CHAPTER V

INVESTOR BEHAVIOUR

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Eventhough the fundamental investment rules and principles remain the same, investment climate and investor behaviour change from time to time and place to place. Individual investor behaviour in the capital market is factored by their income, education, reading habits, cognition levels, etc. Investor preferences differ with respect to alternative investment avenues, assets and market segments in the securities market. The track records of companies and of the promoters have a telling influence on investment decisions. The investment motives also vary through capital gains, dividends, bonus, rights, tax benefits and other relevant factors. These and related aspects specific to the state of Kerala are focused in this chapter.

5.1 Investor Behaviour

Economists have developed behavioural models to explain the decision-making process of individuals. The interdependence of the inherent risk and uncertainty about any course of action are provided by the theory of games. Game theorists call the stock market a 'positive sum game'. But the money game of the stock market may not yield uniform returns to all its participants.

There are various investment avenues. When one investment opportunity is chosen, other opportunities may be given up. So, opportunity cost of an investment is the possible income from the next best alternative. Rational decision-making demands technical knowledge and practical experience.

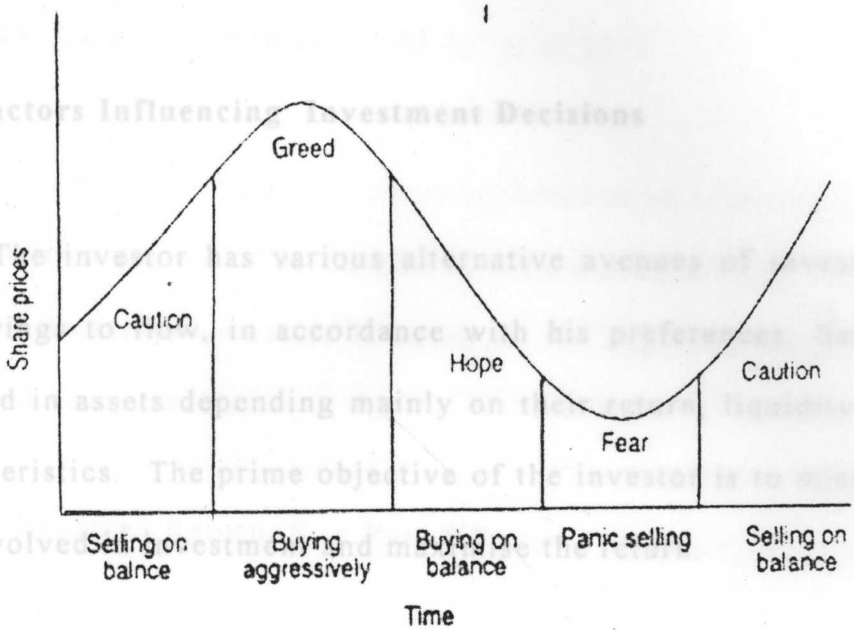
Investor behaviour approaches investing as a rational decision - making process in which the investor attempts to select a portfolio of securities. Rational investors form rational expectations about asset returns, motivated by the maximising principle. They collect available and relevant information for making decisions. Some investors make decisions on inadequate information and such decisions may go wrong.

5.2 Behaviour of Individual Investors

Greed and fear have been recognised as the two dominant emotions that characterise market behaviour. Greed makes individuals grasp and grab when they buy shares, and fear leads to panic (Jawaharlal 202).

Figure 5.1

Behavioral Phases of Individual Investors



Source: Jawaharlal, P. 202.

When share prices increase, small individual investors become sellers on balance. When share prices are at peak, they become greedy and buy securities aggressively. At the point of decline, they do not give up hope and tend to buy more shares than they sell. But when the market depresses and reaches the bottom, small investors develop fear and sell most of their securities.

In totality, small investors occasionally make right decisions, and they try to earn profit by selling securities when share prices are rising and by buying securities when their prices are declining. Most often, small investors make incorrect decisions at turning points and other crucial junctures in share price movements.

5.3 Factors Influencing Investment Decisions

The investor has various alternative avenues of investment for his savings to flow, in accordance with his preferences. Savings are invested in assets depending mainly on their return, liquidity and risk characteristics. The prime objective of the investor is to minimise the risk involved in investment and maximise the return.

A security market exists to provide the facilities of a market place where potential investors can put their money to work, by purchasing securities and those who already own securities can equally freely and speedily turn them into cash. An effective security market requires qualities like choice, efficiency and regulation in order to attract investors.

5.3.1 Return Factor

Genuine investors are those who always try to seek equilibrium between risk and return. How do investors make an assessment about the return on securities? What return is expected on an average? It is the expected value of the return, which is the sum of each possible return multiplied by the chance of its occurrence. The sum of the chances must add up to one. (Barua, et al 227)

If the return on a security is expected to be r_1 with a chance of p_1, r_2 with a chance of p_2,..., and r_n with a chance of p_n, then the over all assessment of investors is based on the expected value of returns, which is computed as:

$$\text{Expected Return, } E = P_1 r_1 + P_2 r_2 + \ldots + P_n r_n$$

Where as the over all portfolio return would be the weighed average of expected return on securities and is computed as:

$$E_p = W_1 \times E_1 + W_2 \times E_2 + \ldots + W_n \times E_n$$

Where, E_p is the expected portfolio return

W_1 is the proportion of money invested in security 1

E_1 is the expected return on security 1

W_2 is the proportion of money invested in security 2

E_2 is the expected return on security 2

Genuine investors, by and large, hold medium and long- term investments and the return aspect assumes larger importance. There are two types of security analysis, namely, Technical Analysis and Fundamental Analysis.

