A Study of Factors Affecting Allocation of Investible Funds in Risk Assets

Dattatraya G. Kurundwadkar*
Dr. Nachiket Vechalekar**

Key Words:

1.Demographic Factors
2.Risk, Reward & Liquidity
3.Asset Allocation
4.Financial Plan
5.Rebalancing of Investment
6.Inflation Volatility in Stock Market

Abstract

The main objective of this paper is to identify the relationship between investments in risk assets viz. Equity shares of listed companies with reference to demographic factors such as age and stage in life, income level, number of dependents, gender, marital status etc. Further, the paper also tries to study the impact of taxation on decision making relating to investment in equity shares by finance professionals from Pune city.

Investment means different thing to different people but underlying common factor is future financial security by deploying investible funds in different asset class having varying risk, reward & liquidity profile which is known as asset allocation. The asset allocation pre supposes specific achievable financial goals with appropriate financial plan in place and periodical monitoring & timely rebalancing to ward off volatility in stock market & achieving optimum returns.

Historical data reveals that investment in shares of listed companies beats inflation and alsoother asset class in a long run & thus creates wealth for investors.

INTRODUCTION

Savings and Investment had been a subject which had been discussed and written about by scores of scholars and Luminaries in the field of Economics and Finance. The authors, scholars have given different definitions to savings and investment. The words "savings" and "investments" are used interchangeably but actually it is not so. Inthe normal parlance savings or surplus means excess of income over expenditure. The surplus or gap is dependent on number of factors such as level of income, age and stage in the life, number of dependents, marital status oron one side and expenditure on living, education, health, household expenditure and other necessities which is non discretionary or essential expenditure and other discretionary expenditures, such as holidaying, purchase of luxury cars, snob shopping etc. The gap between income and expenditure gets reduced on account of contingencies and emergencies etc. The role of ever increasing inflation and taxation also plays important role in respect of rate of savings.

Investments, on the other hand, refer to what one does with the savings in order to preserve and make it grow and/or yield regular income. In short, the investment is all about deployment of investible funds with intention to preserve or increase its value. The investible funds are deployed in different class of assets with the intention to earn regular income and/or preserve the value or grow in value over the period of years to take care of future needs and contingencies.

The individual may have many options to invest the surplus fund in assets such as fixed deposits with bank, postal savings, government bonds & securities, Insurance policies, Public provident fund, Mutual funds, listed equity shares which are known as financial assets and physical assets such as Gold, Silver & precious metals, immovable properties such as land, residential property or commercial property etc.

The different class of asset has different level of risk, return & liquidity profile. Like, equity can beat the inflation in the long run and enjoy the tax benefits such as dividend, being exempted in the hands of investor and no long term capital gain tax if equity shares, listed on stock exchange and held for more than one year.Thebank deposits are tax inefficient and can hardly beat inflation while insurance is low yielding asset, but covers contingencies and unforeseen circumstances. Real estate or immovable properties take longer time to liquidate and has got tax implications. Mutual funds are subject to market risk but enjoy tax benefits, if held for more than a year subject to certain conditions prescribed under Income Tax Act, 1961.

All the above investments either appreciates over the period of time i.e. growth asset or gives regular income periodically i.e. income asset or some class of assets carries both the advantages.

From the above, making investments in different class of assets looks so simple but in fact it is not so. The Investment is very complex and exhaustive subject. It means different things to different people, as every individual is different with reference to the past investment

**Practicing Chartered Accountant and can be reached at dgkjdk2009@gmail.com
**Dean- Post Graduate Programmes & Research,Indsearch, Pune and can be reached at nmvechalekar@yahoo.co.in

ISSN : 2229-6514 (Print),2230-8237(Online)

experiences, risk appetite, personal strength and weakness based on age and education, income level of self and other family members, responsibilities and liabilities ,objectives, time horizon of investment etc.However, there is a very strong common factor amongst the investor i.e. desire for financial security in future. Therefore, investor has to take the call in respect of allocation of resources through class of assets in which he/she wants to invest.

For the purpose of this study the investment in equity shares of the listed companies is defined as a risk asset and this study focuses on the investment in equity shares only.

