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A STUDY ON DEMOGRAPHIC PROFILE OF RETAIL INVESTORS IN ANDHRA PRADESH

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ABSTRACT

A high performing portfolio is every investor's goal. Investors are engaged in blending the multiple competencies, residing in the investment markets to create new growth drivers. The questionnaire was designed to identify the Demographic profile, investor's perception on Risk tolerance and the Awareness of investors. The statistical tools applied in this paper, for the purpose of study include Percentage analysis, T-test, Cluster Analysis and Analysis of Variance.
Key Words: Investment, Portfolio, Retail Investors.

INTRODUCTION:

The global investment landscape has changed dramatically with the rapid strides in the investment sector. Investor's vigilance is regarded as the essential milestone for long-term sustainability. Every investor runs the investment marathon, dreaming to beat the market and being super investors. Investors spend an inordinate amount of time and resources in this endeavor. Fluctuations have become the 'Hallmark of the Investment Market'. Consequently, many fall an easy prey to the magic bullets (returns promised) and the secret formulae offered by financial agents pushing their products. Investors constantly seek the key to their portfolio asset-picking abilities, so that they can become wealthy quickly. Thus, in this incessant and persistent race, the availability of various investment assets induces the investors to trump the marketplace by a wide margin. In the upshot, investors try to invest sensibly to ensure stability. In such a relentless marathon, where market swings are erratic – investors can remain stable only by effective management of the assets. In order to ride out the period of uncertainty, an all-weather diversified mix of financial assets is preferred by investors. This is recognized as Investment Portfolio Management.

Investment Portfolio Management has become an established means for managing investments. It is gaining strength as a way for savers to invest over the next decade. It provides

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a better understanding of markets and greater technological capacity for sophisticated investing. Thus Portfolio management becomes the order of the day to every investor. The concept of investment portfolio management is rapidly climbing domestic as well as global political agendas. In an environment of escalating competitive pressures, investors have identified that only a structured well diversified portfolio would offer stability in the market. Thus even in the absence of any legal binding the concept is catching on worldwide. The Investment philosophy should therefore be consistent at its core. It should also match both the market and investors' individual characteristics.

REVIEW OF THE LITERATURE:

The earliest portfolio theory can be traced to **Markowitz (1952)**, who presents the famous mean-variance analysis. In that model, the individual makes investment decisions by balancing the expected return (mean) of financial investment and the riskiness (variance) of the return on each asset. The permanent income hypothesis was developed by **Milton Friedman.** The hypothesis states that the investment patterns of consumers are determined not by current income but by their long-run income expectations (**Friedman, 1957**). **Tobin (1958)** further illustrates that risky assets comprise different proportions of a household portfolio. It further proposes that more risk adverse investors should hold a greater proportion of their portfolio in risky assets. On a different perspective, **Lydall (**1958**) and Pesek (**1963**)** found that wealth and not income had a significant effect on investment of individual investors.

OBJECTIVES OF THE STUDY:

- ✓ To study the demographic profile and investment portfolio of small and retail investors.
- ✓ To offer appropriate suggestions for policy makers based on demographic factors of small and retail investors.

METHODOLOGY OF THE STUDY:

The data collection started with segregating the CRDA area/ region of study viz., Vijayawada, Vuyyur, Guntur and Tenali . The data collection segregated on the basis of region ensured that the random sample has quality sample data to arrive at meaningful conclusions. A sample size of 623 respondents was taken for the study on a random sampling basis. Out of this only 500 of them were found to be suitable for analysis and study. The study covers investors from selected parts of CRDA Area. Hence, the exact sample of the study is 500. Primary data was collected through a formal questionnaire administered to the respondents to identify the

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awareness, involvement, and evaluation of the investment portfolios. The data is analyzed using statistical package for social sciences (SPSS) and other computer packages.

Demographic Profile of the Retail Investors:

Demographic profile and socio-economic conditions are highly indispensible for investors to decide their investment avenues and to choose the Investment Portfolio. The present thesis deals with the influence of demographic factors like age, gender, marital status, education and occupation on the investment preference of the investors. Besides these, the influence of investors' profile over the place of residence, gross household income and percentage of income for investment are also considered. Discussed below is the analysis relating to Socio-Economic factors.

