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Investors' Perception on Risky Nature of Indian Secondary securities Market

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Abstract

The development and the increasing progress that is being experienced in the financial sector have brought about a lot of changes in the investment pattern of Indian Investors'. In the Financial sector, it has been in the form of investments in the secondary market, which is now replacing the traditional patterns of investment of Indian investors. The present paper is the outcome of primary study conducted with the objective of investigating customer's views regarding risky nature of Indian secondary market. A sample of 500 respondents (retail investors, brokers, sub brokers, financial analysts, mutual fund managers) was selected on the basis of non-probability convenience sampling technique from Delhi-NCR and the responses were collected through a structured questionnaire comprising open ended and Likert type of questions. The Likert type questions have a 5 point scale (indicating 1 strongly disagree to 5 strongly agree). which were analyzed with the help of suitable statistical techniques such as simple percentage, mean, standard deviation, Cross tabulation and Chi-square test, etc. It was confirmed from the results of the study that the Indian secondary market is risky with a high aggregate mean score of 3.82 of all the 500 respondents taken together though the mean score of urban respondents recorded the highest 4.42, closely followed by retailers with 4.06, next by short term investors 3.95 respectively in the statement. The chi square test analysis revealed that the relationship

between the responses of investors on the basis of age, gender and residential status of the respondents and the statement 'Investors' perception on risky nature of Indian Secondary Securities market' that there is no significant difference among the responses of respondents
Keywords: Secondary Market, SEBI, Investors, Investment Pattern, Risk

Introduction

Almost now three decades have lapsed after India accepted the globalization policy as a weapon for financial sector reforms. From restricted regime, slowly the economy moved towards open economy. Instead of control and restriction, the words management and development were used frequently. Even legal terminologies were also relaxed to some extent. By the year 1991, the number of listed companies was over six thousand which crossed eleven-thousand mark in the year 2016. The market capitalization, daily trade volumes increased by leaps and bounds during the last two decades. As the private as well as foreign investment was allowed in various sectors, it provided a huge boost to the capital markets in India. If we look at the index numbers or share prices of companies, there has been huge upswing after 1991, after inception of financial sector reforms. But when all this was happening, there were some problems and constraints being developed in the financial market in general and secondary market in particular. Besides the study of risk involved in secondary market it also highlights some problems which were evolved earlier, but they still persist in the Indian secondary market.

Insider Trading

Insider trading has become an inevitable practice in capital market in India. In the organizational structure, there are some persons who have access to price sensitive information by virtue of their position in the company. If these people use this sensitive information for their own advantage, it results in insider trading. SEBI has introduced some regulations against insider trading but still it is difficult to entirely eliminate this drawback. In the market operators, it is commonly argued that preventing insider trading is as difficult as controlling black money.

Lack of Liquidity

Even though there are more than ten thousand companies listed in Indian stock markets, the shares of only few companies are actively traded in the market. Out of the total turnover taking

place in the stock exchanges more than 50 percent of such trade is concentrated in just 10 corporate stocks. Hence investors of other companies find it difficult to perform the trade. This results into severe problem of liquidity which prevails in the Indian market. It can also be proved from the trade volumes of ‘A’ and ‘B’ Group trades in BSE. While trades in ‘A’ group companies increase in volume, trades in ‘B’ group companies decline in volume. Hence only actively traded shares have the liquidity. But overall, in nearly 90 percent of the companies there is no liquidity. It clearly shows that Indian markets are suffering from poor skewed liquidity.

Lack of Transparency

During this phase, there has been emergence of SEBI as a regulating authority in Indian Capital market. But in spite of its efforts to preserve transparency in the Indian markets, there has not been 100 % success in this respect. Many brokers are involved in unethical practices, violating regulations imposed in the market. Some of the data relating to opening, closing, high and low prices are reported, but regarding volumes of trade carried out at the highest and lowest prices, the proper information is not provided to the investors. The time taken to execute a transaction is also not reported. This may lead to price distortions and undue advantage is taken by the brokers. Due to this genuine investors find it difficult to have full and perfect knowledge about the market, leaving lack of transparency in the market.

Odd Lots

The securities listed are included in group A or group B. The other tradable securities which are not listed are called ‘odd lots.’ These securities are classified into Group C. Since these securities are not actively traded, all the transactions of odd lots leave investors into the loss. At the time of sales of odd lots, there is discount of 10-15 % while for purchase of odd lots, there is premium of 10-15 percent. In any case, the investor has to suffer the loss. This fact discourages investment in such shares and thereby limits trading activities in the market.

