



Article Type: Research Paper

Available online: www.ujlbm.twistingmemoirs.com

AN ANALYSIS OF RISK PERCEPTION AND INVESTMENT PORTFOLIO MANAGEMENT AMONG EQUITY INVESTORS

¹ Jatin Rao *

¹ Department of MBA, Vikram University, Ujjain, Madhya Pradesh, India

Corresponding Author: Jatin Rao, Email: jatin.r2380vu@gmail.com

ABSTRACT

Risk is a crucial factor for any investor in making all types of financial investment. It is a psychological and mental process of decision making based on an individual's frame of reference that changes from time to time. This summer internship explores individual investor's preference for portfolio choices and investigates impact of risk tolerance and risk perception on their investment decision. An attempt is also made to understand the factors affecting risk appetite of a person.

Primary and secondary research is conducted to gather the data from 50 respondents, for this study and it is analyzed that the overall risk perception level of investors is moderate to high and there is no significant relationship between gender and investment choices. This implies that the sample does not prove that a particular gender has a higher or a lower degree of risk tolerance. It is also observed that experience in stock market has a higher capability also increases. The reason for overall moderate-risk perception among these 50 respondents could be the average level of financial awareness and knowledge about markets and finance because 60% of the respondents belong to the age group of 18-40 years and hence it can be said that they have comparatively more knowledge about finance and investment. Yet the knowledge about finance and financial market is not sufficient enough to increase their risk-taking.

Keywords: Risk Perception, Portfolio Management, Equity Investors.

INTRODUCTION

Money plays an important role in one's life. Be it a rich person or a poor, everyone wants to overcome the monetary problems of their present and future and smart ones do it investing money. Investment is putting money into an asset with the expectation of capital appreciation, dividends, or interest earnings. "Financial Investment is an allocation of monetary resources to assets that are expected to yield some gain or return over a given period of time." People invest money to derive a future income in the form of interest, dividends etc. A person who saves money and puts in investment avenues is called an investor. An investor can be any person, an individual, a government, or a corporation and in all of the aforementioned cases, the investors is trading a known rupee amount today for some expected future stream of payments that will be greater than the current. Olayan investor has many investment choices where he can invest in, such as, Life Insurance, Mutual

Funds, ULIPs, Stock Market, Real-estate, Gold and other metals, banks, EPFs, PPFs and so on. Each investment avenue comes with a different level of risk and return. This allocation and diversification of monetary funds into different investment avenues is called portfolio management. Portfolio Management is an art of identifying, selecting, creating and maintaining a collection of different securities in which the total risk is minimized and total return is maximized while simultaneously meeting the long-term study and analyses their perceptions on risk and choices of investment avenues. Though many researchers and professionals have often investigated about the factors that affects investment choices and risk perception and it has been observed that the decision-making process is complicated and it does not only depend on risk-return relationship. For this reason, variables affecting the investment preferences and risk perceptions of individual investors have been investigated in this research. Studies say that the risk perception of an individual is formed due to various factors like age, income level, marital status, experience in the stock market, gender, future goals, education level, knowledge about stock market and so on. It is also said that people are usually risk averse. They like to invest in such avenues where risk is minimum and returns are higher or in other words, at a given level of returns, risk is least. Risk perception is a vital constituent in several assessments and, hence, psychologists are continuously attempting to find out the best way of measuring risk perception. Singh and Bhowal (2008) gave a theory that if a person is aware about the different factors of risk perception, his risk perception could be controlled.

RESEARCH METHODOLOGY

Data Sources

Collection of data is the most essential part of this study as it gives the first-hand knowledge about customers' and investors' psychology and decision making. The task of collecting data begins after a research problem has been defined and plan is chalked out. For this study, the research is conducted and insights are captured using both primary data such as surveys, questionnaires, personal interviews and secondary data like data thorough review of journals, stock market analysis, research papers etc. Primary research is conducted by generating leads through references, personal contacts and other sources. This is done in order to understand and analyse about the psychology of equity investors while investing in stock market and other portfolios. This would also give an insight about the mentality of new investors and their strategies while entering investment market. The research was both qualitative and quantitative in nature with a mix of closed and open-ended questions. Secondary research was also done in order to understand about the studies that are already done and to give background information about the topic. This was done through magazines, books, reading journals, articles etc.

