

# Perception of Retail Investors towards Capital Market – A Study

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**Abstract:** Market facilitates the trade of goods and services. Similarly, financial market facilitates the sale and purchase of financial assets/instruments. And the financial market comprises two major markets viz., capital market and money market. Capital market is important for mobilizing funds for capital formation and investments, and forms a very vital link for economic development of any country. It (i.e., capital market) provides ways for issuers to mobilize capital from investor. The primary objective of the study is to assess and analyse the level of awareness among the respondents about capital market operations and different investment avenues. The study is based on the data/material collected from both primary and secondary sources. Random sampling method is used to select the respondents. And the sample size is 100 selected from different categories of investors and investment advisors. The major findings of the study are majority of the respondents prefer life insurance policies and bank deposit schemes for their investment. Real estate, gold, government bond and co-operative societies (shares) are also preferred investment avenues. Majority of the respondents are investing for medium (1 – 3 years) to long term (3 years and more). And the remaining is investing for less-than one-year period. Finally the outcome of the research is concluded as follows The retail investors from Shivamogga city have certain problems as can be seen other parts of the state/country. In spite of these problems, investment in capital market is slowly picking up. While knowledgeable investors have remained in the market for long, others forget it and exit. This situation has to improve.

**Keywords:** Capital Market, Investments, Securities, Financial System, Monetary Policy

## I. Introduction

Market facilitates the trade of goods and services. Similarly, financial market facilitates the sale and purchase of financial assets/instruments. And the financial market comprises two major markets viz., capital market and money market.

Capital market can be segregated into two segments as primary market and secondary market. The primary market is mainly used by issuers for raising fresh capital from the investors by making Initial Public Offerings (IPOs). The secondary market provides liquidity to these investments through trading and settlement on stock exchanges.

Capital market is important for mobilizing funds for capital formation and investments, and forms a very vital link for economic development of any country. It (i.e., capital market) provides ways for issuers to mobilize capital from investors (who have surplus money available from savings for investment).

The Indian money market is market for short term money/financial assets that are close substitutes for money. And the maturity period is short of less than one year. The important feature of the money market instruments is that they are liquid and can be converted quickly into money at low cost.

Money market occupies an important place in modern financial system offering monetary service and credit intermediation in the “near bank capital market” with maturity period of three months or less. The money market is so named as it enables participants to acquire cash on short notice or to place excess funds in easily saleable short-term marketable securities.

## Indian Capital Market

Trading was at that time limited to a dozen brokers and their trading place was under a banyan tree in front of the Town Hall in Bombay. These stockbrokers organized an informal association in 1875 called, Native Shares and Stock Brokers Association. Bombay. The stock exchanges in Calcutta and Ahmedabad, also industrial and trading centers, came up later. The Bombay Stock Exchange was recognized in May 1927 under the Bombay Securities Contracts Control Act, 1925. It has been a long journey for the Indian capital market. Now, the capital market is organized, fairly integrated, mature, more global and modernized. The Indian equity market is one of the bests in the world in terms of technology. Advances in computer and communications technology coming together on Internet are shattering geographic boundaries and enlarging the investor class. Internet trading has become a global phenomenon. The Indian stock markets are now getting integrated with global markets.

## Role of Indian Capital Market

Capital market plays an important role in promoting and sustaining the growth of any economy. It is an important and efficient conduit to channelize and mobilize funds to enterprises and provide an effective source of investment in the economy.

**(1) Capital Arrangement:** The capital market promotes capital formation in the country. Rate of capital formation depends upon savings in the country. Though the banks mobilize savings, they are not adequate to match the

(2) of the industrial sector. The capital market mobilizes savings of households and of the industrial concerns and these mobilized savings are then invested for productive purposes. Thus, savings and investment lead to capital arrangement / formation in the country.

**(3) Economic Growth:** Capital market promotes the progress and growth of industrial sector as well as other sectors of the economy. The main purpose of the capital market is to transfer resources from masses to the industrial sector. The capital market makes it possible to lend funds to various projects, both in the private as well as in the public sector.

