

Risk Appetite of Youngsters: A Study with Special Reference to Investment Risk

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Abstract

Risk plays a pivotal role in influencing investment decisions, with many individuals preferring to avoid it altogether in favor of safer options, aiming for a comfortable life. However, it's commonly understood that higher risk can potentially lead to higher returns. Thus, this study aims to investigate the risk appetite of young adults aged 18-29 to ascertain their willingness to embrace risk in investment decisions. The research employs primary data collected through questionnaires from a sample of three hundred respondents. Analysis of the collected data utilizes descriptive statistics and chi-square analysis techniques.

Key words: Risk, Return, Investment, Savings

Introduction

India is an emerging economy where the role of savings and investments is crucial for the nation's development. Historically, India has been known as a 'saving economy', with individuals planning their future expenditures based on available funds, whether from income or savings.

Investment is often viewed as a means of generating returns on money, with savings serving as the initial step. Savings involve placing money into low-risk products such as banks or the Post Office, while investing entails deploying funds with the aim of earning returns despite higher associated risks. Selecting the most suitable investment avenues is paramount, as savings and investments are integral aspects of individuals' financial lives.

A fundamental characteristic of investments is their requirement for a waiting period before yielding rewards. In the current landscape, there exists a plethora of investment opportunities, each with varying levels of risk and potential returns. Investors' choices of investment avenues vary based on their risk tolerance, resulting in three main types: conservative, moderate, and aggressive investors.

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Statement of the Problem

Investing in different avenues yields returns based on market demand and supply dynamics, with each avenue carrying its own level of risk. Presently, many individuals face financial challenges in their later years due to insufficient savings, highlighting the importance of investments for securing one's future needs. Fortunately, there are numerous investment alternatives available, allowing people to select options that suit their circumstances.

Encouraging young individuals to start investing early can greatly benefit them in their later years, enabling them to achieve financial independence and lead a peaceful life without relying on others. However, many people lack awareness about the various investment avenues accessible to them. Generally, older individuals prefer low-risk alternatives, while younger ones may be more inclined to take on risk.

To gauge the risk appetite of young investors and their willingness to embrace risk, the current study has been undertaken.

Review of Literature

Kaur and Jindal (2019) conducted a study on the investment behavior of individuals towards mutual funds. They observed a rising trend in mutual fund investments among the populace, although a minority remained unaware of its benefits. To encourage greater participation, they recommended public education initiatives through advertising and publicity campaigns.

Rajesh and Daga (2019) investigated the factors influencing students' investment behavior. Their research revealed significant correlations and causal relationships between dependent variables such as financial literacy and self-efficacy. They advised students to initiate building their financial portfolios using their savings.

Ajeesh (2019) explored the saving and spending habits of youth, noting that expenditures exceeded savings, particularly on entertainment. Bank deposits emerged as the top investment choice. The paper highlighted the need for heightened awareness about capital market investments among the youth.

Pandey and Vishwakarma (2020) examined the investment preferences of young investors, noting a preference for avenues like mutual funds and the equity market to maximize capital. They observed a readiness among the younger generation to take high risks for potentially higher returns, shifting away from traditional investment avenues.

Dhawan and Mehta (2019) analyzed savings and investment patterns, identifying a significant relationship between savings and income. They recommended conducting financial literacy workshops and seminars at educational institutions to foster financial responsibility among students.

Ajay and Shabu (2020) reported on investment behavior among youth, highlighting a desire for capital growth while prioritizing safety and rate of return over high risk. They suggested increasing awareness about various investment avenues and their financial benefits.

Kumawat and Parkar (2020) investigated investment patterns and influencing factors, noting positive correlations between income and mutual fund investments, income and equity share investments, and negative correlations between age and equity share investments. They proposed educational initiatives to enhance understanding of modern investments and attract more investors.

Tyagi et al. (2021) underscored the investment preferences of youth, indicating a penchant for bank deposits and mutual funds. They observed an increase in financial literacy among the populace, leading to greater awareness of various investment opportunities.

Objectives of the Study

The main objectives of the present study are:

- To examine the risk appetite of youngsters.
- To identify the relationship between the Socio-economic characteristics of the youngsters and their Risk - appetite level.

Sampling design and Research Methodology

The present study is undertaken in Erode district. For this study, primary data have been used. The primary data is collected with a well-structured questionnaire from youngsters who are in the age group of 18- 29 years. The data related to total population of the present study is not available. Hence, it has been decided to use Non-random Convenience sampling method. The sample size of the present study is 300 respondents.

Hypothesis

H_0 : There is no significance difference between the independent variables (gender, level of education, occupation, marital status, number of family members, nature of family and number of earning members) of the sample investors and their risk appetite.

Analysis and Findings

This study deals with analysis of risk appetite of youngsters by using descriptive analysis and chi-square test. In chi- square test, the socio-economic characteristics of the respondents and the nine statements relating to Risk appetite have been compared to know their risk-taking capacity.

