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A STUDY ON RISK MANAGEMENT OF EQUITY INVESTORS AT SHARE KHAN LTD., VELLORE

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Abstract
In this modern era, money plays an important role in one's life. In order to overcome the problems in future they have to invest their money. Investment of hard earned money is crucial activity of every human being. Investment is the commitment of funds which have been saved from current consumption with the hope that some benefits will be received in future. Thus it is waiting money. Savings of the people are invested in assets depending on their risk and return demands, safety money, liquidity, the available avenues for investment etc.,

In stock market there is strong relationship between risk and return. Greater the risk, greater the return generally! In financial terminology risk management is the process of identifying and assessing the risk and then developing strategies to manage and minimize the same while maximizing the returns. Risk is therefore central to stock markets or investing because without risk there can be no gains.

In financial markets there are generally two types of risk; first the Market risk and second the Inflation risk. Market risk results from a possibility in increase or decrease of financial markets. The other risk i.e. the Inflation or the purchasing power risk results from rise and fall of prices of goods and services over time. In this paper, an attempt has been made to study the successful equity investors stock market risk management strategies to minimize the risk and maximize the gain.

Keywords: Risk And Return, Stock, Investment, Inflation, Purchasing Power.

Introduction

The dictionary meaning of risk is "the possibility of loss or injury; the degree or probability of such loss. The concept of risk may be defined as" the possibility that the actual return may not be same as expected" Risk is also defined as "a situation where the possibility of happening or non – happening of an event can be quantified and measured".

Risk is the opposite of safety. Safety is the certainty with which the investment is expected to fulfill the investor's expectations, while risk is merely the uncertainty surrounding the investment. Therefore, enhancement of safety involves reduction of risks. In investment management, risk is viewed as an attribute of the object, namely, the specific investment option. All investments are risky whether in stock or in banking, real estate, bullion, gold etc. However, the degree of risk varies (a) based on the features of the securities, (b) the mode of investment; and (c) the issuer of the security, etc. Even assets like bank deposits carry some cost and time in realization of proceeds.

Risk in holding securities could result in the possibility of realizing lesser returns than what was originally expected by of dividends or interest. Risk includes the possibility of loss or injury and the degree of probability of such a loss. Generally, an investor makes an investment with the object of getting a return. But as the future of his investment is uncertain, the return expected by him also may not be certain. This element of uncertainty associated with the return from an investment caused risks in investment Risk arises when there are variations between expectation and realization. Thus, risk can be explained in terms of variability of returns. On this basis, an investment, whose tantrums are fairly stable considered to be a low – risk investment? On the other hand, if the rectums on an investment fluctuate widely, it is regarded as high – risk investment. For example, investment in equity shares is risky as their