**(4) Development of Backward Area:** Capital market provides funds for the projects in industrially backward areas. This facilitates the economic development of backward areas and promotes backward regional development. Thus, it contributes to the balanced regional development.

**(5) Generates Employment:** Capital market generates employment - (i) Direct employment in the capital markets such as stock markets, financial institutions etc., and (ii) Indirect employment in all sectors of the economy as the funds are provided for developmental projects which generate employment opportunities.

**(6) Long-term Capital to Industrial Sector:** Capital market provides a stable long-term capital for the companies. Once the funds are collected through issues, the money remains with the company. The company is left free with the funds while investors exchange securities among themselves.

**(7) Mobilization of Foreign Capital:** Capital market makes it possible to mobilize foreign capital. Indian firms are able to mobilize capital from overseas markets by way of bonds and other securities. Such foreign exchange funds are vital for the economic development of the nation.

**(8) Developing Role of Financial Institutions:** Various agencies of capital market such as Industrial Financial Corporation of India (IFCI), State Finance Corporations (SFCs), Industrial Development Bank of India (IDBI), Industrial Credit and Investment Corporation of India (ICICI), Unit Trust of India (UTI), Life Insurance Corporation of India (LIC), etc., have been rendering useful service to the growth of industries. They have been performing financing, promoting and underwriting functions of capital market.

## II. Literature Review

Many researchers, both individual and institutional researchers, have worked on different dimensions of capital market in the past. An attempt is made here to review a few important studies with the objectives of obtaining a comprehensive idea about the subject matter of the present study and also to identify the research gap.

**Nagraj (1996)** says that Indian capital market witnessed a rapid growth since 1980. It accelerated by the end of the decade. This is also significant in comparison with other emerging market economies. Increase in nominal interest rates since early last decade, incentives offered on traded securities and changes in related policies seem responsible for this development.

**Anuradha Reddy M. (2011)** felt that Capital market is the backbone of any economy. The economic disparities can be reduced by encouraging the retail investors to invest and participate in the economic activities aimed at economic development. A survey results reveal that only 12 per cent of the savings amount is coming to capital market. In India, currently, 19 stock exchanges are operating with a large number of brokers. As the income levels are increasing continuously, they are now in a position to invest in the assets. If this exercise succeeds in building confidence, India can exceed all other major capital markets.

**Shanmugasundaram (2011)** opines that investing may offer explicit benefits like status and feelings of social responsibility besides utilitarian benefits like low risk in combination with high returns. The investor behaviour is analysed to ascertain whether they behave rationally or irrationally towards various capital market information like bonus issues, rights issues, dividend declaration, etc., and the result shows that the investors behave rationally towards specific capital market information. Investor decisions are influenced by psychological factors and behavioural dimensions in accordance with the research results shown in other countries.

**Kaushal A. Bhatt (2013)** states that investment is the utilization of resources in order to increase income and output in future. Investment means putting money to earn more money. Most of the investors are very sensitive about safety of their investment. But investors who have proper knowledge and willingness to take risk up to some extent are investing in equity market. Bank interest rate is also decreasing since from last few years and therefore, investors move towards other avenues like mutual funds, bonds, equity market and others like land, gold, buildings etc. Therefore, the author concludes that investors in Jamnagar city are investing their money with the balance of safety, reliability and return on investment.

On the lines of the above, many more researchers have worked on different dimensions of capital market. However, studies on the perception of retail investors towards capital market and its operations are few and no researcher has worked on the topic of the present study viz., Perception of Retail Investors towards Capital Market. Hence, there is a need for the presented study.

### Statement of the Problem

Investment is expected to yield profit to the investors. Never the less investment is associated with many risks such as market volatility, change in interest rate, high IPO price, speculation, close of business etc. These are de-motivating factors, yet there is a desire among public to invest a portion of savings to build sizeable income in course of time. Thus, it can be stated that

participation of investors in capital market and volume of investment are dependent on the perception of investors regarding profitability and risk factors in capital market.