The technical analysts believe that important information about future stock price movements can be obtained by studying the historical price movement of stock prices. Financial data are recorded on graph paper and the data are scrutinised in search of respective patterns and then deduced from that pictured history the probable future trend.

Fundamental analysts believe that the true intrinsic value of a security can be ascertained by studying such items as the company's earnings, its products, its management, financial statements and other fundamental facts.

The present value of future dividends, computed at an appropriate discount rate to reflect the real return from the share, is called the intrinsic or fundamental value of the share. The analysts attempt to find under-priced or over-priced shares for the investors' investment decisions.

5.3.2 Liquidity Factor

A security must possess the attribute of liquidity to be attractive as an investment for the ordinary investors. Liquidity refers to easy convertibility without loss. Liquidity of an investment is measured in terms of the speed and ease with which an investment can be converted in to cash whenever the investor wants it. Liquid investments give the investor a feeling of security because they enable one to change one's mind and correct one's mistakes.

A genuine investor is supposed to invest for a relatively long period for the sake of income as distinguished from a purely trading profit arising from short-run price fluctuations induced by shifts in market sentiments. A prudent long term investor would have provided for his immediate cash needs by holding cash balances and near cash assets like fixed deposits and only if he has surplus of cash, would he consider it wise to hold long term investment such as equities. This assumption is in argument with the usual threefold classification of the motives of holding liquid cash viz., the transaction motive, the precautionary motive and the speculative motive. If so, a genuine investor would normally expect moderate liquidity and not 'instant' liquidity.

A prudent investor should be prepared to tide over prolonged periods of stock market depression, which no amount of liquidity can eliminate. It is the speculator, who wants instant liquidity because he wants to be in and out of a security during the same day.

5.3.3 Risk Factor

The words ' risk' and 'uncertainty' are used inter-changeably. But technically their meanings are different. Risk suggests that a decision- maker know possible consequences of a decision and their likelihood at the time he makes the decision. Uncertainly on the other hand, involves a situation about which the likelihood of the possible outcomes is not known. On the basis of the degree of risk perception, investors could be classified into risk takers, risk averters and risk neutrals.

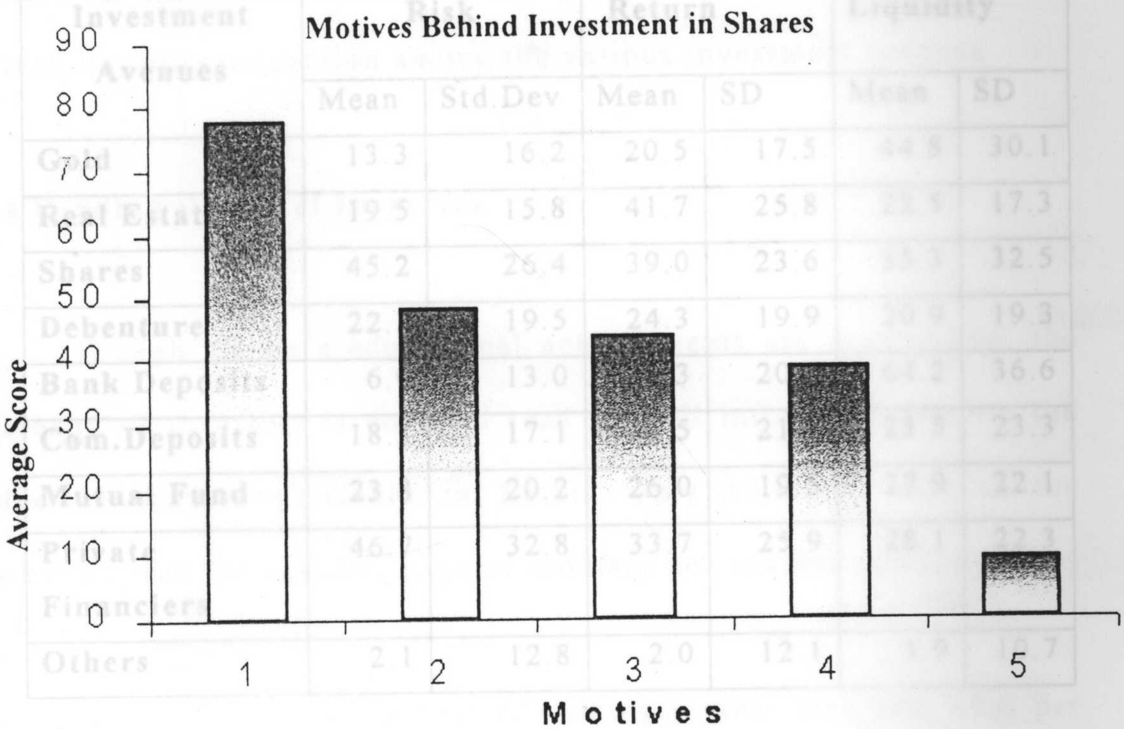
The risk takers pay more than the expected value of an asset or an uncertain future and mostly invest in common stocks and convertible securities. Risk averters show their preference for investments of low risk and prefer Government securities, insurance policies, unit trust certificates, etc. Risk neutrals are willing to pay for making an investment provided they get a return of an equal value. The majority of the investors accept medium risk.

