A Study of Preferred Avenues of Investment of Investors and Their Exposure to Equity Market

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Abstract
In this modern era, money plays an important role in one's life. In order to overcome the problems in future, People have to invest their money. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Savings are invested in assets depending on person's knowledge of different investment options, risk taking ability and demand of return. Investment of hard earned money is a crucial activity of every human being. Investors have a lot of investment avenues to park their savings. The risk and returns available from each of these investment avenues differ from one avenue to another. The investors expect more returns with relatively lesser risks. In this regard, the financial advisors and consultants offer various suggestions to the investors. However, the construction of a correct portfolio is a great task in front of every investor. The investment avenues include both financial instruments and other assets. The attitude of investors would vary from time to time and person to person. The objective of investment of investors will also be different.
Keywords: Investment avenues Risk and Return

1. Introduction

In modern age, money plays an important role in one's life. In order to overcome the problems in future one have to invest its money. Investment of hard earned money is a crucial activity of every human being. Investors have a lot of investment avenues to park their savings. The risk and returns available from each of these investment avenues differ from one avenue to another. The investors expect more returns with relatively lesser risks. In this regard, the financial advisors and consultants offer various suggestions to the investors. However, the construction of a correct portfolio is a great task in front of every investor. The investment avenues include both financial instruments and other assets. The attitude of investors would vary from time to time and person to person. The objective of investment of investors will also be different

2. Review Of Literature

Vidhyashankar S (1990) identified a shift from bank or company deposits to mutual funds due to its superiority by way of ensuring a healthy and orderly development of capital market with adequate investor protection through SEBI interference. The study identified that mutual funds in the Indian capital market have a bright future as one of the predominant instruments of savings by the end of the century.[1]

Lal C and Sharma Seema (1992) identified that, the household sector's share in the Indian domestic savings increased from 73.6 percent in 1950-51 to 83.6 percent in 1988-89. The share of financial assets increased from 56 percent in 1970-71 to over 60 percent in 1989-90 bringing out a tremendous impact on all the constituents of the financial market.[2]

Sanjay Kant Khare (2007) opined that investors could purchase stocks or bonds with much lower trading costs through mutual funds and enjoy the advantages of diversification and lower risk. The researcher identified that, with a higher savings rate of 23 percent, channeling savings into mutual funds sector has been growing rapidly as retail investors were gradually keeping out of the primary and secondary market. Mutual funds have to penetrate into rural areas with diversified products, better corporate governance and through introduction of financial planners.[3]

Bajtelsmit, V. L. & Bernasek, A. (1996) in their research study explained for gender differences in investment and risk-taking in an effort to help guide data collection and identification of relevant variables for empirical research.[4]

Hinz, R. P., McCarthy, D. D., & Turner, J. A. (1997) studied that financial wealth had a significant and positive impact on the average level of risk chosen in a portfolio. As it was an additional measure of financial sophistication, they again confirmed the conclusion that more sophisticated investors entertain a higher average level of portfolio risk. They showed that dummy variable for having no financial wealth had no significant effect, statistically, on risk-taking.[5]

Herrmann, Andrew. F. (2007) provided the estimation results and discussed that supported the initial hypotheses regarding the roles of race/gender in investment preferences. Using multiple specifications and leveraging multiple risk/return measures, the evidence pointed to significant effects with respect to both race and gender.[6]

3. Objectives of the Study

- To study the investment opportunity in the equity.
- To study the customer investment in share market and commodity market.
- To assess the investors' attitude towards the investment avenues.
- To offer suggestions for the marketers of financial services and other investment avenues.