**Objectives of Study**

The primary objective of the study is to assess and analyse the level of awareness among the respondents about capital market operations and different investment avenues. In order to achieve this objective, a few more supporting objectives set. They are presented below.

- (1) To assess the level of awareness among respondents (i.e., retail investors) about capital market operations
- (2) To examine the investment habit of respondents and the pattern of their investment
- (3) To offer suggestions for educating retail investors about capital market operations

**III. Methodology**

Since the subject matter of this study is the investing public and its perception towards investments, descriptive method is followed in preparing the research. The study is based on the data/material collected from both primary and secondary sources. Random sampling method is used to select the respondents. And the sample size is 100 selected from different categories of investors and investment advisors. Secondary data are also collected from books, journals, business dailies like Economic Times, Business Line, Business Standard, etc., websites. The analysis is descriptive in nature. Statistical tools such as Mean, Standard Deviation, Coefficient of Variation, etc., are used to analyse the responses.

**Data Analysis**

**Sources of Information**

In order to ascertain the sources from which the retail investors are obtaining the relevant information about the capital market and profitable avenues available for 34 Perception of Retail Investors towards Capital Market – A Study investment, the respondents were asked to specify their major sources of information. The responses obtained from them are tabulated below (Table – 1.1).

Table – 1.1: Major Sources of Information

Sl. No.	Major Sources of Information	Number of Respondents	%age of Respondents
(1)	Advertisement in TVs and Newspapers	12	12
(2)	Friends and Relatives	24	24
(3)	Financial Analysts/Advisors	30	30
(4)	Company Sales force	26	26
(5)	Others	8	8
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It can be observed from the above that 30 respondents are getting the necessary information about investment avenues from the financial analysts and/or advisors. Another 26 respondents are receiving the information from the sales force of companies concerned and another 24 respondents are receiving the necessary information from their friends and/or relatives. For another 12 respondents, advertisements in televisions and/or newspapers are major source of information.

**Income and Savings**

It may be noted here that the amount and rate of savings depends upon the amount of income. In this backdrop, responses obtained from the respondents about the relative share of their savings out of their income and the same is presented below (Table – 1.2).

Table – 1.2: Percentage of Income Saved

Sl. No.	%age of Income Saved	Number of Respondents	%age of Respondents
(1)	< 10	18	18
(2)	10 - 25	30	30
(3)	25 - 50	26	26
(4)	50 - 75	23	23
(5)	≥ 75	3	3

<b>Total</b>	<b>100</b>	<b>100</b>
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Source: Field Survey

It is clear from the above table that 30% of the respondents are saving 10%-25% of their income. Another 26 respondents are saving 25% - 50% of their periodical income followed by 23 respondents who are saving 50% - 75% of their income. However, 18 respondents are saving only less-than 10% of their income. The remaining three respondents are saving 75% and more of their income.

**Determinants of Investment**

The respondents were requested to provide their response as to what factors influence their investment decisions. The responses provided by them are presented below (Table 1.3).

Table – 1.3: Determinants of Investment

Sl. No.	Factors considered while Investing	Number of Respondents	%age of Respondents
(1)	Stable and Regular Return	14	14
(2)	Capital Appreciation	8	8
(3)	Tax Benefits	17	17
(4)	Safety	28	28
(5)	Savings for the Future	26	26
(6)	Liquidity	7	7
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It is obvious from the above that for 28 respondents, safety of their investment fund is the important factor which they consider while deciding to invest in any financial instrument. For another 26 respondents, it is savings for their future life which determines the investment decision. In the 17 respondents, tax benefit is the major determinant or influencing factor of their investment decision. Of the remaining, 14 respondents consider stable and regular return, and another 8 respondents consider scope for capital appreciation as an important factor, and for the remaining 7 respondents, liquidity is the major determinant.

