



Published on: 29-03-2014

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**MPGI International
Conference 2014
(MPGIIC-2014)**

International Conference
"Interdisciplinary approaches
in Commerce and Management"
On
28th & 29th March-2014



Conflict of Interest: None Declared

Critical Evaluation of Investment Analysis: A Practical Approach of Investors

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Cite this article as:

Vivek M. Tathod, Sunil G. Losarwar. Critical Evaluation of Investment Analysis: A Practical Approach of Investors.

Asian Journal of Management Sciences.
02 (03 Special Issue); 2014; 65-69.

1. Introduction:

Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc. of investment and disinvestment. Further such decision making has not only to be a continuous but rational too. Broadly speaking, an investment decision is a trade-off between risk and return. All investment choices are made at points of time in accordance with the personal investment ends and in contemplation of an uncertain future. Since investment in securities are revocable, investment ends are transient and investment environment is fluid, the reliable bases for reasoned expectations becomes more and more vague as one conceives of the distant future. Investors in securities will, therefore, from time to time, reappraise and re-evaluate their various investment commitments in the light of new information, changed expectations and ends.

Generally speaking, higher the risk undertaken, the more ample the return; conversely, the lower the risk, the more modest the return. In the case of investing in stock, you would demand higher return from a speculative stock to compensate for the higher level of risk.

Asset Classes	Instruments	Risk
Cash	Savings deposits in a bank, Liquid Mutual funds	Low
Debt	GOI Relief Bonds, Public Provident Fund, National Savings Certificate, Company Fixed Deposits, Debt-based Mutual funds ,Debentures/Bonds	Low to Medium, depending on the type of issuer. In case the issuer is Government, the risk of default is negligible
Equity	Equity-based Mutual Funds Stocks/shares issued by various companies	High

Table 1: Basic Investment Categories

S.N.	Name of Security	Rate of Return (per annum)	Income-Tax Concession
1.	Post Office Saving Bank a/c	5.50%	Exempt under Sec. 10 (15) (ii)
2.	Saving Deposits of Commercial Banks	4.5%	- do -
3.	Public Provident Fund Account (PPF)	12%	Exempt under Sec. 10 (11)
4.	10-year Social Security Certificates	11.30% (compounded half yearly)	Qualifying for deduction under sec. 80L
5.	Post Office Time Deposit Accounts	10-12.5%	- do -
6.	Bank Fixed Deposits	8- 15%	- do -
7.	Post Office Recurring Deposits Accounts (Period 5 Years)	13.5%	- do -
8.	National Savings Scheme (NSS)	11%	Investment and income completely exempt, since discontinued.
9.	6-year Post Office Monthly Income Scheme	13% (Payable Monthly)	Qualifying for deduction under Sec. 80L
10.	Indira Vikas Patra (period 5/1/2 years)	14.% (compounded)	No
11.	Kisan Vikas Patra	12.67% (compounded)	No
12.	NSC VIII Issue	12%	No
13.	Units of UTI/schemes of Mutual Funds	12% variable	No Included in 80L exemption
14.	Equity shares of Companies	Variable	1.Dividend deductible u/s sec. 80L along with others. 2. Provision for a tax rebate at 20% on an investment in eligible equity linked scheme of Rs. 10,000 maximum – a tax rebate of Rs. 2,000
15.	Convertible Debentures	Variable	Taxable
16.	Non Convertible Debenture	Variable	Taxable
17.	Fixed Deposits in Companies	12 to 14%	Taxable
18.	Preference Shares (Redeemable or Cumulative)	14%	Dividend deductible under sec. 80L
19.	Cumulative Convertible Preference Shares (CCP)	10%	- do -
20.	Bonds of Public Sector Companies	(i) 9-10.5% (ii) 13% and above	Interest is tax-free without any limit Interest is deductible under sec. 80L

Table 2: Various investment avenues available to investors

2. Investment profile of average household:

The asset preference of an average Indian household can analyzed from the data on savings estimates of CSO and RBI. The data of RBI provides in particular the

pattern of assets in financial form of the household sector in India.

