A STUDY ON INDIAN STOCK MARKET INVESTMENT STRATEGIES: WITH SPECIAL REFERENCE TO SELECTED CITIES' STOCK MARKET INVESTORS

Ms. Jyoti
Assistant Professor, DoBA
K.P. College of Management, Agra, India.

Mr. Rupendra Bansal
Lecturer
Datapro, Sikkim Manipal University, India.

ABSTRACT

Investment is commitment of present funds for future returns or benefit**.** Investment in stock market is a risky task hence the investor try to find best strategy which will help them gaining from this market. Due to heavy fluctuations and even intraday movement of prices, this market has a lot of risk involved. This study is undertaken to understand the present scenario of stock market in India while considering selected cities as sample area.
This study summarizes the views of common stock investors of selected cities regarding their interest in this market, frequency of investment, risk profile, preferences for various investment opportunities, etc. Besides, it also compiles the result of a hypothesis test regarding the risk consideration amongst different age groups while selection of various investment avenues.

Keywords: Investment, Stock Market, Behavioral Finance

Introduction:

Over the past few years, Investing is a method of purchasing assets in order to gain profit in the form of reasonably predictable income (dividends, interest, or rentals) and appreciation over the long term. Through under such strategies, flyby investors have been prevented from raising funds, but the problem to identify where to invest, why to invest and how to invest.

There is no single strategy followed by investors in stock market. Everyone has different risk-return profile and hence uses best suitable plan for investment. Some investors believe on calculations while others believe on graphical predictions.

Objectives:

- To identify the perception of investor for stock market in Agra, Mathura, Aligarh, Etah region.
- To understand the risk profile of common investors.
- To understand the investment strategy of common investors in the stock market.

Significance of The Study:

This study is undertaken to understand present scenario of Indian stock market. It will help in studying the behavior of common investors of selected Cities and identify their strategies for investment in the stock market. This study can further be extended for overall Indian stock market for better in-depth understanding.

Literature Review:

- Chen (2007) summarizes empirical findings of anomalies in market pricing and a brief overview of the Efficient Markets Hypothesis. One of the most controversial results of EMH is that efficient markets do not allow investors to earn above-average returns without accepting above-average risks, except through luck. The stock market indirectly guides investment by transferring of the information.
- Chattopadhyay & Behera in their study explain the forepart of this century has been the financial liberalization of equity markets across the world. It is generally believed that due to liberalization policy and the consequent development of Indian stock markets, the latter might have integrated with the developed markets. They concluded that Indian stock market is not influenced by other markets. Of course, some short-term sentiment in the world market does have impact but this is short-lived.
- Gupta (2003) studied to examine the impact of environmental rating of large pulp and find that the market generally penalizes environmentally un-friendly behaviour in that announcement of weak environmental performance by firms leads to negative abnormal returns of up to 43 percent.
- Singh (2009) captured the price movement of the shares immediately after listing in the secondary market and the long term return and short term return offered by Initial public offerings and their relationship to the subscription pattern.
- Joshipura (2009) presented and tested to measure price and liquidity effects of stock split as found in the Indian stock market & concluded that price effect associated with stock split is significant on and around announcement and effective day of stock split with significant positive abnormal return of 1.08% and 1.66% found on announcement and effective day respectively.
- Chittedi (2009) in his paper intends to analyze the growth path of sensex, the quantum of contribution of FIIs and the volatility of sensex. They identified the factors that could derail rally like rising interest rates, high inflation fuelled by firm global crude oil prices, slow down in the

economy and in corporate earnings, fluctuations in currency markets, sluggish pace of economic reforms, political instability, and others.