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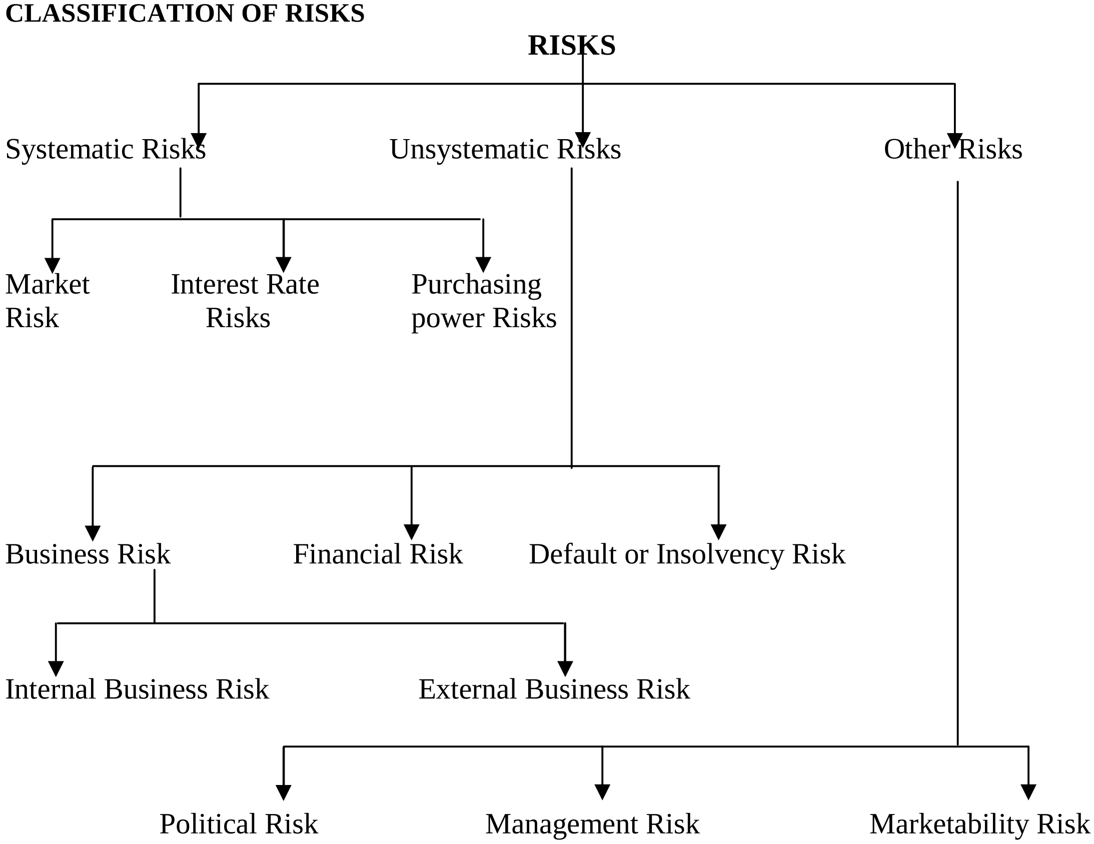
returns fluctuate widely. But returns obtained from government securities are fairly stable and hence they are considered to contain low-risk.

Causes of Risk

Risk consists of the elements that cause variations in the return of income. The factors causing risks in investment are price and interest. Moreover, risk is also influenced by internal and forces. External risks are beyond the control of an organization and they broadly affect investments. These external risks are known as systematic risks are known as systematic risks. On the other hand the forces causing internal risks are within the industry and they are called unsystematic risks. Generally, factors causing internal risks are due to the following;

1. Incorrect decision taken with regard to investment.
2. Failure to judge the correct timing of investment.
3. Selection of the highly risky investment instruments.
4. Unsatisfactory credit worthiness of the issuer.
5. Maturity Period.
6. Amount of investment:
7. Security:
8. Nature of Business:
9. Terms of lending;
10. Demand and supply
11. National and international factors.

CLASSIFICATION OF RISKS



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1. **Systematic risk**

External factors that cannot be controlled cause risks which are known as systematic risks. Systematic risks are non-diversifiable and they arise out of the factors such as marker, nature of the industry, state of the economy, etc. Systematic risks can be further classified into (i) Market risk (ii) Interest rate risk and (iii) Purchasing power risk.

(i) Market risk

Market risk arises out of changes in the paten of demand and supply in the market which is based on the changing flow of information or expectations. Investors' perception and preferences change frequently depending upo0n the market conditions Investors reaction towards tangible and intangible events is the main factor affecting them market risk. The nature of tangible events is real, but the intangible events are based on psychological factors. Tangible events affecting market risk include political, social and economic reasons such as business recession, depression and long term changes in consumption pattern in the economy.

(ii) Interest – rate risk

Interest rate risk is determined by the uncertainty of market in future and due to fluctuations in interest rates. A change in interest rates is a major source of risk to the holders of bonds and debentures. In fact the prevailing interest in the market determines the prices of securities. An increase in interest rates will result in decreasing the demand for securities by the speculators who buy with borrowed funds On account of low demand for securities their prices decrease.

(iii) Purchasing power risk

Market risk and interest rate risk can be defined in terms of uncertainties relating to the amount of income to be received by investor. But purchasing power risk refers to the impact of inflation or deflation on an investment. Purchasing power risk is also known as inflation risk.

