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# 11. A Study on Investor's Education as a Prominent Solution for Sustainable Financial System in VUCA World

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**Abstract**

Volatility and uncertainty of financial markets, specifically stock market in India, is a product of globalization and related frequent capital flight. The volatility & uncertainty can be reduced if domestic market players become more dominant component of the market. It will be possible when more number of retail investors participate in stock market directly as well as indirectly. However considering the nature of stock market, each investor needs to be a prudent investor. Investor education plays major role in transforming hesitant investor into a prudent investor with a diversified portfolio. National Strategy of Financial Education was formed in 2011 and rigorous investor's education drives are conducted. One needs to find the extent to which these efforts are successful, locate the gap existing and suggest ways to fill the gap.

The paper has taken overview of investor's education efforts taken so far in India. At the same the paper has tried to locate percentage of direct & indirect stock market investments over total investments along with understanding factors that affect stock market investment decisions. It is an empirical research which is based on primary survey of 320 investors of Mumbai collected on the basis of well-structured questionnaire. Data was analysed using Microsoft excel. Stratified random sampling method is used. Percentage of stock market investors on total investor was calculated using arithmetic mean, whereas impact of socio-economic variables like age, gender, education, income and occupation on stock market investment decision was measured by using coefficient of correlation. Only 21.56% of total investors were found to be investing in stock markets directly and 22.50% were found investing indirectly through Mutual Funds. No significant correlation was found between all socio economic variables and stock market investments. Thus the paper concludes that better awareness regarding instruments giving better

returns & ways to have diversified portfolio need to be created among investors of different socio economic strata.

**Key Words:** Prudent Investor, Capital flight, Investor Education, Sustainable Financial System, Diversified Portfolio.

**1.1 Introduction**

Volatility in stock markets increases uncertainty in financial markets and affects economic stability. Thus controlling volatility of stock market is necessary. However volatility is the result of globalization and country's dependence on foreign funds that are always uncertain. In India, stock markets have taken large dips every time there was capital flight. However, recently the market has witnessed some of the incidences where stock market slide was arrested due to intervention of domestic mutual funds. This new change in the scenario is welcoming and in fact the best solution over the problem of stock market volatility. Stronger the domestic capital market grows, lesser will be the impact of foreign fund flows on the market. Strength of domestic stock market is a direct function of volume of stock market investment in which retail investments has a key role to play. Indian equity market is gaining new heights over the period of time in the world. However, where retail investments are concerned, it is lagging way behind if compared with the rest of the world. Wazal (2017) claims that only 4.45% Indians are direct stock market investors. Many are hesitant in investing into stock markets due to 'fear factor' of losing money. Investor's education plays major role in converting these hesitant investors into 'prudent investors'. Prudent investor is the one who is not casual but knowledgeable and practical investor who keeps his investment portfolio more diversified with good combination of high risk & low risk instruments. He is the one who will never invest into 'Ponzi schemes' and will be adopting long term approach for investments.

Since 2007 SEBI as well as other financial market regulators have taken a lot of efforts in the area of investor's education. These are in different form like mandatory investors' education seminars by various constituents of financial markets like fund houses, depositories, brokers etc.as well as various post graduate diploma courses introduced by SEBI in the area of financial markets. At the same some universities in India too have introduced graduate as well as post graduate courses in financial market.

Despite these efforts, growth in stock market retail investment both direct stock market investments as well as indirect stock market investment through Mutual Funds, seem to be slow.

One needs to understand the extent to which Indian investors have become aware of significance of stock market investments. At the same it is important to understand the factors that influence stock market investments.

**1.2 Literature Review**

Saxena (2012) has made attempts to know the awareness level of the investment alternatives available amongst the investors & compares the investment trend now from 20 years back. The area of the study is Moradabad, a city in Uttar Pradesh and the sample size is 150. Most of the investors are risk averse & thus ignore risky investments like derivatives, equities & prefer safe heaven like bank deposits, post office deposits, gold, etc. There is very little enhancement in the awareness level for newer financial instruments amongst investors over the years.

Madhumathi.R (1998) examined the risk perception of 450 individual investors, selected at random from major metropolitan cities in India, dividing them into three groups as risk seekers, risk bearers and risk avoiders. The study revealed that majority of the investors were risk bearers and they had the tendency to use the company's performance as a basic factor to take investment decisions. Risk avoiders did not have any specific traits. They were very objective and looked for facts and certainty in their investment decisions. They relied on the advice of their friends and relatives.

