A study on Investor’s Preferences on Investment of Capital Market in India

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Abstract—Capital market is the backbone of any country’s economy. It facilitates conversion of savings to investments. Capital market can be classified as primary and secondary market. The fresh issue of securities takes place in primary market and trading among investors takes place in secondary market. Primary market is also known as new issues market. Equity investors first enter capital market through investment in primary market. In India, common investors participating in the equity primary market is massive. The objective of economic activity in any country is to promote the well-being and standard of living of the people, it depends upon the distribution of income in terms of goods and services in the economy. For the growth process in the economy, production plays a vital role. Production of output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials; plant, and machinery etc., Human inputs are like labor and enterprise. Financial inputs are in the kind capital, cash, credit etc., the proper co-ordination between these inputs; it promotes the growth process in the economy and promotes the well-being and standard of living of in the country. So this paper tries to find the various factors that affect the investor’s decision which is done by collecting information through questionnaires and personal interview in the city of Vijayawada and then analysis is made with the information collected through charts, tables and graphs.

Key Words: Capital market-Investors-Instruments-Sentiment-Financial markets

INTRODUCTION

Capital market is the backbone of any country’s economy. It facilitates conversion of savings to investments. Capital market can be classified as primary and secondary markets. The fresh issue of securities takes place in primary market and trading among investors takes place in secondary market. Primary market is also known as new issues market. Equity investors first enter capital market through investment in primary market. In India, common investors participating in the equity primary market is massive. The objective of economic activity in any country is to promote the well-being and the standard of living of people, it depends upon the distribution of income in terms of goods and services in the economy. For the growth process in the economy, production plays a vital role. Production of
output depends upon material inputs, human inputs, and financial inputs. Material inputs are in the form of raw materials; plant, and machinery etc., Human inputs are like labor and enterprise. Financial inputs are in the kind capital, cash, credit etc., the proper co-ordination between these inputs; it promotes the growth process in the economy and promotes the well-being and standard of living in the country. In India, generally all capital market investment avenues are perceived to be risky by the investors. But the younger generation investors are willing to invest in capital market instruments. Even though the knowledge to the investors in the Derivative segment is not adequate, they tend to take decisions with the help of the brokers or through their friends and who were trying to invest in this market. This study was undertaken to find out the awareness levels of various capital market instruments and also to find out their risk preferences in various segments.

Investor is an individual who commits money to invest products with expectation of financial return. Generally the primary concern of an investor is to minimize risk while maximizing return, opposed to a speculator who is willing to accept a higher level of risk in the hope of collecting more than average profits. The investment decision is one of the fundamental decisions of business management: Managers determine the investment value of the assets that a business enterprise has within its control or possession. Investors generally can be an individual or an institution.

**Chart-1**

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**Sources:** Investment Avenues (Vashisht and Gupta, 2005)

**Why should one invest?**

One needs to invest to:

i. Earn return on one’s idle resources
ii. Generate a specified sum of money for a specific goal in life
iii. Make a provision for an uncertain future

One of the important reasons why one needs to invest wisely is to meet the cost of Inflation. Inflation is the rate at which the cost of living increases. The cost of living is simply what it costs to buy the goods and services you need to live.

**Investor's Behavior**
Generally, Investor’s Behavior regarding any investment is to minimize risk while maximizing the return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits. While, some people also believe in “High Risk, High Return” Many investors purchase a particular stock with the intention of making a big profit over a short period of time. However, this action is not investing, but a pure gambling. The stock market is characterized by the trade-off between risk and return. The higher the risk the investor is willing and able to take, the higher the potential rewards from the investment. Therefore, if a particular investment offers you high returns, it is an indication that it is a high risk burden. Some people also believe that there is no safe investment that will provide with high returns over a short period of time. Therefore, one should direct one’s resources toward long-term investments that are more likely to reward you for the patience with high returns.

Investor’s Behavior regarding the financial investment is closely related with the “Behavioral Finance” and “Behavioral Economics” which are closely related fields making up a separate branch of economic and financial analysis using social, cognitive and emotional factors in understanding the economic decisions of investors for investment, and their effects on market prices, returns and the allocation of resources.

Description of the problem

In India the investors are of a heterogeneous group. They are educated people, lay man, few are risk averse and few are risk takers. As we have seen that a capital market has numerous options both in primary and second market, debenture, stocks and many more. For an investor to choose out of many options is a great problem. This research, studies the various factors that actually affects the investor’s choices in the capital market. The main problem investors are facing is due to lack of awareness of the stock market and various other instruments available. So they rely on the middlemen and certain other companies to seek guidance. Often these innocent investors are deceived by them.

