A STUDY ON INVESTOR BEHAVIOUR TOWARDS CAPITAL MARKET WITH REFERENCE TO KERALA STATE

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Introduction

Saving is a strategic variable in the theory of economic growth. At the national level, saving is the withdrawal of supporting investment in the economy. The role of saving as a determinant of economic growth has been emphasized by the classical economists like Adam Smith Ricardo and Mill. For an individual acquisition of more wealth enables him to safeguard against future contingencies and thus provides him with a cushion of security. Investment culture is a prerequisite, and financial planning is a challenge for most people in the country when resources are limited, and needs are endless. As with most problems, achieving financial security is a very much matter of understanding concepts, organizing information, and developing a workable process. Hence, financial planning investment and saving should be a series of steps that help us reach our financial goals in the future with ease.

Savings and investment among the masses merge as a result of the cultural background. It is a normal human tendency to spend the earnings. Still, the need to protect or safeguarding future needs forces humans to save for the future and this culture of saving and directing the savings to profitable investments are influenced by the extent and the level of financial planning carried out. Investment culture necessarily would mean different attitudes, perceptions, and willingness expressed by individuals/ institutions in directing their savings in various financial instruments/ securities. A study of the savings and investment pattern of their perceptions and preference thus assumes a broader significance in the formulation of policies for the development and regulation of the securities market in general and the protection and promotion of investor's interest in particular.

The Indian Capital market has made substantial progress since independence, wherein the progress has been impressive. The structure and functioning of the Indian Securities market have been transformed significantly, especially after the introduction of the Industrial policy 1992. The growth of the Indian Capital market was at a tremendous pace. Since the middle of the 1970s and the late 1970s, the growth was in a rising trend, but it was noted that the increase was not by large transactions. The primary reason was the partial or complete standout by the investors at large due to the lack of awareness among the broader population. This was coupled with poor investor's climate, lack of confidence among the existing investors due to the inefficiency and poor institutional infrastructure. It is essential for the authorities to understand that investment in a country is primarily controlled by the quantum of capital that is mobilized but on the sentiments and the level of knowledge among the investors. By understanding the investor's perception of their perception, their preferences, and their immediate and future concerns about the capital market.

Investing in corporate securities is now considered to be one of the generally accepted options of savings management. A large chunk of the savings of the country finds its way to the stock markets. Investment in corporate securities offers income in the form of dividends and interest, along with capital appreciation. Judiciously invested in shares offers liquidity also. Investing, however, entails risk, but rational and prudent investment decisions can moderate it. In India, the current gloomy corporate scenario and the extremely volatile capital markets have bought risk management to the core of the investment decisions. The more acute and smart investors can make the right investment decision to produce extra rewards. In this chapter, an attempt is made to analyze the criteria for investment decisions made by the Indian investors.

Need for the Study

Traditional finance theory presupposes that investors view all decisions through an objective lens of risk and return. It also assumes that people are guided by reason and logic and independent judgment. But the field of behavioral finance recognizes and proves that emotions and herd instincts play an essential role in influencing decisions. Unlike institutional investors, individual investors are prone to such psychological behaviour while making investment choices. When these psychological biases are coupled with the reduced financial literacy levels, it may create havoc in the game of investing. As a result, the argument of the traditional economic theory relating to the efficiency of the stock market is often proved wrong.

In this context, an investor needs to be aware of the various psychological biases that he or she may have and the ways of overcoming such bias while investing. Investor behaviour is characterized by overexcitement and overreaction. Some of the psychological preferences that are proved are herd instincts, overconfidence, anchoring, among others. A herd instinct refers to the behaviour of the investors to follow the crowd and not having independent judgments. It is a mentality characterized by a lack of individuality, causing people to think and act likes the general population. Herd instinct explains why people tend to imitate others. When a market is moving up or down, investors are subject to a fear that others know more or have more information.