4.Indian Equity Market

A stock exchange has been defined by the Securities Contract (Regulation) Act, 1956 as an organization, association or body of individuals established for regulating, and controlling of securities. The stock market in India does business with two types of fund namely private equity fund and venture capital fund. It also deals in transactions which are based on the two major indices – Bombay Stock Exchange (BSE) and National Stock Exchange of India Ltd. (NSE). The market also includes the debt market which is controlled by wholesale dealers, primary dealers and banks. The equity indexes are allied to countries beyond the border as common calamities affect markets. E.g. Indian and Bangladesh stock markets are affected by monsoons. The equity market is also affected through trade integration policy. The country has advanced both in foreign institutional Investment (FII) and trade integration since 1995. This is a very attractive field for making profit for medium and long term investors, short-term swing and position traders and very intraday traders. The Indian market has 22 stock exchanges. The large companies are enlisted with BSE and NSE. The smaller and medium companies are listed with OTCEI (Over The counter Exchange of India). The functions of the Equity Market in India are supervised by SEBI (Securities Exchange Board of India). The BSE and NSE

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, settlement process, etc. At the last count, the BSE had about 4,700 listed firms, whereas the rival NSE had about 1,200. Out of all the listed firms on the BSE, only about 500 firms constitute more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares.

Almost all the significant firms of India are listed on both the exchanges. NSE enjoys a dominant share in spot trading, with about 70% of the market share, as of 2009, and almost a complete monopoly in derivatives trading, with about a 98% share in this market, also as of 2009. Both exchanges compete for the order flow that leads to reduced costs, market efficiency and innovation. The presence of arbitrageurs keeps the prices on the two stock exchanges within a very tight range. [7]

Trading Mechanism

Trading at both the exchanges takes place through an open electronic limit order book, in which order matching is done by the trading computer. There are no market makers or specialists and the entire process is order-driven, which means that market orders placed by investors are automatically matched with the best limit orders. As a result, buyers and sellers remain anonymous. The advantage of an order driven market is that it brings more transparency, by displaying all buy and sell orders in the trading system. However, in the absence of market makers, there is no guarantee that orders will be executed. All orders in the trading system need to be placed through brokers, many of which provide online trading facility to retail customers. Institutional investors can also take advantage of the direct market access (DMA) option, in which they use trading terminals provided by brokers for placing orders directly into the stock market trading system. Settlement Cycle and Trading Hours Equity spot markets follow a T+2 rolling settlement. This means that any trade taking place on Monday, gets settled by Wednesday. All trading on stock exchanges takes place between 9:55 am and 3:30 pm, Indian Standard Time (+ 5.5 hours GMT), Monday through Friday. Delivery of shares must be made in dematerialized form, and each exchange has its own clearing house, which assumes all settlement risk, by serving as a central counterparty. [8]

Market Indexes

The two prominent Indian market indexes are Sensex and Nifty. Sensex is the oldest market index for equities; it includes shares of 30 firms listed on the BSE, which represent about 45% of the index's free-float market capitalization. It was created in 1986 and provides time series data from April 1979, onward. Another index is the S&P CNX Nifty; it includes 50 shares listed on the NSE, which represent about 62% of its free-float market capitalization. It was created in 1996 and provides time series data from July 1990, onward.

Market Regulation

The overall responsibility of development, regulation and supervision of the stock market rests with the Securities & Exchange Board of India (SEBI), which was formed in 1992 as an independent authority. Since then, SEBI has consistently tried to lay down market rules in line with the best market practices. It enjoys vast powers of imposing penalties on market participants, in case of a breach.[9]

Who Can Invest In India?

