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A Study on Investment Ideas for Investor's Portfolio Management

Abstract

As such each investor has different decision making criterions and apprehensions about the market, yet there are certain variables that affect the decisions of the masses. This paper tries to analyze their behaviour, way of working and expectations that drives him to invest? What factors have a bearing on his trade decisions? How comfortable he feels in investing his funds in volatile capital markets? Based on these concepts, this study presents the results of a survey aimed at understanding and interpreting their behaviour and decision process. However, in the financial literature, there are no models which explain the influence of these "perceptions" and "beliefs" on "Expectations" and "Decision Making". But, to a certain extent, we can borrow concepts from social psychology where behavioural patterns, rational or irrational, are developed and empirically tested.

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Introduction

An investment is a commitment of funds made in the expectation of some positive rate of return. If the investment is properly undertaken, the return will be commensurate with the risk the investor assumes. We can define investment as the process of, "sacrificing something now for the prospect of gaining something later". So, the definition implies that we have three dimensions to an investment- time, Today's sacrifice and prospective gain. Investment is the employment of funds with the aim of achieving additional income or growth in value. It is aimed at earning return in future. It involves the commitment of resources, which have been saved or put away from current consumption of resources in the hope that some benefits will accrue in future.

Features of an Investment

1. Safety of Principal
2. Liquidity
3. Income Stability
4. Appreciation and Purchasing Power Stability
5. Legality and Freedom from Care
6. Tangibility
7. Tax Benefits

Investment Alternatives

1. Mutual Funds
2. Insurance
3. Bonds
4. Bank deposit schemes
5. Real estate

Portfolio Management

Portfolio management is the investment of funds in different securities in which the total risk of the portfolio is minimized while expecting maximum return from it. Portfolio management takes the ingredients of risk and returns for individual securities and considers the mixing of these securities. It entails choosing the one best portfolio to suit the risk return preferences of the investors. It also encompasses the evaluation and revising the portfolio in view of changing risk, return and investors risk preferences. The fund manager selects a portfolio which will best suit the investment objective of the fund, out of those available to him. Portfolio analysis builds on the estimates of future returns and risk of holding various combinations of assets.

Objectives of the Study

Whenever a study is conducted, it is done on the basis of certain objectives in mind. A successful completion of a project is based on the objectives of the study that could be stated as under

1. To study the perception and preferences of individuals towards various investment schemes and most preferable alternative of investment.
2. To know actually what factors affect the investor while investing in various investment schemes.
3. To study whether Credit Ratings provided by rating agencies tries to shape investors investing pattern.
4. To study portfolio management practices among investors.

Review of Literature

Focus of Study

The study focuses on the investors. Where do they invest their surplus money? Now days there are large number of investment tools available for investing money for e.g. Share market, Bank deposits, Mutual funds and bonds, Insurance sector, Real Estate etc. Every individual has different reasons for investing his/her money. Some like to invest in Share market because of high liquidity and high return, while exactly opposite to are those persons who thinks that share market is the most risky tool to invest their money as in the share market. As investing money in banks deposits or in post office Schemes are highly safe. But mentality of people in India has changed with the passage of time. The number of investors investing in share market has increased a lot.

Research Methodology

Sample Size

The sample size for the research is 60 investors.

Sampling Design

The sampling method used for the research problem is random sampling. The selection of the respondents is done on the basis of convenience sampling as the universe under the coverage area of the study is large.

Sample Profile

Deciding where to survey requires that the whole universe of the market from which data is ought to be defined so that appropriate sample can be selected. Sample profile signifies the type of respondents chosen. Since, the present study is related to difference in the perception and preference towards various investment schemes. So the sample taken here is all types of investors' i.e from Businessmen, Service Professionals and Students (who invests).

Method of Data Collection

Both Primary data and secondary data have been used for the purpose of data collection. To observe and collect data regarding the perceptions of the investors, a questionnaire have been prepared containing 14 questions. Personal contact has been made with 60 respondents to get the questionnaires filled.

Data Analysis & Interpretation

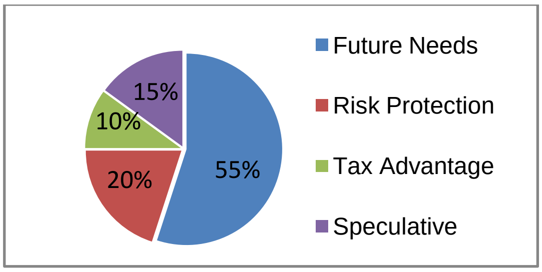
For the purpose of analyzing, raw data is summarized into charts and the results have been carried out. The questions, which have alternative choices, were analyzed by taking percentages. Proper analysis of the data has been made to get proper results.

Statistical Tools

Various statistical tools like percentages, mean have been used to analyze the data.