Equity shares or common stock also known as ordinary shares denotes ownership in the company to the extent holding by an individual. Those shares entitled inter aliaproportionate profit which is known as dividend, which is exempt from Income Tax in the hands of investor. The capital gain resulted after the sale of shares is also tax free provided if held for more than one year, if transacted through stock exchange by securities transaction tax (STT). The equity share holders are also entitled for right shares and bonus shares whenever the same are declared by Board/General meeting as may be applicable.

Equity shares are externally risky and volatile. The prices of equity are affected by number of factors. It is said that only two principles run the stock market 'greed' and 'panic'.

The trading or prices in the stock exchanges are highly susceptible to market sentiments. The boom and bust cycles based on number of global and domestic factors accompanied by greed and fear, have led millions of investors to burn their fingers also by making wrong calls. On the other hand, properly planned and systematic investment over a long period have reaped fortunes for many investors. The investment in equity as an asset class is a must for the investor for achieving the financial objectives and goals as historical and empirical studies have shown that this class of asset has surpassed other asset classes most of the times in the long run. Historical facts and data reveal that the equity shares as a class of asset not only beats inflation but effective in creating wealth over a long period.

The whole process of investments can be divided into following stages:

1. Financial goal / objectives
2. Investment planning
3. Investment Strategy
4. Asset Allocation
5. Balancing & review of asset allocation.

Every individual has got financial goals to attain. The goals are further classified as: i) Short term ii) Medium term iii) Long term financial goals. The financial goals have to be specific with clear priorities and time horizon. The financial goals must be realistic, feasible and achievable and should discount the impact of inflation.

To assess the future requirement, an investment plan has to be in place. The investment plan must be very clear, specific and have a set target including ways and means to achieve the same. It is also necessary to monitor on continuous basis to correct deviations.

Asset allocation is nothing but spreading the resources across the different asset class on varying proportion. This helps the investor from volatility in the stock market. As stated earlier all the asset class cannot perform badly at the same time and its converse is also true.Here the asset allocation comes into play. Thus, proper asset allocation shall result into maximizing the returns with the assumed risk by investing the resources in different class of assets which has varying risk, return and liquidity profile.

The market volatility, changes in economic scenario, amendments in taxation laws, leads to changes in the whole landscape of investment. Therefore, need arise for periodical monitoring & review of asset allocation. This review calls for balancing or rebalancing in inter asset or intra asset allocation. This exercise helps in negating the volatility to some extent.

SIGNIFICANCE OF STUDY

Post liberalization and globalization era has undergone a sea change particularly in respect of investment strategies followed by investors. Over the last twenty five years the sensex has grown from 1000 (in 1992) to 30000 plus (in 2015), the market capitalization grown to whopping more than Rs.20,000 Crores in cash segment and the number of investors increased exponentially cutting across the lines of age, class, creed, education, gender of investor class.

The shift in this scenario occurred on account of numerous significant factors including:

1.Massive inflow of foreign funds through FII participation in Indian markets

2.Global environment / sentiment echoing India as one of the fastest growing economy resulting into highly desirable destination for investment

3.Forward looking legislations and amendments in certain legislations such as Securities Exchange Board of India Act, 1992, Securities Contract Regulation Act, Companies Act, 2013 & various guidelines regarding inside trading etc.

4.Vigilant regulators

5.Usherance of depository participants and dematerialization of shares

6.Transparent trading mechanism with robust systems in place

ISSN : 2229-6514 (Print),2230-8237(Online)

7.Explosion and dissemination of information through various medias including electronic media.

All the above mentioned factors led towards tremendous growth in the surge of investors resulted in the sky rocketing of the volume of transactions. The last twenty five years had witnessed a phenomenal growth in number of investors, listed scrips, volume of transactions and mammoth market capitalization.

The huge potential of growth of Capital Markets in India in years to follow and this being a barometer of sustained and inclusive growth, it is necessary to study certain key aspects of the subject.

LITERATURE REVIEW

I have reviewed research articles published in magazines, books, financial dailies by Research scholars, professionals, experts and data published by BSE, NSE, SEBI, Economic Times, Business Standards and host of the sites on investment and stock market. Further, certain broker houses and Investment consultants publishor upload on the internet, their research articles advising their clients and also public at large. Such papers also give fair insight of various options or modes available to investors, the returns on such investment, income tax implications etc.

