

A study on Investor Preference for various Stocks and Investment Strategy during different Market Trends

Dr.Kafeel ahmed

Assistant Professor School of Management Studies BGSB University (India)

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Corresponding Author

Email: kafeel[at]bgsbu.ac.in

ABSTRACT

Investors are having different preference and demand for various industries and stocks. As there is well notion about Indian investors that they move along with trends as they buy when market is at peak and sell when market is at recession. The researcher has tried to find out the investor investment preference for different companies and stocks in order to know if the notion hold good for Indian investors or it does not hold good for Indian investors. From the literature already available it is clearly supported that investor preference and demand changes with the trends and buy or acquire the marketable securities when their confidence is high. Therefore, most of the investor based their decision on sentiments rather than fundamental or technical analysis. The present study is conducted to find out investor preference during different market trends.

1. Introduction

For scientific investment, it is necessary that investment process of investor follow series of steps for successful investment. First investor has to specify his objectives and constraints. Investment objectives are desired outcome that a investor want to satisfy while making investment. Investment objective can be capital appreciation or capital preservation. In capital appreciation investor want to increase the value of an asset over a period of time .There are two ways through which capital appreciation will take place one through cash inflows and secondly increase in real value of an asset over a period. Whereas if the goal of investor or money manager is capital preservation, his aim is to just maintain the nominal value of investment that accounts for inflation etc .Mostly investor looking for capital appreciation have to take more risk or have to invest in risky asset as compared to that of those who want to maintain the nominal value of investment.

Constraints are the limitation that prevents investor from taking benefit from the particular security, asset or a market trends. Constraints can be investor related or internal, it can be external also Some of them are

1. Liquidity. Sometime it can act as constraint as most of the investor want to keep some amount in form of cash so that they cannot face any inconvenience like to sell a profitable investment at inappropriate time.
2. Tax concern. .Some of the stocks are undervalued and if acquired can give superior returns but due to tax concern investor ask for tax shelter securities.
3. Unique circumstances. Preference of investor not to acquire those securities of companies those are manufacturing toxic material, entertainment etc
4. Time horizon .Stock market is long-term investment but some of the participant cannot wait for a long period, as they require cash at regular interval to meet their day-to-day expenses.
5. Age. Mostly investor in middle age group save more .but those in old age group in spite of favorable

opportunity cannot, as their age does not permit to take risk.

After identifying their objective and constraints, the next step will be to note down all this in written form or black and white. IPS is the written document that contain details about investor like age, qualification, income, no. of depended, IPS is a governing document and act as report card both for investor and money manager. It is blueprint in which investors specify the type of risk they are willing to take to get returns, and similarly what type of need they want to fulfill from returns generated. IPS acts as governing document for all parties.

The next step will be to study capital market in short run and long run. The capital market in short run demand something different as in long run. Capital market expectation can be studied in align with investor related factors. Based on capital market expectation regarding risk and return between various class of assets investment strategy will be selected. Investment strategy can be active as well as passive. Active strategy is mostly followed by investor who wants to derive above average superior return as they believe that there are no. of asset, which are undervalued, and if investor does a good job in identifying those undervalued securities he can generate returns more than market returns. In case of active strategy cost of trading should be taken into consideration as it involve transaction cost. Active mean to react or in other words it is called as pick and choose strategy. Here only those securities from index are selected that are considered as undervalued .Active trader investment is exposed to more risk and hence expected to generate returns more than market or index. Active strategies are suitable, pursued for those investors who risk tolerance is higher, or have more wealth. Passive strategy mean not reacting or strategy where purpose is to track or replicate the index like Sensex or nifty. Here the objective is not to generate returns more than index or market but to move along the market. The securities are purchased from the index in the same proportion based on market capitalization or day weight .Passive strategy is suitable for

those investors who have moderate risk tolerance score and want to maintain the nominal value of the investment.

Some of the methods of passive investing are indexing, sampling; quadratic optimization and completeness fund. The next step in investment process is to decide the optimum asset allocation. Asset allocation is the distribution of total wealth among various asset classes. Based on IPS and capital market expectation choices about various assets to be acquired in right mix containing different characteristics is to be made. While creating portfolio for investor it should be kept in mind that securities included reflect investor preferences. An asset or portfolio of investor is said to be efficient if no other asset or portfolio of asset is available with same risk that can give higher returns. Asset or portfolio will be efficient if it has either higher return for same risk or lower risk for given level of return.

2. Review of literature.

Report by the I.E547 (The Investigation Enforcement and Surveillance) Department of the SEBI (2000) pointed out that inspite of some instance of high volatility, the Indian capital market more or less remains safe and stable. However Indian market is witnessing the downturn and volatility, but this downturn is because of fall in the markets of other developed nations across the globe. Moreover, fall in major indices is due to rise in price of crude oil in global market, pressure on India rupee. The results further indicate that a regulatory body like SEBI is playing a pivotal role in maintaining the reasonable stability in the capital markets.

Gere1a.S.T. and Balsara.K.A.3' (2001) to find out the characteristics of Bombay stock exchange. The report reveals that Bombay stock exchange has strengthened the risk management or uncertainty associated with the trading system. The introduction of screen based online trading system facilitated with BOLTS expansion in all major cities of the country results in significant increase in liquidity and volume at these exchanges. Similarly, risk management function at BSE has attained greater significance in order to maintain market integrity and making transactions fair and transparent. Similarly, all trading members are required to maintain minimum capital with the exchange; exchange collects from the members a daily margin etc to minimize the risk.

