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To Assess Investors' Awareness of Various Stock Market Instruments and their Risk Preferences

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Abstract:

Investors are often drawn to the potential for quick, substantial profits in the stock market, yet success in this arena is far from guaranteed. In India, investors are increasingly exploring various avenues within the capital markets, with a notable interest in the stock market segment among the younger generation. Despite lacking sufficient knowledge about the stock market, many investors rely on brokers or peers for decision making guidance when entering this market. This study aims to assess investors' awareness of various stock market instruments and their risk preferences across different segments. Effective participation in the stock market requires patience, discipline, and a solid understanding of market dynamics. Prior to engaging in stock market activities, aspiring investors should familiarize themselves with basic market operations and acquire information about companies, securities, and pricing for informed decision-making.

Keywords: *Investors, Stock markets, Investment, Capital market, Aspirants, Securities.*

1. Introduction

The Indian Stock Market has a history dating back around 200 years, originating with modest and obscure security dealings in India. Initially, the East India Company played a dominant role in financial securities. By the 1830s, trading in corporate stocks and shares of banks and cotton presses began in Bombay. Although the trading list expanded in 1839, only a few brokers were recognized by banks and merchants in the 1840s and 1850s. However, by 1850, a rapid development in commercial enterprise attracted more people, leading to an increase in the number of brokers to around sixty by 1860.

The outbreak of the American Civil War in 1860-61 disrupted cotton supply from the United States to Europe, sparking a Share Mania in India. The number of brokers surged to approximately 200-250 during this period. After the Civil War ended, surviving brokers found a gathering place on a street, later known as Dalal Street, to conduct their business conveniently. In 1887, they formally established the Native Share and Stock Brokers Association, also known as "The Stock Exchange," in Bombay. In 1895, the Stock Exchange acquired premises on the same street, which were inaugurated in 1899. Thus, the Bombay Stock Exchange was established and became a crucial component of financing for the Indian corporate sector.

2. Objectives

1. The primary goals of stock markets include: Facilitating the direct mobilization of resources from investors for further investment.
2. Offering liquidity and oversight for investors.
3. Exercising discipline over company management.

3. Investment Plans

1. Tangible assets like real estate, gold/jewelry, commodities, etc.
2. Financial assets such as fixed deposits with banks, small saving instruments with post offices, insurance/provident/pension funds, or securities market-related instruments like shares, bonds, debentures, etc.

4. The Volatility of Equity Market

An equity market, also referred to as the stock market or share market, is a marketplace where shares of companies or entities are issued and traded. This trading occurs either through exchanges or via listed dealers or brokers. In addition to common equity shares, stock exchanges also list other types of securities such as corporate bonds and convertible bonds. The equity market serves as the meeting point for buyers and sellers of stocks (Banerjee & Sarkar, 2006). Through the sale of equity, a company gains access to capital, while investors acquire ownership stakes in the company, potentially leading to gains based on the company's future performance. Stock exchanges serve as the primary venues for trading stocks in the equity market. In India, equity shares are traded through two major stock exchanges: the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE).

(I) National Stock Exchange of India (NSE)

Established in 1992 by a consortium of prominent Indian financial institutions under the guidance of the government of India, the National Stock Exchange of India Limited (NSE) was created to enhance transparency in the Indian capital market. It was the pioneer exchange in the country to introduce a modern, fully automated screenbased electronic trading system, revolutionizing trading by offering convenient access to investors nationwide. The equities segment of the NSE commenced operations in November 1994, while the derivatives segment began operations in June 2000. As of March 2016, the NSE ranks as the world's 12th-largest stock exchange, boasting a market capitalization exceeding US$1.41 trillion.

(II) Bombay Stock Exchange (BSE)

Situated at Dalal Street, Mumbai, the Bombay Stock Exchange (BSE) is an Indian stock exchange. Founded in 1875, the BSE is renowned as the world's fastest stock exchange, boasting a median trade speed of 6 microseconds. As of March 2017, the BSE holds an overall market capitalization of $1.83 trillion, positioning it as one of the world's 11th-largest stock exchanges.

5. Various Forms of Funds

Debt Funds: A debt fund is a mutual fund type that directs shareholder funds into fixed income securities like bonds and treasury bills. These funds may select from short-term or long-term bonds, securitized products, money market instruments, or floating rate debt.
Equity Funds: An equity fund, also known as a stock fund, is a mutual fund primarily investing shareholder funds in stocks. These funds are usually categorized based on company size, investment style of portfolio holdings, and geographical focus.
Equity Trading: In the stock market, investors seeking to buy shares of a specific company propose a certain price, while sellers ask for a specific price. When these prices match, the sale is executed. To engage in equity market trading, a stock trading account is necessary. India's two major stock exchanges are the National Stock Exchange of India (NSE) and the Bombay Stock Exchange of India (BSE), where the majority of share trading occurs.

