

A Study on Investor Awareness in Indian Capital Markets with Reference To Post Liberalization Period

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Abstract: the fast and efficient development of the financial systems in India. They are the best possible channels to fund the financial growth of the economy. The thesis is the first of its kind in India where the survey was conducted among 852 educated respondents among four major cities, Hyderabad, Delhi, Bangalore and Chennai who saves a good amount of their income but lacks the awareness in capital markets and hence most of their savings are directed towards the traditional financial instruments. The research has provided wide array information through descriptive analysis of the demographic profiles of these respondents around various parameters across the industry and statistical inferential analysis of the awareness and perception of the investors. This thesis also discusses the different factors and variables that influence the investors and help them in decision making. Various statistical tools have been used to study the data collected from the respondents and make the necessary inferences. The study has provided with conclusions that can help to create awareness among existing and potential investor thus streamlining the Indian capital markets.

Keywords: Capital Market, Awareness and Perception of Investors.

I. INTRODUCTION

A. Concept of Investments

The growth of any economy is marked by the degree of investments helping the capital formation in the country one of the major sources of investment is savings by the residents of the country and in country like India, savings from household forms the major backbone of the economy which forms the largest segment of national savings. Every country encourages its citizens to save and invests in the growth story of the country. Household savings are the prima facie followed by the corporate, businesses with the government. For a sustainable growth in the economy, the central bank encourages domestic savings. According to RBI's report the national savings in India as a percentage of gross national disposable income (GNDI) rose from 9.1% in 2019-20 to 11.1% in 2020-21, the highest in at least the last seven years. Every working individual earns money to take care of his needs first and then followed by wants. Money thus earned is spent on various aspects like household expenses, education, medical bills etc. followed by vacations, entertainment etc. Some part of the

earnings is saved for future needs. Those who spend less than they earn are tend to save their earnings for future needs. These savings can be accumulated and invested to achieve future objectives like buying a house, retirement, children's education, etc. This saved money is encouraged to not held as cash but invest into different financial instruments. These instruments not only create a huge amount but also tender certain ROIs in form of appreciation. (Source RBI)

Table1. Projections of Household savings Rate (in per cent of GDP)

Year	Household Savings
2015-16	23.2
2016-17	23.6
2017-18	24.4
2018-19	24.8
2019-20	25.2
2020-21	24.4

It is observed that the projected household savings rate increased from 23.2 per cent in 2015-16 to 24.4 per cent in 2020-21, giving an average of 24.4 per cent during the Twelfth Plan.

Table2. Baseline Projection of the Components of Household Savings over the Twelfth Plan as per cent of GDP at current market prices

Gross Financial Assets (1 to 7)	16.8	17.1	17.4	18	18	18.2	18
Gross Financial Liabilities	5.1	5.2	5.3	5.4	5.5	5.5	5.4
Net Financial Savings (8 – 9)	11.7	11.9	12.1	12	13	12.7	12
Physical Savings	11.5	11.7	11.9	12	12	12.5	12
Household total Savings (10+11)	23.2	23.6	24	24	25	25.2	24

B. Classification of Investments

Investment is made to achieve certain objectives by the investor. The goals range from financial safety, capital

appreciation, liquidity, regular returns, etc. Hence a wide range of financial instruments are available to the investor.

Broadly they can be classified as

- Real Asset
- Financial Asset

1. Real Assets

These are concrete in nature and directly contribute towards the growth of an economy. Physical Investment instrument like in land, building and Plant & machinery are considered as investments in real assets. Precious metals like Gold, silver are physical but are not considered as Real assets but as commodities as they do not contribute to the growth in the country. The real assets can fetch regular incomes like rents when the house or office space is not self-occupied. Moreover, they appreciate in capital values.

2. Financial Assets

Financial Assets are intangible in nature and one of the major opportunities for retail investors leaving an indirect claim on the real assets. These include stocks, mutual funds, debenture and bonds, ETFs and also include products that are a combination of debt and equity. Returns on gold and other precious metals are also classified under financial assets.

The investment instruments do not show huge variation among the physical and financial assets. The focus shifted to Real assets more only during the global slowdown as depicted in the table below

Table3. Concentration of Physical and financial Assets as per RBI.