Harry Markowitz(1952), profounded the theory that risk cannot be avoided but can be controlled by way of proper diversification. He also emphasized that financial risk is not only necessary but desirable from the point of view of the high returns to the investors. The small paper presented by Markowitz strongly underlined the risk and return relationship can be quantified through appropriate Asset Allocation.

Roger G. Ibbotson and Paul D. Kaplan (2000),"the study was conducted to answer the hotly debated question of whether it was the asset allocation of portfolio or a manager's skill in picking stocks and bonds that drove portfolio performance. The study overwhelmingly conducted that more than 90 percent of portfolio's long-term variation in return was explained by its assets allocation. Only a small portion of the variation in return was explained by the manager's individual stock or bond selections".

Richard A. Ferri(2003), emphasised that people of different ages have different Financial needs and different perceptions in investing and classified four general groups based on age. Viz. Early savers, Mid life Accumulators, Preretirees and active retirees, and mature retirees.

Securities Exchange Commission (2009),publication observed,"A diversified portfolio should be diversified at two levels: between asset categories and within asset categories. So in addition to allocating your investments among stocks, bonds, cash equivalents, and possibly other asset categories, you'll also need to spread out your investments within each asset category".

Lutfi (Dec.2010),in his paper,explores relationship between demographic factors (gender, age, marital, status, education, income & family members) and investors risk behavior (risk seeker, risk averter or risk indifferent) andtypes of investments (bank products, capital markets instruments & physical assets).Using a sample of 84 investors in Surabaya, this study shows that demographic factors explain investors risk tolerance and investment preference. The result also reveals significant relationship between investors risk tolerance and their investor preference.

Gaurav Kabra, Prashant Kumar Mishra, Manoj Kumar Dash (2010) in their research paper,an Econometric study tries to find out factor which affects individual investment decision and difference in perception of investors in the decision of investing on the basis of age and gender by sending questionnaires to investors from Government service, Private service & professionals. The study concludes that investor's age and gender predominantly decides the risk taking capacity of investors.

Karthikeyan(2001) has found in research that,the level of awareness among investors in the old age group was higher than in those of young age group. No differences were observed among male and female investors except for NSS and KVP.

Securities and Exchange Board of India (SEBI) and NCAER (2000),in this paper the study indicated that the Factors which influence individual investment decision, the difference in the perception of Investors in the investing process on the basis of Age and on the basis of Gender is important.

Muhammad Nauman Sadiq & Hafiz Muhammad Ishaq(2014)published a paper,the aim of paper was to examine demographic factors on investors level of risk tolerance regarding the choice investment. The result showed that demographic factors such as academic education income level, investment knowledge & investment experience effect on risk tolerance.The researchers analysed the behaviour in derivatives markets with a sample of 100 investors in twin city (Rawalpindi & Islamabad).

Ms. ANKITA RAJDEV (2009),in her paper scrutinizes various demographic factors such as age, sex, income level and occupation. The paper concludes that there is relationship of demographic factors and investments pattern except in case of marital status and investment choice.

RESEARCH GAP

The Researcher has identified the gaps for the research which are as under:

1.The target respondents are practicing Chartered Accountant, Company Secretary, Cost & Management Account (CA/ CS/ CMAs), who are experts and professionals.

2.The proposed study focuses on factors affecting on investment in risk assets i.e. Equity Shares of listed companies. All earlier studies were emphasizing on pattern or preference of various investment.

3.This study focuses on taxation aspect which is significant for decision making such as to buy, hold or sale the Equity shares.

4.Study covers the sample from Pune City i.e. within municipal area.

5.The target respondents are practicing their profession & hence they are not entitled for any social security cover from employer or any government agency and hence their investment preference is bound to be different than their counterparts who are in services.

Therefore, the researcher finds that, there is a research gap and research on this subject would add to the body of knowledge.

OBJECTIVE OF STUDY

This objective of the study is as under:

i.To evaluate / understand the actual impact of demographic factor such as age, gender, marital status, income level etc. on investment in risk assets i.e. equity shares of companies.

ii.To critically analyze the significance of taxation on decisions pertaining to investment in equity shares viz. Buy, Hold & Sell.

HYPOTHESIS

Consistent with the objectives, the researcher formulated the following hypothesis:

(I) Asset allocation to risk assets depends on demographic factors such as age and stage in life, gender, marital status, number of dependents & income level.

