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NEXUS BETWEEN INVESTOR'S RISK BEARING CAPACITY AND INVESTORS' CHOICE OF PORTFOLIOS

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ABSTRACT

An attempt is made through this study to identify the risk bearing capacity of retail investors and to evaluate how it affects the portfolio choices of those investors. In addition to examining the variations in investment avenues that investors choose to include in their portfolios due to their risk-bearing capacity, this study aims to investigate the influence of various demographic characteristics on risk bearing capacity. The current study was conducted among individual investors in Kerala by conducting a survey among 120 individual investors in Kerala using a structured questionnaire. The results of this study showed that an investor's ability to take on risk depends on their gender, line of work, and monthly income. Further it was found that investors who are ready to take high risk invests more in real estate and shares compared to other risk categories. Investors who are moderate to high risk takers made their investment in mutual funds. All other investors made their investments in safe avenues like bank deposits, postal savings, provident fund, insurance, etc.

KEYWORDS: *Investors, investments, portfolio, risk, risk-bearing capacity*

INTRODUCTION

In the present scenario, investors are offered with an abundant supply of investment products, and choosing an appropriate opportunity has become very difficult for them. Investment decisions are greatly influenced by a variety of factors and risk involved in investing is a prominent one among them. Risk being a major component of investment, understanding the nature of risk, and the capacity to take risks become a very essential part of investors' decisions. Holton (2004), defined risk as "an exposure to a proposition of which one is uncertain." At the time of decision making regarding any investment opportunity, risk accompanying that product becomes a major constituent of that decision (Dhiman & Raheja, 2018). Whenever a person invests, it will be based on an investment goal that he wants to achieve. The amount of risk that a person is willing to take for the accomplishment of his goal becomes his risk-bearing capacity. The maximum amount of uncertainty that an investor can bear while making an investment is referred to as investor's risk tolerance level and successful investment decisions are attained by those who have a comprehensive understanding of financial risk tolerance (Gondaliya and Dhinaiya, 2016). Risk being a vital component of decision making and investments, understanding the factors that can have an impact on risk-bearing capacity becomes essential.

This study is carried out among the individual investors in the state of Kerala to understand the influence of various demographic factors on the risk-bearing capacity of the investors and to examine how the differences in the risk-bearing capacity influence at the time of making investment decisions.

LITERATURE REVIEW

Gondaliya & Dhinaiya (2016) observed a notable relationship between risk tolerance and the demographic profile of investors. Factors like marital status, age, education, occupation, and annual income were found to have a significant impact on an investor's level of risk tolerance. High-risk tolerance was found in investors who are male and single and an increase in income level resulted in increasing their risk-taking capacity to an even higher

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level (Thanki & Baser, 2019). When an uncertain situation originates emotional reaction of men and women to that situation tends to be different. Likewise, men are usually more confident and challenge seeking than women. These differences in emotional reaction, confidence, and challenge seeking behaviour of men make them more tolerant to risk than women (Croson & Gneezy, 2009).

Alwahaibi (2019) mentioned in his study that an increase in the level of education and monthly income have a positive relation with their risk-tolerance level. Further, he stated that investment decisions and risk tolerance are interconnected and demographic elements play a vital role in defining this linkage. Investors with high levels of income, education, and financial knowledge are more risk-tolerant compared to others (Grable, 2000). Dwyer et al. (2002) observed that when investors were provided with financial education in addition to general education, they tend to take more risk than before. They also remarked that generally women are described as risk-averse but when women are imparted with financial education, their risk aversion is reduced considerably. They suggested that by providing financial education risk aversion of investors can be reduced. Outreville (2015) also supports the view that higher education attained by people contributes to lowering their risk avoidance and the results of the study pointed out that more skilled and well-educated people are, greater the risk they take. Asano & Tachibanaki (1994) conducted a study on Japanese households and observed that households tend to diversify their portfolio when the total assets held by them increases. Which, in turn, indicated the lowering of aversion towards risk by larger asset holders.

RESEARCH METHODOLOGY

The present study is descriptive and analytical in nature. The area under study is the state of Kerala, which is a South Indian state. The population for the study is all individual investors of Kerala. A sample of 120 individual investors of Kerala were selected for the study through convenience sampling method. The study is supported by primary data collected through a questionnaire. The secondary data for the study was collected from various books and journals. The statistical tools used for the study are percentage analysis and chi-square test.

OBJECTIVES OF THE STUDY

1. To analyse the influence of demographic characteristics of the individual investors of Kerala on their risk-bearing capacity.
2. To analyse the impact of risk-bearing capacity on the portfolio choice of individual investors of Kerala.