Melwyn Reo (2001) analyzed the various risk to which Indian companies are exposed and procedure to deal with these risks. He explained that primary risks are hedge risks

arising from commodity price movements. Moreover, the general risk component is dependent on business and financial risks. The company exposed to lower business risk may feel more comfortable than the one with more business risk and financial risk. Ultimately, the company may decide about percentage of capital base or expected earnings to know the total risks.

3. Objective of the Study

1. To study the investor preference for investment in volatile market.
2. To study the investment pattern during different trends.
3. To find out strategy for investment in volatile market.

4. Research Methodology

Methodology has been followed based on the objectives and the concerned hypotheses.

Study area

The study carried out in Jammu region of Jammu and Kashmir State. The information shall be collected from individual investors who have invested in share/Stock market through brokerage houses/companies /counters located in the study area.

Sample unit.

There are many brokerage houses operating in the study area. Out of the total top five namely India Bulls Securities, Share Khan Ltd, Angel Broking Ltd, Kotak Securities, and HDFC Securities, selected for the present study. Sample size is 380.

Data Collection

The proposed based on both the primary and secondary data. Primary collected through detailed questionnaire, which will be presented to investors who have made investment in shares/stocks. Secondary collected from different sources like websites, newspapers, magazines, research journals, reports, monograms, proceedings of seminars, conferences and published and unpublished works of Government and Non-Governmental Organizations. All the information /data collected through different sources shall be analyzed by using appropriate statistical tools and techniques to achieve the desired output.

Preferred sectors for investors during different market trends.

S.No 1	Banking as Preferred Sector In Investor Portfolio	Frequency	Percent
1	Peak	313	82.4
2	Recession	67	17.6
	Total	380	100.0
S.No 2	Auto as Preferred Sector in Investor Portfolio	Frequency	Percent
1	Peak	253	66.6
2	Recession	127	33.4
	Total	380	100.0
S.No 3	Telecom as Preferred Sector in Investor Portfolio	Frequency	Percent

1	Peak	225	59.2
2	Recession	155	40.8
	Total	380	100.0
S.No 4	Pharma/Fmcg as Preferred Sectors in Investor Portfolio	Frequency	Percent
1	Peak	108	28.4
2	Recession	272	71.6
	Total	380	100.0

From the above it is observed that investors prefer different sectors during different market conditions or phases as their preference for different sectors get affected by different phases of business cycles, which clearly shows that investors believe that different industries belonging to different sectors will perform differently. As we have already seen from earlier tables that that majority of the investors buy when the market is bullish and sell when market is bearish. Now in order to find out investor preference when the market is at peak and investors preferences when the market is at recession. From the above table it is observed that investors prefer banking as the most preferred sector at the time of peak for the investors followed by auto followed by telecom and least preferred sector when

market is at the peak is Pharma/FMCG. Similarly, the most preferred sector when the market is at recession is Pharma/FMCG, followed by telecom and auto whereas least preferred sector is Banking at the time of recession. Hence it can be concluded that investors believe that in order to generate above average or superior returns the best sector when the market is doing well are banking, auto and telecom and when market conditions are not good the best sectors to derive above average returns are Pharma and FMCG as these sector are least affected by market trends as their sales, earning and profitability remain same irrespective of the market conditions.

Investor follows different strategy during different market trends.

S.No	Investor Follow Active Strategy to Create Their Portfolio at the Time of Peak	Frequency	Percent
1	Yes	273	71.8
2	No	107	28.2
	Total	380	100.0
S.No	Investor follow Active Strategy to Create their Portfolio at the Time of Recession	Frequency	Percent
1	Yes	108	28.4
2	No	272	71.6
	Total	380	100.0
S.No	Investor follow Passive Strategy While Creating Portfolio at the Time of Peak	Frequency	Percent
1	Yes	115	30.3
2	No	265	69.7
	Total	380	100.0
S.No	Investor follow Passive Strategy While Creating Portfolio at the Time of Recession	Frequency	Percent
1	Yes	219	57.6
2	No	161	42.4
	Total	380	100.0

From the above data available in Table, 4.3.12 shows that investors follow different investment strategy during different phases of the market conditions. As already concluded, those majorities of the investors prefers banking, auto, and telecom when market is bullish and prefer Pharma and FMCG when market is bearish. Now to select the companies out of the these sectors investors follow active strategy when market is

bullish or approaches peak and follow passive strategy when market is bearish or when it approaches recession. In Active strategy investors follow pick and choose strategy or in other words, select some companies while drop some others. In passive strategy investor, main objective is to derive average or risk adjusted returns and hence purchase all the securities available in a particular index.

Investor asset allocation strategy during different market trend.

S.No	Decrease in Equity at the Time of	Frequency	Percent
1	Peak	242	63.7
2	Recession	138	36.3
	Total	380	100.0
S.No	Increase in Debt at the Time of	Frequency	Percent

1	Peak	100	26.3
2	Recession	280	73.7
	Total	380	100.0
S.No	Complete Disposal of Equity at the Time of	Frequency	Percent
1	Peak	140	36.8
2	Recession	240	63.2
	Total	380	100.0
S.No	No Change at the Time of	Frequency	Percent
1	Peak	234	61.6
2	Recession	146	38.4
	Total	380	100.0

The last response with regard to investor decision-making at different market trends is asset allocation. Asset allocation is the distribution of total wealth among various asset classes. It is seen that investor asset allocation does not remain same during different market trends or various market movements

affect it. Majority of the investor at the time of peak increase their proportion of total wealth in debt while decrease the equity percentage. Similarly, majority of the investors at the time of recession increases their asset allocation in debt at the time of recession.

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