AN ANALYTICAL STUDY ON RISK PERCEPTION AND RETURN FOR INDIVIDUAL INVESTMENT

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ABSTRACT

This study aims to gain knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision making process among men and women and among different age groups. The individuals may be equal in all aspects, may even be living next door, but their financial planning needs are very different. It is by using different age groups along with Gender that synergism between investors can be generated. In this context, demographics alone no longer suffice as the basis of segmentation of individual investors. Hence keeping this in mind, the present study is an attempt to find out Factors which affects individual investment decision and Differences in the perception of Investors in the decision of investing on basis of risk and on the basis of return. The study concludes that investors’ perception on the total investment risk and return predominantly decides the capacity of investors.

KEYWORDS: investment Risk, Perceptual factors, Perception of Investors, Security, return Investment options,

INTRODUCTION:

An investor is any party that makes an Investment. However, the term has taken on a specific meaning in finance to describe the particular types of people and companies that regularly purchase equity or debt or security for financial gain in exchange for funding an expanding company. Less frequently the term is applied to parties who purchase real estate, currency or commodity, property or bullion or other asset. The term implies that a party purchases and holds assets in hopes of achieving capital gain, not as profession or for short-term income.
Types of investors

Individual investor, Angel type investor, venture capital fund which serve as investment collectives on behalf of individuals, companies, pension plans, insurance reserves, or other funds. Mutual fund, hedge fund or other fund, ownership of which may or may not be publicly traded.

Types of investment

The term "investment" is used differently in economics and in finance. Economists refer to a real investment (such as a machine or a house), while financial economists refer to a financial asset, such as money that is put into a bank or the market, which may then be used to buy a real asset.

Business Management

The investment decision is one of the fundamental decisions of business management: managers determine the assets that the business enterprise obtains. These assets may be physical (such as buildings or machinery), intangible or financial. The manager must assess whether the Net Present Value of the investment is positive;

Finance

In finance, investment is buying securities or other monetary or assets in the money market or capital market or in real assets, such as gold, bullions. Valuations are the method for assessing whether a potential investment is worth its price.

Personal Finance

Within personal finance, money used to purchase share, put in a collective investment scheme or used to buy any asset where there is an element of capital risk is deemed an investment. Saving within personal finance refers to money put aside, normally on a regular basis. This distinction is important, as investment risk can cause a capital loss when an investment is realized; unlike saving where the more limited risk is cash devaluing due to inflation. In many instances the terms saving and investment are used interchangeably, which confuses this distinction. For example many deposit accounts are labeled as investment accounts by banks for marketing purposes. Whether an asset is a saving(s) or an investment depends on where the money is invested: if it is cash then it is savings, if its value can fluctuate then it is investment.

Real Estate

In real estate, investment is money used to purchase property or the sole purpose of holding or leasing for income and where there is an element of capital risk. Unlike other economic or financial investment, real estate is purchased.

1. Investment Options

2. Secured Deposits (Fixed Deposits etc)
3. Life Insurance Policies,
4. Provident fund & Pension schemes
5. Bonds / Debentures
6. Equity Shares
7. Mutual funds,
8. Bullion (gold, silver, ornaments)
9. Real Estate
10. Postal schemes,
11. Others (commodities and derivative market etc.,)

Objective:

The main objective of the study is to find out the investment pattern of the investors in Mutual fund and Life insurance. To determine what factors influence them while they choose a particular investment, a particular company and in which particular scheme they prefer to invest and to find out whether they are satisfied with their investment decision or not

Factors which affects individual investment decision.

- Difference in perception of Investors in the decision of investing on the basis of Age.
- Difference in perception of Investors in the decision of investing on the basis of Gender.

Literature Review

Earlier studies have been carried out to determine the pattern of Institutional investors Investment but Studies dealing with Investment pattern of individual investors are very few. Previous Studies mainly concentrate on Differences in individual investing pattern on the basis of Gender. Differences on the basis of Age in Investment pattern is new venue for research. Earlier studies conclude that women invest their asset portfolios more conservatively than their male counterparts.