Also they are various factors that influence the investor’s choice. For instance, if the investors have good sentiment (belief) towards the capital market they make more investments vice versa. Other factor that also influences an investor’s choice is their confidence in the capital market. If they are more confident about the capital market, they make more investment. If they are less confident on the functioning of the market they invest less. So this research tries to find out the various factors that influence an investor to make investments in the options available.

Objectives of the study

The objectives of the study is

i. To know the various factors affecting the investor’s preferences.

ii. To know the various options available in the capital market.
An Analysis on Indian Capital Market

The Indian capital market offers both NRIs and residents a plethora of investment options. Abundant choices often leave potential investors in a dilemma. Investment schemes backed by the government are always a safer and fool proof option. As an investor has the liberty to choose, here are some of the top investment options.

Bank Fixed deposits (FD) — Investment options in India.
Operated under the guidelines of The Reserve Bank of India, this option is one of the most sought after investment schemes due to its reliability. A Fixed Deposit or an FD yields 8.5% of yearly profits depending on the bank and tenure. The minimum period is 15 days and the maximum is five years. Senior citizens can avail of special rates.

National Saving Certificate (NSC) — Investment options in India.
The National Saving Certificate makes it easy for citizens from all walks of life to save for a rainy day. With the minimum amount set at Rs 100 only, one also gets an 8% interest on the amount calculated biannually. Since the NCS comes under Section 80 C, it also entitles you to get tax deductions up to Rs 1, 00,000. However from 2006–2006, the interest accumulated on the NCS amount is taxable.

Public Provident Fund (PPF) - Investment options in India. Quite like NCS, the Public Provident Fund is also monitored and backed up by the government of India. A minimum investment of Rs 500 and a maximum of Rs 70,000 is required to be deposited in a financial year. Since it too falls under Section 80C, investors can avail of tax deductions up to 1, 00,000. The lock in period for PPF is 15 years and the interest rate is 8% calculated annually. A PPF account can be opened at a head post office, GPO and selected outlets of nationalized banks.

Stock market - Investment options in India.
Investing in the stock markets potentially yield higher profits. Investors must constantly keep themselves up to date on the recent stock market and news. However, investing in the stock market can prove to be a gamble as it is subject to vast fluctuations.

Mutual Funds - Investment options in India.
Mutual Funds are similar to investing in the stock market. Mutual Fund companies invest in the stock market on behalf on willing investors. Although Mutual Funds are subject to market risks, the returns are weighty.

Other investments - investment options in India.
There are abundant investment options like real estate, Gold Deposit Schemes and private equity available besides the ones above. One needs to make sure of the authenticity of the organization, interest rates and any other benefits or conditions before investing. Investing right can yield pleasantly surprisingly results.

Stock market - Stock market is an important part of the economy of a country. The stock market plays a play a pivotal role in the growth of the industry and commerce of the country that eventually affects the economy of the country to a great extent. That is reason that the government, industry and even the central banks of the country keep a close watch on the happenings of the stock
market. The stock market is important from both the industry’s point of view as well as the investor’s point of view.

**Graph-1**

![Graph-1](image-url)

Source: www.tradingeconomics.com

**LITERATURE REVIEW**

Security markets play an important role in the economic development of the country. It increases the standard of living of people. Investors are of a heterogeneous group. They are lay man, educated people, professionals, etc. They have three main objectives when they are making investments, they are:

i. Safety

ii. Liquidity

iii. Rate of return

Every investor tries to derive maximum economic advantage from his investment activity. For evaluating an investment avenues are based upon the rate of return, risk and uncertainty, capital appreciation, marketability, tax advantage and convenience of investment. The following Table 1 should give the clear picture relating to the investor’s investment decisions in various financial market instruments.

