

“Who Are The Retail Equity Investors? Evidences From Marathwada Region of Maharashtra”

Dr. S.A. Mule, Associate Professor in Economics, Maharashtra UdayagiriMahavidyalaya, Udgir Dist. Latur Email id m.santoshudgir@gmail.com

Introduction:

Investment refers to the employment of funds to assets with the aim of achieving additional income or growth in value over a given period of time. The stylised fact is that stock market delivers superior returns in the long run and every investor must invest in it. Spread of technology, enhanced transparency in the dealings, availability of investment facility in stocks and flow of information has changed the investment scenario in India. Small cities, towns and even rural savers are now increasingly participating in the stock investment and lured by the returns it generates. These new and amateur investors are actively taking part in the stock market. In the long run, a small percentage of investors generate higher returns on investment, and majority of investors lose money. In the short run, chance plays a crucial role in the determination of an outcome in a singular event. But, in a sequence of events the role of chance diminishes and it is the process that plays the crucial role (Parikh Parag2009). Hence, it is important to study the investment decision making process of these retail investors and socio-economic factors are integral part of it.

Investment:

Every individual owns a portfolio of investment comprising financial assets like bank deposits, stocks and real assets like gold, house etc. The long run economic well-being of investors' depends upon the decision of the investors' to hold various assets in the portfolio.

“Investment as an asset or item that is purchased with the hope that it will generate income or appreciate in the future”- The Oxford Dictionary

“The action or process of investing money for profit is called as investment”, says the Cambridge dictionary.

Graham, Benjamin and Dodd David in their book “Security Analysis and Portfolio Management defined investment as “putting money into something with the expectation of gain within an expected period of time”.

Investor and Retail Investor:

Investor is the person who does the investment and bears the risk and return associated with the investment. Cash does not generate returns, hence persons with surplus cash looks for opportunities to earn more money or wealth by investing the surplus cash with them. Various motives affect the investment decision making process and the investment avenues of the investors. Based on the investment horizon, return expectations and risk appetite of the investor, the investment avenue is chosen by the investor.

The term “Retail Investor” is defined in Section 2(zf) of the SEBI (Issues of Capital & Discloser Requirements) Regulation, 2009. A retail investor is an individual investor in the Indian Securities market whose subscription to securities is of a value less than Rs. Two lakh. It does not matter how much is that individual's existing shareholding in the market or what his present net worth is. The only condition is that at the time of subscription or bidding for shares or securities he/she should not be bidding for more than Rs.Two Lakh worth of securities. The category of retail investors has been identified to target tax incentives, concessions and price discounts to them. In public issue of securities retail investors are given “reservation on competitive basis.

Methodology

The study is empirical in nature based on survey method. Hence, collection of primary data is essential for achieving appropriate outcome. For this, structured questionnaire is used as a tool for collecting the primary data. The sample retail investors are drawn from Aurangabad, Nanded and Latur city. These cities are selected because of the fact that equity or shares and debenture ownership is mostly an urban phenomenon and these cities represent the most urbanized part of the region.

The equity market retail investors are thinly spread in the study region. The information on small city wise turnover in stock market and number of pin code wise or city wise investors is not publicly available. Hence to represent the population sample, the researcher has used the Robert V. Krejcie and Daryle W. Morgan(1970) formula with assumed standard error =0.05. The formula is as follows:

$$s = \chi^2 NP(1 - P) \div d^2 (N-1) + \chi^2 P (1-P)$$

s = Required sample size

χ^2 = the table value of chi-square for 1 degree of freedom at the desired confidence level (3.841).

N = the population size.

P = the population proportion (assumed to be .05 since this would provide the maximum sample size).

d = the degree of accuracy expressed as a proportion (.05).

By applying the above formula, as the population increases, the sample size increases at a diminishing rate and remains relatively constant at slightly more than 380 cases. Hence 450 samples were randomly chosen and only 384 sample responses of retail investors are found suitable for the research purpose from the study region. The survey was carried out from February 2013 to August 2015 to cover the various phases of ups and down in the capital market.

Socio-Economic Factors:

The investment decision making process of investor is affected by the socio-demographic and economic factors. These factors shape the perception, preference and affect the asset allocation strategy of the investors. Accordingly, the profile of investors based on socio-demographic data is collected from the study region and analysed as with the help of:

Descriptive Analysis

Measures of Central Tendency

Measures of Dispersion

a) Place of Residence:

The three cities from the study region i.e. Aurangabad, Latur and Nanded are selected on the basis of population size, per capita income, level of urbanisation and literacy rate. The NCAER study shows the liner relationship between urbanisation level and investors' incidence. It is also found that better education, employment opportunities, connectivity and access to information is available in cities, hence the distribution of investors is skewed toward larger urban centres.

