



RISK TAKING BEHAVIOUR OF EQUITY INVESTORS IN CHENNAI CITY

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Abstract

Equity investment decisions are made by investors with the help of investment managers and stock broking companies. Investor market behaviour derives from psychological principles of decision making to explain why people buy or sell stocks. These factors will focus upon how investors interpret and act on information to take risky decisions. This paper explores equity investor's risk taking behaviour in equity market and provisionally explores the impact of risk tolerance and risk perception on their investment decision. The objective of the study was to establish the factors influencing risk bearing capacity at the Chennai city people. The researcher confirmed that it would be possible to evaluate the impact of demographical factors on the risk taking behaviour of equity investors therefore equity investors can able to find out the proper strategy according to their behaviour of investments.

Key Words: Equity Investors, Investment Strategy, Risk Bearing Capacity, Friedman Test, Correlation Analysis.

Introduction

An important feature of the financial markets is the depth and breadth of public participation (i.e. individual equity investors) in the market. Millions of equity investors provide a pool of capital and a diversity of decision making that creates liquidity in markets and makes it dynamic. Thus the number of individual stock holders, fix-deposit holders in bank and post-office, Bond holders or investors in different mutual-funds, insurance linked investment plans is most commonly cited summary statistics denoting the breadth of investors in the population. These statistics are useful tools for understanding the changes that take place in the financial markets and for policy formulation. It needs to mention that government, business, and individuals are three key participants in the investment process, and each may act as a supplier or investor of funds. Depending upon personal investment goals and objectives, individuals may place their savings in saving accounts, buy shares of a listed company, buy debt instruments, buy insurance or purchase various type of property. The level of risk depends upon the objective of investment. The investors expect greater return should also be prepares to take higher risk. Also an investors should assure high risk – high reward and low risk – low reward. By careful planning and periodical review of the market situation, the investor can minimize their risk on the portfolio. Risk avoidance and risk minimisation are the important objectives of securities analysis. Sometimes, a decision can lead to more than one possible outcome, such situations are best with uncertainly when it is not known exactly what will happen in future, but the variance possibilities are neglected by their assumed probability of occurrence is called risk. To avoid and minimize risk the investors should invest early, invest regularly, and invest for long term. The risks are caused by wrong decision of what to invest, wrong timing of investment, and high amount of investment in one particular security. In this study, the risk taking behaviour of equity investors are analysed by their active participation in trade, activities in selling and buying shares, comparing the share prices, diversion of funds, actions during inflation risk and market risk, investment knowledge, credibility of stock market etc.,

Significance of the Study

The study is expected to reveal the facts regarding equity investors risk taking behaviour for investments especially in equity market. The investors of today are more rapidly informed than their predecessors of yesterday. So they are better informed and better related. They want to be secure when they aspire to become rich, wanted to save while they are tempted to spend, want to feel joy of pride and avoid the pain of regret. However every broking agency in the equity market should plan their strategies for profit to investors on a long term basis. The study will help the agencies to understand the potential investors. They must be properly educated and guided the potential investors in a manner that more idle resources are invested in other avenues will be diverted properly. It has been proved by research that equity investors cannot be successful without proper guidance of applying investment strategy. It will also enable equity market companies to identify the relative important of financial advisor in decision making process of equity investor. Finally, it would be possible to evaluate the impact of demographical factors on the risk taking behaviour of equity investors therefore equity market companies and broking agencies can prepare a strategy for guiding the equity investors in accordance with research findings.

Objectives

Specific Objectives of the Study

1. To find out the influence of demographic variables on risk taking behavior.
2. To find out the investment strategy of equity investors in Chennai city.
3. To assess the investors level of risk attitude towards fundamental concepts in equity market.



Hypothesis

H₀: There is no significant difference between demographical variables of equity investors with regard to the factors of risk taking behaviour of equity investors.

H₀: There is no significant difference among mean ranks towards factors of investment strategy of equity investors.

H₀: There is no significant difference among mean ranks towards factors of risk taking behavior of equity investors.

Literature Review

Kavitha Ranganathan (2008), in their paper, “A study of fund selection behavior of individual investors towards mutual funds: With reference to Mumbai city”, consumer behavior from the marketing world and financial economics has brought together to the surface an exciting area for study and research: Behavioral finance. As this is a serious subject analysts seem to treat financial markets as an aggregate of statistical observations, technical and fundamental analysis. A rich view of research waits this sophisticated understanding of how financial markets are also affected by the “financial behavior” of investors. Hence, this study is an attempt to examine the related aspects of the fund selection behavior of individual investors towards mutual funds, in the city of Mumbai and it showed the way for further research in this field.

