

A Study on Investor's Awareness An Analytical Approach to Investing In Secondary Market

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Introduction:

The size of the world stock market is estimated at around \$51 trillion. The world derivatives market has been estimated at about \$480 trillion on face or nominal value, 30 times the size of the U.S. economy, and 12 times the size of the entire world economy. It must be noted that the value of the derivatives market, is stated in terms of notional values, and cannot be directly compared to a stock or a fixed income security, which traditionally refers to an actual value. Many such relatively illiquid securities are valued as marked, to model, rather than an actual market price. The stocks are listed and traded on stock exchanges which are entities a corporation or mutual organization specialized in the business of bringing buyers and sellers of stocks and securities together.

Problem Statement

As the investors fall under different categories of which some investors are risk takers and some are risk averse and some like to take moderate risk by investing in different source like bank deposits, post office, RBI bonds, insurance etc. Less percentage of investors likes to take risk and invest in secondary market due to the market fluctuations, lack in information about the secondary market and the process of trading. They are mainly depending on the advice of financial consultants and hardly carry out their own analysis as it consumes more time and money. They are unaware of the time of investments to be made, where to invest, how to invest etc, hence a study on investors' awareness and problems faced in investing stock market was conducted.

Review of Literature

Jules Regnault (1863), the longer you hold a security, the more you can win or lose on its price variations: the price deviation is directly proportional to the square root of time.

Eugene F. Fama 'A market in which prices always "fully reflect" available information is called "efficient."'

Objectives of the Study:

1. To know about the share market and its workings.
2. To analyze the problems faced by the individual investors, investing in share market.
3. To understand the procedure followed in trading of securities.
4. To gain knowledge over stock market.

Scope of the Study:

The purpose of the study is to know the different problems faced by the individual investors investing in share market in Chennai city. Now-a-days, individual investors who are investing in stock market look out for high returns with safety. For this study the main purpose is to understand the different problems faced by the individual investors and also give suggestion to solve the problems.

Limitations of the Study:

- The Customers may be partial while giving responses or refuse to co-operate.
- It is difficult to collect data from existing customers, because they may not be so satisfied with the stock broking functions.

Research Methodology:

This section summarizes the methodology used to find the problems faced by the individual investors in Chennai City. A survey was conducted by visiting different stock broking firms in order to know individual investors problems.

Research Design:

Descriptive research design was adopted in this study.

Sampling Design and Size:

Random sampling method was applied in this study. From the large number of investors in the Chennai city, 104 investors are selected randomly.

Data Collection Methods:

Primary Data: Primary data is collected through survey, which is systematic collecting of information directly from the respondents i.e. through Questionnaires.

Measuring tools: - For this purpose measurement technique used for survey is questionnaire to collect information directly from the respondents. The collected information is represented by using statistical tools like bar charts and pie charts.

Hypothesis:

Hypothesis 1:

Null Hypothesis: (H_0) = The individual investors in Chennai City have problems investing in share market.

Alternative Hypothesis: (H_1) \neq The individual investors in Chennai City do not have any problems investing in share market.

Hypothesis 2:

Null Hypothesis: (H_0) = Good returns are not considered by the individual investors while investing in share market.

Alternative Hypothesis: $(H_1) \neq$ Good returns are considered by the individual investors while investing in share market.

Hypothesis 3:

Null Hypothesis: $(H_0) =$ Low risk is not considered by the individual investors while investing in share market.

Alternative Hypothesis: $(H_1) \neq$ Low risk is considered by the individual investors while investing in share market.

Results and Discussions:

Table 1 Computation of Test Statistics

Sl. No.	fo	fe	(fo-fe)	(fo-fe) ²	x ²
1	41	20.8	20.2	408.04	19.62
2	28	20.8	7.2	51.84	2.49
3	21	20.8	0.2	0.04	0.002
4	7	20.8	-13.8	190.44	9.16
5	7	20.8	-13.8	190.44	9.16
	104				40.432

Hypothesis 1:

Null Hypothesis: The individual investors in Chennai City do not have any problems while investing in share market.

Alternative Hypothesis: The individual investors in Chennai City have problems while investing in share market.

Assumed, Level of Significance (α) = 5%

Degree of freedom (ν) = k - 1

Where k = number of categories

Therefore, $\nu = 5 - 1 = 4$

Critical value = 0.711

As the calculated Table 1 value is $x^2 = 40.43$ which is greater than the critical value (0.711) the null hypothesis is rejected and alternative hypothesis is accepted. Thus, we can say that the individual investors in Chennai City have problems while investing in share market.

