



Investment Preference of Indian Investor in Stock Market in Present Scenario

Puja Agarwal

Research Scholar, Dept. of Management

Sunrise University-Alwar (Raj.)

Abstract:

The lure of big money has always thrown investors into the lap of stock markets. However, making money in equities is not easy. It not only requires oodles of patience and discipline, but also a great deal of research and a sound understanding of the market, among others.

Added to this is the fact that stock market volatility in the last few years has left investors in a state of confusion. They are in a dilemma whether to invest, hold or sell in such a scenario.

You have made a smart decision to invest in Equity, popularly called as shares. Indian GDP is growing at 6%-7% per annum and as thumb-rule equities deliver return which is equal to GDP growth + Inflation. Equities are best asset class for investing to beat inflation. There are multiple investment products with different risk and return. When it comes to investing, first step should be to know personal risk profile.

Risk profile depends on following two factors:

- Risk Attitude - The risk one is ready to take
- Risk Capability - Risk one should take as per financial position

Key Words: BSE, NSE, NASDAQ, OTCEI, Trading Mechanism

Introduction:

Most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has been in existence since 1875. The NSE, on the other hand, was founded in 1992 and started trading in 1994. However, both exchanges follow the same trading mechanism, trading hours, settlement process, etc.

The board comprises eminent professionals, representatives of trading members and the managing director of the BSE. In addition to the BSE, there are two other main exchanged - the National Stock Exchange (NSE) and the Over the Counter Exchange of India Limited (OTCEI) -



which operate at a national level. The NSE is the world's third largest stock exchange in terms of transactions and is also located in Mumbai. The OTCEI, which operates from Mumbai, Kolkata and New Delhi, is a unique stock exchange suited to small and medium-sized firms looking to gain access to the capital markets. It is often the exchange of choice for technology and growth stocks.

Stock Market Trading

We will discuss the stock trading activity with reference to National Stock Exchange Ltd, in short NSE. Before setting up NSE, Indian stock exchanges were operating only in cities in which they were setup. The NSE represented an attempt to overcome the fragmentation of regional markets by providing screen-based system, which transcends geographical barriers.

The main objective has been to set up comprehensive facilities for the entire range of securities under a single umbrella. We can describe the main objective as;

- a) To set up a nationwide trading facility for equities, debt instruments and hybrids.
- b) To ensure equal access to investors across the country through an appropriate communication network.
- c) To provide a fair, efficient and transparent securities market to investors using the electronic trading system.
- d) To ensure shorter settlement cycle and book entry settlement system and
- e) To meet the current international standards prevalent in the securities markets. The NSE has two segments for trading in securities: Whole sale Debt Market (WDM) and Capital Market (CM) segments. Separate membership is required for the two segments.

Various Investment Options

A good portion of the financial assets of individual is held in the form of nonmarketable financial assets like bank deposits, post office deposits company deposits, and provident

fund deposits. A distinguishing feature of these assets is that they represent personal transactions between the investor and the issuer.

For example, when you open a savings bank account at a bank you deal with the bank personally. In contrast when you buy equity shares in the stock market you do not know who the seller is and you do not care. The important nonmarketable financial assets held by investors are briefly described below.

Bank Deposits:

Perhaps the simplest of investment avenues opening a bank account and depositing money in it, one can make a bank deposit. There are various kinds of bank accounts: current accounts, savings account and fixed deposit account.

While a deposit in a current account does not earn any interest, deposits in other kinds of bank accounts earn interest. The important features of bank deposits are as follows:

1. Deposits in scheduled banks are very safe because of the regulations of the Reserve Bank of India and the guarantee provided by the Deposit Insurance Corporation, which guarantees deposits up to Rs 100,000 per depositor of a bank.
2. There is a ceiling on the interest rate payable on deposits in the savings account.
3. The interest rate on fixed deposits varies with the term of the deposit. In general, it is lower for fixed deposits of shorter term and higher for fixed deposits of longer term.
4. If the deposit is less than 90 days, the interest is paid on maturity; otherwise it is paid quarterly.
5. Bank deposits enjoy exceptionally high liquidity. They can be encashed prematurely by incurring a small penalty.
6. Loans can be raised against bank deposits.