Table 1 Place of Residence and Respondents

Name of the City and Respondents		
Name of the City	Frequency	Percent
Aurangabad	175	45.6
Latur	106	27.6
Nanded	103	26.8
Total	384	100

Overall 384 sample population is selected. The 175 respondents are from Aurangabad city as it is the most urbanised city in the study region. 106 respondents are from Latur city and 103 respondents are from Nanded city.

b) Age of the respondents:

The actual age of the respondents were collected on scale. 19 to 60 is age range. The mean, median and mode of the age of respondents were 36, 35 and 42 years respectively with standard deviation of 10.497. The ordinal classification of age was done and was categorised in three types according to the lifecycle stage of the respondents. The reclassification is presented as below:

Table 2 Age Group of the Respondent

Age Group	Frequency	Percent
Under 25	65	17.0
26-40	186	48.4
Over 41	133	34.6
Total	384	100

The investment in capital market is risky investment. The age of investors confirm the previous studies on age and risk behavior of an individual. The 34.6 percent of the investors are above 40 years of age. The old age reduces the risk tolerance, probably because older individuals have less time to meet their goals and objectives. The younger investors have time horizon to meet their goals and objectives.

c) Gender of the respondents:

The gender affects the investment decision making process as females are considered more cautious and employ the capital judiciously. Hence the data is collected accordingly. The data is as follows:

Table 3 Gender of the Respondent

Gender	Frequency	Percent
Male	315	82
Female	69	18
Total	384	100

The 18 percent of the respondent female participation reflects that women are more conservative than men in risky investment. This difference may be attributed to a personality trait in men referred to as ‘thrill seeker or sensation seeker’ (Roszkowski et.al, 1993) as 82 per cent of the respondents’ are men. The cultural belief that men should and do take greater risk than women is another possible explanation for higher male participation (Slovic, 1966).

d) Marital Status:

Changes in marital status change the responsibilities and investable surplus of households. The data is collected accordingly and is presented as below:

Table: 4 Marital Status of the Respondents

Marital Status	Frequency	Percent
Married	277	72.1
Un married	107	27.9
Total	384	100

Seventy two per cent of the respondents were married and thirty per cent of them were unmarried. The relatively high percentage of married investors is the outcome of age as

children’s marriage is considered as the duty of the parents. Most of the persons get married up to the age of 30 years. The married couples carry more responsibility and have more financial commitment. This may affect the risk tolerance of the investors who invest in risky securities like shares.

e) Educational Level of the Respondents:

Education enhances the ability to take decisions. It is expected that the better educated one can take risky and more complex decisions in a better way. Accordingly the data is collected and presented in the following table and graph.

Table 5 Educational Levels of the Respondents

Educational Level	Frequency	Per cent
Post Graduate	203	53
Graduate	139	36
HSC and above	31	8.1
Below HSC	11	2.9
Total	384	100

It was found that the educational level is associated with the higher participation in capital market. The 53 per cent of the respondents were having 17 years of schooling, 36 per cent had 15 years of schooling, and 8.1 per cent had 12 or more years of schooling. This is basically a group of students who were studying Chartered Accountancy, MBA and Commerce courses. Only 2.9 per cent respondents were had 10 years or below level of schooling. The above data shows that professional and higher education encourages investors to assume higher level of investment risk and better ability to assess risk and return of an investment.

f) Occupation of the Respondents:

Occupation refers to the principal activity which someone engages in to meet requirements for their livelihood (Grable and Lytton, 1999). Occupation determines the income of the investors. Investable surplus is generated out of income. Occupational data of the investors is presented as below:

Table 6 Occupation of the Respondents

Occupation	Frequency	Percent
Salaried	89	23.2
Self Employed	106	27.6
Business	77	20.1
Housewife	52	13.5
Student	60	15.6
Total	384	100

