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INVESTORS AWARENESS AND SATISFACTION ON THEIR PORTFOLIO OF INVESTMENT

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Abstract
Investment portfolio of investors formed the mantra for the thesis. every investors hold different portfolios. the goal of the research was to study the investment behavior of household investors with regard to 5 select investment products viz. fixed deposits, public provident fund, mutual funds, national savings certificate and insurance. the products were selected after a direct interview with financial advisors, rbi sources and through browsing various finance websites.

Key Words: Investors, Satisfaction, Portfolio Investment.

Introduction

The swift growth of capital markets in India has opened up new investment avenues for investors. The various financial assets provide attractive investment options for the common man. But the need of the hour lies in effectively and efficiently managing investments in order to obtain maximum returns with minimum risk. The present empirical study on investment portfolio management made an attempt to know the profile of the investor and also to analyze the characteristics of the investors. Moreover their preference with respect to their awareness on investments and satisfaction pertaining to select investment portfolios was identified. The study also unravelled the influence of demographic factors on the risk tolerance level of investors. In every investor's, personal investing journey, they go through different stages of investing behaviour. Although various avenues are open to the investors, the role of selecting the right portfolio is vested with them. Efficient Portfolio Construction should be given due importance by every investor. Investors can become successful if they hold portfolios that are consistent with time. Therefore investors are called upon to choose the right avenues, track the performance history, analyze the risk tolerance and should also test their awareness or satisfaction on those assets. Investment Portfolio is defined as a pool of different investments by which an investor bets to make a profit (or income) while aiming to preserve the invested (principal) amount. These investments are chosen generally on the basis of different risk-reward combinations: from 'low risk, low yield' (gilt edged) to 'high risk, high yield' (junk bonds) investment assets.

Review of the Literature

Investors make financial decisions along two main dimensions. They decide how to allocate their income between consumption and investments and how to allocate their investments between risky and risk-free assets. The purpose of this chapter is to present a review of the nature of Investment Portfolio of investors and the risk tolerance associated with it. To cope with the trends in the investment markets, investors are called upon to be aware of the inherent nature of each investment. Thus the satisfaction of investors is also directly proportionate to their awareness levels. In effect to this, discussion is put forth on the review conducted by different researchers.

A fairly comprehensive theory of Investment portfolio has been developed over the last three decades. While much has been learned, understanding how households allocate their wealth and how this pattern changes over the life-cycle remains very much a challenge for modern finance. Considerable empirical literature on household investment choice exists. Researchers have been severely handicapped because they lacked good data on household asset accumulation patterns and asset holdings as well as other pertinent information about preferences and constraints. Theoretical analysis of household portfolio choice has been largely limited to the choice between risk-free and risky financial assets since the middle of the last century (**Markowitz, 1952; Tobin, 1958**). Traditional portfolio theory mostly focuses on understanding financial portfolio selection, with a lack of concentration on the other components of household wealth. The following section is to review the basic history of portfolio theory development and its application in explaining household investment portfolio behaviour. The earliest portfolio theory can be traced to **Markowitz (1952)**, who presents the famous mean-variance analysis. In that model, the individual makes investment decisions by balancing the expected return (mean) of financial investment and the riskiness (variance) of the return on each asset. The permanent income hypothesis was developed by **Milton Friedman.** The hypothesis states that the investment patterns of consumers are determined not by current income but by their long-run income expectations (**Friedman, 1957**). For example, young people at the beginning of their work lives, or before completing their education, expect low incomes. When they obtain education and work experience, their incomes are expected to rise until their income eventually levels out or decreases at their retirement. The theory states that people make investment decisions based on their long-run expectations of future flows of income. **Tobin (1958)** further illustrates that risky assets comprise different proportions of a household portfolio. It further proposes that more risk adverse investors should hold a greater proportion of their portfolio in risky assets. On a different perspective, **Lydall (**1958**) and Pesek (**1963**)**

