers face high brokerage charges as a difficulty. The academic qualification influences the overall knowledge of the investors. Overall

Knowledge of investment depends on Gender. Risk Capability of investors does not depend upon their educational qualification. Majority of the investors in stock market are teen agers between the age group of 18 – 28. As most of the investors are teenagers who were investing in stock market their overall experience in stock market is also not more than a year. The majority of investors make investment in stock market for the purpose of future requirements. Investors mostly seek advice from the stock brokers before making their investment. Investor's perception towards stock market was that they were not prepared to invest in stock market given their annual income. Most of the investors dealing in equity were tax payers. Amongst the investors surveyed, 91.7% of them invest in equity market directly. Investors in equity market were ready to invest only up to 10% of their annual income in equity market. As the risk is high in equity market objective of most of the investors is to save 11% to 20% of their investment. Banking sector is the most preferable sector by most of the respondents to make equity investment.

CONCLUSION

There are different investment avenues with varying degrees of risk and return. The advent of the capital market has offered a number of investment choices to the investors. Investment in the capital market need not be a nerve-racking experience provided the decisions are taken on the basis of analysis and reasoning. This necessitates the investor to set the investment goals, and to work towards his target on the basis of sound analysis of market information. The real world of investment is so lively and unstable that it attracts the investor, the speculator and gambler. No investor wants to lose money. Capital gains and dividends are the important ingredients that investors regard as return on investment. To avoid wrong decisions, one may need expert and professional guidance. Individual investor behavior can influence that of stock market and this in turn can influence the state of the economy, so the players and regulators should endeavor to protect the interest of individual investors and create confidence in their mind. The players in the capital market have been eagerly looking for the coming back of the individual investors who have been the real source of risk capital to the entrepreneurs. The task of the regulators has been to establish a vibrant capital market where financial assets are fairly priced on their intrinsic value so that they release the right signals for right investment decisions. The protection of the interest of the investors, especially the individual investors is an imperative for the development and smooth functioning of the stock market.

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