Securities that have risk and return characteristics of their-own, in combination makes up a portfolio. Portfolio selection entails choosing the one best portfolio to suit the risk-return preferences of the investor. And portfolio management is the dynamic function of evaluating and revising the portfolio in terms of stated investor objectives (Fischer &Jordan 2).

In academic parlance, the mathematical measure of investment risk is called 'beta'. The market as a whole has a 'beta' of one. If a particular stock has a 'beta' of two then it is twice as risky as the market. It means that if the market goes up by 20 per cent, the stock price rises by 40 per cent, and if the market falls by 20 per cent, the stock price falls by 40 per cent. High 'beta' stocks are considered more risky than low beta stocks.

People who believe that 'beta' measures risk, disdain examining what a company produces or may even prefer not to know the company's name. The true investor is risk averse but may welcome volatility. The more volatile a market becomes, the more the opportunities to the value oriented investor (Bakshi 36).

Figure 5.2



1. Capital Gain 2. Dividend 3. Rights 4. Bonus 5. Tax Benefit

The primary motive behind investment is returns. Figure 5.2 shows the relative investor preferences for the different modes of returns. It can be seen that investors give the highest priority to capital gain, followed by dividend, rights, bonus and tax benefits respectively. Tax factor has only a negligible influence.

Table 5.1

Risk, Return and Liquidity Perceptions of Investors

100 point scale

Investment Avenues	Risk		Return		Liquidity	
	Mean	Std.Dev	Mean	SD	Mean	SD
Gold	13.3	16.2	20.5	17.5	44.8	30.1
Real Estate	19.5	15.8	41.7	25.8	22.5	17.3
Shares	45.2	26.4	39.0	23.6	35.3	32.5
Debenture	22.3	19.5	24.3	19.9	20.9	19.3
Bank Deposits	6.0	13.0	23.3	20.2	64.2	36.6
Com.Deposits	18.3	17.1	24.5	21.5	23.5	23.3
Mutual Fund	23.8	20.2	26.0	19.5	27.9	22.1
Private Financiers	46.7	32.8	33.7	25.9	28.1	22.3
Others	2.1	12.8	2.0	12.1	1.9	10.7

Source: Survey data

The important factors that influence demand preferences for assets are risk, return and liquidity. Here the comparative assessment technique has been used for rating these factors. The respondents were asked to perceive the risk, return and liquidity on different investment options on a 10- point scale, and later enlarged to a 100- point scale for easy comparison.

As per data, investment with private financiers has been the most risky and deposits with banks the least risky. Though equity investment (shares) shows high level of risk, its level of return is relatively high. Table 5.1 makes a comparative evaluation of risk-return-liquidity perception among the various investment avenues.

5.4 Reading Habits of Investors

Though Kerala's educational achievements are outstanding, the majority of investors is not well read or well informed. Despite the wide newspaper readership in Kerala, only 59.6 per cent of the investors read the business page of ordinary newspapers regularly.

As shown in table 5.2, it is strikingly clear that only 19.6 per cent read any Business Daily regularly. And in the case of business periodicals, only 6.9 per cent of the investors have been regular readers.

Table 5.2
Reading Habits of Investors in Kerala

Category of investors	Business Page of News Paper			Business Daily			Business Periodicals			
	Regularly	At times	Do not read	Regularly	At times	Do not read	Regularly	At times	Do not read	
Bank employees	35 (74.5)	12 (25.5)	0 (0.0)	14 (29.8)	20 (47.6)	13 (27.6)	3 (6.4)	28 (59.6)	16 (34.0)	**47**
Teachers	14 (42.2)	17 (51.5)	2 (6.3)	1 (3.0)	15 (45.5)	17 (51.5)	2 (6.1)	18 (54.5)	13 (39.4)	**33**
Company employees	24 (58.5)	16 (39.0)	1 (2.4)	4 (9.8)	18 (43.9)	19 (46.3)	2 (4.9)	34 (82.9)	5 (12.2)	**41**
Govt. employees	17 (45.9)	19 (51.4)	1 (2.7)	0 (0.0)	21 (56.8)	16 (43.2)	0 (0.0)	24 (64.9)	13 (35.1)	**37**
Business	27 (58.7)	18 (39.1)	1 (2.2)	13 (28.3)	8 (17.4)	25 (54.3)	4 (18.7)	22 (47.8)	20 (43.5)	**46**
Professional	15 (62.5)	8 (33.3)	1 (4.2)	7 (29.2)	10 (41.7)	7 (29.1)	4 (16.7)	15 (62.5)	5 (20.8)	**24**
Retired	7 (70.0)	3 (30.0)	0 (0.0)	1 (10.0)	4 (40.0)	5 (50.0)	0 (0.0)	8 (80.0)	2 (20.0)	**10**
Others	16 (72.7)	4 (18.2)	2 (9.1)	11 (50.0)	6 (27.3)	5 (22.7)	3 (13.6)	13 (59.1)	6 (27.3)	**22**
	155	97	**8**	**51**	**102**	**107**	**18**	**162**	**80**	**260**
	(59.6)	**(37.3)**	**(3.1)**	**(19.6)**	**(39.7)**	**(40.7)**	**(6.9)**	**(62.3)**	**(30.8)**	**100**

Source: Survey data.
Note: Figures in parenthesis show percentage.

