
**INNOVATIONS AND TRENDS IN
FINANCIAL SYSTEM**

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Editors:

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Preface

This edited book '*Fedha*'—A Light in to new ways of Finance, aims to present the real picture of the research in the field of Finance in Rural Kerala. The major findings of articles in the book lead to the knowledge of real world of investment in the eyes of rural population. It involves a great effort of more than fifty research minds in different subthemes of Finance like Behavioural Finance, corporate finance and Banking services.

The expected audience of the book consists of researchers, research students, Practitioners and investors.

We would like to convey our appreciation to all the contributors including the authors of the Chapters in this book.

Our special thanks to our Head of the department Prof. Bindu T. for her continuous support and great effort to bringing the book in to fruition. We expresses here our sincere gratitude to Dr. E. Jayan principal of our institution who motivated us for this endeavour.

This book - Fedha - is to be published as part of a national seminar on Financial Derivatives and the meaning of Swahili word Fedha is FINANCE...

Foreword



It makes immense pleasure that a new academic horizon is being opened up for the enrichment and refinement of the knowledge base, offers a new realm of academic excellence to meet the challenges in the contemporary global scenario of Commerce & Management. Since it is a quality oriented endeavor in the form of a Research publication as a part of the National Seminar on 'Financial Derivatives', this can provide a valuable academic base, culture and quality among the teachers, research scholars and seekers in the concerned field. The selection of research articles pertaining to such a vibrant and dynamic area could transform the beneficiaries by a new academic experience and exposure. It is really a valuable and remarkable academic contribution of the Department of Commerce to bridge the gap to a certain extent in the related academic space. Hope that let it be a mile stone in the glorious academic path of the institution leading to the highest goal and fulfillment in the field of higher education.

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Message from Principal



“Fedha (finance) is always considered as wealth and knowledge. Here I appreciate the cordial spirit of the department of Commerce for achieving new destination.”

Dr. E. Jayan

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Perception of Security Market Investors Towards Risk and Return

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Introduction

An investor is a person who employ his fund with the aim of financial returns. Investors aim is to grow their money or to earn a stable/ reasonable income. An enormous variety of investment vehicles are there, such as stocks, bonds, mutual funds, exchange traded funds, options, futures, foreign exchange, gold, silver, retirement plans and real estate etc. Investors usually consider technical/fundamental analysis to determine favourable investment opportunities and generally wishes to minimise risk and maximising returns. Generally, there are two types of investors. One is retail investors and another is institutional investors. The retail investors are those individual investors who buy and sell securities for their personal account and not for another company or organisation. They are also known as small /individual investors. Institutional investors include banks, insurance companies, pensions, hedge funds, investment advisors, mutual funds. Institutional investors is a term for entities which pool money to purchase securities, properties and other investment assets/ originate loans.

The concept of security market came to India in 1875, when Bombay Stock Exchange (BSE) was established as “The native share and stockbrokers Association” a voluntary non-profit making

association. Investment in security market is an important investment avenue for the common man because it offers an opportunity to invest in a diversified professionally managed portfolio at relatively low cost.

In this modern era, finance / money plays an important role. The ability to make more money depends on the return of the potential investment and also the risk taking ability of the investor. In behavioural aspects there are various factors which influence human behaviour such as demographic factors, life style characteristics of investors, psychological factors and the risk bearing capacity. The fundamental information like beta (systematic risk), Earning Per Share (EPS), past return, age and size of firm, share price and share turnover also affects the investment decision of security investors. On the basis of the ability to manage risk, investors can be classified in to various ways like conservative investors, aggressive investors and so on. The investors having more risk tolerance show a positive attitude towards investment in security market, mainly on shares and debentures.

The Greater the Risk, Greater the Return Expected

Risk return analysis is an integral part of any investment decision. All financial decision involve any kind of risk. The objective of risk return analysis is to maximize the return by way of reducing risk to some extent. The two types of risk are- systematic risk and unsystematic risk. One cannot eliminate all kind of risk. Systematic risk is the risk which are beyond the control of the individual investor. Unsystematic risk can be reduced to some extent through the strategy of diversification. One may expect to get a return of 12% / annum in his investment decision, but the risk of not able to get 12% return will always be there. Return simply act as a reward for investment which involve some kind of risk. Hence it is important to note that how much risk one can take and invest accordingly. Thus risk return trade off helps to make a good portfolio investment decision and also portfolio revision if needed.

Objectives of the Study

1. To examine how investor awareness affects investment in stock market
2. To explore the effect of perceived risk attitude of investors towards investment in security market
3. To examine the effect of return as a reward for taking risk.

Hypothesis

1. H_0 : There is no association between awareness of investors and investment behaviour
 H_1 : H_0 is not true
2. H_0 : There is no association between perceived risk attitude of investors and investment behaviour
 H_1 : H_0 is not true

Research Methodology

The study consist of forty samples which are collected from the investors in Palakkad district.Both primary data and secondary data were used for the study .Primary data were collected using a structured questionnaire and secondary data were collected from various books,previous records and internet.Descriptive research design is used for the study.In the study simple percentage analysis and Chi-Square test have been used for data analysis and interpretation

Analysis and Discussion

Table 1
Gender of the investors

<i>Gender</i>	<i>Respondents</i>	<i>%</i>
Male	30	75
Female	10	25
Total	100	100

Source: Primary data

Inference

The above table shows that around75% of the respondents are belonging to male category and the rest of the respondents are belongs to female category.

