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A Study on Investor's Perception W.R.T Investment in Indian Capital Market

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Executive Summary

Capital Market is a one of the significant aspects of any financial market. It is a market for financial assets which has long or indefinite maturity. It is an institutional arrangement for borrowing and lending money for a long period of time. Capital markets involve various instruments which can be used for financial transactions. Capital Markets are the financial market in which long term debt and equity are traded

The capital market is also divided in primary capital market and secondary capital market. The primary market refers to the new issue market, which relates to the issue of shares, preference shares, and debentures of non-government public limited companies and also to the realizing of fresh capital by government companies, and the issue of public sector bonds.
The secondary market on the other hand is the market for old and already issued securities. The secondary capital market is composed of industrial security market or the stock exchange in which industrial securities are bought and sold and the gilt- edged market in which the government and semi-government securities are traded.

Thus, it can be concluded from the foregone analysis that the Stock Exchanges in India as elsewhere have played a vital role in the development of the country in general and industrial growth of companies in the private sector in particular and helps the Government to raise internal resources for the implementation of various development programmers in the public sector. As a segment of the capital market, it performs an important function in mobilizing and channelizing resources which remain otherwise scattered. Thus, the Stock Exchanges tap the new resources and stimulate a broad-based investment in the capital markets.

INTRODUCTION

The capital market is a crucial component of the financial system, facilitating the trading of long-term financial assets. It serves as an institutional arrangement for borrowing and lending money over extended periods, directing investors' savings into productive corporate activities. The Indian capital market has a rich history, beginning in the eighteenth century with East India Company securities. The Bombay Stock Exchange, established in 1899, marked the formalization of trading in India, leading to the emergence of multiple stock exchanges.

With globalization and policy reforms, the Indian capital market has evolved significantly. Innovations like share dematerialization have enhanced transaction speed and reduced costs, transforming it from a broker-regulated environment to a more accessible mass market. Since 2003, improving macroeconomic fundamentals have attracted international investors, although only about two percent of Indian savings currently enter financial markets, with many preferring traditional investments.

The capital market is defined as the marketplace for long-term financial instruments, including shares, debentures, and bonds. It consists of two segments: the primary market, where new securities are issued, and the secondary market, where existing securities are traded. The capital market also includes the gilt-edged market for government and semi-government securities, which are stable and sought after by institutions.

RISK CONSIDERED WHILE INVESTING IN CAPITALMARKETS

Market Risk: The risk of overall market declines due to economic events. Key types include:

- **Equity Risk**: Losses from fluctuating share prices.
- **Interest Rate Risk**: Losses on debt investments like bonds due to rising interest rates.
- **Currency Risk**: Losses from foreign investments due to changes in exchange rates.

Liquidity Risk: Many emerging markets have low trading volumes, leading to higher costs for large transactions and potential price impacts.

Clearing and Settlement Risk: Inadequate settlement procedures can result in trade failures, affecting transaction completion.

Political Risk: Less stable political systems in developing countries may hinder effective regulation and oversight of capital markets.

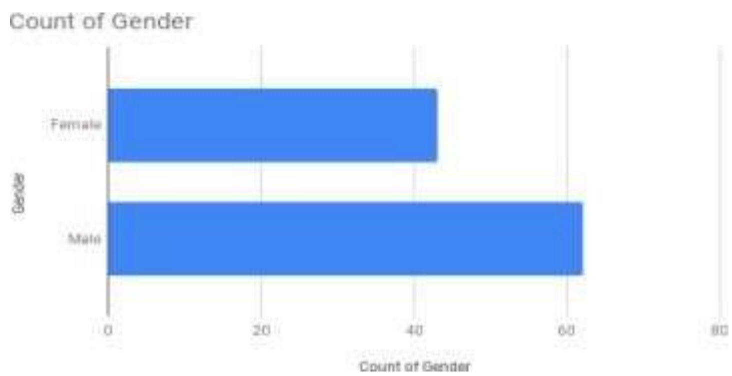
Currency Risk: Fluctuations in exchange rates can lead to unexpected losses for investors in emerging markets.