7. Most banks calculate interest on the minimum deposit between the 10th and the last date of the month. So the best way maximize returns on your savings account is to treat it like a current account between the 1st and the 10th and a fixed deposit for the rest of the month.

Post Office Time Deposits (POTD)

Similar to fixed deposits of commercial banks, POTDs have features:

1. Deposits can be made in multiples of Rs 50 without any limit.
2. The interest rates on POTDs are in general slightly higher than those on bank deposits.
3. The interest is calculated half yearly and paid annually.
4. No withdrawal is permitted for up to six months.
5. After six months, withdrawals are permitted. However, on withdrawals made between six months and one year, no interest is payable. On withdrawal after one year, but before the term of deposit, interest is paid for the period the deposit has been held, subject to a penal deduction of 2 percent.
6. A POTD account can be pledged.

Monthly Income Scheme of the Post Office (MISPO):

A popular scheme of the post office, the MISPO is meant to provide regular monthly income to the depositors. The salient features of the scheme are as follows:

1. The term of the scheme is 6 years.
2. The minimum amount of investment is Rs 1,000. The maximum investment can be Rs 300,000 in a single account or Rs 600,000 in a joint account.
3. The interest rate is 8.0 percent payable monthly. A bonus of 10 percent is payable on maturity.
4. There is no tax deduction at source.
5. There is a facility of premature withdrawal after one year, with 5 percent deduction before 3 years.

Kisan Vikas Patra (KVP):



Scheme of the post office, the Kisan Vikas Patra has the following features:

1. The minimum amount of investment is Rs.1,000. There is no maximum limit.
2. The investment doubles in 8 years and 7 months. Hence the compound interest rate works out to 8.4 percent.
3. There is no tax deduction at source.
4. KVPs can be pledged as a collateral security for raising loans
5. There is a withdrawal facility after 2½ years.

National Savings Certificate:

Issued at post offices, the National Saving Certificate offers the following features:

1. It comes in denomination of Rs 100, Rs 500, Rs 1,000, Rs 5,000 and Rs 10,000.
2. It has a term of 6 years. Over this period Rs 100 becomes Rs 160.1. Hence the compound rate of return works out to 8.16 percent
3. Investment in NSC can be deducted before computing the taxable income under Section 80C.
4. There is no tax deduction at source
5. It can be pledged as collateral for raising loans.

Bonds

Investment in bonds can be a wise decision, given the fact that you can earn high returns upon maturity. However, bonds can assume many additional features that may complicate the way prices and yields (the overall return on the investment) are calculated. Knowledge of the various types of bonds is necessary before finalizing your investment decision.

Special needs of investors:

The strategies and characteristics of investors have led to financial institutions innovating and expanding their product range to meet the growing demands of such investors.

A financial advisor should keep in mind the following special needs and expectations of the wealthy clients:-



Demand broader range of services and skills: Wealthy clients not only are on the lookout for multiple investment avenues, unlike other clients, but are also ready to face the risks associated with newer products.

Net worth and goals need to be matched and assets need to be planned tax effectively: Since investors have surplus funds that can be passed on to the next generations and also come into the high tax paying category, investors need to advise them on the best methods to transfer their assets after death as well as on the best tax saving investments.

Estate planning and tax planning: In-depth knowledge about tools of estate planning such as wills, trusts, and power of attorney is necessary. It is also important to know the succession rules and tax rules to do effective tax planning resulting in minimal/no tax on transfer of assets.

Educate the client: Educating the client on various and different types of investment avenues that will suit him the best will prove very beneficial for the financial advisor.

Wealthy clients, especially those who are self made, may assume that if they can make wealth in one industry they can manage their own portfolio as well. In such cases it is best to educate the client about the best investment options rather than trying to push a product; because if one is trying to push a product, the client is unlikely to get interested since he/she will be having enough people chasing him/her for investments.