Minimizing Risks

Various Methods of Risk Management

The following are the various ways to minimize risks

1. Protection against Market Risk

i) An investor should carefully study the movement of share prices of the past. Past prices provide a concrete basis to predict the trend future price changes. Where the stock prices show a growth pattern, the upward trend will continue for some time On the other hand some stocks may be cyclical stocks which cannot move against cyclical phase. During any depression condition, the prices of cyclical stocks fall and such a fall in price continues throughout the depression conditions. So, it is advisable for the investor to avoid cyclical stock.

ii) The volatility of the stock is represented by standard deviation and beta. They are included in indices which are available with the National Stock Exchange news bulletin. By carefully analyzing this information the investors can be make prudent investment decisions.

iii) The investor should also carefully decide the timing of purchase and sale of securities. He should purchase the securities at a lower price and sell them at a higher price. Generally, the investor should plan to hold stock for a considerably long time in order to take advantage of the rising trend in the market.

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2. Protection against interest rate risk

i) The best way to protect against the interest rate risk is holding the investment to maturity. If he sells the investment before maturity period fearing a fall in the interest rate, he would incur a heavy loss on the capital invested.
ii) If the investor wants to hold the investment for a short period, he may buy treasury bills and bonds of short maturity. The money invested in treasury bills can be reinvested in the market depending upon the prevailing rate of interest -
iii) There is another way for the investor to guard himself against interest rate risk. He/she may invest his/her funds in bonds with different maturity dates. The amount realized different dates of maturity can be reinvested according to the changes in the investment climate. Such a device is called maturity diversification which can yield better returns to the investors.

3. Protection against inflation

i) Bonds carry fixed rate of interest. So, bonds with a reasonable rate of interest would act as a hedge against inflation.
ii) During inflation, the consumer price index will be rising. So, when a proper allowance is not provided for possible rise in consumer index, the investor will incur a loss. Instead of investing in long-term securities, the investors may choose short-term securities for investment.
iii) The problems of inflation can be overcome through investment diversification. The investor may choose various avenues of investment such as real estate, precious metals, bank deposits, insurance schemes along with the investment in securities. Though different forms of investment could not guarantee total elimination of risks, they can at least minimize the loss due to the declining purchasing power.

4. Protection against business and financial risks

i) Business risk can be minimized by analyzing the strength and weaknesses of the industry to which the company belongs. If the weakness of the industry is due to factors that could not be controlled such as government interference, the securities of such industries should not be chosen for investment.
ii) Business risk and financial risk can be minimized by carefully understanding them. The analysis of profitability of the company in consideration will enable the investors to understand the financial soundness fully. Companies which are not consistent in terms of earnings should be avoided by the investor. So, it is better to invest in securities of the companies with consistent track record.
iii) The capital structure should be properly analyzed in order to minimize any financial risks. The presence of debt in the capital structure commits companies to make regular payment of fixed interest. So, an investor should be aware of the earning per equity share. Generally, a highly levered company where debt equity ratio is higher may be chosen in a boom period.

Objectives of the Study

1. To study about the risk perception of equity investors
2. To bring out the importance of risk management and awareness among equity investors
3. To determine the credit risk of equity investors
4. To find the role of Share khan in analyzing the stability of price of equity for its customers
5. To monitor continuous performance of Share khan in evaluating credit worthiness of equities

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Scope of the Study

- The study is to be done with the aim to find out the importance of risk management and awareness among equity investors.
- It also helps us to know the risk perception of equity investors.
- The study concentrates on the importance given by the equity investors for service provided by the company.
- The risk management helps the company attract for new investors and always increasing level of skill and knowledge about equity investors.
- Desire to get intellectual joy of doing some creative work is fulfilled.
- Desire to do service to the society is also carried out.

Limitations of the Study

Any research study will be restricted in scope by certain inherent limitations that are participated by the choice of the research design, sampling procedure / respondent selection. This study has the following limitations:

- The sample size is confined to 50 samples only
- The study is limited to Share khan ltd. alone.
- The time is major constraint as the research has to be completed within the stipulated time
- The samples may behave to give opinions differently at different times because of their psychological temperament.
- The study cannot reveal the true position as this is confined to a particular area alone in which the investors are interested
- The application of chi-square test has got its own limitation of having expected countless than 5 in the cells.