Fieldstein Martin S and Yitzhaki, (2011), in their study entitled, “Are High Income Individuals Better Stock Market Investors?” have presented evidence to suggest that the corporate stock owned by high-income investors appreciate substantially faster than stock owned by investors with lower incomes. They have indicated that high-income individuals have larger portfolios and can therefore devote more time or resources to their investments, thus resulting in higher returns.

Rajarajan. V, (2011), conducted a study entitled, “Investors Life Styles and Investment Characteristics”, with the objective of analyzing the investors life styles and to analyse the investment size, pattern, preference of individual investors on the basis of their life styles. Data was collected from 405 investors in Madras using questionnaire method. The investors were classified into 3 groups’ viz., active investors, individualists and passive investors. Cluster Analysis, Correspondence Analysis and Kruskal Wallis Test were used to study the association between lifestyle groups and the various investment related characteristics. The study revealed that the level of expenses, earnings and investment were associated with the size of the household. Active investor group was dominated by officers, individual group by clerical cadre and passive investors group by professionals. The expected rate of return from investments varied between investment styles. The study clearly indicated that market performance of the share, company’s operating level, capital performance and the expectation of the investors were found to influence the risk perception of the investors.

Imran Ali, Muhammad Sharafat Waheed, (2013) in their study Determinants of small equity investors risk assumption attitude, explores the personality traits, perceived personal control, behavioral biases, culture, and socio-demographics in determining individual equity investor’s risk assumption attitude. The study uses a survey approach to collect responses from small equity investors. A conceptual model is developed and hypotheses are tested through structure equation model (SEM). The result identifies personality traits, perceived personal control, behavioral biases, cultural factor and socio-demographic variables as strong determinants of small equity investor’s risk assumption attitude. This study also attempts to identify the factors that determine the risk assumption attitude of individual equity investors. The study found personality traits including openness to experience, extraversion, agreeableness, conscientiousness and neuroticism having a significant relationship with investor’s risk assumption attitude. Perceived personal control is also having significant influence on investor’s risk assumption attitude. Behavioral biases, including herding and overconfidence have also significantly influenced investor risk attitude. Culture is also observed as a determinant of investor’s risky attitude.

Methodology

Research Design and Sample

The survey research design was used for this study. The data was collected from the 400 equity investors who are residing only at Chennai city. Since the equity investors population of total city is larger in number 8262, four specific taluks Purasawalkam, Egmore, Mylapore and Guindy of Chennai city were selected based on the data given by stock broking companies. From each taluk 100 numbers of investors were selected for survey. Sample size is fixed based on convenience sampling method, the total population of equity investors given by the stock broking houses. The survey was undertaken during the period of 2011 and ends in 2015. The four year period help the researcher to analyse, observe and understand the risk taking behaviour of equity investors from different variables and tools used and comes to a conclusion from appropriate findings and helps to give the suggestions.

Data Collection and Questionnaire

Primary data was collected using questionnaires which were examined by the researcher personally. The questionnaire items represented six categories: Investment Avenues, Awareness about investment, Motivational factors, Investment pattern,



Investment Strategies and risk bearing capacity. The questionnaires were administered to the individual investors personally. This method was appropriate since it encouraged prompt responses from the respondents. The questionnaire was structured into seven parts. Part I sought to capture the general data (Bio-Data) about the investor. Part II was concerned with the data on factors that affect individual investment decisions. Part III was concerned with awareness about investment. Part IV was concerned with motivational factors. Part V concerns with investment pattern. Part VI was concerned with investment strategy and part VII was concerned with risk bearing capacity. Respondents were asked to indicate their degree of how they are influenced by each of the items on five point Likert scale.

Data Analysis

Collected data were analyzed with the help of software package SPSS 17.0. Statistical techniques like descriptive analysis, reliability analysis, inferential analysis and confirmatory factor analysis were used to evaluate the service quality. Structural equation model (SEM) was also used for data analysis. Friedman's ranking was used to identify the most important individual factors that influence Risk taking behaviour of equity investors.

Variables of the Study

Dependent variable of the study is Risk bearing capacity and the Independent variables are Investment Avenues, Awareness about Investments, Investment Motivation, Investment Pattern and Investment Strategy.

