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Investor Behavior Towards Risk – Return In Equity And Commodity Market

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Abstract

The financial industry plays a significant role in capital markets and has aroused increasing managerial and academic interests in recent decades. Individual investors are becoming more cautious towards financial investment which makes it difficult for financial service providers to formulate marketing strategies after experiencing several financial crises. Prior research has suggested that financial investment behaviour would be affected by various factors, including the demographic characteristics of individuals. The objective of the study is to study the behaviour of the investors about the stock markets and to determine the impact of investors' behavioral influences on Risk – Return management and Effective investment decision. Primary data collected through questionnaire and used ANOVA and Chi-square test for analysis. Study concluded that the factors are Risk-Return management, Investment behavior, Monitoring & evaluation significantly influence on the Effective investment decision.

Keywords: stock market, investment analysis, rate of return

INTRODUCTION

Investment decisions are decisions under uncertainty that are subject to both risk and return. Traditional finance theories assume that investment behaviour is rational. Under the theory of behavioural finance, researchers suggest that the investment behaviour of individual investors in real life is influenced by a combination of specific psychological factors, such as overconfidence, representativeness and herding behaviour. Share trading causes the corporate to raise extra assets for extension by increasing the demand for securities. The liquidity that a trade gives enables the investors to sell the securities easily and quickly. Investors can choose an avenue that is suitable as per their ideal level of risk, liquidity and return. A downplaying of the core concepts and a careful analysis of the choices can assist investors with creating a portfolio that expands returns while limiting risk exposure. Stock market is one of the most energetic sectors in the monetary framework, denoting a significant commitment to financial development. Today long haul investors are intrigued to put resources into the Stock market as opposed to contribute any place. Portfolio and Super Portfolio is a collection of various financial investments held by an individual for certain period of time. These financial investments may incorporate equity shares, fixed deposit schemes of organizations, debentures, preference shares, Derivative, Bond, FD, NBFS, PF, Money Market Instrument, Mutual fund, PPF, Insurance, Post office saving scheme etc. The decision to invest into stock market is taken after a great deal of security analysis. Fundamentally, the stocks related information help in deriving the stock price movements in the market.

Review of Literature

P.Chellasamy and Anu K M (2020) examines the impact of equity derivative trading on the volatility of spot market in India. Monthly time series data for the period from January 1, 1996 to December 31, 2016 is used. The results from the Hausman test and structural break test provide support that there is a significant influence of the introduction of stock futures and stock option on the stock market volatility. As a result, some business risks like price risk, foreign exchange risk, etc. have gained prominence. The risk factor is an important concern for financial agents and to reduce the risk, the concept of derivatives comes into the picture. The financial market venture has always been to maximize returns and minimize risk.

Malathy and Saranya.J (2020) employed investors are the customers or consumers. Exploring the behaviour of investors is therefore important for financial institutions to devise appropriate strategies and to market appropriate financial products or offer new financial products to investors in order to better satisfy their needs. To study investor behaviour, researchers have largely adopted the concept of behavioural finance during the last decade.

Heba Salah Elselmy et.al (2019) Understanding the underlying mechanisms that to lead to these customers' responses, therefore, helps business organizations make better managerial decisions, regarding providing the right product or service to their customers. An in-depth understanding of consumer behaviour further helps business organizations to plan for the future buying behaviour patterns of customers and formulate the appropriate marketing strategies in order to build long- term customer relationships.

P.Chellasamy and D Rathipriya (2018) analyse to find out the volatility spillover between stock return from select Real Estate companies in India during 2007-2008 to 2016-2017. Volatility forecasting helps to investors or players in the capital market to find out the buy and sell signals about shares on the basis of quantity of risk thereon. To measure the volatility of stock return of twenty Real Estate companies was selected, Analysis was made with the help of statistical tool and econometric tool. From the study found that the result of the estimated GARCH model reveals that the co-efficient on both the lagged squared residual and lagged conditional variance terms in the conditional variance equation are highly statistically significant.

Sarkar and Sahu, (2017) Investigated, through case studies, the influence of both gender and age differences towards financial investment behaviour in terms of overconfidence, account- open time and trade frequency. These studies within the field of behavioural finance provide evidence that demographic factors such as age and gender should be considered when studying investor behaviour.

STATEMENT OF PROBLEM

Equity and Commodity is a product where the product derived from different values called bases or underlying asset. Over the last decade the business environment has become more and more global, which has led to an increasing level of competition but also enabled entities to gain access to new customers and additional resource markets. With a growing diversity of international business operations an increase in risks and portfolio optimization has naturally comes along, especially with risks related to financial issues such as fluctuating currencies, Global crisis, increasing in crude oil prices, Inflation rates, Interest rates and so on. As a result, the stock market and other elements of the economy would be affected by macroeconomic shocks and fluctuations in the price of commodities on the global market at large. When companies face those kinds of risks, a common way to deal with such issue is the usage of hedge Instruments. New financial instruments such as equity and commodity have been intensively used to hedge these risks. Investors are less knowledge about the equity and commodity market. Investor always makes investment in expectation of return. The price returns of equity markets and commodity markets are highly interrelated hence; the price and volatility for equity commodity markets are significant long run correlations with persistent market shocks. Therefore, the study made an attempt to evaluate and understand the dynamic correlations between equity and commodity market with respective to Indian perspective.