As a consequence, investors feel a strong impulse to do what others are doing. Anchoring refers to the tendency to hold on to some belief even though it is not supported by information. Overconfidence refers to relying too much on their own experience and overestimating their forecast. Identification of all such biases in an investor is helpful for proper investing. Apart from these psychological factors, the demographic factors, too, may influence the financial decision-making process. The growth of the capital market in India is evident from the rise in the market capitalization of the leading two stock exchanges in India, namely the Bombay Stock Exchange, and the National Stock Exchange. At the international levels too, these stock exchanges are one of the leading exchanges in terms of market capitalization and the number of securities traded. The last decade saw a massive increase in the inflow of funds from the Foreign Institutional Investors. When the stock market is growing, every individual investor, too, should share in its growth and profit. But clearly, the data revealed by various agencies, show that individual investors, especially retail investors, are shying away from the capital market. Hence there is a need to study Investor Behaviour towards Capital Market in Kerala.

Statement of the Problem

Investors are the backbone of the capital market. A developing economy, like India, needs a growing amount of savings to flow to corporate enterprises. The level of equity market participation of the retail investors has been increasing over the past few years. Investment is the flow of capital that is used for productive purposes. There is a great emphasis on investment for being the primary instrument of economic growth and development for a country. There are a large number of investment instruments available today. Some of them are marketable and liquid, while others are non-marketable and illiquid. There are instruments which are highly risky while others are almost riskless. The investors choose avenues, depending upon their specific needs, risk appetite, and return expected. Investment avenues can broadly be categorized into two spheres, namely, economic investment and financial investment. Purchasing of a physical asset such as a building or equipment is a commercial investment. Economic investments contribute to the net additions to the capital stock of a society. Financial investments, on the other hand, refer to investment in financial instruments like shares, debentures, insurance policies, mutual fund units, etc. Financial investments help in creating the capital stock of the country. In the long term, investment is essential for improving productivity and increasing the competitiveness of an economy. This study aims to investigate the Investor Behaviour towards Capital Market in Kerala.

Scope of the Study

The present study on Investor Behaviour towards Capital Market in Kerala attempts to find out its impact on factors like Objectives of Savings, Investment Preferences and Strategies, Financial Decision Making Process, Financial Adviser, Selection of Mutual Funds, Qualities in a Scheme, Investors Perception about Capital Market, Level of Investor Awareness, and also reviews the Investor Behaviour in cross-comparison with each other. The scope of the present study is limited to the Investor Behaviour towards Capital Market in Kerala.

Objectives of the Study

The confined objectives of the present study are:

1. To analyses of the factors responsible for various dimensions of Investor Behaviour.
2. To analyze the association between Level of Investor Awareness with respect to the demographic profile of respondents.
3. To examine the opinion regarding various dimensions of Investor Behaviour towards Capital Market.

Hypotheses

Ho – There is no significant difference between demographic profiles of the respondents with respect to Financial Decision Making Process.

Ho – There is no significant difference between demographic profiles of the respondents with respect to Financial Adviser.

Ho – There is no significant difference between demographic profiles of the respondents with respect to the Selection of Mutual Funds.

Ho – There is no significant difference between demographic profiles of the respondents with respect to the Level of Investor Awareness.

Research Methodology

Research methodology is a scientific and systematic way to solve research problems. The research methodology deals with research methods and take into consideration the logic behind the techniques. In total, the research methodology of the study includes research design, sampling framework, data collection, the framework of analysis, and limitations.

Research Design of the Study

Research design is the conceptual structure within which the research is conducted. It is a blueprint for the collection, management, and analysis of the data. The research design in the present study is descriptive in nature since it describes the phenomena of Investor Behaviour towards Capital Market in Kerala. Apart from this, the present study has its own objectives and pre-determined methodology. It is purely descriptive in nature.

Profile of the study area

Kerala is a state on the southwestern Malabar Coast of India. It was formed on 1st November 1956, following the passage of the States Reorganisation Act, by combining Malayalam-speaking regions of the erstwhile states of Travancore- Cochin and Madras. Spread over 38,863 km2 (15,005 sq mi), Kerala is the twenty- third largest Indian state by area. Karnataka borders it to the north and northeast, Tamil Nadu to the east and south, and the Lakshadweep Sea to the west. With 33,387,677 inhabitants as per the 2011 Census, Kerala is the thirteenth-largest Indian state by population. It is divided into 14 districts, with the capital being Thiruvananthapuram. Malayalam is the most widely spoken language and is also the official language of the state.

