

PERCEPTION OF RISK ON VARIOUS INVESTMENT AVENUES BY THE EMPLOYEES AT DIFFERENT STAGES OF LIFE - A STUDY ON SELECTED EMPLOYEES OF VISAKHAPATNAM CITY, A.P

A. Nooka Raju

Research scholar, Andhra University

Abstract

The family unit with the available savings plan achieve various goals which they come across during their different stages of life. With the available sources of information on various investment avenues, the savings will be changed into investment considering the risk, return and other factors. The study mainly concentrates in knowing perception of risk level on various investment avenues by the employees at different stages of life. The major findings of the study are that majority of the employees at all the stages of life has less perception on the level of risk on various investment avenues.

Keywords: stages of life, investment avenues, perception of risk

1. Introduction:

Investing in a variety of assets is an interesting activity that attracts people from all walks of life irrespective of their profession, economic status, education and family backdrop. Investment has two attributes namely time and risk.

Generally risk involved in the financial assets may seem to be the probability of actual return being lower than expected return and/or loss in principle amount. It is not that all assets have uncertain returns, take for example the return on government bonds is certain whereas the return on equity shares is uncertain. That is risk involved in government bonds is very low (no risk) but the risk involved in equity shares may be high or very high. Therefore, the risk involved in various investments may range from very low, low, medium risk, high risk to very high risk. Understanding of this depends on the awareness, knowledge or perception of risk (measurement of risk) on such assets. It is not that all the investors are fully aware about the amount of risk involved in different assets; there are also situations that the investors don't know the risk on the assets.

The understanding of risk on various assets may be different across different ages of individuals depending on their education and others; starting from bachelors to retired persons. Therefore, in the present study the perception of risk level on various investment avenues by the investors at different stages of family life is analysed.

The family life stages considered for the study are Bachelors, Newly married, Married with and without children, Household with teenagers, Couple with earning children, Retired and staying with/without children.¹

2. Types of Investment Avenues:

Physical Assets: Real Estate, Gold/Silver and Precious Stones.

Market Oriented Investments: Mutual Funds, Equity Linked Saving Schemes, Shares and Futures & Options.

Low/Medium Risk Investments: Bonds, Debentures and NBFC Schemes.

Precautionary Investments: Provident Fund, Insurance and Unit Linked Insurance Plans.

Traditional Investments: Post office savings, National Saving Schemes, Bank Deposits, Co-operative Bank Deposits, Company Fixed Deposits, Chits and Personal Lending.

3. Review of literature

Nagpal and Bodla (2009)² have examined the impact of lifestyle physiognomies of the respondents and their influence on investment preferences. The study clinches that investors' lifestyle predominantly choose the risk-taking capacity of investors. It is observed that despite the remarkable development in the security market; the individual investors have preference towards less risky investments, viz., life insurance policies, fixed deposits with banks and post office, PPF and NSC.

Kabra, Gaurav, Mishra, Prashant, K., Dash, Manoj, K. (2010)³ the behaviour of various types of investors waged in the government or private sectors in India and based on their annual income and annual amount invested by them. The major variables considered for the study were investing background, opinion, leadership, duration of investment, awareness of investments and security. The authors concluded that risk averse people opted for insurance policies, fixed deposits with banks, post office, PPF and NSC and the investor's age and gender affected their risk-taking capacity.

Puneet Bhushan and Yajulu Medury (2012)⁴ have made an attempt to analyze the investment preference of salaried individuals towards financial products based on various demographic factors. It is found that most of the investments in various investment avenues made by the salaried people belong to the age group of 31-40 years followed by 41-50 years. The working adults earning more than 10 lakhs per annum are found preferring high risk-high return instruments whereas employees earning up to 2 lakhs prefer investing in safe investment avenues. Another important finding is that government employees tend to invest in safe investment instruments where as private employees choose to invest even in risky instruments which yield higher return.

The researchers **Dr. Mandeep Kuar and Tina Vohra (2012)**⁵ has carried out a study to understand individual investor's behavior and found that knowledge about the expectations, demographic profile, attitude of an investor towards

risk, personal circumstances of an investor play a vital role while investing in financial markets. The authors also suggested that this study will be of great help to the policy matters, investment agencies, researchers as well as managers of the firms to prepare themselves to respond to the varying moods of investor.

The descriptive type research is carried out by **Mr. Jay R. Joshi (2013)**⁶ with an objective to know investors view about the investment preference and motivational factors, especially for mutual funds. Investors in mutual fund has expressed that diversification of portfolio, higher liquidity and low level of risk were the top most factors to invest. Higher and constant return is the first preferred reason to invest followed by tax benefit as second rank, long term investment third rank and fourth rank for low level of risk.