Table 2 Computation of Test Statistics

k	fo	Fe	(fo-fe)	(fo-fe) ²	x ²
1	28	20.8	7.2	51.84	2.49

2	35	20.8	14.2	201.64	9.69
3	24	20.8	3.2	10.24	0.492
4	10	20.8	-10.8	116.64	5.607
5	7	20.8	-13.8	190.44	9.155
	104				27.43

Hypothesis 2

Null Hypothesis: Good returns are not considered by the individual investors while investing in share market.

Alternative Hypothesis: Good returns are considered by the individual investors while investing in share market.

Assumed, Level of Significance (α) = 5%

Degree of freedom (ν) = $k - 1$

Where k = number of categories

Therefore, $\nu = 5 - 1 = 4$

Critical value = 0.711

As the calculated Table 2 value of $\chi^2 = 27.43$ which is greater than the critical value (0.711) the null hypothesis is rejected and alternate hypothesis is accepted. Thus, we can say that good returns should be considered while investing in share market.

Table 3 Computation of Test Statistics

k	F_o	F_e	$(f_o - f_e)$	$(f_o - f_e)^2$	χ^2
1	25	20.8	4.2	17.64	0.848
2	34	20.8	13.2	174.24	8.376
3	28	20.8	7.2	51.84	2.492
4	10	20.8	-10.8	116.64	5.607
5	7	20.8	-13.8	190.44	9.155
	104				26.478

Hypothesis 3

Null Hypothesis: Low risk is not considered by the individual investors while investing in share market.

Alternative Hypothesis: Low risk is considered by the individual investors while investing in share market.

Assumed, Level of Significance (α) = 5%

Degree of freedom (ν) = $k - 1$

Where k = number of categories

Therefore, $\nu = 5 - 1 = 4$

Critical value = 0.711

As the calculated Table 3 value of $\chi^2 = 26.478$ which is greater than the critical value (0.711) the null hypothesis is rejected and alternative hypothesis is accepted. Thus, we can say that low risk should be considered while investing in share market.

Table 4 Frequency table

Sl. No.	Parameter	Frequency	Percent
1	Income per annum		
	Below Rs. 1, 00,000	12	11%
	Between Rs. 1, 00,001 – Rs. 5, 00,000	56	54%
	Between Rs. 5, 00,001 – Rs. 10, 00,000	27	26%
	Rs. 10, 00,001 and above	9	9%
	Total	104	100%
2	Savings per month		
	Below Rs.5000	26	25%
	Rs.50001 – Rs.10000	52	50%
	Rs.10001 – Rs.20000	12	11%
	Rs.20001 – Rs.50000	10	10%
	Rs.50001 and above	4	4%
	Total	104	100%
3	Frequency of investments		
	Daily	5	5%
	Weekly	23	22%
	Biweekly	9	9%
	Monthly	38	37%
	Quarterly	17	16%
	Yearly	12	11%
	Total	104	100%
4	Years of trading		
	0 – 3 years	26	25%
	4 – 6 years	47	45%
	7 – 9 years	14	13%
	10 – 12years	11	11%
	More than 13years	6	6%
	Total	104	100%
5	Investment of savings other than share market		
	Bank deposit	24	23%
	RBI Bonds	14	13%
	Post Office	18	17%
	Real Estate	9	9%
	Insurance	20	19%
	Mutual fund	12	12%
	Chit Funds	7	7%
	Total	104	100%
6	Type of trading		
Offline Trading (i.e. through broker)	71	68%	

	Online Trading	33	32%
	Total	104	100%

Table 4 Frequency table Contd...

Sl. No.	Parameter	Frequency	Percent
7	Safety in trading		
	Strongly agree	28	27%
	Agree	35	34%
	Neither agree nor disagree	9	9%
	Disagree	17	16%
	Strongly disagree	15	14%
	Total	104	100%
8	Sources of information		
	Newspaper	20	19%
	Magazines	18	17%
	Broker	31	30%
	Television	27	26%
	Friends	8	8%
	Total	104	100%
9	Reliability on internet by investors		
	nseindia.com	34	33%
	bseindia.com	26	25%
	investsmart.com	4	4%
	rediff money wiz	31	30%
	yahoo finance	9	8%
	Total	104	100%
10	Reliability on newspaper by investors		
	The economic times	43	41%
	Business standard	24	23%
	Financial express	8	8%
	Business line	29	28%
	Total	104	100%
11	Internet as the source		
	nseindia.com	46	44%
	bseindia.com	31	30%
	investsmart.com	10	10%
	rediff money wiz	11	10%
	yahoo finance	6	6%
	Total	104	100%
12	Newspaper as the source		
	Newspaper as the source		
	The economic times	42	40%
	Business standard	23	22%
	Financial express	10	10%
	Business line	29	28%
	Total	104	100%

Table 4 Frequency table Contd...