Financial Year	Physical Assets	Financial Assets
2012	57.09	42.91
2013	52.49	47.51
2014	57.01	42.99
2015	69.23	30.77
2016	67.59	32.41
2017	49.58	50.41
2018	49.59	50.4
2019	49.59	50.4
2020	49.6	50.39
2021	49.59	50.4

The inferences drawn from Table3 that from 2012 to 2017, the investment in financial assets have reduced gradually. The drop of around 15% from 2012 to 2017 indicates that the investor prefers investing in physical assets marked by gold and other precious metals. Gold has seen steep rises in prices from 2012 till 2021 and has given positive returns for investors. During 2020 gold stirred new highs by breaking all records of its past amid coronavirus. Even when the world is struggling for better economy and rising cases of COVID-19, gold has proved itself to be a safe-haven. The price of gold is

continuously rising and has touched the levels of more than 55,000. Gold is a safe-haven for investors in this global uncertainty.

Table4. Comparison of Sensex and Gold Returns

Year	Sensex return in %	Gold return in %
FY 10	19.68	29.38
FY 11	-37.94	24.36
FY 12	80.54	29.5
FY 13	10.94	10.06
FY 14	-10.5	7.14
FY15	8.23	-28
FY 16	18.85	-1.74
FY 17	25%	#####
FY 18	-9%	8.56%
FY 19	13%	#####
FY 20	3%	-1.58%

Depending upon their features financial assets can also be classified as:

- Debt
- Equity
- Hybrid Instruments

1. Debt

A negotiable certificate evidencing indebtedness - a debt security or IOU, issued by a company. Debt is simply defined as negotiable instruments issued by the government or a company. The borrowed money is serviced with regular payments of interest rates and principal In effect Government Businesses, people save some portion of their income and invest this money into capital markets. The borrowers borrow these savings through debt bonds in capital market. For the lenders they convert their liquid, risk free cash: assets into rather risky instruments for receiving returns and benefits which are serviced with regular coupon payment specifically semiannually. These instruments carry a high risk of default. Thus, the lender will only convert his risk-free assets into risky assets with the only hope of receiving higher returns than holding risk free assets thus a higher return is always clubbed with higher risk and hence is directly proportional. These debt instruments are termed as commercial papers, treasury bills, debt bonds, etc. The Capital Markets play an important role of making the markets MORE EFFICIENT. In case of Indian Debt markets liquidity is the major cause of concern for the investor. But the investors looking for a stable and regular income prefer these instruments but still lingers the limited scope for capital appreciation. Earlier studies have indicated that the investors find debt instruments including debt mutual funds relatively very safe and hence are highly

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preferred by them. Unfortunately, the study does not include elaborate survey on the debt instruments.

2. Equity

Investment in Equities is considered rather riskier than the debt instruments but fortunately it makes the investor a shareholder/owner of the company. Thus, the major objective of the investor here is to earn higher ROIs, the investor is interested in capital appreciation rather than regular payment of income unlike in debentures. Though the investor still looks forward for a dividend payment. The risk lies here is of liquidity which the investor needs to play cautiously. The stock once listed gets traded on the Indian stock exchanges which are dominated by BSE and NSE. The research is an attempt to study the current factors associated with the investment decision making

C. Classification of Capital markets

Capital Markets are also further divided as

- Primary markets
- Secondary markets

1. Primary markets

Stocks and bonds are issued directly from companies to investors, businesses and other institutions, through underwriting. Primary markets help the companies to raise money without or before holding an IPO i.e., Initial public offerings as to be in a profitable situation.

2. Secondary Markets

Once the stocks are listed on the exchange through IPO then they become available for trade through secondary markets. The computerized trading system have made the trades easy, affordable and convenient. This market is very much liquid.

C. Hybrid instruments

The financial instruments having features of both equity and debt are termed as hybrid financial instruments. These instruments depict the characteristics of debt for a limited period till maturity but then further they can acquire the characteristics of equity. For example, the hybrid instrument services a regular coupon payment till the maturity and after the maturity period ends, they can be converted into equity as per the conditions laid. These instruments are widely termed as convertible debentures and bonds, preference shares, foreign currency convertible bonds and warrants. Currently in India the household invest their savings contributing significantly building the capital market.