Limited Disclosure: Insufficient information about companies can lead to uninformed investment decisions and potential losses. However, India has developed mechanisms to address these risks.

Inflation Risk: The risk that investment values do not keep up with inflation, eroding purchasing power. While cash and bonds are vulnerable, equities and real estate can offer some protection through price increases.

REVIEW OF LITERATURE

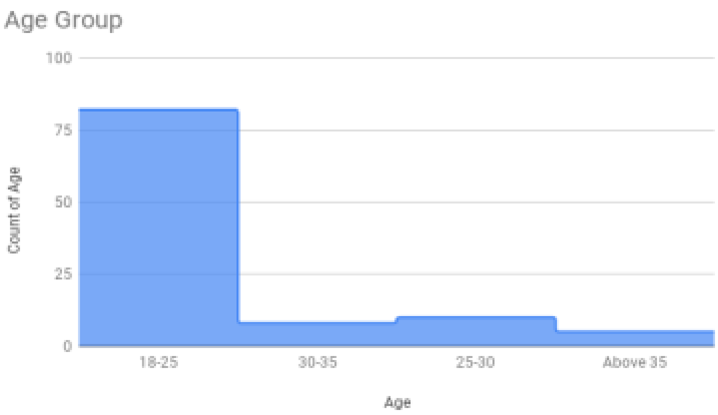
DATA ANALYSIS AND INTERPRETATION
Gender



The above chart depicts the count of age. According to the survey out of 105investors 62 of them are male whereas 43 are females.

It shows that a greater number of Males were part of this research than Females.

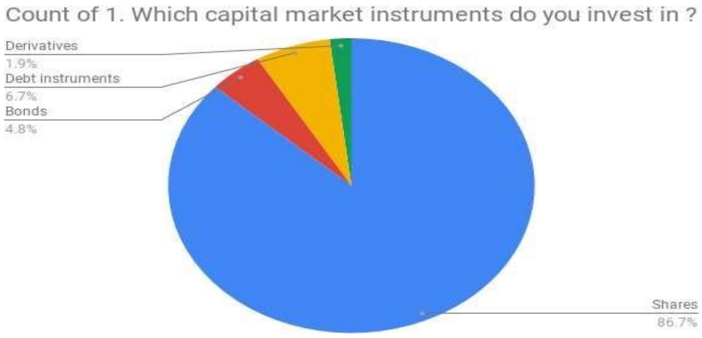
Age group



The above chart depicts the age group which responded to this survey. The age limit for the research is 18-35 years.

It shows that most of the investors who responded to this survey lie between the age group of 18-25 years and the least lie between the age group of 30-35 years.

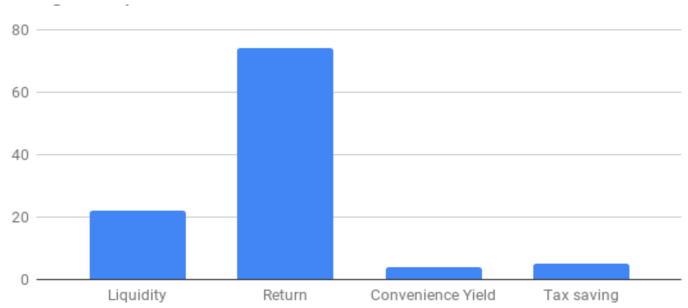
1. **Which capital market instruments do you invest in?**



Interpretation-

The above pie chart depicts the type of capital market instruments different people use to invest in capital markets.
The major capital instruments that are looked upon are Shares, Derivatives, Bonds and Debt Instruments.
According to the survey out of 100% investors 87% of them invest in shares, 2% in Derivatives, 5% in Bonds, 7% in Debt instruments. Among this the least preferred instrument is Derivatives.
The survey clearly depicts that the majority of the investors prefer to invest their hard-earned money in shares as it helps investors to diversify their portfolio and earn good returns. The investment decisions are mainly based on the rate of return and liquidity.