India started permitting outside investments only in the 1990s. Foreign investments are classified into two categories: foreign direct investment (FDI) and foreign portfolio investment (FPI). All investments in which an investor takes part in the day-to-day management and operations of the company, are treated as FDI, whereas investments in shares without any control over management and operations, are treated as FPI. For making portfolio investment in India, one should be registered either as a foreign institutional investor (FII) or as one of the sub-accounts of one of the registered FIIs. Both registrations are granted by the market regulator, SEBI. Foreign institutional investors mainly consist of mutual funds, pension funds, endowments, sovereign wealth funds, insurance companies, banks, asset management companies etc. At present, India does not allow foreign individuals to invest directly into its stock market. However, high-net-worth individuals (those with a net worth of at least $US50 million) can be registered as sub-accounts of an FII. Foreign institutional investors and their sub accounts can invest directly into any of the stocks listed on any of the stock exchanges. Most portfolio investments consist of investment in securities in the primary and secondary markets, including shares, debentures and warrants of companies listed or to be listed on a recognized stock exchange in India. FIIs can also invest in unlisted securities outside stock exchanges, subject to approval of the price by the Reserve Bank of India. Finally, they can invest in units of mutual funds and derivatives traded on any stock exchange. An FII registered as a debt-only FII can invest 100% of its investment into debt instruments. Other FIIs must invest a minimum of 70% of their investments in equity. The balance of 30% can be invested in debt. FIIs must use special non-resident rupee bank accounts, in order to move money in and out of India. The balances held in such an account can be fully repatriated.

Restrictions/Investment Ceilings

The government of India prescribes the FDI limit and different ceilings have been prescribed for different sectors. Over a period of time, the government has been progressively increasing the ceilings. FDI ceilings mostly fall in the range of 26-100%. By default, the maximum limit for portfolio investment in a particular listed firm, is decided by the FDI limit prescribed for the sector to which the firm belongs. However, there are two additional restrictions on portfolio investment. First, the aggregate limit of investment by all FIIs, inclusive of their sub-accounts in any particular firm, has been fixed at 24% of the paid-up capital. However, the same can be raised up to the sector cap, with the approval of the company's boards and shareholders. Secondly, investment by any single FII in any particular firm should not exceed 10% of the paid-up capital of the company. Regulations permit a separate 10% ceiling on investment for each of the sub-accounts of an FII, in any particular firm. However, in case of foreign corporations or individuals investing as a sub-account, the same ceiling is only 5%. Regulations also impose limits for investment in equity-based derivatives trading on stock exchanges.[10]

5.Research Methodology

The research methodology depicts the flow of research process and serves as guidance for the researcher to carry out the research smoothly. It includes the data source, sample size, sampling technique and tools of analysis. The data source can be classified as primary data and secondary data. The primary data is the data obtained by the researcher as firsthand information from the sample respondents. In this study, the researcher has used the primary data obtained from 100 respondents selected by applying simple random sampling technique in Aligarh District. The statistical tools applied for analysis of data include percentage analysis.

Sampling plan

The process of collecting observation from the elements of a large population may be expensive, time consuming and difficult. It will be cheaper and quicker to collect information from a sample plan of the population. A sample is a subset of population through a valid statistical procedure so that it can be regarded as representative of the entire population. The valid statistical procedure of drawing sample from the population is called sampling. Sampling plan consists of following elements:-

Sample units:

- Our sample units were direct customers so it is clear that sampling units are nothing but variable to be studied.
- **Sample Frame**

The entire list which contains the sample unit is known as sample frame.

- In this case our sample frame was ALIGARH city.

Sample size : 100

The large sample is more accurate the results would be but practically it is not feasible to survey the entire target population or even the substantial portion of it. In this project, being aware of the time and cost constraints, sample size was 100.

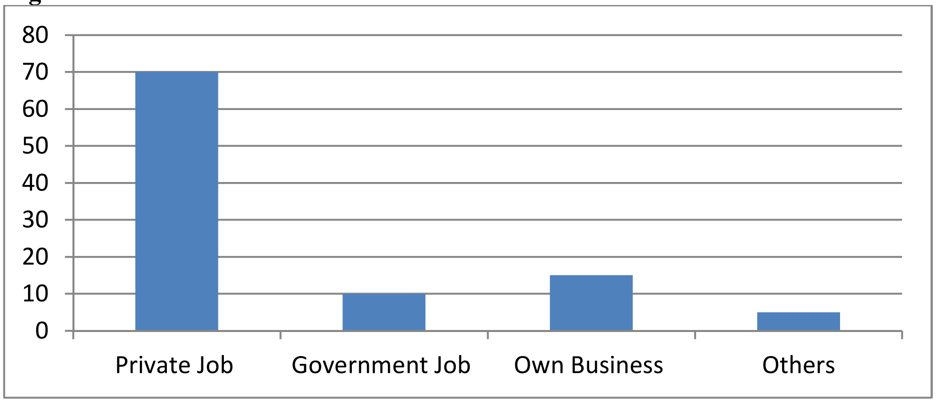
6. Limitations of the study:

- The results are location specific as the data has been collected from the respondents of Aligarh District and therefore the conclusions drawn may not be applicable to different socio- economic conditions.

- Few respondents are not willing to express their opinion and views on their investment and have expressed common view on investment practices.

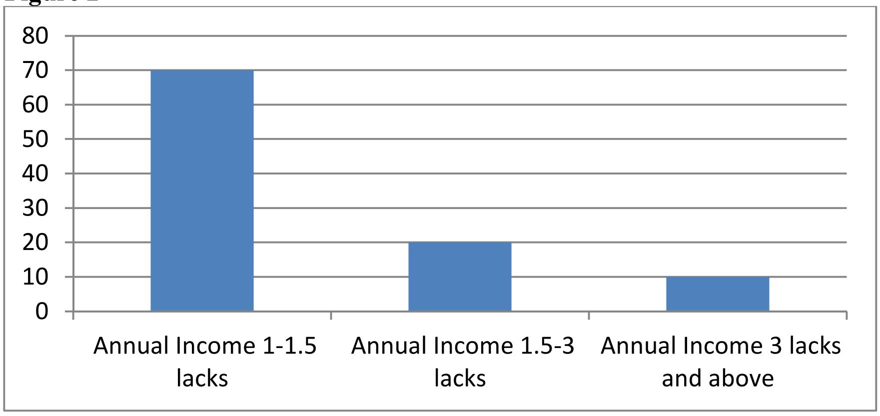
7.DATA ANALYSIS AND INTERPRETATION

Figure 1



Interpretation: The above graph (Figure 1) shows that 70% respondents have private job, 10% respondents in Gov. Job, 15% respondents have their own business and remaining 5% respondents have been retired.

Figure 2

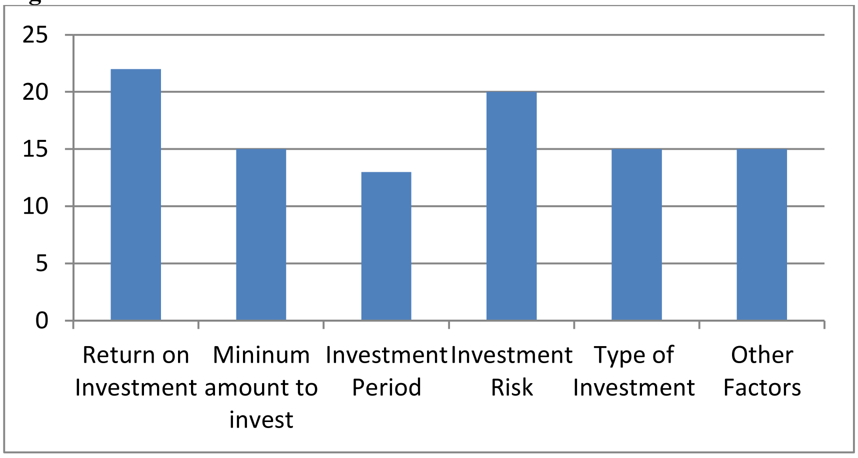


Interpretation: Figure 2 shows that 70% respondents earning the annual income is 1-1.5 lacks, 20% respondents have annual income is 1.5 to 3 lacs and remaining 10% respondents earn the annual income is 3 lacs to abve.