The study by Thangadurai (2013), is confined to the factors considered while making investments by 120 respondents of Dehradun district. Their level of awareness about the various aspects of investment avenues was measured too. Various statistical tools and SPSS was used to analyze and interpret the data. The findings indicated that 51 respondents had no knowledge about various investment alternatives and there is no significant relationship between gender, income level and awareness of the investors as well as majority of the respondents invests in stock market due to high rate of earning and are influenced by friends.

Nagpal (2007) attempted to understand the individual investor's pattern of investments and analyzing the investor's preferences for various investment alternatives across the demographic and psychographics dimensions. The survey was limited to the urban areas of Haryana, Delhi and Chandigarh. The study brought out that the highest percentage of investors, i.e. 86.29 per cent invested in insurance policies followed by investments in fixed deposits with banks or post offices and then EPF/PPF and NSC. The authors found three segments of investors, i.e. aggressive, moderate and IJLMA 56, 4 334 conservative investors, on the basis of their lifestyles.

Harikanth (2012) analysed the factors that influence the investment behaviour & attitude of 270 respondents of Andhra Pradesh towards different financial investment. He also tried to understand awareness of investors towards various investment avenues. Data was collected with the help of a structured questionnaire relating to socio-economic background of respondents. It was found that educated males were more interested in risky avenues like shares than female's investors. Risks bearing capacity and educational level of investors were also found as the two main factors which affect the investment avenues selection.

Above studies of different states and cities have clearly indicated low risk appetite and lack of sufficient knowledge about various investment options available are dominant factors affecting stock market investment.

This paper tried to locate percentage of stock market investors of Mumbai that include direct stock market investors as well indirect investors through Mutual Fund as well as percentage of non stock market investments (other investments). The paper further tried to understand the extent to which socio-economic factors like age, gender, occupation, qualification & income has its impact on stock market investment decisions.

### 1.3. Research methodology

#### 1.3.1. Objectives of research

The specific objectives of the study are -

1) To understand the extent to which investor's education drives have impact on stock market investments.
2) To study the extent to which socio-economic profile of an investor has its bearing on his investment decisions.

#### 1.3.2. Hypotheses

**Hypotheses which were tested are –**

i. There is relationship between age and stock market as well as mutual fund investments.
ii. There is relationship between genderand stock market as well as mutual fund investments.
iii. There is relationship between occupation and stock market as well as mutual fund investments.

iv. There is relationship between qualificationand stock market as well as mutual fund investments.

v. There is relationship between monthly income and stock market as well as mutual fund investments.

### 1.3.3. Data collection

Primary data of 320 respondents who were investors from Mumbai district was collected against well-structured questionnaire. Data was collected from investors who belong to different socio-economic strata like age, gender, income, occupation & education.