**Table-1**

Summary Evaluation of Various Investment Avenues (Vashisht and Gupta, 2005)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Equity Shares</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Fairly High</td>
<td></td>
<td>Section 80L benefit</td>
<td>High</td>
</tr>
<tr>
<td>Non-Convertible Debentures</td>
<td>High</td>
<td>Negligible</td>
<td>Low</td>
<td>Average</td>
<td></td>
<td>Nil</td>
<td>High</td>
</tr>
<tr>
<td>Equity Schemes</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td></td>
<td>Section 80L benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Debt Schemes</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
<td></td>
<td>No tax on dividends</td>
<td>Very high</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>Moderate</td>
<td>Nil</td>
<td>Negligible</td>
<td>High</td>
<td></td>
<td>Section 80L benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Public Provident Fund</td>
<td>Nil</td>
<td>High</td>
<td>Nil</td>
<td>Average</td>
<td></td>
<td>Section 88 benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Life Insurance Policies</td>
<td>Nil</td>
<td>Moderate</td>
<td>Nil</td>
<td>Average</td>
<td></td>
<td>Section 88 benefit</td>
<td>Very high</td>
</tr>
<tr>
<td>Residential House</td>
<td>Moderate</td>
<td>Moderate</td>
<td>Negligible</td>
<td>Low</td>
<td>High</td>
<td></td>
<td>Fair</td>
</tr>
<tr>
<td>Gold and Silver</td>
<td>Nil</td>
<td>Moderate</td>
<td>Average</td>
<td>Average</td>
<td>Nil</td>
<td></td>
<td>Average</td>
</tr>
</tbody>
</table>

Source: Investment Avenues Vashist and Gupta, 2005

A study on Investor’s Preferences on Investment of Capital Market in India
So here the capital market tries to maintain a balance between the economic development and also ensures safety to the investors. The Capital Issues (Control) Act, 1947 was the first piece of legislation passed in India to control the capital market. After that, the Companies Act, 1956 was passed with a view to regulate the formation, administration and dissolution of companies. The Companies Act, 1956 has provisions to ensure certain rights to its members, but the rights given to its members under this Act will not redress the grievances of individual investors and there is no protection under this Act, as far as getting back the capital invested and rate of return on investment. Apart from the Companies Act, the Securities Contracts (Regulation) Act, 1956 was also passed with a view to prohibit speculation and unfair trading in the stock market as a way out for investor’s protection. In the meantime the Globalization of financial market led to several changes in Indian Capital Market. The Capital Issues Control Act was replaced by the Securities and Exchange Board of India Act, 1992 (herein after referred to as SEBI Act). The SEBI Act creates an autonomous body by name Securities and Exchange Board of India (herein after referred to as SEBI). The SEBI acts as the capital market regulator by acquiring powers from the Companies Act 1956, the Securities Contracts (Regulation) Act 1956, and from various other legislations. The SEBI Act has the prime objective of protecting the investors. Interest. The SEBI then and there issues guidelines to issuing companies, stock exchanges, stock brokers and other intermediaries etc. The article also talks about the various types of risks that are associated with investing. They are Credit risk, Return risk and liquidity risk. After understanding these factors the investors decide upon where to invest, how much to invest and when to invest. Investor’s protection is a very essential word and SEBI is very much concerned about it. It basically designed to protect investors from malpractices of companies, merchant brokers and other intermediaries.

Sentiment constitutes the key economic, market and regulatory factors that influence investor’s sentiment and the relationship between investor’s sentiment and market performance. There seems to be no clear consensus on the concept of investor sentiment and hence any meaningful definition ought to be inclusive and fluid. The important economic factors highlighted in the work are: Real GDP, Corporate Profits, Rate of Inflation, Level of Interest Rate, and Liquidity in the Economy. The market based factors that can be linked to Investor Sentiment are: Put Call Ratio, Advance Decline Ratio, Earning Surprises, P/E Ratio, and Price to Book Value. The regulatory framework of a financial market does seem to have a strong bearing on investor sentiment especially the legal provisions relating to corporate governance and Grievance Redressal Mechanism. Most respondents believe that investor’s sentiment and market returns are bilaterally co-related. The findings are largely in conformity with recent studies for other capital markets. These findings can be used to develop a comprehensive Investor Sentiment Index for India and hence have significant implications for investors, market intermediaries and financial regulators.