Table 5.3

Reading Habits of Investors—Books

Respondents	No. of Books Read 0	1-5	6-10	>10	Class Total
Non-Matriculate	21 (95.5)	1 (4.5)	-	-	22 (8.5)
Pre-Degree	14 (87.5)	2 (12.5)	_	_	16 (6.2)
Graduate	87 (71.1)	34 (27.9)	_	1 (.8)	122 (46.9)
Post Graduate	32 (68.1)	13 (27.7)	2 (4.3)	_	47 (18.1)
Professionals	27 (58.7)	15 (32.6)	4 (8.7)	_	46 (17.7)
Others	5 (71.4)	2 (28.6)	_	_	7 (2.7)
Total	186 (71.5)	67 (25.8)	6 (2.3)	1 (.4)	260 (100)

Source: Survey data

Note : Figures in parenthesis show percentages.

Table 5.3 shows that about 72 per cent of the respondents have not read even a single book on the subject. On close analysis, we find clear association between the level of education and reading habits. People with higher level of education have better reading habits.

The survey results (table 5.4) show that only one third (34.2%) of the investors can read and understand the financial statements of companies such as Balance Sheet and Profit and Loss Account. Education wise, graduates are in a better position than the post-graduates. Category of investors by profession, bank employees can read and understand the financial statements. More than 40% of the professionals also can understand the financial statements. But only around 20 per cent of the teachers and government employees can read and understand the financial statements of companies.

Table 5.4
Understanding Financial Statements of Companies (profession – wise distribution)

Category of Investors	Understand	To some extend	Do Not Understand	Class Total
Bank Employees	27 (57.4)	18 (38.3)	2 (4.3)	47
Teachers	8 (24.2)	17 (51.5)	8 (24.2)	33
Company employees	10 (24.4)	24 (58.5)	7 (17.1)	41
Government employees	8 (21.6)	24 (64.9)	5 (13.5)	37
Business	13 (28.3)	26 (56.5)	7 (15.2)	46
Professional	10 (41.7)	13 (54.2)	1 (4.2)	24
Retired	4 (40.0)	6 (60.0)	–	10
Others	9 (4.9)	13 (59.1)	–	22
Total	89 (34.2)	141 (54.2)	30 (11.5)	260 (100)

Source : Survey data
Note : Figures in parenthesis show percentages.

Table 5.5 clearly shows that small investors dominate the stock market. The majority of the investors are small investors, holding shares having face value of less than Rs.10,000/-. 68% of the investors hold less than 10 scrips. Less than 10% hold shares of more than 20 companies.

Table 5.5

Share-holding Pattern of Investors

Shares held	Frequency	Percentage	Cumulative %
Nil	12	4.6	4.6
1 - 5	94	36.2	40.8
6 -10	83	31.9	72.7
11 –15	38	14.6	87.3
16 –20	9	3.5	90.8
Above 20	24	9.2	100
Total	260	100	100

Source : Survey data

Table 5.6

Debenture Holding Pattern of Investors

Debentures Held	Frequency	Percentage	Cumulative %
Nil	143	55.0	55.0
1 - 2	57	21.9	76.9
3 - 5	46	17.7	94.6
6 - 7	2	0 .8	95.4
8 - 10	9	3.5	98.9
Above 10	3	1.1	100
Total	260	100	100

Source : Survey data.

Table 5.6 shows that 55 per cent of the investors in Kerala do not hold debentures. Around 40 per cent hold only one or two debentures. Only one per cent holds more than 10 debentures. Thus it is obvious that debenture holder density in Kerala is remarkably low. It indicates that either the investor is not fully aware of the potential debt market or not interested in it. It seems that the liquidity factor does influence the investment decisions of investors.

Table 5.7

Investment in Mutual Funds

Mutual Funds	Frequency	Percentage
Unit Trust of India	153	58.8
Insurance Companies	37	14.2
Bank Mutual Funds	63	24.2
Private Mutual Funds	50	19.2

Source: Survey data

About one third of the respondents have entered the capital market through investments in Mutual Funds. Among the mutual funds UTI mutual funds are the most favourite (58.8%) followed by bank mutual funds (24.2%). About 20 per cent have investments in private mutual funds. This indicates that investors are losing confidence in mutual funds especially the private ones. The sum of the percentages exceeds 100, because of concurrent investments in different funds.

Table 5.8

Earlier Investment Pattern of Respondents

Investment Avenues	Frequency	Percentage
Bank Deposits	111	42.7
Gold	25	9.6
Land	39	15.0
Mutual Funds	85	32.7
Company Deposits	8	3.1
Private Financiers	10	3.8
Others	65	25.0

Source : Survey data

The Investment pattern of the respondents before entering the capital market shows that 42.7 per cent (111) invested on bank deposits and 32.7 per cent (85) invested in mutual funds. Investment in shares and debentures seem to have been redeployment of other forms of investment.

Table 5.9

Investment Options and Order of preference

Investment Option	Average Score	Rank
Shares	88.72	1
Debentures	36.13	3
Mutual Funds	60.64	2

Source: Survey data

The table 5.9 shows that investors have clear and marked preference for shares to mutual funds and mutual funds to debentures. This may be attributed to the poor performance of mutual funds and the weak state of the debt market.

5.5 Investors in the Primary Market

Survey results show that investors in the primary market who apply for new issues collect the application forms from brokers, agents, friends, investment forums, and the stock exchange. More than 50 per cent (56.9%) of the investors are in the mailing list of at least one agency supplying application forms.

