

A Study on Risk Perception of Individual Investors

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Abstract

At present there are lot of investment opportunities are available. The investor can consider the rate of return and risk of the investment. The more return is expected from a high risk investment. The perception towards risk and risk taking capacity of people is the important factor that influencing there investment decision. If some investors are ready to take more risk. So the main aim of the study is to find out risk perception of investors.

Key words: - Risk, Investors, Investment

Introduction

Investment requires careful decision making as it is the allocation of money to different portfolios with the aim of earning income or capital appreciation. The influence of risk perception on the investment decisions of a farsighted investor is an emerging subject in the behavioral finance literature. Risk is a natural feature of all types of financial investments. It is the possibility that the actual return on an investment will be lower than the expected return.

Risk perception is the belief, whether rational or irrational, held by an individual, group, or society about the chance of occurrence of a risk or about the extent, magnitude, and timing of its effects is a critical success factor that promotes effective decision-making in risky situations complicating the analysis of financial risk is the fact that each investor has his own tolerance of risk and perception towards risk. The risk perception of investors is an important factor that influences the investment decisions.

Investment decision normally means the decision made by investor as to where, when, how and how much funds will be invested on various avenues of financial products/ instruments with the objective of getting income or increase in value. Here, the idea of investment decision is defined as the decision taken by individual investors while investing in different avenues. The investment decisions could be influenced by unavoidable psychological and emotional factors. Better understanding of these factors will help the investors to take a suitable investment decision and also help them not to repeat their mistakes in future in extracting the best financial investment avenues. Usually, the investors assess the risk and return of an investment decision. The decision making behavior of an investor is affected by their attitude towards risk. The individual investors think in a different way about their investment and make decisions differently at different levels of perception towards risk. Investors take risks according to their understanding and perception which ultimately affect their behavior towards risky investment decisions. The study is an attempt made to examine the risk perception of individual investors.

1.1 Statement of the Problem

Risk is an inherent feature of all types of financial investments due to the variability in the actual and expected returns on investment. The risk perception of investors is an important factor which will affect their investment decisions. The factors include unpredictability of returns, knowledge about the financial asset, chance for incurring loss, diversification of portfolios, and dependence on professional investment advice will affect the

choice of Investment Avenue. This study is an attempt to investigate risk perception of investors.

1.2 Objectives of the Study

1. To study risk perception of investors.
3. To understand the portfolio selection of the investors.
4. To understand the motivation factors behind investment.

1.3 Scope of the Study

At present lot of investment avenues are available. The investor can consider the rate of return and risk of the investment. The more return is expected from a high risk investment. The risk of an investment refers to the variability of the rate of return. The risk taking capacity of people is the important factor that influencing there investment decision.

The firm seeking to raise capital from the market cannot ignore the risk perception of investors because investor plays an important and valid role in the development of nation. Very little data is available about risk perception of investors in Malappuram district so this study is first of its kind aims to find out risk perception of investors in Malappuram district.

1.4 Research Methodology

Research methodology is the systematic approach to finding solution to the research problem. Under this study primary data is collected through questionnaire which is filled by hundred sample respondents. And secondary data are collected from various journals and books.

Research design - Exploratory

Sampling method – Convenience sampling

Sample size -100

1.5 Limitations of study

- 1) Survey is limited to small sample size
- 2) Time constraint
- 3) The accuracy of responses based on the questionnaire may vary among respondents

1.6 Tool used

Data collection tool- Questionnaire

Data analysis tool- Percentage analysis

Data presentation tool- Table

Data Analysis

Table no.1 personal characteristics of respondents

Q.NO	Question /statements	No of respondent	Percentage
1	Gender of respondent		
	Male	60	60
	Female	40	40
2.	Age of respondent		
	20-30	25	25
	31-40	30	30
	41-50	25	25
	Above 50	20	20
3.	Marital status		
	Single	30	30
	Married	70	70
4.	Annual income		
	Below 1,00,000	21	21
	1,00,000-2,50,000	41	41
	2,50,001-5,00,000	28	28
	Above 5,00,000	10	10
5.	Educational qualification		
	Up to plus two	20	20
	Graduate	30	30
	Post graduate	45	45
	Others	5	5