**Source of Sensex Information**

The relevant details about the sources of Sensex information of respondents are collected from the respondents and the same is tabulated below (Table – 1.4).

Table – 1.4: Source of Sensex Information

Sl. No.	Sources of Sensex Information	Number of Respondents	%age of Respondents
(1)	Newspapers	12	12
(2)	Business Dailies	12	12
(3)	Magazines/Journals	24	24
(4)	Electronic Media	18	18
(5)	Online	34	34
(6)	Others	0	0
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

Majority of the respondents (34) obtain the Sensex information from website and/or through online. Another 24 respondents collect the same from magazines and/or journals and another 18 respondents obtain the Sensex information from electronic media. Of the remaining, 12 respondents collect the Sensex information from newspapers and remaining 12 respondents obtain the information from business dailies.

**Mode of Investment Transaction**

The relevant details about the mode of investment transactions are collected from the respondents and the same is tabulated below (Table – 1.5).

Table – 1.5: Mode of Investment transaction

Sl. No.	Mode of Investment Transaction	Number of Respondents	%age of Respondents
(1)	Through Primary Market	15	15
(2)	Through Secondary Market	33	33
(3)	Both Primary and Secondary Markets	52	52
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It can be observed from the above that majority of the respondents (52) invest through both primary and secondary markets. Of the remaining 48 respondents, 33 respondents invest through secondary market. And the remaining 15 respondents invest through primary market.

**Total Investment made to-date**

Details about the amount of investment made so far by the respondents are collected from them. These details are presented below (Table – 1.6).

Table – 1.6: Total Investment made to-date by Respondents

Sl. No.	Amount of Investment made to-date (₹)	Number of Respondents	%age of Respondents
(1)	< 50,000	12	12
(2)	50,000 – 1,00,000	28	28
(3)	1,00,000 – 5,00,000	32	32
(4)	5,00,000 – 10,00,000	26	26
(5)	≥ 10,00,000	12	12
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It can be observed from the above that 32 respondents have invested ₹1 lakh – ₹5 lakh each till now (March 2019, survey period). Another 28 respondents have invested ₹50,000 to ₹1 lakh each. Further, 26 respondents have invested ₹5 lakh to ₹10 lakh each. Of the remaining 24 respondents, 12 each have invested less-than ₹50,000 and ₹10 lakh or more each.

**Portion of Saving Invested in Securities**

The relevant details about the portion of savings invested in shares/securities by the respondents are collected from them and the same are tabulated below (Table – 1.7).

Table – 1.7: Portion of Savings is Invested in Securities

Sl. No.	Portion of Savings Invested in Securities (%)	Number of Respondents	%age of Respondents
(1)	< 10	12	12
(2)	10 – 25	26	26
(3)	25 – 50	24	24
(4)	50 – 75	17	17
(5)	≥ 75	21	21
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It is obvious from the above that 12 respondents are investing less-than 10% of their savings on financial instruments such as shares, debentures, etc. On the other hand, 21 respondents have invested 75% or more of their savings in securities. 26 respondents are using 10 – 25% of their savings for the purpose of purchasing financial instruments. Of the remaining, 24 respondents are using 25 – 50% of their savings for investment purpose. And the remaining 17 respondents have invested 50 – 75% of their savings in financial instruments.

**Preference for Investment**

The relevant details about the preference for investment by the respondents are collected from them and the same are tabulated below (Table – 1.8).

Table – 1.8: Preference for investment

Sl. No.	Preference for Investment	Number of Respondents	%age of Respondents
(1)	Real Estate	7	7
(2)	Gold	12	12
(3)	Government Bonds	9	9
(4)	Co-operative Society	14	14
(5)	Bank Deposit Schemes	26	26
(6)	Insurance Schemes/Policies	32	32
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

It can be seen from the above that for majority of respondents (32), the most preferred avenue for investment is taking insurance policies. For another 26 respondents, deposit schemes offered by the banking companies are the preferred scheme for parking their savings. Another 14 respondents prefer to keep their savings in co-operative societies. Of the remaining, 12 respondents prefer to invest in gold, 9 respondents in government bonds and 7 respondents wish to invest in real estate.