Figure 3

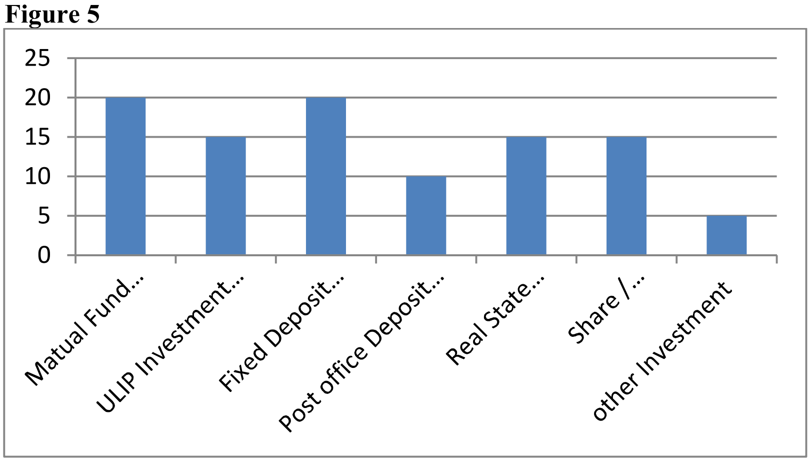
Interpretation: Figure 3 shows that 60% respondents save their income is 5 to 10%, 25% respondents save their annual income is 10-20% and remaining 15% respondents save their annual income is 20% and above.

Figure 4



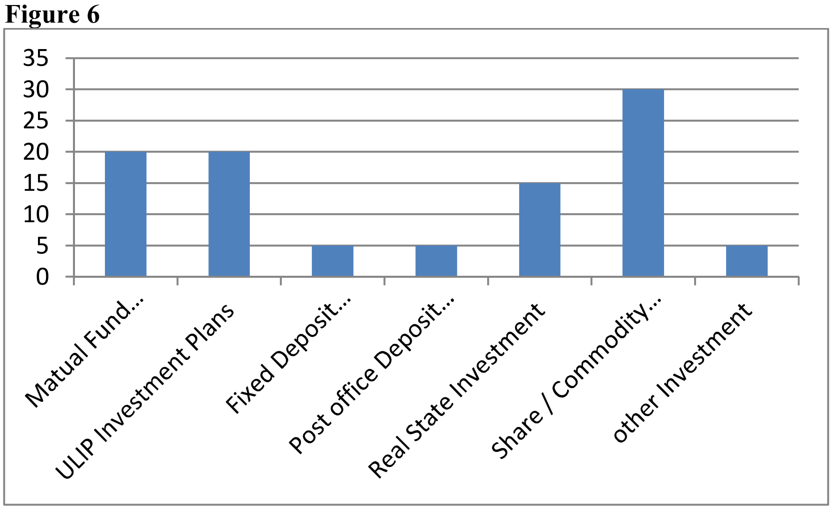
Interpretation: Figure 4 shows that 22% respondents before investing look returns, 15% respondents look minimum investment amount, 13% look locking period, 20% look Risk, 15% respondents look type of investment option and remaining 15% respondents look other factors.

