SELECTING INSTRUMENT FOR INVESTMENT: A STUDY OF RURAL AND URBAN INVESTORS

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It is the need of the investor to balance the risk in investment and diversify investment portfolio depending on her or his level of income. Thus based on a survey of selected rural and urban investors, and a four-point scale of risk perception namely, very safe, reasonably safe, somewhat safe and risky, about the five instruments viz., Equity Shares, Deposit with Non Banking Financial Companies, Fixed Deposit with Banks, Government Securities and Gold, the authors conclude that from the point of view of safety, bank deposit stands out vis-à-vis rest of the instruments.

I. INTRODUCTION

The Indian capital market is undergoing fast changes since the economic and financial reforms started in 1991.With the industrial liberalization and financial reforms, a new era ushered in the capital market. The progress got further accelerated with the trend towards the globalization of the economy and market privatization since1994, which added a new dimension to the growth of capital market. Thus, a thorough management of Indian Securities Trading System has become a need of the hour because lakhs of small investors are involved in it, and since it is only the investor, by providing a pool in the securities market and diversity in his decision, who creates liquidity in the market and makes the market more dynamic. So the number of investor households is a useful tool for understanding the change that takes place in the equity market and policy formulation.

It is in this context that, it may be noted that the selection of an instrument for investment contains three attributes essential for an individual investor for taking investment decision i.e. yield of the instrument, liquidity and risk perception. The mix of these attributes governs the characteristic(s) of instruments. This paper is based on our survey of rural and urban investors in order to gain an insight into their investment decision making.

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II. METHODOLOGY

For the purpose of the study, both primary and secondary data techniques were used. As regards the primary method, pilot interviews with the Chief Executives of the top two Stock Exchanges, viz., Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) were conducted to get a basic understanding of investor's investments decision. Also, ten in-depth interviews were conducted with the trading members because they were expected to represent a clearer picture for the investor's attitude, belief and perception towards investment decision. Thus by consulting certain published Annual Reports, Company Magazines, Brochures etc. (secondary sources) and on the basis of the interviews and discussion with the authorities, a survey instrument (self- administered questionnaire) was deigned for subsequent large-scale study. The questionnaire was based on certain variables called as decision influencing factors. They were classified into:1.Risk bearing capacity; 2.Time horizon; 3.Income; 4.Age; 5.Occupation; 6.Confidence in various instruments;7. Awareness; 8.Education; 9. Faith on any blue chip company;10.Opinion of others; and 11.Locational barriers

A sample of 850 investors was taken. They were chosen from the client list of trading members of Bombay and National Stock Exchanges randomly. Only 423 usable responses were obtained for the purpose of analysis. Further, sample investors were grouped into two clusters based on the availability of stock exchange and other infrastructural facilities in the area to facilitate the analysis—*rural cluster* (where stock exchange does not exist and infrastructural facilities are inadequate) and *urban cluster* (where stock exchange exists and all infrastructural facilities are there). Finally, the investors studied have been coded for their confidentiality. The areas studied are coded as:Investors from 1A(Investors from north sector); Investors from 2A(Investors from west sector);Investors from 3A(Investors from east sector); and Investors from 4A(Investors from south sector). The sectoral number (1A, 2A, 3A and 4A) is given randomly and has no relevance to the investment decision of investors in any particular sector or any variable mentioned in the study(see Table 1). Table 2 gives a picture of the profile of the investors studied.

Table 1: Respondents by Cluster and Code

Cluster	1A	2A	3A	4A
Urban	75	68	86	46
Rural	25	42	48	33.

Table 2: Profile of Investors by cluster

Profile	Urban	Rural
Age (Years)		
20-30	55	30
30-40	110	65
40-50	90	43
Above 50	20	10
	275	148
Monthly Income (Rs.)		
Less than 5000	18	7
5000-10000	38	16
10000-15000	53	22
15000-20000	68	42
Above 2000	98	61
	275	148
Occupation		
Self-employed	162	103
Salaried	78	53
Retired	35	12
	275	148

Hypotheses Guiding the Survey

- Demographic/geographic factor has a significant influence on the investment decision of the investors.
- Bank deposit continues to appeal the most irrespective of area.
- Investors are aware of risk in investing in equity shares.

Measuring Attitude

In order to measure investor's attitude towards investment in various instruments, the following queries were forwarded: 1. Questions about intention to invest in the near future i.e., during next 12 months; and 2. Questions about their risk perception for different types of instrument.

Objectives

- To examine the role of different variables associated with the risk perception of the investors while making investment in different instruments.
- To identify the risk perception of the investors associated with the instrument used for investment.
- To analyse the impact of risk perception on the investment planning of the investors.

III. RESULTS AND DISCUSSION

The five instruments considered are Equity Shares, Deposit with Non-Banking Financial companies, Fixed Deposit with Banks, Government Securities and Gold. To analyse the risk perception and its association with investment planning, a four-rating scale was used along with various ranking patterns. Also, t-test and correlation test were used to find out its significance (see Tables 3A, 3B, 3C, and 3D).