Research Approaches

There are different ways to collect primary data such as through observations like ethnographic research, focus group, surveys, experiments, behavioral research and so on. To efficiently fulfill the purpose of the study and gather relevant data, surveys and personal interview is used. Survey approach is undertaken in order to assess people's knowledge, attitudes, choices and satisfaction related to investment choices. Surveys were conducted in malls, offices, banks and even online. Since, our research topic is related to banking and finance a more personal survey was conducted majorly by visiting various branches of PNB (Punjab and National Bank) in New Delhi. In addition to this, an online survey was also conducted to gather more appropriate data. The survey was kept short and simple so as to make it easier for respondents to understand and answer it appropriately. Apart from the survey questionnaire, 8 personal interviews were also done to understand more about investors psychology and decision-making techniques.

Research Instrument

Research instrument is the tool for collecting primary information through various methods discussed above. There are three main options of research instrument that a researcher can choose from, such as, through questionnaires, qualitative measures, and technological devices. The research instrument that is used, in this

study, to collect primary data is majorly through questionnaires and sometimes through qualitative research options like word associations.

Development of the Questionnaire

A questionnaire is considered to be the most flexible, structured and efficient way of collecting primary data as it is cost and time effective. In this survey, a self-administered questionnaire is prepared and used to gather the data from the respondents. The survey is conducted using close ended. A five-point likert scale is used to analyse the risk appetite of the investors. In order to understand the various objectives for which an investor invests, rating scale was used. Other Multiple-Choice Questions (MCQs) were also used to understand their demography and financial literacy. Open ended questions were asked only during the personal interviews to dive deep into the psychology of an investor. No open-ended questions were used in the questionnaire.

Sampling Sampling Unit: In order to have an overall understanding of the research perspective of investors, the data is collected from investors who have an experience in trading, brokers who usually deals with people who wants to invest, novice investors who are new to investing in risky assets and lastly, people who do not have an experience in asset market but want to invest and have a knowledge of stock market and financial markets in general.

Sampling Size: It is often said that large samples are much more reliable and hence, an attempt was made to gather as much data as possible. The data from 108 respondents residing in Delhi were gathered. However, due to incomplete information, 08 of the responses were discarded and 100 were accepted. Hence, a sample of 100 respondents is used to complete the survey and analysis of this summer internship.

RESULT AND DISCUSSION

Primary Source of Data

Meaning: Primary sources of data are the data which needs the personal efforts to collect It and which are not readily available.

Primary sources of data are the other type of sources through which the data was Collected.

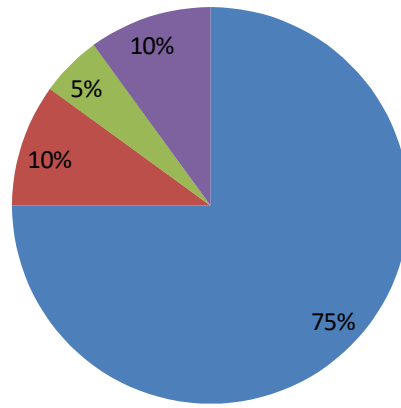
Following are few ways in which the data was collected:

Questionnaires: Its set of questions on a sheet of paper was being given to the respondents of fill it, based on which the data was interpreted.

Direct Interviewing: Direct interviewing involved the process where I asked the questions directly to the investors and got the feedback.

Questionnaire

Are you aware of the following investment avenue?