Figure 5



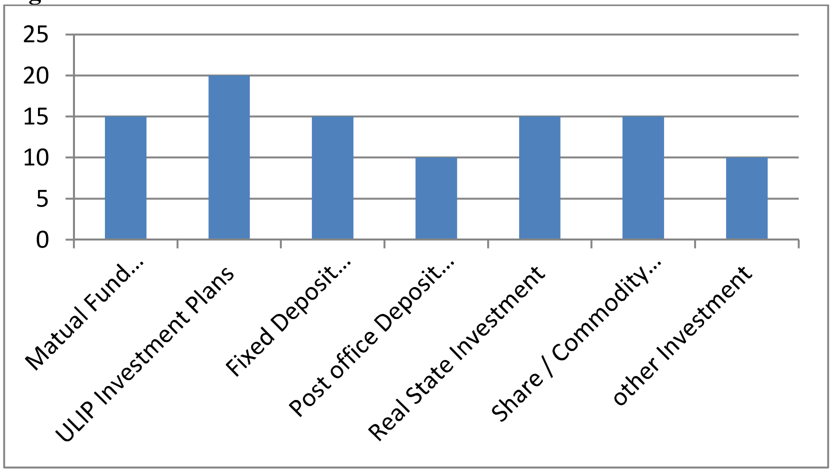
Interpretation: Figure 5 shows that 20% respondents prefer to invest their money in mutual fund, 15% prefer to invest ULIP Plans, 20% respondents prefer to invest in fixed deposit, 10% respondents prefer to invest in post office deposit, 15% respondents prefer to invest Real Estate, 15% respondents prefer to invest in share/commodity market and remaining 5% respondents prefer to invest in other investment options.

Figure 6



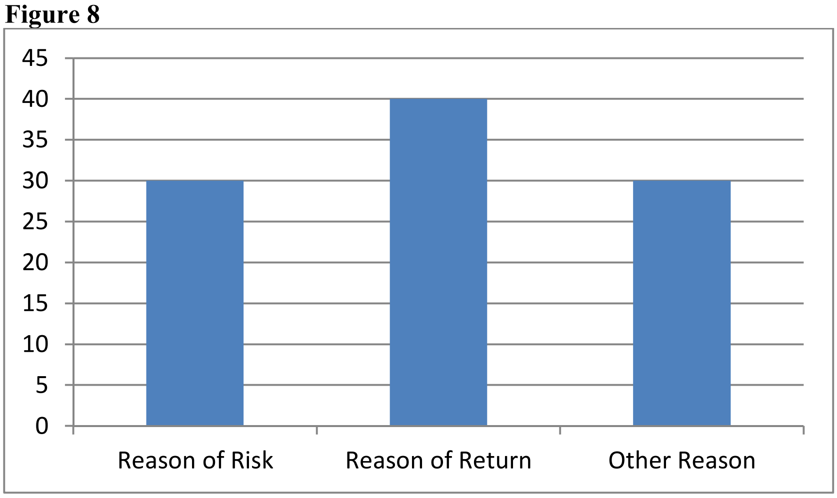
Interpretation: Figure 6 shows that 20% respondents like mutual funds, 20% like ULIP Plans, 5% respondents like fixed deposit, 5% respondents like post office deposit, 15% respondents like Real Estate, 30% respondents prefer like share/commodity market and remaining 5% respondents find no risk in other investment options.

Figure 7



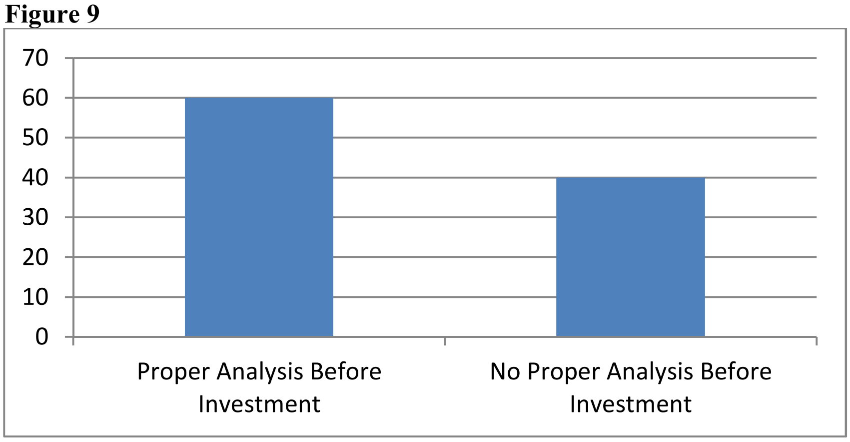
Interpretation: Figure 7 shows that 15% respondents find more returns in mutual fund, 20% find more returns in ULIP Plans, 15% respondents like fixed deposit, 10% respondents prefer prost office deposit, 15% respondents feel better Real Estate, 15% respondents prefer to share/commodity market and remaining 10% respondents like better for more returns are other investment options.

