

Risk Taking Capacity of Investors in Share Market – A Special Reference to Puducherry Region



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Abstract

A Study on investment management starts with the question of what investment is. The word 'investment' has many interpretations as it means different things to different persons. For a person who has lent money to another, it may be an investment for a return. Similarly, if a person purchases shares of a company, bullion or real estate for the purpose of price appreciation, it is also an investment for him. Likewise, an insurance plan or a pension plan is an investment to its purchaser. From these illustrations, it is clear that investment is a commitment of funds for earning additional income. In other words, investment is considered the sacrifice of certain present value of money in anticipation of reward. The analysis of chi square calculated value is less than the tabulated value. So we accept the hypothesis. There is relationship between the Annual Income and the way of measuring the risk. In share market which kind of pupils are investing means, Married persons are the most of persons investing because they are willing to get high profit and who have good economic level conditions are also investing in share market.

Keywords: Investment Management, Commitment of Funds, Money in Anticipation

Introduction

A Study on investment management starts with the question of what investment is. The word 'investment' has many interpretations as it means different things to different persons. For a person who has lent money to another, it may be an investment for a return. Similarly, if a person purchases shares of a company, bullion or real estate for the purpose of price appreciation, it is also an investment for him. Likewise, an insurance plan or a pension plan is an investment to its purchaser. From these illustrations, it is clear that investment is a commitment of funds for earning additional income. In other words, investment is considered the sacrifice of certain present value of money in anticipation of reward.

Definitions of Investment

The following are some important definitions of investment.

“An investment is a commitment of funds made in the expectation of some positive rate of returns. If the investment

is properly undertaken, the returns will commensurate with the risk the investor assumes’.

“The purchase by an individual or institutional investor of a financial or real asset that produces a return in proportion to the risk assumed over some future investment period”.

– F. Amiling.

Need for the Study

Investing in anything that has an expected return greater than bank investments and treasury bills assumes real risk. Risk can minimize itself in many ways but the most common and painful method is decline the value of investment due to market volatility. So, it is need to have a better understanding about the investor and their mind setting. Different investors have different risk taking capacity. So it is better to understand and to create a profile of investors. This profile will help us to be acquainted with the following:

To identify the types of investors in share market.

To identify the various levels of risk in share market.

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Statement of the Problem

When the value of the product in share market decreases the investors never indulge in trade activities of shares. Whether those who gets minimum income can face the risk factors of shares. If we meet any loss in unexpected situation how could it be stabilized the loss at low income.

The mindset includes risk tolerance, perception, preference and many more the identification of risk tolerance will help the investor as well as the trader to fetch the fruits from share market. This study is required to identify the risk tolerance.

Objectives of the Study

To identify the risk taking capacity of investors in share market.

Limitations of the Study

The data analysis is on the basis of primary data. It may not be reflected in near future as the market changes from time to time.

Brokerage, commission, loan & taxes have been ignored.

Research Methodology

Primary Data

It is an analytical research study. It uses primary data, which is cross sectional in nature. The sources of data include the 100 sample respondents for the study.

Secondary Data

The secondary data has been collected from journals, articles, magazines, websites, published and unpublished theses, and personnel related methods in leading books and other related professional and records. From these sources, a wide range of information was collected.

Tools and Techniques

The following tools were used for analysis of the data Statistical tool used in Chi Square Test.

Hypothesis

The hypothesis of the proposed study will be

The relationship between the annual income and Measure of Risk involved in the share market.

Review of Literature

Review of literature paves the way for a clear understanding of the areas of research already undertaken and throws a light on the potential areas which are yet to be covered. Keeping this fact in mind, an attempt has been made to make a brief survey of the previous works undertaken on the field of Share Market.

For any research study the survey of related literature is of at most importance because it throws light on the problem in hand. It helps the researcher at a well conceived and planned approach in conducting the study. A review of literature relevant to study has been presented. It covers general aspects of the Risk Tolerance, Evaluating the Share Market Situation, Behaviour of investors.

Theoretical Background

Risk

The dictionary meaning of risk is “the possibility of loss or injury; the degree of probability of such loss”. The concept of risk may be define as “the possibility that the actual return may not be same as expected”.

Risk is also defined as “a situation where the possibility of happening or non-happening of an event can be quantified and measured”. Risk in holding securities could result in the possibility of realizing lesser returns than what was originally expected by way of dividends or interest. Risk includes the possibility of loss or injury and the degree of probability of such a loss.

Generally, an investor makes an investment with the object of getting a return. But as the future of his investment is uncertain, the return expected by him also may not be certain. This element of uncertainty associated with the return from an investment causes risks in investment. Risk arises when there are variations between expectation and realization. Thus, risk can be explained in terms of variability of returns. On this basis, an investment, whose returns are fairly stable is considered to be a low-risk investment. On the other hand, if the returns on an investment fluctuate widely, it is regarded as a high-risk investment. For example, investment in equity shares is risky as their returns fluctuate widely. But returns obtained from government securities are fairly stable and hence they are considered to contain low-risk.