Safe/Low risk investment analysis- 75%

Moderate risk investment avenues- 10%

High risk investment avenues- 5%

Traditional investment avenues-10%

As shown in the bar chart analysis,

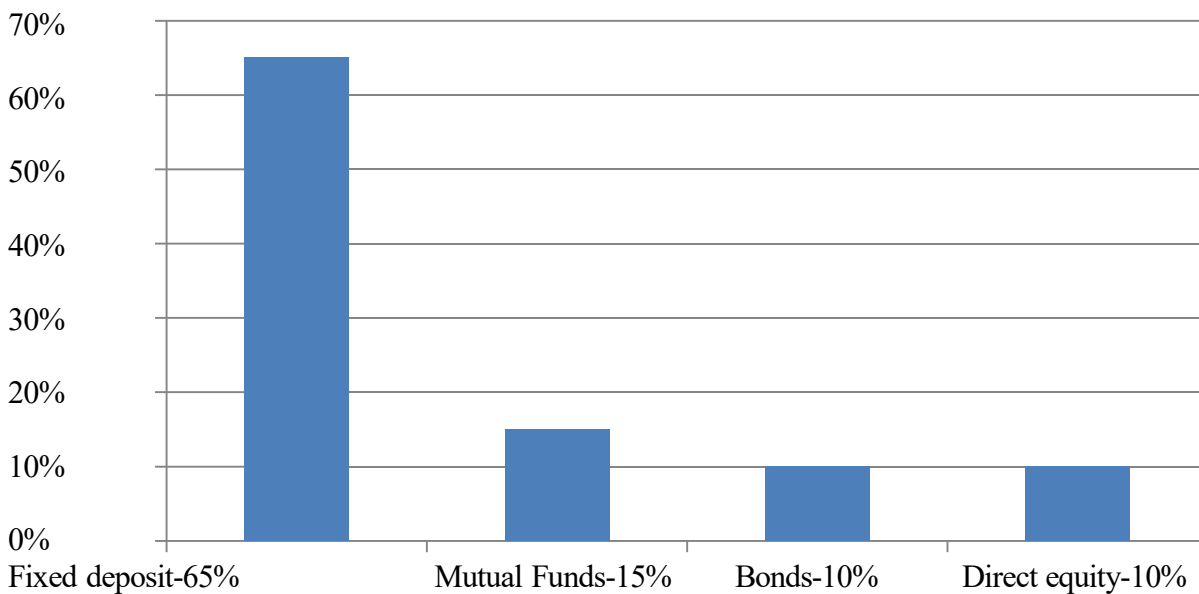
About 75% respondents aware about the safe/ low risk investment.

About 10% respondents aware about the moderate risk investment.

About 5% respondents aware about the high-risk investment avenues.

About 10% respondents aware about the traditional investment avenues.

What do you think are the best options for investing your money?



As shown in the chart,

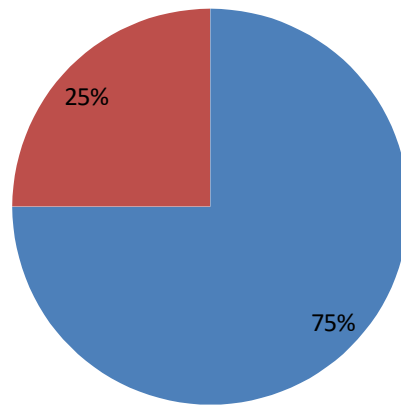
65% respondent invests their money in Fixed deposit.

15% respondent invest in Mutual fund.

10% respondent invest in Bonds.

10% respondent invest in Direct equity.

Reasons for selecting these options?



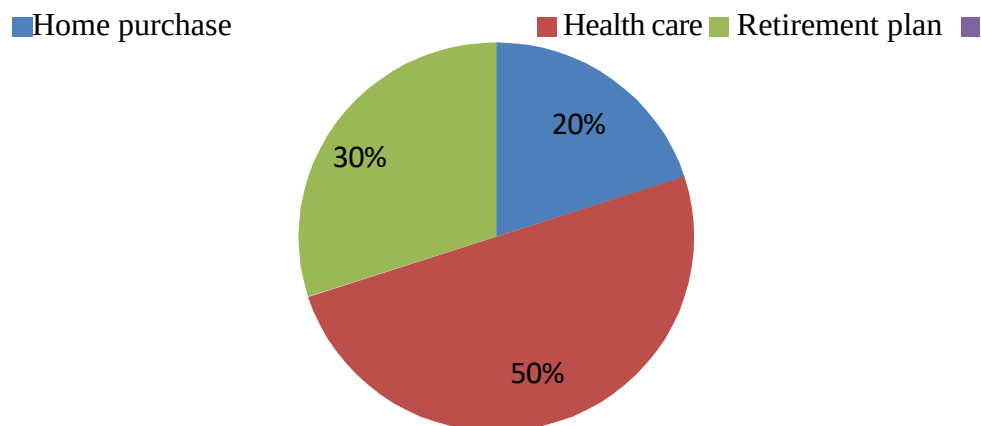
Gives Benefit in future- 75% ■ Their own wish

As shown in the above chart,

About 75% respondents said that these options give benefits in future so that they invest their money. About 25% respondent said that they invest money by their wish.

