

## A STUDY ON AWARENESS OF CAPITAL MARKET INSTRUMENTS AMONG INVESTORS

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### ABSTRACT

*Capital Market plays a crucial role in providing opportunities to investors to invest their savings in high return securities. They give a platform for a well-developed economy to have foreign investments. They constitute as one of the reasons for economic growth by exposing investors with various instruments prevailing in the country. This paper captures investors preferences on their investment patterns and perception of investors mind in terms of return and appreciation. Empirical data has been captured to analyze the investment pattern on demographics of age, gender and occupation.*

**Keywords :** Capital market, Investors, Shares, Mutual Funds, Risk

### INTRODUCTION

Capital Market is a market for borrowing and lending capital funds with the help of financial assets having long or indefinite maturity. Capital Market is an ideal source of external finance for business enterprises. Usually, it deals with securities having a maturity period of more than one year. Capital market can be further divided into Industrial Securities Market, Government Securities Market and the Long-term Loan Market.

Industrial securities include Equity Shares, Preference Shares and Debentures or Bonds. It is where business enterprises raise funds by issuing the appropriate instrument. This market is further divided into Primary or the New Issue Market and Secondary or the Stock Market. The Government as well as corporates are major issuers in the Primary Market. Corporates issue Shares or Debentures, whereas the Government issues Dated Securities, Treasury Bills, etc. The Secondary Market is where securities are traded after they are initially issued. Equity and Debt Markets comprise the bulk of the Secondary Market.

### LITERATURE REVIEW

**Prabhu and Vechalekar (2014)** The objective of this paper was to understand the factors that affect perception of investors towards mutual fund investments, with special emphasis on Monthly Income Plans (MIP). The MIP Funds invest mainly in debt securities and have very little equity investment, hence, they offer monthly returns. The researchers point out that equity investment is riskier and hence not viable for the risk averse investor.. Also, about half the investors had a monthly income of Rs. 70,000 and more. Importantly, tax benefits and portfolio diversification were the most prominent factors behind investors choosing to invest in mutual funds.

**Mishra, Das and Mishra (2010)** This study aims to find the relationship between gold price volatility and stock market returns in India for the period 1991 – 2009. The researchers point out that gold has been traditionally viewed as a secure investment, as there is no credit risk attached to it. The findings indicate that gold prices and stock prices move in opposite

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directions, as was the case during the 2008 financial crisis. There was a very low degree of correlation between gold prices and stock prices. Increasingly, Indians are looking at gold and gold instruments as more than jewellery and as prudent investment options, much like bonds and shares. Also, it was noticed that Indian investors are gradually moving towards gold ETFs rather than buying physical gold.

**Sharma (2011)** This paper studies the relationship between share prices and its determinants such as earning per share, dividend per share, dividend yield, dividend payout, etc. for the period 1993-94 to 2008-09. The researcher points out that the share price is an important factor while making a decision to invest in shares. The findings suggest that earning per share, dividend per share and book value per share were the strongest factors affecting share prices. The study suggests that following a liberal dividend policy, whereby the company pays dividend regularly has a positive impact on share prices and improves investor sentiment. Investors would want to balance risk and return, therefore, a company that regularly

pays dividend, has a decent book value, has a positive market image and perception, and leads to rising share prices and capital appreciation for the investors. Investors are advised to take these factors into account before investing.

## RESEARCH METHODOLOGY, ANALYSIS OF DATA, FINDINGS AND INTERPRETATION

### Method of Data Collection

**Primary Data** - Primary data from 58 respondents across age groups and occupations has been collected by means of a questionnaire. All the respondents are investors in Capital Market and are from Mumbai.

**Secondary Data** - Secondary data has been collected from online research articles, sector/industry specific research reports and newspaper articles.

**Analysis of Data, Findings and Interpretation:**

**Demographic Description of the sample** is as follows

Age Group	20 to 40 Years	22.4%
	40 to 60 Years	67.2%
	Over 60 Years	10.3%
Gender	Males	81.03%
	Females	18.9%
Occupation	Self employed	50%
	Service Sector	25.86%
	Professionals	18.96%
	Homemakers	5.17%



Chart-1

With reference to Chart-1, 34 respondents said Attractive returns are one of the most important reasons for investing in Capital Market, out of which 8 respondents chose to invest only because of the attractive returns. The second most popular reason is Capital appreciation (32 respondents), with 8 respondents choosing to invest only for Capital appreciation. While tax planning seems to be the third most popular reason for investing in Capital Market along with Diversification of portfolio and Retirement Planning, only 1

respondent has chosen it as the sole reason for such investment. It is interesting to note that only 3 respondents think investing in Capital Market is a safer option. It could be because of the volatility in the market, changes in economic policies, political uncertainty, etc.