Table 5.10

Primary Market Operations

Income wise distribution

Monthly Income	Frequency of applying			
	Never	Occasionally	Very Often	Regularly
Below 5,000	5 (8.3)	52 (86.7)	3 (5.0)	–
5,001 – 10,000	19 (13.4)	102 (71.8)	20 (14.1)	1 (0.7)
10,001 – 15,000	4 (10.0)	31 (77.5)	5 (12.5)	–
15,001 – 20,000	–	3 (75.0)	1 (25.0)	–
Not Revealed	1 (12.5)	7 (87.5)	–	–
Total	29 (11.2)	200 (76.9)	30 (11.5)	1 (0.4)

Source: Survey data

Note : Figures in parenthesis show percentages.

The majority of the respondents are occasional operators in the primary market. 88.8 per cent (231) of the investors operate in the primary market. Income wise analysis shows that 77.7 per cent (202) of the investors belong to the middle income group. New entrants (of the investing public) prefer to secure shares through public issues rather than by trading in the secondary market.

Table 5.11
Return on Investment in New Issues

Category of Investors	High	Low	Was High
Bank employees	12 (25.1)	20 (42.6)	15 (31.9)
Teachers	10 (30.3)	11 (33.3)	12 (36.4)
Company employees	9 (21.9)	13 (31.7)	19 (46.3)
Government employees	9 (24.3)	9 (24.3)	19 (51.4)
Business	11 (23.9)	16 (34.8)	19 (41.3)
Professionals	2 (8.3)	6 (25.0)	16 (63.7)
Retired	2 (20.0)	2 (20.0)	6 (60.0)
Others	6 (27.3)	8 (36.4)	8 (36.4)
Total	61 (23.5)	85 (32.7)	114 (43.8)

Source: Survey data.
Note : Figures in parenthesis show percentages.

If the returns are commensurate with the risk the investor assumes, the investment decision may be considered as the right one. The majority of the investors believe that investment in the primary market is more remunerative. 43.8 per cent state that it was higher during the early nineties and 23.5 per cent state that it continues to be high.

Table 5.12
Risk in Investment in New Issues

Category of Investors	Safe	Not safe	Was Safe
Bank Employee	14 (29.8)	20 (42.5)	13 (27.7)
Teachers	16 (48.5)	6 (18.2)	11 (33.3)
Company Employee	10 (24.4)	14 (39.1)	17 (41.5)
Govt. Employee	13 (35.1)	9 (24.3)	15 (40.5)
Business	12 (26.0)	17 (37.0)	17 (37.0)
Professional	4 (16.7)	5 (20.5)	15 (62.5)
Retired	2 (20.0)	1 (10.0)	7 (70.0)
Others	6 (27.3)	10 (45.5)	6 (27.3)
Total	77 (29.6)	82 (31.6)	101 (38.8)

Source: Survey data.
Note : Figures in parenthesis show percentages.

Among the two segments in the capital market, primary market is considered to be safer. 38.8 per cent feel that the primary market was safer till recently. However 29.6 per cent feel that it continues to be safe. This also indicates the recent changes in the primary market. Among the different groups on the basis of occupation, teachers prefer the primary market the most.

Table 5.13

Net Gain on Primary Market Investment – by Education

Education wise classification	Gained	Not gained	Class Total
Non –matriculate	4 (18.2)	18 (81.8)	22
Pre-Degree	5 (31.3)	11 (68.7)	16
Graduate	62 (50.8)	60 (49.2)	122
Post Graduate	17 (36.2)	30 (73.8)	47
Professional	19 (41.3)	27 (58.7)	46
Others	1 (14.3)	6 (85.7)	7
Total	110 (42 .3)	150 (57.7)	260 100

Source: Survey data.

Note : Figures in parenthesis show percentages.

Despite the status of the primary market as more remunerative and safer, only 42.3 per cent state that they are net gainers on new issue investment. This indicates that the percentage of net gainers in the secondary market has been lower. Responding to a different question, the majority of the investors described their equity investment experience as unsatisfactory. Education wise analysis shows that investors with low education have been ultimate losers in the primary market. Taken as a separate group, graduates constitute the majority gainers.

Table 5.14
Net Gain on Primary Market Investment – by Profession

Category of Investors	Gained	Not gained	Class Total
Bank employees	22 (46.8)	25 (53.2)	47
Teachers	14 (42.4)	19 (57.6)	33
Company Employees	17 (41.5)	24 (58.5)	41
Govt. Employees	11 (29.8)	26 (70.2)	37
Businessmen	20 (43.5)	26 (56.5)	46
Professionals	13 (54.2)	11 (45.8)	24
Retired	4 (40.0)	6 (60.0)	10
Others	9 (40.9)	13 (59.1)	22
Total	110 (42 .3)	150 (57.7)	260 100

Source : Survey Data
Note : Figures in parenthesis show percentages.

Profession wise, professionals stand net gainers. Besides, it shows that government employees have been ultimate losers in the primary market.

Table 5.15

Guidance in Decision making in the Primary Market

Guidance	Average Score	Rank
Own	75.38	1
Friends	54.92	2
Media	47.31	3
Brokers	15.15	4
Relatives	13.15	5

Source : Survey data

Though investment decisions depend on one's own judgement, due weightage has been given to friends and the media. The role of stock- brokers in influencing the decisions of investors in the primary market is negligible. Investment decisions based on tips and rumours are likely to be wrong. Investment especially equity investment, demands good knowledge of the market and due diligence. Investment decisions in the primary market lack the professional touch in Kerala

Prospectus is a formal public document offering to sell shares, setting forth details an investor needs to know to make investment decisions. A prospectus contains heads of information like business of the company, promotors, business collaboration, the board of directors, cost of the project, means of finance, business prospects, the size of the issue, listing and the names of managers and underwriters to the issue. Around 51.5% of the investors either do not refer to any literature on capital market or merely go through the prospectus in lieu of information of the companies. This also indicates that investors, by and large, are not well informed and are not likely to be rational decision-makers. Only around 5 per cent study the prospectus thoroughly.