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found that wealth and not income had a significant effect on investment of individual investors. The preponderant theory in explaining investment behaviour is the life cycle hypothesis of **Ando and Modigliani (1963).** The theory states that an individual family sought to maintain a stable consumption level over its life cycle. This consequently results in a net saver during its working years and a dis-saver in the post retirement life. The lifecycle hypothesis (LCH) framework articulates the relationship between consumption, income, wealth, and investments over the life of individuals. Its central insight is that households have a finite life and a long-term view of their income and consumption needs. They therefore increase their investments during their working life and use it to smooth consumption during retirement. The life cycle hypothesis was one of the first models used to explain investments; it is supported by much empirical analysis in rich countries and is robust to varying assumptions. **Lee (1964**) explored the effect of wealth and investment in various types of financial assets and concluded that both income and investments are important determinant of the amounts held by any investor in his aggregate portfolio. Another study to explore the effect of non-human wealth, income, family size and age of the household head on the investment portfolio was by **Uhler and Cragg (1971**)**.** They used logarithmic regression to estimate the effects of the variables on total amounts of financial assets held at each level of diversification. The findings suggest that wealth, age and family size were rarely significant whereas the income variables were very significant. While Demographic factors do play a role in Investment decisions, sometimes the cost associated with the investment or the product level restrictions is bound to impact decisions. **Goldsmith (1976**) developed several models explaining some effects of transaction costs on investment portfolio selection. His analysis shows that greater transaction costs, reduces the number of investments held because it makes diversification more costly. Therefore he suggested that an investor would want to substitute less risky assets into his portfolio. This results in reducing the necessity for greater diversification. The assertion gained strength with **Mayshar (1981**) observing that in the presence of transaction costs, investors don‘t trade in all the assets. He tried to examine the implications of introducing transaction costs to the Capital Asset Pricing Model (CAPM). In addition, the restrictions imposed by institutions such as minimum purchase requirements can make a particular asset less attractive to smaller borrowers and significantly influence investment decisions **Deaton, (1981**). When it appears that the Interest rates could adversely impact investment decisions, **Giovanni.A (1983)** proved that interest rates have no effect on investment portfolio. The issue of capital market imperfection in the form of borrowing and liquidity constraints and incomplete information are also cited as significant factors influencing investment portfolios. The Impact of interest rates on Investment decision was further confirmed by a World Bank Study on Investment Portfolio. The Study found that inflation and the interest rate do not show clear effects on investment, which is also consistent with their theoretical ambiguity. It also shows that income and wealth variables affect investment strongly and in ways consistent with standard theories. **Pradeep Agarwal** (2000) in his study on Investment portfolio of the South Asian countries like India, Pakistan, Bangladesh, Nepal and Sri Lanka came to the conclusion that interest rates do not influence investment on a larger scale but has a minor role in choosing investments. **Rajarshi Ghosh and Asis Kumar Pain** identified that all interest rates, except those on small investment schemes of Post Office, Provident funds, Government of India Bonds and schemes for Senior Citizens (the instruments with sovereign guarantee) are market determined. The Lifecycle hypothesis postulated earlier was used by **Bodie, Merton, and Samuelson (1992)** to examine an individual's optimal investment decisions. They propose that at any given age in the life cycle, the riskier an individual's human capital is, the lower his/her financial investment in risky assets will be. They found that wealth composition does influence one's optimal portfolio choice. But there was no conclusion on whether the wealth composition is by itself a motivation to invest. **Browning and Lusardi (1996)** reviewed nine models to explain motivations to invest: precautionary, life-cycle (to provide for anticipated needs), inter-temporal substitution (to enjoy interest), and improvement (to enjoy increasing expenditure). The other variables of motivation are independence, enterprise, bequest, avarice, and down-payment. The author then reviewed the major economic theories of investments, before reviewing empirical evidence on these theories. The data provided a valuable description of who invests and how saving rates have changed over time, but no unique theory explains why people save.