- Dalvadi (2009) sheds light on the correlation between growths in profit shown in interim reporting with the share market. The main objective of the study is to find out the fluctuating price of selected companies during pre and post interim reporting and examine whether investors purchase or sell the shares on the bases on interim reporting data or not.
- Waldmann & Shelifer (1990) analyzes of rational speculation usually presume that it dampens fluctuations caused by "noise" traders. This is not necessarily the case if noise traders follow positive feedback strategies- buy when prices rise and sell when prices fall. They explained why the market is likely to overreact to news.
- Iqbal & Mallikarjunappa (2009) studied on semi-strong form of efficient market hypothesis in Indian stock market yielded mixed results. The main objective was conducted to test whether the semi-strong form of efficient market hypothesis holds in the Indian stock market.
- Heakal (1997) in his study found that market efficiency survives the challenge from the literature on long-term return anomalies. Consistent with the market efficiency hypothesis that the anomalies are chance results, apparent overreaction to information is about as common as under reaction, and post event continuation of pre-event abnormal returns is about as frequent as post reversal.
- Gurunathan (2007) analyzed that securities market development is expressing the economic development of the country. In this paper an attempt has been made to study the investors' requirements in the Securities Market in India.

Research Methodology:

- **Research design:** The present study is a descriptive and analytical study both. The present scenario is summarized as well as the relationship amongst various factors of investment is analysed.
- **Data Collection: Primary data** has been collected with the help of questionnaire. **Secondary data** was collected from Newspaper, magazine, journals, and websites.
- **Time dimension:** This study was carried out in the months of Feb.2010 to April 2010.
- **Data Analysis-** To analyze the data and to derive results from it percentage method is used. This method is easy to use and taken as a suitable method to compare, keeping in view the objective of the study.
- **Sample Size-** Used the total sample of 200 respondents, there were engaged in stock market activities. The convenience sampling method will be using for collection of necessary data.
- **Sample Area-** Agra, Mathura, Aligarh, Etah (50 respondents from each city)
- **Respondents Profile**- All respondents have been using investment strategies in Indian Stock Market and have a stock market experience ranging from 1 to 15 years.
- **Sample Structure**- A conscious effort was made to include both closed-ended and open-ended question in the standard questionnaire so to extract maximum possible information.
- **Statistical tools used**- Hypothesis testing using Mann –Whitney U test

The Mann–Whitney *U* test (also called the Mann–Whitney–Wilcoxon (MWW), Wilcoxon rank-sum test, or Wilcoxon–Mann–Whitney test) is a non-parametric test for assessing whether two independent samples of observations have equally large values. It is one of the best-known non-parametric significance tests. It was proposed initially by Frank Wilcoxon in 1945, for equal sample sizes, and extended to arbitrary sample sizes and in other ways by H. B. Mann and D. R. Whitney (1947). MWW is virtually identical to performing an ordinary parametric two-sample *t* test on the data after ranking over the combined samples.

Findings of The Study:

1.1 Frequency of trading in market

Options	Percentage (%)
Occasionally	40
One in month	40
Daily basis	20

- The frequency of trading is low in Agra region, respondents prefer occasional or once in a month trading instead of daily basis probably due to risk involved in intra-day trading.

1.2 Percentage of the income for investment

Options (Savings)	Percentage (%)
Less than 20%	55
20% to 50%	37.5
Above 50%	0.75

- Very few respondents (0.75%) are able to save for investment more than 50% of their total income while mostly have less than 20% of their pie of savings for investment.

1.3 Percentage of saving invested in stock market

Options (Investment)	Percentage (%)
Less than 30%	70
30% to 50%	25
50% to 100%	5

- The respondents have less attraction towards stock market as it can be seen from the data only 5% are investing in the range of 50-100% while a majority of respondents (70%) like to put only upto 30% of their investment in stock market.

1.4 Source for investment in stock market

Options	Percentage (%)
Friends	35
Media	25
Relatives	15
Any other	25

- Friends and media are the major source for information and knowledge about stock market. Besides, colleagues, brokerage houses etc. also create an attraction towards this market.

1.5 Cause for investment in the stock market

Options	Percentage(%)
Credibility	0
Tax	0
Return	80
Liquidity	20

- As a normal response 80% of the respondents prefer higher return from stock market as the major criteria for choosing this market as an investment opportunity. 20% of them prefer it due to its liquidity option.

