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# A STUDY ON FINANCIAL RISK TOLERANCE AND INVESTMENT PATTERN OF THE PORTFOLIO INVESTORS IN NAMAKKAL DISTRICT

**P.Kannan[1], Dr.R.Mohanraj[2]**

*[1]Ph.D Research Scholar in Management, Research and Development Centre, Bharathiar University, Coimbatore*
*[2]Assistant Professor and Head, Department of Business Administration, Government Arts College (Autonomous), Kumbakonam*

*Email: [1]kannan5323@gmail.com, [2]rajmba_ams2012@yahoo.com*

**Abstract—***Assessing investors' financial risk tolerance represents one of several important components of the "Know your investor" compliance rules for sound investment advice, but the fact that advisors may not have appropriate means for addressing their investors' personal characteristics has not always been readily apparent to the advisors or their investors. The aim of the study is to investigate financial risk tolerance and investment pattern of the portfolio investors in Namakkal District. It is descriptive because more qualitative variables of financial risk tolerance of portfolio investors such as financial goals, risk tolerance, time horizon, and job security are involved in this research. The tool used for collecting primary data is Questionnaire. The research was conducted at stock broking firms in Namakkal district which is located at Tamil Nadu, India. A stratified random sampling method was applied for this study. There were nine thousand seven hundred and twenty-five (9,725) portfolio investors in the fifteen (15) stock broking firms in Namakkal district. Primary and Secondary data were used for this study. Multivariate Analysis of Variance is used to data analysis.*

**Key words**—*Advisors, Financial Goals, Financial Risk Tolerance, Investment Pattern, Portfolio Investors.*

## INTRODUCTION

Assessing investors' financial risk tolerance represents one of several important components of the "Know your investor" compliance rules for sound investment advice, but the fact that advisors may not have appropriate means for addressing their investors' personal characteristics has not always been readily apparent to the advisors or their investors. After all, as some advisors have said, it looks so easy: you can just ask the investors how much risk they can tolerate and they will usually give you an answer. Unfortunately for advisors as well as for investors, assessing financial risk tolerance can be deceptively simple. Financial professionals also say that, no matter how many questions they ask investors, they often find that the investors' real financial risk tolerance is different from what investors say, and that erroneous judgements are not apparent until a bear market or some other significant, negative economic event occurs.

## REVIEW OF LITERATURE

John C Groth et al (1992) analysed financial information, risk, and share value. Technology offers great opportunities to firms. Successfully bringing the benefits of technology to market and realizing favourable returns requires a careful balance and management of a host of factors. The critical test of such efforts occurs where and when technology "meets the market", resources and great efforts will only yield returns if one meets the market. Focuses on push versus pull marketing forces and their importance in technology assessment, policy, strategy, and the management of efforts to successfully exploit technology. It defines characteristics of push versus pull forces, addresses the importance of economic, social, political and technical forces, and discusses factors of importance to the marketing analyst and strategist. It provides force assessment guidelines and an evaluation and scoring worksheet to evaluate and summarize factors which will determine the success or failure of a technology-based effort. In addition, this assessment scheme is useful in a variety of other situations and environments.

Lakshman A. Alles (1995) measured the investment risk concepts and risk in asset returns. The theory of finance is built around return and risk concepts and a basic tenet of finance is that there is a trade-off between the risk and returns of

assets. As such the measurement of risk goes to the very core and foundation of the theory of finance. Given that the main theories of finance have been maturing over several decades of discussion and debate, one would imagine that a concept as fundamental as the measurement of risk would be a well settled issue by now. On the contrary, the recent finance literature shows ample evidence that risk measurement and risk concepts are drawing continued scrutiny from academic researchers. This is because there are several alternative and competing ways in which risk can be conceived of and it is not clear which of the alternative concepts is most appropriate. Each concept of risk can be measured or estimated in several ways as well. Estimation methods can be diverse in their precision. Risk measurement can be further complicated by the fact that risk is not a static feature. Risk changes over time.

Michael S. Finke et al (2003) explored the relationship between net worth and net financial assets and risk tolerance using data from the 1998 Survey of Consumer Finances. Willingness to take financial risk is associated with a significantly higher net worth for the whole sample, and for samples within age groups. Risk tolerance among those over 65 is among the strongest predictors of a higher net worth.