Risk appetite shows the capacity of an investor to bear losses related to his investments. Risk appetite is unique for each investor as it depends on various personal factors such as age of the investor, earnings stability, financial condition of his family etc.

It is important to understand the risk appetite to decide on the allocation in your investment portfolio to high risk and high returns instruments as against the low risk and low returns instruments.

Review of Literature:

Greenwood and Smith (1996) showed that large stock markets can lower the cost of mobilizing savings and thereby facilitate investment in most productive techniques.

Demirgüç Kunt and Levine (1996) found that in the long term, stock return volatility is lower in countries with more open capital markets. They concluded that as countries grow and reach



middle income (about \$2000 per capita in 1990), the level of stock market development is positively correlated with the development of financial intermediaries.

Demitriade and Hussein (1996) found little to support the view that finance is a leading sector in the process of economic development. However they have found evidence that in quite a few countries, economic growth systematically causes financial development.

Levine and Sara Zervos (1996) assessed the strength of the empirical relationship among each liquidity measure and the three growth indicators economic growth, capital accumulation, and productivity. Their results are consistent with view that the liquidity services provided by stock market are independently important for long term growth.

According to **Levine (1997)**, the financial system influences real sector activities through its functional ability. A need for reduction in information and transaction costs leads to the development of financial markets and intermediaries. Financial markets through their services influences the rates of capital accumulation and technological innovations which are prerequisite for economic growth.

Singh (1997) concentrated his research on the stock exchanges of developing countries between 1982 and 1992 and found that total market capitalization of companies quoted on stock exchanges increased by a factor of 20, thereby highlighting the importance of the issue of financing through stock markets.

Research Methodology:

Objectives of the Research:

1. To determine the potential for stock broking firms in Alwar district.
2. To identify the factors affecting the preferences and expectations of the investors in choosing a broking firm in Alwar district.
3. To study the pattern of surplus investment among the people of Alwar and the variability in the pattern of surplus investment with age, education and occupation.
4. To examine the purpose of savings of the people and their variability with regards to age, education and occupation.

Analysis and Interpretation:

Education-wise analysis



The data given above is classified education wise and presented in Table.1

An examination of the table reveals that significant variation exist in the pattern of investment among people with different educational background.

Bank deposit is mostly preferred by the people with technical qualification (37.80%), people with other educational qualification also prefer investment in the form of bank deposit. The

	Below SSLC		Degree		PG		Professional		Technical		Others		Total		p-level
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
Bank Deposit	34.50	21.88	28.32	24.55	20.12	23.70	31.88	27.66	37.80	29.37	22.86	34.14	27.49	25.43	0.017736
Land	10.50	22.59	4.11	7.66	1.73	4.82	7.29	11.79	3.20	8.02	15.71	33.09	4.33	10.55	0.000375
PF	0.50	2.24	7.81	10.56	11.81	14.64	7.92	10.62	6.00	10.00	0.00	0.00	8.07	11.67	0.000659
Building	1.50	3.66	2.09	6.20	2.16	6.02	0.83	4.08	3.80	6.96	0.00	0.00	2.06	5.88	0.509675
Chit fund	8.50	9.33	7.19	9.76	9.91	12.50	2.92	5.50	6.00	10.41	0.00	0.00	7.40	10.40	0.018117
Vehicles	0.50	2.24	1.66	4.11	3.64	7.98	4.17	8.30	0.00	0.00	0.00	0.00	2.13	5.66	0.005805
Real Estate	2.00	6.16	0.93	5.21	1.67	8.10	5.00	11.03	3.20	9.00	14.29	37.80	2.00	9.00	0.002107
Gold	2.00	5.23	5.70	8.33	3.77	12.11	2.58	6.06	0.80	2.77	1.43	3.78	4.21	8.95	0.056986
Bullion	0.00	0.00	0.00	0.00	0.37	3.33	0.00	0.00	0.00	0.00	0.00	0.00	0.10	1.71	0.733366
House Hold	0.00	0.00	1.09	3.74	3.27	7.12	1.67	3.81	1.20	4.15	0.00	0.00	1.62	4.86	0.0126
PO SB	0.50	2.24	2.70	7.29	2.47	6.43	2.67	6.06	0.80	2.77	1.43	2.44	2.31	6.40	0.582909
Corporate sec.	32.50	29.36	19.93	21.34	21.48	21.51	18.96	25.28	23.20	26.73	35.71	45.41	21.70	23.55	0.157452
NSC	0.50	2.24	4.86	12.02	5.15	10.60	1.83	3.82	1.20	3.32	2.14	3.93	4.06	10.25	0.180571
LIC	5.75	7.30	10.44	10.40	8.99	9.68	8.54	10.78	9.20	9.43	5.71	9.76	9.40	10.00	0.351954
MF	0.75	1.83	3.19	8.67	3.46	8.01	3.75	7.11	4.00	9.13	0.71	1.89	3.16	8.04	0.709502
Total	100.0		100.0		100.0		100.0		100.0		100.0		100.0		