Tools Used for Analysis

Confirmatory Factor Analysis, Reliability Analysis, Descriptive Analysis, Inferential Analysis- t Test, ANOVA followed by Duncan Multiple Range Test (DMRT), Chi-square test, Friedman Test, Correlation analysis, multiple regression analysis and Structural Equation Model (SEM) are the tools used in this study.

Reliability and Validity

Table 1: Reliability and Validity

Indices	Investment Avenues	Investors Awareness	Motivational Factors	Investment pattern	Investment strategy	Risk bearing Capacity	Suggested value
No. of items before CFA	5	10	10	10	12	15	
chi square test	4.763	37.24	27.387	19.218	28.30	58.289	
P value	0.312	0.055	0.007	0.157	0.058	0.088	>0.05 (Hair et al.,1998)
No of items after CFA	5	7	6	8	9	13	
Cronbach Alpha	0.517	0.587	0.682	0.874	0.673	0.660	

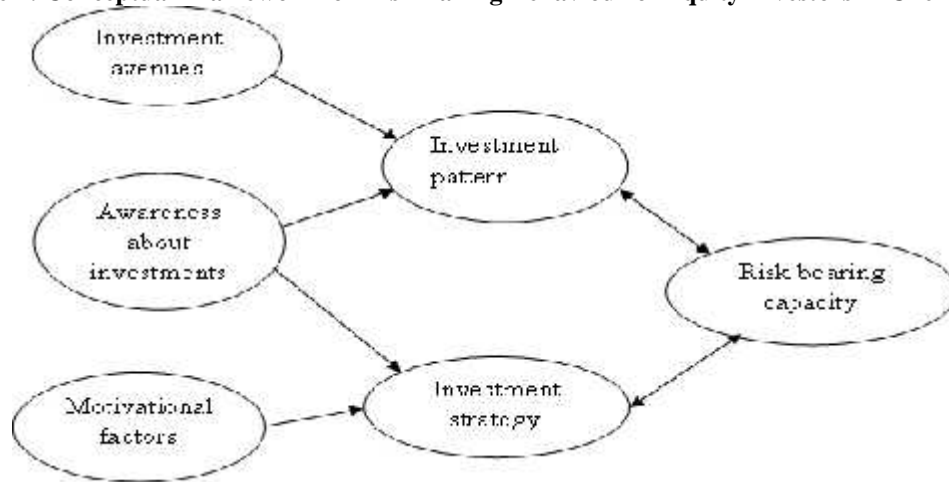
Table 1 shows the reliability and validity. The reliability of the survey instrument was tested with the help of Cronbach's Alpha method. The Cronbach's Alpha method allows us to measure the reliability of different categories. It consists of estimates of how much variation in scores of different variables is attributable to chance or random errors (Selltzm, *et al.*, 1976). The Cronbach's alpha is a measure of internal consistency, that is, how closely related a set of items are as a group. If number of items is increased, the Cronbach's alpha is also increased. Additionally, if the average inter-item correlation is low, alpha will be low. As the average inter-item correlation increases, Cronbach's alpha increases as well (holding the number of items constant). As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of construct reliability (Nunnally, 1976). The overall Cronbach's Alpha for the six categories is 0.7278. It shows that these categories for survey instruments are valid and reliable. The Cronbach's Alpha for the six categories, namely, investment avenues, investors awareness, motivational factors, investment pattern, investment strategy, and risk bearing capacity are 0.517, 0.587, 0.682, 0.874, 0.673 and 0.660 respectively To assess the scales' content validity, the researcher asked six experts, three academicians and three practitioners, to examine it. Accordingly, the researcher made changes on the first draft in terms of eliminating, adding or rewording some of the items included in that draft. This suggests that scales used in survey instruments are one-dimensional. Other statistical tools are also available for performing similar analytical functions such as Structural Equation Modelling (SEM), to group subjects on the basis of various factors; Confirmatory factory analysis, to the relationships between a set of observed variables and a set of continuous latent variables; Discriminate



Analysis, to establish the extent of impact of various underlying factors among many others; Inferential analysis, to brings out inferences about the phenomenon under study with regard to the selected sample.

Frame Work of Analysis

Figure 1: Conceptual Framework for Risk Taking Behaviour of Equity Investors in Chennai City



Results

1. **H₀**: There is no significant difference between demographical variables of equity investors with regard to the factors of risk taking behaviour of equity investors.