It can be concluded that most investors gravitate towards Capital Markets for the following two reasons:

- Attractive returns, and
- Capital appreciation.

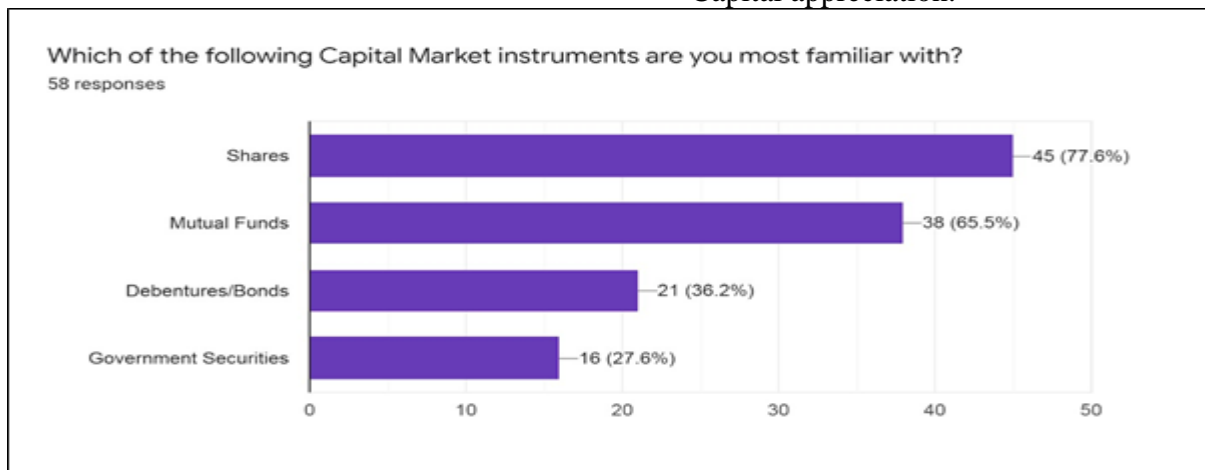


Chart-2

With reference to Chart -2, most respondents (45) were aware of Shares, followed by Mutual Funds (38), Debentures/Bonds (21) and lastly, Government Securities (16).

As far as popularity of Capital Instruments and their awareness among investors go, the following are most popular:

- Shares
- Mutual Funds

This could be due to growing awareness of Stock Markets, various Income Tax reliefs for new investors, improving access to Stock Markets, better understanding and various initiatives taken by the Government and the SEBI towards transparency, fairness and investor protection. Also, most respondents stated Attractive Returns as the most important reason for investing in Capital Market, which

also seems to be in line with the popularity of Shares and Mutual Funds.

Would you call yourself risk averse?  
58 responses

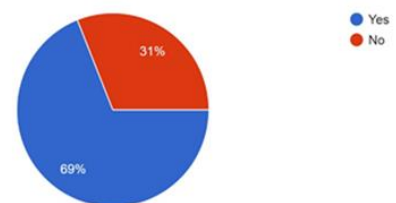
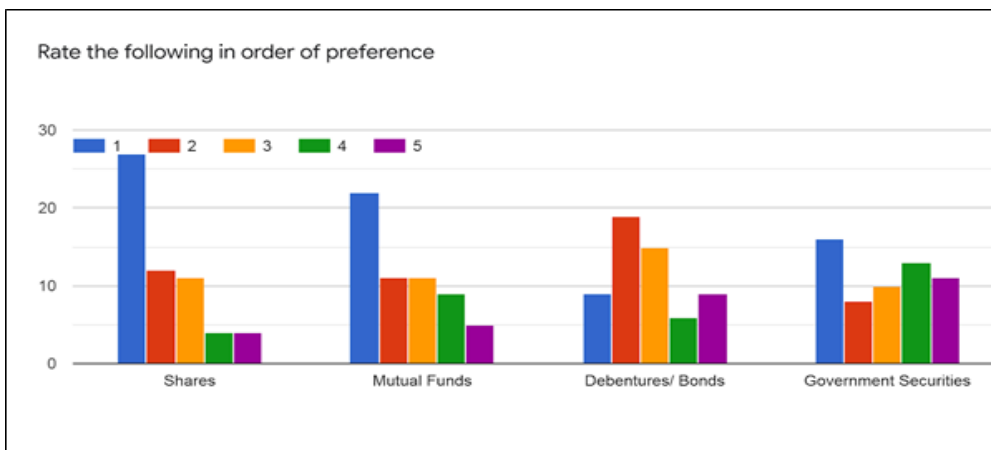


