FINANCIAL RISK TOLERENCE OF INDIVIDUAL INVESTORS

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ABSTRACT

This study is about the Financial Risk Tolerance of Individual Investors. Hereby, individual and institutional investors consider the possible rate of return and riskiness of the investment while making real and individual investment decisions. This study intends to determine the factor influencing the overall financial risk tolerance by making an investment decision of individual investor through the research of the people of Chennai. This study identifies the factors are Investment Decisions, Investment Knowledge, Risk Perception on Financial Risk Tolerance of individual investors. The research is descriptive in nature and data has been collected from 153 respondents of Individual Investors. Convenient sampling technique was employed in collecting samples. Percentage Analysis, Anova Analysis, Correlation Analysis, T Test Analysis, have been utilised to interpret data. From Analysis that it was surprising to find that the gender, investment knowledge and occupation did not play an important role in the risk tolerance level of the investor. However, the Income of the respondent made a difference in the Risk tolerance. The people in the higher income group had higher Risk tolerance. The perception of risk was the other factor that correlated with the risk tolerance. Hence, that the perception of risk is very conservative in Chennai city where the sample was taken.

KEYWORDS

Risk Perception, Investment Knowledge, Investment Decisions, Risk Tolerance

1.INTRODUCTION

An individual's financial risk tolerance is playing a crucial role in making financial decisions and in achieving financial goals. Each investor has his or her own tolerance of and attitude toward risk, in order that an investment considered "high risk" by one investor could also be considered "low risk" by another investor. Assigning investors to their appropriate risk tolerance category and thereby suggesting the foremost suitable investment portfolios to them is an important task of investment managers and advisors.

In this study Financial Risk Tolerance of individual investor's helps us to know better about what the investors facing the risk tolerance of individual & make to easy determine the investment decisions of portfolio management. there have been independent variables as demographic variables; marital status, annual income, experience in investment, gender, age, occupation. The dependent variables were chosen from the questionnaire to succeed into any conclusion they were risk tolerance level, risk perception, investment knowledge, investment decision.

The commonly used technique is experimental questionnaire which consists of questions on hypothetical scenarios and/or investment choices. during this method, investors are asked to complete a questionnaire for gathering information about risk attitude and perception of investors through a series of questions.

1.1. STATEMENT OF PROBLEM

In this study is about while making real and individual investment decisions, both individual and institutional investors consider the possible rate of return and riskiness of the investment. During this context, the financial risk tolerance of individual investors emerges as a very important factor influencing the selection of financial investments and therefore the use of savings in financial markets.

This research will examine the factors influencing of financial risk tole. Because of recent global financial crises, investment decisions are considered as important task in our standard of living. So, this study is critical to enumerate the investment decisions and financial risk tolerance of individual investors by the using the demographic variables.

1.2. AIM AND SCOPE

The aim of the study is to identify the factors influencing risk tolerance level of an individual and to analyze the influence of the demographic factors on financial risk tolerance. This study helps the investors to make better investment choices. Furthermore, it'll help in determining whether the seasoned investor can only keep investment decision, or the financial literacy and accounting information may help less experienced investors in making good investment decision. The area of data has been restricted to Chennai city and not conducted for longer time horizon. The time limit is restricted to three months. This study has taken limited dependent variables like investment decisions, investment knowledge, risk tolerance level, risk perception.

2. REVIEW OF LITERATURE

John Grable R. H. (1999), 'Financial risk tolerance revisited: in this research the event of a risk assessment instrument. Where discussed about the many think about variety of household financial decisions, yet few recognized, valid, and reliable methods of assessment are available to be used by financial service investors.

Rui Yao (2005) the studies examines the financial risk tolerance that they have found that women are less risk tolerant than men. It is important because it affects a household's portfolio decisions, which ultimately affect a household's wealth accumulation. Chen (2006) the research identifies that the investors who are more investment experience had bearing more risk than the lower level of investment knowledge and lower experience.

Taqadus Bashir (2014), a look at 'investigates the impact of risk tolerance with a demographic characteristic on the subject of risk belief and portfolio control, which, in turn, have an effect on traders' decision making. Sachithanantham and Chavali(2016),this study has followed financial risk tolerance scale proposed with the aid of Grable and Lytton to degree the extraordinary dimensions of financial risks. This research identifies that gender has an effect on the investment sample and decision making of respondents.

