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Portfolio Management and Risk Perception-A Study on Equity Investors in Hyderabad City

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Abstract

Recognizing the significant factors impelling individual investor's decision to create portfolio choices is vital to understand their different investment behaviour. This study discovers individual investor's first choice for portfolio and as an interim measure investigates impacts of risk perception and risk tolerance on their investment decision. Precisely it has been decide socio-economic status difference in investment preference for portfolio choices with respect to investor's income level and age. Analysis on investment experiments to acquire some evidences from a sample of 80 respondents in survey. The result shows that investor's decisions to create their portfolio choices are considerably and negatively related to personal income level. This finding incriminates that investor with higher risk tolerance level shows higher likelihood to make their investment decision on portfolio choices it is found that male investor exhibits much preference on portfolio choices with higher percentage of total return.

Keywords: Risk Perception, Risk Management, Portfolio Management, Equity Investors

Introduction

Portfolio management concerns the assembling and maintenance of an assortment of investment. It is investment of funds in different variety of securities where the total amount of risk of the portfolio is minimized, while expecting maximum return from it. It primarily consists of diminishing risk instead of increasing return. Return is understandably significant although, the eventual objective of portfolio manager is to attain a chosen level of return by incurring the minimum possible risk.

Determining factor of risk attitudes of individual investors are of prodigious interest in a rising area of finance known as behavioural finance. Behavioural finance emphasizes on the individual attributes, Psychological or else that outline common investment and financial practices. Contrasting traditional rulebooks of predictable utility maximization with sensible

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investors in efficient markets, behavioural finance presumes people are normal. Regardless of great intensity of interest in this area, not much research looks at the principal factors that perhaps may lead to individual differences and play a substantial role in shaping people's financing and investment strategies in evolving market.

Literature Review

Literature on Behaviour Finance Perspective of Individual Investor

As an outcome of traditional finance theory looks to play a restricted role in understanding this issues for instance; why do individual investors trade, how do they accomplish the task, how do they choose their portfolios to adapt their conditions and why do returns diverge so swiftly even across stocks for reasons other than risk. In the new pitch of behaviour finance or pretended behaviour economic, this could interpret about individual investors behave in their invest choice more utterly. Most of behavioural finance researchers frequently claimed that the genuineness results presents no unified theory contrasting traditional finance theory look as expected utility investigation issues of behavioural finance research. Maximizations using rational beliefs its means those scholars in this field really hypothetical that whole investors in financial market are rationales; they can't influenced through any factors except maximum profit. Most of the authors show behaviour finance perspective on individual investor, such as Deaux and Emswiller (1974), Lenney (1977), Maital et al. (1986), Thaler and Johnson (1990) and Beyer and Bowden (1997). Those authors are to exclaim that individual investor would demonstrate different risk attitude when facing investment alternatives Later instruction in our research, we called risk perception and risk tolerance of individual investor. Paralleling with previously research, the current study is paying attention on psychological factors and external factors about how to affect investor's investment decision and portfolio choice. For example, Annaert et al. (2005), Wang et al. (2006) point out the impact of information asymmetric problem on investor behave; this is additional subject in behavioural finance field.

Literature on Risk Perception, Risk Tolerance and Portfolio Choice

There are some first-hand evidence displaying the impact of risk tolerance, risk perception and socio-economic on portfolio choice for example, Carducci and Wong (1998), Grable and Joo

(1997), Grable and Lytton (1999), Grable (2000), Hallahan et al., (2003), Hallahan et al., (2004), Frijns et al., (2008), and Veld and Veld-Merkoulova (2008). In terms of diverse risk perception or risk tolerance level, individual investor may demonstrate distinct reaction base upon their psychology factor and economic situation that would lead to heterogeneous portfolio choice for individual investors. Therefore, it is important to distinguish and attitudinal how the individual investors with different risk perceptions and risk tolerance make their invest products choice on investment plan, in specific socio-economic status differentials may make their choice show a discrepancy and difference

Grable and Joo (1997), Grable and Lytton (1999), and Grable (2000) Financial risk tolerance is defined as the maximum amount of uncertainty that someone is willing to take when making a financial decision. Though the significance of assessing financial risk tolerance is well documented, in practice the assessment process tends to be very challenging due to the subjective nature of risk taking (the risk of investor willing to reveal their risk tolerance) and objective factors like

Droms, (1987), Hallahan et al., (2004) Risk tolerance embodies one persons' attitude on the way to taking risk. This indication is a significant concept that has implications for both financial service providers and consumers (investors). Later, risk tolerance is one factor which may define the appropriate composition structure of variety of assets in a portfolio which is optimal and satisfied investors invest preference in terms of risk and return relative to the needs of the individual investors.