- Schmidt & Sevak, (2006) studied on the Women’s investment, which has historically been lower than men’s for several reasons, including Social and various demographic concerns. However the differences continue to be significant even after controlling for individual Characteristics.

- Lopes, (1987) studied on the making any Investment Decision Risk Aversion and Financial Literacy is a major factor. Although different literature available on risk define it variedly but in common the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities.)
Julie R. Agnew, either (2003) viewed on their research that there is evidence that women are more risk averse than men in general and this translates to investing in less risky assets in their investment plans. Differences in financial literacy between men and women may also explain differences in their investment decisions. There is some research on individual investors.

Dunham (1984) admits that although personality factors can change over an extended period of time, the process is slow and tends to be stable from one situation to another. Therefore, these factors are expected to influence the decision-making behavior of an individual.

Barnewall (1987) finds that an individual investor can be found by lifestyle characteristics, risk aversion, control orientation, and occupation.

Barnewall (1988) suggests the use of psychographics as the basis of determining an individual’s financial services needs and takes one closer to the truth from the customer’s perspective of need to build a marketing program.

Statman (1988) observed that people trade for both cognitive and emotional reasons. They trade because they think they have information, when in reality they make nothing but noise and trade only because trading brings them joy and pride. Trading brings pride when decisions made are profitable, but it brings regrets when they are not. Investors try to avoid the pain of regret by avoiding realization of losses, employing investment advisors as scapegoats and avoiding stocks of companies with low reputations.

Harlow and Brown (1990) observes that psychologists tend to believe that an individual’s choice is primarily determined by factors unique to the particular decision setting, whereas economists assume that there is some individual specific mechanism playing a common role in all economic decisions.

Warren et al. (1990) and Rajarajan (2000) predict individual investment choices (e.g., stocks, bonds, real estate) based on lifestyle and demographic attributes. These investors see rewards as contingent upon their own behavior.

Rajarajan, (2002). Gupta (1991) argues that designing a portfolio for a client is much more than merely picking up securities for investment. The portfolio manager needs to understand the psyche of his client while designing his portfolio. Risk tolerant investors behave as though they can control risk. This suggests that risk tolerance serves as a proxy for an ‘illusion of control’ and thus over confidence.

Barber and Odean (2000) explored the impact of intuitive thinking on investment preference to study the experience of actual investors. The ET Retail Equity Investor Survey (2004) in the secondary market identified different categories of investors based on their characteristics and attitude towards secondary market investments. A study by on 245 Kuala Lumpur Stock Exchange individual investors from Kuala Lumpur and Petaling Jaya, reveal that there are some differences between active and passive investors in terms of demographic and psychographics, investment characteristics as well as investment behavior.
Karthikeyan (2001) has conducted research on Small Investors Perception on Post office Saving Schemes and found that there was significant difference among the four age groups, in the level of awareness for kisan vikas patra (KVP), National Savings Scheme (NSS), and deposit Scheme for Retired Employees (DSRE), and the Overall Score Confirmed that the level of awareness among investors in the old age group was higher than in those of young age group. No differences were observed among male and female investors except for NSS and KVP.

National Council of Applied Economic Research (NCEA) (1961) ‘Urban Saving survey’ noticed that irrespective of occupation followed and educational level and age attained, households in each group thought saving for the future was desirable. It was found that desire to make provision for emergencies were a very important motive for saving for old age. Securities and Exchange Board of India (SEBI) and NCEAR (2000) ‘Survey of Indian Investors’ had been report that Safety and Liquidity were the primary considerations which determined the choice of an asset. In this paper we are trying to find out the Factors which influence individual investment decision, the difference in the perception of Investors in the investing process on the basis of Age and the difference in perception of the Investors on the basis of Gender.

The present study aims to put on some knowledge about key factors that influence investment behavior and ways these factors impact investment risk tolerance and decision making process. The individuals may be equal in all aspects, but their behavior is different in same situation. Earlier studies did research but they did this only gender wise, in this study we are trying to find out the factors which affects individual investment decisions by considering both return and risk wise. Hence keeping this in mind, the present study is an attempt to find out Factors which affects individual investment decision and Differences in the perception of Investors in the decision of investing on basis of risk and on the basis of return.