Table 5.16
Studying Prospectus while Deciding to Apply for New Issues

Education-wise Classification	No	Yes	Just go through	Refer in brief	Refer in detail
Non-Matriculate	11 (50.0)	2 (9.1)	8 (3.4)	2 (4.5)	–
Pre-Degree	6 (37.5)	4 (25.0)	6 (37.5)	–	–
Graduate	17 (13.9)	40 (32.8)	43 (35.2)	19 (15.6)	3 (2.5)
Post Graduate	4 (8.5)	12 (25.8)	20 (42.6)	5 (10.6)	4 (8.5)
Professional	4 (8.7)	19 (41.3)	13 (28.3)	6 (13.0)	4 (8.7)
Others	–	6 (85.7)	1 (14.3)	–	–
Total	42 (16.2)	84 (32.3)	91 (35.0)	32 (12.3)	11 (4.2)

Source: Survey data.
Note : Figures in parenthesis show percentages.

Various factors influence investment decisions in the primary market. Table 5.17 shows various factors arranged in the order of preference expressed by the respondents. The track record of the company and the promoters are given top priority, while deciding to apply for shares. Highlights of the issue and the product of the company are also important considerations.

Table 5.17
Factors Influencing Primary Market Investment

Rank	Factors	Average Score
1	Track record of the company	64.04
2	Track record of promotors	63.81
3	Highlights of the Issue	49.04
4	The product of the company	47.19
5	Risk factors mentioned	45.92
6	Ratings given in Publications	44.35
7	Equity Participation of promotors	41.15
8	Equity participation of foreign firms	33.12
9	Some big name in the Board	15.46
10	Who the underwriters are	11.38

Source : Survey data.

Table 5.18

Borrowings for Equity Investment

Category of Investors Monthly Income	No	From friends	Banks	Financiers
Below - 5000	39 (65.0)	19 (31.7)	2 (3.3)	–
5001 -10000	101 (71.1)	29 (20.4)	12 (8.5)	–
10001 -15000	28 (70.0)	1 (2.5)	11 (27.5)	–
15001 -20000	5 (83.3)	–	1 (16.7)	–
Above 20000	2 (50.0)	1 (25.0)	1 (25.0)	–
Not Revealed	4 (50.0)	1 (12.5)	2 (25.0)	1 (12.5)
Total	179 (68.8)	51 (19.6)	29 (11.2)	1 (0.4)

Source : Survey data

Note : Figures in parenthesis show percentages.

The majority of the Investors (68.8%) do not borrow for equity investment. Around 20 per cent borrow from friends and 10% borrow from banks. The cost of borrowings, i.e., the rate of interest is reasonably high, and so it may not be profitable to invest borrowed funds. Speculators usually borrow for equity investment and therefore it indicates that majority of the investors are not speculators.

The capital market suffers from functional and institutional lapses. There have been inordinate delays in allotment of shares, refund of application money, despatch of share certificates and effecting transfer of shares. In connection with Allotment, Refund and Share Transfer 41.5 per cent (108) of the investors had to file complaints with the companies. Of these, 62.96 per cent (68) succeeded in solving their problems. Around 15 per cent of the investors lodged complaints with the S E B I.

5.6 Investors in the Secondary Market

Stock market is a place where the purchase and sale of securities like shares and debentures take place. Members of the stock market known as stock- brokers transact business on behalf of the investors. Institutions also can become members of the stock market.

Table 5.19

Secondary Market Operations

Income – wise Distribution

Monthly Income	Do not Buy	Shares only	Debentures only	Both
Below 5000	30 (50.0)	30 (50.0)	–	–
5001 - 10000	56 (39.4)	84 (59.2)	–	2 (1.4)
10001 -15000	10 (25.0)	27 (67.5)	1 (2.5)	2 (2.5)
15001 -20000	–	5 (83.3)		1 (16.7)
Above 20000	2 (50.0)	2 (50.0)		
Not Revealed	2 (25.0)	5 (62.5)		1 (12.5
	100 (38.5)	153 (58.8)	1 (0.4)	6 (2.3)

Source: Survey data.
Note : Figures in parenthesis show percentages.

61.5% of the investors buy securities from the Secondary Market. Only 2.7 per cent of the respondents buy debentures. This substantiates the statement that debenture market in Kerala is not popular.

Table 5.20

Share Retaining Habits of Investors

Monthly Income	Till listing	Three Months	One year	Three years	More than Three Years
Below 5000	6 (10.0)	6 (10.0)	11 (18.3)	24 (40.0)	13 (21.7)
5001 - 10000	11 (7.2)	7 (4.9)	31 (21.8)	55 (38.7)	38 (26.8)
10001 – 15000	1 (2.5)	–	10 (25.0)	20 (50.0)	9 (22.5)
15001 – 20000	1 (16.7)	1 (16.7)	–	1 (16.7)	3 (50.0)
Above 20000	–	–	1 (25.0)	2 (50.0)	1 (25.0)
Not Revealed	1 (12.5)	2 (25.0)	–	3 (37.5)	2 (25.0)
Total	20 (7.7)	16 (6.1)	53 (20.4)	105 (40.4)	66 (25.4)

Source: Survey data.