Need for the Study

Investor's portfolio is composed of diverse types of assets. Investors would prefer more return to less and would prefer less risk to more. Investors must take account of the interplay between asset returns when evaluating the risk of the portfolio. Thus considering the historical returns, five portfolios are selected for the study. A comparative study is made among the portfolios to find out the investors perception towards the selected financial assets. It is designed to bridge the gap between the theoretical knowledge obtained from the course and contemporary real business world. This study is thus an attempt to know the profile of the investor, the characteristics of the investors so as to know their preference with respect to their investments. The study also tries to unravel the influence of demographic factors like gender, age, education, income levels and occupation on risk tolerance level of the investor. With the range of products available in the market and the efforts being taken by investment firms to market their products, investors are often perplexed about the investment options. Not much attention is paid to understand the awareness level of each of the investment products and the associated services among investors. This study is intended to analyze investor's awareness and satisfaction towards select investment products viz. Public Provident Fund, Mutual Fund, Fixed Deposits, Life Insurance and National Savings Certificate.

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Statement of the Problem

In India, financial markets provide a variety of assets to investors. Moreover, the complexity of the size of the financial markets by and large demands the employment of professional fund managers. Their role is required to deal with the variety of individual assets or asset classes to reap maximum returns out of their investments. In this scenario, the role of watchful investors assumes a special significance. Investors are thus called upon to devise well defined plans and goals, otherwise termed as Investment Portfolio Management. This would assist the investors to manage their portfolios in such a way that they are able to achieve their financial goals easily. Investment Portfolio Management should therefore be directed at crafting and honing investment markets so that investors are assured of their expected returns. Such management of investments would provide an embarking platform to investors in the financial world.

Objectives of the Study

1. To analyze the investors' awareness and selection of portfolio of investments.
2. To identify the factors influencing investors' satisfaction towards their investment portfolio.
3. To make appropriate suggestions to estimate the investment portfolio to the prospective investors.

Methodology of the Study

A preliminary investigation was undertaken by surveying 75 investors through random sampling method to identify the demographic profile of investors, their risk tolerance, investor's awareness and satisfaction. The purpose of the pilot study was to test the validity of the variables in the questionnaire and to confirm the feasibility of the study. Preliminary investigation was conducted in different parts of Chennai. The Cronbach alpha method was applied. This method is useful to measure the reliability and validity of the questionnaire through the coefficient which depends upon the variance in the perception of investors. The Cronbach alpha value was found to be 0.924 which is statistically significant at 5 per cent level. It was ascertained that the items in Likert's five point scale of the questionnaire are highly reliable and the samples satisfy the normal distribution rationally. Thus the research instrument proved valid for further study. The data was collected by means of a five section questionnaire. The Profile of the investors was dealt in Section I. Section II enumerates the Overall investment portfolio followed by Risk tolerance in the III Section. The IV & V section identifies awareness and satisfaction level of investors. Part I & II of the questionnaire is designed in optional type, where as Part III consists both optional and 5 point scale. Part IV & V comprises statements in Likert's 5-point scale. The questionnaire with a covering letter was personally administered to each and every respondent. The respondents were requested to return the fielding questionnaire after 15 days. The respondents took a time period of 15 days to 2 months to revert back the completed questionnaire. Primary data was collected through a formal questionnaire administered to the respondents to identify the awareness, involvement, and evaluation of the investment portfolios. Reliance was also placed on the secondary data made available on the subject and also the research of similar studies conducted in the same area. The references of secondary data were also made from published works like books, journals, reports, magazines, dailies and also through various websites. The data collected from both the sources were scrutinized, edited and tabulated. The data is analyzed using statistical package for social sciences (SPSS) and other computer packages. The statistical tools that were used in this study are Parametric t-test, One-way analysis of variance, Factor analysis, K-means cluster analysis, Multiple discriminant analysis and Non-parametric chi-square analysis.