Table 2
Monthly income of investors

<i>Monthly income</i>	<i>Respondents</i>	<i>%</i>
<10,000	5	12.5
10,000-50,000	10	25
50,000-100,000	15	37.5
Above 100,000	10	25
Total	100	100

Source: Primary data

Inference

The above table shows that around 12.5% of the respondents' monthly income is less than 10000. 25% belongs to the income group of 10000-50000 and 37.5% belongs to the income ranges from 50000-100000. The remaining 10% of respondents belongs to the category of above 100000 as their monthly income

Table 3
Source of information regarding investment

<i>Opinion</i>	<i>Respondents</i>	<i>%</i>
Self	15	37.5
Share brokers	15	37.5
Advertisement	5	12.5
Friends and Relatives	5	12.5

Source: Primary data

Inference

The above table shows that 37.5 % of the respondents get information by way of self-effort and through share brokers each. The remaining 25% got information through advertisement and friends and relatives opinion.

Table 4
Type of market preferred by investors

<i>Opinion</i>	<i>Respondents</i>	<i>%</i>
IPO(Initial Public Offering)	15	37.5
Secondary market	25	62.5
Total	40	100

Source: Primary data

Inference

The table show that 62.5% prefer secondary market for their effective dealing and rest of them ie 37.5% prefer IPO.

Table5
Investors opinion regarding type of investment

<i>Type of investment</i>	<i>Respondents</i>	<i>%</i>
Future market	27	67.5
Cash market	13	32.5
Total	40	100

Source: Primary data

Inference

It reveals that 67.5% prefer future market for their investment and the rest of them prefer cash market.

Table 6
Type of market where risk is higher

<i>Market</i>	<i>Respondents</i>	<i>%</i>
Future market	28	70
Cash market	12	30

Source: Primary data

Inference

It shows that 70 % respondents opine that the risk is higher in future market and only 30% opine that it is in cash market.

Table 7
Type of market where return is higher

<i>Market</i>	<i>Respondents</i>	<i>%</i>
Future market	28	70
Cash market	12	30

Source: Primary data

Inference

It shows that 70 % respondents opine that the return is higher in future market and only 30% opine that it is in cash market.

Table 8
Investors awareness of risk and return trade off involved in security market

<i>Opinion</i>	<i>Respondents</i>	<i>%</i>
Yes	30	75
No	10	25
Total	40	100

Source: Primary data

Inference

The above table reveals that out of 40 respondents, 75% of them are aware about risk and return involved in security market. Only 25% of them are not aware about it.

Testing of Hypothesis**Table 9****Association between Investors awareness and their investment behaviour**

<i>Awareness</i>	Investment behaviour			<i>Total</i>
	<i>Type of preferred security</i>	<i>Stock volume</i>	<i>Speed of herding</i>	
Social learning	8	6	6	20
Financial awareness	6	8	6	20
Total	14	14	12	40

Table 10**Calculation of Chi-Square value**

<i>O</i>	<i>E</i>	<i>O-E</i>	$(O-E)^2$	$(O-E)^2/E$
8	7	1	1	0.142857
6	7	-1	1	0.142857
6	6	0	0	0
6	7	-1	1	0.142857
8	7	1	1	0.142857
6	6	0	0	0

Calculated value of Chi-Square =.571429

Degree of freedom (c-1) (r-1) =2

Table value 0.103

Since the calculated value of chi- square is more than table value, so that null hypothesis is rejected. Hence there is association between awareness of investors and their investment behaviour.

Table 11**Association between Perceived risk attitude and investment behaviour**

<i>Awareness</i>	Investment Behaviour			<i>Total</i>
	<i>Type of security preferred</i>	<i>Stock volume</i>	<i>Speed of herding</i>	
Affective	9	8	8	20
Cognitive	7	6	2	20
Total	16	14	10	40

Calculation of Chi-Square value

<i>O</i>	<i>E</i>	<i>O-E</i>	$(O-E)^2$	$(O-E)^2/E$
9	10	1	1	0.1
7	6	1	1	0.166
8	8.75	0.75	0.5625	0.064
6	5.25	0.75	0.5625	0.1071
8	6.25	1.75	3.0625	0.49
2	3.75	1.75	3.0625	0.816
			X ²	1.7431
			D.F	2
			Table value	0.103

Since the calculated value of chi- square is more than table value, so that null hypothesis is rejected. Hence there is association between perceived risk attitude of investors and their investment behaviour.

Conclusion

There are a lot of considerations while making investments such as tax planning, future needs, safety of investments, stable income etc. The requirements of people vary from person to person so as per the personal requirement, the investor should consider the above variables. The basic factors such as risk factors, past return, size of the firm, age of the firm, EPS, share price, share turnover, ROE etc. affect selection of investment. In addition to these factors, psychological factors like behaviour, sentiments, personality traits, risk taking abilities and the demographic factors like age, sex, income, education etc. This study investigated various perceptions of investors towards risk and return. While selecting any investment opportunities the investors are beware by comparing the costs and benefits from it.

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