Chart-3

With reference to Chart-3 69% respondents consider themselves risk averse, whereas only 31% respondents are open to taking risks. Of the 11 females who responded, only 2 i.e. about 18% of them consider themselves risk takers, whereas 16 out of the 47 males (i.e. 34%) consider themselves open to risk.

Based on the responses, it can be concluded that as a percentage, more males than females are risk takers. Female respondents seem to prefer to play safe. Moreover, 2 out of

the 6 respondents over 60 years (33%) consider themselves risk takers and both give higher importance to either Attractive Returns or Capital Appreciation, over playing it safe.



27 respondents (i.e. almost 47%) indicated that Shares would be their first preference for investment, followed by 22 respondents (i.e. almost 38%) who gave first priority to Mutual

Funds. 16 respondents indicated Government Securities to be their first preference, whereas only 9 respondents indicated Debentures/Bonds to be their first preference. Debentures/Bonds, however, were a popular second and third preference for most respondents, with 19 of them rating it as the most popular second option and 15 of them rating it as the most popular third option. Very few respondents rated Shares and Mutual Funds as the last preference. This clearly indicates that by and large Shares and Mutual Funds are the most preferred Capital Market instruments.

4 out of 6 respondents over 60 years rated Shares as the most preferred investment

option, which makes up almost 67% or two-third of the respondents over 60. Conversely, only 5 out of 13 respondents in the 20 – 40 age group rated Shares as the most preferred option, which is only about 38% of the respondents in that age group. 18 out of 39 respondents in the age group 40 – 60, making up about 46% respondents in that age group have rated Shares as the most preferred option. 3 out of 11 female respondents (27% of female respondents) have rated Shares as their most preferred option, whereas 24 out of 47 male respondents (51% of male respondents) have rated Shares as most preferred.

Investment in Shares seems to be more popular among male respondents than female respondents. In order to deepen the Stock Market, steps need to be taken to educate and spread awareness among women.

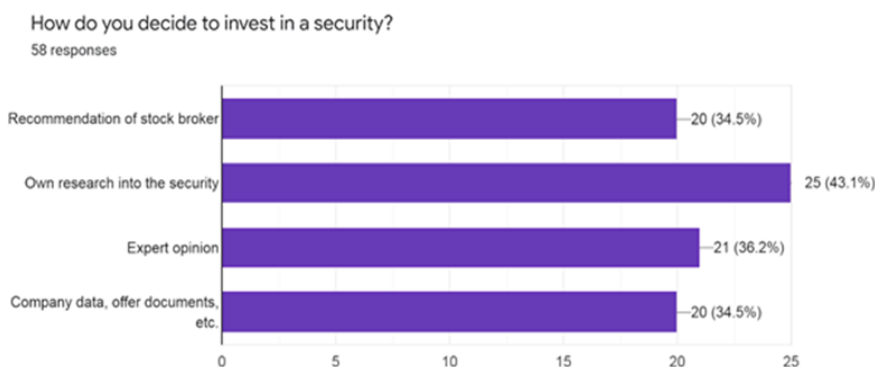


Chart-4

With reference to Chart-4, 25 respondents preferred to invest in any security based on their own research, whereas 21 respondents said they would base their decision on an expert's opinion. 20 respondents each

indicated that their decision would be based either on the recommendation of a stock broker or company data, offer documents and such. However, it is interesting to note that out of the 11 female respondents, only 1 respondent indicated that she would invest in a security based on her own research, whereas most women indicated expert opinion and

recommendation of stock broker as the basis for the decision.

Most male respondents, on the other hand, preferred their own research over an expert opinion or recommendation of a stockbroker. This difference could be due to lesser understanding and awareness on the part of women, which can be addressed by educating them by holding seminars, awareness camps, and conferences for them. It would give them the confidence and wherewithal to make investment decisions on their own reading of the market conditions and security. At the very least it would make them more investment savvy.