4. Need for the study:

The review of literature suggests that individuals save and invest their funds for future needs which they come across in every stage of their life. The studies also project that the life cycle stages are stretched to eight stages and the respective behaviors are also observed. But an in depth study is very much desirable with regard to perception of risk on various Investment avenues by employees at each stage of life cycle as there exist a few studies.

5. Objectives of the study:

- To study, analyse and present the perception of risk on various Investment avenues by the employees at different stages of Life.
- To disclose the facts to financial institutions and policy makers about – the degree of awareness of risk on various Investment avenues by the employees in Visakhapatnam.

6. Scope of the study

The study is restricted to employees from Public and Private Sector residing in Visakhapatnam city and to know the perception of risk on traditional investments, precautionary investments, market investments and investment in physical assets.

7. Research methodology

The study is based on both primary and secondary data. Primary data is collected using stratified random sampling method, each stratum being a life cycle stage, with an objective to take a sample representing all life cycle stages of Private and Public-sector employees of Visakhapatnam. The primary data is collected through questionnaires, personal interviews and discussions. Secondary data is collected from books, publications, journals and other sources.

7.1 Data Collection Instruments: -

Sampling technique : Quota Sampling @20 each.
 Two Strata's : Public Sector employees and Private Sector employees
 Total number : 8 Stages in each Stratum @ 20 respondents that is 160 in each sector coming to a total of 320.
 Study area : Visakhapatnam, Andhra Pradesh
 Data collection instrument: Structured questionnaire

8. Data Analysis:

A cross section analysis perception of risk on different investment avenues by people belonging to various stages of life is analysed and shown below:

Table 1: Bachelors Perception of Risk on Various Investment Avenues in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	3%	4%	8%	40%	35%
Low Risk	27%	19%	20%	18%	23%
Medium Risk	27%	16%	19%	22%	12%
High Risk	11%	7%	3%	5%	6%
Very High Risk	12%	10%	6%	1%	6%
Don't Know	21%	47%	44%	13%	18%
Total	100%	100%	100%	100%	100%

Table 1 reveals the perception of risk by bachelors on different investment avenues. Out of the bachelors who expressed their opinion on Physical assets it is found that 27% feel it is of low risk, another 27% expressed they are of medium risk and very few that is 11%, 12% feel that these are high risk and very high risk, and 21% don't know the risk on the physical assets. Their opinion on market oriented investments and low/medium risk investment avenues are somewhat similar. 47% and 44% respectively expressed that they are unaware of risk level on bonds, debentures, NBFC schemes and market oriented investments such as Mutual funds, shares, futures and options. Even their opinion on precautionary and traditional investment avenues are expressed similarly. Majority that is 40% and 35% respectively has opted that these are very low risk avenues followed by 18% and 23% are of the opinion that they are low risk.

Table 2: Newly married Perception of Risk on Various Investment Avenues in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	12%	0%	0%	32%	21%
Low Risk	18%	13%	23%	20%	19%
Medium Risk	9%	10%	14%	15%	20%

High Risk	22%	16%	3%	11%	12%
Very High Risk	17%	16%	13%	5%	10%
Don't Know	23%	46%	48%	18%	19%
Total	100%	100%	100%	100%	100%

Table 2 explain the perception of risk by newly married people on different investment avenues. 23% don't know the risk on the physical assets but, out of the people who know the risk level responded that they are of high risky and even few expressed that these are of low risk also. Coming to market oriented investments and low/medium risk investment avenues the perception of risk at this stage is somewhat similar to the percentages expressed by bachelors. 46% and 48% respectively expressed that they are unaware of risk level on market oriented investments such as Mutual funds, shares, futures & options, bonds, debentures and NBFC schemes. In case of precautionary and traditional investment avenues majority that is 32% and 21% respectively has opted that these are very low risk avenues and still there are some who don't know the level of risk on these avenues.

Table 3: Married with and/or without children Perception of Risk on Various Investment Avenues in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	12%	1%	2%	34%	22%
Low Risk	18%	8%	13%	18%	27%
Medium Risk	11%	18%	27%	27%	22%
High Risk	25%	14%	8%	8%	11%
Very High Risk	12%	10%	0%	3%	1%
Don't Know	26%	50%	51%	10%	16%
Total	100%	100%	100%	100%	100%

Table 3 elucidate the perception of risk by married with and/or without children on different investment avenues. 26% don't know the risk on the physical assets whereas 25% are of the view that these are medium risk. Around 50% expressed that they are unaware of risk level on bonds, debentures, NBFC schemes and market oriented investments such as Mutual funds, shares, futures and options. 34% and 22% respectively has expressed that precautionary and traditional investment avenues are of very low risk avenues.

