Risk Attitude and Investment Objective

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Abstract: Investment is defined as some sort of commitment of money or capital to purchase any type of assets in order to gain profitable returns. But this word is not as simple as its looks. There are number of issues realted to investment like how to invest, how much to invest, where we invest, when to invest etc. To resolve all these investment issues, one must has to gain an insight about how the investment works, how much risk one can bear and what are the all available sources of investment. Today market is flooded with vast number of investment options. But different investors have different objective for investment. Your investment choice should be able to fullfill your investment objective and risk tolerance capacity. Risk attitude of investors plays and major role while choosing an option. In this paper, we are explroing main objctive of investment and their risk attitude. For this we designed a questionnaire and conduct a survey on 300individual investors in NCR region. We analysed that the main objective is to generate income and investors are risk seeker.

Key Words: Risk Attiude, Household Savings, Weighed average score, Investment preference

INTRODUCTION

Investment is the back bone of financially secure future. The more we invest right, the more secure future we have. In simple words investment is defined assome sort of commitment of money or capital to purchase any type of assets in order to gain profitable returns. But this word is not as simple as its looks. There are number of issues realted to investment like how to invest, how much to invest,where we invest etc. Today market is flooded with vast number of investment options. Investors can invest in financial assets like shares, debentures, bank deposit, provident funds, secuirties, bonds, MFs etcand in physical assets like real estate, gold etc. Each of these options has common characteristics such as potentail return and risk which one must bear (Sangeeta Arora, 2012). Investment by individual investors in these options is termed as household savings. In India, household savings contributes more than two- third of the tottal savings and while the rest is contributed by both private and government sector.India's saving rate is steadily risen since

2002 reaching to a peak of 36.82 pecent in 2007-08. In 2014-15 Gross domestic savings(GDS) rate reached to 33.0 percent as against 30.6 percent in 2013-14. Out of 33.0 percent GDS in 2014-15, household sector accounted for 19.1(financial asset- 9.8, physical asset 9.1) percent while the rest 13.9 percent is divided between private and public sector. Therofore household sector individually accounts for almost 70% of GDS[1].

Whether invest in finaical asset or physical assets, every asset comes with some sort of risk, whether high or low. Therefore before taking a final decision, an investor has to deeply understand his objective for invesment, investment avenues pros and cons and their risk ability. In this research we are dealing with investment obejctive and risk attitude of investors.

REVIEW OF LITERATURE

(Bashir, 2013) investigated the relationship of demographics and the Big Five personality traits with investment biases and risk taking behaviour by constructing the two structure equation models. He concluded that personality traits influenced the two investment biases (overconfidence and herding) and risk taking behaviour while demographics do not havea significant relationship with investment biases and risk taking behaviour.

(Dr. Taqadus Bashir S. T., 2013) Investigated the phenomena of risk tolerant attitude in response to the stock price changes. For this purpose, data was collected from bankers and household individuals. Regularly and weekly Karachi stock exchange price were taken to study the impact of change in prices on the risk tolerant attitude. With the help of regression analysis, they concluded that stock index prices do not have influence on individual risk tolerant attitude and found that men and households with higher income are more risk tolerant as compared to women and those having lower household income. However, the study contradicts the findings of John Grable, Ruth Lytton, & Barbara O'Neill which they concluded in paper "Projection Bias and Financial Risk tolerance". The reason was low literacy rate, undeveloped financial market, people want to invest in most secured security and they hold mostly savings in bank, real estate and gold.

(Marwaha) Focused on segmenting the investors based on their investing attitudes and tried to identify their socio-demographic characteristics. They classified the investors in different clusters to identify group specific needs in financial affairs. To identify the number of cluster and to define group centroids, they used hierarchical cluster procedure with ward linkage and squared Euclidean distances measures. Investors were divided into three clusters; rational investors, intuitive investors, conservative investors. They concluded that mostly men behave rationally while investing as compared to women who fall in the category of intuitive and conservative investors. They suggested that there is a need to improve the handling of financial matters by the investors.

(Harvey, 2007) found that investment intentions are systematically affected by the context of investment decisions. The reason for investment is different for different investors like buying a house or car, retirement planning, marriage etc. Basically, investment is a financial means towards a non-financial goal. They tested the statement through three experimental studies and used simplified version of real investment choice task. Moreover, they established the effect of context on investment intentions across both profitable and falling investments.