**NEED FOR THE STUDY**

Marketing assumes a key part inside the life insurance business and it is utilized to expand deals, manage commercial the primary point of each portfolio investors is to get the most astounding profit for his venture. While everything in the economy goes right, at that point speculations resemble ducks laying brilliant eggs, however due to globalized exhibit economy, the portfolio investors are confronting numerous issues and challenges in the ventures. The portfolio investors like swelling, buying influence of cash, fiscal arrangement, adjust of exchange and installments, inflow and surge of capital, may influence the speculators' certainty. Thus, the individual and institutional portfolio investors might be hesitant to take overcome speedy choice and there is no direction, exhortation or course to make such venture choices. The portfolio investors sink their well-deserved cash, for need of any direction, counsel or bearing.

In this circumstance, the researcher has chosen to evaluate the financial risk tolerance of portfolio investors in Namakkal District, Tamil Nadu, India. The effectiveness of financial risk tolerance must be measured quantitatively. What are the financial objectives of the portfolio investors? What are the risk tolerances of portfolio investors? Is there any time horizon? What is the connection between job security and financial risk tolerance decisions or choices? How do the investors take financial decisions?

**OBECTIVES OF THE STUDY**

To investigate financial risk tolerance and investment pattern of the portfolio investors in Namakkal District.

**SCOPE OF THE STUDY**

This research has a wide extension to gauge the effectiveness of financial risk tolerance of portfolio investors. The discoveries, and proposals made by the researcher will assist the portfolio investors with finding out their own particular efficiencies. The overall population will have a superior view on their ventures.

**LIMITATION OF THE STUDY**

Information gathered from the different portfolio investors, state of mind in regards to financial risk tolerance in this investigation, may fluctuate now and again, place to place and individual to individual. All things considered it can't be connected further in some other setting.

**RESEARCH METHODOLOGY**

It is descriptive because more qualitative variables of financial risk tolerance of portfolio investors such as financial goals, risk tolerance, time horizon, and job security are involved in this research. The tool used for collecting primary data is Questionnaire. The research was conducted at stock broking firms in Namakkal district which is located at Tamil Nadu, India. A stratified random sampling method was applied for this study. There were nine thousand seven hundred and twenty-five (9,725) portfolio investors in the fifteen (15) stock broking firms in Namakkal district. Primary and Secondary data were used for this study. Multivariate Analysis of Variance is used to data analysis.

## DATA ANALYSIS AND INTERPRETATION

### Financial Risk Tolerance and Investment Pattern of The Portfolio Investors in Namakkal District

**Hypothesis:**

$H_0$: There is no significant differences in financial risk tolerance among the investment pattern of the portfolio investors in Namakkal district.

$H_1$: There is significant differences in financial risk tolerance among the investment pattern of the portfolio investors in Namakkal district.

**TABLE 1: MULTIVARIATE TESTS OF FINANCIAL RISK TOLERANCE AND INVESTMENT PATTERN OF THE PORTFOLIO INVESTORS IN NAMAKKAL DISTRICT[a]**

| Effect | | Value | F | Hypothesis df | Error df | Sig. |
|---|---|---|---|---|---|---|
| Investment Pattern | Pillai's Trace | 0.040 | 1.124 | 20 | 2236 | 0.316 |
| | **Wilks' Lambda** | **0.961** | **1.124** | **20** | **1844** | **0.316** |
| | Hotelling's Trace | 0.041 | 1.123 | 20 | 2218 | 0.317 |
| | Roy's Largest Root | 0.022 | 2.421[c] | 5 | 559 | 0.035 |

a. Design: Intercept + Investment Pattern
b. Exact statistic
c. The statistic is an upper bound on F that yields a lower bound on the significance level.

The above table 4.47 shows four similar multivariate tests of the within subjects effect.
These are actually a form of MANOVA (Multivariate Analysis of Variance). In this case, all four tests have the same *F*s and are significant. If the sphericity assumption is violated, a multivariate test could be used, which corrects the degrees of freedom. Typically, the above table reports the Wilk's Lambda (^) line of information – which indicates significance among the four test conditions (levels).

The above table 1 presents four similar multivariate tests of the within-subjects effect (i.e., whether the five factors are rated equally). Wilk's Lambda is a commonly used multivariate test. Notice that in this case, the *F*s, *df*s, and significance levels are the same: $F$ (20, 1.124) = 0.316, $p > 0.05$. Hence, there is no difference somewhere in financial risk tolerance of portfolio investors in Namakkal district are rated. The multivariate tests can be used whether or not sphericity is violated. However, if epsilons are high, indicating that one is close to achieving sphericity, the multivariate tests may be less powerful (less likely to indicate statistical significance) than the corrected univariate repeated-measures ANOVA.