What is your saving's objective?

Sales

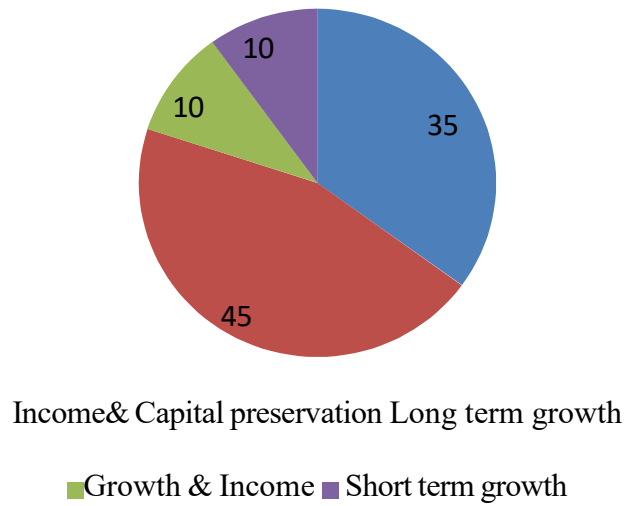


As shown in the chart,

30% respondent save their money for Retirement plan.

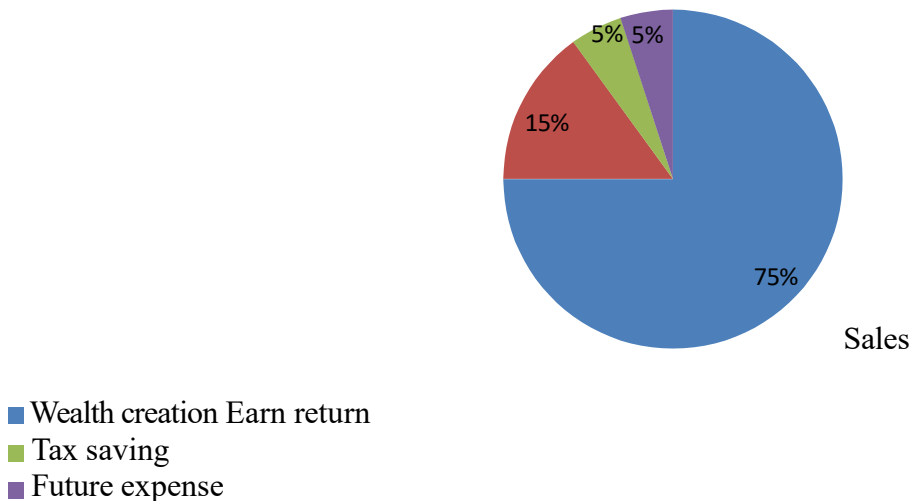
50% respondent save their money for Health care.

20% respondent saves their money for home purchase.

What is your investment objective?

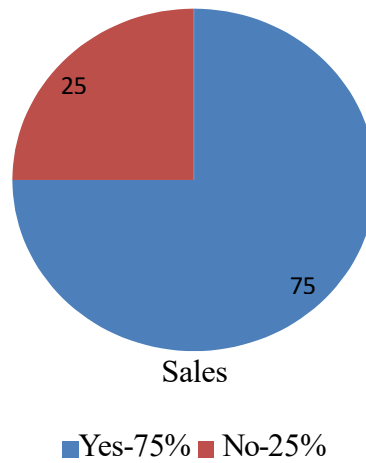
As shown in the chart,

45% respondent give answer for long term growth.
 35% respondent give answer Income & capital preservation.
 10% respondent give answer Growth & Income.
 10% respondent give answer for Short-term growth.

What is the purpose behind Investment?

