



**Does Investors are Aware of Their Real Risk Levels?  
"Risk Comes From not Knowing What You`Re Doing."  
Warren Buffett**

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**ABSTRACT**

Financial risk tolerance is the maximum amount of uncertainty that someone is willing to accept when making a financial decision. Risk tolerance represents one person's attitude towards taking risk. The study was to analyze the investors' perception towards risk appetite to invest in the share market. The researcher constructed self-structured and administered to the 186 investors/traders. The researcher concluded the study, with the increase in the income correspondingly the risk appetite level of the investor also shows increasing trend. The occupational difference does not holds good in case of risk appetite. The type of investors and risk appetite is not related. In the nut shell, most of the investors are Moderate to aggressive risk appetite levels and they do not know their real risk appetite level.

**KEYWORDS**

Risk Appetite, investors, share market

**Introduction:**

According to Elton G. Mc Goun and Tatjana Skubic in the article, "Beyond Behavioral finance", throughout its history, finance theory has made certain simplifying assumptions regarding human behavior and concerned itself with whether the implications of these assumptions were true and not with whether the assumptions themselves were. Any researcher who intends to study the behavior pattern of the investors, should First, study behavior finance perspective of individual investor. Second, individual investor's risk perception, risk tolerance and portfolio choice. Third, individual investor's socio-economic status differential and risk tolerance. Previous literature indicating those factors on risk-taking and risk tolerance are gender, age, marital status, occupation, income level, education level and economic environments expectations, which might influence an individual investor's level of risk taking.

Financial risk tolerance is defined as the maximum amount of uncertainty that someone is willing to accept when making a financial decision. Although the importance of assessing financial risk tolerance is well documented, in practice the assessment process tends to be very difficult due to the subjective nature of risk taking (the risk of investor willing to reveal their risk tolerance) and objective factors such as Grable and Joo (1997), Grable and Lytton(1999), and Grable (2000). Risk tolerance represents one person's attitude towards taking risk. This indicated is an important concept that has implications for both financial service providers (asset management institution or other financial planner) and consumers (investors). For the latter, risk tolerance is one factor which may determine the appropriate composition of many assets in a portfolio which is optimal and satisfied investors invest preference in terms of risk and return relative to the needs of the individual investors Droms, (1987), There are some empirical evidence showing the impact of risk perception; risk tolerance and socio-economic on portfolio choice, for instance, Carducci and Wong (1998), Grable and Joo (1997), Grable and Lytton (1999), Grable (2000), and Veld and Veld-Merkoulova (2008). In terms of different risk perception or risk tolerance level, individual investor may show different reaction base upon their psychology factor and economic situation, which would lead to heterogeneous portfolio choice for individual investors. For this reason, it is crucial to recognize and attitudinal how individual investors with different risk perceptions and risk tolerance make their invest products choice on investment plan, in particular socioeconomic status differentials may make their

choice vary and difference.

**Objectives:**

- To study the demographic differences in the perception of the investors/traders towards their risk appetite level.
- To study the risk levels of the individual investors/traders.
- To analyze the risk level of the investors/traders, what they assumed to be and what they are estimated based on the self-structured questionnaire.

**Scope and Limitation:** The study is limited to six months (during July – December 2014). During this study any Macroeconomic policies and changes were not considered. The study was carried out for the investors and traders of Mysore, Mangalore and Bangalore and their perception might be a limitation to the collection of data.

**Methodology:**

The purpose of the study was to analyze the traders/investors perception towards risk appetite to invest in the share market. To accomplish the purpose of the study, the researcher constructed self-structured questionnaire with the help of the experts and administered to the 186 investors/traders and collected back. The questionnaire consists of Demographic information, General information – 11 questions and Specific information – 37 questions. The questionnaire were administered to the investors/traders in the three Indian cities – Mysuru, Bengaluru and Mangaluru during July to December 2014.

**Analysis:**

Demographic information of the investors: Occupation, Annual Family Income, and Investor group. To fulfill the objective of the study, following hypotheses were constructed and tested subsequently.

**Statistical hypothesis:**

H1: There was no significant mean difference in the scores of Risk Appetite Level among different demographic information of the investors.

H2: The Investors' Risk appetite levels follows Uniform Distribution.

H3: There was no significant mean difference in as stated by the investors and estimated Risk level of the investors.

Income Group: To test H1, One way ANOVA was used and the

computations made were tabulated in following table.

ANOVA						
		Sum of Squares	D f	Mean Square	F	Sig.
Risk Appetite Level	Between Groups	195.856	4	48.964	4.720	.001
	Within Groups	1877.478	181	10.373		
	Total	2073.333	185			

From the above table following inferences were made:

Since  $P = 0.001 < 0.05$ , the test was significant. I.e. there exists significant mean difference in Risk Appetite Level score among different income group investors.