2. What are the factors which you consider while investing in capital markets?



Interpretation-

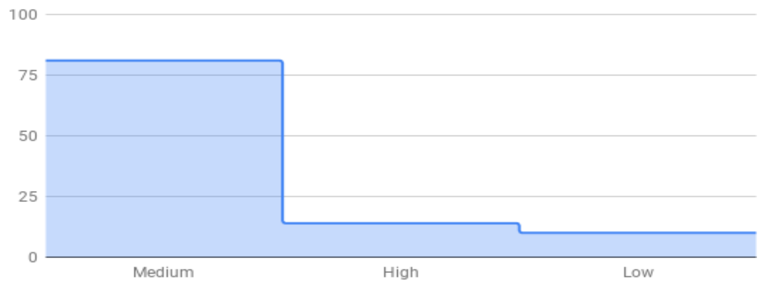
The above chart depicts the factors considered by investors while making investment in Capital Market. Capital investment factors influence the investment decisions of the investors.

The factors that are majorly looked upon while making investments are Liquidity, Return, Convenience Yield, Tax saving.

According to the survey out of 105 investors 74 of them considers Return, 22 of them considers Liquidity, 5 of them considers Tax saving whereas only 4 of them considers Convenience Yield.

The most preferred factor considered while making investments in capital market is Return. Very few investors are attracted towards factors such as Liquidity, Tax saving and Convenience Yield respectively.

3. State the level of risk you would prefer to take while making investments?



Interpretation-

The above chart depicts the capacity of risk an individual would take while making investments in capital market.

According to the survey out of 105 investors 14 of them have a capacity to take high risk whereas 81 of them are medium risks takers and the remaining 10 of them are low risk takers.

Majority of the investors prefer to take medium risk and prefer to invest their hard-earned money for long term growth.

Investors with the objective to earn secured returns prefer to take low risk whereas the investors with high-risk appetite just focus on high returns.

The capacity to hold risk was based on an individual aspect such as income, power and rewards.

4. You like investing in financial products through which forms of Capital Market?

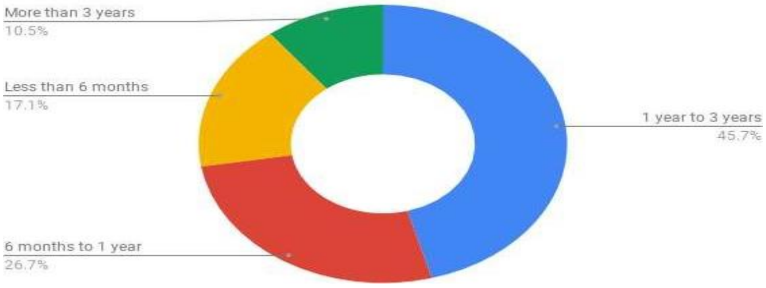
Interpretation-

The above chart depicts the forms of Capital markets through which investments can be made. Investments in Capital market can be done through Primary as well as Secondary Market.

According to the survey out of 105 investors 74 of them prefer to invest via Secondary Market whereas only 31 investors invest via Primary Market.

Majority of the investors use Secondary market for investing in financial products as this form of investment involves trading in securities and also generates good returns. This means that very few investors prefer raise capital from bonds, shares and other investments and so many investors do not prefer investing via Primary Market

5. How long you prefer to keep your money when invested through secondary market?



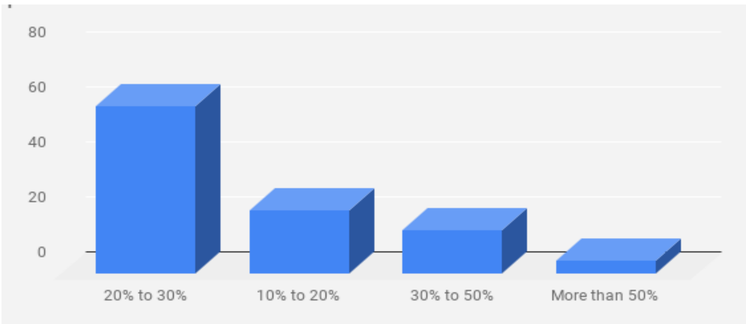
Interpretation-

The above pie chart depicts the time frame preferred by investors. Securities can be traded for short, intermediate and long term in the secondary market.