Share khan - Profile

Share khan is one of the leading retail brokerage of City Venture which is running successfully since 1922 in the Country. Earlier it was the retail broking arm of the Mumbai based SSKI Group, which has over eight decades of experience in the stock broking business. Share khan offers its customers a wide range of equity related services including trade execution on BSE, NSE, Derivatives, depository services, online trading, investment advice etc.

Earlier with a legacy of more than 80 years in the stock markets, the SSKI group ventured into institutional broking and corporate finance 18 years ago. SSKI is one of the leading players in institutional broking and corporate finance activities. SSKI holds a sizeable portion of the market in each of these segments. SSkI's institutional broking arm accounts for 7% of the market for Foreign Institutional portfolio investment and 5% of all Domestic Institutional portfolio investment in the country. It has 60 institutional clients spread over India, Far East, UK and US. Foreign Institutional Investors generate about 65% of the organization's revenue, with a daily turnover of over US$ 2 million. The content-rich and research oriented portal has stood out among its contemporaries because of its steadfast dedication to offering customers best-of-breed technology and superior market information.

The objective has been to let customers make informed decisions and to simplify the process of investing in stocks.

Mission of the Share khan

To educate and empower the individual investor to make better investment decisions through

- QUALITY ADVICE
- INNOVATIVE PRODUCTS and
- SUPERIOR SERVICE

Work Strucutre of Sharekhan

Share khan has always believed in investing in technology to build its business. The company has used some of the best-known names in the IT industry, like Sun Microsystems,Oracle, Microsoft, Cambridge Technologies, Nexgenix, Vignette,Verisign Financial technologies India Ltd, Spider Software Pvt. Ltd. to build its trading engine and content. The City Venture holds a majority stake in the company. HSBC, Intel & Carlyle are the other investors.

On April 17, 2002 Share khan launched Speed Trade and Trade Tiger, are net-based executable application that emulates the broker terminals along with host of other information relevant to the Day Traders. This was for the first time that a net-based trading station of this caliber was offered to the traders. In the last six months Speed Trade has become a defector Standard for the Day Trading community over the net. Share khan's ground network includes over 700+ Share shops in 130+ cities in India.

The firm's online trading and investment site www.sharekhan.com - was launched on Feb 8, 2000. The site gives access to superior content and transaction facility to retail customers across the country. Known for its jargon-free, investor friendly language and high quality research, the site has a registered base of over 3 Lacks customers. The number of trading members currently stands at over 7 Lacks. While online trading currently accounts for just over 5 per cent of the daily trading in stocks in India, Share khan alone accounts for 27 per cent of the volumes traded online.

The Corporate Finance section has a list of very prestigious clients and has many 'firsts' to its credit, in terms of the size of deal, sector tapped etc. The group has placed over US$ 5 billion in private equity deals. Some of the clients include BPL Cellular Holding, Gujarat Pipavav, Essar, Hutchison, Planet Asia, and Shopper's Stop. Finally, Share khan shifted hands and City venture get holds on it.

Product and Services Offered By Sharekhan

1- Equity Trading Platform (Online/Offline)
2 - Commodities Trading Platform (Online/Offline)
3 - Portfolio Management Service
4 - Mutual Fund Advisory and Distribution
5 - Insurance Distribution
6 - Forex

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Reason to Choose Sahrekhan Limited

Experience

SSKI has more than eight decades of trust and credibility in the Indian stock market. In the Asia Money broker's poll held recently, SSKI won the 'India's best broking house for 2004' award. Ever since it launched Share khan as its retail broking division in February 2000, it has been providing institutional-level research and broking services to individual investors.

Technology

With their online trading account one can buy and sell shares in an instant from any PC with an internet connection. Customers get access to the powerful online trading tools that will help them to take complete control over their investment in shares.

Accessibility

Share khan provides ADVICE, EDUCATION, TOOLS AND EXECUTION services for investors. These services are accessible through many centers across the country (Over 650 locations in 150 cities), over the Internet (through the website www.sharekhan.com) as well as over the Voice Tool.