Figure 8



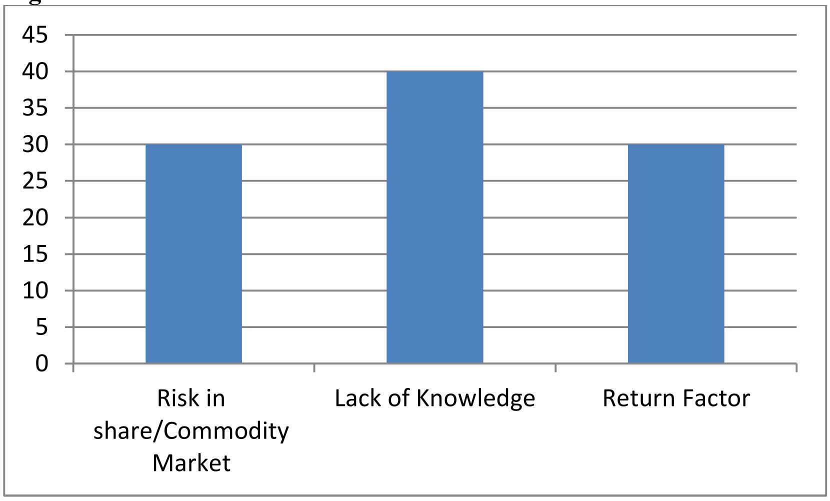
Interpretation: The above graph shows (Figure 8) that 30% respondents have reason of risk for not investing mutual funds, 40% have reason of returns and remaining 30% have other reasons

Figure 9



Interpretation: Figure 9 shows that 60% respondents do proper analysis before investing and remaining 40% respondents do not proper analysis before invest their money.

Figure 10



Interpretation: The above graph shows (Figure 10) that 30% respondents think risk in share/commodity market, 40% respondents think lack of knowledge, 30% respondents think return factor.

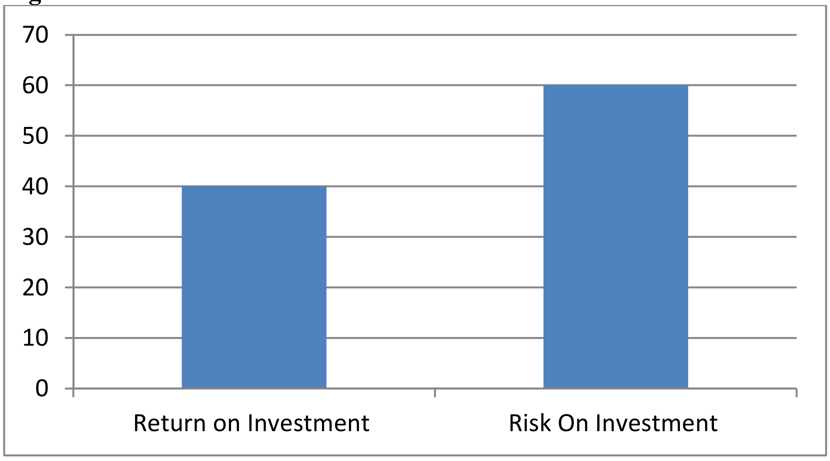
Figure 11

Interpretation: Figure 11 shows that 30% respondents feel face losses, 40% feel earned profit, 30% respondents have no profit no loss.

Figure 12

Interpretation: Figure 12 shows that 40% respondents have reason for investing in real estate is find good returns, 30% has less risk, and remaining 30% respondents have loan facility is available for investment.

