

INDIAN HOUSEHOLD INVESTORS SURVEY

**The Changing Market Environment
Investors' Preferences
Problems
Policy Issues**

Sponsored by:
**Investor Education & Protection Fund
Ministry of Company Affairs
Government of India**

Conducted by:
Society for Capital Market Research & Development

June 2005

CONTENTS

1. INTRODUCTION

Objective
Methodology and sampling
Two-stage questionnaire
Household as the economic unit
Sampling procedure
Sample size and characteristics
Chapter scheme

2. THE HOUSEHOLD INVESTORS' MAIN WORRIES ABOUT STOCK MARKET

Introduction

Collapse of capital raising function
Recent bull market
Probing the retail investors' mind

An Over-view of the Findings

Price Manipulation and Volatility

Market's erratic behaviour
Effect on genuine investors
Wide intra-day movements
Delivery-based trading

Concluding Comments

Wake-up call for Indian authorities
What the economists say

3. INVESTORS' PERCEPTIONS ABOUT CORPORATE GOVERNANCE

Why important
Key questions
Indian situation in international perspective

Complexity of Indian situation
Biggest corporate - governance challenge
Institutional shareholders council

4. DELISTED COMPANIES

Violation of listing rules
Estimate of affected retail investors
Need for further research
Legal changes needed

5. INDIAN MUTUAL FUND INDUSTRY AND THE RETAIL INVESTOR

Introduction

Mutual funds as product innovation
Layout of the chapter

Empirical Evidence on Retail

Investors' Preferences

Multi-dimensional analysis
Investment types owned by households
Future intentions
Households' past experience of investment types
Investment game

The Changing Structure of Indian MF Industry

US-64 crisis and after

The residual UTI

Conclusions : A Critique of Mutual Funds

A contradiction
Investors' unhappy experiences
Managerial incompetence,
malpractices and herd behaviour
Unfamiliarity factor
What should be done?
The maturing of retail investors
How retail investors "beat" the mutual funds

**6. SHARE PORTFOLIO PRACTICES
OF RETAIL INVESTORS**

New light on share portfolio
diversification practices
Diversification and “market risk”
Typical diversification
Effect of investor’s income and age
Amount invested in portfolio companies
Advantages of narrow diversification
Market “risk” turned into
market opportunity”
Diversification of demat shareholding
Length of shareholding period
Indian middle-class dominantly
long-term investors

**7. THE CHANGING PATTERN OF HOUSEHOLDS’
INVESTMENT PREFERENCES**

Introduction

General
Historical perspective

*Empirical Data on Households’
Investment Preferences*

Market penetration of investment types
Investment game to identify preferences
Remarkable closeness
Future intention
Effect of fall in interest rates on
attitude towards equity shares
Effect of holding period on risk and return

The Maturing of India’s Retail Investor Population
Shareowners’ age qua shareowners

Effect of income and age
Impact on share diversification
Emergence of discerning retail investors
How maturity has made a difference
Appendix to Chapter 7

**8. SMALL INVESTORS' PROBLEMS
WITH DEMAT SYSTEM**

Small long-term investors bear the brunt
The original purpose
Problem recognized but action awaited
How the depository system works
How competition is obstructed
Most retail investors remain
 outside the demat system
Demat in the context of investors' strategies
Retail investors' specific complaints
Concluding comments

9. INVESTOR EDUCATION

The need
Implications of socio-economic changes
Delivery mechanism and method
Investor education: U.S. practices
Importance of starting early
Evolving a systematic training
 methodology
Investment games as training tools
Behaviour of returns from share investment
Emphasize the key factors
Investors' suggestions
Topics for education programmes
Annexure to Chapter 9

10. WRAP-UP OF STUDY