(N. Geetha, 2012) Attempted to find out the significance of demographic factors like age, gender, occupation, education, income saving and family size on several elements of investment decisions. These

elements include priorities based on characteristics of investments, investment period, information source, frequency of investment and analytical abilities. They also disclosed the general view of investor's perception over investment avenues. Non-probability convenience sampling was used to survey 475 respondents of Nagapattinam district in Tamil Nadu, India. They tested the hypothesis by using descriptive statistical tools, ANOVA and Chi-Square. The study concluded that few demographic variables such as family size, annual income and annual savings have significant relationship over period of investment while others factors such as gender, age, occupation and education have no significant relationship over period of investment. The analysis of data also showed significant relationship of demographic factors such as gender, occupation, education, annual income and annual savings with the analysis of investment avenues by the investors. The study founds investors most favourite investment avenue is insurance followed by real estate, provident fund, bank deposits, and gold/silver. However, the most non favourite is FI bonds followed by debentures, company's FD, Equities and MFs.

(Vyas M. M., 2007) Investigated how demographics of investors affect their investment choice. The study concluded that gender differences are not significant for mutual funds, debentures, real estate and derivatives while differences were there for equities and post office deposits. Young aged investors prefer to invest in mutual funds while middle aged investors prefer to invest in debentures and bonds. Investors with less education prefer high risk investment such as equities and derivatives while investors with high education prefer moderate risk and moderate return investments like debentures and mutual funds. The study also concluded about occupation as service class people prefer to invest in equities and mutual funds while business class people prefer in debentures and real estate. This study is helpful for financial advisors and consultant.

OBJECTIVE

The Present study aims to fulfill the following objectives-

1. To identify the investment pattern of investors that is their objective of investment, level of knowledge about investment and their investment preference

2. To explore whether demographic variables that is gender, age, income, employment status and marital status of investors have exert a significant impact on investment objective.

3. To study the risk attitude of investors, whether investors are risk seeker or risk averse.

RESEARCH METHODOLOGY

The research study includes only primary data, collected from 300 invdividual investors from NCR region. The investros were intereviewed through a well structured questionnaire. Convience sampling technique has been used. To test investment pattern, descriptive statistic and Kruskal Wallis test were used. To explore the risk attitude of investors weighted average score and binomial test were used.

ANALYSIS AND INTERPRETATION

Investment Knowledge

Investment decision is also depends on how much knowledge one have about about investment. The table 1 reveals that majority of investors feels that they have moderate knowledge about investment. They are

aware about different investment avenues but don't understand their working phenomena. Out of 300, only 35 investors believes themselves as expertin investing follwed by 87 investors who is about to getting rexpert in this field.

Table 1
When it comes to investment, how would you rate your knowledge?

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Very high (I completely understand how different financial assets work and I am expert in Investing)	35	11.7	11.7	11.7
	High (I have good knowledge of investment assets and I regularly follow them)	87	29.0	29.0	40.7
	Moderate (Aware of Different asset class)	100	33.3	33.3	74.0
	Low (Limited Knowledge)	50	16.7	16.7	90.7
	Very low (Beginner in Investing)	28	9.3	9.3	100.0
	Total	300	100.0	100.0	

*Sources:*Results of frequencies achieved through SPSS
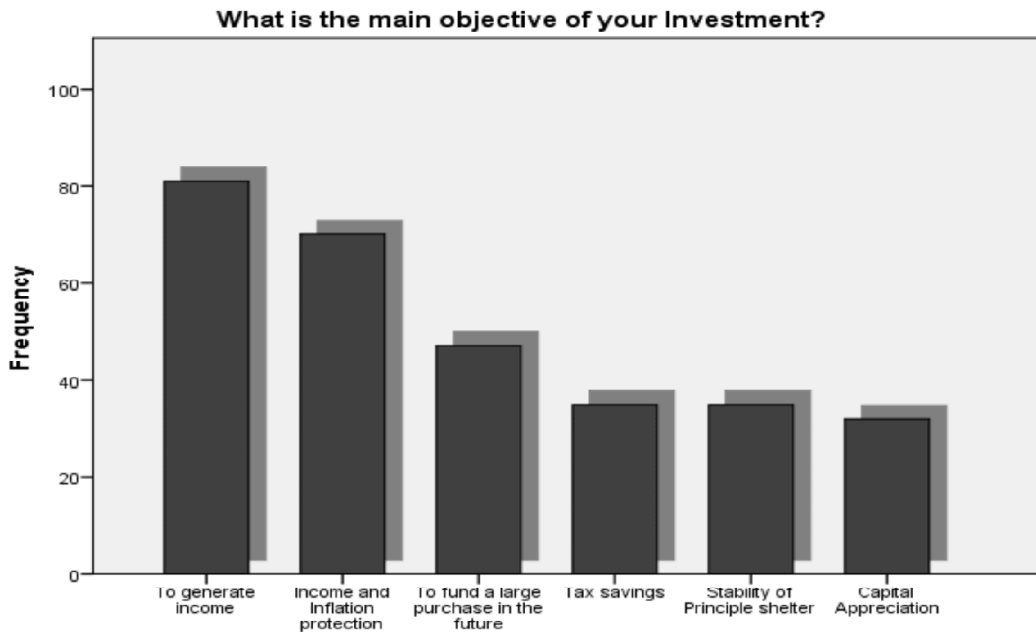