A study on Investor’s Preferences on Investment of Capital Market in India
In a study made by certain researchers an attempt was made to establish a relationship between certain factors such as economic, market, regulatory etc with the investor sentiment besides knowing whether any relationship exists between investor sentiment and stock returns. A survey was conducted to obtain the information from different stakeholders in the market system such as institutional investors, market intermediaries and market regulators to understand these relationships besides examining the definitional aspects of investor sentiment. The critical factors were ranked on the basis of relative importance (as shown by ranking of the respondents) within each category separately. There is no clear consensus among participants about the concept of investor sentiment. However, about fifty percent of them feel that investor sentiment implies “Understanding of investor behavior that influences stock market activity” and “a quantitative measure to gauge the levels of optimism or pessimism present in the market.” The key economic factors that impact investor sentiment are real GDP, corporate profits, rate of inflation, level of interest rates and liquidity in the economy, while the market based factors are put call ratio, advance decline ratio, earning surprises, P/E ratio and price to book value. Majority of respondents believe that better regulatory framework does influence Investor Sentiment especially with regard to legal provisions relating to corporate governance and investor grievance redressal mechanism. Most of the respondents also feel that investor sentiment and market returns are highly correlated and in fact influence each other. Investor Sentiment approach has a number of challenges characterizing and measuring uninformed need for investor sentiment. Much needs to be done in this framework since the potential payoffs of an improved understanding of investor sentiment are substantial. Results of this survey will be a key input for construction of investor sentiment index which could be related with the trading decisions. This will be an important input to capital budgeting decisions and their interpretations. Since it has been seen that sentiment affects the cost of capital, it may therefore have real consequences for the allocation of corporate investments across safer and more speculative firms. The results have important policy and optimal investment decision-making implications. The evidence presented is relevant from the perspective of money managers (professional investors), whose purpose is to provide investors with an expected rate of return on their investments, and heads of firms (CEOs) whose compensations could be tied to the firm’s stock.

Other article referred says that, In India capital market investments are perceived to be very risky. Especially the Younger generations are willing to invest in these markets especially in derivatives. Though they have less knowledge in derivatives, still they seek advice from various sources such as friends, intermediaries, brokers etc. The main purpose is to educate investors who are risk averse for trade in derivatives and also spread awareness about the various uses of derivatives which can help investors to reduce the risk and minimize the losses. It has primary as well as secondary objectives. The primary objective is to find the various investment avenues and to study the investor’s preference towards it and the

A study on Investor’s Preferences on Investment of Capital Market in India
secondary Objectives are to find out the general demographic factors of the investors dealing in capital market and to find out the preference level of investors on various Capital Market instruments. In this survey a descriptive research was chosen to formulate a sophisticated study. Previous research of investors in other countries has shown that both of these attitudes manifest clear tendencies to change through time and strongly influence the behavior of the pragmatic markets. The field of behavioral finance — an emerging field in financial analysis that takes explicit account of psychological factors — is the driving force of this research. This research is based on information obtained through a survey process in India. In India, common investors participating in the equity primary market is massive. The number of companies offering equity through primary markets increased continuously in the post-independence period till the year 1995. After 1995, there is a continuous slump experienced by the primary market offering equity. The main reason for slump is lack of investor confidence in the primary market. So it is important to understand the causes and measures of revival of investor confidence leading to capital mobilization and investment in right avenues creating economic growth in the country. Globally, there are increased evidences to suggest that investor confidence has assumed an important role in the economic development of a country. The Economist indicated that a lot of issues need to be addressed to make capital markets safer. Transparency, strengthening financial system and managing crises are the issues, which cannot be fixed. But they add up to a stronger system. The graph below shows the investment patterns from 2008-2011

Graph-2

Source:
www.tradingeconomics.com

Discussion

The capital market is the barometer of any country’s economy and provides a mechanism for capital formation. Across the world there was a transformation in the financial intermediation from a credit based financial system to a capital market based system which was partly due to a shift in financial policies from financial repression (credit controls and other modes of primary sector promotion) to financial liberalization. This led to an increasing significance of capital markets in the allocation of financial resources. The Indian capital market also went through a major transformation after 1992 and the Sensex is hovering around the 10000 mark by the end of the year 2005, which seemed a dream just a few years

A study on Investor’s Preferences on Investment of Capital Market in India
back, although the beginning of such an initiative could be seen since the second half of 1980’s. Since then the market has been growing in leaps and bounds and has aroused the interests of the investors. The reason for such a development was an increasing uncertainty caused due to liberalization and standardization of the prudential requirements of the banking sector for global integration of the Indian financial system.

Comparison Of Investment options in India

<table>
<thead>
<tr>
<th>Top Investment Area</th>
<th>Investment Restrictions</th>
<th>Return on Investment</th>
<th>Risk of Loss</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gold</td>
<td>No limit</td>
<td>Offers high returns as gold prices are on a rise</td>
<td>Low</td>
</tr>
<tr>
<td>Bank Deposit</td>
<td>---</td>
<td>Offers upto 8.5 percent annual return depending on the bank and period</td>
<td>Low</td>
</tr>
<tr>
<td>Mutual Funds</td>
<td>No limit</td>
<td>Equity Based: High</td>
<td>Equity Based: High</td>
</tr>
</tbody>
</table>