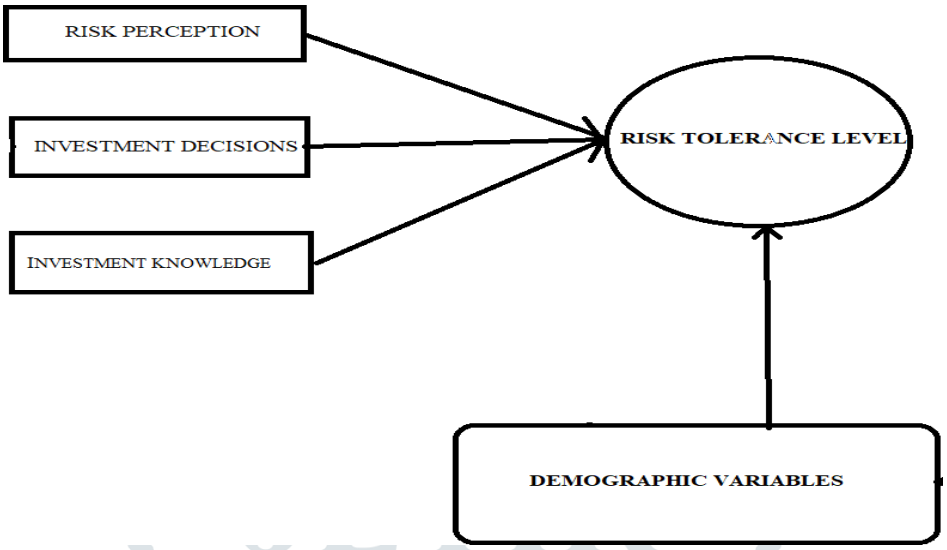
Sasmita Mishra (2016), has researched about the topic of Financial Risk Tolerance among Indian Investors: A Multiple Discriminant Modelling of Determinants, 'According to this study a singular perspective on money risk tolerance, on account of 2 different aspects. Mitali Baruah (2018)', this study is undertaken to develop a model that helps in understanding impact of risk tolerance and demographic factors collectively on investment decision; particularly, a call related with level of investments.

Praba(2019), this study examine the "Determinants of financial Risk Tolerance and its influence on Investment decisions". 'The rational construct assumes that individuals, both investors, and managers are capable of understanding the risk tolerance. This study thought brings the concept of market efficiency comes into existence. It absolutely was a central a part of the standard theory and behavioural finance theory. Ali Osman Oztop(2020), Influence Of Socio-Demographic Characteristics, Financial Literacy And Mood On Financial Risk Tolerance, in step with the purpose of this 'observe is to determine the factors affecting economic risk tolerance of the individual study, there may be a statistically positive and large courting among both fine emotion and age and economic risk tolerances.

Naveed Hussain Shah (2020), An Empirical Analysis of Financial Risk Tolerance and Demographic Factors of Business Graduates in Pakistan, the reason of 'this empirical study became the researcher examine whether financial chance-tolerances differs amongst commercial enterprise graduates in Pakistan supported their demographic elements (i.e., gender, age, education, enjoy, profits, saving, location, and profession). The result of this looks at that male business graduates having greater earnings and financial savings, those with extra schooling qualifications and additionally older graduates are positively related to financial chance-tolerance.

Yilmaz Bayar (2020), in this newsletter, researcher make a probe on 'the impact of financial literacy and demographic characteristics at the economic chance tolerance of the individuals within the pattern of Usak University team of workers, employing a multinomial logistic multivariate analysis and retrieving information via the survey of questionnaire approach.

3. RESEARCH FRAMEWORK



The research model shows the dependent factors of risk tolerance of individual investors. The dependent factors are Investment Decisions, Investment Knowledge, Risk Perception on Financial Risk Tolerance of individual investors. The demographic variables are influencing the investment decisions of the individual investors. The variables to study Investment Decisions were identified as degree of risk have you taken with your financial decision in the past, degree of risk is you currently prepared to take with your financial decisions and what type of risk willing to take. The variables to study Investment Awareness level were identified as financial knowledge, budgeting finances, saving money, managing debt, investing money, Planning for the financial future. The variables to study Risk Perception were identified as trust and confidence, investment fluctuations, financial experts' ability in forecasting, believe the value. The independent variables such as demographic variables which includes ages, gender, income level, occupation etc.

4. DATA & METHODOLOGY

4.1. SAMPLING SIZE & TECHNIQUE

For this research the sample of population is taken from the individual investors from Chennai city with respect to Age Group, Gender, Employment type, Education, Income Level, Marital Status, Risk tolerance, financial Experience. The sampling size for this study is 153 of individual investors are being taken for this study. The sampling method used in this research is Convenient Sampling Technique

4.2.DATA SOURCE

The source of data are the primary data was collected through survey from 153 respondents. Secondary data was collected from reviewing various literature related financial risk tolerance of individual investors.