Methodology

This study follows the survey research methodology. Based on previous research in related areas, a questionnaire was constructed to measure the investment pattern of individuals on the basis of Age and Gender. After pilot testing, the questionnaire was administered to a group of people whom age is more than 22 years. Here we are using minimum age as 22 years since we are considering that an individual starts earning after this age. The data were analyzed using standard techniques of factor analysis, Regression analysis and other basic techniques. The remainder of this section gives a brief description of the sample, the survey instrument and the survey procedure.

Sample

The target groups chosen for this study were from the regular investors, which was limited to 50. They will invest fewer amounts but invest regularly according to their earning. The target groups include various types of Investors such as on the basis of areas whether they belong to rural or urban areas. On the basis of Profession whether they are working in Government or Private Sector and On the basis of annual income and annual amount they invest.
Investment Pattern of Investor’s in Mutual Fund & Life Insurance.

Table: 1 showing results of ANOVA

<table>
<thead>
<tr>
<th>Factors</th>
<th>Return type (Low, Moderate, High)</th>
<th>Sum of Squares</th>
<th>DF</th>
<th>Mean Square</th>
<th>F-value on high risk</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed Deposits</td>
<td>between Groups Within Groups Total</td>
<td>6.505, 102.375, 108.880</td>
<td>2, 47, 49</td>
<td>3.253, 2.178</td>
<td>1.493</td>
<td>.235</td>
</tr>
<tr>
<td></td>
<td>Between Groups Within Groups Total</td>
<td>5.234, 95.486, 100.720</td>
<td>2, 47, 49</td>
<td>2.617, 2.032</td>
<td>1.288</td>
<td>.285</td>
</tr>
<tr>
<td>Debenture/Bonds</td>
<td>between Groups Within Groups Total</td>
<td>.792, 41.688, 42.480</td>
<td>2, 47, 49</td>
<td>.396, .887</td>
<td>.447</td>
<td>.642</td>
</tr>
<tr>
<td>Real Estates</td>
<td>between Groups Within Groups Total</td>
<td>.248, 34.072, 34.320</td>
<td>2, 47, 49</td>
<td>.124, .725</td>
<td>.171</td>
<td>.843</td>
</tr>
<tr>
<td>Equity/Preference</td>
<td>between Groups Within Groups Total</td>
<td>2.476, 102.644, 105.120</td>
<td>2, 47, 49</td>
<td>1.238, 2.184</td>
<td>.567</td>
<td>.571</td>
</tr>
<tr>
<td>Bullions/Gold</td>
<td>between Groups Within Groups Total</td>
<td>1.251, 115.329, 116.580</td>
<td>2, 47, 49</td>
<td>.626, 2.454</td>
<td>.255</td>
<td>.776</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>between Groups Within Groups Total</td>
<td>4.892, 65.688, 70.580</td>
<td>2, 47, 49</td>
<td>2.446, 1.398</td>
<td>1.750</td>
<td>.185</td>
</tr>
<tr>
<td>Postal</td>
<td>between Groups Within Groups Total</td>
<td>6.520, 96.460, 102.980</td>
<td>2, 47, 49</td>
<td>3.260, 2.052</td>
<td>1.588</td>
<td>.215</td>
</tr>
<tr>
<td>Others</td>
<td>between Groups Within Groups Total</td>
<td>2.173, 110.307, 112.480</td>
<td>2, 47, 49</td>
<td>1.087, 2.347</td>
<td>.463</td>
<td>.632</td>
</tr>
</tbody>
</table>
Interpretation:

Table-1 reported the results of ANOVA of the perception on pattern of investment with high risk attachments within the three degrees of return as low, moderate and high. Among the three modes of return, differences among respondents with high risk on investment pattern has been corroborated for measuring the significance to the factors of investment. In this analysis, higher returns are expected on Mutual Fund followed by Postal deposits and Insurance Schemes than other types of investment. When risk is same as present day economics is purely volatile in a sense to maximize the expected return, it measures the return scales as per their investment during the process of time.