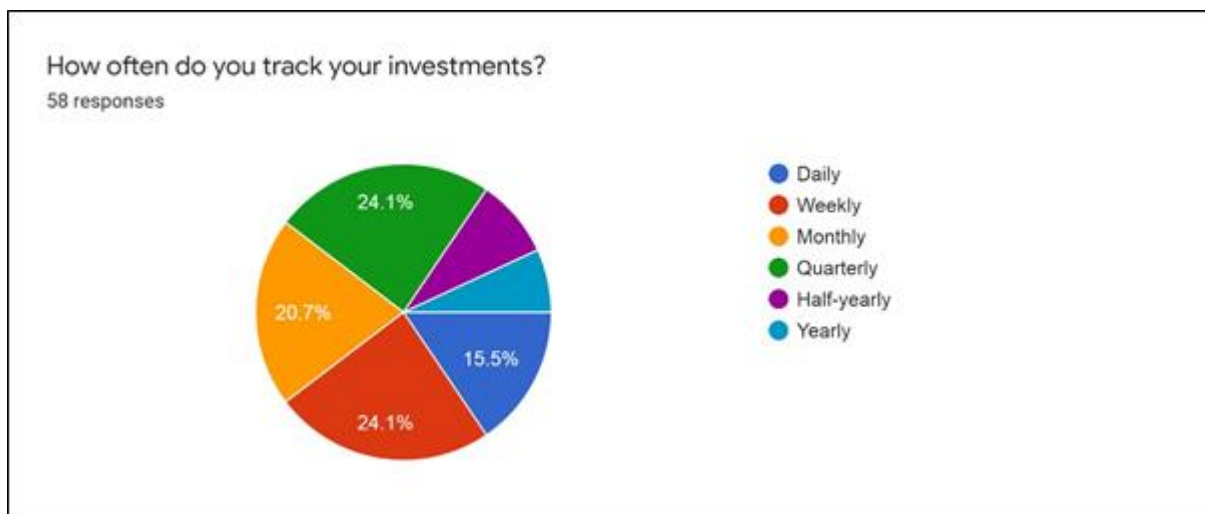


Chart-5

With reference to Chart-5, 14 respondents each tracked their investments weekly and quarterly, respectively. 12 respondents tracked their investments monthly, whereas 9 respondents tracked their investments daily. 5 respondents tracked their investments half-yearly and only 4 respondents tracked their investments yearly.

Frequency	Self-employed (Total – 29)	Service (Total – 15)	Professional (Total – 11)	Homemaker (Total – 3)
Daily	7	0	2	0
Weekly	5	5	4	0
Monthly	6	4	1	0
Quarterly	7	3	3	1
Half-yearly	2	1	1	1
Yearly	2	2	0	1

As can be seen above, most self-employed respondents and those engaged in service and profession prefer to track their investments frequently, whereas homemakers have a longer interval for tracking their investments. This could be due to short-term and

speculative trading indulged in by self-employed, professionals and those engaged in service, whereas homemakers tend to go for more long term investments, which does not require more frequent tracking of investment.

What % of your monthly income would you invest in the following?