(ii) Allocation of resources to Risk Assets and investment strategies are largely guided by taxation aspects.

RESEARCH DESIGN

Methodology and Data Base:-

The study is based on primary and secondary data. The primary data were collected through pre drafted and pre tested structured questionnaire.The questionnaire is divided in three parts; the first part consists the demographic details of respondents such as name, qualification, address, etc., the second part consists of multiple choice questions & third part pertains to questions involved in rating of various attributes or factors in the form of statements on Likert scale in range of 1 to 5, to test the hypothesis.The primary data were used mainly for evaluating, collecting the data to test and validate the hypothesis. The questionnaire has been structured for identifying the variables affecting an allocation of investible funds in risk assets and investment strategies in the context of hypothesis. A sample questionnaire comprising objective questions and space provided for specific observations or views.

Secondary data were collected from published and unpublished sources. They were collected from books, journals, reports, published documents, economies dailies like Economic Times, Financial Express, Business Standard, Magazines of Capital Market and Finance, Publications of stock exchanges SEBI, SEC (Securities Exchange Commission, USA), Papers presented by scholars in India and Abroad and literature available on the internet sites.

SAMPLING DESIGN:

he Survey was conducted on the basis of sampling design, the researcher collected the updated list of members in practice from ICAI, ICSI, ICMAI from Pune branch of respective Institute. A sample of the total 75 members of proportionate representation of the members of the three Institute is selected on simple random sampling technique in the context of hypothesis to be tested. Stage/ Age / lifecycle hence age group and gender, level of income, number of dependents, strategy regarding taxation from the transactions were the main criterions for selection of the sample.

DATA ANALYSIS

Selection of sample

As discussed in the scope and limitations, it has been decided to collect the primary data from selected professionals such as practicing CA, CS and CWAs.The researcher is himself in the field of this selected professional group. Hence it has been decided to use the snowball method of sampling. The researcher has approached some professionals and then through their contacts data could be collected from other professionals also.

Analysis: Profile of Professionals

Table 1 : Gender:

Distribution of professionals according to gender

Gender	No. of Professionals	Percentage
Male	52	69.33 %
Female	23	30.67 %
Total	**75**	**100 %**

Table 2 : Marital status:

Distribution of professionals according to Marital status

Marital status	No. of Professionals	Percentage
Married	61	81.33 %
Unmarried	14	18.67 %
Total	**75**	**100 %**

Only 18.67% of the professional are unmarried.

ISSN : 2229-6514 (Print),2230-8237(Online)

Table 3 : Age:

Distribution of professionals according to age

Age in Year	No. of Professionals	Percentage
21 -30	17	22.67 %
31 -45	30	40.00 %
46 -60	20	26.67 %
61 & above	8	10.66 %
Total	**75**	**100 %**

Table 4 : Dependents:

Distribution of professionals according to dependents.

Category	No. of Professionals	Percentage
No Dependents	32	42.67 %
Only Spouse	16	21.33 %
Spouse & Children	15	20.00 %
Parent, Spouse and children	12	16.00 %
Total	**75**	**100 %**

Table 5 : Income:

Distribution of professionals according to income

Income (Rs. In Lakhs)	No. of Professionals	Percentage
Less than 10	49	65.33 %
10 -20	20	26.67 %
20 -30	3	4.00 %
Above 30	3	4.00 %
Total	**75**	**100 %**

It has been observed that 42.67% of the professionals say that there is no dependent in the family. This is not the reflection that 22.67% are in the age group 21-30 and 18.67% are unmarried. The percentage of professionals saying no dependent might be because the spouse and other members of the family are not dependent on the respondent.

Hypothesis 1:

Asset Allocation to Risk Assets depends on age and stage in life, level of income, number of dependents and marital status of the investor.

A. It was decided to consider opinion of respondent professionals regarding asset allocation to risk asset and factors affecting the investment in risk assets.

Whether the age and stage in the life cycles has direct relationship with risk tolerances and investment preferences or not the following table 6

As we can observed from the table that only 2.67% of the respondent say that there is no direct relationship between age and stage in the life cycle and risk tolerance and investment preferences as against 92% of the professionals are of the opinion that such relationship exists. This supports the Hypothesis Asset allocation to risk asset depends on age/ life cycle of the investor.