The Chera Dynasty was the first prominent kingdom based in Kerala. The Ay kingdom in the deep south and the Ezhimala kingdom in the north formed the other kingdoms in the early years of the Common Era (CE or AD). The region had been a prominent spice exporter since 3000 BCE. The region's prominence in trade was noted in the works of Pliny as well as the Periplus around 100 CE. In the 15th century, the spice trade attracted Portuguese traders to Kerala and paved the way for the European colonization of India. At the time of the Indian independence movement in the early 20th century, there were two major princely states in Kerala-Travancore State and the Kingdom of Cochin. They united to form the state of Thiru-Kochi in 1949. The Malabar region, in the northern part of Kerala, had been a part of the Madras province of British India, which later became a part of the Madras State post-independence. After the States Reorganisation Act, 1956, the modern-day state of Kerala was formed by merging the Malabar district of Madras State (excluding Gudalur taluk of Nilgiris district, Topslip, the Attappadi Forest east of Anakatti), the state of Thiru-Kochi (excluding four southern taluks of Kanyakumari district, Shenkottai, and Tenkasi taluks), and the taluk of Kasaragod (now Kasaragod District) in South Canara (Tulunad) which was a part of Madras State.

Sampling Framework of the Study

The sampling framework of the study consists of the determination of sample size and sampling procedure of the study.

The determination of sample size is a very important issue, because samples that are too large may waste time, resources, and money. While samples that are too small may lead to inaccurate results. According to (Saunders et al., 2000), researchers normally work to a 95 percent level of certainty. This means that if sample are selected 100 times, at least 95 of these samples would be sure to represent the characteristics of the population. The margin of errors describes the precision of the estimation of the population. For most business and management researches, a researcher estimates the population's characteristics by plus or minus 3 to 5 percent of its true values.

The researcher has applied the following formula to determine the sample size.

$$\text{Sample size } n = (ZS/E)^2$$

where

Z = Standardized value corresponding to a confidence level of 95% = 1.96 S = Sample SD from Pilot study of 100 samples

E = Acceptable Error =5% = 0.05 $n = (1.96 * 0.6091/0.05)^2$

Sample size = 570.09

In this study, the researcher took 570 samples from the population[1].

[1] Robert V. Krejcie and Daryle W. Morgan. (1970), Determining Sample Size for Research Activities, Educational and Psychological Measurement, Volume 30, p. 607-610.

Sources of Data

The present study is completely based on the primary data. The primary data was collected personally with the help of structured questionnaire. The secondary data collected from the books, journals, magazines and websites were used to form the theoretical framework of the study and the review of literature.

Construct Development of the Study

The present study is completely based on the primary data collected from the sampled respondents towards capital market in Kerala. A special care was taken to draft the questionnaire. The questionnaire was divided into eight parts.

The first part of questionnaire includes the demographic profile of the respondents. They are gender, age, marital status, educational qualification, occupation, experience, monthly income, monthly savings, nature of family, family size, location of the house, and number of properties owned. The second part of the questionnaire consists of twenty five variables of Objectives of Savings, Investment Preferences and Strategies. The variables are measured with five point Likert scale. The third part of the questionnaire includes of six variables of financial decision making process. The variables are measured with the five point Likert Scale (SA – Strongly Agree, A – Agree, N – Neutral, DA – Disagree, SDA – Strongly Disagree). The fourth part of the questionnaire includes seven variables of financial adviser. The fifth part of the questionnaire has five variables of selection of mutual funds. The sixth part of the questionnaire includes sixteen variables of qualities in a scheme. The seventh part of the questionnaire includes sixteen variables of Investors Perception about Capital Market. The eighth and final part of the questionnaire includes twelve variables of Level of Investor Awareness. The relevant variables of the above said concepts were drawn from the review of previous studies. A pilot study was conducted among 100 Investor Behaviour towards Capital Market in Kerala. Based on the feedback from the pretest, certain modifications, additions, deletions and simplifications were carried out. The draft of the questionnaire was prepared to collect the data from Investor Behaviour towards Capital Market in Kerala.