Knowledge

In a business where the right information at the right time can translate into direct profits, investors get access to a wide range of information on the content-rich portal, www.sharekhan.com. Investors will also get a useful set of knowledge-based tools that will empower them to take informed decisions.

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Convenience

One can call Share khan's Dial-N-Trade number to get investment advice and execute his/her transactions. They have a dedicated call-center to provide this service via a Toll Free Number 1800 22-7500 & 39707500 from anywhere in India.

Customer Service

Its customer service team assist their customer for any help that they need relating to transactions, billing, demat and other queries. Their customer service can be contacted via a toll free number, email or live chat on www.sharekhan.com.

Investment Advice

Share khan has dedicated research teams of more than 30 people for fundamental and technical research. Their analysts constantly track the pulse of the market and provide timely investment advice to customer in the form of daily research emails, online chat, printed reports etc.

Benefits of Mutual Funds in Share Khan

1. Free Depository A/c
2. Instant Cash Transfer
3. Multiple Bank Option.
4. Secure Order by Voice Tool Dial-n-Trade.
5. Automated Portfolio to keep track of the value of your actual purchases.
6. 24x7 Voice Tool access to your trading account.
7. Personalized Price and Account Alerts delivered instantly to your Mobile Phone & Email address.
8. Live Chat facility with Relationship Manager on Yahoo Messenger
9. Special Personal Inbox for order and trade confirmations.
10. On-line Customer Service via Web Chat.
11. Enjoy Automated Portfolio.
12. Buy or sell even single share
13. Anytime Ordering.

SWOT ANALYSIS

Strengths

1. Cost advantage
2. Effective communication
3. High R&D
4. Innovation
5. Online growth
6. Loyal customers
7. Market share leadership
8. Strong management team
9. Strong financial position
10. Pricing
11. Real estate
12. Reputation management
13. Unique products

14. Diverse products and offers for the customers
15. Strong brand recall
16. Strong reach to the masses

Weaknesses

1. Diseconomies to scale
2. Not innovative
3. Not diversified
4. High employee turnover
5. Less small investors
6. Less competitive
7. Employees not properly skilled
8. Infrastructure not up to the mark

Opportunities

1. Financial markets (raise money through debt, etc)
2. Innovation
3. Online
4. Product and services expansion
5. Penetration in developing cities
6. Increase in awareness of people about stock market
7. Increase in wealth
8. Positive market sentiments
9. Growth of technology and awareness
10. increased internet usage

Threats

1. Competition
2. Cheaper technology
3. Economic slowdown
4. External changes (government, politics, taxes, etc)
5. Exchange rate fluctuations
6. Lower cost competitors or imports
7. Price wars
8. Product substitution

Research Design

The researcher has adopted descriptive research design for the study because the researcher attempts to describe the perception and expression of Employees on various participative management.Share khan is one of the leading retail brokerage of City Venture which is running successfully since 1922 in the Country. Earlier it was the retail broking arm of the Mumbai based SSKI Group, which has over eight decades of experience in the stock broking business. Share khan offers its customers a wide range of equity related services including trade execution on BSE, NSE, Derivatives, depository services, online trading, investment advice etc .D ata was collected from share khan customers.

Sampling

The research adopted simple random sampling method to collect primary data from the respondents by applying lottery dipping and sample is 50.

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Tools for Data Collection

The research adopted a neatly prepared English structured questionnaire for collecting primary data from respondents, which is also professionally economic, simple and easy to administer among educated respondents.

Sources of data

Questionnaire has dichotomy scale and 5-point likert like scale with (Strongly Agree, Agree, Partially Agree, Disagree, Strongly disagree). The Secondary sources of data were collected from Library Publications of various researchers, public documents journals, magazines etc.

Data Collection

The researcher visited the company during office hours to distribute questionnaire randomly selected (by lottery) employees with the request to fill up the questionnaire, which is meant for researcher's academy purposes.

Analysis and Interpretation

Analysis is made in SPSS 16.0 package.

The Statistical Package for the Social Science (SPSS) for windows version 16.0 was utilized by the researcher to analyse the data. Once the data was received from the respondents the data were immediately coded and entered into SPSS.