Figure 1: Objective of Investment

Every individual has different motive for investment. The result shows that the first and foremost objective for investors is to generate income to secure their present and future. Income and inflation protection comes in second number. Most of us has a habit of saving money to buy something expensive in future. Hence saving money to fund a large purchase in the future comes in third place. The least preferred objective is Capital Appreciation.

DIFFERENCE IN INVESTMENT OBJECTIVE ACROSS THEIR DEMOGRAPHICS

To explore whether there is any difference in investment objective of investors across the demographics. To study whether these demographic variables like age, income, marital status, employment and gender have a significant impact on their investment objective, we have conducted Kruskal Wallis Test (at 5% and 10% confidence level) as there are multiple independent variables in both investment objective and in investors demographics.

The hypothesis to be tested here is as follows-

H0- Age of the investor has no difference on investment objective.

H1- Income of the investor has no difference on investment objective

H2- Marital status of investor has no difference on investment objective

H3- Employment status has no difference on investment objective

H4- Gender has no difference on investment objective

Table 2
Investment objective and demographic variables

	Age	*Income*	*Marital Status*	*Employment*	*Gender*
Chi-Square	2.917**	13.095*	.429**	13.783*	6.591*
df	5	5	2	4	1
Asymp. Sig	.713	.013	.807	.003	.010
Null Hypothesis	Accepted	Accepted	Accepted	Rejected	Rejected

Notes: Significant* ($p < 0.10$), Significant** ($p < 0.05$)

The results in Table 2 reveals that there is no significant difference in investment objective of investors across age group, income group and Marital Status. Their investment objective remains the same irrespective of their age, income and marital status. Therefore, Null Hypothesis H0, H1, H2 are accepted. However, investment objective is significantly different with regards to Employment status and Gender. Therefore, hypothesis we rejected Null hypothesis H4 and H5 and accepted alternate hypothesis.
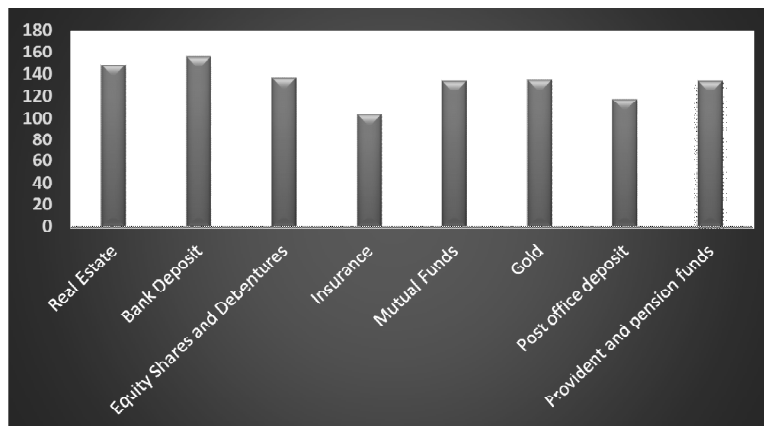
Investment Avenues

Figure 2: Investment Avenues

The figure above shows that first preference of investors to invest their money is bank depositThis is beacuse bank deposit is safe and secure investment with minimum risk involved. The second choice is Real Estate, as it is gives high return. Thirdly investors prefer equity ahares ans debentures followed by gold, Provident and pension funds, mutual funds and post office deposit. The least preferrable among investors is insurance.

RISK ATTITUDE

To test whether investors are risk seeker or risk averse. The responses were sought for six statements variables on a five-point likert scale ranging from Strongly Agree to Strongly Disagree. To analyse , weights were assigned to these responses a 1 for strongly agree, 2 for agree, 3 for neither agree nor disagree, 4 for disagree and 5 for strongly disagree. Table 3 reveals the strongly agree to strongly disagree opinion for different statements by investors aboutriskattitude.Weighted average scrore was calcuted for each variable.

