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Investor Behavior towards Risk – Return in Capital Markets

Lakshmi R[1]
Research scholar
Gitam University
Assistant professor, Commerce and Management
Dr.N.S.A.M First Grade College

Chiranjeevi [2]
Research scholar
Presidency University
Assistant Professor, Commerce and Management
Dr.N.S.A.M First Grade College

Naveen Kumar H S [3]
Assistant Professor, Commerce and Management
Dr.N.S.A.M First Grade College

Abstract

The financial industry plays a significant role in capital markets and has aroused increasing managerial and academic interests in recent decades. Individual investors are becoming more cautious towards financial investment which makes it difficult for financial service providers to formulate marketing strategies after experiencing several financial crises. Prior research has suggested that financial investment behaviour would be affected by various factors, including the demographic characteristics of individuals. The objective of the study is to study the perceptions and awareness of the investors about the stock markets and to determine the impact of investors' behavioral influences on Risk – Return management and Effective investment decision. Primary data collected through questionnaire and used ANOVA and Chi-square test for analysis. Study concluded that the factors i.e Risk-Return management, Investment awareness, Monitoring &evaluation significantly influence on the Effective investment decision.

Keywords: stock market, investment analysis, portfolio management, super portfolio, rate of return

INTRODUCTION

Investment decisions are decisions under uncertainty that are subject to both risk and ambiguity (Knight, 1921). According to Knight (1921), events for which the future outcome is unknown but the underlying distribution is known are referred to as "risky." The Knightian uncertainty, or ambiguity as it is called by Ellsberg (1961) and Camerer and Weber (1992), is distinct from risk and describes events for which not only the future outcome but also the underlying distribution is

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unknown. Traditional finance theories assume that investment behaviour is rational. However, well-known events such as the financial tsunami between 2007 and 2008, displaying apparently irrational behaviour, have caused a rethink in the domain, and the emerging field of behavioural finance has become a popular field of study in an attempt to explain this irrational behaviour. Under the theory of behavioural finance, researchers suggest that the investment behaviour of individual investors in real life is influenced by a combination of specific psychological factors, such as overconfidence, representativeness and herding behaviour. At whatever point the inflation rate is high, the stock market has given higher rate of return to the investors (***Mahabub basha et.al 2017***). Share trading causes the corporate to raise extra assets for extension by increasing the demand for securities. The liquidity that a trade gives enables the investors to sell the securities easily and quickly. This is an appealing element of the stock market investment ***(Oberoi, S. et al. 2020).***

Investors can choose an avenue that is suitable as per their ideal level of risk, liquidity and return. Investment in securities of capital market can be made through secondary or primary market (***Lodhi, 2014***). The investors can purchase or sell the current securities at the predominant market cost in the stock trade through stockbrokers. Investment is the arrangement of reserve with the point of accomplishing extra pay or growth in capital value. Investment was a contributing movement that pulls in all individuals independent of their occupation, social status and education (***Basanna P, 2019***). A downplaying of the core concepts and a careful analysis of the choices can assist investors with creating a portfolio that expands returns while limiting risk exposure.

Stock market is one of the most energetic sectors in the monetary framework, denoting a significant commitment to financial development. Today long haul investors are intrigued to put resources into the Stock market as opposed to contribute any place. The stock selection process is viewed as critical in behavioral finance (***Das, A. 2019***). Portfolio and Super Portfolio is a collection of various financial investments held by an individual for certain period of time. These financial investments may incorporate equity shares, fixed deposit schemes of organizations, debentures, preference shares, Derivative, Bond, FD, NBFS, PF, Money Market Instrument, Mutual fund, PPF, Insurance, Post office saving scheme etc. A portfolio is viewed as a better option in comparison to the investment in an individual share ***(Madhavan, A.,et al.2020)***

One can construct a portfolio by purchasing additional stocks, mutual funds, bonds or other investments. The principle objective is to augment the portfolio value by choosing investments that will go up in price. This by and large comprises of collection of securities ***(Majumder, S. B. 2021).*** The decision to invest into stock market is taken after a great deal of security analysis. Fundamentally, the stocks related information help in deriving the stock price movements in the market.

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Review of Literature

Heba Salah Elselmy et.al (2019) Understanding the underlying mechanisms that to lead to these customers' responses, therefore, helps business organizations make better managerial decisions, regarding providing the right product or service to their customers. An in-depth understanding of consumer behaviour further helps business organizations to plan for the future buying behaviour patterns of customers and formulate the appropriate marketing strategies in order to build long-term customer relationships.

Malathy and Saranya.J (2020) In financial markets, investors are the customers or consumers. Exploring the behaviour of investors is therefore important for financial institutions to devise appropriate strategies and to market appropriate financial products or offer new financial products to investors in order to better satisfy their needs. To study investor behaviour, researchers have largely adopted the concept of behavioural finance during the last decade.

Sarkar and Sahu, (2017) Investigated, through case studies, the influence of both gender and age differences towards financial investment behaviour in terms of overconfidence, account-open time and trade frequency. These studies within the field of behavioural finance provide evidence that demographic factors such as age and gender should be considered when studying investor behaviour.

Overall, in order to make the research closer to reality and to better comprehend the way the investors behave, this study took psychological, sociological and demographic factors into account to explore how and why investors behave differently. Identifying the major attributes to explain investment behaviour by leveraging psychological, sociological and demographic factors is thus essential for this study in order to address the gap in knowledge.

Epstein and Ji (2013) emphasize the need for more research on the question of whether ambiguity about volatility matters empirically. To date, research has focused on the impact of ambiguity on capital markets and asset prices, finding that ambiguity about volatility matters

Dimmock et al., (2016) derives ambiguity aversion of individuals in a survey using the urn experiment and shows that it matters for asset allocation decisions. The higher the ambiguity aversion is, the lower the stock market participation of individuals.