Findings and Suggestions

Results of Chi-Square Test

The chi-square test reveals that the following results are of no significant difference as per the respondents opinion based on their income level.

1. It is clear that 36.7% of respondents prefer larger income as their factor to make investment decision, while 6% of respondents prefer tax rates.
2. It is clear that 36.7% of respondents objectives is return from investment, 28.6% of respondents are safety from investment.
3. it is clear that 57.1% of the respondents like real investment and 32.7% of the respondents like contingent investment.
4. It is clear that 62.5% of the respondents are neutrals and 22.9% of the respondents are seeker
5. It is clear that 46.9% of the respondents agree that risk arises in equity investor depending on financial status of the organisation and 34.7% of the respondents are strongly agreed.
6. It is clear that 46.9% of the respondents agree that economic dispersion at the world level which affects equity investors and 34.7% of the respondents are strongly agree.
7. It is clear from cross tab No. 27 that 46.9% of respondents bear 20% of risk and 30.6% of respondents bear 30% of risk.
8. It is clear that 36.7% of the respondents agree that changes in financial policy of RBI can affect the equity investors and 32.7% of respondents were strongly agreed
9. It is clear that 46.9% of the respondents strongly agree with Demand and Supply of production in organisation and 36.7% of respondents agree with it.
10. It is clear that majority (59.2%) of the respondents agree that Holding investment to maturity is the technique to avoid interest rate risk and 18.4% agree that selling the investment before maturity period is the technique to avoid interest rate risk.

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11. It is clear that majority (63.3%) of the respondents analyse the strength and weakness of the industry before they invest.
12. It is clear that 34% of the respondents gave Rank 3 for Business recession.
13. It is clear that 31.9% of the respondents gave Rank 2 for Political changes.
14. It is clear that 40.4% of the respondents gave Rank 1 for Economic changes.
15. It is clear that 25.5% of the respondents gave Rank 1 for Inflation/Deflation and 23.4% gave Rank 2.
16. It is clear that 25.5% of the respondents gave Rank 2 for change in interest rates.
17. It is clear that 42.6% of the respondents gave Rank 3 for Instability of Government.
18. It is clear that 31.9% of the respondents gave Rank 5 for unexpected war.
19. It is clear that 40.4% of the respondents gave Rank 4 for natural calamity.
20. It is clear that majority (61.2%) of the respondents strongly agree with wrong decision of what to invest.
21. It is clear that 53.1% of the respondents agree with wrong timing of investment.
22. It is clear that 44.9% of the respondents partially agree with creditworthiness of the issuer.
23. It is clear that 43.8% of the respondents agree with risk of higher volatility.

The chi-square test reveals that the following results are of significant difference as per the respondent's opinion based on their income level.

1. From the cross table, is clear that 44.7% of the respondents gave Rank 4 for Depression.
2. From the cross table, it is clear that 44.7% of the respondents gave Rank 5 for Social changes.
3. From the cross table, it is clear that 49.0% of the respondents agree with National / International factors.
4. From the cross table, it is clear that 52.1% of the respondents agree with risk of lower liquidity
5. From the cross table, it is clear that 55.1% of the respondents strongly agree with risk of news announcements.
6. From the cross table, it is clear that 42.9% of the respondents strongly agree with risk of rum ours.

The percentage analysis depicts the following

The demographic details of the respondents are as follows: 31.4% of respondents fall in the age group of 26-35 years and another 31.4% are of 50-58 years. 78% of them are male and 54.9% of them are post graduates, more than half i.e. 62.7% work in private sector organisations, 68.6% of them have a monthly income less than 20,000 INR.