If an average Indian saves Rs. 100, nearly Rs. 40 is set apart for investment in physical assets like consumer durables, housing, real-estate, gold, silver etc. The

remaining Rs. 60 flows into various forms of financial assets.

Taking saving in the financial form, the preferences of the Indian household are such that the investor keeps 11 to 14% of it in cash and currency and 36.43% in bank deposits, which are both riskless assets but with nil return or low returns (0 to 11 percent) There is also a category of contractual savings in the form of insurance, PF and pension funds, whose return is also small or moderate, but are based on the requirements of individual savers. The investment in this category is 24-25 % of total financial savings.

3. Research Methodology

The present study is based on primary data, an exploratory in nature, was conducted in Nanded city of Maharashtra. Thus the scope of the study in terms of the geographical area been confined largely to the Nanded city. The selection of the respondents was governed by the principles purposive sampling. In terms of the respondents the scope of the present study has been restricted to analyze the views of 200 respondents. The primary data is collected from various respondents through a questionnaire. Only those respondents have interacted who are interested in investments. The questionnaire is a mix of both close ended and open ended questions. Chi-square test and ANOVA technique were used for the analysis of data

3.1 Statement of the Problem

In an investment arena, we must compare the expected return from a given investment with the risk associated with it. Risk and return on investment are directly correlated; higher risk gets a smaller chance of high return and vice versa. That is why, this paper attempts to study the relationship between risk and return of the various investment avenues. The proper assessment and balance of the various risk-return trade-offs is part of creating a sound investment plan.

3.2 Objectives of the Study

- To study the behavior pattern of investors while making investment.
- To focus on the comparative relationship of various investment avenues.
- To highlight the effect of demographic factors on the investment decisions.
- To determine the risk-return profile of the investors.

3.3. Hypothesis of the Study:

- 1) There is a strong association between the Income of the Individual and the choice of Investment Avenues.
- 2) Investors prefer return over risk.

- 3) There is no association between the ranks of the Respondent regarding the Returns from the investment

3.4. Analysis and Result:

Age	No. of investors	Percentage
20-25	20	13.33
25-35	30	20
35-45	65	43.33
45-55	25	16.67
Above 55	10	6.67

Table 3: Age of the Investors

(source: Primary data)

Inference:

From the above table it can be inferred that maximum number of the investors belongs to age between 35-45 years of age. Very few belong to the age group of above 55 years.

Qualification	No. of Investors	Percentage
UG	54	36
PG	42	28
Professional	36	24
Others	18	12
Total	150	100

Table 4: Educational qualification of the Investors

(Source: Primary data)

Inference:

From the above table it can be inferred that 36% of the investors possesses degree while 24% are professional.

Income P.A.	No. of Investors	Percentage
50,000-100000	84	56
100000-300000	42	28
300000-Above	24	16
Total	150	100

Table 5: Salary of the Investors

(Source: Primary data)

Inference:

From the above table it can be inferred that 56% of the respondents belongs to 50,000 – 1,00,000 Salary Slab. Very few (i.e.) 16 % belong to the Salary Slab 3,00,000 & above.

Factors	Most Important	More Important	Important	Least important	Not important
Return	64	63	9	15	0
Low risk	68	55	21	6	0
Safety	11	13	60	44	19
Saving	3	9	45	33	60
Tax Benefits	4	10	15	52	71

Table 6: Investment Factors (As per preference of Investors)

(source: Primary data)

Inference:

From the above table we can say that the risk and the return are considered to be the most important factor

for an investment about 42% have said that returns are also plays a major role while taking the decision of investment. Safety, Savings and Tax benefits are also taken into consideration for making an investment decision.

Investment Factors:

Plans	Ranks by investors	
	Risk	Return
Stocks	1	1
Mutual Fund	2	2
Insurance	3	3
Fixed Deposits	5	4
Gilt securities	4	5

Table 7: Risk & Return in various Avenues

(Source: Primary data)

Inference: From above table we can say that stocks, mutual funds and insurance possess same ranks in terms of risk and return. While fixed deposits and gilt-edge securities posses different ranks.