Framework of Analysis

The analysis of data in a research plays a pivotal role in the sense that it interprets, justifies and proves the hypothesis and the proposals. The judicious blend of analytical tools used has its own impact on the findings of the research, thereby making it highly objective and scientific. In this context, the tools for analysis have been rightly chosen as Descriptive Analysis, t – Test, Analysis of Variance (ANOVA), One Sample t Test and Chi Square Test

Findings and Discussion

"Books" is the top ranked Financial Decision Making Process factor with a mean value of 3.83, "Family and Friends" is the second ranked Financial Decision Making Process factor with a mean value of 3.23, "Investment websites" is the third ranked Financial Decision Making Process factor with a mean value of 3.10, "Business News Channels like CNBC, NDTV Profit" is the fourth ranked Financial Decision Making Process factor with a mean value of 2.97, "Professional Advisers" is the fifth ranked Financial Decision Making Process factor with a mean value of 2.90 and "Magazine or Newspapers", is the sixth ranked Financial Decision Making Process factor with a mean value of 2.70.

"Boo Maximizing return" is the top ranked Financial Adviser factor with a mean value of 3.87, "Handling problems" is the second ranked Financial Adviser factor with a mean value of 3.83, "Brand name of the adviser" is the third ranked Financial Adviser factor with a mean value of 3.80, "Protecting Capital" is the fourth ranked Financial Adviser factor with a mean value of 3.67, "Trust and Confidentiality" is the fifth ranked Financial Adviser factor with a mean value of 3.63, "Fee structure", is the sixth ranked Financial Adviser factor with a mean value of 3.43 and "Experience" is the seventh ranked factor with a mean value 3.30.

"Index Schemes" is the top ranked Selection of Mutual Funds factor with a mean value of 4.00, "Balanced Schemes" is the second ranked Selection of Mutual Funds factor with a mean value of 3.53, "Tax Saving Schemes" is the third ranked Selection of Mutual Funds factor with a mean value of 3.43, "Growth Schemes" is the fourth ranked Selection of Mutual Funds factor with a mean value of 3.23 and "Income Schemes" is the fifth ranked Selection of Mutual Funds factor with a mean value of 3.00.

"Liquidity" is the top ranked Qualities in a Scheme factor with a mean value of 4.20, "Diversification" is the second Qualities in a Scheme factor with a mean value of 4.03, "Flexibility" is the third ranked Qualities in a Scheme factor with a mean value of 3.90, "Professional Management" is the fourth ranked Qualities in a Scheme factor with a mean value of 3.87, "Good Return" is the fifth ranked Qualities in a Scheme factor with a mean value of 3.80, "Fund Reputation or Brand name", is the sixth ranked Qualities in a Scheme factor with a mean value of 3.80, "Sponsors reputation", is the seventh ranked Qualities in a Scheme factor with a mean value of 3.73, "Capital Appreciation", is the eighth ranked Qualities in a Scheme factor with a mean value of 3.73 "Disclosure of NAV", is the ninth ranked Qualities in a Scheme factor with a mean value of 3.73, "Scheme Portfolio", is the tenth ranked Qualities in a Scheme factor with a mean value of 3.70, "Safety", is the eleventh ranked Qualities in a Scheme factor with a mean value of 3.63, "Tax Benefits", is the twelfth ranked Qualities in a Scheme factor with a mean value of 3.60 "Fund Performance", is the thirteenth ranked O Qualities in a Scheme factor with a mean value of 3.57 "Fringe benefits like credit card etc", is the fourteenth ranked Qualities in a Scheme factor with a mean value of 3.57, "Rating given", is the fifteenth ranked Qualities in a Scheme factor with a mean value of 3.40 and "Investor services", is the sixteenth ranked Qualities in a Scheme factor with a mean value of 2.67.

There is significant difference between Male and Female with regard to the dimension of Protecting Capital, Experience, Maximizing return and Brand name of the adviser. There is no significant difference between Male and Female with regard to the dimension of Trust and Confidentiality, Handling problems and Fee structure. There is significant difference between Male and Female with regard to the dimension of Growth Schemes, Balanced Schemes, Tax Saving Schemes and Income Schemes. There is no significant difference between Male and Female with regard to the dimension of Index Schemes. There is significant difference between Male and Female with regard to the dimension of Financial Decision Making Process, Financial Adviser, Selection of Mutual Funds, Investors Perception about Capital Market, Level of Investor Awareness and Qualities in a Scheme. There is no significant difference between Male and Female with regard to the dimension of Objectives of Savings, Investment Preferences and Strategies. There is significant difference between Married and Unmarried with regard to the dimension of Business News Channels like CNBC, NDTV Profit, Investment websites, Professional Advisers, Family and Friends, Magazine or Newspapers and Books.

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