Volatility

During the recent past, Indian markets have experienced high volatility. Over the last twenty years, there has been huge increase in the popular indices like Sensex or Nifty. But in the meanwhile, there have been large amount of fluctuations. This volatility has two important

reasons. Firstly, the increasing influence of FIIs in the market which is permitted during this phase only. Another thing which is associated with this is that delivery-based-trading is declining while the day-trading activities are increasing. Delivery based trading is normally a genuine investment activity while day-trading is speculative in nature. As more and more trades are in the form of day-trading, it makes the market volatile. In the recent past, the banks and financial institutions, foreign institutional investors and domestic mutual funds have pumped in huge funds in the market. But whenever there are negative sentiments, all such funds are withdrawn which make the markets even more volatile and unpredictable.

Risk of Rumours

Most of the time market is driven by rumours about a particular company or overall market. Rumours may get floated in the market by websites, news agencies, and financial newspapers or even by word of mouth. It may happen that management of the company, with the help of the brokers spread the rumours in the market. This influences the investor's perception about valuation of securities. The brokers or even promoters of a company may get undue advantage out of such rumours. It is expected that the investors should keep themselves away from the rumours, they should desist from acting on rumours.

Unethical Practices

Various participants in the market viz. existing companies, new companies, entrepreneurs, brokers and other intermediaries are sometimes involved in unethical practices in various ways. Mergers and acquisitions through malpractices, entering into insider trading, rigging up of price before a new issue, spreading misinformation or rumours, promoting fake shares are some unethical practices prevailing in the market. In spite of SEBI's continuous check against such practices, total control on such activities is remote. To some extent, SEBI has been successful in controlling unethical practices, but still a lot needs to be done to control these practices.

System or Network Congestion

With the advent of NSE, screen based trading system and online trading has been possible since last two decades. But it requires use of technology and also adequate infrastructure. Communication failure, system problems may result in delay in order execution, or inability to

access the market at a point of time. Some of these problems may be temporary in nature, but still these problems affect processing of orders.

Review of literature

Rui and Gian (2006) asserted through their study that better investor protection implies better risk sharing and because of entrepreneurs' risk aversion, it results into a larger demand for capital which is known as the demand and supply effect follows from general equilibrium restrictions i.e. better protection and higher demand which increases the interest rate and lowers the income of entrepreneurs, decreasing current savings and next period's supply of capital. The supply effect is stronger the tighter are the restrictions on capital flows. The study concluded that the (positive) effect of investor protection on growth is stronger for countries with lower restrictions.

Kumar (2010) examined that an investor while operating in corporate securities has to face various types of risks associated with secondary market. An investor has to identify and manage these risks properly to maximize his returns. A clear perception of risk is necessary to have a control over them. Risk is the potential loss a portfolio is likely to suffer. As most losses proceed from ignorance, they could be avoided by understanding them properly. Risk management aims at identifying and understanding the various risks an investor has to face. Future return is an expected return and may or may not be actually realized. Risk management measures the various probabilities that may arise in a particular investment. It can show the strengths and weaknesses of an investment. The study found that to reduce the risk in the market an investor should strictly follow the Stop-Loss method.

Gordon (2011) studied that after the post reform era there has been emergence of SEBI as a regulator in the Indian capital markets. Initially, SEBI looked just like a 'Tiger without teeth'. But as the time progressed, SEBI became more and more strict and slowly, it became a strong regulator. But still, SEBI has not been successful in all respects. Especially, speculation, insider trading and inefficiency of information are the drawbacks which are still affecting the health of market.

Ravi and Mehesh Puliani (2012) have examined the word scam in the following way 'scam is the US word for fraud, swindle, probably derived from early 19th century British English Scamp' meaning 'cheater swindler.' The scam, not exhaustively is a stock market term, but it is widely used in relation to the stock market, especially after the stock market scandal in 1992 in India. The volume of the scams or relative impact of these scams may be fluctuating or sometimes it may be limited, but one cannot ignore these evils in the market as they have huge negative impact on the genuine investors in the market. Sometimes, promoters/ directors of the company may get involved in such scams or the brokers may also be involved in the some of the scams, but in any case, sufferer is the genuine investor who is an important element in the capital market.

Objectives of the study

To study the perception of retail investors, brokers, sub brokers and financial analysts towards the Risky nature of Secondary Securities Market in India.

Hypotheses of the study

There is no significant difference among the perception of respondents on the basis of their age, gender, residential status, occupation status, investment period and type of investors' on the statement 'Risky nature of Secondary Securities Market in India'.

Research Methodology

The research design of the present study is exploratory cum descriptive in nature as the researcher has to study the risk involved in secondary securities market in India.

Population and sample size

All the retail investors, the certified financial analysts, the total number of registered brokers, sub-brokers, and mutual fund managers in Indian stock exchanges across the country are considered as the population of the study. As it is not possible to collect information from all the sections of society so only Retail investors, brokers, sub-brokers, and mutual fund managers are considered as sampling unit of the proposed study. The study was carried out on a representative sample of 500 respondents (329 retail investors, 171 brokers and sub-brokers,) from Delhi NCR.