Sl. No.	Parameter	Frequency	Percent
13	Magazine as the source		
	Business world	32	31%

	Business today	51	49%
	Outlook business	21	20%
	Total	104	100%
14	Television as the source		
	CNBC TV18	48	46%
	NDTV Profit	12	11%
	CNN IBN	32	31%
	Zee Business	12	12%
	Total	104	100%
15	Problems faced		
	Lack of awareness	41	39%
	Lack of analytical skills	28	27%
	Lack of funds	21	20%
	All of the above	7	7%
	None of the above	7	7%
	Total	104	100%
16	Solution of problems faced in investing		
	Ask the broker for advice	45	44%
	Analyze it and solve it by yourself	26	25%
	Seek the help of financial analyst	15	14%
	Take your friend's advice	18	17%
	Total	104	100%
17	Reaction of investors		
	Sell the Security	51	49%
	Trust the advisors and ask for opinion	32	31%
	Be patient and hold the security	10	9%
	Wait for the market to improve	6	6%
	Ask your friend for an advice	5	5%
	Total	104	100%
18	Consideration of good returns		
	Strongly agree	28	27%
	Agree	35	34%
	Neither agree nor disagree	24	23%
	Disagree	10	10%
	Strongly disagree	7	6%
	Total	104	100%

Table 4 Frequency table Contd...

Sl. No.	Parameter	Frequency	Percent
19	Consideration of low risk		
	Strongly agree	25	24%
	Agree	34	33%
	Neither agree nor disagree	28	27%
	Disagree	10	9%
	Strongly disagree	7	7%
	Total	104	100%
20	Preferences		

21	Safety	20	19%
	Low risk	15	14%
	High returns	30	29%
	Less liquidity	25	24%
	High liquidity	14	14%
	Total	104	100%
	Consideration of liquidity		
	Strongly agree	30	29%
	Agree	45	44%
	Neither agree nor disagree	10	9%
Disagree	14	13%	
Strongly disagree	5	5%	
Total	104	100%	
22	Mistakes done by the investors		
	Unrealistic Expectations	34	33%
	Listening to Others	31	30%
	Poor Money Management	19	18%
	Overtrading	7	7%
	All of the above	4	4%
	None of the above	9	8%
	Total	104	100%
23	Risks while investing		
	Financial risk	19	18%
	Interest rate risk	21	20%
	Market risk	27	26%
	Inflation risk	18	17%
	Tax risk	11	11%
	Political and governmental risks	8	8%
	Total	104	100%

Findings: (from analytical Table 4)

- ◇ Most of the investors are risk averse.
- ◇ 45% of the investors have been trading in share market for 4 to 6 years
- ◇ They lack in knowledge of the share market, its procedure and benefits.
- ◇ Investors mainly rely on the financial advisor and do not do their own analysis. Hence 39 % of the investors face lack of awareness as the problem and 27 % of investors face lack of analytical skill while investing in share market.
- ◇ Investors are investing in different securities which have low risk and safety of principal. Bank deposits, RBI bonds, insurance etc.

- ◇ Most of investors would prefer high returns while investing in share market
- ◇ Most of investors face market risk while investing in share market
- ◇ 33% investors did mistake by doing unrealistic expectations, 30% investors did listening to others while investing in share market.

Conclusion

The **stock market** is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion by selling shares of ownership of the company in a public market. The liquidity that an exchange provides affords investors the ability to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments such as real estate.

The purpose of this was to understand the working of share market and also to understand the problems faced by the individual investors investing in share market in Chennai City. By doing this study we can come to a conclusion that most of the individual investor invest in other types of securities like bank deposits, post office, and insurance. They lack in information on stock market and its gains and are less reliable. The minority percent of people rely on brokers considering low risk and high return stocks. Hence we can say that people in Chennai city due to lack of information face problem while investing in share market.

Suggestions

1. SEBI should conduct more investor awareness programs about investing in stock market.
2. Investors should learn some analytical skills for evaluation of risk and return of their investments before investing.
3. Investors should not only see return but also other factors such as risk, marketability and future growth of their investment.
4. Investors should build a portfolio to earn good returns with low risk.
5. Investors can reduce their dependency on stock brokers and collect information's from different sources such as friends, other investors, journals and publications and company manuals before investing.
6. Initially investors should not expect only high return and take high risk. They should go with moderate expectations and invest a moderate sum of money so as to understand the secondary market and its risk profile.

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