Descriptive Analysis

Particulars	Agree	Neutral	Disagree
Investment decision while receiving an additional benefit	197 (66)	54(18)	49(16)
Risk and Return	172 (57)	78 (26)	50 (17)
Attitude and cautiousness	109 (36)	133 (44)	58 (19)
Decisions during risky time	107 (36)	108 (36)	85 (28)
Preference of safe investment	143 (48)	96 (32)	61 (20)
Investment in venture companies	108 (36)	102 (34)	90 (30)
Taking high risk in order to earn money	107 (36)	100 (33)	93 (31)
Knowledge in capital market	102 (34)	108 (36)	90 (30)
Taking high risk for leading a comfortable life	114 (38)	95 (32)	91 (30)

Regarding decisions, a significant portion of respondents (66%) agree with the statement regarding receiving additional benefits. 57% of respondents agree with the risk and return statement, while 36% agree with statements regarding attitude and cautiousness, decisions during risky times, preference for safe investment, investment in venture companies, taking high risks to earn money, knowledge in the capital market, and taking high risks for a comfortable life.

A portion of respondents opted for a neutral stance across various statements: 18% for investment decisions while receiving additional benefits, 26% for the risk and return statement, 44% for attitude and cautiousness, 36% for decisions during risky times, 32% for preference for safe investment, 34% for investment in venture companies, 33% for taking high risks to earn money, 36% for knowledge in the capital market, and 32% for taking high risks for a comfortable life.

On the other hand, there were respondents who disagreed with the aforementioned statements: 16% disagreed with investment decisions while receiving additional benefits, 17% disagreed with the risk and return statement, 19% disagreed with attitude and cautiousness, 28% disagreed with decisions during risky times, 20% disagreed with preference for safe investment, 30% disagreed with investment in venture companies, 31% disagreed with taking high risks to earn money, 30% disagreed with knowledge in the capital market, and 30% disagreed with taking high risks for a comfortable life.

Chi-Square Analysis

Overall Distribution of Sample Respondents Based on their Risk Appetite

The following table disclose the distribution of sample respondents' investment decision on the basis of their risk appetite level.

Overall Distribution of Sample Respondents Based on Risk Appetite

Risk appetite	Frequency	Percentage
Low (up to 27)	244	81.3
High (Above 27)	56	18.7
Total	300	100

The table indicates that 81.3 per cent of the sample respondents are having low risk appetite and 18.7 per cent of the sample respondents are having high risk appetite. Hence, it is concluded that most of the sample respondents are having low risk appetite.

Overall Findings and Interpretation (Chi - Square Test)

Characteristics	Degree freedom	Calculated value	Table of value	Significant/ Insignificant
Gender	1	0.615	3.814	Insignificant
Educational qualification	1	0.561	3.814	Insignificant
Occupation	2	0.338	5.991	Insignificant
Marital status	1	4.102	3.814	Significant
Number of family members	1	4.997	3.814	Significant
Nature of family	1	0.599	3.814	Insignificant
Earning members	1	4.225	3.814	Significant
Annual income	2	10.617	5.991	Significant
Saving objective	5	11.388	11.070	Significant

The above table explains that based on chi square test, the demographic variables such as Gender, Educational qualification, Occupation, Nature of family have insignificant relationship with the risk appetite level, then the proposed null hypothesis is accepted. Whereas, Marital status, Number of

family members, Earning members, Annual income, Saving objective are having significant relationship with risk appetite level, then the proposed null hypothesis is rejected at 5% level of significance.

Suggestions

- The majority of the respondents exhibit a cautious attitude, gravitating towards safer investment avenues rather than venturing into potentially high-growth opportunities such as venture companies. It is recommended that both venture companies and the government take proactive measures to raise awareness about this investment option among the public.
- A significant proportion of the respondents (66%) demonstrated a lack of familiarity with capital market investments. Therefore, it is advised that the Securities and Exchange Board of India (SEBI) organizes additional awareness programs on capital market investment. SEBI should also advise investors to conduct fundamental and technical analyses before committing to investments.
- It was observed that 81% of the respondents have a low risk appetite. Consequently, investors are encouraged to diversify their investments across various alternative forms to potentially achieve moderate returns and mitigate losses. Diversification allows for potential gains in one avenue to offset losses in another, underscoring the importance of analyzing multiple alternatives before making investment decisions.

Conclusion

In the current landscape, investment plays a pivotal role in the advancement of our nation. Various investment avenues present both opportunities and challenges, each carrying its own level of risk.

Despite the inherent risks associated with all investment avenues, investors must carefully assess which options align with their investment goals. Typically, avenues with higher risks have the potential for greater profits, while those with lower risks may yield more modest returns.

This study focuses on examining the risk appetite of young individuals. Based on the study's findings, pertinent and practical recommendations are provided to investors, the government, venture companies, and regulatory bodies like SEBI. If these suggestions are earnestly considered, stakeholders can potentially achieve profitable outcomes by embracing calculated risks, ultimately contributing to the overall progress and development of the nation.

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