According to the survey out of 105 investors 18 of them prefer to invest for less than 6 months, 28 of them prefer to invest for 6 months to 1 year, 48 of them prefer to invest from 1 to 3 years, 11 of them prefer to invest for more than 3years.

Majority of the investors prefer to invest their money through secondary market for intermediate term i.e., for 1 to 3 years.

6. **How much returns you expect from investing in Capital Market?**



Interpretation-

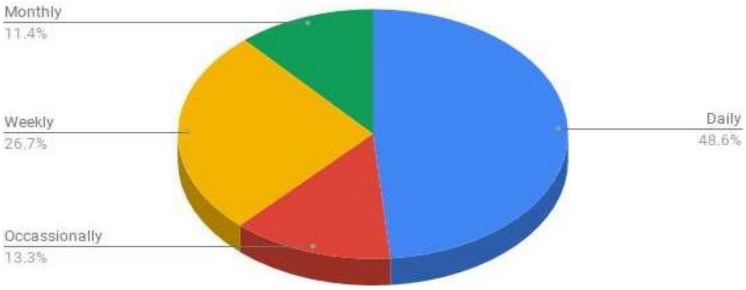
The above chart depicts the expected rate of return.

According to the survey out of 105 investors 23 of them expect 10% to 20%returns, 61 of them expect 20% to 30% returns, 16 of them expect 30% to 50% returns whereas only a few i.e. 5 of them expect more than 50% returns.

Majority of the investors expect 20% to 30% returns from their investments made in Capital Market instruments.

The rate of return on investments is purely based on amount invested, time to maturity, risk holding capacity and volatility of interest rates.

7. **How often do you monitor your investment?**



Interpretation-

The above pie chart depicts investments monitored by investors.

According to the survey out of 105 investors 51 of them monitor daily, 28 of them monitor weekly, 12 of them monitor monthly and 14 of them monitor occasionally.

Majority of the investors choose to monitor their investments daily. This helps in making a quick decision. Volatility is unavoidable therefore keeping a daily check on investments will help investors to earn good returns.

SUGGESTIONS AND RECOMMENDATION

To enhance investment in financial products, the following actions are essential:

- Simplify the procedures for investing.
- Focus on small investors by introducing innovative and alternative financial products.
- Organize targeted Investor Awareness Programs, especially in remote areas, supported by media campaigns.
- Strictly enforce corporate governance practices to build investor confidence.
- Educate investors on rectifying past mistakes to prevent repetition.
- Impose severe penalties for misconduct.
- Leverage technology to raise investor awareness and confidence.
- Companies should educate employees about equity investments and appoint an Ombudsman to address investor grievances.

To rebuild investor confidence, it is vital to improve:

- Investor protection
- Transparency
- Market integrity
- Market efficiency
- Supervision quality over market intermediaries

CONCLUSION

The capital market in India is crucial for economic growth, providing a framework for financing and investment. Innovations and reforms are necessary to enhance technology, reduce capital costs, and mitigate risks associated with capital market instruments.

A strong correlation exists between the capital market and economic performance, emphasizing the need for a sound financial system. Despite India's robust economy, the stock market remains volatile, facing challenges such as financial scams, fiscal deficits, and rising commodity prices. Investor confidence has been shaken by issues related to corporate governance, leading to significant sell-offs of affected stocks.

While the long-term outlook for the Indian stock exchange is positive, it must address these challenges to compete with markets like those in China and the US. Factors influencing the Indian capital market include macroeconomic conditions, global market performance, foreign investments, and government policies.

In conclusion, stock exchanges in India play a vital role in mobilizing resources, fostering industrial growth, and supporting government development initiatives. They are essential for channeling investments and enhancing overall economic stability.