Table 2a: T- Test for Significance Difference between Gender of Equity Investors with Regard to the Factors of Risk Taking Behaviour of Equity Investors

Factors of Risk Taking Behaviour	Gender				t value	P value
	Male		Female			
	Mean	SD	Mean	SD		
Investment Avenues	22.88	1.95	22.13	2.53	3.242	0.001**
Awareness about Investments	30.73	2.92	30.12	3.59	1.771	0.077
Investment Motivation	34.89	3.74	33.67	4.15	2.901	0.004**
Investment Pattern	36.08	3.31	34.34	5.13	4.046	< 0.001**
Investment Strategy	40.63	3.28	39.61	4.06	2.632	0.009**
Risk Bearing Capacity	57.13	4.83	55.24	6.39	3.249	0.001**

Note: ** denotes significant at 1% level

In the table 2a, Since P value is less than 0.01; null hypothesis is rejected at 1% level with regard to Investment Avenues, Investment Motivation, Investment Pattern, Investment Strategy and Risk Bearing Capacity. Hence there is significance deference between male and female with respect to factors of Investment Avenues, Investment Motivation, Investment Pattern, Investment Strategy and Risk Bearing Capacity. There is no significant difference between male and female with respect to Awareness about Investment, since P value is greater than 0.05. Hence the null hypothesis accepted with regard to Awareness about Investment.

Table 2b: T Test for Significant Difference between Marital Status with Respect to Factors of Risk Taking Behaviour of Equity Investors

Factors of Risk Taking Behaviour	Marital Status				t value	P value
	Married		Unmarried			
	Mean	SD	Mean	SD		
Investment Avenues	22.81	1.99	22.06	2.67	2.860	0.004**
Awareness about Investments	30.74	2.99	29.80	3.59	2.456	0.014*
Investment Motivation	34.85	3.81	33.27	4.05	3.329	0.001**
Investment Pattern	35.98	3.60	33.94	5.06	4.208	<0.001**
Investment Strategy	40.57	3.28	39.37	4.36	2.767	0.006**
Risk Bearing Capacity	56.95	5.02	55.06	6.52	2.864	0.004**

Note: 1. ** denotes significant at 1% level, 2. * denotes significant at 5% level.



In the table 2b, Since P value is less than 0.01; null hypothesis is rejected at 1% level with regard to Investment Avenues, Investment Motivation, Investment Pattern, Investment Strategy and Risk Bearing Capacity. Hence there is significance deference between married and unmarried with respect to factors of Investment Avenues, Investment Motivation, Investment Pattern, Investment Strategy and Risk Bearing Capacity.

Since p value is less than 0.05, the null hypothesis rejected at 5% level, with regard to Awareness about Investments. Hence there is significant difference between married and unmarried with regard to Awareness about Investments.

2. **H₀**: There is no significant difference among mean ranks towards factors of Investment strategy of equity investors.

Table 3: Friedman Test for Significant Difference among Mean Ranks towards Factors of Investment Strategy of Equity Investors

Investment Strategy	Mean Rank	Chi-square	P value
Size effect	3.79	597.757	<0.001**
Day of the week effect	3.85		
Contrarian effect	4.02		
Buy stock when good news expected	5.58		
Buy most actively traded stock	5.68		
Buy stock which has announced good quarterly	5.35		
Sell shares within few months or one year	5.65		
Sell shares as soon as they reached target	5.59		
Keep revising the target as price rises	5.50		

Note: ** denotes significant at 1% level

Table 3 shows that since P value is less than 0.01, the null hypothesis is rejected at 1% level of significance. Hence conclude that there is significant difference among mean ranks towards factors of Investment Strategy of Equity Investors. Based on mean rank, most of the investors buy most actively traded stock (5.68).

3. **H₀**: There is no significant difference among mean ranks towards factors of Risk taking behaviour of investors.

Table 4: Friedman Test for Significant Difference among Mean Ranks towards Factors of Risk Taking Behaviour of Equity Investors

Risk Taking Behaviour	Mean Rank	Chi-square	P value
Actively Engaged in trade	6.87	125.920	<0.001**
Comparing Price of Shares	6.17		
Examine the reasons for raise or fall in price	7.05		
Diverting funds from equity trade	6.72		
Incurred loss due to Political instability	7.22		
Market can counter inflation risk	6.92		
Ever met with market risk	7.39		
wait till market cover the risk	6.31		
Withdraw money when market drops	7.14		
Cautious on making important decisions	7.00		
Prefers slowly and steadily grows and safe stocks	7.31		
Largely based on Investment knowledge, experience and education	7.07		
Easy to determine stock market	7.84		

Note: ** denotes significant at 1% level

Table 4 indicates that since P value is less than 0.01, the null hypothesis is rejected at 1% level of significance. Hence conclude that there is significant difference among mean ranks towards factors of Risk taking behavior of equity investors. Based on mean rank, most of the investors thought that it is easy to determine stock market (7.84), and they ever met with market risk (7.39).