Discussions Ans Results

An investment philosophy represents a set of core beliefs about investor's behaviour and markets conditions. To be successful, investors should not only consider the evidence from markets but should also examine their own strengths and weaknesses. They should cautiously test the investment philosophy that best fits them. Investors without core beliefs tend to wander from strategy to strategy, drawn by the anecdotal evidence or recent success. As a consequence this results in creating huge transactions costs and heavy losses. Investors with clearly defined investment philosophies tend to be more consistent and disciplined in their investment choices. Thus every investor has to identify the investment philosophy that best matches his time horizon, risk preferences and portfolio characteristics

Selection of Portfolio

The selection of a portfolio depends upon the objectives of the investor. The factors associated with the selection of a portfolio are enumerated as follows,

- **Objectives and asset mix:** If the investors, main objective is to get adequate amount of current income, then sixty percent of the investment is made in debt instruments and remaining in equity. The proportion varies according to individual preferences of the investors.
- **Growth of income and asset mix:** If the investors' desire is to get a certain percentage of growth as the income from the capital he has invested then the mix varies accordingly. The proportion of equity varies from 60 to 100% and that of debt from 0 to 40%. The debt may be included to minimize risk and to get tax exemption.

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- **Capital appreciation and asset Mix:** If the objective of investing is to increase the value of investment over the year then, investment in real estates proves better. Such investments give faster capital appreciation but the problem of liquidity remains a question of fact.
- **Safety of principle and asset mix:** Normally, risk adverse investors are very particular about the stability of principal. Generally old investors are more sensitive towards safety. Thus the nature of the investors also contributes towards the selection of a portfolio.
- **Risk and return analysis:** The traditional approach of portfolio building has some basic assumptions. Every investor requires higher returns at lower risk. But the rule of the game is that they both are directly proportional. Therefore, before creating a portfolio investors' should judge the risk taking capability and the returns desired out of the selected portfolio.
- **Diversification:** Once the asset mix is determined and risk-return relationship is analyzed the next step is to diversify the portfolio. The main advantage of diversification is that it minimizes the unsystematic risk.

Investors' Behaviour in Investing
Indian investors today have to endure a sluggish economy. This is witnessed in the steep market declines, alarming reports of scandals and insider trading. Stock market's performance is not the result of intelligible characteristics but also due to the emotions that are still baffling to the analysts **(Syed Tabassum Sultana (2010)**. Despite loads of information bombarding from all directions, it is not the cold calculations of financial wizards or widely accepted criterion of asset performance that matters. Rather, it is the investor's rational elements like risk tolerance, awareness, knowledge and satisfaction that decisively drives and dictates the fortunes of the market. The amount of money that an investor can expect to make on investments is largely determined by how much risk the investor can take on—in other words, on the risk tolerance. A rational investor will take on only as much risk as they deem necessary to get the investment return they desire. Irrational investors believe it is better to follow what others do, and they do not use their own discretion or rationality and just follow what others do. In addition, rational investors exhibit greater level of awareness and knowledge about the investment landscape helping them to make informed decisions. Such traits of rational investors exert significant influence on the outcome of the market.

The products available for investments are diverse. Thus investors are required to put in lot of time and money to arrive at a portfolio which matches their risk-return profile. At one end of the spectrum, there are products with guaranteed returns like Public Provident Fund, National Savings Certificate and Fixed Deposits. At the other end, there are products that are market driven with inherent risks like Unit Linked Insurance Plans, Mutual Funds and Equity. The two key aspects of investment are time and risk. Benefit is expected in the future and tends to be uncertain. In some investments (like Mutual Funds) risk element is the dominant attribute and in some investments (like NSC) time is the dominant attribute.

