Original Research Paper

Commerce

INVESTORS' ATTITUDE TOWARDS PORTFOLIO SELECTION

Dr. R. Sathya	Assistant Professor, Department of Commerce PSG College of Arts and Science, Coimbatore, Tamil Nadu, India.
Rooplata P	Research Scholar, Department of CommercePSG College of Arts and Science, Coimbatore, Tamil Nadu, India.

ABSTRACT

investment is current commitment of rupees for a period of time in order to derive future payments which should compensate the investor for the time the funds are committed, the expected rate of inflation and the uncertainty of future payments. This problem of making positive gains coupled with heterogeneous investor beliefs and choices further complicates in understanding the applicability of existing asset pricing relationships. In this study Investors are examined to understand their trading behaviour.

KEYWORDS : Investment, fund, gain, trading behaviour

Introduction

Sacrifice of current money and other resources for future benefits are referred to as Investment. Investment is done to earn returns. This involves two key aspects namely time and risk. The present outflow of funds is certain but the future gains involve risk and are uncertain. A deliberate and careful investment decision leads to creation of a portfolio of assets. These decisions are to be taken within the framework provided by the complex of financial institutions and intermediaries comprising the capital market. The capital market also provides mechanism for channelling current savings into investment in productive uses. The portfolio analysis starts with information concerning individual securities and ends with conclusions concerning portfolios as a whole.

The general goals of investment pursued by investors include capital preservation, capital appreciation and cash inflow in the form of current income. It is the secondary objectives which make investors allocate their savings differently. They may consider factors like tax minimisation, marketability, liquidity, convenience and safety before making portfolio allocations.

Review of literature

Kendall (1953) using serial correlation analysis of the weekly changes in nineteen indices of British industrial share prices and in spot price for cotton (New York) and wheat (Chicago) found the series to be a wandering one. Campbell and Beranek (1955) found that a taxpayer is better by selling before the ex dividend date but to buy after it. For tax exempt institutions, the rule is reverse.

Manjunatha, Mallikarjunappa and Begum (2006) investigated the applicability of CAPM in Indian Capital Market by using a sample of 30 companies of BSE Sensex. Time series regression, cross section regression, t- test, ANOVA were run on daily prices data (from 2000 to 2003). It was found that security returns are dependent on market return, intercept was significantly different from risk free rate of return and slope was not equal to the difference between market return and risk free rate. And also, an inverse relationship exist between portfolio return and their betas. Thus CAPM did not hold in the Indian context. This result may be due to short period study or use of Sensex as the market proxy.
Panageas and Westerfield (2009) examined that risk- neutral hedge funds managers put a constant proportion of funds in a mean-variance efficient portfolio and remaining in risk free asset. Even in the presence of option like contract, they act as constant relative risk aversion investors.

Statement of the problem

Selection of optimum portfolio is the desire of every investor. In portfolio creation, investors inadequately comprehend return & risk, untimely entries and exits, pay high transaction cost etc. which leads to losses. Despite a large number of empirical studies in the area of market efficiency & CAPM, there is a need of research in analysing mean- variance efficient portfolio for Indian market. Not much empirical evidence exists in India on investigating the impact of corporate governance practices, habits of investors and learning effect on the portfolio selection decisions.

Objectives of the study

To understand retail investor's attitude towards equity selection, asset allocation, multiple goal, constraints, risk tolerance capacity, macro economic factors and company specific factors while selecting a portfolio.

Research Methodology

- Primary data has been collected through questionnaire from 200 retail investors.
- Area of study is confined to Coimbatore district of Tamil Nadu.
- Period of study one year i.e. 1st April 2016 to 31st March 2017.
- Percentage analysis and Average rank analysis has been carried out to analyse the data.