Purpose of investment

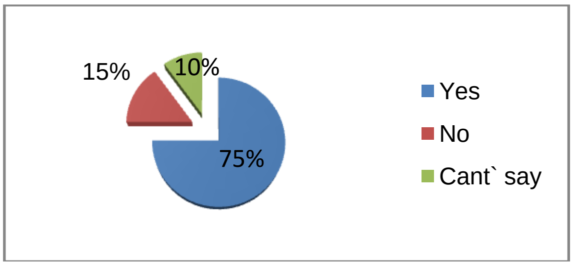
Investment Purpose	Number respondent	Percentage
Future Needs	33	55 %
Risk Protection	12	20 %
Tax Advantage	6	10 %
Speculative	9	15 %



The above pie chart shows, the investor's purpose of investment 55% of respondents invests their money to fulfill their future needs. 20 % respondents invest for risk protection. 10% and 15% invests for tax shield and speculative purpose respectively.

Perception regarding more return in Portfolio as compare to a single Investment.

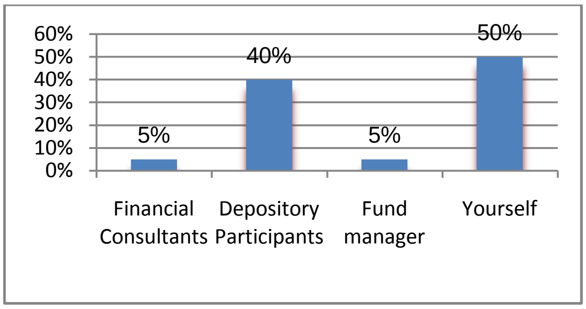
Return in portfolio	Number of respondents	Percentage
Yes	45	75 %
No	9	15 %
Cant` say	6	10 %



The above pie chart shows 75% of the investors believes that if the investment is made in a diversified portfolio they get more return as compare to a single investment. 15% of the investors not responded to this question and 10% of them were not agree with this.

Manage Portfolio with the help of

Managing Portfolio	Number of Respondents	Percentage
Financial Consultants	3	5 %
Depository Participants	24	40 %
Fund Manager	3	5 %
Yourself	30	50 %



In the study it is reveled that 50% of the investor are managing their portfolio theirself. And 40% of them are managing through the depository partcipants. Thus from this data it can be concluded that most of the investors manages their portfolio as per their own knowledge or with the help of the depository participant through which they are trading.

Limitations of the Study

1. Some personal bias might have into the information provided by the respondents in the scope of this study.
2. Area of study is Patiala and finding may not hold true for large cross section of population.
3. The finding of the survey is based on the opinion of respondents and there is no way of assessing the truth of the statements

Findings and Conclusion

Findings

1. The study aimed at analyzing the perception and preference of individual investors towards various investment schemes and the most preferable investment alternative, the study reveals that the most of the investors prefer medium term investment rather than investing into short term and long term investments. And the bank deposit is considered as the most preferred alternative of investment, because investor wants safe, secure and stable return on their investment. The main purpose of the investment by the investors is to fulfill their future needs only few of them invest to cover risk and to save tax.
2. The study also reveals that only few investors study the financial data or reports of the companies while investing and mostly invests on the basis of the factors like brand name of the company, personal preference and in most of the investment decision they consult's their friends and relative rather than financial consultant.
3. The study reveals that investors are very rational. He/she like to invest in the bear market i.e. when market is down and wants to get the benefit of capital appreciation in the future.
4. The study also reveals that almost every investor is aware of Portfolio management and they believe that in portfolio management they can get more return, but majority of them manage their portfolio their self or with the help of Depository participant and only few of them consult financial consultant and fund manager.
5. The study also aimed at analyzing that whether the ratings provided by Credit Rating agencies tries to shape the investor's investing pattern or not. The study reveals that only little percentage of investors follows the credit rating's provided by the Credit rating agencies while investing in the securities of various companies. And only few of them believe that the parameters adopted by the credit rating agencies for evaluating the financial performance of the companies are appropriate.
6. The study also reveals that investors while investing in stock market not only study the financial factors but also considers the non financial factors for making investments. And give preference to factors like market share of the company, investor's relations and disclosure policies of the companies.
7. Therefore, from an investor's point of view, the following factors are taken into account while considering any investments:

I. Risk Involved in the investment
II. Liquidity of money
III. Tax advantages and Returns

Conclusion

Most people's needs fall into a few common categories such as a roof above their heads, enough resources to educate their children and marry them off and finally, and sufficient savings to live their lives out in comfort after retirement. This is the dream of everyone.

Yet, no matter how much they save and how prudently they plan, most people find it difficult to generate the resources to meet these basic needs. The roadblock is inflation. No matter how much you earn, the steady rise of prices can destroy all retirement plans.

The most reasonable means of out spacing inflation is by investing is by investing in equities. It is true that equities are not safe, and one can lose everything by dabbling incompletely in the share market. There are very few investment channels that can beat inflation in the long run.

Of these, equity investment is the safest and most time-tested of paths. Because bank deposits, company fixed deposits and other instruments provide more stable returns, these are regarded as "safer" investments. Equity investors consistently deliver higher returns. With the falling interest rates of banks& fixed deposits becoming the order of the day, the equities are becoming the most preferred form of investments.

Indeed depending on the risk profile and needs for current income as opposed to long-term growth, investments should be spread across. Equities, Mutual funds,FD's and bonds as a good way of diversifying risks.

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