4.3. RESEARCH HYPOTHESIS

H_0 1: There is no significant difference among various occupation on risk tolerance level.

H_0 2: There is no difference between investment decisions with respect to gender.

H_0 3: There is no significant difference among various annual income and risk tolerance level.

H_0 4: There is no relationship between Risk tolerance and Investment Knowledge.

H_0 5: There is no relationship between Risk tolerance and Risk Perception.

4.3. HYPOTHESIS TESTING AND DATA ANALYSIS

H_0 1: There is no significant difference among various occupation on risk tolerance level.

Table No 1: ANOVA Analysis for Occupation and Risk Tolerance Level

RISK TOLERANCE	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	9.691	5	1.93	1.63	.154
Within Groups	174.322	147	1.18		
Total	184.013	152			

*** significance at 5% level**

Results of table 1 shows p value (.154) is more than 0.0

5 hence null hypothesis is accepted. There is no significant difference between among various occupation and risk tolerance.

H_0 2: There is no difference between investment decisions with respect to gender**.**

Table No 2: Independent T test between investment decisions with respect to gender

Independent Sample Test						
		Levine's Test for Equality of Variances		t-test for Equality of Means		
		F	Sig..	t	df	Sig.(2-tailed)
INVESTMENT DECISIONS	Equal variances assumed	1.003	.318	1.545	151	.124
	Equal variances not assumed			1.556	147.8	.122

***Independent sample T test significance at 5% level**

RESULTS

Results of table 2 shows P(.122) is greater than 0.05 is greater than 0.05 hence null hypothesis is accepted .There is no significant difference between investment decisions will respect to gender.

H_0 3: There is no significant difference among various annual income and risk tolerance level.

Table No 3: ANOVA Analysis for Annual income and Risk Tolerance Level

ANOVA					
RISK TOLERANCE					
	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	25.147	3	8.382	7.862	<.001
Within Groups	158.866	149	1.066		
Total	184.013	152			

*** significance at 5% level**

RESULTS

ANOVA was performed to examine the difference among various income level on Risk tolerance

Results of table 3 shows the investors with below 2 L as annual income are higher (mean 3.10) P value (.001) is less than 0.05 hence null hypothesis is rejected. There is significant difference among various income level and risk

tolerance.

H_0 4: There is no relationship between Risk tolerance and Investment Knowledge.

Table No 4: Relationship analysis between Risk tolerance and Investment Knowledge

Correlations			
		RISK TOLERANCE	**INVESTMENT KNOWLEDGE**
RISK TOLERANCE	Pearson Correlation	1	-.423**
	Sig. (2- tailed)		.000
INVESTMENT KNOWLEDGE	Pearson Correlation	-.423**	1
	Sig. (2- tailed)	.000	

*** Correlation is significant at 1% level.**

RESULTS

The results from Table 4 indicates that Risk Tolerance and Investment Awareness level are negative correlation between each other. The correlation showed the P value (.000) is less than hence null hypothesis ids rejected. The correlations are insignificant between risk tolerance and the investment Awareness level exhibit negative correlation. The correlation coefficient is (-.423) hence the two variables are not correlated.

H_0 5: There is no relationship between Risk tolerance and Risk Perception.

Table No 5: Table Showing Correlation between Risk tolerance and Risk Perception

Correlations			
		RISK PERCEPTION	**RISK TOLERANCE**
RISK PERCEPTION	Pearson Correlation	1	
	Sig. (2- tailed)		.000
RISK TOLERANCE	Pearson Correlation	.390**	1
	Sig. (2- tailed)	.000	

*** Correlation is significant at 1% level.**

RESULTS

The results from Table (5) indicates that Risk Tolerance and Risk Perception are positively and significantly correlated with each other (p<.01). The correlations between risk tolerance and the risk perception exhibit a positive correlation. The correlation coefficient is (.390) hence the two variables are highly correlated. The null hypothesis is accepted.

5. CONCLUSION

In this study Financial Risk Tolerance of individual investor's helps us to understand better about what the investors facing the risk tolerance of individual & make to easy determine the investment decisions of portfolio management. There were independent variables as demographic variables, marital status, annual income, experience in investment, gender, age, occupation. The dependent variables where chosen from the questionnaire to reach any conclusion they were risk tolerance level, risk perception, investment knowledge, investment decision.

The conclusion from the above research is that it was surprising to find that the gender, investment knowledge and occupation did not play an important role in the risk tolerance level of the investor. However, the Income of the respondent made a difference in the Risk tolerance. The people in the higher income group had higher Risk tolerance. The perception of risk was the other factor that correlated with the risk tolerance. Hence, we find that the perception of risk is very conservative in Chennai city where the sample was taken.

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