There are various factors which affects investors' portfolio such as annual income, government policy, natural calamities, economic changes etc. Almost every one owns a portfolio of investments. The portfolio is likely to comprise of financial assets (bank deposits, bonds, stocks, and so on) and real assets (motorcycle, house, and so on). A major shift was observed in the saving pattern of the household sector from physical assets to financial assets and within financial assets, from bank deposits to securities. However, the trend got reversed in the recent past due to high real interest rates and prolonged subdued conditions in the secondary Market. The portfolio of the individual investors' remains heavily weighted in favour of physical assets and fixed income bearing instruments (**Clifford *Gomez (2008)***. In spite of all these issues prevailing in the investment market, the importance of financial assets and that of the various avenues available to the investors cannot be waived off.

Findings of the Study

- Life insurance investors possess moderate awareness on the online technicality.
- Regarding Public Provident Fund investment, Extreme awareness prevails for all the basic features.
- Analysis also reveals that investors of National Savings Certificate view it only as a Tax saving instrument.
- Mutual fund investors establish moderate awareness on the fee charges and knowledge about the various schemes, their features and their performance.
- Awareness aspect is moderate for Fixed deposit investors on variables like TDS, loan facilities and interest taxability.
- Life insurance investors possess moderate awareness on the online technicality. The heterogeneous group of Life insurance investors were named as **Benefit Oriented Investors,** Dynamic Investors and Mechanical Investors**.** The survey brings the fact that the technological issue requires more campaigning among these investors.

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- Cluster justification specifies the limits of awareness of investors of LIC. The limits lie between $Z_1 = 3.689$ and $Z_2 = 9.176$.
- Regarding Public Provident Fund investment, extreme awareness prevails for all the basic features. Investors of Public Provident Fund are classified under the head Novice Investors, Successful Capitalist Investor and Opportunistic Investors. Thus the concluding inference states that PPF as a tax benefit scheme has more acceptance among investors.
- Discriminant analysis estimates the awareness limits as $Z_1 = 6.179$ and $Z_2 = 8.922$. Thus cluster justification table is well substantiated.
- The results also reveal that investors of National Savings Certificate view it only as a Tax saving instrument. Segmented sample unit of National Savings certificate identifies investors under the tag name Tax-Oriented Investors, Participative Investors and Analytical Minded Investors. The booming interest rates and tax benefits of NSC has induced investors to hold awareness on all variables of the scheme.
- The linear discriminant analysis remains the best predictors of awareness of National Savings Certificate. The awareness limits are between $Z_1 = 8.294$ and $Z_2 = 9.872$.
- Mutual fund investors establish moderate awareness on the fee charges and knowledge about various schemes, their features and their performance. Investors of mutual funds are portrayed as Speculative Investors, Entrepreneurial Investors and Passive Investors. Investors lack awareness on NAV calculations and market performance. Thus the performance aspect is totally neglected by these investors. Thus the characteristics of mutual funds demands adequate propagation among investors.
- Cluster justification presents the limits of awareness which fall between $Z_1 = 8.989$ and $Z_2 = 7.467$.
- Awareness aspect is moderate for Fixed deposit investors on variables like TDS, loan facilities and interest taxability. The heterogeneous grouping of fixed deposit investors are identified as Credit Motivated Investors, Disciplined Investors and Laid Back Investors. But majority of the investors are of the opinion that these deposits help in credit availing process. Thus the awareness on the liquid nature of fixed deposits has reached a large percentage of investors.
- The physical configuration in the justification table evaluates the awareness limits to range between $Z_1 = 4.511$ and $Z_2 = 6.913$.Cluster justification table through the linear discriminant analysis remains the best predictors of awareness limits of all the select investments.