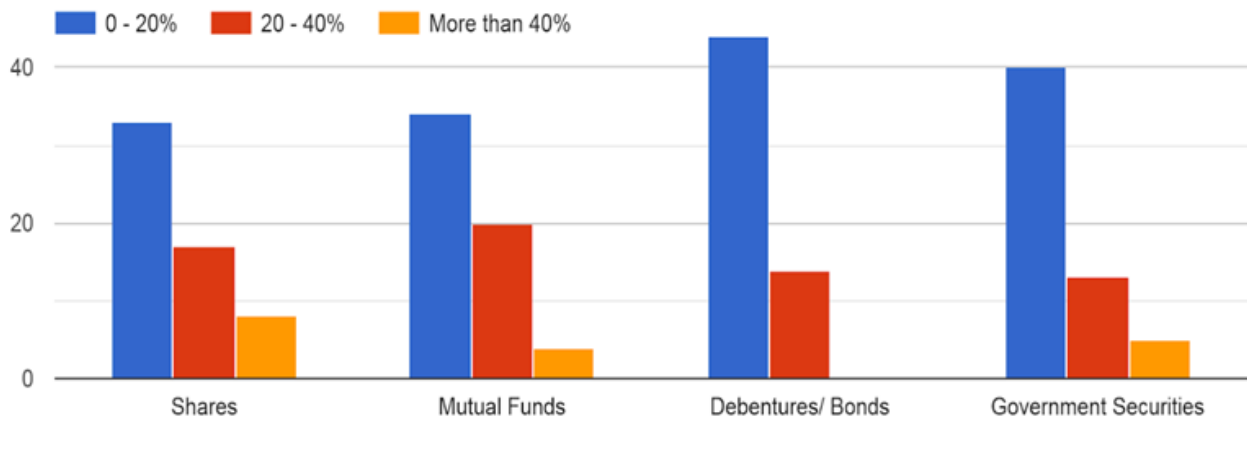


Chart-6

With reference to Chart -6, 8 respondents opted for more than 40% investment in Shares, followed by 5 respondents who opted for more than 40% investment in Government Securities. Mutual Funds came in as the third option with 4 investors opting to invest more than 40%, whereas Debentures/Bonds found no takers for investment beyond 40% of their monthly income.

20 respondents chose to invest between 20-40% of their monthly income in Mutual Funds, followed by 17 respondents who chose Shares, with 14 investors opting for Debentures/Bonds and 13 opting for Government Securities.

44 respondents opted to invest between 0-20% of their monthly income in Debentures/Bonds, followed by 40 respondents who opted for Government Securities, with 34 respondents choosing Mutual Funds and 33 choosing Shares.

It can be concluded that the most popular instruments for investing more than 40% of monthly income are:

- Shares
- Government Securities

The most popular instruments for investing between 20-40% of monthly income are:

- Mutual Funds
- Shares

The most popular instruments for investing between 0-20% of monthly income are:

- Debentures/Bonds
- Government Securities

For most respondents whose sole reason for investing in Capital Market is attractive returns, most of them prefer to investment in all four instruments in the 0-20% range, followed by 20- 40%. For these investors investing more than 40% of their income in any one avenue seems to be a no-go.

## Investors' perceptions:

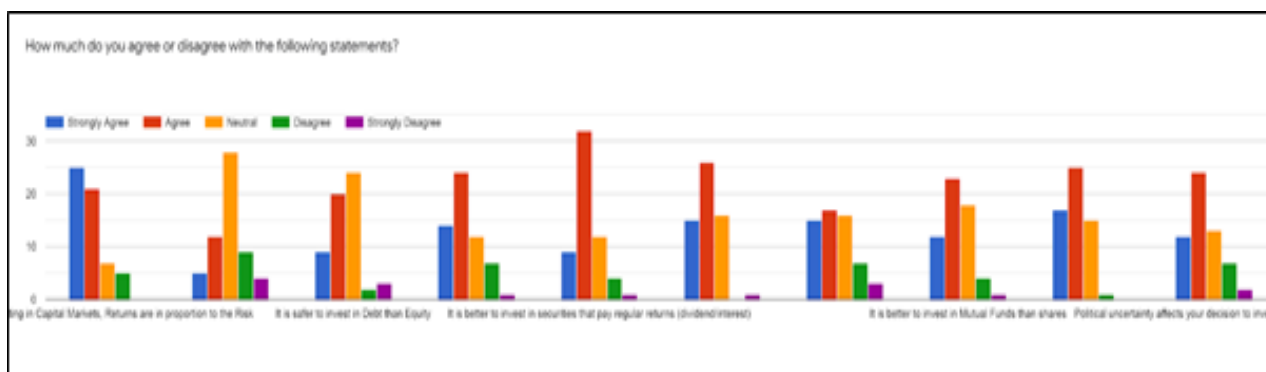


Chart-7

### According to Chart-7, while investing in Capital Markets, returns are in proportion to the risk

About 43% respondents “Strongly Agreed” and 36% respondents “Agreed” with the above statement. Only about 9% respondents “Disagreed”.

### Investment in Capital Market ensures safety of investment

About 9% respondents “Strongly Agreed” and 7% respondents “Strongly Disagreed” with the above statement. However, about 48% respondents were “Neutral” to this statement.

### It is safer to invest in Debt than Equity

About 16% respondents “Strongly Agreed” and 5% respondents “Strongly Disagreed”. However, about 41% respondents were “Neutral” to this statement.