Participants in Capital Markets: The trade volumes are created by investors and traders, not to forget the speculators and gamblers. They are individual investors (retail), Fund Houses, financial institutions, investment bankers, wealth managers, mutual funds insurance companies, pension funds, etc. Even the government is an active participant in the capital markets. Thus many different groups issue financial instruments through bonds and equity the major function of Capital Market is also to provide an exit route to the investors.



Figure1. Capital Markets Participants.

D. Investment Concepts

Investors invest into different financial instruments in order to achieve different objectives like good returns, liquidity, capital appreciation, regular dividends and coupon payments, etc. These objectives can be achieved with proper decision making. Risk and return profiles influence the financial decision making among the investors the investment instruments carries risk. This uncertainty of returns can also be extended to losing the principal invested. The retail investors lack education and professionalism in designing strategies in order to minimize and control the associated risk. Moreover, same hat does not fit all and hence the perception of risk differs from investor to investor. The evaluation of Risk depends upon the investor's past experience, advises from family and friends and dependence on financial advisers and his expertise. The investors experience and opinion about the degree of risk of a particular financial product also influences his choices of the financial instruments. This uncertainty ranges from high risk to risk averse in relative terms. This research is an attempt to gauge the perception and attitude of the retail investor with the help of a set questionnaire. The inferences and conclusions are discussed in the chapters ahead.

1. Portfolio Risk and Return

Harry Markowitz derived the model to calculate the expected return and risk of a portfolio. Variance of the rate of return of returns is a best way of measuring the risk of a portfolio. He recommended that portfolio diversification is the best way to reduce the risk of the portfolio. The weights of securities if available the return from the portfolio can be calculated as:

$$R_{port} = W_i r_i$$

Where

W_i = Weight of the individual asset i in the portfolio

r_i = Rates of the return for asset i

The formula for calculating the variance of a portfolio is

$$\text{Variance} = \sigma_{port}^2 = \sum_{i=1}^n w_i^2 \sigma_i^2 + \sum_{i=1}^n \sum_{j=1}^n w_i w_j \text{Cov}_{ij} \quad \text{Eq - 6}$$

where

σ_{port} = Standard deviation of the portfolio
 w_i = Weight of the individual asset i in the portfolio
 σ_i = Standard deviation of rates of return for asset i
 Cov_{ij} = Covariance between assets i and j

According to Markowitz it is essential for the investor to study the coefficient of correlation among the assets constituting the portfolio to effectively diversify. The model suggested the investor to select the instruments which are negatively co related.

2. Investment Theories

Efficient Frontier: Markowitz created an envelope of the most efficient portfolios naming efficient frontier He plotted the risk and return of the portfolio constitution of a combination of assets. The portfolio lying in the efficient frontier gave maximum returns with minimum risk and hence is a viable tool for the investors to study before making investment decision.

Capital Market Theory: William Sharpe extended Markowitz portfolio theory developing Capital Assets Pricing Model (CAPM). The Risk profile can be classified as Systematic and non-systematic risk where non-systematic risk can be minimized by diversification of the portfolio where as it is rather difficult to control systematic risk because these risks are more of political, economic and can be minimized through international diversification. Systematic risk is represented by beta (). Beta indicated the % change in equity value for one % change in the market index. Hence it is inferred that higher the beta higher is the systematic risk. CAPM can help in calculating the return from the portfolio. The expected rate of return is calculated as

$$E(r) = R_r f_r + (R_M - R_r) f_p$$

Where

R_r = Risk free rate of Return

f_r = Market return

R_m = beta of the portfolio

M = Standard deviation of the market index.