**Duration of Investment**

The respondents were requested to provide the information about the duration for which they normally prefer to invest their money. And the responses provided by them are summarized in the following table (Table – 1.9) followed by a brief analysis of the same.

Table – 1.9: Duration of Investment

Sl. No.	Duration of Investment	Number of Respondents	%age of Respondents
(1)	Short-term, less-than 6 months	7	7
(2)	Short-term, 6 months to 1 year	16	16
(3)	Medium-term, 1 - 3 years	21	21
(4)	Long-term, 3 - 5 years	20	20
(5)	Long-term, more than 5 years	36	36
<b>Total</b>		<b>100</b>	<b>100</b>

Source: Field Survey

A careful observation of content of the above table reveals that 36 respondents are investing their money for longer period of more than five years. Another 20 respondents are investing for 3 – 5 years. In the case of 21 respondents, investment is for a medium-term of 1 – 3 years. Further, 16 respondents are investing their money for short-term of six months to one year. And the remaining 7 respondents are investing for less-than six months. That means, majority of respondents (56%) are keeping their investment for a period of three years or more.

**IV. Findings of the study**

The findings of the study relating to core area of the study are presented below;

For majority of the respondents (80%), financial analysts and/or advisors (30%), company sales force (26%) and friends and relatives (24%) are major sources of information about the investment avenues. For other, advertisements in television and newspapers are sources of information.

Out of total respondents, 79% of the respondents are saving 10 – 75% of their income, and another 18% of the respondents saving less-than 10% of their income. The remaining 3% of the respondents are saving 75% or more of their income.

For majority of the respondents (71%), safety of their investment (28%), savings for the future (26%) and tax benefits (17%) are the determinants of their investment decisions. Of the remaining, stable and regular returns, and liquidity are the major influencing factors for 14% and 7% of the respondents respectively.

As far as the sources of Sensex information if concerned, for 76% of the respondents, online/websites (34%), magazines/journals (24%) and electronic media (18%) are major sources. Newspapers and business dailies are the major source Sensex information the remaining 24% of the respondents.

From the analysis of the responses, it is found that 52% of the respondents are trading/ investing through both primary and secondary markets. 33% of the respondents are trading only through secondary market and the remaining 15% only through primary market.

It is found that 76% of the respondents have invested ₹50,000 to ₹10 lakhs and 24% have invested less-than ₹50,000 or more than ₹10 lakh (respondents are equally distributed).

Further, 67% of the respondents have invested 10 – 75% of savings in securities and 21% have invested 75% or more of their savings in securities. The remaining 12% of the respondents have invested less-than 10% of their savings in securities.

Majority of the respondents (58%) prefer life insurance policies (32%) and bank deposit schemes (26%) for their investment. Real estate, gold, government bond and co-operative societies (shares) are preferred investment avenues for 7%, 12% 9% and 14% of the respondents respectively.

77% of the respondents are investing for medium (1 – 3 years, 21%) to long term (3 years and more, 56%). And the remaining are investing for less-than one-year period.

## V. Conclusion and Suggestions

The retail investors from Shivamogga city have certain problems as can be seen other parts of the state/country. In spite of these problems, investment in capital market is slowly picking up. While knowledgeable investors have remained in the market for long, others forget it and exit. This situation has to improve. In this background, the following suggestions are offered.

It is strongly recommended that investment awareness programmes must be organized periodically in order to develop savings and investment culture among the mass.

In the light of investment by about one-third of the respondents in the shares of one company, it is suggested that they should an investment portfolio – comprising securities of more than one entity – so that the investors are able to minimum the degree of risk and maximize the return.

Keeping in mind the importance of involving larger sections of society in the capital formation process, capital market authorities should organize promotional programmes – educating the mass and clearing their doubts. Further, it is necessary to explain the benefits of investing in financial instruments.

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