6. Trade on the Stock Market:

The simplest approach to share trading is to enlist the services of a stock broker or brokerage firm. Several reputable stock brokers are available who can execute trades on your behalf and offer occasional advice. However, if you prefer a hands-on approach, consider the following steps:

a. Educate Yourself: Read extensively on stock trading by exploring books, which provide a wealth of information at a relatively low cost compared to other educational resources like broker classes or seminars. Additionally, subscribing to business news channels and online portals can offer valuable insights into the stock market and individual companies.
b. Monitor Market Trends: Stay informed about market movements by following daily updates through various media channels. This exposure enables investors to track trends, access expert analysis, and stay informed about corporate events such as mergers and acquisitions. Observing how news impacts stock prices and analyzing fundamental data can further enhance investors' understanding.
c. Consider Paid Subscriptions: Some firms and brokers offer market research and analysis services to assist investors in making buy or sell decisions. However, it's essential not to rely solely on these services. Use your own judgment and research to evaluate potential stock investments.
d. Select Stocks: After monitoring market trends for a period, choose the stocks you wish to purchase. Once you've compiled your stock portfolio, consider virtual trading for practice or start with small investments. To buy stocks, place a bid through your share trading account. Sellers will indicate their desired price, and when these prices align, the sale will proceed.
e. Implement Stop Loss: Implementing a stop loss is crucial to mitigate potential losses on a security position. After purchasing a stock, set a sell order to trigger when the stock price reaches a specified level. This automated stop-loss order can provide protection, especially when you're unable to monitor your position consistently, such as during vacations or periods of inactivity.

7. Investor Sentiment and Volatility

Investor psychology plays a significant role in shaping the dynamics of the stock market. The reactions of investors to market information and regulatory procedures can swiftly influence market volatility. Mittal & Jain (2009) highlighted the impact of a robust regulatory framework on investor sentiment, particularly in terms of legal provisions related to corporate governance and mechanisms for addressing investor grievances. Several factors contribute to stock market volatility:

a) Fear Factor: Fear often drives investors to avoid potential losses. Even a small trigger, such as negative opinions from a few individuals, can prompt widespread selling. Fear of losses prompts defensive behavior among investors, leading to a cascade of selling activity.
b) Double-Dip Worries: The market sees mixed reactions from risk-takers and riskaverse investors. Risk-takers may interpret positive market signals as indicators of an impending rise, while risk-averse individuals anticipate a potential market downturn.

These divergent perspectives contribute to market volatility.

c) Changes in Economic Policy: The monetary policy decisions of the Federal Open Market Committee (FOMC) significantly impact market sentiment. Positive market responses occur when news suggests the expansion of quantitative easing by the Fed, whereas negative sentiments prevail upon news of tapering the quantitative easing program.
d) Economic Crisis: Major economic crises evoke negative responses from the market, with the severity of the crisis determining the extent of investor reaction. Fear of losses prompts widespread selling among investors, with only a few capitalizing on buying opportunities. Instead of conducting thorough fundamental and technical analyses of their portfolios, many investors succumb to the pessimism surrounding the economic crisis.

8. Emerging and Developed Economies Indices

a. DJIA (Dow Jones Industrial Average): Established in 1885, the Dow Jones Industrial Average tracks the performance of 30 large publicly owned companies in the United States.
b. DAX (Deutscher Aktien Index): This German stock market index consists of 30 major companies listed on the Frankfurt Stock Exchange, reflecting the performance of the German economy.
c. Hang Seng Index: A weighted stock market index in Hong Kong, tracking the performance of the largest companies in the Hong Kong equity market.

d. RTS Index (Russia Trading System): Tracks 50 Russian stocks traded on the Moscow Exchange, providing insight into the performance of the Russian economy.
e. S&P BSE SENSEX: The Bombay Stock Exchange's flagship index, comprising 30 wellestablished and financially strong Indian companies across various sectors.
f. FTSE Straits Times Index (STI): A benchmark index for the Singapore equity market, representing 30 companies listed on the Singapore Stock Exchange.
g. FTSE 100: Comprising the 100 largest UK companies listed on the London Stock Exchange, the FTSE 100 serves as a key indicator of business prosperity in the UK.
h. Nikkei 225: A stock market index for the Tokyo Stock Exchange, tracking the performance of 225 Japanese equities and serving as a key indicator of Japanese market trends.
i. BOVESPA: Brazil's stock exchange located in Sao Paulo, representing 381 traded companies and reflecting the performance of the Brazilian economy.
j. All Ordinaries (AOI): Australia's oldest index, containing nearly all ordinary shares listed on the Australian Securities Exchange (ASX) and serving as a comprehensive measure of the Australian stock market.
k. Shanghai Composite Index: A composite index of all stocks traded on the Shanghai Stock Exchange, reflecting the performance of the Chinese stock market.

9. Conclusion:

Currently, investing in the stock market is a prevalent practice not only among professionals but also individuals. In this context, derivatives play a significant role as a tool for mitigating the risks associated with stock market investments, thereby optimizing outcomes. Investors need to acquaint themselves with diverse portfolio and speculation strategies, including portfolio construction, portfolio theories, stock valuation models, capital market theories, and investment performance metrics, among others. This knowledge equips investors to mitigate risks effectively. Despite the inherent risks in the stock market, employing portfolio techniques can substantially minimize losses.

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