Data analysis and interpretation

Profile of the Questionnaire Respondents

Demographic variable	Category	No. of respondent	Percentage
Gender	Male	156	78
	Female	44	22
Marital status	Married	128	64
	Unmarried	72	36
Age (in years)	18-25	26	13
	25-40	105	52.5
	40-60	57	28.5
	Above 60	12	6
Qualification	Graduate	97	48.5
	Post Graduate	59	29.5
	Professional	31	15.5
	Doctoral	13	6.5
Occupation	Employed with a Private company	76	38
	Employed with Non-profit Institution	49	24.5
	Employed with Govt Unit	37	18.5
	Self employed	33	16.5
	Any other	5	2.5

Job Position	Top Level	47	23.5
	Senior level	49	24.5
	Middle level	53	26.5
	Executive level	51	25.5
Annual Income (Rs.)	1,00,000-5,00,000	86	43
	5,00,000-10,00,000	60	30
	10,00,000-20,00,000	43	21.5
	Above 20,00,000	11	5.5
No. of family members	Two	34	17
	3-4	93	46.5
	5-6	46	23
	More than 6	27	13.5

Majority of the respondents (investors) Male (78%), Married (64%), Age group of 25-40 years (52.5%), Education level Graduate (48.5%), Employed with private company (38%), Job position Middle level (26.5%), Annual income Rs. 1,00,000-5,00,000 (43%) and with family size of 3-4 members (46.5%).

Concept of Equity Portfolio Selection for investors

Motive of the portfolio selection vary from person to person. To analyse the motive for portfolio selection average rank analysis has been carried out.

Motive of portfolio selection	Score	Rank
Diversification	3.59	IV
Safety	3.88	V
High return	1.84	I
Wealth creation	2.73	II
Steady income	2.90	III

With the above rank analysis, it is found that Investors' most significant motive of portfolio selection is High return, next wealth creation, then steady income, after that diversification and lastly safety.

Gains sought from Equity Portfolio

Investors benefit from equity portfolio in three ways- capital gain, dividend and voting rights in the company. The most attractive gain is for long term i.e. capital gain.

Descriptive	Frequency	Percentage
Capital gain	174	87
Dividend	122	61
Voting rights	68	34

As expected, most of the investor invest in equity for capital gain. Here also 87% respondent sought capital gain. followed by 61% dividend and only 34% voting rights.

Opinion on performance of professional portfolio manager

Investors were asked their opinion whether professional portfolio manager manage risk more effectively than others.

In this survey, 50 (25%) investors strongly agree, 109 (54.5%) agree, 28 (14%) neither agree nor disagree, whereas 10 (5%) disagree and 3 (1.5%) strongly disagree that professional portfolio manager manage risk more effectively than others.

Asset Allocation Preferences

To understand the investors preference about their fund allocation, a list of different plans were asked. Here are the findings.

Descriptive	Frequency	Percentage
cash/saving bank balance	12	6
fixed deposit	24	12
bonds/debentures	12	6
Insurance plans	11	5.5
Mutual funds	32	16
Equity shares	65	32.5
Preference shares	8	4
Arts, commodities, gold, silver etc	20	10
Real estate	16	8
Total	200	100.0

From this survey, it is found that investors prefer to allocate their fund maximum in equity share (32.5%), then Mutual funds (16%), fixed deposit (12%) and so on, whereas least preferred is preference shares (4%).

Primary objective of the investment

Investors allocate their fund with the primary objective of additional benefit in future.

Descriptive	Frequency	Percentage
Preserve capital	33	16.5
Generate maximum income with modest asset growth	79	39.5
Achieve moderate growth and income	51	25.5
Achieve strong asset growth with modest income	25	12.5
Achieve maximum asset growth	13	6.5

With the above table, it is found that most of the investors' primary objective of the investment is to generate maximum income with modest asset growth (39.5%), then moderate growth and income (25.5%) and very less investor prefer maximum asset growth (6.5%).

Multiple Goals pursued by investors

An investment carries multiple goal by the investors. Being return the foremost but there are various other thing or goal that matters for investors of different perception.

Descriptive	Frequency	Percentage
Minimisation of risk	177	88.5
Stability in return	102	51
High average return	189	94.5
Opportunities for superior gains	96	48
Safety first and then gain	95	47.5
Future contingencies	88	44
Consumption needs	57	28.5
Tax savings	67	33.5
Liquidity	91	45.5
Speculation	20	10

As it clear, among multiple goals pursued by investors, most of the investors want high average return (94.5%) with minimum risk (88.5%), then stability in return (51%), followed by opportunities of superior gains (48%) and so on. Least preferred is speculation (10%).

Risk bearing capacity

Each investor differ when it comes to risk. As investment is always associated with risk. Normally, Investor wants high return but at low risk. There are various types of investors with different risk tolerance capacity. Some investors wants very high return and they are ready to take high risk. Here is the description of level of risk investors willing to take.