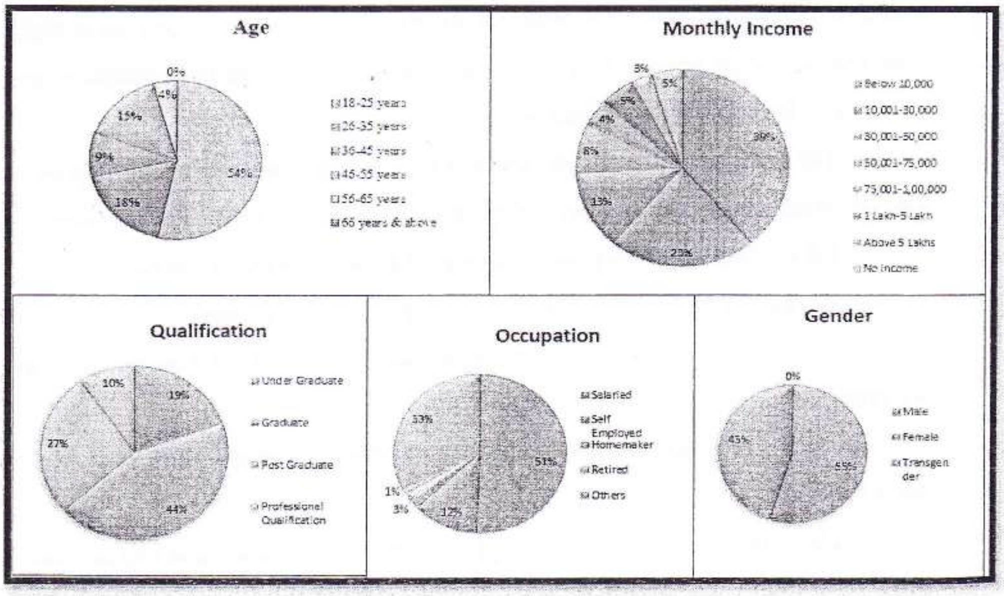
### 1.3.4. Data analysis

#### 1.3.4.1. Socio-economic profile of investors

Socio Economic profile of 320 investors is shown in the chart 1.1. As shown in chart 1.1, more respondents are from age group of 18-25. Female respondents are 45% whereas 55% are male respondents' majority are salary earner graduates. Maximum percentage of respondents (62%) are falling in monthly income group of less than 30,000. The income level signifies that these investors should focus more on investments that would give relatively high returns to them.

Chart 1.1

Socio-Economic Profile of Respondents

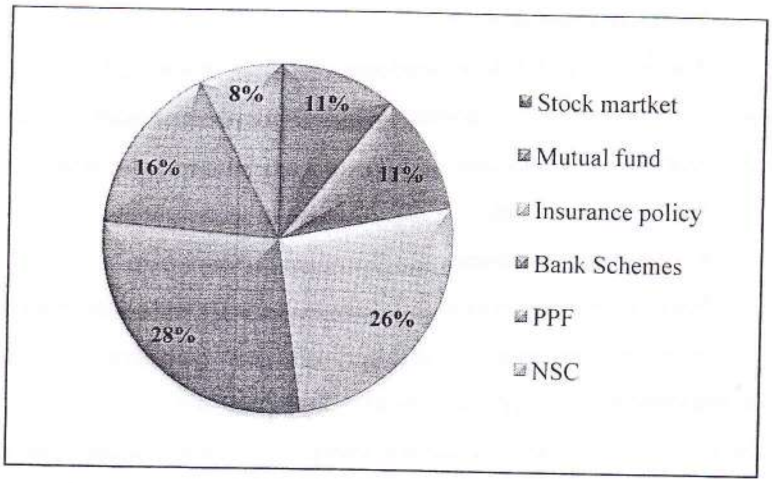


### 1.3.4.2 Investment decisions of Respondents.

The chart 1.2 shows investment preferences of 320 respondents.

Chart 1.2

Investment Preferences of Investors




As shown in chart 1.2, combined percentage of stock market and mutual fund investments were found to be 22% where 78% investments fall in the category of other investments. Incase of other investments maximum share is of Bank schemes and Insurance policies. Prominent reason for respondents investing in other instruments is their preference for low risk and fixed returns. However stock market and mutual fund investors were seen to give preference for high risk high returns.

The data was further analysed to find impact of socio economic variables such as age, gender, qualification, occupation and monthly income on investments decisions of respondents.

### 1.3.4.3 Impact of socio economic profile on investment decisions.

To understand the impact following hypothesis were tested-

$H_{11}$: There is relationship between age and stock market as well as mutual fund investments.

$H_{01:}$ There is no significant relationship between age and stock market as well as mutual fund investments.

The table 1.1 shows age wise distribution of stock market and mutual fund investments

**Table 1.1**

Age-Wise Distribution of Stock Market and Mutual Fund Investments

| Age group | Stock market investment | Mutual fund investment |
|---|---|---|
| 18-25 years | 31 | 27 |
| 26-35 years | 11 | 16 |
| 36-45 years | 4 | 9 |
| 46-55 years | 19 | 16 |
| 56-65 years | 4 | 4 |
| 66 years & above | 0 | 0 |

We used Karl Pearson's coefficient of correlation to test the hypothesis by using Microsoft Excel. The 'r' value for stock market investment was 0.142 and for mutual fund investment, it was 0.158. Since the values are higher than 0.05, the test is accepted and we reject alternative hypothesis.

**Result:**

There was no significant relationship found between age and stock market as well as mutual fund investments.

$H_{12}$: There is relationship between gender and stock market as well as mutual fund investments.

$H_{02:}$ There is no significant relationship between gender and stock market as well as mutual fund investments.

The table 1.2 shows gender and distribution of stock market and mutual fund investments

Table 1.2 : Gender & Distribution of Stock Market and Mutual Fund Investments

| Gender | Stock market investment | Mutual fund investment |
|---|---|---|
| Male | 50 | 50 |
| Female | 19 | 22 |

We used Karl Pearson's coefficient of correlation to test the hypothesis. The 'r' value for stock market investment was -0.184 and for mutual fund investment, it was -0.156. Since the values are higher than 0.05, the test is accepted and we reject alternative hypothesis.