Table 3
Weighted average Score (WAS) for risk attitude of invidual investors

What do you feel about Risk	*Strongly Agree*	*Agree*	*Neither Agree nor Disagree*	*Disagree*	*Strongly Disagree*	*WAS*
1. Compared to an average person, I take more risk.	53	91	70	55	31	2.73
2. For High return, it is necessary to take high financial risk	48	128	78	31	15	2.46
3. While taking financial decisions, I am more concerned with possible gains than losses	20	62	76	99	43	3.28
4. I would like to invest my money in shares rather than save in my bank account	29	100	64	80	27	2.92
5. Even after having loss on an investment, I would not put off making risky investment	41	136	68	44	21	2.59
6. I prefer to invest for high returns investment (ready to take risk) than to invest in low return investment (safe and guaranteed)	48	104	64	62	22	2.69

Table 4 reveals that investors hasmore preference for risk. As from all six statements it is concluded that they are neutral for risk but for one variable, for high return it is necessary to take high risk, investors are agreed. If sometimes its necesssary they are ready to take risk and reasy to invest in risker assets for high return but is things are going well they prefer to be neutral. Therefore we can conclude that investos are risk seeker.

Table 4
Interpretation of Weighted Average Score

Weighted Average Score	*Level of Attitude*	*Risk statements*
WA>4	Strongly Agree	
4 < WA >3	Agree	statement 2
3 <WA >2	Neither Agree nor Disagree	statements 1, 3, 4, 5,6
2 < WA> 1	Disagree	
WA <1	Strongly Disagree	

Further we concucted chi square test to test whether responses on these risk statements are significantly significant. Null Hypothesis for this is as follows-

H5- The responses on the statement are not statistically significant

Table 5
Responses Significance

	Compared to an average person, I take more risk	*To achieve high return, it is necessary to take high financial risk*	*While taking financial decisions, I am more concerned with possible gains than losses*	*I would like to invest my money in shares rather than save in my bank account*	*Even after having loss on an investment, I would not be put off making risky investment*	*I prefer to invest for high returns investment (ready to take risk) than to invest in low return investment (safe and guaranteed)*
Chi-Square	32.933[a]	132.633[a]	61.167[a]	67.767[a]	109.300[a]	59.067[a]
df	4	4	4	4	4	4
Asymp. Sig.	.000	.000	.000	.000	.000	.000

a. 0 cells (0.0%) have expected frequencies less than 5. The minimum expected cell frequency is 60.0.

In this analysis we only want to compare the Asymp. Sig value to level of significance at 5%. We don't need to interpret chi square value. As all significance vaue is below 0.05, we reject the null hypothesis. Hence, responses on these statements are statistically significant.

We also conducted binomial test whether the proportion of investors who keep the investment and wait for its rise from the statement, "Imagine that you make an investment that drops 25% in the first 6 months. You are unsure that it will come back. What would you do?" differ significantly from 50%, i.e., from 0.05.

Table 6
Binomial Test

		Category	*N*	*Observed Prop.*	*Test Prop.*	*Exact Sig. (2-tailed)*
Imagine that you make an investment that drops 25% in the first 6 months. You are unsure that it will come back. What would you do?	Group 1	Keep the investment and wait for its rise	209	.70	.50	.000
	Group 2	Sell the investment	91	.30		
	Total		300	1.00		

The result shown in table 6 reveals that p value is .000 which is significant, therefore we accept the alternate hypothesis and concluded that proportion of investors who keep the investment and wait for its rise differ significantly from 50%. This also implies that investors are not in hurry to sell the investment, they are ready to take risk for god returns. Hence, we can say that investorsare risk seeker.

CONCLUSION

This study was conducted to understand the investment objective of investors and their risk attitude. The finding of the study suggest that investors' main objective of investment is to generate income followed by income and inflation protection and to fund a large purchase in the future. Their least preferred objective is capital appreciation. These objectives are not impacted by investors age, income and marital status. However, employment status and gender made significant impact on objectives. Majority of investors have moderate knowledge of investment, one few of them are expert in investing. Risk attitude of investors reveals that investors are risk loving person.

LIMITATION AND SCOPE FOR FURTHER RESEARCH

This research used convenience sampling and hence a bias in responses could be high. The present research studied the risk attitude and investment objective of investors in NCR region only. Further only non-parametric test was used. Future studies can be conducted with some parametric techniques so the result can be better generalized. Apart from this, there are several other variables that can be taken for risk attitude and investment objective. Future research can focus on them.

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