Table 3A:Percentage Distribution of Risk Perception in various Instruments for Investor Households in Urban Area

Instrument	Very safe (%)	Reasonably safe (%)	Somewhat safe (%)	Risky (%)
Equity Shares	5.09	10.18	20	65.09
Fixed Deposit in Non-Govt. Cos.	10.18	14.9	30.18	45.09
Fixed Deposit-Bank	80.00	10.9	5.09	4.1
Govt. Securities	50.18	25.09	14.9	10.18
Gold	65.09	25.09	5.09	4.1

Table 3B: Percentage Distribution of Risk Perception in various instruments for Investor Household in Rural Area

Instrument	Very safe (%)	Reasonably safe (%)	Somewhat safe (%)	Risky (%)
Equity Shares	2.02	5.4	8.1	84.45
Fixed Deposit in non-Govt. Cos.	7.43	12.16	20.27	60.13
Fixed Deposit Bank	77.02	19.59	2.02	1.35
Govt. Securities	50.00	23.64	11.86	11.48
Gold	70.27	27.7	2.02	-

Table 3C:Percentage Distribution Of the Risk Perception With Future Planning To Invest (In Rural Area)

Instrument	To invest(%)	Not to invest (%)
Equity Shares	8.1	91.8
Fixed Deposits in Non-Govt. Companies	10.1	89.86
Fixed Deposit-Bank	81.08	18.91
Govt. Securities	57.43	42.56
Gold	74.32	25.67

Table 3D:Percentage Distribution of Risk Perception with Future Planning to Invest(Urban Area)

Instrument	To Invest(%)	Not to Invest(%)
Equity Shares	16.36	83.63
Fixed Deposit in Non –Govt.Companies	21.09	78.90
Fixed Deposit-Bank	76.0	24.0
Govt.Securities	49.09	50.90
Gold	56.72	43.27

The following conclusions have emerged out of the findings which are elaborated below.

1. *For investor households, safety and liquidity i.e. reliability, are the primary considerations which determine the choice of an instrument of investment.*

About 80 per cent from urban area and 77 per cent from rural area regarded the bank fixed deposit as safe. Interestingly, 50 per cent from urban and 70 per cent from rural area regarded gold as a safe instrument. So, it becomes clear that even in today's times rural people have more faith in gold. Out of their savings they want to invest in gold and give it the secondary priority after fixed deposit in bank.

2. *Investor households are aware of risk in investing in equity shares.*

Equity shares have been found to be very unsafe by a significant number of investors. The rural investors considered equity more risky as compared to urban investors, as it is already stated that rural people have higher faith in gold and it is very interesting to note that no one among the 148 rural investors considered gold as risky instrument.

3. *Hierarchy of risk in certain instruments.*

Ranked by an ascending order of risk perception, bank fixed deposit was considered very safe i.e. least risky, followed by gold, government securities, fixed deposit in non-banking financial companies and equity shares. And this risk perception hardly differs between rural and urban investors.

4. *Investor planning to invest in different instruments corresponds with risk perception.*

Higher proportion of investor households invested in instruments with a lower risk perception. For example, 80 per cent of urban investors considered bank fixed deposit as a very safe instrument and 75 per cent decided to invest in it.

5. *Investor planning to invest differs by area.*

The urban investors households have a higher proportion of future planning of investments in equity shares, fixed deposit with NFBC as compared to the rural households. But gold, government securities and fixed deposit with bank have higher proportion of future planning of investment in rural area as compared to the urban area.

6. Investor planning to invest in the next one year brings out a negative correlation between risk perception and choice of instrument.

The correlation coefficient is of the order of -.915 per cent in the urban area and -.898 in rural area. This implies that the pattern of investment to a large extent conforms to risk perception of the investor about different instruments i.e. higher proportion of investors have invested in instruments with a lower risk perception. For example, bank deposit was considered risky by only 4 per cent in urban area and it attracted 75 per cent investors in the next year and similarly in rural area only 2 per cent considered bank deposit as risky but it attracted 90 per cent of investment in the next year.

7. *Bank fixed deposit continues to appeal the most.*

The share of households investing in a specific instrument is an index of their preference for that instrument. Fixed deposit with the banks appears to be the most preferred form of investment.

8. *Majority of investors are unlikely to invest in the securities market.*

It is seen that a significant number of investors, majority from rural cluster rather than urban, are unlikely to make fresh investments in equity shares. This is indeed a matter of concern as it shows an expression of lack of confidence by the existing investors in the equity market.

IV. SUMMING UP

It can be said that for investor households safety and liquidity i.e. reliability are the primary considerations which determine the choice of an instrument of an investment. Most investors invest in instrument with least risk perception. Thus out of five instruments i.e. Equity Shares, Fixed Deposit with Cos., Govt. Securities, Fixed Deposit with banks and Gold, Fixed Deposit with Banks appears to be the most preferred form of investment. But how long will this appeal continue in the face of declining interest rates remains to be seen.

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