MOTIVATION OF STUDYING INVESTMENT BEHAVIOR OF RETAIL INVESTORS OF RANCHI IN INDIAN STOCK MARKET

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ABSTRACT
India’s GDP has increased almost three times over the past decade. This growth in the size of the country’s economy has been complimented by a dramatic 8-fold increase in the market capitalization of the Indian companies. However, despite such positive environment, the development of the capital market has been uneven and its penetration has been limited. For instance, only 1.4% of Indian population is having Demat Accounts (a measure of direct participation in the stock market) as against 17.7% in USA, 16.4% in UK, and 9.4% in China. Also, the total number of active stock exchanges across India has reduced from 16 at the start of the decade to 4 in 2008-09, including two national exchanges. Moreover, National Stock Exchange’s share of total turnover across stock exchanges has surged dramatically from 61.53% in 2001-02 to 92.52% in 2008-09. Almost 80% of the NSE’s turnover in India continues to come from the top five cities of Mumbai, Delhi, Kolkata, Ahmadabad and Chennai as on 2008-09. In fact, Mumbai accounts for more than half the totalNSE turnover at 55%; where as Delhi, contributor of the second largest turnover has a market share of 14.97%. In such context, it wouldn’t be difficult to ascertain the contribution of a city like Ranchi. However, India having one of the highest savings rate in the world, city like Ranchi has potential to increase its contribution in the Indian capital market. However, it is important to study thought processes and perceptions, challenges and bottlenecks i.e investing behavior of the investors of this city.

Key Words: Motivation, Investment Behavior, Retail Investors, Ranchi, Indian Stock Market

INTRODUCTION
Capital Market is a financial market where an organization can raise money (capita) through various financial instruments, such as bonds, debentures, equities. Capital Market helps organisations to raise funds to help achieve their business objectives. The securities market has two segments; 1) Primary Market and 2) Secondary Market. Primary Market provides opportunity to the issuers of securities to raise capital to meet their organizational objectives. Securities can be issued in the form of debt or equity in both domestic as well as international market. The primary issuance is done through either public and rights issue or private placements.” Under Indian companies act, 1956, an issue is referred as public if it results in allotment of securities to 50 investors or more. However if issue is made to the group of people not exceeding 49, then it is a private placement.”

Secondary Market refers to a market where securities are traded after being offered to the public in primary market. The secondary market is comprises of equity, derivative and debt market. The secondary market is operated through two mediums, namely “Over –the-counter” (OTC ) market or Exchange traded Market.

Capital market plays an important role in the growth of industry and commerce of a country which, in turn, may have an impact on the overall economy of the country and society in large.

Capital Market Law Number 8 Year 1995 defines Capital Market as “the activity of trading and offering securities to the public, the activity of a public company with respect to securities it has issued, and the activities of securities-related institutions and professions.”

Over the past decade, India’s GDP has increased almost three times from $414 billion in 2001 to $1.3 trillion in 2010. This growth in the size of the country’s economy has been complimented by a dramatic 8-fold increase in the market capitalization of the Indian companies from $165 billion in 2001 to $1.3 trillion in 2010. However, despite such positive environment, the development of the capital market has been uneven and its penetration has been limited. For instance, only 1.4% of Indian population is having Demat Accounts (a measure of direct participation in the stock market) as against 17.7% in USA, 16.4% in UK, and 9.4% in China. Also, the total number of active stock exchanges across India has reduced from 16 at the start of the decade to 4 in 2008-09, including two national exchanges, namely The National Stock Exchange of India (NSE) and Bombay Stock Exchange (BSE). Moreover, National Stock Exchange’s share of total turnover across stock exchanges has surged dramatically from 61.53% in 2001-02 to 92.52% in 2008-09. Apart from NSE and BSE, the only two stock exchanges that are active are Calcutta Stock Exchange and Uttar Pradesh Exchange as per 2008-09 data. Almost 80% of the NSE’s turnover in India continues to come from the top five cities of Mumbai, Delhi,
Kolkata, Ahmadabad and Chennai as on 2008-09. In fact, Mumbai accounts for more than half the total NSE turnover at 55%; where as Delhi, contributor of the second largest turnover has a market share of 14.97%. In such context, it wouldn’t be difficult to ascertain about the contribution of a city like Ranchi. However, India having one of the highest savings rate in the world, city like Ranchi has potential to increase its contribution in the Indian capital market. However, it is important to study thought processes and perceptions, challenges and bottlenecks i.e investing behavior of the investors of this city.

Research suggests that financial markets are inter-linked and prices of various asset classes are significantly correlated.