The investing story in India has not been always that smooth. Pitfalls are sure to co-exist. The main hurdle on India's growth now is its infrastructure. On the other hand, infrastructure is India's biggest opportunity as well. The fiscal deficit of India also poses a big threat to the investment industry in India. For an emerging economy like India, it is recommended that an investor always balances the unique risks against the potential for high long-term growth. Accordingly the decision for investment should be made of late, the Indian economy is turning out to be extremely conducive in terms of domestic and foreign investments. India Investments has been the major propelling force towards India's attainment of self-sustained growth by way of rapid industrialization. The pioneers of the investment...
Industry has been Foreign Direct Investment (FDI) made by NRIs. Foreign Direct Investments in India has been gearing up momentum every passing day. So, to view an economy which is entirely open to the global markets, the investment industry in India should be groomed in a manner that the maximum returns are achieved. It is advisable that the investment industry's potential should neither be overestimated nor underestimated. We should know how to deal with the complexities of the investment industry and grow along with it.

**Methodology**

The study is mainly based on the primary data collection and the secondary data is also another source for collecting information. Primary data is collected through questionnaires and personal interviews. Open ended and close ended questionnaires are both used for collecting information.

**Research type**

Explorative approach is the research type used. Since the various factors effecting the research problem is to be found out. So explorative research is used to explore and find out the various factors that affect the investor’s choices or preferences in investing in the capital market.

**Sample size**

100 Samples are chosen to be the sample size to meet the required objective. The selection of sample is based on the following criteria .People belonging to different strata’s of society

i. People who approach the stock broking houses

ii. Professionals who include doctors, lawyers, teachers, students etc.

**Data Analysis**

The data is collected through a structured questionnaire which has both open-ended and closed ended questions. The data is analyzed through the critical observation of the responses given by the respondents to the survey. As the questions are open-ended the respondents have their own choice to state their preferences in the capital market. Though we have many responses from the respondents, we will consider the most repeatedly stated responses. Once the data is collected it is analyzed with the help of drawing various graphs, charts and tables.

**Conclusion**

The securities market operations promote the economic growth of the country. More efficient is the securities market, the greater is the promotion effect on economic growth. In the current scenario, investing in stock markets is a major challenge ever for professionals. The investors should be aware of the various hedging and speculation strategies, which can be used for reducing their risk. Awareness about the various uses of derivatives can help investors to reduce risk and increase profits. Though the stock market is subjected to high risk, by using derivatives the loss can be minimized to an extent. Indian markets amongst the best regulated markets in the world. Need for greater integration with international markets in terms of capital flows, products and processes need to introduce new age
financial products and to encourage participation of new age investors

References


A study on Investor’s Preferences on Investment of Capital Market in India
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AUTHOR’S PROFILE

Dr. Chinniah. Anbalagan received the Ph. D Award from Annamalai University, India. He is Professor of MBA and Head of Research Committee, K.L.U. Business School, Andhra Pradesh, India. He has more than 16 years of experience both in Teaching and Research. He has guided 155 M.B.A Projects, 65 M. Ed, Projects, 38 M. Phil both in Commerce and Management, and 6 Ph. D Scholars are working under his eminent guidance and supervision. His fields of interests are various, viz., Financial Management, Financial Accounting, Management Accounting, Security Analysis, Portfolio Management, Research Methodology, Business Environment, International Logistic Management, International Business Management, Personnel Management, E-Commerce, E- Banking and E-Business. He has more than 60 publications to his credit both in National and International Journals and conferences. He has visited many universities and given more lectures in India. He has dedicated his whole soul and life to research and education and he has been serving as Editorial Board Member more than 7 International Journals and Advisory Board Member, Editor-in-Chief of 10 International Journals are as 1. Editor-in-Chief of CLEAR International Journal of Research in Management, Science and Technology (CLEAR IJRST), 2. Editor-in-Chief of CLEAR International Journal of Research in Commerce and Management (CLEAR IJRCM), 3. Managing-Chief-Editor of CLEAR International Journal of Research in Science and Technology (CLEAR IJRST), 4. Managing-Chief-Editor of CLEAR International Journal of Research in Engineering and Technology (CLEAR IJRET), 5. Managing-Chief-Editor of CLEAR International Journal of Research in Applied Geo Sciences (CLEAR IJRAGS), 6. Editor-in-Chief of KKIMRC International Journal of Research in Human Resources Management (KKIMRC IJRHRM), 7. Editor-in-Chief of KKIMRC International Journal of Research in Finance and Accounting.
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