II. RESEARCH METHODOLOGY OBJECTIVES OF THE STUDY

- To study the awareness of Indian Investor of capital markets.
- To study the impact of awareness created by the government The Ministry of Corporate
- Affairs Capital market regulator SEBI and RBI on Indian Investor
- To study the preferences for investments and the pattern of investments by Indian
- investor
- To determine the relationship between investor awareness and perceived risk attitudes about the Indian Capital Markets

- To examine the relationship between perceived risk attitudes and investor behaviour on the Indian capital markets
- To establish the extent to which investor awareness, perceived risk attitudes affect investor behavior on the Indian capital markets
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- To establish the extent to which investor awareness, perceived risk attitudes affect investor behavior on the Indian capital markets

A. Methodology of the Study Collection of Information

The research was conducted from four different metropolitan states of India i.e. Hyderabad, Bangalore, Chennai and Delhi. The questionnaire was filled by personally meeting and interviewing the investors personally. We had collected the data from total 852 respondents out of which 250 respondents are from Hyderabad, 200 from Bangalore, 201 respondents are from Chennai and 201 respondents are from Delhi. A detail study through questionnaire would also be conducted to gauge the awareness created by various Financial Institutions across the country and its effect on the decisions of the investors.

Structure of Questionnaire: The questionnaire is divided into many parts: demographics, determining individual objective, dimensions of awareness, investor's perception, determining investor's behaviour and determine risk profiling.

Pre Testing Of Questionnaire: After the title approval, this researcher drafted the questionnaire and got it filled up from as many as 150 different investors across all the metropolitan cities of India. After collecting data from them, lot of points became clearer and some more parameters were added and some questions were altered while others were deleted. After, many alterations, a new questionnaire were prepared which was used for the pilot study.

Scale Selection: Scaling is the measurement that entails as instrument that links qualitative constructs with quantitative variables. It helps in scoring, so that from a response we can assign a single member that represents that individual's overall perception or belief. For this study, Scale development was done with the objectives and the scope of the study, data analysis requirements and the convenience and understandability of the target respondents in mind. The following scaling techniques are normally used in a survey instrument table.

In our case we have used Likert scale 1-5 for respondents.

Likert Scale: A psychometric response scale primarily used in questionnaires to obtain participant's preferences or degree of agreement with a statement or set of statements. Likert scales are a non-comparative scaling technique and are one-dimensional (only measure a single trait) in nature. Respondents are asked to indicate their level of agreement with a given statement by way of an ordinal scale. Here the

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researcher was having option to choose ordinal or interval scale. An ordinal scale would help when comparisons have to be made across variables and across several cases.

Ratio: Absolute zero
Interval: Distance to meaningful
Ordinal: Attributes can be ordered
Nominal: Attributes are only named (weakest)

Sample Size: During the research period, there were total 852 respondents out of which 250 respondents are from Hyderabad, 200 from Bangalore, 201 respondents are from Chennai and 201 respondents are from Delhi. The size of the sample depends upon the basic characteristics of the population. The researcher wishes to be 95% confident of being within 0.033 of the true population of all types of enterprises to the questionnaire, At 95% confidence $Z = 1.96$, $e = 0.033852$ (approx)

Coding of the questionnaire: The process of identifying and denoting a numeral to the responses given by the respondent is called coding. The researcher simply assigned a code for every answer for each question and specifies the appropriate field and columns in which the Responses coded are noted and based on that researcher prepared the codebook.

Analysis of Data: Analysis of the data is divided into two part i.e. descriptive and inferential analysis in descriptive analysis we used

- Frequency Table With percentages
- Rank order

In inferential analysis we used:

- One sample T test
- Analysis of Variance (ANOVA)
- Regression

The raw data was collected from primary source i.e. with the help of questionnaire which consists of the question at two different level of measurements i.e. nominal and interval scale. To draw the logical inferences from the data descriptive and inferential statistics techniques were used. Under the descriptive analysis researcher were used frequency table to understand the population of the study. And, rank order is used to identify the least and most important parameters with reference to the questions. Whereas, in inferential analysis one sample test is used to identify the favorable and the unfavorable perception of the investors on the various factors related to the capital markets. And, analysis of variance is used to identify the significant difference in the perception of the investors with respect to the location and finally regression is used to identify the impact of various parameters on the investor perception on the capital markets.