**REVIEW OF LITERATURE**

Syed T. S. and Prardhasaradhi S. (2001) in their research paper “An Empirical Investigation of the Relation between Risk Tolerance and Socioeconomic Characteristics of Individual Investors” have empirically established that 1) Assessment of risk tolerance is essential for optimum asset allocation within an investment portfolio, 2) Low risk tolerance investors may face opportunity losses for not investing in stocks, 3) socioeconomic characteristics such as marital status, earnings, occupation and number of dependents are dependent on risk tolerance but educational level, regularity of investment decision and basis of investment decision are independent of risk tolerance, 4) Most investors are reluctant to disclose their investment details so referral sampling method is used and 5) Self Employed investors have high risk taking capabilities, due to their inherent characteristics like self-confidence, high motivation and persistence as compared to salaried class investors.

This research, in the process of studying behavior of individual investors, will help to understand the true psychology of investors and thus it will surely help in developing efficient risk tolerance scores.

Abhijeet C. and Ravendra K. (2012) in their research paper titled “Factors Influencing Indian Individual Investor Behavior: Survey Evidence” have found that 1) Individual investor behavior acts as an important determinant of movements in stock prices and subsequent returns, 2) Indian individual investors are more susceptible to psychological biases while making decision in financial market, 3) Financial heuristics, self regulation, prudence and precautionary attitude, financial addiction, and informational asymmetry are five pertinent axes of behavioral factors which mainly affect their behavior, 4) more emphasis is given in understanding behavior of institutional investors thus ignoring individual investors and 5) Large studies have been made in context to developed market like US market, European Union and other developed market but less focus are made on developing country like India.

Since less number of studies related to behavioral finance has been made in context to developing country like India, this study will help to analyze retail investors’ behavior in context of Ranchi and how their socioeconomic factors affect their decision making while investment in Indian stock market.

Research paper titled “An Empirical Investigation for Determining of the Relation between Personal Financial Risk Tolerance and Demographic Characteristic” authored by Adem A. and Melek E. (2010) reveals that 1) Financial risk tolerance is one key element which should be considered in making investment decision. 2) Measuring Risk Tolerance and determining the factors that affect financial risk perception are important to be considered. 3) Modern Investment decision making model has four fundamental inputs for developing of financial and investment plans. These inputs are a) goals b) time horizon c) financial stability d) financial risk tolerance. 4) Investors who are more risk averse will have lower financial risk tolerance and vice-versa.

Since analysis of risk tolerance on the basis of various demographic characteristics is important to be analyzed, an appropriate risk tolerance scores (RTS) can be developed on the basis of which more rational investment decision can be made.

Das, S. K. (2012), in his research paper “Factors Influencing the Mutual Fund Scheme Selection by Retail Investors in Assam: An empirical Study” has inferred that 1) Investment in any financial instrument is effected by perception of Institutional and Retail Investors, 2) All Retail Investors are highly Unique and heterogeneous in their needs and wants, 3) There is need to Enhance awareness about Financial products to capture semi-urban and rural areas, and 4) Investors look for safety of Principal, liquidity and capital appreciation.

Since it is known that 60% of total MFs amount mandatorily invested in Stock Market, it will surely help to understand Behavior of Retail Investor. In fact, a comparative study like this helps to understand the perception of Retail Investors investing in Financial Products like Mutual Fund.
Sindhu, K.P and Kumar, S.R. in their research paper titled “A Study on Investment Specific Attitudes of Investors on Investment Decisions” found that 1) In India household sectors dominates over private sectors and public sectors in terms of generating savings, 2) Higher mobilization of household savings, will bring higher availability of resources in the economy for growth and development, 3) Unfortunately, in India most of the investors are not interested in investing in mutual funds, and 4) According to the data available in KARVY Private Wealth Report out of total amount of investment in financial assets, only 3.34% to 3.38% were made in Mutual Funds respectively in financial years ending 31 march 2011 and 31 march 2012 by individual investors.

Saving rate of retail investors are high but still they stand apart while investing in stock market. Need for making in depth analysis of investment pattern of retail investors will help to find the answer. Mutual Fund is considered to be safer and expected to yield more returns as compared to other financial Instrument. Various investment specific attitudes of the investors will help to sketching out the risk score appetite of retail investors.

Research paper “Distribution of Risk and Return: A Test of Normality in Indian Stock Market” authored by Kumar, R. and Dhankar, R. S. (2010) reveals that 1) Risk and Return are normally distributed, 2) Investors value risky securities on the basis of risk and return expectation, 3) The study report that stock returns on the respective day or month are significantly different from rest of days or months. Thus there are possibilities of earning abnormal profit and 4) Time horizon is important to be considered in formulating investment strategy.

The finding of this research proclaims that extra returns can be earned by bearing extra risk. Thus it will help in developing risk appetite score.