HYPOTHESES

H1: Risk-bearing capacity of an investor is dependent on their demographic characteristics.
H2: Portfolio choice of an investor is dependent on risk-bearing capacity of an investor.

RESULTS AND DISCUSSION

H1: Risk-bearing capacity of an investor is dependent on their demographic characteristics.

Table 8.1: **Chi-square analysis - Demographic characteristics and Risk bearing capacity**

	Pearson Chi-Square	df	Asymp. Sig. (2-sided)
Age	19.695	15	.184
Gender	11.713	3	.008
Marital Status	5.795	9	.760
Educational Qualification	20.925	12	.051
Occupation	34.339	15	.003
Monthly Income	41.342	12	.000

Analysis of the chi-square results indicates that the risk-bearing capacity of an investor is dependent on their gender as the findings show a p-value of .008 which is significant at 5% level of significance. Male investors are more inclined to take moderate and high risk whereas female investors tend to prefer low and moderate risk. The analysis indicated that the risk-bearing capacity of an individual investor is significantly dependent on their occupation with a p-value of .003. Respondents who were salaried or business-oriented take high risk, whereas those who were self-employed, professional, retired, and others take only moderate and low risk. The analysis indicated that the risk-bearing capacity of an individual investor is significantly dependent on their monthly income with a p-value of .000. Respondents who have a salary above 50000 tend to take high risk and those who have an income of 25001-50000 take moderate risk and those who have income below 25000 takes low risk.

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In the case of age, analysis of the chi-square test reveals p-value (.184) is not significant at 5% level of significance, therefore it can be concluded that the risk-bearing capacity of an individual is not dependent on their age. Further, risk-bearing capacity is independent of the marital status of the investor at 5% level of significance with a p-value of .760. It can also be seen that at 5% level of significance with a p-value of .051, the risk-bearing capacity of an investor is not dependent on their educational qualification**.**

Hence, the hypothesis(H1) that the risk-bearing capacity of the investor is dependent on demographic characteristics is partially correct in the case of gender, occupation, and monthly income.

H2: Portfolio choice of an investor is dependent on risk-bearing capacity of an investor.

Table 8.2: **Chi-square analysis Risk bearing capacity and portfolio choice**

	Pearson Chi-Square	df	Asymp. Sig. (2-sided)
Bank deposit	1.078	3	.782
Postal savings	.714	3	.870
Provident fund	4.245	3	.236
SIP	6.994	3	.072
Insurance	.976	3	.807
Gold and silver	.931	3	.818
Real estate	37.088	3	.000
Chit funds	2.189	3	.534
Mutual funds	53.167	3	.000
Shares	71.505	3	.000
Others	1.341	3	.720

Analysis of the chi-square results indicates that investors making their investments in real estate, shares, and mutual funds are dependent on their risk-bearing capacity as the findings show a p-value of .000 which is significant at 5% level of significance. Investors who are ready to take high risk invests more in real estate and shares compared to other risk categories. Investors who are moderate to high risk takers made their investment in mutual funds. All other investors made their investments in safe avenues like bank deposits, postal savings, provident fund, insurance, etc.

FINDINGS

Demographic characteristics and Risk-bearing capacity

Chi-square test was done to find whether the risk-bearing capacity of investors is dependent on their demographic characteristics. The results showed that the risk-bearing capacity of investors is dependent on their gender, occupation, and monthly income. It was also further noted that risk-bearing capacity is not dependent on age, marital status, and educational qualification. Hence the hypothesis(H1) that the risk-bearing capacity of the investor is dependent on demographic characteristics is partially correct in the case of gender, occupation, and monthly income.

Risk-bearing capacity and portfolio choice

The results of the chi-square analysis indicates that investors making their investments in real estate, shares, and mutual funds are dependent on their risk-bearing capacity. Investors who are ready to take high risk invests more in real estate and shares compared to other risk categories. Investors who are moderate to high risk takers made their investment in mutual funds. All other investors made their investments in safe avenues like bank deposits, postal savings, provident fund, insurance, etc. Hence, the hypothesis (H2) that the portfolio choice of an investor is dependent on risk-bearing capacity of an investor is partially correct.

CONCLUSION

This research work points out how demographic factors have an impact on risk-bearing capacity and as such on investment decisions. Similarly, risk bearing capacity of an individual is found to influence their portfolio choice. Hence, it can be said that having a proper understanding of these factors can help investors to understand their current capacity and take appropriate decisions while investing. It will be beneficial for financial institutions in gaining a better understanding regarding which product should be offered to which type of investors. It would be useful for financial advisors in providing proper guidance about investment avenues to their clients considering their demographic profile and risk bearing capacity.

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