magnitude of variation is significant among people with different levels of education as indicated by the p-value.

In the case of land also significant variations exists among the investors with different



educational background. The investment in land is most preferred by the investors with other qualifications and least preferred by the people with Post Graduate qualification. The PF is more preferred by investors with PG qualification and the least preferred by persons below SS qualification.

In the case of chit funds, vehicles, real and household utensils as investment avenues significant variations exist in the pattern of surplus investment.

It is also observed from the table that the investment in building, gold, post office savings bank (POSB), corporate securities, NSC, LIC and Mutual Funds, not much variation exist on the basis of educational qualifications.

Pattern of investment -occupation wise

An attempt is made in the study to understand the investment pattern of surplus income of the household selected for the survey. The occupation wise distribution of the investment pattern is given in the table 2.

	Employed		Bus/Prof		Agriculture		Others		Total		p-level
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
Bank Deposit	27.45	27.14	24.05	16.97	26.67	16.33	44.00	32.73	27.49	25.43	0.235388
Land	3.85	11.01	5.43	9.33	10.00	8.94	3.00	4.83	4.33	10.55	0.498605
PF	9.84	12.54	4.34	8.14	0.00	0.00	5.00	8.50	8.07	11.67	0.000474

Table 2: Pattern of Investment – occupation wise

An occupation-wise analysis of the above data reveals not much difference in the pattern of surplus investment among the various occupations. An analysis of variance is carried out to test the statistical significance of the average investment in each case among various occupations at 5% level. In the case of PF, Gold and Corporate securities some significant variation is observed as indicated by the p value. In PF investment the variation may be due to the absence of specified



schemes of PF schemes available to the people returned from abroad and agriculture occupation whereas the employed and business/profession specific PF schemes are available.

Table 1: Pattern of Surplus Investment - Education wise



Corporate securities are mostly preferred by business and profession, agriculturist and employed people.

In the case of bank deposits, land, building, chit funds, real eDistrict, house hold utensils, vehicles, post office savings bank, NSC, LIC, mutual funds not much variation exist in the pattern of surplus investment among the investors in the various occupational group.

Education wise analysis:

	Below SSLC		Degree		PG		Professional		Technical		Others		Total		p-level
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
Regular Income	37	37.4	25.36	26.7	27.65	27.2	27.5	27.5	24	20.6	38.57	45.6	27.08	27.7	0.45752
Education of Children	4.5	12.3	15.17	22.4	15.56	16.9	8.13	9.42	9.2	11.2	14.29	37.8	13.52	19.6	0.09949
Marriage of Children	3.5	11.8	12.58	21.7	17.16	21.4	13.75	27.8	8	10.3	0	0	12.63	21	0.04262
Asset accumulation	21	25.1	18.41	25.2	14.75	22.7	25.42	31.6	16.4	28	18.57	37.6	18	25.6	0.59171
Emergency	27.5	29.7	22.12	26.4	18.4	18.1	19.17	24.3	33.6	36.9	25.71	38.2	22.27	26	0.16687
Investment in Business	6.5	10.9	6.36	17.7	6.48	18.5	6.04	14.5	8.8	19.7	2.86	7.56	6.49	17.2	0.9785
Total	100		100		100		100		100		100		100		

Table 5.14: Purpose of Savings – education wise (Source-Field Survey)

The data given above is classified according to the educational background of the informants and presented in the table 5.14.