Table 4: Household with Teenagers Perception of Risk on Various Investment Avenues in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	8%	10%	8%	42%	30%
Low Risk	23%	8%	23%	23%	24%
Medium Risk	24%	20%	24%	17%	21%
High Risk	11%	18%	11%	11%	13%
Very High Risk	6%	7%	6%	3%	6%
Don't Know	28%	36%	28%	3%	6%
Total	100%	100%	100%	100%	100%

Table 4 shows the perception of risk by the household with teenagers on different investment avenues. 28% don't know the risk on the physical assets whereas 24% are of the view that these are medium risk. 36% and 28% respectively expressed that they are unaware of risk level on market oriented investments and Low /medium risk investment avenues. 42% and 30% respectively has expressed that precautionary and traditional investment avenues are of very low risk avenues.

Table 5: Couple with earning children Perception of Risk on Various Investment Avenues in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	11%	1%	4%	28%	29%
Low Risk	25%	10%	12%	30%	23%
Medium Risk	26%	20%	20%	21%	19%
High Risk	23%	16%	9%	7%	10%

Very High Risk	8%	10%	1%	3%	6%
Don't Know	7%	44%	55%	11%	14%
Total	100%	100%	100%	100%	100%

Table 5 shows the perception of risk by the household with teenagers on different investment avenues. Majority of them that is 74% (25+26+23) has expressed that the risk on the physical assets are low, medium and high risk. 44% and 55% respectively expressed that they are unaware of risk level on market oriented investments and Low /medium risk investment avenues. Even majority of them has expressed that precautionary and traditional investment avenues are of very low, low and medium risk avenues.

Table 6: Retired employees Perception of Risk on Various Investment Avenue in percentage:

	Physical Assets	Market Oriented Investments	Low/Medium Risk Investment Avenues	Precautionary Investment Avenues	Traditional Investment Avenues
Very Low Risk	9%	5%	14%	48%	34%
Low Risk	15%	12%	23%	22%	23%
Medium Risk	37%	28%	15%	16%	18%
High Risk	20%	17%	11%	6%	12%
Very High Risk	12%	14%	3%	1%	5%
Don't Know	6%	24%	34%	7%	8%
Total	100%	100%	100%	100%	100%

Table 6 shows the perception of risk by the household with teenagers on different investment avenues. Majority of them that is 37% has expressed that the risk on the physical assets is medium risk. 28% expressed that they are medium risk on market oriented investments and 34% are of the view that they are unaware of risk level on Low /medium risk investment avenues. Even majority of them has expressed that precautionary and traditional investment avenues are of very low and low risk avenues.

9. Findings:

- Majority of the Bachelors and newly married who are at merely starting stage of their life perceive that traditional and precautionary investments are of very low to medium risk, only few of them know the extent of risk on bonds, debentures, NBFC schemes, shares, mutual funds, futures and options. Majority of the Bachelors believe that the physical assets are of low to medium risk whereas; newly married perceive that the physical assets are of low to high risk.
- The married couple with/without children perceive that traditional and precautionary investments are of very low to medium risk and around 50 percent of them don't know the extent of risk on bonds, debentures, NBFC schemes, shares, mutual funds, futures and options. Majority of them believe that investing in physical assets has low to medium risk.
- Maximum of the households (with their children at teenage) perceive that traditional and precautionary investments are of very low and low risk in their respective investments. 23% and 24% expressed that the extent of risk on low/medium risk investments are of low and medium whereas, few of them are aware of the risk on market related investments and expressed that risk on these will be medium and high risk. Majority of them believe that investing in physical assets is of low and medium risk.
- Couple with earning children who are very much to discharge their goals at this stage lack knowledge on risk on market related investments and of course possess reasonable knowledge on traditional and precautionary investments. There is almost a similar understanding among the people who are already retired.

10. Suggestions:

- It is observed from the study that majority of the respondents at almost all the stages of life are not aware of the risk on the market related investments like bonds, debentures, NBFC schemes, shares, futures & options, therefore it may perhaps be suggested that one has to go through the financial education before they build their personal financial goals to have good understanding on the characteristics (risk, return etc.) of investment avenues.
- Arrangements have to be made by the financial institutions and the policy makers to increase the awareness level on various investment avenues by conducting financial education programs.

11. Conclusion:

Every individual passes through the above mentioned stages of life. If an individual at bachelors stage or newly married stage are not aware of risk and return associated with the investments, their financial planning will have a misleading track and may end up in insufficient funds to meet their life goals. Even this awareness has same importance at the other stages of life. Therefore knowing the risk, return and other characteristics of investment avenues plays vital role in once life.

12. References:

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