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# INVESTMENT PERCEPTION OF SMALL INVESTORS - A SCIENTIFIC ANALYSIS

**Dr. T. N. Murty[1] and P.V.S.H Sastry[2]**

[1]Director, Nimra College of Business Management, Vijayawada, India
Email: thamminaina@yahoo.com
[2]Research Scholar, Commerce & Business Administration, Acharya Nagarjuna University, Nagarjuna Nagar, AP, India
Email: pvshsastry@gmail.com

## ABSTRACT

*Investment in the stock market instruments or securities become as one of the best choice of investors with the objective of return optimization. Variations in the returns from the expectations of the investors lead for the risk and the subjective analysis of various attributes helps for the minimization or the avoidance of the risk. Risks in stock market instruments are poised of the demands threat bring variations in the return of income. Return is the yield plus capital appreciation and risk is the variability of returns or loss, which is inherent in any investment.*

***Keywords:*** Investment, Stock market, Securities, Risk-Return, Perception.

## INTRODUCTION

Investment in the stock market instruments or securities become as one of the best choice of investors with the objective of return optimization. Variations in the anticipated returns and actual returns lead to the possible consequences of the decision related to selection of stock market investment. Risks in stock market instruments are poised of the demands threat bring variations in the return of income. Stock markets securities which are being influenced by the various internal and external considerations. Variations in the returns from the expectations of the investors lead for the risk and the subjective analysis of various attributes helps for the minimization or the avoidance of the risk. Return is the yield plus capital appreciation and risk is the variability of returns or loss, which is inherent in any investment. These perceptions have important implications throughout the financial markets and have a significant impact on the asset allocation decisions of the investors.

## OBJECTIVES

The following are the objectives of present study:

1. to know the investors' perception towards risk- return of small investment in capital market based on their demographic factors, and
2. to make appropriate suggestions to the stake holders in security market.

## METHODOLOGY

The study is an empirical in nature based on primary data and secondary data. The primary data relating to the retail equity investors were collected with the help of interview schedule. The secondary data relating to the capital market developments were obtained from the various published/unpublished records, annual reports, manuals, bulletins, booklets, journals, magazines, etc.

## REVIEW OF LITERATURE

Radha, (1995), in her study entitled, **"A Study on Investment Behaviour of Investors in Corporate Securities",** examined the investment plan of corporate security investors. The analysis revealed that the largest segment of sample was constituted by young generation model investors.

Maruthu Pandian P, Benjamin Christopher S, (2007), conducted a study entitled, **"A Study on Equity Investor Awareness"** in order to study the stock market literacy of the investors about the company, stock exchanges as well as capital market regulatory bodies. The study also revealed that awareness differs among different groups of investors.

Selvam M, et.al., (2008), in their study entitled, **"Equity Culture in Indian Capital Market',** examined the need for promoting equity culture, which deserves special attention for the development of economic growth.

Shobana V.K. and Jayalakshmi J, (2009), in their study entitled, **"Investor Awareness and Preferences",** studied the investors' preferences, the level of investor awareness and the factors influencing investor awareness The study reveals that real estate, bank deposits and jewellery were the preferred investments.

Baker, et.al., (1977), in their study entitled, **"An Empirical Analysis of the RiskReturn Preferences of Individual Investors",** studied the ex ante risk-return preferences of individual common stock investors. Investors exhibited a strong association between expected annual rates of return and acceptable risk levels on common stocks.

Bhagawati Prasad, Subhas M.S, (1991), in their study entitled, **"Problems Faced by the Investors",** have examined the problems faced by the investors in India. The study reveals that majority of the investors were very active belonging to the middle income group without bothering risk return point wise.

## DISCUSSION AND RESULTS

The study analyses the results of the survey as a whole and based on selected socio-economic and investments profile factors such as investors' Age, Gender, Family income, Type of investor, Category of investor and Market experience of the investor to determine in their risk-return ratings. The risk-return perceptions of equity investors on various investments viz

1. Shares
2. Debentures / Bonds
3. Stock Futures and Options

4. Mutual Funds
5. NSC/PPF/PF
6. Fixed Deposits
7. Insurance Polices
8. Real Estate
9. Gold / Silver and
10. Others

### Risk-Return Perception

The entire set of data has been considered to determine that risk–return perceptions of the retail equity investors as a whole. It reveals that all the investments other than stock futures and other investments show a positive significant mean difference, which implies that these investments generate greater return than relative risk. Stock futures and others show negative mean differences which implies that these investments are more risky than their relative return.

**Paired Difference between Return and Risk in General**

| Investment | Mean difference | t value |
|---|---|---|
| Shares | 0.13 | 3.3 |
| Debentures / Bonds | 0.22 | 6.3 |
| Stock futures | -0.054 | -1.3 |
| Mutual funds | 0.47 | 11 |
| NSC/PPF/PF | 0.56 | 14 |
| Fixed deposits | 0.55 | 15 |
| Insurance polices | 0.74 | 17 |
| Real estate | 0.96 | 16 |
| Gold /silver | 0.78 | 13 |
| Others | -0.056 | -1.45 |

### FINDINGS, SUGGESTIONS AND CONCLUSIONS

The theory that the investors are expected to assign similar risk – return ratings for each type of investment has been tested using Test for Paired Differences and the Mean Differences has been used to identify the risk – return perceptions of the retail equity investors. Mean Differences reveal that Shares, Debentures/Bonds, Mutual Funds, NSC/PPF/PF, Fixed Deposits, Insurance Policies, Real Estate, Gold/Silver are perceived to generate greater relative return than relative risk by all classes of investors as a whole. Out of the above Real Estate is perceived as the best investment followed by Gold / Silver and Insurance Policies as a whole. These ratings vary among the different classes of investors based on their socio – economic and investment profile. The Test for Paired Differences disproves the theory and concludes that investors assign different risk and return ratings for each type of investment and the rating vary with the socio- economic and investment profile of the investors. Mean Differences reveal that Shares, Debentures/Bonds, Mutual Funds, NSC/PPF/PF, Fixed

Deposits, Insurance Policies, Real Estate, Gold/Silver are perceived to generate greater relative return than relative risk by all classes of investors as a whole. Out of the above Real Estate is perceived as the best investment followed by Gold / Silver and Insurance Policies as a whole especially by young and middle aged investors. Moreover, in India percentage of participation and investing in equities is too low comparatively other investment avenues. Hence better to bring the government or regulatory bodies like SEBI lot of awareness and encourage in retail investors in equities to become greater part of development of economic system for making investment on long term basis.

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