The respondents are fairly distributed across the occupations. Self-employed respondents were the people working as lawyers, doctors, architects, coaching class owners and others engaged in profession. Salaried people were working as employees in government and semi government organisations, industrial sector and service sectors. Businessmen were mainly traders, restaurant owners, and others supplying services. Housewives were the new category of investors who were investing and trading from home. The use of technology and business TV channels created this new class; hence the data was collected from housewives respondents also. The students were mainly undergraduates and trading

to cover their educational expenses. These respondents were studying for Chartered Accountancy, MBA and M.Com. The data confirm the studies on occupation and risk tolerance. The self employed percentage shows the higher financial risk taking capability of this occupational class of investors. The salaried class representation shows the private sector employees exhibit higher level of risk than the public sector employee. The distribution of respondents and occupational class confirm the previous studies on financial risk takers and occupational class. (Haliassos and Bertaut, 1995, Grable and Lytton, 1999; Sung and Hanna, 1996).

g) Family Size of the Respondents:

Family size determines the responsibilities of the investor. The data is collected accordingly and presented as below:

Table 7 Family Size of the Respondents

Family Size	Frequency	Percent
Four or less	204	53.1
Five to Six	164	42.7
Seven and above	16	4.2
Total	384	100

Majority of the respondents were nuclear families with four or less members. The data was collected on actual number in the family and later it is converted into ordinal scale. The mean family size of the respondents was of four. The investors' family size is consistent with other studies on the family size and incidence of shareholding.

h) Earning Members in the Family:

The earning members of the family determine the investable surplus in the family. The earning members' data was collected on scale. The data has been reclassified into three ordinal categories. The findings show that families where two or three members were earning had high incidence of stock investors. The investors housewives and students respondents are also considered as earning members of their family, hence the data shows high incidence of two or three earning members.

Table 8 Earning Members in the Family

Earning Members	Frequency	Percent
One Earner	38	9.9
Two to Three Earners	309	80.5
Four or more Earners	37	9.6
Total	384	100

i) Monthly Income of the Respondents:

Monthly family income and not personal income of the respondents is collected as the family income determines the investable surplus and risk taking capabilities of the respondents. Data on actual income of respondents' family was collected. The monthly income ranges from Rs.10, 000 per month to Rs.100, 000 per month. The mean family income of the respondents was Rs.62426 and median income was Rs.62000. The standard deviation is Rs. 20711. Family income data is converted into ordinal scale in three categories. The following table shows that monthly income of the family affect the stock market investment incidence. Only 8.1 per cent of the respondents reported family income of Rs. 35000 or below. The data is consistent with other studies on income and investment in capital market.

Table9 Monthly Income of the Respondents

Monthly Family Income of the Respondents		
Income	Frequency	Percent
Rs. 35000 or Below	32	8.1
Rs. 36000 to Rs.60000	174	45.3
Rs. 61000 and Above	178	46.4
Total	384	100

The high income group takes higher level of risk than the lower income group as they have enough resources to meet the essential commitments. The greater capacity to incur risk is exhibited in the income wise data. The data confirm studies on the positive relationship between income and risk tolerance.

Investment Pattern:

The regular sequence of actions followed by the investors in investment decision making process is called as investment pattern. The purpose of studying investment pattern is to throw light on the general nature and common practice of the investors.

The investment pattern, preferences, risk-return perceptions and investment objectives of the retail equity investors have been identified with the help of:

- Descriptive Analysis
- Rank Analysis
- Rank Score Analysis
- Measures of Central Tendency
- Measures of Dispersion

Type of Investors:

Respondents were asked about their investment horizon and categorised them as long term investors, short term investors or traders and those who were doing short and long term investment and trading at the same time. Ideally, small investors should do long term investment only. Only 20.3 per cent of the respondents were investing for long term and 63.3 per cent of them were doing both short and long term investment.

Table 10 Type of Investors

Term Investment	Frequency	Percent
Long term investment	78	20.3
Short term investment	63	16.4
Both	243	63.3
Total	384	100

Market Operated:

The IPO) market is considered as the gateway for retail investors as these retail investors have reserved quota in the allotment of shares. Some long term retail investors buy shares in primary market only and other buy in secondary market or in stock market. To differentiate these investors, data is collected on the basis of retail investors market operated by. Only 3.4 per cent of the retail investors were buying shares in primary market only. The 15.6 per cent of them were buying in secondary market and 81 per cent of them were operated in both the markets.

Table 11 Market Operated

Market Operated	Frequency	Percent
Primary	13	3.4
Secondary	60	15.6
Both	311	81
Total	384	100

Experience in the Market:

Investors experience shape investors' behaviour and refine the investment decision making process as they learn from it. The data of the same is collected on the actual years basis. Experience in the market is ranged from 1 to 15 years with mean value of 4.35 and standard deviation of 2.502 years. The collected data is converted into ordinal scale. The 47.40 per cent of the investors are having two to five years of experience, 28.65 per cent were having experience of two years and 23.96 per cent of the investors are having experience of more than five years.