Correlation Analysis on Behaviour Factors of Risk Taking Behaviour of Equity Investors

Table 5: Pearson Correlation Coefficient between Factors of Risk Taking Behaviour of Equity Investors

Factors of Risk Taking Behaviour	Investment Avenues	Awareness about Investments	Investment Motivation	Investment Pattern	Investment Strategy	Risk Bearing Capacity
Investment Avenues	1.000	0.398**	0.425**	0.459**	0.408**	0.481**
Awareness about Investments	-	1.000	0.596**	0.580**	0.530**	0.489**
Investment Motivation	-	-	1.000	0.568**	0.526**	0.486**
Investment Pattern	-	-	-	1.000	0.553**	0.586**
Investment Strategy	-	-	-	-	1.000	0.601**
Risk Bearing Capacity	-	-	-	-	-	1.000

Table 5 indicates the correlation coefficient of factors. The correlation coefficient between Risk taking behaviour on Investment avenues and Risk bearing capacity is 0.481, which indicate 48.1% positive relationship between Risk taking behaviour on Investment avenues and Risk bearing capacity and is significant at 1% level. The correlation coefficient between Investment avenues and Investment pattern is 0.459, which indicate 45.9% positive relationship between Investment avenues and Investment pattern and is significant at 1% level. The correlation co-efficient between Investment avenues and Investment motivation is 0.425, which indicates 42.5% positive relationship between Investment avenue and Investment motivation and is significant at 1% level. The correlation co-efficient between Investment avenues and Investment strategy is 0.408, which indicates 40.8% positive relationship between Investment avenue and Investment strategy and is significant at 1% level and similarly the similarly the other factors are positively correlated with each other.

Multiple Regression Analysis of Risk Taking Behaviour of Equity Investors

In this study, the dependent variable is Risk bearing capacity, Independent variables are Investment Avenues, Awareness about Investments, Investment Motivation, Investment Pattern and Investment Strategy and analysis are discussed as follows

Dependent variable : Risk bearing capacity(Y)

Independent variables : Investment Avenues(X₁), Awareness about Investments(X₂), Investment Motivation(X₃), Investment Pattern(X₄), Investment Strategy(X₅)

Multiple R value : 0.699 ; R Square value : 0.489

F value : 75.438 ; P value : <0.0001**

Table 6: Variables in the Multiple Regression Analysis

Variables	Unstandardized Coefficients (B)	Std. Error of B	Standardized Coefficients (Beta)	t value	P value
(Constant)	8.257	2.609	-	3.165	0.002**
X ₁	0.457	0.105	0.183	4.338	<0.001**
X ₂	0.110	0.085	0.064	1.292	0.197
X ₃	0.078	0.068	0.056	1.136	0.257
X ₄	0.342	0.067	0.254	5.091	<0.001**
X ₅	0.490	0.071	0.322	6.871	<0.001**

Note: ** denotes significant at 1% level

Table 6 shows the variables in the multiple regression Analysis. The multiple correlation coefficient is 0.699 measures the degree of relationship between the actual values and the predicted values of the Risk bearing capacity. Because the predicted values are obtained as a linear combination of Investment Avenues, Awareness about Investments, Investment Motivation, Investment Pattern and Investment Strategy, the coefficient value of 0.699 indicates that the relationship between Risk bearing capacity and the five independent variables is quite strong and positive.

The Coefficient of Determination R-square measures the goodness-of-fit of the estimated Sample Regression Plane (SRP) in terms of the proportion of the variation in the dependent variables explained by the fitted sample regression equation. Thus,



the value of R square is 0.489 simply means that about 48.90% of the variation in adjustment is explained by the estimated SRP that uses depression and anxiety as the independent variables and R square value is significant at 1 % level.