B.Age and Asset Allocation to Risk Assets

The opinion was judged regarding as the investor ageing, they prefer the safety of capital and liquidity as compared to return on investment.

The responses on five point scale are in table 7

From the opinion of the respondent we can observe that 9.34% of the Respondents do not agree that age has effect on asset allocation to risk assets. But 82.66% of the professionals are of the opinion that asset allocation to risk asset is depending on age. As age increases there is a tendency to prefer the safety of capital and liquidity as compared to return on investment or in other words investment in risk assets.

This percentage itself supports strongly as the difference is vast there is no need to test the equality of the percentages with 'Z Test' the Hypothesis.

The findings shows the level income has significant relation with investment pattern particularly in risk assert as 85.33% respondent agreed and only 4% are disagreeing.

The number of dependents influences exposure to risk asset as 69.34% agreed for the same while those who are disagreeing were 17.33% respondents.

Even marital status has got strong relationship as to influence of investment pattern as 68% agreed that in influences the exposure the risk asset.

Table 6 :

Responses about relationship	No. of Professionals	Percentage
Strongly disagree	0	0
Disagree	2	2.67 %
Neutral	4	5.33 %
Agree	49	65.33 %
Strongly agree	20	26.67%
Total	**75**	**100 %**

Table 7 :

Responses	No. of Professionals	Percentage
Strongly disagree	2	2.67%
Disagree	5	6.67%
Neutral	6	8%
Agree	56	74.66%
Strongly agree	6	8%
Total	**75**	**100 %**

Table 8 :

C. Asset allocation to risk assets depends on level of income of the investor.

Responses	No. of Professionals	Percentage
Strongly disagree	0	0%
Disagree	3	4%
Neutral	8	10.67%
Agree	50	66 .67 %
Strongly agree	14	18.66 %
Total	**75**	**100 %**

ISSN : 2229-6514 (Print),2230-8237(Online)

Hypothesis testing shows that there is positive and significant relationship between resources allocation to the risk assets i.e. equity shares of listed companies and demographic factors such as age and stage in life, level of income, number of dependents, marital status.

Hence, hypothesis 1 is accepted.

Hypothesis 2:

Allocation of resources to risk assets and investments strategies are largely guided by taxation aspects.

In this regard various aspects of investment strategies and allocation of resources to risk assets were considered. It was judged whether they are guided by taxation aspects or not. The responses were recorded in the form of five point scale regarding agreement to the statements involving various aspects.

A.Statement: Profit booking or stop loss is important than the taxability of transaction of equity shares.

We consider following hypothesis for statistical testing

(Disagree-7, Neutral-12, Agree-56)

H0: P=50

P: Percentage of investors having opinion that taxation is important

H1: P> 50

We use 'Z Test 'for proportion

SE=5.77

Z= 4.27

Table value of Z is 1.64

Z cal > Z tab

4.27> 1.65

Reject H0

Therefore, we say that allocation of resources to risk assets and investment strategies are largely guided by taxation aspects.

B.Statement: Taxation is not at all important factor in respect of sale transaction of the equity shares.

(Disagree-36, Neutral-13, Agree 26)

H0: P=50

P: Percentage of investor having opinion that taxation is important.

H1: P>50

We use 'Z Test 'for proportion

SE=5.77

Z= 2.65

Since 2.65 > 1.64 (critical value of Z)

Reject H0

Therefore, allocation of resources to risk assets and investment strategies are largely guided by taxation aspects.

C.Statement: Taxation may be a significant factor in respect of share transactions but not the sole of decisive factor.

(Disagree-5, Neutral-9, Agree-61)

H0: P=50

P: Percentage of investor having opinion that taxation is important.

H1: P>50

We use 'Z Test 'for proportion

SE=5.77

Z= 5.43

Since 5.43 > 1.64 (critical value of Z)

Reject H0

Therefore, it supports the hypothesis that allocation of resources to risk assets and investment strategies are significantly guided by taxation aspects.

Hence, hypothesis 2 is accepted.

FINDINGS AND CONCLUSIONS :

The present study is conducted to identify and evaluate the relationship between investment in the risk asset vis-a-vis demographic factor such as age and stage in life, level of income, number of dependents and marital status. Also, to study the impact/ effect of taxation on allocation of resources to risk assets i.e. investment in equity shares of listed companies.