Note : Figures in parenthesis show percentages.

About 65.8 per cent of the respondents hold shares for a period of more than one year. They seem to prefer a steady return from their investments to windfall gains from speculations. This tendency of the investors indicates that investors out number speculators in the capital market.

Table 5.21

Perceptions of Indices as Performance Indicators

Indices	Positive	Negative	Misleading	Only an indication	Total
BSE Sensex	65 (25.0)	38 (14.6)	37 (14.2)	120 (46.2)	260
NSE Index	42 (16.2)	31 (12.0)	42 (16.2)	145 (55.8)	260
National Index	32 (12.3)	32 (12.3)	49 (18.8)	147 (56.5)	260
Cochin S E Index	26 (10.0)	86 (33.0)	41 (15.8)	107 (41.2)	260
Per - centage	**(15.8)**	**(18.0)**	**(16.3)**	**(49.9)**	**100**

Source: Survey data.

Note : Figures in parenthesis show percentages.

Stock market Indices are expected to provide an overview of the behaviour of security prices and the direction of the market. The B S E Sensex still remains the popular index among investors, though most of the investors are aware that stock market indices are not real indicators of the market conditions. Only 15.8 per cent feel that these are indicators at least in some way.

Table 5.22

Effectiveness of S E B I as the Regulator of Capital Market

Category of Investors	Yes	No	Very Little	Class Total
Bank employees	14 (29.8)	10 (21.3)	23 (48.9)	47
Teachers	4 (12.1)	27 (21.2)	22 (66.7)	33
Company employees	3 (7.3)	25 (61.0)	13 (31.7)	41
Govt: employees	5 (13.5)	16 (43.2)	16 (43.2)	37
Business	1 (2.2)	27 (58.7)	18 (75.0)	24
Professionals	2 (8.3)	4 (16.7)	18 (75.0)	24
Retired	–	6 (60.0)	4 (40.0)	10
Others	35 (13.5)	101 (38.8)	129 (47.7)	260 (100)

Source: Survey data.
Note : Figures in parenthesis show percentages.

More than 90 per cent of the investors are aware of the existence of Securities and Exchange Board of India (S E B I). But there is a strong feeling among the investors that SEBI has not succeeded in regulating the capital market. Only a small minority (13.5%) believes that S E B I has been successful.

Table 5.23
Opinion of Investors about Stock Brokers

Opinion	Frequency	Per centage
Well Informed	42	16.2
Not well Informed	218	83.8
Total	**260**	**100**
Honest	123	47.3
Dishonest	137	52.7
Total	**260**	**100**
Prompt Payment	44	16.9
Delay in Payment	216	83.1
Total	**260**	**100**
Reliable	147	56.5
Not Reliable	113	43.5
Total	**260**	**100**
Helpful	193	74.2
Not Helpful	67	25.8
Total	**260**	**100**

Source: Survey data.

A broker is a member of the stock exchange who has been licenced to buy or sell shares on his own or on his client's behalf. Brokers offer facilities such as safe keeping client's shares, offering investment advice, planning client's portfolio of investments and managing client's portfolio. On professional competence, about 84% believe that brokers are not well informed, about 53% feel that brokers are not honest, and about 83% have experienced that there is considerable delay in payments. However, the majority of the investors (74.2%) consider that brokers are helpful.

Table 5.24
Attitude on Attending Short- term Courses on Capital Market

Category of Investors	Interested	Not Interested	Inclined	Total
Bank employees	16 (34.0)	9 (19.1)	22 (46.8)	47
Teachers	7 (21.2)	13 (39.4)	13 (39.4)	33
Company employees	12 (29.3)	6 (14.6)	23 (56.1)	41
Govt: employees	9 (24.3)	5 (13.5)	23 (62.2)	37
Business	5 (10.9)	17 (37.0)	24 (52.2)	46
Professional	5 (20.8)	7 (29.2)	12 (50.0)	24
Retired	2 (20.0)	1 (10.0)	7 (70.0)	10
Others	9 (40.9)	2 (9.1)	11 (50.0)	22
Total	**65**	**60**	**135**	**260**
Percentage	**(25.0)**	**(23.1)**	**(51.9)**	**(100)**

Source: Survey data.
Note : Figures in parenthesis show percentages.

Around 77 per cent of the respondents are interested and in favour of attending awareness programmes and even short-term courses on capital market investments. Among the various groups on the basis of occupation, Bank Employees are more interested in attending such programmes. Teachers followed by business- men are the least interested.

Table 5.25

Investor Preference in Kerala Based Companies by Profession

Category of Investors	Interested	Not interested	Total
Bank employees	5 (10.6)	42 (89.4)	47
Teachers	10 (30.3)	23 (69.7)	33
Company employees	8 (19.5)	33 (80.5)	41
Govt: employees	5 (13.5)	32 (86.6)	37
Business	10 (21.7)	36 (78.3)	46
Professional	5 (20.8)	19 (79.2)	24
Retired	2 (20.0)	8 (80.0)	10
Others	8 (32.4)	14 (67.6)	22
Total	**53**	**207**	**260**
Percentage	**(20.4)**	**(79.6)**	**(100)**

Source: Survey data
Note : Figures in parenthesis show percentages.