The table reveals that significant variation exist in the purpose of savings among the people with different educational background. The purpose of savings for regular income is the most important reason for people with other qualifications and the least important reason for people with technical qualification. The variations are not significant as indicated by the p value at 5% level.

In the case of marriage of children significant variation exist among the various investors with different qualifications. The marriage of children is the most important purpose among the PG degree holders and is least important among the people with other qualifications.



Regarding the options such as regular income, education of children, asset accumulation, emergency, investment in business etc. not much variations exist among the investors with different qualifications.

Occupation wise analysis:

An occupation wise analysis in the above data reveals not much difference in the purpose savings among various respondents with different occupations.

An analysis of variance carried out to test the statistical significance of the purpose of savings among the investors with the different occupation at 5% level shows significant variation in the investment in business purpose as indicated by the p value.

	Employed		Bus/Prof		Agriculture		Others		Total		p-level
	Mean	SD	Mean	SD	Mean	SD	Mean	SD	Mean	SD	
Regular Income	26.31	27.8	28.5	28.2	14.2	11.1	35	37.1	27.1	27.7	0.52717
Education of Children	15.09	20.8	11.7	17.6	7.5	11.7	1	3.16	13.5	19.6	0.09602
Marriage of Children	13.21	21.6	12.1	20.8	1.67	4.08	17	21.1	12.6	21	0.51944
Asset accumulation	17.49	25.7	21.2	26.6	16.7	13.7	19	32.8	18	25.6	0.79791
Emergency	23.03	26.4	16.4	20.6	43.3	32.7	27	40.5	22.3	26	0.1148
Investment in Business	4.86	16.4	10.2	19	16.7	13.7	1	3.16	6.49	17.2	0.01138
Total	100		100		100		100		100		

Table 5.15 Purpose of Savings – Occupation wise

In other reasons like regular income, education of children, marriage of children, asset accumulation and emergency not much variations exist among the investors with various occupations.

The occupation wise classification of the above data is given in the Table 5.15.

Regular Income Education of Marriage of Asset Emergency Investment in Children accumulation Business.



FINDINGS:

The findings of the study are listed in sequence based on the objectives set for the study. Recommendations are formulated based on the findings of the study.

Indian Financial System and Market Operations

- a. Indian stock market is one of the biggest developing stock market in the world.
- b. Foreign institutional investors are playing a dominant role and make it highly unreliable and cause severe market fluctuations.
- c. The flow of investment of FIIs is extremely volatile.
- d. saving pattern of households in India are varying in nature during post liberalization period and investors are more interested in fixed return financial assets rather than corporate shares and securities. The percentage of bank deposits has increased from 37% in 1992-93 to 66% in 12-13.
- e. The investments in shares and securities were declined from 10% in 1992- 93 to 6% in 12-13 for the country as a whole.
- f. There is a marginal decline in financial assets of the household sector in India. During 1993-94 it was 11.1% of the household savings whereas it is only 10.3% during 2013-14. It is also noted that there is an increase in savings in physical assets during the same period from 7.4% to 11.7% of household savings. At the commencement of liberalisation process financial assets holdings were almost 150% of physical assets whereas at present financial assets are only 88% of the physical assets. This imbalance between physical and financial assets indicates the need of a better financial education to investors.

Conclusion:

The securities market operations promote the economic growth of our country.

More efficient is the securities market, the greater is the promotion effect on economic growth.

The efficiency of market depends on the width and depth of the market and its perfectness.

The present study could not cover all the aspects of stock- broking in Alwar. Still, there are certain gray areas. Brokers take enormous risks while they execute their functions and activities.

Risk appraisal and management is a significant and vital part of this branch of financial services sector. Hence a study on risk management of brokers could be of much help to the present as well as future generation of brokers. The strains and tension involved in stock-broking is



enormous. There is scope for further studies in the line of stress management of stockbrokers.