Data collection and statistical tools: the required data for the study were collected through primary and secondary sources with the help of a structured questionnaire and review of literature. The data collected were analyzed, evaluated and interpreted with the help of various statistical tools and techniques such as Cross tabulation statistical technique, Correlation, Regression, Chi Square test and other appropriate statistical techniques which will be suitable for analysis of data.

Analysis

Table
Indian Secondary Securities Market Investment is Risky.

Category of Respondents		Strongly Disagreed	Disagreed	Indifferent	Agreed	Strongly Agreed	Total	Mean Score
Age	Up to 30 yrs.	14(9.3)	12(12.1)	16(10.6)	59(39.1)	50(33.1)	151(100)	3.78
	31-50 yrs.	16(5.9)	25(9.2)	39(14.3)	98(36)	94(34.6)	272(100)	3.84
	51 &above	10(13)	3(3.9)	9(11.7)	24(31.2)	31(40.3)	77(100)	3.81
Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82
Gender	Male	26(6.5)	33(8.3)	50(12.5)	151(37.8)	139(34.8)	399(100)	3.86
	Female	14(13.9)	7(6.9)	14(13.9)	30(29.7)	36(35.6)	101(100)	3.66
Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82
Residential Status	Urban	32(7.4)	32(7.4)	53(12.2)	160(36.9)	157(36.2)	434(100)	4.42
	Rural	8(12.1)	8(12.1)	11(16.7)	21(31.8)	18(27.3)	66(100)	3.5
Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82
Investment period	Short	16(5.7)	21(7.4)	40(14.1)	88(31.1)	118(41.7)	283(100)	3.95
	Long	24(11.1)	19(8.8)	24(11.1)	93(42.9)	57(26.3)	217(100)	3.64
Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82
Occupation of Respondents	Government	11(13.8)	15(10.9)	14(10.1)	39(28.3)	51(37)	138(100)	3.63
	Private	20(7.7)	15(5.7)	37(14.2)	81(31)	108(41.4)	261(100)	3.92
	Self employed	9(9)	10(9.9)	13(12.9)	61(60.4)	16(15.8)	101(100)	3.80

Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82
Type of Investors	**Retailers**	12(3.6)	16(4.8)	40(12.1)	131(39.8)	130(39.5)	329(100)	4.06
	Brokers	28(16.3)	24(14)	24(14)	50(29.2)	45(26.3)	171(100)	3.46
Total		40(8)	40(8)	64(12.8)	181(36.2)	175(35)	500(100)	3.82

Source: Compiled from primary data **Note:** Figures in brackets show the percentages.

The responses of various types of respondents were collected on the statement 'secondary securities market investment is risky', so as to assess their opinions regarding the secondary market investment and the risk associated to it. The analytical table reveals the risk in secondary securities market investment as per the responses of various types of categories of respondents. A total of 500 respondents were studied under six different categories and responses were studied from different angles and mean score was found out for each category. Respondents under the category of age were divided into three groups- respondents 'up to 30 years' of age displayed a mean score of 3.78; out of total 151 respondents of this category, 109 strongly or simply agreed, 26 strongly or simply disagreed and 16 chose to show no response when exposed to the questionnaire; out of total 272 respondents in the age group '31-50 years' of age had the mean score of 3.84 which is the highest in the category, where 192 strongly or simply agreed, 41 strongly or simply disagreed while 39 remained indifferent. Respondents 'above 51 years' of age displayed the mean score of 3.81, with 55 strongly or simply agreed, 13 strongly or simply disagreeing and only 9 remaining without any response.

Male respondents under gender-wise category recorded a higher mean score of 3.86 in comparison to 3.66 of their females' counterparts. Out of the total males (399) studied, 34.8 per cent strongly agreed, 6.5 percent strongly disagreed, 37.80 per cent agreed moderately, 8.3 per cent disagreed and 12.5 per cent recorded no response. Out of 101 females 35.6 per cent strongly agreed, 13.9 per cent strongly disagreed, 6.9 per cent disagreed moderately, 29.7 per cent agreed moderately and 13.9 per cent showed no response.

Based on residential status respondents were studied under two sub–categories- rural and urban. The urban respondents recorded a very high mean score of 4.42 as compared to 3.5 of rural respondents. The average mean score of 434 urban respondents and 66 rural respondents was 3.82; 73.1 per cent urban respondents and 59.1 per cent rural respondents strongly or simply

agreed; 14.8 per cent urban respondents and 24.2 per cent rural respondents strongly or simply rejected the aforesaid statement; and the percentage of indifferent respondents in both the sub categories was 12.2 and 16.7 respectively.