The multiple regression equation is

$$Y = 8.257 + 0.457X_1 + 0.110X_2 + 0.078X_3 + 0.342X_4 + 0.490X_5$$

Here the coefficient of X_1 is 0.457 represents the partial effect of Investment avenue on Risk bearing capacity, holding the other variables as constant. The estimated positive sign implies that such effect is positive that Risk bearing capacity would increase by 0.457 for every unit increase in Investment avenue and this coefficient value is significant at 1% level. The coefficient of X_2 is 0.110 represents the partial effect of Awareness about Investments on Risk bearing capacity, holding the other variables as constant. The estimated positive sign implies that such effect is positive that Risk bearing capacity would increase by 0.110 for every unit increase in Awareness about Investments and this coefficient value is not significant at 5% level. The coefficient of X_3 is 0.078 represents the partial effect of Investment motivation on Risk bearing capacity, holding the other variables as constant. The estimated positive sign implies that such effect is positive that Risk bearing capacity would increase by 0.078 for every unit increase in Investment motivation and this coefficient value is not significant at 5% level. The coefficient of X_4 is 0.342 represents the partial effect of Investment pattern on Risk bearing capacity, holding the other variables as constant. The estimated positive sign implies that such effect is positive that Risk bearing capacity would increase by 0.342 for every unit increase in Investment pattern and this coefficient value is significant at 1% level. The coefficient of X_5 is 0.490 represents the partial effect of Investment strategy on Risk bearing capacity, holding the other variables as constant. The estimated positive sign implies that such effect is positive that Risk bearing capacity would increase by 0.490 for every unit increase in Investment strategy and this coefficient value is significant at 1% level.

Findings

1. Male have better in all factors of Risk Taking Behaviour except awareness about Investment. Across many real-world domains, men engage in more risky behaviors than do women. Females may not be able to be promoted to the same levels as males because the position requires risk-taking and it is believed that females will not be capable of handling such a position.
2. Risk taking ability and the awareness level towards investment option has influenced by the factor that is one is married or unmarried. Married investors have more responsible in their family and they were push to future expenses. Even though equity investment is a risky option for investment they are aware about the sectors and it may help them to less level of risk.
3. There is significant difference among mean ranks towards factors of Investment Strategy of Equity Investors. Based on mean rank, most of the investors buy most actively traded stock (5.68), followed by Sell shares within few months or one year (5.65), Sell shares as soon as they reached target (5.59), Buy stock when good news expected (5.58), Keep revising the target as price rises (5.50), and Buy stock which has announced good quarterly (5.35). Contrarian effect (4.02), Day of the week effect (3.85), Size effect (3.79) are the least activities of equity investors.
4. There is significant difference among mean ranks towards factors of Risk taking behavior of equity investors. Based on mean rank, most of the investors thought that it is easy to determine stock market (7.84), and they ever met with market risk (7.39), followed by Prefers slowly and steadily grows and safe stocks (7.31), Incurred loss due to Political instability (7.22), Withdraw money when market drops (7.14), Largely based on Investment knowledge, experience and education (7.07), Examine the reasons for raise or fall in price (7.05), Cautious on making important decisions (7.00), Market can counter inflation risk (6.92), Actively Engaged in trade (6.87), wait till market cover the risk (6.31), and Comparing Price of Shares (6.17).
5. 48.1% positive relationship between Risk taking behavior on Investment avenues and Risk bearing capacity and is significant at 1% level. 45.9% positive relationship between Investment avenues and Investment pattern and is significant at 1% level. 42.5% positive relationship between Investment avenue and Investment motivation and is significant at 1% level. 40.8% positive relationship between Investment Avenue and Investment strategy.
6. Based on standardized coefficient, Investment strategy (0.322) is the most important factors to extract Risk bearing capacity, followed by Investment pattern (0.254), Investment motivation (0.183), Awareness about investments (0.064) and Investment motivation (0.056).

Suggestions

Investors are the hub of the stock market. Their satisfaction is the most important. So it should be done by providing safety, return and liquidity for their investments. Strategies like hedging, index futures must emerge in stock market to reduce the market risk, and provisions must be made to return at least the principal amount of investors. Strategies must be employed to



encourage women investors. Awareness programmes has to conduct in all places. Transparency must be made both in primary market and secondary market equally to help the investors to get their capital.

Conclusion

Investment strategy is the most important factors to extract Risk bearing capacity, followed by Investment pattern, Investment motivation, Awareness about investments and Investment avenues. The obtained result for hypothesis proves that as the financial literacy of a person increases his risk taking capability increases, as analyzing financial statements clues the investors which company can give better capital gain. However hypothesis related to investment avenues and risk bearing capacity says that they are in inverse relation that is as investors' experience will increase he will invest in less risky instruments; they may be fixed deposits or high pay dividend stocks. It was concluded that investment strategy and investment pattern helps investors in lowering risk taking behaviour and also allows taking decision on risky instruments. But as age and experience increases, investor preference changes to less risky investments, it does not mean that the equity investor does not prefer to invest in shares, he will, but with the intension of getting dividend return rather than capital gain.

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