Age of the Retail Investors:

Age is a crucial factor which depicts the personal and financial maturity of investors to invest in different investment products. Investors have to rightly choose an Age-appropriate investment portfolio. This in turn would help investors across different age spectrum to earn their returns. Every investor depending on their age should first focus on tried-and-true portfolios' to achieve a balance in the investment returns.

TABLE 1.1 : Frequency of Age

Variable	Frequency	Valid Percent
Less than 30	61	12.2
31-35	137	27.4
36-40	93	18.6
41-45	77	15.4
Above 45	132	26.4
Total	500	100.0

Source: Primary Data

The present research work comprises of five different stages of Age, viz, below 30, 31-35, 36-40, 41-45, above 45. The investors in these age groups expressed their perception on the evaluation of investment portfolio. The above table elaborately explains the different age groups of the investors. Data extracted from the table specifies that the sample unit comprises 12.2% of investors below 30 years of age, 27.4% of investors between 31 and 35 years of age, 18.6% of investors between 36 and 40 years of age, 15.4% of investors between the age of 41-45 and 26.4% above 45 years of age.

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Gender of the Retail Investors:

Despite the narrowing of the gender differences in education, income and wealth there exists overtime a lack of knowledge and exposure between men and women. This results in differences in financial behaviour and investment decision-making process. Differences are also observed in the pattern of investment involvement and learning preference. Furthermore the impact is also felt in the socio-economic role and in portfolio diversification.

TABLE 1.2: Frequency of Gender

Variable	Frequency	Valid Percent
Male	317	63.4
Female	183	36.6
Total	500	100.0

Source: Primary Data

The research investigation of the demographic factor viz., gender in the frequency table presented above, establishes the presence of highest frequency for Men than for women. Men invest more and the percentage surfs up to 63.4%.

Education of the Retail Investors:

The relationship between education and investment behaviour is a more complex relationship. Education plays a vital role in shaping the personality of an individual determining his future career prospects. The variation in investment market participation, asset allocation, and portfolio risk choices is because of the education levels of the investors. The present research quantifies the proportion of variation in investment behaviour caused by differences in the educational levels.

TABLE 1.3: Frequency of Education

Variable	Frequency	Valid Percent
School Final	95	19.0
Graduate	256	51.2
Post Graduate	99	19.8
Professional	50	10.0
Total	500	100.0

Source: Primary Data

Evidently, the education levels are grouped into four categories. Percentage distribution brings out the fact that graduates invest more in the financial assets when compared to the other

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educational levels. The frequency percentage rates to 51.2%. The frequency levels to 10% for professionals, 19% for school finals and 19.8% for post graduates.

Occupation of the Retail Investors:

The career status plays a primary role in influencing the investment pattern of investors. The amount of surplus available for investment is significantly influenced by the type of occupation an investor holds viz. Govt Service, Private, Professional practice, Own Business, Retired. Occupation acts as a major determinant for earning income, which in turn determines the investment potential of investors.

TABLE 1.4: Frequency of Occupation

Variable	Frequency	Valid Percent
Govt Service	117	23.4
Private	149	29.8
Professional Practice	96	19.2
Own Business	134	26.8
Retired/Others	4	.8
Total	500	100.0

Source: Primary Data

The results evidence the fact that investment behaviour is more influenced among the Private sector employees (29.8%) than with any other sectors. But a closer look at the data reveals that the frequency distribution is not significantly different between different sectors. Hence, barring the retired group of investors, employees at all occupation levels still concentrate on investments and ensure that they have a portfolio.

Place of Residence of the Retail Investors:

The Place of residence is often not considered as a significant factor in investment behaviour, but the fact that the information availability/avenues are different in different places is worth remembering. For the purpose of this research, the place of residence was classified as Metro, Non - Metro and Town/District.

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TABLE 1.5: Frequency of Place of Residence

Variable	Frequency	Valid Percent
Metro	189	37.8
Non-Metro	197	39.4
Town/District	114	22.8
Total	500	100.0

Source: Primary Data

A brief look at the results reveals that the Investment behaviour is more pronounced among respondents in Non-Metro (39.4%) followed by those in Metros (37.8%). Investors in Town/District also have investments made as part of their portfolio (22.8%), despite the fact that the access to information/awareness is low.