It is clear those financial intermediaries as market participants have a crucial role to play in the efficient functioning of the stock market. Obviously, a thriving and vibrant broking system requires a well-developed financial structure with multiple intermediaries operating in markets with different risk profiles.

Organizational efficiency, human skill development and technological up gradation are the key pre-requisites for managing the risk return trade-offs.

Brokers could have done much more on the content and quality of brokerage services at different levels to suit the contemporary demands of a rapidly expanding; stock market. Now that brokers have access to the best techniques and tools as a result of reforms, they shall not be critical and dogmatic about reforms in the stock market because that is a phenomenon, which is inescapable.

It offers excellent opportunities and challenges. They should make the best use of the opportunities created by reforms and fight competitively the problems affecting them.

Brokerage industry in Alwar has enormous scope for growth and achievement.

But this can be possible only if elements like trust, guidance and regulation are incorporated in the stock market. There is also the need for reorientation and refocusing of activities of all members of the broking community.

The reasons for association with Stock Broking Firm are Brokerage, Trading Tips, Faith, Individual Attention, Brand Name and Accessibility, but Individual

Attention gets maximum weightage. So if the customer is associated with a particular firm that means the reason behind this, is one of the above reasons.

There are service quality gaps between the expectations and perceptions of the customers of stock broking firm which can be discuss with the help of different dimensions of service quality models like tangibility, reliability, responsiveness, assurance and empathy. There is a very less service quality gap regarding the tangibility factor because the customers' expectations are not much higher than the perceptions.

References:

1. Aggarwal, R. and R. Aggarwal. 1993. Security return distributions an Market structure:



- Evidence from the NYSE/AMEX and the Nasdaq markets. *Journal of Financial Research*, 16, 209-220.
2. Arrow, K. J., 1974. *Essays in the Theory of Risk Bearing* (Elsevier, New York).
 3. Barber, B. M., and T. Odean. 2000. Trading is hazardous to your wealth: The common stock investment performance of individual investors. *Journal of Finance*, 55, 773-806.
 4. Barberis, N. and M. Huang. 2005. Stocks as lotteries: the implications of probability weighting for security prices. Working paper, Yale University.
 5. Bekaert, G. and G. Wu. 2000. Asymmetric volatility and risk in equity markets. *Review of Financial Studies*, 13, 1-42.
 6. Abarbanell, Jeffery, S., Bernard, VictorL. 1992. Tests of analysts over reaction or under reaction to earnings information. *The Journal of Finance*, Vol.47.
 7. Agarwal P.C. (1992), "Suggestions on Scripless Trading", *Chartered Secretary*, Vol. 22, No. 10 (Oct), p. 888.
 8. Agarwal, V.S. 1985. *Share Capital and Debentures*. National Publication House, New Delhi, 1985.
 9. Agrawal G.D. (1992), "Mutual Funds and Investors' Interest", *Chartered Secretary*, Vol. 22, No. 1 (Jan), p. 23.
 10. Agrawal N C(1980), "Underwriting Operations in India: Re-examination Needed", *Chartered Accountant*, Vol. 28, No. 11 (May), p. 1001-1005.
 11. Ajay Srinivasan (1999). "Mutual Funds - The New Era", *Chartered Secretary*, September A. 262.
 12. Anshuman A.S. & Prakash Chandra R. (1991). "Small Equity Share Holdings - The Repercussions" *Chartered Secretary - Vol. 21, No. 7 (21)*, p. 562.
 13. Aravind K. Jain, Annamma Joy. 1997. Money matters: an exploratory study of the socio-cultural context of consumption, saving and investment patterns. *Journal of Economic Psychology*, Vol. 18.
 14. Atje, R. and Jovanovic, B. 1993. 'Stock Market and Development', *European Economic Review*, 37, pp.632-40.
 15. Atma Ramani (1995, 1996). "Restoring Investor Confidence". *The Hindu Survey of Industry*, 435-437.