### The share price affects your decision to buy

About 24% respondents “Strongly Agreed” and 41% respondents “Agreed” with the above statement. Less than 2% respondents “Strongly Disagreed”.

### It is better to invest in securities that pay regular returns (dividend/interest)

About 16% respondents “Strongly Agreed” and 55% respondents “Agreed” with the above statement. Less than 2% respondents “Strongly Disagreed”.

### It is better to invest in securities that promise capital appreciation

About 26% respondents “Strongly Agreed” and 45% respondents “Agreed” with the above statement. Less than 2% respondents “Strongly Disagreed”.

### Government Securities are a safer option than Shares

About 26% respondents “Strongly Agreed” and 29% “Agreed” with the above statement. However, 28% respondents were “Neutral” to this statement.

### It is better to invest in Mutual Funds than Shares

About 21% respondents “Strongly Disagreed” and 40% respondents “Agreed” with the above statement. However, about 31% respondents were “Neutral” to this statement.

### SIPs are preferable to regular Mutual Funds

About 29% respondents “Strongly Agreed” and 43% respondents “Agreed” with the above statement. Less than 2% respondents “Strongly Disagreed”.

### Political Uncertainty affects your decision to invest in Capital Markets

About 21% respondents “Strongly Agreed” and 41% respondents “Agreed” with the above statement. Only 3% respondents “Strongly Disagreed”.

The following observations can be made:

- 1) Most investors either Strongly Agree or Agree with the following:
  - a. While investing in Capital Markets, returns are proportionate to the risk.
  - b. Share price affecting buying decision.
  - c. Investment in securities paying regular returns in the form of dividend/interest being better.
  - d. Investment in securities promising capital appreciation being better.
  - e. Government Securities being safer than Shares.
  - f. Mutual Funds are a better option than Shares.
  - g. SIPs being preferable to regular Mutual Funds.
  - h. Political uncertainty affecting investing decision.
- 2) Most investors are Neutral, with few either Strongly Agreeing or Agreeing vis-a-vis the following:
  - a. Safety of Investment in Capital Market.
  - b. Debt being safer than Equity.

## CONCLUSION

Most investors' surveyed indicated that their most important reasons for investing in the Capital Market were Attractive reasons, Capital appreciation and to a lesser extent Tax planning, Diversification of portfolio and Retirement planning. Consequently, most investors preferred Shares and Mutual Funds as their first choice for investment over debt instruments such as Debentures/Bonds and Government Securities. It can be concluded that Equity is preferred over Debt. This is further supported by the fact that there is no clear indication that Debt is considered safer than Equity, as most investors were neutral to that statement. This is a positive trend as far as the stock market is

concerned. However, on the other hand, most investors were in agreement with Mutual Funds and Government Securities being better and safer, respectively, than Shares. Even as far as Mutual Funds are concerned, most investors consider SIPs (Systematic Investment Plans) to be better than Mutual Funds. Perhaps more needs to be done to create and restore investor confidence in the share market.

Most investors seem to be realistic enough in that they do not expect staggering returns without being exposed to proportionate risk and most identify themselves as risk averse. This is further understood by that fact that only 17 out of 58 respondents even considered investing more than 40% of their monthly income in any avenue. Even then the most preferred choices were Shares, followed by Government Securities and lastly, Mutual Funds. Most investors preferred to invest a modest percentage of their earnings, with Shares and Mutual Funds, being favorites. The least preferred option seems to be Debentures/Bonds.

To conclude it can be inferred that Shares seem to be an all-round preferred investment avenue, followed by Mutual Funds, across age groups. This is a positive sign for the Indian Capital Market, particularly, the stock market. However, more needs to be done with regards to restoring investors' confidence in the stock market, especially in light of the recent slowdown and the impact on the Indian economy in the future due to the Corona Virus pandemic, which has strongly affected the stock market. Additionally, deepening of the Capital Market needs to be undertaken by bringing in more women investors. Financial literacy among women needs to be encouraged, so that they are in a position to make informed decisions and actually do invest in the market. Almost all the women surveyed seem to rely on Expert opinion, Stock broker recommendations, Company's offer documents, etc. to make their investment decision. Men, on the other hand seem to be savvier and prefer their own research

to invest, over everything else. This needs to be corrected and women must be educated in matters of assessing the potential of a security, charting out clear and concise wealth and investment goals, risk-return analysis, etc.

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