1.6 Sector/industry preference for investment

Options	Percentage (%)
Banking sector	25
FMCG sector	15
Real estate sector	10
IT sector	20
Any other	30

- Banking sector stocks are preferred by the investors followed by IT sector stocks. Besides, the 30% investor preferred for investing various sector as like oil & gas, pharmaceutical, power & telecom sector, etc.

1.7 Investment opportunity opted by respondents

Options	Percentage (%)
Post office scheme	40
Equity	5
Fixed deposit	5
Mutual fund	45
Bond	5

- Respondents prefer to invest in mutual fund instead of direct investment into stock market. Besides, mutual fund also provides various options for investment gain. Post office schemes are another preferred opportunity for keeping their savings for safety and return by Agra Investors.

Data Analysis and Interpretation:

1.8 Demographic Classification of Data:

S. No.	Demographic factors	Percentage (%)
1	**Age group**	
	30 years and Below	40
	Above 30 yrs	60
2	**Income level**	
	Below to 2 lakh	50
	Between 2 lakh to 5 lakh	40
	Above 5 lakh	10
3	**Occupation group**	
	Business	30
	Service	45
	Student	20
	Professionals	5

1.9 Age Group:

1.9.1 The frequency of trading in stock market is high in higher age group i.e. above 30 years. Most of the respondents were between the age group of 40 to 50 years. The preference for stock market as an investment avenue by higher age group is for tax saving and return with liquidity while lower age group was more interested in return.

1.9.2 The analysis of income level concludes that most of the respondents who prefer frequent investment into the market belong to Two to Five Lacs income group. They also prefer to invest into this market through mutual funds for better management of their funds.

1.9.3 Based upon occupation response, the service class is able to save 20 to 50% for investments while all other segments go for saving mostly less than 20% of their earnings for investment. The income tax is an important factor for increasing the level of saving in service class. For investment purpose, business class prefer banking sector followed by FMCG, IT, Real Estate sectors, while service class does not has such preferences.

1.10 Risk Profile:

The risk profile of investors is difficult to estimate because it oscillates with market moods. When the market is on the rise, even the most risk-aversive investors start buying stock. A sharp correction leads to panic selling, even by risk takers. Equity is considered to highest risky by the respondents, followed mutual fund; the least risky instrument is PPF as answered by the respondents. Table 1 shows a compiled ranking by investors.

Table 1

Investment Opportunity	Rank
Equity	1
Bond	3
Fixed deposit	5
Mutual fund	2
NSC / MIS scheme	6
Life Insurance Policy	4
PPF	7

1.11 Testing of Hypothesis- Mann Whitney U- Test

H_o: There is no difference between the ranks given by two age groups for various investment opportunities for risk factor.

H_a: There is difference between the ranks given by two age groups for various investment opportunities for risk factor.

As the sample size is large for the study hence, U is approximately normally distributed and its' standardized value is

$$z = \frac{U - m_U}{\sigma_U},$$

Where m_U and σ_U are the mean and standard deviation of U, is approximately a standard normal deviate whose significance can be checked in tables of the normal distribution. μ_U and σ_U are given by

$\mu_u = \frac{n_1 n_2}{2}$ and $\sigma_U = \sqrt{\frac{n_1 n_2 (n_1 + n_2 + 1)}{12}}$.

1.11.1 Results

U statistic= 481

$\mu = 192$

Standard error of U statistic

$\sigma = 36.22$

The sampling distribution of U statistic is approximated with the normal distribution since both n_1 and n_2 are larger than 10. As the sample taken is meeting this condition, we can use the standard normal probability distribution table to make our test.

At 0.05 level of significance, the hypothesis that ranks given by two age group investors are identical is to be tested. Standardized sample value

$Z= +7.97$

The hypothesis, that the ranks given by two age groups for risk consideration while selecting investment opportunity are identical, is rejected. Hence, there is no statistical evidence at 95% confidence level that investors of different age group have same risk preferences.