Objectives of the Study

- To study the perception and awareness of the investors towards the Equity and Commodity markets.
- To determine the impact of investors' behavioral influences on Risk – Return management and Effective investment decision.

Hypothesis

- H_1:There are no factors influencing on Investment awareness, Risk-Return management and Effective investment decision.

Research Methodology

Descriptive research has been applied in the present study. Set of data were obtained from the respondents for the purpose of testing the hypotheses and fulfill the objectives. Data was collected using Google form questionnaire with the investors. The sample size for the current study is 100 individual and institutional investors, invested in various investment avenues in top 5 cities from five states of India i.e. Andhra Pradesh, Telangana, Kerala, Karnataka and Tamil Nadu (South India).

Analysis & Interpretation

Table 1: Sample size distribution using simple random sampling method

Factors	Frequency	Percent
Gender		
Male	78	65.0
Female	22	35.0
Age		
18–30	35	32.7
31–40	50	40.2
41–50	15	23.5
51–60	10	6.6
Marital Status		
Single	74	62.6
Married	26	37.4
Income		
Less than 3 Lakh	45	56.0
3–5 Lakh	30	23.5
5–10 Lakh	25	8.7
Qualification		
Under Graduate	25	4.4
Graduate	50	25.4
Post Graduate	25	56.0

Cronbach's Alpha

Cronbach's Alpha reliability test was done to check the reliability of each dimension of Risk- Return management, Investment awareness, Monitoring & evaluation and Effective investment decision

Table 2: Reliability Test

Reliability Statistics	
Cronbach's Alpha	**No. of Items**
.977	100

The alpha coefficient for the items is .977, suggesting that the variables have relatively high internal consistency. Since the calculated Cronbach's alpha values are higher than 0.7, the research can rely on the collected data for testing the research hypotheses.

Table 3: Correlations

		Risk-Return management	Investment awareness	Monitoring & evaluation	Effective investment decision
Risk-Return management	Pearson Correlation	1			
	Sig. (2-tailed)	0.00			
	N	100			
Investmentawareness	Pearson Correlation	.861**	1		
	Sig. (2-tailed)	.000			
	N	100	366		
Monitoring & evaluation	Pearson Correlation	.943**	.843**	1	
	Sig. (2-tailed)	.000	.000		
	N	100	100	100	
Effective investment decision	Pearson Correlation	.696**	.488**	.714**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	100	100	100	100

**. Correlation is significant at the 0.01 level (2-tailed).

The Table 3 explains about the co-relation between the Risk-Return management, Investment awareness, Monitoring & evaluation and Effective investment decision. There is a positive correlation of 0.861 between Risk-Return management and Investment awareness. There is a strong and positive co-relation of 0.943 between Risk-Return management and Monitoring & evaluation. And also found positive association between Risk-Return management and Effective investment decision. It is concluded that all the variables positively correlating with each other.

Factors Influencing on investors' behavioral on Risk – Return management and Effectiveinvestment decision

Table 4: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.681	.837	.213	3.65523

Table 4 Indicates the regression model summary shows that the R value is 0.681 and adjusted R square value is 0.837 (83%). This indicates that 21.3% of the variation of explained by Risk-Return management, Investment awareness, Monitoring & evaluation and Effective investment decision.

Table 5: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	293.294	5	199.714	117.873	0.000
	Residual	177.561	95	2.913		
	Total	470.855	100			

Table 5 reveals fitness of the model. The calculated F value (117.873) from the ANOVA test shows fitness of the model (p-0.000). The significance values are less than 0.05. Hence, the null hypothesis is rejected.

CONCLUSION

The relationship between systematic risk and stock returns during the Covid-19 pandemic is changing. This study shows that investors are beginning to be wary of Covid-19 from January 2020 to the end of February 2020. During this period, the capital market becomes more risky when the mental accounting arises for most investors. Its required additional variables such as investment motives, decision types, interests in investment, investment planning and control, investor risk control. The basic goal of investment is return and long-term goal is future of their family needs. Major factors influencing the investment decision is economic scenario. More than partial of the respondents prefer medium term investment with moderate risk having moderate return Majority of the respondent are satisfied with the present return at the same time they expect increase in return. Study concluded that age of the respondents has no significant relationship on Stock market perception, Investment awareness, Risk-Return management and effective investment decision.

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