Kamiru, J. and McGowan, C. B. (2013) in their research paper “The Relationship between Stock Market Development and the Opacity Index” find that 1) Stock Market provides capital to entrepreneurs and growing companies which brings growth and development to economy, 2) Opacity Index is a measure of transparency for an economy and measure the degree of transparency in an economy, 3) Capital Market provide economic units with the financial resources to support the rapid growth, 4) Stock Market development is expected to accelerate economic growth through increased domestic savings and investment spending, 5) Political stability is necessary requisite for transparency in stock market and hence better performance of the stock market. It leads to confidence of the investors on the stock market and hence high degree of performance to invest in the market. As per the data, investors of Ranchi are not motivated for investing in stock market. At the same time from political point of view also Jharkhand is not stable. This study will tempt us to find whether there is linkage between political stability and interest in stock market. Ultimately, raising money from retail investors will help the borrowing company to bring development and growth.

Shah, M. and Verma, A. (2014) in their paper “Analysis of Investment Behaviour during Recovery Phase among Youth Investors of Indian Stock Market” find that 1) Sentiments of the investors are important factor to be considered in valuation of stocks, 2) Youth Investors have high disposable income and less family responsibility and suppose to be the careless investor, 3) There always a situation that one sector is performing while other in red. It is this dynamic nature of the stock market that makes it impossible for common investors to predict its behavior, 4) There are two factors which play important role for youth investors: fundamentals of the stock and the capital gain and 5) Four type of investors were identified as: a) Traditional mode investors, b) Casual investors, c) long term investors, d) well-informed investors.

Youth Investors are having more risk appetite due to their age and less responsibility. So they are ready to invest in more risky ventures to get huge returns. Since India is emerging out as youth nation, these young investors can prove much efficient in controlling monetary leakage from the economy and thus escalating the growth and development of the economy.

Faff, R. W., Hallahan, T. and McKenzie, M. D. (2004), in their research paper titled “An Empirical Investigation of Personal Financial Risk Tolerance” found that 1) Risk Tolerance of investors is important to be considered, 2) Various factors are considered like age, gender, number of dependents, education, marital status, income and wealth, 3) There is difference between self-assessed risk tolerance and risk tolerance score, and 4) Most of the time investors underestimate their risk tolerance level due to which they suffer from the opportunity loss.

The study will help to understand the importance of risk tolerance and also help to devise RTS. There is difference between self assessed risk and evaluated risk which means rational decisions is not made during making investment decision.

which seeks to appreciate and expect systematic financial market inference of psychological decision-making, and 2) By understanding the human behavior, attitude and psychological mechanism involved in financial decision making, standard financial model can help to explain reality in today’s developing market.

The behavior of the human being is complex so to understand and their needs regarding investment are important. Considering the importance of human behavior, our study is focusing on examining the investors’ behavior in ascertaining risk appetite score and accordingly strategizing how the incidence and depth of investment in Indian Stock Market be augmented.

RESEARCH GAP
- Researchers have studied the investors’ investment pattern and risk tolerance capacity of the Investors in metros and big cities but small cities like Ranchi (India) has not been coming under the purview of such researches and the investors of cities like Ranchi are not alike that of metros.
- Existing literature surveyed so far depicts a wide spectrum of tools assessing risk tolerance capacity of investors in optimum asset allocation within an investment portfolio and consequential opportunity losses or gains for not investing in stocks. But a concrete approach to assess the investors’ attitude towards the risk toleration, as a whole, has been missing.
- As a filler, our study will be putting a set of questions from different functions to each investor with quantified weight attached to every option so as to ascertain wholistic risk tolerating capacity. After assessing the risk tolerating capacity, the investors studied will be clustered and the strategies will be developed accordingly for different clusters.

RELEVANCE OF THE TOPIC
Each retail investor has his or her own tolerance of and attitude towards risk so that an investment considered ‘high risk’ by one investor may be considered ‘low risk’ by another investor. Thus assessing investors to their appropriate risk tolerance category and accordingly devising the most suitable strategies to them for investment in stock market has been emerged as the most transparently visible task of the researchers. This project will help us to understand the investment behaviour of retail investors, trading through different trading firms.

It will help to understand;
- What percentage of their income they invest in stock market by taking their demography and their earning source/jobs, social and economic strata into account.
- About the risk appetite of different investors from different background.

OBJECTIVES
The key objectives of this study are;
- To study the pattern of retail investors’ trading through broking firms based at Ranchi
- To develop a risk appetite score for retail investors of different background.
- To devise models for different clusters on the basis of risk appetite score in order to stretch the incidence and depth of investment in Indian stock market.

METHODOLOGY
The study will be an empirical one based on the primary data to be collected from the retail investors on their trading pattern, risk appetite and behavioural facets that determine the investment decisions. On the backdrop of this, there will be concrete information about the stock markets of India containing types of market, the way of functioning, scope and perceptions of investors from secondary sources.