Gross Household Income of the Retail Investors:

Gross Household income is the sum of income from all sources including income from employment, rentals and other income from all members of the household. Various studies have found that income is one of the significant factors which influence the investors' behaviour.

TABLE 1.6: Frequency of Gross Household Income

Variable	Frequency	Valid Percent
Less than 20000	12	2.4
20001 to 40000	85	17.0
40001 to 60000	106	21.2
60001 to 80000	204	40.8
80001 and above	93	18.6
Total	500	100.0

Source: Primary Data

More the income more is the availability of surplus funds for investment, assuming that the investor does not have a significant debt component in the Portfolio. The Research reveals that investors in the income range of 60001 to 80000 invest more in financial assets (40.8%) when compared to investors at other income levels. A low percentage is evident from the lesser income group and the percentage scores to 2%.

Income Percentage of the Retail Investors:

When it is true that the income is a major determinant of investment decision, a factor that can tell the story better is the percentage of income that an investor is able to save every month. If an investor has loads of debt and he uses majority of his income to service these debts, then

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even a higher income level does not guarantee more investments

TABLE 1.7: Frequency of Income Percentage

Variables	Frequency	Valid Percent
Between 1%-10%	7	1.4
Between 11% -15%	23	4.6
Between 16%-20%	57	11.4
Between 21%-25%	330	66.0
Greater than 26%	83	16.6
Total	500	100.0

Source: Primary Data

A majority of investors were found to save between 21%-25% of the Gross Household Income. The percentage is significantly high, considering the fact that the household expenditures have grown much in the recent past. The percentage of saving is less (1.4%) for low savers who save between 1% - 10%.

Investment Objectives of the Retail Investors:

The first step of an investor in investing is to set the investment objective. The objectives vary for individuals, banks, financial institutions and insurance companies. For an individual investor, the objective would be to optimize return on investments. Generally, investment objectives would revolve around aspects of income generation, growth of the investment capital, stability and implementation. Some of the important objectives are taken for the scope of the study.

TABLE 1.8: Frequency of Investment Objectives

Variables	Frequency	Valid Percent
Capital conservation	254	53.6
Modest income, no risk	268	60.2
Modest income, Capital Growth	194	38.8
Substantial income, Modest Risk	234	46.8
No investment Income, Modest Capital Growth	152	30.4
No investment Income, Aggressive Growth	201	50.8

Source: Primary Data

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In view of the Percentage table enumerated above, it is found that greater percentage is held up for the objective: Modest income and no risk of capital. The percentage amounts to 60.2%. This objective helps investors to protect their income and to keep their wealth.

Investment Products of the Retail Investors:

The investment products are diverse with a range of Equity and Debt instruments available in the market. The study focuses on 5 products, but an attempt was made to identify the investment made in few debt and equity instruments. The Debt instruments include Mutual Funds, Insurance, PPF, Annuities, NSC and Fixed Deposits. The Equity instruments include Equity shares, Options, Futures, Stocks, Securities, Bonds and Debentures

TABLE 1.9: Frequency of Investment Products

Variables	Frequency	Valid Percent
Mutual Fund	263	52.6
Life Insurance	271	54.2
PPF	196	39.2
Annuities	272	54.4
NSC	146	29.2
Fixed Deposits	301	60.2
Equity Shares	239	47.8
Options/Futures	276	55.2
Stock/Securities	223	44.6
Bonds/Debentures	267	53.4

Source: Primary Data

Fixed deposits appear to be of predominant interest among investors with, 60.2% admitting their investments in FD's. The Postal investment products viz. PPF and NSC does not seem to be a product of interest among majority of the investors. Barring this, from the sample obtained it is found that all the investment products fare at the same level and have elicited almost equal interest among investors.

Investment Threats of the Retail Investors:

All the investors do not invest in all the products in the universe and this implies that there could be few threats that investors perceive in those products that they do not invest. The Equity instruments are associated with more risk than the debt instruments, especially because of their dependence on market performance. Most of the investors save in anticipation of better

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future returns. Hence, it seems to be a safe bet to analyze the threats associated with different investments, before landing on them.