Conclusion:

The study concludes that due to high volatility or high risk the investors generally do not prefer stock market as an investment opportunity. If they put their hard-earned money into this market they expect a better return also. Most of the investors belong to business and service class and prefer to invest through indirect route i.e. mutual funds. Banking and IT sectors are most preferred sectors for investors while many of them do not have any preferences specifically service class. Friends and media become the major pulling force for investors of stock market.

The study of risk profile concludes that this market is lucrative but at the same time investors remain cautious while investing. Most of the investors put very small fraction of their savings into this market.

Mann-Whitney U –test used for testing the risk preferences amongst different age group investors concludes that risk consideration for various investment opportunity differ amongst common investors based on their age.

References:

[1] Chandra, Prasanna, *Investment analysis and portfolio management*, second edition Tata McGraw-Hill, 2005.
[2] Pandian, Punithavathy, *Security Analysis and Portfolio Management*, Vikas publication 2008.
[3] Bernstein, Leopold A., Financial Statement Analysis, sixth edition, Tata McGraw-Hill, 1998.
[4] Chen, Yuan Chen, Adaptive market Hypothesis, version-1, 2007.
[5] Siddiqui, Saif, "Behavioral influence on stock market investments" Pranjana, vol.12, jul-Dec.2009.
[6] Chittedi, Krishna Reddy, "Sensex – The dancing beauty of Indian market", journal of fianace, volume-3, july-2009.
[7] Aggarwal, R,Incan, and Leal, R, "Volatility in emerging stock markets", Journal of Financial and Quantitative Analysis, Vol.34, 1999, 33-55.
[8] Baillie, R., and Degennaro,R., "Stock return and volatility", Journal of Financial and Quantitative Analysis, Vol.25, 1990, 203-214.
[9] Batra,A., "Stock return volatility persistence in India: 1973-2003", Working Paper, ICRIER, New dehli.
[10] Bekaert, G. and Harvey, C. "Emerging equity market volatility", Journal of Financial Economics, Vol.43, 1997, 29-78

[11] Bakaert, G. and Wu, G. "A symmetric volatility and risk in equity markets", Review of Financial studies, Vol.13, 2000, 1-42.
[12] Bekaert, G., "Market integration and investment barriers in emerging equity markets", World Bank Economic Review, Vol.9, 1995, 75-107.
[13] Chou, R.Y., "Volatility persistence and stock valuations" Journal of applied econometrics, Vol.3, 1998, 279-294.
[14] Cohen K., and Whitcomb, D., 'The determinants of common stock returns volatility", Journal of Finance, Vol.31, 1976, 733-740.
[15] French, K.R, Schwert and Stambugh, R.F., "Expected stock return and volatility', Journal of Financial Economics, Vol.19, 1987, 3-29.
[16] Eglosten, L.R., and Runkle, D.E., "On the relation between the expected value and volatility of the nominal excess returns on stocks", The Journal of Finance, Vol.48, 1993,
[17] Havery, C.R., "Predictable risk and return in emerging markets", The review of Financial studies, Vol.8, 1995, 12-34.
[18] Havery, C.R., "The specification conditional expectations", Journal of empirical Finance, Vol.8, 2001,
[19] Li, K., 'Long –memory versus option-implied volatility prediction", Journal of Derivatives,Vol.9, 2002, 9-25.
[20] Poon, S.H. and Granger, C., "Forecasting volatility in Financial markets: A Review", Journal of Financial literature, Vol.41, 2003, 478-539.
[21] Whitelaw, R., "Stock market risk and return: An empirical approach", Review of Financial studies, Vol.13, 2003,
[22] Wu, G., "The determinants of asymmetric volatility", The review of financial studies, Vol.14, 2001.
[23] www.sebi.govt.in
[24] www.bseindia.com
[25] www.nseindia.com
[26] www.capitalideasonline.com
[27] www.Investopedia.com

******