1. 35.3% of respondents prefer larger income while making investment decision and 23.5% prefer varied investment avenue
2. 37.3% of respondents objective for investment is return and 27.5% of respondents objective is safety
3. 54.9% of respondents prefer real investment and 31.4% of respondents prefer contingent investment
4. 58.8% are neutrals in their type of investment and 23.5% of investors are seeker
5. 47.1% of respondents agree that risk arises in equity investors depending on financial status of the organisation and 33.3% of respondents strongly agreed for the same
6. 45.1% of respondents agree that economic dispersion at world level is one of the factor that affect equity investors and 33.3% of the investors have strongly agreed for the same
7. 45.1% of respondents said there is 20% risk and 29.4% said there is 30% risk

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8. 37.3% of respondents have agreed changes in financial policy of RBI can affect the equity and 31.4% of respondents have strongly agreed for the same
9. 45.1% of respondents strongly agree that demand / supply of production in organisation is one of the factor to bring changes in equity and 37.3% of respondents agreed for the same
10. Respondents gave Rank 1 for Careful combination of different stocks, Concentrate only on growth stocks as Rank 2, Time of purchase and sale of securities given Rank 3, Rank 4 for Trend in future price change and Rank 5 for movement of share price
11. 56.9% of respondents are hold investment for maturity to avoid interest rate risk and 19.6% of respondents are selling the investment before maturity period
12. 60.8% of respondents analyze strength and weakness of the industry to avoid business/financial risk and 19.6% of respondents analyze financial soundness of the company before they invest
13. Respondents gave Rank 1 for Economic changes, Rank 2 for Political changes, Rank 3 for Business Recession, Rank 4 for Depression and Rank 5 for Social changes
14. Respondents gave Rank 1 for Inflation/Deflation, Rank 2 for change in interest rates, Rank 3 for Instability of Government, Rank 4 for Natural Calamity and Rank 5 for Unexpected war
15. 60.8% of respondents have strongly agreed (with wrong decision of what to invest in) and 25.5% of respondents have agreed for the same
16. 57% of respondents have agreed with wrong timing of investment and 35.3% of respondents have strongly agreed for the same
17. 43% of respondents have partially agreed with creditworthiness of the issuer and 27.5% of respondents have agreed for the same
18. 49% of respondents have agreed with national factors affect the risk and 21.6% of respondents have strongly agreed for the same
19. 41.2% of respondents have agree that risk of higher volatility and 25.5% of respondents have strongly agreed for the same
20. 54.9% of respondents have agreed with risk of lower liquidity and 31.4% of respondents strongly agreed for the same
21. 51.0% of respondents agree that risk of news announcements and 31.4% of respondents have agreed for the same
22. 43.1% of respondents agree that risk of rumours is one of the factors that affect equity investors and 29.4% of respondents have agreed for the same

Suggestions

The following are suggestions given by the investors to avoid risk on equity investors:

- Risk identification as an art of combining intuition with formal information and risk management is the estimation of the size, probability and timing of a potential loss under various scenarios
- Investors cannot predict exactly what rate of return an investment will yield
- The investors can formulate a probability distribution of the possible rates of return
- To avoid risk investors should observe the warning of firms failure.
- The investor should carefully analyse the financial statements with special reference to solvency profitability, EPS and efficiency of the company
- Investors has to ensure some degree of liquidity of investment in stocks having a history of adequate trading volume

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- Investors concerned about business risk can reduce it by selecting common stocks of firms that are diversified in several unrelated industries.
- Market risk influenced by factors that cannot be predicted accurately like economic conditions, political events than psychological factors etc. To measure market risk, first step is computation of DEAR (Daily Earning At Risk) the second step is the computation of VAR (Value At Risk)
- Though there has been a major economic crisis almost every year, it is true that patient investors have consistently made money in the equities market. Investing in the stock market should be an unemotional endeavor and suggested that investors should own a stock if they believe it could perform well
- The psychology of the stock market is based on how investors form judgments about uncertain future events and how they react to these judgments
- Investors should do equity research before selecting shares for investment and should take for value with margin of safety in relation to price
- Indian stock market investment return would improve only through quality equity research
- Need for tightly controlled risk management measures to guard against the unpredictable behaviour of financial markets
- Investors must be able to quantify and measure risk using variance or standard deviation

TIPS for Equity Investors

- Investors should not buy unlisted shares and inactive shares. As stock exchange do not permit trading in unlisted shares and inactive shares has no buyers for them
- Investors should not hold closely held shares for a longer period expecting high price
- Investors are advised to buy shares of a growing company of a growing industry. To sell the shares when company has almost reached the peak of its growth

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