Around 80% of the respondents are not inclined to invest in Kerala Based Companies. IRR of Regional companies, evaluated and presented in Chapter 6, substantiates this statement. Most of the Regional companies recorded negative returns.

Table 5.26

Intentions of Investors to Continue in the Capital Market

Category of Investors	Certainly Yes	Probably	Certainly No	Total
Bank employees	8 (17.0)	26 (55.3)	13 (27.7)	47
Teachers	4 (12.1)	20 (60.6)	9 (27.3)	33
Company employees	8 (19.5)	26 (63.4)	7 (17.1)	41
Govt: employees	3 (8.1)	31 (83.8)	3 (8.1)	37
Business	10 (21.7)	27 (58.7)	9 (19.6)	46
Professional	6 (25.0)	16 (66.7)	2 (8.3)	24
Retired	2 (20.0)	7 (70.0)	1 (10.0)	10
Others	4 (18.2)	15 (68.2)	3 (13.6)	22
Total	**45**	**168**	**47**	**260**
Percentage	**(17.3)**	**(64.6)**	**(18.1)**	**(100)**

Source: Survey data
Note : Figures in parenthesis show percentages.

It is alarming to note that only 17.3 per cent of the respondents are sure, certain and likely to continue investment in the Capital Market. 64.6 per cent are not sure, where as 18.7 per cent have withdrawn from the market forever. The study indicates that the capital market is likely to be lukewarm for some more time (Survey was conducted during mid 1997).

5.7. Problems faced by Investors

Investors have been attracted to the capital market by the potential for rapid growth and high returns. However, they have been highly discouraged by the operating inefficiencies and lack of reliability of market institutions and infrastructure.

Investors face numerous problems in the capital market. There has been acute shortage of reliable information on the capital market network. Investors feel that the media is not friendly to them. Frequent change in the norms by the Regulators for new issues cause worries.

Rigging of prices – as in the case of M S Shoes issue – before floating of new issues is yet another problem. Manipulation of high premium on new issues is a similar problem. Besides, certain promoters manipulate and inflate the costs of the projects several times.

There has been undue delay in refunding the application money, issue of allotment letters and in the issue of share certificates. Because of the absence of any mechanism to check the performance of companies which come out with public issues, a number of companies vanish into thin air after the issue.

Investors in up-country regions lack accessibility to Stock Exchange, Stockbrokers and collection centres of commercial banks. Hence, the primary market has a serious problem to mobilise the potential savings of the public. Only less than 10 per cent of the financial savings are routed through the capital market.

The most important problem faced by investors in the secondary market has been delay and non-payment of dues or non-delivery of shares by brokers. Similarly there is undue delay in transfer of shares by companies, mostly due to bad delivery. The investors also experience delay in payments of dividends on shares and interest on debentures. Rights issues and bonus issues very often result in the problem of odd lots. The stock market lacks liquidity as it is flooded with untradable scrips, thousands of which are quoted below par. Besides, most of the stock exchanges are in metropolitan cities and so, many up-country investors miss the market very often.

5.8. Conclusion

Despite the existence of favourable environment and potential for the spectacular growth of the capital market in the State, shareholder density has been far below the national average. This indicates the under-utilisation of favourable circumstances.

Several factors influence the investors' demand preferences for assets. The important factors have been return, risk, and liquidity of which, the investors have given top priority to the return.

Despite Kerala's commendable achievements in the field of education, investors in the capital market are not well read and thus not well informed. Capital market investment is one area which demands adequate and reliable information for making right decisions. Issuers are required to disclose meaningful information to help investors take sound decisions. But only one-third of the investors can read and understand the financial statements of companies and so, not likely to be rational decision-makers. Those who read and analyse information give top priority to the track record of companies, followed by highlights of issue and the product of the company. A good number of investors depend on their friends and the media for investment guidance.

Small investors dominate the capital market, and the debenture-holder density is remarkably low in Kerala. Debt market is an area where the investors can fearlessly tread in. An investor who buys a debenture is lending money to the issuing company or institution at a given rate of interest. The debenture- holder can sell the instrument in the market or may hold it till the repayment date. Investment in debt instruments of good quality can provide a steady guaranteed income combined with safety of the principal. The interest rate on such bonds is 4 - 5 per-centage points higher that on bank deposits. A good number of investors who are habitual depositors in banks have entered the capital market through the Mutual Funds. The majority does not borrow for making investment in the capital market.

The Primary market has been the favourite of the vast majority of investors. About 43.8 per cent of the investors expressed that they had been receiving higher return from the primary market. Only less than a quarter of the total number of investors have stated that the return from the primary market has been higher. It guides us to the reason for the recent sluggishness in the primary market. Despite the rapid growth of the market in the eighties and the early nineties, the prolonged sluggishness of primary market during the latter part of the nineties has been a matter of serious concern.

The majority of the investors buy securities from the secondary market, only a very small number buy debentures, and this substantiates the view that debenture market in the state is not popular. Investors in general hold shares for a period of more than one year and it indicates that, investors out number speculators in the capital market. Of the various forms of returns on investment, top priority has been given to capital gain.

Investors reveal strong feelings on the ineffectiveness of stock price indices and the regulator, SEBI itself. They also doubt the professional competence of stock–brokers. The study also reveals that the majority of the investors are not inclined to invest in Kerala based regional companies and some of them have already withdrawn from the market. The majority of the investors have revealed their willingness to learn and readiness to attend awareness programmes and even short- term courses on capital market. Timely and right interventions by the regulators could bring positive changes in the attitudes of investors.