Table 12 Experience in the Market

Experience	Frequency	Per Cent
Below Two Years	110	28.65
Two to Five Years	182	47.40
Above Five Years	92	23.96

The Investors' Portfolio of Investment:

Investors were asked about various investment avenues and their investment in it. The investment avenue is ranked based on the investment percent of respondents. The data is analysed by ranking the choices. Shares along precious metal top in the portfolio choice of the investors and debentures are least favoured. The same investors' choice of mutual funds is 8th in the rank which shows the investors urge to control their investment. The Public Provident Fund/ Government provident Fund/ Employees Provident Fund (PPF/GPF/EPF) are the 5th choice. The data is as follows:

Table 13 The Investors' Portfolio of Investment

Sr. No	Investment Avenue	No. of Investors	Per Cent	Rank
1	Shares	384	100	1
2	Precious Metals	384	100.0	1
3	Real Estate	342	89.1	3
4	Insurance	222	57.8	4
5	PPF/GPF/EPF	155	40.4	5
6	Others	134	34.9	6
7	Bank Fixed Deposits	129	33.6	7
8	Mutual Funds	112	29.2	8
9	Share Futures/Options	83	21.6	9
10	Debentures	1	0.3	10

Sectorial Holdings of the Investors:

The sectorial choices of stock investments are asked in the survey. It was found in the pilot study that the investors were not ready to share the names of invested companies but were ready to share broad sectorial choices. Hence, the sectorial data is gathered and analysed. Public sector undertakings are most preferred sector followed by the Information Technology sector. The pharmaceuticals are the least preferred sector of the

investors. The trust in government and public sector undertakings might be the reason for the preferred choice and growth of information technology sector since 1990s and generated wealth from this sector might have caused the preferences of the investors. Stocks of Multi-National Companies (MNCs) and Fast Moving Consumer Goods (FMCGs) companies are on 7th and 8th number.

Table 14 Sectorial Holdings of the Investors

Sr. No	Sectorial Investment	Noof Investors	Per Cent	Rank
1	Public Sector Companies	283	73.7	1
2	Information Technology	282	73.4	2
3	Banking Sector Companies	273	71.1	3
4	Service Sector Companies	237	61.7	4
5	Energy Companies	214	55.7	5
6	Others Companies	208	54.2	6
7	MNCs Companies	168	43.8	7
8	FMCG Companies	154	40.1	8
9	Infrastructure Companies	130	33.9	9
10	Pharmaceuticals	122	31.8	10

Number of Stocks Invested:

As the specific names of the companies were not disclosed by the investors, only numbers of stocks invested and still holding were asked from the respondents. The mean value of the number of holdings was 12.65 and standard deviation was 3.96. The 52 per cent of the respondents were holding less than 10 stocks and 32 per cent of the respondents were up to 15 companies stocks. Rest 15.9 per cent respondents were holding 25 to 30 companies stocks.

Approximate Size of Investment:

Investors were encouraged to discover the approximate invested amount. The size of the amount indicates the seriousness and faith of the investors in the invested avenue. The mean, median and mode value of investment was Rs.150, 067, Rs.100,000 and Rs.60,000 respectively with standard deviation of 137498. The 55 per cent of the investors have invested less than Rs. 100,000 and only 12 per cent have invested above Rs. 3 Lakh. The committed amount indicates the fickleness of the majority of the retail investors. The ordinal category of the invested amount is presented below:

Table 15 Approximate Size of Investment

Invested Amount	Frequency	Percent
Below 50,000	88	23
50,001 to 100000	121	32
100001 to 200000	88	23
200001 to 300000	40	10
300001 and Above	47	12

Investment Sources:

Own household savings provide stability to the investor in the volatile stock investment. The lure of high returns can lead to opportunistic borrowing for investment or trading in stocks. The decision making process of these investors differ from the owned funds investors. Hence, the data on investment sources is collected. The 85.70 per cent of the investors were plugging their own household savings into the market whereas 14.3 per cent of them were investing own household savings and also borrowing money to trade or invest in stocks.

Table 16 InvestmentSources

Sources	Frequency	Per cent
Household Savings	329	85.7
Savings and Borrowings	55	14.3

Conclusion:

From the above discussion, we can conclude that the socio-economic profile of the retail investors is dominated by middle class educated and urban population.

References:

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