III. REVIEW OF LITERATURE

Selvam M (2008) in his look into paper "Effectiveness of Indian Capital Market to respond satisfactorily to the declaration of quarterly profit: An investigation in Capital

merchandise Industry" has expressed that a proficient furthermore, the coordinated capital market is a significant framework that encourages capital development. The productivity with which the capital development is done relies upon the effectiveness of the capital markets and money related organizations. A capital market is said to be proficient concerning a data thing if the costs of protections completely seize the profits ramifications of that thing. The present examination has experimentally analyzed the instructive productivity of Indian capital market with respect to quarterly income discharged by the car segment organizations in the semi-solid type of EMH. The investigation found that the Indian Capital market is close to effective in the semi-solid type of EMH, which can be utilized by the speculators to make irregular returns.

Jumba Shelly(2010) in her report "An undertaking on Capital Market" has ascertained that the execution of the organization's or corporate profit is one of the variables which have a direct effect or impact on capital showcase in a nation. Powerless corporate profit demonstrates that the interest in merchandise and enterprises in the the economy is less because of moderate development in the per capita salary of individuals. Due to slow development popular there is moderate development in work which means moderate development sought after sooner rather than later. Subsequently frail corporate income show normal or not very great possibilities for the economy in general in the close term. In such a situation the financial specialists (both local just as remote) would fluctuate to put resources into the capital market and subsequently there is bear advertise like circumstance. Its contrary instance would be hearty corporate profit and its positive effect on the capital market. The scientist has likewise included that the macroeconomic numbers likewise impact the capital market. It incorporates the Index of Industrial Production (IIP) which is discharged each month, yearly Inflation number demonstrated by Wholesale Price Index (WPI) which is discharged each week, Export Import Numbers which are proclaimed each month, Core Industries development rate (It incorporates ix-Core foundation enterprises Coal, Crude oil, refining, power, concrete and completedeel) which turns out each month and so forth. This full scale financial pointers demonstratet condition of the economy and the course wherein the economy is going and consequently iacts the capital advertise in India.

AhujaJuhi(2012) in her examination paper entitled "Indian Capital Market: An Overview with Its Growth" has analyzed that there has been a change in perspective in the Indian capital market. The utilization of numerous changes and advancements in the Indian capital market has made the Indian capital market similar to the universal capital markets. Presently, the market includes a created administrative instrument and a current market foundation with developing business sector capitalization, showcase liquidity, and assembly of assets. The development of Private Corporate Debt showcase is additionally a decent advancement

supplanting the banking method of the corporate fund. In any case, the market has seen its most noticeably awful time with the ongoing a worldwide monetary emergency that started from the US sub-prime home loan market and spread over to the the whole world as a virus. The Capital Market in India conveyed a slow exhibition.

IV. DATA ANALYSIS & INTERPRETATION

A. Objective-1: Identify the number of respondents level of importance on the following different investment objectives with respect to location - Location * Dividends

Location			Dividends					Total
			very high	high	not important	low	very low	
Hyderabad	Count		29	59	56	98	8	250
	% of Total		3.40%	6.90%	6.60%	11.50%	0.90%	29.30%
Bangalore	Count		13	38	55	76	18	200
	% of Total		1.50%	4.50%	6.50%	8.90%	2.10%	23.50%
Chennai	Count		10	47	57	62	25	201
	% of Total		1.20%	5.50%	6.70%	7.30%	2.90%	23.60%
Delhi	Count		13	44	57	75	12	201
	% of Total		1.50%	5.20%	6.70%	8.80%	1.40%	23.60%
Total	Count		65	188	225	311	63	852
	% of Total		7.60%	22.10%	26.40%	36.50%	7.40%	100.00%

In Hyderabad, out of 250 respondents the maximum 98 respondents gives low level of importance to the dividends and minimum 8 respondent's gives very low level of importance to the dividends. In Bangalore, out of 200 respondents the maximum 76 respondents gives low level of importance to the dividends and minimum 13 respondent's gives very high level of importance to the dividends. In Chennai, out of 201 respondents the maximum 62 respondents gives low level of importance to the dividends and minimum 10 respondent's gives very high level of importance to the dividends. And, in Delhi, out of 201 respondents the maximum 62 respondents gives low level of importance to the dividends and minimum 12 respondent's gives very level of importance to the dividends. Finally, we can concluded that out of 852 respondents the maximum 225 respondents across all the location gives a low level of importance to the dividends and minimum 63 respondents gives a very low level of importance to the dividends.