Descriptive	Frequency	Percentage
Low volatility	53	26.5
Low to medium volatility	77	38.5
Medium volatility	35	17.5
Medium to high volatility	25	12.5
High volatility	10	5

From this survey, it is clear that majority of the investors' (38.5%) are willing to take low to medium volatility (risk), then low volatility (26.5%), medium volatility (17.5%), medium to high volatility (12.5%) whereas only 5% of investors' willing to take high volatility.

Multiple Portfolio Constraints faced by investors

From the empirical survey it may be observed that investors pursue not only multiple goals but also face multiple constraints. From the nine constraints identified in this questionnaire, main constraint faced by investors is of investment/budget constraint, whereby only a given sum is available for investment in equities. Review of literature of some of the early works by Markowitz, Sharpe and Samuelson has also given focus to this constraint.

Descriptive	Frequency	Percentage
Budget	167	83.5
Tax concern	112	56
Liquidity	126	63
Inflation	103	51.5
Transaction cost	98	49
Time horizon	96	48
Purchase in lot	75	37.5
Volume traded	56	28
Brokerage fees	54	27

From the multiple portfolio constraints faced by investor, Budget is considered the big constraint by most of the investors (83.5%), then Liquidity (63%), Tax concern (56%) and so on whereas 27% of investors feel brokerage as constraint while selecting a portfolio.

Preference among Equity based investment

As seen above, Equity considered to be the most preferred option for investment. Now in equities also there are various options available. These are most sought options by investors.

Descriptive	Frequency	Percentage
Company specific	45	22.5
Industry specific	36	18
Sector specific	25	12.5
Initial Public offers (IPOs)	11	5.5
Index based (Nifty 50, Small cap, Mid cap etc)	83	41.5

While selecting equity based investment, most of the investors prefer Index based (41.5%), then company specific equities (45%), Industry specific equities (18%), Sector specific like agricultural, manufacturing etc. (12.5%) whereas very few investors (5.5%) prefer Initial Public Offers (IPOs).

Macroeconomic factors affecting Portfolio Selection

Eleven macroeconomic factors which are most often discussed by analysts while discussing the future outlook of equities market. These macroeconomic factors which cannot be controlled by any individual. They are considered as external factors which affect the investors.

Descriptive	Frequency	Percentage
Growth Potential of the industry	133	66.5
Monetary Policy	129	64.5
Budget announcement	103	51.5
Inflation	101	50.5
State of the economy	94	47
Crude oil prices	92	46
Bulk deal	73	36.5
Exchange rate	71	35.5
Political stability	68	34
Bullion rate	57	28.5
FII activities	51	25.5

From the above table, most of the investors are affected by growth potential of the industry (66.58%), then monetary policy of RBI (64.5%), Budget announcement (51.5%), Inflation (50.5%) and so on. In case of Foreign Institutional Investors activities, 25.5% of the investors are affected while selecting the portfolio.

Company factors affecting Equity Selection

A large number of stock market participants like the existing and potential shareholders, equity funds, venture capitalists, investment bankers, credit analysts, equity analysts and others regularly track the company factors to evaluate the financial health of a company. These company factors include both quantitative (like discounted cash flow valuation, price-to-earnings ratio, earnings per share etc.) and qualitative factors (like stock familiarity, management team etc.). Some of the company factors regularly tracked by analysts are mentioned in this Table.

Descriptive	Score	Rank
Valuation	1.43	I
Sales/Net Profit and EPS	1.97	II
P/E ratio	2.23	III
Price	2.56	IV
Book value/Market value (B/M) ratio	2.98	V
Dividend yield	3.45	VI
Market capitalisation	3.49	VII
Return on Net worth (%)	4.59	VIII
Debt-equity ratio	4.82	IX
Broker's advice	5.91	X
Technical charts analysis	5.98	XI
Public announcement	5.63	XII
Interest obligation of the company	6.47	XIII
Stock familiarity	6.53	XIV
Management team	6.89	XV
Rights shares or bonus shares issued	7.51	XVI
Shareholding pattern	9.32	XVII
Percentage of pledged shares	10.28	XVIII

From the list of company related factors, Investors considered the most valuation with rank I, then Sales/Net profit and EPS with rank II, Price-Earning ratio (P/E) rank III and so on. In case of quantitative factors Valuation, Sales/Net profit, EPS, P/E ratio, Price of the share, B/M ratio, Dividend are the most sought by investors whereas in case of qualitative factors investors showed interest in Public announcement, Stock familiarity, Management team and Rights shares or bonus shares issued by the company.