Figure 13



Interpretation: Figure 13 shows that 40% respondents prefer return on investment and remaining 60% respondents prefer no risk investment.

8. FINDINGS/SUGGESTIONS

- The advertisements in T.V. and print media for various investments avenues are not adequate, as majority of the respondents are aware of the various schemes only through friends and relatives. A door- to – door campaign, organizing debates and competitions, periodical meetings are highly essential to promote the savings habit.
- Majority of the respondents have not preferred to invest their savings in UTI and mutual funds which are the latest investment schemes and hence the government should take steps to persuade the investors to invest in these schemes.
- The central and the state government should spread saving and investment habits among the public by making safety mechanism. Only with the prevalence of a healthy atmosphere, individual investors will be inclined to deploy their funds on a continuous basis in various types of financial instruments of government.
- Educating the investor is the need of the hour. Though a number of institutions offer investor education, it is not sufficient, continuous awareness program should be conducted. Financial institutions with the help of social
- organizations like Rotary club, Lions club and Banking companies may individually or jointly take part in educating investors. The participation of these institutions in the line would be a greater social cause and ultimately the country's resources will be diverted in the right way.
- The success of any business depends upon the satisfaction of the customer. In order to retain the existing investors, the financial institutions should offer satisfied returns to their investors and various schemes should be introduced to attract the new investors.
- Grama sabha type of organizations should be developed for promoting the savings and the awareness on various investment schemes among the rural investors.
- Efforts should be made by the financial institutions to influence the customers to view the investments as a complete security and family protection rather than a tax saving instrument.
- Savings is the need of the hour in today's world. Co-operation of family members will help the investors to increase their savings, which reduces deficit budgets and helps the investor to face future challenges.
- More transparency about the institution and their performance would help the investors to channelize their investments safely.
- A wide network is essential to enrich the savings and investment behaviour among the investors. The networks are developed according to the need of the people. The success of the network system rests on the attention given to the service of the institutions in the money and capital market.
- The investing public as a whole cultivates the habit of reading and watching information relating to investments. General awareness about the investment avenues are not sufficient to them, they should try to understand the pros and cons of all investment avenues in particular, this helps them to earn maximum returns on their investments with minimum risk.
- Investors should adopt a diversified and liquidity oriented approach while constructing and managing the portfolio for investment under present economic scenario.

- As women investors are more preferred to invest in gold and silver, to divert them in other investment avenues, different returns should be offered by the government and financial institutions.

9. CONCLUSION

Indians are traditionally known for their orientation towards savings and preference for safe investments. Post independent India has been continuously witnessing higher rates of savings. The increase is more pronounced during the recent years. On the investment side, many new instruments have been introduced during the last two decades to attract the public. The advertisements for various investment schemes are not adequate, as majority of the respondents are aware of the various schemes only through parents, friends and relatives. Therefore, it is recommended to various financial institutions to adopt a broad advertising strategy in order to enable the investors to know the various investment schemes. Though various new avenues are introduced for investment purposes, investors in rural and urban area still prefer bank deposits. The major reason for selecting this investment is owing to safety and security. Only a few investors preferred the investment on public issues but they are not aware of the market value of their holdings. A planned marketing approach, covering customer awareness, offering better value with a high and constant return to the investors and every effort may be made to draw the rural sector into the mainstream of national economic development. A constant effort is essential to promote the savings and investments behavior at both rural and urban investors to enrich the total economy. The results of the study indicate that the investors prefer to invest only in safer avenues. Further analysis of the data indicates that the family culture plays a dominant role in investments decisions. Among the conventional investment avenues, bank deposits and gold are the most preferred avenues, while insurance schemes and post office instruments are getting increased attention. Majority of the respondents have not preferred to invest their savings in UTI and Mutual funds which are the latest investment schemes and hence the government should take appropriate steps to persuade the investors to invest in the above schemes.

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