Why you are specifying “500” as sample size? Which research paper has suggested / used that number? Your literature review should help you find a answer for this question.

➢ For studying the trading pattern of retail investors, 500 retail investors will be surveyed for knowing;
  a) The investable capacity of the investors
  b) Whether the investors are first timer or matured
  c) Whether they get actively involved in trading
  d) Whether they are traders or investors
  e) How frequently they invest
  f) Whether they invest for need or take investment as an adventurous move
  g) Whether they are well-informed investors or mere speculators
  h) Whether they are investors of their own or due to persuasion/moral pressure.
For developing risk appetite score for retail investors

A Questionnaire will be administered on 500 investors to know their risk tolerance capacity and quantification will be done by assigning a score to them so as to know whether their risk appetite is high or low or moderate. Two sample questions of the proposed Questionnaire are presented here for the purpose of developing risk appetite score of the investors.

<table>
<thead>
<tr>
<th>Questions with Options to Tick</th>
<th>Risk Tolerance Score (Won’t be shown to the Respondents. Will be used in Analysis)</th>
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<tbody>
<tr>
<td>Q1. You take a job at a fast-growing company and are offered the following choices. Which one would you pick?</td>
<td>0</td>
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<tr>
<td>A conventional form of employment contract of working till the retirement age with normal course of prospects</td>
<td>25</td>
</tr>
<tr>
<td>A five year employment contract with an option with a potential to earn a bonus of 50% depending on company performance</td>
<td>50</td>
</tr>
<tr>
<td>A five year employment contract with the option to use your 50% bonus accrued to buy the company’s shares at a set price</td>
<td>75</td>
</tr>
<tr>
<td>A one year contract with a potential to earn a bonus depending on company performance</td>
<td>100</td>
</tr>
<tr>
<td>A one year contract with the option to use your bonus to buy the company’s shares at a set price</td>
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Q2. If you have invested in a share and on the next trading day it declines by 10%, what will be your reaction?

You will wait and watch the stock since you have chosen fundamentally strong stock.  
You will go for averaging by taking more shares at lower rate  
You will book losses and exit from the stock to avoid any further deceleration  
You will retain the stock and at the same time buy some other stocks in speculation  
You will book losses, exit from the stock and won’t be ready to make investment in future on any stock  

Each question will be assigned with a weight on the basis of its importance in the context of risk involved. Weighted average will be ascertained to arrive at a risk score for each investor.

For Clustering of investors

Statistical Technique of Cluster Analysis will be used through SPSS. For this, the questions will be put in the following manner.

Instruction: Rate all the options of each facet mentioned in 1-5 point scale; 1 for lowest level of agreement .......... 5 for highest level of agreement

Facet 1: If you have invested in a share and on the next trading day it declines by 10%,

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After knowing the responses of all the investors considered, through cluster analysis, they will be categorized into few clusters and thereafter appropriate strategies will be developed on the basis of the characteristics of each cluster.

**DATA PROPOSED TO BE COLLECTED**

While secondary data will be collected from official websites of SEBI, BSE, NSE, Journals, Magazines and government official Gazettes and Bulletins, the primary data will be collected through personal interview based on as mentioned in the Methodology section from the selected 500 investors based at Ranchi investing in Indian Stock Market.

The population of the study is the investors at Ranchi investing in stock markets. The records of those investors will be available with the stock markets and with the brokerage houses through which they invest in the market. For obtaining the required sample units for survey purpose, the help of brokerage houses will be taken. Looking into the population nature, it has been decided to go for 500 investors for the purpose. After obtaining the database from the brokerage houses, by way of judgmental sampling, 500 units will be selected.

**CONCLUSION**

The findings will help us to understand how risk appetite varies from one investor to another based on their earnings source/jobs/gender/age/marital status/educational background/social and economic strata. Clustering the investors on the basis of risk appetite score will help the broking houses tapping the situations devising customized strategies to augment business. Models to be developed as per the clusters may help the broking houses to adopt the same for improvement in performance.

Studying human behaviour, as such, has been proved to be a tough task as mapping human behaviour through mere interview may not reflect the real state of mind of the respondents. If it is to study the behaviour of somebody relating to something for which s/he is having no or negligible knowledge, the task will definitely be exceedingly tougher and challenging to accomplish. Since our study is related to retail investors of Indian stock market based at Ranchi who are having either no or insignificant knowledge on the market and even on their investment decisions, tracing their behavioural pattern related to investment is really challenging. However, all sorts of precautions will be taken and along with interview method, participatory and non-participatory observation methods are to be used to study their behaviour in an optimum possible effective manner.

**REFERENCES**