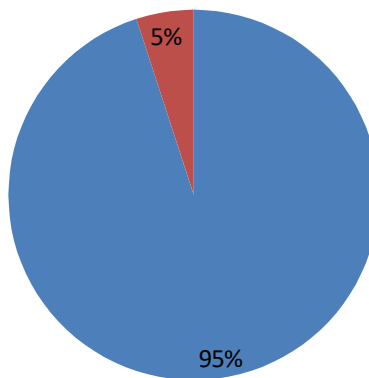
In the above chart,

75% respondent's purpose is for Wealth creation.
 15% respondents' purpose is for earn return.
 5% respondents' purpose is for tax saving.
 5% respondent purpose is for future expense.

Have you set aside funds specifically for the education & marriage of your children?

In the above chart,

75% respondent said yes
25% respondent said no.

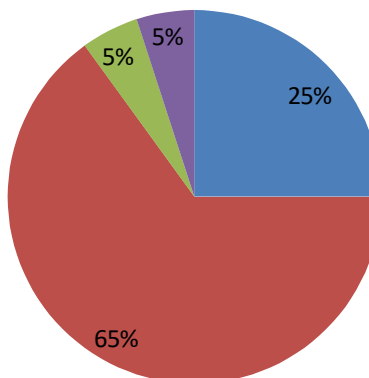
At which rate do you want your investment to grow?

■ High ■ Medium ■ Low

As shown in the above chart,
95% respondent wants their growth in investment 5% respondent wants their growth in investment.

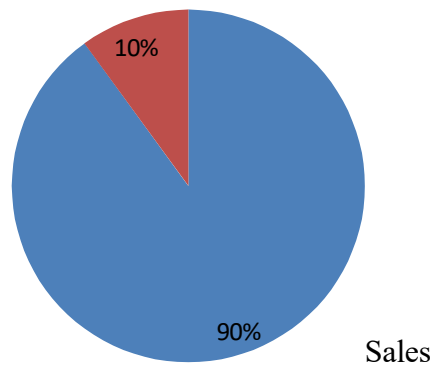
Which factor do you consider before investing?

Sales



■ Safety of principal ■ Maturity period ■ Low risk ■ High return

As shown in the above figure, there is a response given by the respondents.

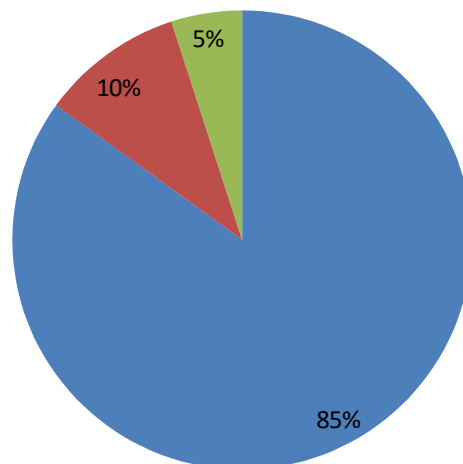
Do you invest your money in share market? {through a demat account}

■ Yes ■ No

In the above chart,

90% respondents are agreed.

10% respondents are not agreed.

How often do you monitor your investment?

■ Daily
■ Monthly
■ occasionally

This is the data which is given by respondents.

Secondary Source of Data

Secondary sources are the other important sources through which the data were collected.

These are the readily available sources of the data where one had need not put much effort to collect, because it is already been collected and part in an elderly manner by some researchers, experts and socialites.

The secondary sources helpful for study were:

Text books like financial management, research methodology, risk perception and portfolio management. internet was made use for the collection of the data.

newspapers were also referred.
 business magazines also referred.
 some journals were also referred.

CONCLUSION

The study is made to find out “Risk perception and portfolio management of equity investors”. The study reveals that the investors in Coimbatore city are not aware of portfolio which would minimize risk and maximize the return.

And also, it is clear that the investors in Coimbatore city have low level of understanding about risk and the importance of portfolio management as they are not aware these factors.

Hence proper should to be taken in order to improve the awareness level in the minds of the investors.

Don't buy too many different securities. Better have only a few investments that can be watched.

Study your tax position to known when you sell to greatest advantages.

Always keep a good part of your capital in a cash reserve. Never invest all your funds.