3.5 Statistical Analysis:

Chi-Square Test:

It is used to know whether the choices of the investments are made according to the income of the individual.

Hypothesis:

Ho: There is no association between the Income of the Investor and the choice of Investment Avenues.

H1: There is association between the Income of the Investor and the choice of Investment Avenues.

Avenues	Salary Slab			Total
	50,000-100,000	100,000-300,000	Above 300,000	
Insurance	5	2	9	16
Stocks	0	6	10	16
Mutual Fund	19	3	12	34
Gilt Securities	3	6	5	14
Real estate	0	2	8	10
Gold	3	5	7	15
Fixed Deposits	30	6	9	45
Total	60	30	60	150

Table 8: Income of Investor and Choice of Investment Avenues

(source: Primary data)

D.F.	Chi-square calculated	Chi-square table value@5%level
(c-1)(r-1)=12	60.63	21

Inference:

As calculated value of χ^2 is greater than the table value at 5% level of significance for 12 d.f. so we reject the null hypothesis and conclude that there is association between the Income of the Investor and the choice of Investment Avenues.

One-Way ANOVA:

It is used in order to find whether the ranks given by the investors with respect to Risk for the Investments have any association or not.

Avenues/Ranks	1	2	3	4	5
Stocks	61	59	30	0	0
Insurance	30	17	43	15	45
Mutual Fund	59	61	30	0	0
Gilt securities	0	13	32	75	30
Fixed Deposits	0	0	15	60	75

Table 9: Investment Avenues and rank for risk

(source: Primary data)

Source of variation	SS	DF	MS	F-Ratio	F@5% for(4,20)d.f.
Between the Ranks	1435.5	4	1435.5/4 = 358.87	F=358.8/301.7 =1.189	F=5.80 (Table Value)
Within the Ranks	6035	20	6035/20 =301.75		
Total	40095	24			

Table 10: ANOVA Table

Inference:

From the F-table at 5% significance level for (4, 20) degrees of freedom the critical value is 5.80. As calculated value of 'F' is Less than Critical value of 'F' so, we accept the Null Hypothesis. And conclude that there is no association between the ranks of the individuals with respect to Risk for Investment.

One-Way ANOVA:

It is used in order to find whether the ranks given by the investors with respect to Return in the investment have any association or not.

Hypothesis:

Ho: There is no association between the ranks of the Respondent regarding the Returns from the investment

H1: There is association between the ranks of the Respondent regarding the Returns from the investment

Avenues/Ranks	1	2	3	4	5
Stocks	58	62	30	0	0
Insurance	32	15	40	18	45
Mutual Fund	60	60	30	0	0
Gilt securities	0	13	30	72	35
Fixed Deposits	0	0	20	60	70

Table 11: Investment Avenues and rank for Return

(source: Primary data)

Source of variation	SS	DF	MS	F-Ratio	F@5% for(4,20)d.f.
Between the Ranks	1435.5	4	1435.5/4 = 358.87	F=358.87/985.1 =0.36	F=5.80 (Table Value)
Within the Ranks	19702	20	19702/20 =985.1		
Total	21137.5	24			

Table 12: ANOVA Table

Inference:

From the F-table at 5% significance level for (4, 20) degrees of freedom the critical value is 5.80. As calculated value of 'F' is Less than Critical value of 'F' so, we accept the Null Hypothesis. And conclude that there is no association between the ranks of the individuals with respect to Risk for Investment.

4.Conclusions:

From the above study we can conclude that:

- 1) The investor is looking Risk and Return as foremost factors in investment.
- 2) From the ANOVA table we can infer that Stock and Mutual fund ranks first both on Risk and Return
- 3) The bank fixed deposits and government securities are most favorable among all the investors.
- 4) From chi-square table there we can say that there is a association between the Income of the Investor and the choice of Investment Avenues.
- 5) Income level plays a great deal while selecting investment avenues. Generally high income investors prefers risky investment instrument, while low income investor prefers low risky investment avenues.

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