Source: Primary Data

Table no 2. General questions about their investment

Q .no	Questions /statements	No of respondents	Percentage
1.	Percentage of income allotted for investment		
	Less than 10%	31	31
	10%-20%	40	40
	20-30%	20	20
	More than 30%	9	9
2.	Investment duration		
	Less than 1 year	11	11
	1-2 years	38	38
	2-3 years	28	28
	More than 3 years	23	23
3.	Revision of portfolio periodically		
	Yes	50	50
	No	50	50

Source: Primary Data

Table no 3. Various investments in portfolio

1.Sl no	Investment	No of respondent		Total percentage
		Have (%)	Not have (%)	
1.	Chit fund	55	45	100
2.	Bank deposit	90	10	100
3.	Post office saving	68	32	100
4.	Share	35	65	100
5.	Insurance policies	62	38	100
6.	Mutual funds	20	80	100
7.	Real estate	42	58	100
8.	Others	56	54	100

Source: Primary Data

Table no 4. Purpose and motivation factor behind the investment

Q.NO	Question /statements	No of respondent	percentage
1	Purpose investment		
	children’s education	10	10
	Housing	15	15
	Fixed income	30	30
	Retirement plan	25	25
	Tax relief	15	15
	Others	5	5
2.	factors influencing investment decision		
	Safety	26	26
	High return	40	40
	Low risk	20	20
	Maturity period	6	6
	Others	8	8

Source: Primary Data

Table no 5. Risk perception of investors

Q.no	Questions /statements	No of respondents	Percentage
1.	Response related to interested in investing extra money so I can afford to risk		
	Strongly agree	17	17
	Agree	32	32
	Neutral	24	24
	Disagree	16	16
	Strongly disagree	11	11
2.	Response related to invest in funds offering high risk and high returns.		
	Strongly agree	9	9
	Agree	32	32
	Neutral	24	24
	Disagree	22	22
	Strongly disagree	13	13
3.	Risk management strategy used		
	Avoidance	25	25
	Diversification	25	25
	Hedging	15	15
	Invest with trend in the market	35	35

Source: Primary Data

Findings

1. Most of respondents are male
2. Most of the respondents are in the age group of 31-40
3. 70% of the respondents are married
4. Most of the respondents have income in between 1,00,000-2,50,000
5. Most of the respondents are post graduate
6. Most of the respondent allows 10%-20% of income for investment purpose.
7. Most of the respondent's investment duration is 1-2 years
8. Among respondents 50% are revising portfolio & 50% are not revising their portfolio
9. Bank deposit is the prime investment area of investors
10. Most of the respondents purpose of investment is to get fixed income
11. High return is the important factor which affect the most of the respondents
12. The most of the respondents are interested in investing extra money afford to the risk of loss.
13. The 32% of respondents are agreeing that they investing in funds offering high risk and high return.
14. Most of the respondents risk management strategy is investing with trends in the market

Suggestions

- Investors should try to seek the help of investment consultant before investing because they know more about market trends, risk and return of various portfolios it will help investors for better management of investment.
- Investors should more concentrate about time period to invest and try to select time period suitable to their portfolio after considering changes in market.
- A regular investor friendly seminar can be organized to suit the timings of the investing public. For instance, such seminars can be interactive sessions, arranged at frequent intervals.
- SEBI should conduct more investment awareness campaigns among potential investors.
- Investment advisors' should be trained and their services should be made available to the investors.

Conclusion

The study is made to find out "Risk perception of individual investors in Malappuram district". The study reveals that the investors in Malappuram district are not taking higher level of risk, but they expect high level of return from their investment. The investors in Malappuram district are not aware of portfolio which would minimize risk and maximize the return. And also it is clear that the investors in Malappuram district have low level of understanding about risk and risk management activities. The investors in Malappuram district, they are not getting investment awareness program by any authority. The investors in Malappuram district are taking in safe investment avenues and they are risk averse. Hence proper should to be taken in order to improve the awareness level in the minds of the investors.

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