RISK AND RETURN

The used model is

\[ Y_i = \alpha_i + \beta_i \times X_i \]

\( i = 1, \) low return

\( i = 2, \) moderate return \( i = 3, \) high return

\( \alpha_i = \) Intercept

\( \beta_i = \) Coefficient of Factors

Table-2: showing the regression coefficient results of decision model

<table>
<thead>
<tr>
<th>R</th>
<th>R2</th>
<th>Adjusted R2 Std.</th>
<th>Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>.223a</td>
<td>.050</td>
<td>-.058</td>
<td>1.81297</td>
</tr>
</tbody>
</table>

From Table-2

It is seen that R2 value for decision model is highest for 0.223 for all group, so model is not accepted, as its R2 value is very negligible and is not accepted for all group of investors since its adjusted R2 value is negative among others models derived. So it is concluded that, as per the risk bearing by the investors, the return percentage from the investment is much less and insignificant. Detail is given in Table 3.

Table-3: showing the ANOVA results

<table>
<thead>
<tr>
<th>Factors</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean</th>
<th>Square F</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>7.558</td>
<td>5</td>
<td>1.512</td>
<td>0.460</td>
<td>0.804a</td>
</tr>
<tr>
<td>Residual</td>
<td>144.622</td>
<td>44</td>
<td>3.287</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>152.180</td>
<td>49</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Predictors: (Constant), Debenture/Bonds, Bullions/Gold, Equity/Preference, Others, Real Estates

Dependent Variable: Return

Source: Own compilation

Here in table-4,

It is observed that the regression of the respondents on investment types and expected Return is much less and they even really believe the change in the investment market. Here mean square reported 1.512 with F -0.460 and more significance value i.e.0.808, which means they differs on their opinion on return to the type of investment.

Table-4: showing the Coefficient value of the investment types

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>Debenture/Bonds</td>
<td>0.146</td>
<td>0.488</td>
</tr>
<tr>
<td>Equity/Preference</td>
<td>-0.293</td>
<td>0.375</td>
</tr>
<tr>
<td>Bullions/Gold,</td>
<td>-0.092</td>
<td>0.263</td>
</tr>
<tr>
<td>Others</td>
<td>-0.174</td>
<td>0.232</td>
</tr>
<tr>
<td>Real Estates</td>
<td>0.205</td>
<td>0.181</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Expected Return

Source: Own compilation

Interpretation:

Out of ten types of investment, only 5 types as Debenture, Equity/Preference, Bullion, Real Estate and Other types have been included as these types of investment bears higher risk compared to other types of investment. The Opinion on debentures (β=.077,t=.298 and p < 0.05), Equity/Preference shares (β= -.139,t=.781 and p < 0.05), Bullions (β= -.77,t=.351 and p < 0.05), Others investment type (β= -.152, t=.747 and p < 0.05) and Real estate (β=.0.176 t= 1.135 and p < 0.05) This implies that the most dominant factor among invest type is Real Estate type which is followed by Equity and Preference Shares. Which in turn shows that investor belong to this investment type are generally more risk takers and they are more conscious and more knowledge on the types of Schemes which are available in investment market or capital market. They also not feel shy in taking suggestions from the expert or any other, this also shows their eagerness. The investors also
prefer derivative market as well as commodity market for high return. These three types of investment investor prefer as accepted Model for their returns if more risk is low.

CONCLUSION:

Many individuals find investments to be fascinating because they can participate in the decision making process and see the results of their choices. Not all investments will be profitable, as investor wills not always make the correct investment decisions over the period of years; however, you should earn a positive return on a diversified portfolio. Investing is not a game but a serious subject that can have a major impact on investor's future wellbeing. Virtually everyone makes investments. Even if the individual does not select specific assets such as stock, investments are still made through participation in pension plan, and employee saving programme or through purchase of life insurance or a home or by some other mode of investment like investing in Real Estate (Property) or in Banks or in saving schemes of post offices. Each of this investment has common characteristics such as potential return and the risk one has to bear. The future is uncertain, and one must determine how much risk he is willing to bear since higher return is associated with accepting more risk. The individual should start by specifying investment goals. Once these goals are established, the individual should be aware of the mechanics of investing and the environment in which he would be satisfied.

REFERENCES