Time horizon for tracking Portfolio Returns

Investors tracked returns on their portfolio either on monthly basis or on yearly basis or sometimes daily basis.

Descriptive	Frequency	Percentage
Daily	27	13.5
Monthly	127	63.5
Yearly	46	23

Quite large numbers Investors (63.5%) expected return on portfolio on monthly basis, 23% of investors expect on yearly basis whereas only 13.5% expect on daily basis.

Changes in other market while selecting portfolio

Indian capital market affected by changes in other markets not only domestic but also globally. For example, changes in money market affect capital market directly or indirectly. Therefore, this affect investors also. An attempt has been made to investigate the changes in other markets create any impact on portfolio selection by investors.

From the survey, it is found that majority of the investors (69%) analyse the changes in the other related markets whereas 31% of the investors do not consider the changes in the other markets while selecting the portfolio.

Here is the Ranks given by the investors who analyse the changes in the other markets.

Descriptive	Score	Rank
Money markets	2.84	I
Derivatives markets	3.73	II
Future markets	3.59	III
Commodity markets	4.37	IV
Spot markets	4.45	V
Foreign exchange markets	4.63	VI
Other country capital markets (NASDAQ, SHANGHAI, FTSE etc)	4.76	VII
Interbank lending market	4.98	VIII

From the above rank analysis, Money markets changes with rank I, then changes in Derivatives markets with rank II, Future markets with rank III and so on considered by the investors while selecting the portfolio.

Major findings and summary

- Majority of the respondents (investors) are male (78%), Married (64%), Age group of 25-40 years (52.5%), Graduate (48.5%), Employed with a private company (38%), Job position Middle level (26.5%), Annual income of Rs. 1,00,000-5,00,000 (43%), having family size of 3-4 members (46.5%).
- Majority of the investors' motive of portfolio selection was High return.
- Majority of investors sought gain from equity portfolio for capital gain.
- Majority of investors opined that professional portfolio manager manage risk more effectively than others.
- Majority of the investors preferred to allocate their fund in equity shares and in equity based investment in the way of Index based.
- Primary objective of most of the investors was to generate maximum income with modest asset growth.
- Multiple goals pursued by most of the investors were High average return, Minimisation of risk, Stability in return etc.
- Majority of the investors willing to take Low to medium volatility in their investment.
- Multiple portfolio constraints faced by most of the investors were Budget, Liquidity Inflation, Tax etc.
- Majority of respondents affected by macroeconomic factors like Growth potential of the industry, Monetary policy of RBI, Budget announcement, Inflation etc.
- Majority of investors affected by company related factors like Valuation of shares, Sales/ Net profit, EPS, P/E ratio, Price of share, Book to market value ratio, Dividend, Market capitalisation etc.
- Majority of the investors expected return on their portfolio on monthly basis.
- Majority of the investors considered changes in the other related market while selecting the portfolio like changes in Money markets, Derivative markets, Future markets, Commodity markets etc.

Conclusion

The study reveals the trading pattern of the investors, their investment goals, constraints and factors affecting while selecting the portfolio. It is found that most of the investors are risk averse, they are willing to take high return on their portfolio at minimum risk.

References

1. Campbell, J.A. and W. Beranek , "Stock Price Behavior on Ex-Dividend Dates", The Journal of Finance, Vol. 10, No. 4, 1955, pp 425-429.
2. Kendall, Maurice G., "The Analysis of Economic Time Series, Part I", Journal of the Royal Statistical Society, Vol. 96, 1953, pp. 11-25.
3. Agarwal, Aman, Yamini Agarwal and Saurabh Agarwal, "The Changing Structure of World Investment, Trade, Capital Flows and its Impact on Global Integration and Regional Cooperation", Finance India, Vol. 20, No. 2, 2006, pp. 471- 490.
4. Agarwal, Saurabh, "Dynamics of Investor's Behaviour: A Survey-Based Study on Indian Securities Market", International Journal of Monetary Economics and Finance, Switzerland, Vol. 4, No. 4, 2011, pp. 410-431.
5. Manjunatha, T., T. Mallikarjunappa and M. Begum, "Does Capital Asset Pricing Model Hold in the Indian Market?", The Indian Journal of Commerce, Vol. 59, No. 2, 2006, pp. 73-83.