Literature on Investor's Socio-Economic Status and Risk Tolerance

Some researchers have point out that the validity of broadly used demographics as determinants of risk tolerance is remarkable as the relationship among socio-economic status differences comprising age, gender, income level, marital status, educational level, net assets and investment decision or portfolio choice. Pertaining to the financial risk tolerance literatures, there is much interest in the demographic determinants and risk attention (encompassing three types of risk: risk moderate, risk aversion and risk seeking) is predominantly focused on age, gender, income level, education level, marital status the number of dependents and net assets. Precisely, though debate remains on some issues, a variety of common findings are usually observed. There are five phenomenon in socio-economic status variables differential and portfolio choice which are as follows: First, risk tolerance declines with age (e.g., Morin and Suarez 1983; Roszkowski, Snelbecker, and Leimberg 1993). Second, females have a lower preference for risk than males (e.g., Roszkowski, Snelbecker, and Leimberg 1993; Grable 2000). Third, risk tolerance increases with education level (e.g., Roszkowski, Snelbecker, and Leimberg 1993; Haliassos and Bertaut 1995). Fourth, risk tolerance increases with income level and net assets (e.g., Cohn et al. 1975; Roszkowski, Snelbecker, and Leimberg 1993; Bernheim, Skinner, and Weinberg 2001). Fifth, single (i.e., unmarried) investors are more risk tolerant than married (e.g., Roszkowski, Snelbecker, and Leimberg 1993

Objectives

- To understand the risk perception of equity investors in Hyderabad city
- To bring out the significance of portfolio management of equity investors
- To understand the Investors knowledge and experience of investing in equities

Scope

The study has a broader scope as it relates to investment in equities and also understanding of individual investors about the equities. The study also helps us to know the portfolio management of equity investors

Research Methodology

The study has been carried out through survey method from the sample size of 80 respondents by providing a list of questionnaire. The sample has been selected on random basis.

Data Analysis

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Type of Investment Preferred and Time taken for Evaluation of Performance of Investment by the Respondents

Table - 1

Sl. No	Type of Investment	No. of Respondents	%	Period of Time	No. of Respondents	%
1	Bonds	21	26.25	Monthly	29	36.25
2	Equities	43	53.75	Quarterly	18	22.50
3	Bank Deposits	16	20.00	Annually	20	25.00
4	T-Bills	0	0.00	Over 5 Years	13	16.25
	Total	**80**	**100.00**	**Total**	**80**	**100.00**

From the above table, it shows that 53.75% of the respondent's preferred Equity type of investments, 20% of the respondents preferred Bank Deposits and 26.25% of the respondents preferred bonds type of investment. No one prefers T Bills. , it has been also clear that 36.25% of the respondents judge the performance of investment in a month, 22.50% of the respondents judge the performance of investment Quarterly, 25% of the respondents judge the performance of investment Annually and 16.25% of the respondents take over 5 years to judge the performance of the investment.

Performance about their Financial Future and age from which the Respondents are investing

Table - 2

Sl. No	Financial Future	No. of Respondents	%	Age of Investing	No. of Respondents	%
1	Very optimistic	19	23.75	Age 60 Plus	15	18.75
2	Positive	27	33.75	Age 50 to 59	19	23.75
3	Unsure	23	28.75	Age 40 to 49	22	27.50
4	Pessimistic	11	13.75	Age below 40	24	30.00
	Total	**80**	**100.00**	**Total**	**80**	**100.00**

From the above table, it shows that 33.75% of the respondents are positive about their financial future, 23% of the respondents are unsure, 23.75% of the respondents are very optimistic about their financial future and 13.75% of the

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respondents are Pessimistic. It is found that 23.75% of the respondents have invested in age between 50 to 59 years, 27.50% of the respondents have invested in the age between 40 to 49 years, 30% of the respondents have invested in the age less than 40 years, and 18.75% of the respondents have invested in the age 60 and above. It is revealing that people under 40 years 30% have been investing.