B. Location * Capital Appreciation

Table: 4-2 Appreciation by Location

Location		Capital Appreciation			Total
		very high	high	not important	
Hyderabad	Count	200	42	8	250
	% of Total	23.50%	4.90%	0.90%	29.30%
Bangalore	Count	164	27	9	200
	% of Total	19.20%	3.20%	1.10%	23.50%
Chennai	Count	159	32	10	201
	% of Total	18.70%	3.80%	1.20%	23.60%
Delhi	Count	166	29	6	201
	% of Total	19.50%	3.40%	0.70%	23.60%
Total	Count	689	130	33	852
	% of Total	80.90%	####	3.90%	#####

In Hyderabad, out of 250 respondents the maximum 200 respondents gives very high level of importance to the Capital Appreciation and minimum 8 respondent's considered capital appreciation is not important. In Bangalore, out of 200 respondents the maximum 164 respondents gives very high level of importance to the Capital Appreciation and minimum 9 respondent's considered capital appreciation is not important. In Chennai, out of 201 respondents the maximum 159 respondents gives very high level of importance to the Capital Appreciation and minimum 10 respondent's considered capital appreciation is not important. And, in Delhi, out of 201 respondents the maximum 166 respondents gives very high level of importance to the Capital Appreciation and minimum 6 respondent's considered capital appreciation is not important. Finally, we can concluded that out of 852 respondents the maximum 689 respondents across all the location gives a very high level of importance to the Capital Appreciation and for minimum 33 respondents capital appreciation is not important.

C. Findings

- 1.The study revealed that out of 852 respondents the maximum 689 respondents across all the location gives a very high level of importance to the Capital Appreciation and for minimum 33 respondents capital appreciation is not important out of 852 respondents the maximum 225 respondents across all the location gives a low level of importance to the dividends and minimum 63 respondents give a very low level of importance to the dividends Hence Dividends is clearly not understood by the investors.
- 2.Finding about the quick gain perception among all the investors that out of 852 respondents the maximum 506 respondents across all the location gives a very high level of importance to the quick gain and for minimum 47 respondents considered quick gain as the low importance.
- 3.The findings regarding liquidity of the capital is important and out of 852 respondents the maximum 445 respondents across all the location gives a very high level of importance to the liquidity and for minimum 17 respondents considered liquidity as very low importance.
4. The findings about Tax Gain among investors, out of 852 respondents the maximum 303 respondents across all the location gives a very high level of importance to the tax benefits and for minimum 17 respondents considered tax benefits as very low importance.
- 4.The findings about diversification of assets, out of 852 respondents the maximum 303 respondents across all the location gives a very high level of importance to the diversification of assets holding and for minimum 17 respondents considered diversification of assets holding as very low importance.
- 5.The findings about the Bonus, out of 852 respondents the maximum 254 respondents across all the location gives a very high level of importance to the rights/bonus issue & stock and for minimum 97 respondents considered rights/bonus issue & stock as low importance.

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6. The findings about the Hedges against the inflations, of 852 respondents the maximum 392 respondents across all the location gives a very high level of importance to the hedges against inflation and for minimum 190 respondents considered hedges against inflation as very low importance.
7. The findings on Perception about risk associated, Out of total 852 respondents, the maximum 367 respondents considered that there is very high risk associated while investing in shares and minimum 4 respondents assume that there is low risk associated with the shares.
8. Finding on risk associated with debentures/Bonds, out of total 852 respondents, the maximum 458 respondents considered that there is low risk associated while investing in debentures/bonds and minimum 23 respondents assume that there is low risk associated with the debentures/bonds

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V. CONCLUSION

The study revealed that major of the respondents has shown tendency to invest in a safe investment, and capital investments with the idea of diversification of funds was the key while investing, majorly they are dependent on information gathered by themselves through different media and family or friends. The capital investments were majorly for maximum gain out of the proportioned money into capital market. Though they were well informed and aware about the loss or risk associated with different categories in capital market. There is always a sense shown by the retail investors that the capital markets are a risk market and investment is not completely safe into this, so they diversified their investment in such a proportion that the capital loss does not occurred and hence they invested into NCC/ Debt bonds, fixed deposits and only the surplus money invested into high risk markets like Future and options.

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