Admittedly, people in different age group and stage of life have different financial needs and thereby have financial plan and asset allocation linked with financial goals for the short term, medium term and long term. Moreover, the risk appetite is also factor of age and stage in life as senior citizens or retirees are having major exposure to asset class which is moresafe although giving less returns as compared to equity shares where risk is high. The data clearly shows that in early age group the percentage of risk seekers is higher while as one grows in age the more people turn to risk avoiders. The study reveals that investors risk behaviour and thus exposure to investment in equity shares depends on age and stage in life.

The investment pattern is also dependent on level of income, other earning members in the family such as spouse or financial position on account of family background etc. This study reveals that there is positive relationship between the level of income and exposure to risk asset. The respondent have also supported the positive

& significant relationship between marital status & exposure to risk asset as this is reflected on account of spouse is also a professional or serving and thus naturally affecting on the level of income.`

It is observed that number of dependents has significant relationship with investment in equity shares. Unmarried or couples with no dependents or just one dependent are more prone to investment in equity shares than safe investments like Bank FDs, NSC, Bonds, insurance, etc.

This study also throws light on the significance of taxation on strategies adopted by the professionals in respect of investment in equity shares. The strategies viz. Buy, hold, or sell are important from the point of view of booking profit or stop loss as the timing is important since market is volatile and fluctuates continuously. The present taxation provisions provide for tax liability in respect of short term capital gains. The respondents who are tax experts/ professionals have supported the view that the investment strategies are significantly guided by taxation angle as it affects on return on investment. The study shows that taxation is significant factor but not a sole decisive factor.

Thus, both the hypothesis are approved and accepted.

LIMITATIONS AND EXCLUSIONS OF STUDY

Despite our best efforts to make this study comprehensive and precise, there may be following limitations:

i) The study covers the only professionals from Financial / Accounting / Costing / Corporate Law background. The professionals from other fields such as medical, engineering, architect and humanities and laymans / general citizen are not the part of the study.

ii) The study covers practitioners within the jurisdiction of Pune Municipal Corporation only. There may be changes in findings in case of professionals from Metros or small towns &Taluka place.

iii) The selected / target group is very enlightened class as far as finance field is concerned. They are also the class of the society which can evaluate / measure the significance of price sensitive events, such as announcement of Budget, RBI Policy, Credit rating Agency Analysis, Global & Domestic Economic Indicators, more accurately than the general or layman public at large. Therefore, any changes in economic, social or political environment can change their perception, attitude and strategy with reference to risk asset investment.

REFERENCES

Gaurav Kabra, Prashant Kumar Mishra, Manoj Kumar Dash (2010) in their research paper titled 'Factors Influencing Investment Decisions of Generations in India': An Econometric study published in Asian Journal of Management Research.

Harry Markowitz, (1952) research paper titled "Portfolio Selection."

Income Tax Act,1961, Taxmann's publication, 59th Edition (2015).

Karthikeyan(2001), research paper onSmall Investors Perception on Saving Schemes.

Lutfi, (Dec.2010)in Journal of Economics, business & Accountancytitled 'The relationship between demographic factors and investment decision' in Surabaya, (Indonesia).

Muhammad Nauman Sadiq & Hafiz Muhammad Ishaq (2014)Global Journal of Management and Business Research: C Finance, Volume 14 Issue 3 Version 1.0

Ms. Ankita Rajdev (2013), "The Effect of Demographic factors on Investment Choice ofInvestors: A Study on Investors of Bhopal"published in IRC's International Journal of Multidisciplinary Research in Social & Management Sciences.

Roger G. Ibbotson and Paul D. Kaplan, (Jan / Feb 2000)"Does asset allocation policy Explain 40,90,pr 100 percept of performance?"Financial Analysis Journal.

Richard A. Ferri, (2003) CFA in his book Protecting Your wealth in Good Times and Bad(McGraw-Hill)

Securities and Exchange Board of India (SEBI) and NCAER (2000)'Survey of Indian Investors'.

U.S. Securities and Exchange Commission (SEC) (2009), Beginners Guide to Asset Allocation, Diversification, and Rebalancing.

ISSN : 2229-6514 (Print),2230-8237(Online)