Post Hoc tests indicated that there exists significant mean difference in Risk Appetite Level score between Below 2 lakh group and 2-3 lakh group investors at 5% levels ( $P = 0.004 < 0.05$ ) with 2-3 lakh investors having more Risk Appetite Level score than Below 2 lakh investors.

Post Hoc tests indicated that there exists significant mean difference in Risk Appetite Level score between Below 2 lakh group and 3-5 lakh group investors at 5% levels ( $P = 0.004 < 0.05$ ) with 3-5 lakh investors having more Risk Appetite Level score than Below 2 lakh investors.

Post Hoc tests indicated that there exists significant mean difference in Risk Appetite Level score between Below 2 lakh group and 5-8 lakh group investors at 5% levels ( $P = 0.004 < 0.05$ ) with 5-8 lakh investors having more Risk Appetite Level score than Below 2 lakh investors.

Post Hoc tests indicated that there exists significant mean difference in Risk Appetite Level score between Below 2-3 lakh group and 5-8 lakh group investors at 5% levels ( $P = 0.004 < 0.05$ ) with 5-8 lakh investors having more Risk Appetite Level score than Below 2-3 lakh investors.

Investment Group: To test H1, One way ANOVA was used and the computations made were tabulated in following table.

ANOVA						
		Sum of Squares	D f	Mean Square	F	Sig.
Risk Appetite Level	Between Groups	37.997	2	18.998	1.708	.184
	Within Groups	2035.337	183	11.122		
	Total	2073.333	185			

From the above table following inferences were made:

Since  $P = 0.184 > 0.05$ , the test was not significant. I.e. there was no significant mean difference in Risk Appetite Level score among different investment group.

**Occupation: To test H1, One way ANOVA was used and the computations made were tabulated in following table**

ANOVA						
		Sum of Squares	D f	Mean Square	F	Sig.
Risk Appetite Level	Between Groups	53.859	4	13.465	1.207	.310
	Within Groups	2019.474	181	11.157		
	Total	2073.333	185			

From the above table following inferences were made:

Since  $P = 0.310 > 0.05$ , the test was not significant. I.e. there was no significant mean difference in Risk Appetite Level score among different occupational group investors.

To test H2, it was customary to present the risk appetite level of each of the respondents using 3 sigma norm scale and

then apply Chi-square test. The computations made were tabulated in following table.

**INVESTORS' GROUP**

Risk Appetite Level		Frequency	Percent	Cumulative Percent
Valid	Conservative	5	2.7	2.7
	Moderate	152	81.7	84.4
	Aggressive	27	14.5	98.9
	Highly Aggressive	2	1.1	100.0
	Total	186	100.0	

Calculated Chi-square value: 321.71

Tabulated Chi-square value: 7.815

Since calculated Chi-square value was greater than table value, the test was significant at 5% levels. I.e. among 186 investors, 5 (2.7%) were conservative, 152 (81.7%) were moderate, 27 (14.5%) were aggressive, and 2 (1.1%) was highly aggressive and it was found to be statistically significant at 5% level.

**To test H3, matched pair t-test was used and the computations were tabulated in following tables**

Paired Samples Statistics							
Risk Appetite Level		Mean	N	Std. Deviation	Correlation	t- value	Sig.
Pair 1	Assumed	2.624	186	1.0595	0.354	- 7.088	0.00
	Estimated	3.1398	186	.44336			

Since  $P = 0.00 < 0.05$ , the test was significant at 5% levels. I.e. there exists significant difference in the risk appetite levels of the respondents regarding what they assume and estimated based on the prescribed questionnaire submitted to the respondents at 5% levels.

**Findings:**

- There exists significant mean difference in Risk Appetite Level score among different income group investors.
- There was no significant mean difference in Risk Appetite Level score among different investment group
- There was no significant mean difference in Risk Appetite Level score among different occupational group investors.
- Most of the Investors (96.2%) are Moderate to Aggressive Risk Appetite level.
- There exists significant difference in the risk appetite levels of the Investors' regarding what they assumed and assessed by the researcher.

**Conclusion:**

The researcher concluded the study, with the increase in the income correspondingly the risk appetite level of the investor also shows increasing trend. The researcher observed that, the market was in Bullish trend and most of the investors were of salary class, Thereby most of the investors were at moderate level of risk appetite. Hence the occupational difference does not holds good in case of risk appetite. The type of investors and risk appetite is not related. In the nut shell, most of the investors are Moderate to aggressive risk appetite levels and they do not know their real risk appetite level.

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