Causes of Risk

Risk consists of the elements that cause variations in the return of income. The factors causing risks in investment are price and interest. Moreover, risk is also influenced by internal and external forces. External risks are beyond the control of an organization and they broadly affect investment.

These external risks are known as systematic risks. On the other hand, the forces causing internal risks are within the industry and they are called unsystematic risks.

Analysis and Interpretation

Annual Income and Measure Risk Involved

Ho: There is no relationship between the Annual Income and the way of measuring the risk.

H1: There is relationship between the Annual Income and the way of measuring the risk.

	A	B	C	D	E	Total
A	1	1	1	2	29	34
B	0	1	1	1	6	9
C	2	0	0	1	5	7
D	0	0	1	0	3	4
Total	2	2	3	4	43	54

$$\begin{aligned}
 E_i(1) &= \frac{34 \times 2}{54} = 1.259 \\
 E_i(1) &= \frac{34 \times 2}{54} = 1.259 \\
 E_i(1) &= \frac{34 \times 3}{54} = 1.888 \\
 E_i(2) &= \frac{34 \times 4}{54} = 2.518 \\
 E_i(29) &= \frac{34 \times 43}{54} = 27.074 \\
 E_i(0) &= \frac{9 \times 2}{54} = 0.333 \\
 E_i(1) &= \frac{9 \times 2}{54} = 0.333 \\
 E_i(1) &= \frac{9 \times 3}{54} = 0.5 \\
 E_i(1) &= \frac{9 \times 4}{54} = 0.666 \\
 E_i(6) &= \frac{43 \times 9}{54} = 7.166 \\
 E_i(2) &= \frac{7 \times 2}{54} = 0.259 \\
 E_i(0) &= \frac{7 \times 2}{54} = 0.259 \\
 E_i(0) &= \frac{7 \times 3}{54} = 0.388 \\
 E_i(1) &= \frac{7 \times 4}{54} = 0.518
 \end{aligned}$$

$$\begin{aligned}
 E_i(5) &= \frac{7 \times 43}{54} = 5.57 \\
 E_i(0) &= \frac{4 \times 2}{54} = 0.148 \\
 E_i(0) &= \frac{4 \times 2}{54} = 0.148 \\
 E_i(1) &= \frac{4 \times 3}{54} = 0.222 \\
 E_i(0) &= \frac{4 \times 4}{54} = 0.296 \\
 E_i(3) &= \frac{4 \times 43}{54} = 3.185
 \end{aligned}$$

O _i	E _i	O _i -E _i	(O _i -E _i) ²	(O _i -E _i) ² E _i
1	1.259	0.259	0.067	0.053
1	1.259	0.259	0.067	0.053
1	1.888	0.259	0.067	0.035
2	2.518	0.518	0.268	0.106
29	27.074	1.926	3.709	0.136
0	0.333	0.333	0.110	0.330
1	0.333	0.667	0.444	1.333
1	0.5	0.95	0.9025	1.805
1	0.666	0.334	0.111	0.1666
6	7.666	1.166	1.359	0.189
2	0.259	1.741	3.031	11.702
0	0.259	0.259	0.067	0.258
0	0.388	0.388	0.150	0.386
1	0.518	0.482	0.232	0.447
5	5.57	0.57	0.324	0.058
0	0.148	0.148	0.021	0.141
0	0.148	0.148	0.021	0.141
1	0.222	0.778	0.605	2.725
0	0.296	0.296	0.087	0.293
3	3.185	0.185	0.034	0.010
			Total	20.4046

$$\begin{aligned}
 \text{Degree of Freedom} &= (C-1)(R-1) \\
 &= (5-1)(4-1) \\
 &= (4)(3) \\
 &= 12 \\
 &12 = 21.026
 \end{aligned}$$

Inference

The calculated value is less than the tabulated value. So we accept the hypothesis. There is relationship between the Annual Income and the way of measuring the risk.

Findings

The calculated value is less than the tabulated value. So we accept the null hypothesis. There is no relationship between the Annual Income and the way of measuring the risk.

Suggestions

Creation of awareness about share market.

Educating the investors about the risk returns and ways of analyzing the market.

To know about the equity shares i.e. it is simply buying and selling of equities. However, unlike other commodities, equities are not traded everywhere, and are traded only in special market places called exchanges.

Conclusion

I chose this topic to know about the share market and investments. In share market which kind of pupils are investing means, Married persons are the most of persons investing because they are willing to get high profit and those who have good economic conditions are also investing in share market.

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