Epstein and Ji (2013) label ambiguity about volatility. Using this approach provides the additional advantages of a natural, model-free, market-based, and forward-looking measure, which is computed based on liquid securities with daily availability and is thus the most suitable for our research question. Additionally, this approach allows disentangling volatility (implied volatility) and ambiguity (implied volatility of the implied volatility). We also use the interquartile range of the standard deviations of each individual professional forecaster as an alternative and more long-term measure of ambiguity. In the robustness section, we also control for and use alternative measures of ambiguity. These are newspaper-based economic policy uncertainty (EPU) and the omega measure

Objectives of the Study

- To study the perception and awareness of the investors towards the capital markets

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- To determine the impact of investors' behavioral influences on Risk – Return management and Effective investment decision.

Hypothesis

H_1: There are no factors influencing on Investment awareness, Risk-Return management and Effective investment decision.

Research Methodology

Descriptive research has been applied in the present study. Set of data were obtained from the respondents for the purpose of testing the hypotheses and fulfill the objectives. Data was collected using self- constructed questionnaire with the investors. The sample size for the current study is 366 individual and institutional investors, invested in various investment avenues in top 5 cities from five states of India i.e. Andhra Pradesh, Telangana, Kerala, Karnataka and Tamil Nadu (South India).

Data Analysis & Interpretation

Sample size distribution using simple random sampling method

Factors	**Frequency**	**Percent**
	Gender	
Male	238	65.0
Female	128	35.0
	Age	
18–30	138	37.7
31–40	118	32.2
41–50	86	23.5
51–60	24	6.6
	Marital Status	
Single	229	62.6
Married	137	37.4
	Income	
Less than 3 Lakh	205	56.0
3–5 Lakh	86	23.5
5–10 Lakh	32	8.7
More than 10 Lakh	43	11.7
	Qualification	
Under Graduate	16	4.4
Graduate	93	25.4
Post Graduate	205	56.0
Any other	52	14.2
	Experience	
Less than 5 Years	147	40.2
5–10 Years	106	29.0

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10–15 Years	78	21.3
15–20 Years	35	9.6

(Source: Computed)

Cronbach's Alpha

Cronbach's Alpha reliability test was done to check the reliability of each dimension of Risk-Return management, Investment awareness, Monitoring & evaluation and Effective investment decision

Table 2 Reliability Test

Reliability Statistics	
Cronbach's Alpha	No. of Items
.977	4

The alpha coefficient for the items is .977, suggesting that the variables have relatively high internal consistency. Since the calculated Cronbach's alpha values are higher than 0.7, the research can rely on the collected data for testing the research hypotheses.

Table 3: Correlations

Correlations					
		Risk-Return management	**Investment awareness**	**Monitoring & evaluation**	**Effective investment decision**
Risk-Return management	Pearson Correlation	1			
	Sig. (2-tailed)	0.00			
	N	366			
Investment awareness	Pearson Correlation	.861**	1		
	Sig. (2-tailed)	.000			
	N	366	366		
Monitoring & evaluation	Pearson Correlation	.943**	.843**	1	
	Sig. (2-tailed)	.000	.000		
	N	366	366	366	
Effective investment decision	Pearson Correlation	.696**	.488**	.714**	1
	Sig. (2-tailed)	.000	.000	.000	

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	N	366	366	366	366

**. Correlation is significant at the 0.01 level (2-tailed).

The above table 3 explains about the co-relation between the Risk-Return management, Investment awareness, Monitoring & evaluation and Effective investment decision. There is a positive correlation of 0.861 between Risk-Return management and Investment awareness. There is a strong and positive co-relation of 0.943 between Risk-Return management and Monitoring & evaluation. And also found positive association between Risk-Return management and Effective investment decision. It is concluded that all the variables positively correlating with each other.

Factors Influencing on investors' behavioral on Risk – Return management and Effective investment decision

Present research paper is attempting to find the factor influencing on risk – return management and effective investment decision. To measure the factors, the regression model is applied.

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.681	.837	.213	3.65523

The regression model summary shows that the R value is 0.681 and adjusted R square value is 0.837 (83%). This indicates that 21.3% of the variation of explained by Risk-Return management, Investment awareness, Monitoring & evaluation and Effective investment decision. The result of ANOVA test is given below.

Table 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	293.294	4	199.714	117.873	0.000
	Residual	177.561	361	2.913		
	Total	470.855	365			

The ANOVA table shows the fitness of the model. The calculated F value (117.873) from the ANOVA test shows fitness of the model (p-0.000). The significance values are less than 0.05. Hence, the null hypothesis is rejected. Study concluded that the factors i.e Risk-Return management, Investment awareness, Monitoring & evaluation significantly influence on the Effective investment decision.

Conclusion

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The relationship between systematic risk and stock returns during the Covid-19 pandemic is changing. This study shows that investors are beginning to be wary of Covid-19 from January 2020 to the end of February 2020. During this period, the capital market becomes more risky when the mental accounting arises for most investors. Its required additional variables such as investment motives, decision types, interests in investment, investment planning and control, investor risk control. The basic goal of investment is return and long-term goal is future of their family needs. Major factors influencing the investment decision is economic scenario. More than partial of the respondents prefer medium term investment with moderate risk having moderate return Majority of the respondent are satisfied with the present return at the same time they expect increase in return. Study concluded that age of the respondents has no significant relationship on Stock market perception, investment awareness, Investment barriers, Risk-Return management and effective investment decision.

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