When the respondents belonging to short-term and long-term investments were examined 283 short-term investors showed a mean score of 3.95 where as 217 long-term investors showed a mean score of 3.64 which is slightly less than short-term investors mean score; 72.8 per cent short-term investors and 69.2 per cent long-term investors supported the statement; 5.7 per cent short term investor and 11.1 per cent long-term investors strongly disagreed to the statement that the secondary securities market investment is risky while 7.4 per cent and 8.8 per cent rejected moderately the statement, 14.1 per cent short-term and 11.1 per cent long-term investors showed their indifference to the given statement; and aggregate score of both long and short-term investors was 3.82 which indicated the percentage of high risk in the secondary market. The next category of occupation of respondents was further categorized into ‘government’ ‘private’ and ‘self employed’ sub-categories. Respondents in these three categories varied in their responses and produced different mean score. Private-sector employees respondents found the secondary market more risky in comparison to government and self employed employees as they displayed a high mean score of 3.92 as compared to 3.63 and 3.80 of government sector respondents and self-employed respondents respectively; 90 government, 189 private and 77 self -employed respondents were strongly or simply in support of the statement, 26 government, 35 private and 19 self-employed respondents strongly or simply disagreed; and the percentage of indifferent respondents in each sub category was recorded as 10.1, 14.2 and 12.9 respectively.

The two kinds of investors- retailers (329) and brokers (171) exposed a combined mean score of 3.82; brokers’ mean score 3.46 was found to be quite lesser in comparison 4.06 of retailers; 261 retailers and 95 broker respondents empathetically supported the statement. The number of respondents strongly or simply disagreeing in sub category of type of investors was 28 and 52; while 40 retailers and 24 broker respondents were found to be indifferent.

It can be concluded from the analysis of the responses of respondents pertaining to the various categories that the Indian secondary securities market investment is risky with a high aggregate mean score of 3.82 of all the 500 respondents responses taken together though the mean score of

urban respondents recorded the highest 4.42, closely followed by retailers with 4.06, next by short term investors 3.95 respectively in the statement.

Hypotheses Testing

H_{01}: There is no significant difference among the perception of respondents on the basis of their age on the statement that-'Indian secondary securities market investment is risky'.

H_{02}: There is no significant difference between the perception of respondent on the basis of gender on the statement.

H_{03}: There is no significant difference between the perception of various types of respondent's on the basis of their residential status on the statement.

H_{04}: There is no significant difference between the perception of various types of respondent's on the basis of the Investment period on the statement.

H_{05}: There is no significant difference between the perception of various types of respondent's on the basis of their occupation on the statement.

H_{06}: There is no significant difference between the perception of various types of respondent's on the basis of their types i.e. retailers and brokers on the statement.

Exhibit

Category	Pearson's Value	Degrees of Freedom	Significant Value	Minimum Expected Count	Result
Age	9.14	8	0.331	6.16	Accepted
Gender	7.218	4	0.125	8.08	Accepted
Residential Status	5.817	4	0.213	5.28	Accepted
Investment Period	18.715	4	0.001	17.36	Rejected
Occupation	51.098	8	0	8.08	Rejected
Type of Investors	11.953	4	0.018	6.84	Rejected

(0 cells (0%) have expected count less than 5.)

Source: Researcher's Calculations.

The Pearson's Chi-square test was applied to check the association among various demographic categories of respondents and their perception towards the statement- 'secondary securities market investment is risky'. It was found through the exihibit that significant P- value was less than .05 at 95 per cent level of significance in case of investment period (.001), occupation (.000), and type of Investors (.018). So, null hypothesis was rejected in these three categories and alternate hypotheses accepted expressing a significant difference in perception of respondents on the basis of investment period, occupation of investors and type of investors. Further it was found that significant value was greater than .05 at 95 per cent level of significance in case of age, gender and residential status so null hypotheses is accepted. And hence, it is established that there is no significant difference among the responses of respondents on the basis of age, gender and residential status of the respondents.

Conclusion and suggestion

India being an emerging economy needs innovations and reforms in the financial market. Innovation and reforms not only add value in the existing technology and system but also lead to decrease in the cost of capital and mitigate the risk exposure of the capital market instruments. No doubt that there is a positive correlation between the finance and the economic growth of the country. Economic growth needs sound financial system which further requires the well developed financial market. So, if country wants constant economic growth it has to develop its financial market. Emerging economies like India depends heavily on the banking system for financing its capital needs. But banks which are highly protected in India hardly fulfill its funding requirements. Thus, there is the need to develop its capital market especially its secondary market which is underdeveloped because of policies constraint. Also, India has a huge market for the infrastructure which requires huge funds. The creation of deep and innovative bond market can fill this gap. Steps have been taken up to develop the equity market but there is lots to be done in case of the bond market development. Reforms need to be initiated, bottlenecks need to be removed, policies need to be changed to deepen the secondary securities market in India and to make it as competitive as the world best secondary securities markets.

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