**Result:**

There was no significant relationship found between gender and stock market as well as mutual fund investments.

$H_{13}$: There is relationship between qualification and stock market as well as mutual fund investments.

$H_{03:}$ There is no significant relationship between qualification and stock market as well as mutual fund investments.

The table 1.3 shows qualification and distribution of stock market and mutual fund investments

Table 1.3 : Qualification & Distribution of Stock Market and Mutual Fund Investments

| **Qualification** | **Stock market investment** | **Mutual fund investment** |
|---|---|---|
| **Under Graduate** | 10 | 8 |
| **Graduate** | 31 | 32 |
| **Post Graduate** | 20 | 20 |
| **Professional Qualification** | 8 | 12 |

We used Karl Pearson's coefficient of correlation to test the hypothesis. The 'r' value for stock market investment was 0.065 and for mutual fund investment, it was 0.142. Since the values are higher than 0.05, the test is accepted and we reject alternative hypothesis.

**Result:**

There was no significant relationship found between qualification and stock market as well as mutual fund investments.

$H_{14}$: There is relationship between occupation and stock market as well as mutual fund investments.

$H_{04:}$ There is no significant relationship between occupation and stock market as well as mutual fund investments.

The table 1.4 shows qualification and distribution of stock market and mutual fund investments

Table 1.4 : Occupation & Distribution of Stock Market and Mutual Fund Investments

| **Occupation** | **Stock market investment** | **Mutual fund investment** |
|---|---|---|
| **Salaried** | 38 | 45 |
| **Self Employed** | 12 | 13 |
| **Homemaker** | 1 | 1 |
| **Retired** | 0 | 0 |
| **Others** | 18 | 13 |

We used Karl Pearson's coefficient of correlation to test the hypothesis. The 'r' value for stock market investment was -0.080 and for mutual fund investment, it was -0.177. Since the values are higher than 0.05, the test is accepted and we reject alternative hypothesis.

**Result:**

There was no significant relationship found between occupation and stock market as well as mutual fund investments.

$H_{15}$: There is relationship between monthly income and stock market as well as mutual fund investments.

$H_{05:}$ There is no significant relationship between monthly income and stock market as well as mutual fund investments.

The table 1.5 shows monthly income and distribution of stock market and mutual fund investments

Table 1.5 : Monthly Income & Distribution of Stock Market and Mutual Fund Investments

| **Monthly Income** | **Stock market investment** | **Mutual fund investment** |
|---|---|---|
| **No income** | 5 | 2 |
| **Below 10,000** | 15 | 16 |
| **10,001-30,000** | 7 | 13 |
| **30,001-50,000** | 11 | 13 |
| **50,001-75,000** | 9 | 11 |
| **75,001-1,00,000** | 8 | 6 |
| **1 lakh- 5 lakh** | 8 | 6 |
| **Above 5 lakhs** | 6 | 5 |

We used Karl Pearson's coefficient of correlation to test the hypothesis. The 'r' value for stock market investment was 0.301 and for mutual fund investment, it was 0.257.Since the values are higher than 0.05, the test is accepted and we reject alternative hypothesis.

**Result:**

There was no significant relationship found between monthly income and stock market as well as mutual fund investments.

**1.4. Findings**

**Findings of our research are-**

i. Only 22% of investments were found to be direct & indirect stock market investments.

ii. Investor's investment decisions were found to be not dependent on age, gender, qualification, occupation as well as monthly income.

iii. Less stock market investments were found to be due to low risk appetite of investors.

iv. Overall awareness of availability of all financial instruments was found to be good which can be perceived as benefits of investor's education drive taken over the period of time. However, investors were found to be hesitant in investing in stock market with the fear of losing money. This area should be major focus of investor's education in Mumbai District.

**1.5. Suggestions**

i. Investor Awareness Drives should be made area and need specific, where area-wise need of population should be understood and accordingly seminar content need to be delivered.

ii. Financial education need to be made a part of school curriculum where children need to understand the terms like 'return on investment', 'diversified investment portfolio' etc. It means wherever awareness about available instruments is lacking, training content should be related to spreading awareness. However to be conducted by understanding need of population which may change area-wise.

**1.6 Conclusion**

More retail investors need to join the stock markets to make it stronger enough to face global disturbances. It will happen only when number of prudent investor grows in the country. It is possible through long term planning in the area of investor's education where we make each individual aware of importance of wealth creation from younger age.

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