Here is the homogeneity test on the five groups of data (notice df = 20). The thing to focus on is the "Sig." value. Here 0.316 is clearly no significant. Thus, the researcher has no reason to doubt the assumption of homogeneity of variance.

Thus, it can be concluded that there is no significant difference between financial risk tolerance and investment pattern of the portfolio investors in Namakkal district since their p-value (0.316) is greater than the usual threshold value of 0.05. Hence, we accept the null hypothesis and reject the alternative hypothesis.

**TABLE 2: TESTS OF BETWEEN-SUBJECTS EFFECTS OF FINANCIAL RISK TOLERANCE AND INVESTMENT PATTERN OF THE PORTFOLIO INVESTORS IN NAMAKKAL DISTRICT**

| Source | Dependent Variable | Type III Sum of Squares | df | Mean Square | F | Sig. | Statistical Inference |
|---|---|---|---|---|---|---|---|
| Investment Pattern | Financial goals | 0.819[a] | 4 | 0.205 | 0.439 | 0.781 | Not Significant |
| | Role tolerance | 2.077[b] | 4 | 0.519 | 1.161 | 0.327 | Not Significant |
| | Time horizon | 3.007[c] | 4 | 0.752 | 1.385 | 0.238 | Not Significant |
| | Job security | 6.878[d] | 4 | 1.720 | 2.486 | 0.043 | Significant |
| | Financial decision | 1.248[e] | 4 | 0.312 | 0.886 | 0.472 | Not Significant |

a. R Squared = 0.003 (Adjusted R Squared = -0.004)

b. R Squared = 0.08 (Adjusted R Squared = 0.001)
c. R Squared = 0.010 (Adjusted R Squared = 0.003)
d. R Squared = 0.017 (Adjusted R Squared = 0.010)
e. R Squared = 0.006 (Adjusted R Squared = -0.001)

The Tests of Between-Subjects Effects table 4.2 shows that these corrections reduce the degrees of freedom by multiplying them by Epsilon.

The Within-Subjects Effects (Financial goals of the portfolio investors) is no significant, $F$ (4, 0.439) = 0.781, $p$ value > 0.05, as were the multivariate tests. This means that the ratings of the financial goals of the portfolio investors are not significantly different.

The Within-Subjects Effects (Role tolerance of the portfolio investors) is no significant, $F$ (4, 1.161) = 0.327, $p$ value > 0.05, as were the multivariate tests. This means that the ratings of the role tolerance of the portfolio investors are not significantly different.

The Within-Subjects Effects (Time horizon of the portfolio investors) is no significant, $F$ (4, 1.385) = 0.238, $p$ value > 0.05, as were the multivariate tests. This means that the ratings of the time horizon of the portfolio investors are not significantly different.

The Within-Subjects Effects (Job security of the portfolio investors) is significant, $F$ (4, 2.486) = 0.043, $p$ value < 0.05, as were the multivariate tests. This means that the ratings of the job security of the portfolio investors are significantly different.

The Within-Subjects Effects (Financial decision of the portfolio investors) is no significant, $F$ (4, 0.886) = 0.472, $p$ value > 0.05, as were the multivariate tests. This means that the ratings of the financial decision of the portfolio investors are not significantly different.

Hence, it can be concluded that there is no significant difference between Financial Risk Tolerance (Financial goals, Role tolerance, Time horizon, Financial decision) and investment pattern of the portfolio investors in Namakkal district since their p-values (0.781, 0.327, 0.238, and 0.472) are greater than the usual threshold value of 0.05. Therefore, we accept the null hypothesis and reject the alternative hypothesis.

Also, there is significant difference between Financial Risk Tolerance (Job Security) and investment pattern of the portfolio investors in Namakkal district since their p-value (0.043) is less than the usual threshold value of 0.05. Therefore, we reject the null hypothesis and accept the alternative hypothesis.

## CONCLUSION

In any case, financial specialists who have appropriate information and eagerness to go out on a limb up to some degree are putting resources into Equity market. Bank's loan cost is additionally diminishing since most recent couple of years in this way, financial specialists move towards different choices like mutual fund, security, equity market and others like land, gold, building and so on. In this way, last conclusion on part is that portfolio investors of Namakkal locale are contributing their cash with the adjust of security, reliability and degree of profitability.

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