Suggestions of the Study

1. Company reputation was found to be one of the factors that significantly influence investment decision. Hence, the investors should spend some time to understand about the company's reputation before betting on them. This is more important in the case of Mutual funds, where the profile of the fund manager and the background of the company can have significant impact on the returns.
2. Investors should subscribe to different alerts to ensure that they track their investments better. With the advent of technology and proliferation of channels, investors are presented with a wide variety of options to subscribe to alerts. E-mail has been found to be the most preferred form of alert, as they are more reliable and fast thereby helping investors to achieve their investment goals. Investors should subscribe to e-mail alerts to keep better track on the investments and their schedule.
3. One of the significant concerns among the Mutual fund investors is the fee that is charged as part of the scheme. Despite the efforts taken by SEBI to improve the transparency of Mutual funds, the list of associated fees still remains a mystery. Mutual fund investors were found to exhibit moderate awareness on the fee charges and knowledge about the various schemes, their features and their performance. Investors should make use of all the available channels, to understand the scheme and the associated fees better.
4. Public provident Fund has emerged as a forerunner among various investment products, in their role as a Tax benefit product. When there are numerous products available in the market to qualify for tax rebate, PPF has more acceptance among investors due to its inherent advantage and a tax free return. Investors of any age group, income, educational background should consider PPF as one of the component in their portfolio.
5. Mutual Funds are risky investments and it was found that the investors with high risk tolerance form a chunk of mutual fund investors. Hence, only investors with thorough knowledge of the markets can survive in the mutual funds market. Any investor planning for investment in mutual funds should understand the associated risks and gain a thorough knowledge of the markets, to survive.
6. Risk and the associated rewards are seen as a major driving factor with any investment decisions. Investors should take some time to understand their risk taking ability and convince themselves of their risk propensity, before landing into any investment decision. Often, the risk and rewards are directly proportional and this can be taken as a thumb rule for any investment decision.

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7. Out of all the various avenues in the investment arena, Fixed deposits occupies the prime place in all the investors' portfolio. Considering the competitive rates offered by Banks, investors should consider fixed deposits as part of their portfolio. Fixed deposits are a good avenue for anyone planning to park their funds in safety for a period of time.
8. Technology has transitioned the financial industry and the Life Insurance industry is no exception. But it is found that investors of life insurance possess moderate awareness on the online technicality of life insurance products. Life insurance companies offer various value-ads including Online premium payments, Online Branch locator, Online Chat with advisors and Online portfolio tracking. Investors should attempt to capitalize on the opportunities and options made available to them by the life insurance companies.

Conclusion

Investors prefer to make investments in assets that are risk free. An investor might have high income, be well educated, salaried and independent, yet they are conservative in investing. As such, 'Play Safe' is the strategy that drives the individual investors. Any major investment decision is driven by the Risk-reward profile of the assets. Moreover risk and reward are often directly proportional. From the analysis it is found that the leverage of the investors is higher. Investors ranked the risk nature of the assets as the most preferred avenue for investing. This reveals that investors are more willing to invest in risky assets. Also, the study confirms the earlier findings with regard to the relationship between demographic factors and risk tolerant level of individual investors. Life insurance investors possess moderate awareness on the online technicality. Regarding Public Provident Fund investment, extreme awareness prevails for all the basic features. The results also reveal that investors of National Savings Certificate view it only as a Tax saving instrument. Mutual fund investors establish moderate awareness on the fee charges and knowledge about various schemes, their features and their performance. Tax incentives matter to the extent of changing the savings basket, as elsewhere. Hence, the portfolio management companies should know the pulse of the investor and should guide him accordingly.

To conclude, building an optimal investment portfolio is indeed rewarding and exciting, but involves a great deal of risk and calls for scientific knowledge as well artistic skill. An investor considering investment in any financial assets is faced with the dilemma of choosing from among a large number of securities. They are utterly left baffled on the process of allocating funds over group of securities. Again investors are faced with problems of deciding which securities to hold and how much to invest in each, as the risk return characteristics of individual securities change. Periodic review and revision of investment portfolios would surely help investors to stay abreast and face the associated challenges. This study would help investors to understand the risk-reward profile of major investment products and step into the magical maze of investment world with courage and confidence.

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