Understanding comfort level in stock Investing and Investor Perception

Table - 3

Sl. No	Understanding and Comfort level	No. of Respondents	%	Best Statement	No. of Respondents	%
1	No Experience in Stock Market	20	25.00	Some Current Income	22	27.50
2	No Experience, but some level of comfort	16	20.00	High Current Income	5	6.25
3	Some Experience & Interest	14	17.50	High Total Return	33	41.25
4	Reasonable Experience	19	23.75	Substantial Return	20	25.00
5	Extensive Background and good comfort	11	13.75	**Total**	**80**	**100**
	Total	**80**	**100**			

From the above table, shows that 25% of the respondents have no experience in stock market, 23.75% of the respondents have reasonable experience, 20% of the respondents have no experience but some level of comfort, 17.5% of the respondents have some experience and interest and 13.75% of the respondents are have extensive background and good comfort. It is found that 41.25% of the respondents perceive high total return as the best statement, 27.50% of the respondents perceive some current income and are very safe, 25.0% of the respondents are perceive

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substantial return.

Attitude about Financial Risk
Table - 4

Sl. No	Attitude about Financial risk	No. of Respondents	%
1	Diversified investment portfolio	21	26.25
2	I Only invested with extra money I can afford to loss	14	17.50
3	Associated with playing in the stock	33	41.25
4	The Higher the investment yield or rate of return the greater the risk	12	15.00
	Total	**80**	**100**

From the above table, it is clear that playing in the stock market, 26.25% of the respondents have diversified investment portfolio, 17.5% of the respondents afford to loss, and 15% of the respondents has an attitude that the higher the investment yield or rate of return the greater the risk and 41.25% of the respondents associated with playing in the stock.

Time Horizon for Withdrawals and Growth Expected Of Investment in 5 Years

Table - 7

Sl. No	Time Horizon for withdrawals	No. of Respondents	%	Growth Expected	No. of Respondents	%
1	Currently	25	31.25	0 to 15%	21	26.25
2	Less than 3 Years	15	18.75	15% to 30%	19	23.75
3	Between 6 to 15 Years	28	35.00	30% to 50%	23	28.75
4	After 15 Years	12	15.00	Above 50%	17	21.25
	Total	**80**	**100**	**Total**	**80**	**100**

From the above table, it is found that 35% of the respondents will make withdrawals between 6 to 15 years, 31.25% of the respondents currently need to make withdrawals, 18.75% of the respondents will withdraw in less than 3 years and 15% of the respondents will withdraw after 15 years. It is clear that 28.75% of the respondents expect their investment to grow from 30% to 50%, 26.25% of the respondents expect their investment to grow from 0 to 15%, 21.25% of the respondents expect a growth above 50% and 23.75% of the respondents expect a growth from15% to 30%.

Sharing Information about Risk with Consultant, Learns from Risk and Measure to Control Risk

Table – 8

Sl. No	Feel Free	No. of Respondents	%	Learn From Risk	No. of Respondents	%	Measure to Control Risk	No. of Respondents	%
1	Yes	51	63.75	Yes	27	33.75	Avoidance	35	43.75
2	No	29	36.25	No	53	66.25	Modification	45	56.25
3	**Total**	**80**	**100**	**Total**	**80**	**100**	**Total**	**0**	**100**

From the above table, it is found that 63.75% of the respondents feel free to share information on risk with consultant and 36.25% the respondents do not feel free to share information with the consultant. It is found that 66.25% of the respondents do not learn from their risk and 33.75% of the respondents learn from their risk. The table shows that 56.25% of respondents control the risk by modification and 43.75% of the respondents avoid risk

Findings

- 45% of the respondents are not experienced in the stock market.
- The highest proportion of the respondent i.e. 30% belongs to the age between below 40 of age years.
- 53.75% of the respondents are purchased Equities type of investments.
- 23.75% of the respondents are optimistic of their financial future.
- 41.25% of the respondents describe high total return as best statement.
- 41.25% of the respondents are associated with playing in the stock market.
- 28.75% of the respondents are expecting their growth 30% to 50%.

- 56.25% of respondents control the risk by modification.

Conclusion

The study is made to find out "Risk perception and portfolio management of equity investors". The study reveals that the investors in Hyderabad city are not aware of portfolio which would minimize risk and maximize the return. And also it is clear that the investors in Hyderabad city have low level of understanding about risk and the importance of portfolio management as they are not aware these factors. Hence proper should to be taken in order to improve the awareness level in the minds of the investors. Most of the respondents are not aware of Portfolio Management. So, proper guidance can be given to them. This is to create awareness. A regular investor friendly seminar can be organized to suit the timings of the investing public. For instance, such seminars can be interactive sessions, arranged at frequent intervals. The newsletters published help investors. Hence newsletters / bulletins can be published for guidance. Efforts should be taken to popularize Equity through appropriate publicity measures.

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