Failure to understand Mr. Market: Just because the market has put a price on a business does not mean it is worth it. Only an individual can determine the value of an investment and then determine if the market price is rational.

Failure to understand the impact of taxes: Also known as the sorrows of compounding, just as compounding works to the investor's long-term advantage, the burden of taxes because of excessive trading works against building wealth.

Too much focus on the market whether or not an individual investment has merit and value has nothing to do with that the overall market is doing.

REFERENCES

1. Alex Kane: (Mar- 1982) Skewness Preferences and Portfolio Choice, Journal of Financial and Quantitative Analysis, Vol 17, No.1.
2. Asai, M. and M. McAleer (2007), Portfolio index GARCH: a class of parsimonious dynamic covariance models, Unpublished Paper, University of Western Australia.
3. Bollerslev, T. (1990), modelling the coherence in short-run nominal exchange rates: a multivariate generalized ARCH model, Review of Economics and Statistics, 72.
4. Campbell, J.Y. (1987), Stock returns and the term structure, Journal of Financial Economics, 18, 373-399.
5. Chen, N.F., R. Roll and S.A. Ross (1986), Economic forces and the stock markets, Journal of Business.
6. Fama, E.F. and K.R. French (1989), Business conditions and expected returns on stocks and bonds, Journal of Financial Economics.
7. F. Modigliani & M. Miller (1958), the Cost of Capital- Corporation Finance and the Theory of Investment, the American Economic Review, Vol.6.
8. Freid. Darditti, (Mar, 1967), Risk and the Required on Equity, Journal of Finance, Vol.22.
9. Harry Markowitz (1992) Portfolio Selection: Efficient Diversification of Investments, New Haven, Yale University Press.
10. Jorion, P. (2000), Value at Risk: The New Benchmark for Managing Financial Risk, McGraw-Hill, New York.
11. McAleer, M. (2005), Automated Inference and Learning in Modelling Financial Volatility, Econometric Theory.

12. Bhattacharjee, Jayashree, and Ranjit Singh. 2017. Awareness about equity investment among retail investors: A kaleidoscopic view- Qualitative Research in Financial Market
13. Barber, B. M. Odean, T, 2001. Boys will be Boys: Gender, Overconfidence, and Common Stock Investment. *The Quarterly Journal of Economics*, 116(1), pp261-292
14. Chen, H. Volpe, R. P., 2002. "Gender Differences in Personal Financial Literacy Among College Students", *Financial Services Review*, 11(3), pp 289-307
15. Deb, Sujit, and Ranjit Singh. 2016. Impact of Risk Perception on Investors towards their Investment in Mutual Fund. *Pacific Business Review International*
16. Deb, Sujit, and Ranjit Singh, 2018. Risk perception dynamics of mutual fund investment decisions. *Iranian Journal of Management Studies*.
17. Dr. P. Amraveni and Mrs. M Archana, 2017. A Study of Investor's Behaviour Towards Various Investment Avenues in Warangal City. *Asia Pacific Journal of Research in Business Management*, 8(7), pp 32-48.
18. Kotler Keller, 14th Edition, Marketing Management
19. Lopes, Lola L., 1987. Between Hope and Fare: The Psychology of Risk. *Advances in Experimental Social Psychology*.
20. Pasewark, W. R. Riley, M. E., 2010. It's a Matter of Principle: The Role of Personal Values in Investment Decisions. *Journal of Business Ethics*, 93, pp.237–253
21. Ranjit Singh and Jayashree Bhattacharjee, 2019, Measuring Equity Share Related Risk Perception of Investors in Economically Backward Regions.
22. Rooij, M. V., Lusardi, A., Alessie, R., 2011. Financial Literacy and Stock Market Participation. *Journal of Financial Economics*. pp 449-472.
23. Singh, Ranjit, and Amalesh Bhowal, 2008. Risk Perception- The Theoretical Kaleidoscope. *Vanijya*, 18, pp 54–63.
24. Slovic, P., 1999. Trust, Emotion, Sex, Politics, and Science: Surveying the RiskAssessment Battlefield. *Risk Analysis* 19(4), pp 689-701.
25. Veld, Chris, and Yulia Veld-Merkoulova. 2008. The risk perceptions of individual.