TABLE 1.10: Frequency of Investment Decision Threats

Variables	Frequency	Valid Percent
Risk Consideration	238	47.6
Lack of Funds	195	39.0
Lack of knowledge	224	44.8
Expected returns not met	142	25.1

Source: Primary Data

The Risk consideration is a factor which 47.6% of the investors perceive as a major threat in their investment decision. Also inadequate knowledge of the different investment products poses a threat to investors. Moreover, the astonishing availability of product options hinders the investor's ability to zero in on any individual product. This factor is reported by 44.8% of the investors.

Investment portfolio reviews:

Investment portfolio needs frequent reviews, the failure of which may hamper the investment objectives of the investor. The Investment portfolio might have products which are market dependent. Hence it makes sense to do a periodic review to ascertain the validity of any decision made.

TABLE 1.11: Frequency of Investment Portfolio Reviews

Variables	Frequency	Valid Percent
Rarely/Never	133	26.6
Monthly	35	7.0
Annually	40	8.0
Quarterly	292	58.4

Source: Primary Data

The reviews could act as a check point and reveal certain interesting facts and surprises too. In the above table, majority of investors, i.e., 58.4% review their portfolio on a quarterly basis, whereas 7% of the investors perform a monthly review of their portfolio. Surprisingly, 26.6% of the investors have never reviewed their portfolio.

Investment Portfolio factors of Investors:

An investment into any of the available product entails analysis of various factors associated with the products. The Individual investor's perception of these factors decides their investment behaviour. While the risk-return trade-off is a driving factor behind most of the investment decisions, there still exist few other factors of interest.

TABLE 1.12: Frequency of Investment Portfolio Factors

Variables	Frequency	Valid Percent
Liquidity	132	26.4
Low Risk	36	7.2
Company Reputation	43	8.6
High Returns	289	57.8

Source: Primary Data

High returns is the factor which drives majority of investment as has been expressed by 57.8% of the investors. This is as expected, since any investment is made with an anticipated return. It is also natural for any investor to expect the maximum return possible. Liquidity is also a significant factor and 26.4% of the investors base their favour on those products which offer better liquidity. Company reputation does not seem to be a major factor and this can be attributed to the fact that few products are backed by Government's participation. Comparatively, Low risk is not identified as the first factor to be considered for investing. This is evident in the low percentage of 7.2% of investors opting for this factor.

FINDINGS:

- The sample unit consists of 27% of the investors in the age group of 31-35, dominating the investment market. The prime investing age that is identified in this analysis is between 31 and 35 as at this age every investor would not mind about the risk factor when investing.
- The sample unit comprises of 63% male and 37% of female investors expressing their views about various dimensions of investment portfolio choice. Women investors are less than men. They differ from men in their access to information and also the ability or inclination to use such information.
- The frequency percentage ranks higher for graduates in the education criteria with 51.2% of the sample unit possessing graduate degree.
- One of the crucial factors is designation clubbed under four heads viz., Govt Service, Private, Professional Practice and Own Business. 29.8% come under Private Companies

and 26.8% pursuing own business. Thus investing is more pronounced with investors who are employed in Private Companies.

- The percentage of savings in Gross Household Income is between 21%-25% for most of the investors. The global crisis or the financial crunch has stimulated the investors to save more to safeguard themselves from extremities.

SUGGESTIONS:

1. Company reputation was found to be one of the factors that significantly influence investment decision. Hence, the investors should spend some time to understand about the company's reputation before betting on them. This is more important in the case of Mutual funds, where the profile of the fund manager and the background of the company can have significant impact on the returns.
2. Investors should subscribe to different alerts to ensure that they track their investments better. With the advent of technology and proliferation of channels, investors are presented with a wide variety of options to subscribe to alerts. E-mail has been found to be the most preferred form of alert, as they are more reliable and fast thereby helping investors to achieve their investment goals. Investors should subscribe to e-mail alerts to keep better track on the investments and their schedule.
3. Public provident Fund has emerged as a forerunner among various investment products, in their role as a Tax benefit product. When there are numerous products available in the market to qualify for tax rebate, PPF has more acceptance among investors due to its inherent advantage and a tax free return. Investors of any age group, income, educational background should consider PPF as one of the component in their portfolio.

CONCLUSION:

At the end of the journey it is found that the determinants of savings in India are identical with the rest of the world. Income is the prime determining factor for every human being. Thus portfolio management dominates the agenda of every human being who invests. Therefore investors are called to adhere to the principles of active portfolio management. Investors prefer to make investments in assets that are risk free.

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