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A STUDY ON PERCEPTION OF INVESTORS ON RISK MANAGEMENT

SINCHANA SHETTY R[1] , PROF. JEEVITHA R[2]

PES COLLEGE

ABSTRACT :

This research on investors' perceptions of risk management An important factor in investing decision-making is risk management, which affects investors' actions and preferences.

In order to shed light on investors' attitudes, convictions, and behaviors, this in-depth research explores how they view risk management techniques in controlling the risks associated with investments. This study uses a mixed-method approach to investigate the different factors that affect investors' perceptions of risk management.

It includes both qualitative and quantitative analyses. Surveys, interviews, and data analysis from a variety of sources, including financial institutions, investment firms, and individual investors, are all part of the research methodology.

A sample of investors from various demographic backgrounds is given structured surveys to complete in order to collect quantitative data, and in-depth interviews with experienced investors and financial experts.

INTRODUCTION :

In the ever-changing world of financial markets, risk management is essential for investors looking to maximize profits and protect their capital. Investors have different perceptions of risk due to a variety of factors, including personal traits, market conditions, and outside events. Regulators, financial institutions, and market participants all need to understand how investors view and manage risk. The purpose of this research paper is to explore the complex field of investor psychology and behavior with regard to risk management. Through an analysis of multiple factors including risk perception, risk tolerance, decision-making procedures, and risk mitigation tactics, this research aims to shed light on the intricacies of investor behavior concerning risk management.

This research is important because it can help us better understand how investors behave and help develop risk management strategies that work. By figuring out what influences investors' perceptions of risk and what they do as a result, policymakers and financial institutions can better customize their approaches to risk management, which will ultimately lead to a more robust and efficient financial system. To accomplish these goals, this paper will take a multidisciplinary approach, incorporating knowledge from behavioral finance, psychology, economics, and risk management literature. By combining theories and empirical data from these various fields, this research promises to provide a thorough analysis of investors' perceptions of risk management.

RESEARCH OBJECTIVES

- To analyse Risk attitude of investors reliance with external risk factors
- Assess the relationship between risk perception and efficiency of management tools and investment decisions.

NEED FOR THE STUDY

The purpose of this study is to better understand how investors perceive risk management. The findings have implications for improving risk management procedures, guiding investment choices, fostering market stability, and adjusting to new developments in the financial markets.

All things considered, a thorough grasp of how investors view risk management has profound effects on regulatory compliance, investor education, risk mitigation, investor trust, and innovation in the financial markets. This study can improve the general robustness, stability, and effectiveness of financial systems globally by addressing these needs.

DATA ANALYSIS AND PROCESSING

Understanding how investors perceive and manage risk requires an understanding of data analysis. Researchers find similarities in investor behavior and risk perception by going through massive databases. Better risk management plans that are suited to the requirements of investors are made possible by this knowledge. It also offers direction to financial institutions and decision-makers so they can make well-informed choices that will improve market stability. To put it simply, data analysis makes it easier to comprehend how investors see risk and enhances risk management procedures.

1. AGE OF THE INVESTORS

The figures shown in Table 5.1 show a clear pattern: 73.33% of investors are between the ages of 19 and 25. The age group of 25 to 35 accounts for a smaller but equally significant portion, 14.2%. As investors get older, their percentage drops. Only 7.6% of investors are between 35 and 45 years old, and 4.76% are between 45 and 55 years old. This implies that interest in investing declines with age and that younger people have a strong inclination to invest. Consequently, it emphasizes how important it is for investment strategies and marketing campaigns to target and engage younger consumers.

TABLE NO. 5.1 AGE OF THE INVESTORS

AGE	RESPONSES	IN PERCENTAGE
19-25	77	73.33%
25-35	15	14.2%
35-45	8	7.6%
45-55	5	4.76%
TOTAL	105	100

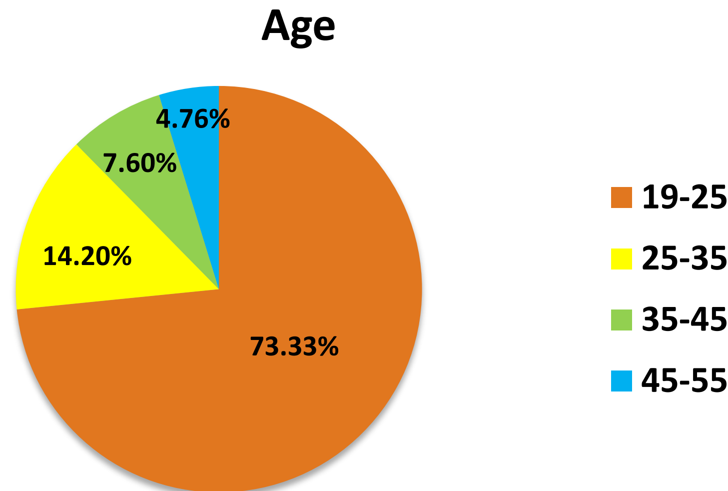


FIG. NO. 5.1 PERCENTAGE OF AGE OF THE INVESTORS

ANALYSIS :

A distinct pattern emerges from Table 5.1's data: 73.33% of investors are between the ages of 19 and 25. 14.2%, a smaller but no less substantial part, is in the 25 to 35 age group. The proportion of investors declines with age; just 7.6% of investors are between the ages of 35 and 45, and 4.76% are between the ages of 45 and 55. This suggests that younger people have a significant propensity to invest, with interest decreasing with age. As a result, it highlights the need for investment plans and advertising efforts to focus on and interact with the younger population.

2. RISK TOLERANCE LEVEL

This table presents the different risk tolerances of investors: sixty-nine percent of respondents have a moderate risk tolerance, seventeen percent have a high risk tolerance, only 4.76% have a very low risk tolerance, compared to a lower percentage of 15.23% who have a poor risk tolerance, and less than 1% have a very high risk tolerance. These data indicate that most investors are willing to accept some level of risk in search of investment opportunities, as demonstrated by the fact that they fall into the moderate to high risk tolerance category.

Level	RESPONSES	IN PERCENTAGE
VERY LOW	5	4.76%
LOW	16	15.23
MODERATE	65	61.90%
HIGH	18	17.14%
VERY HIGH	1	0.9%
TOTAL	105	100

Table 5.2 RISK TOLERANCE LEVEL

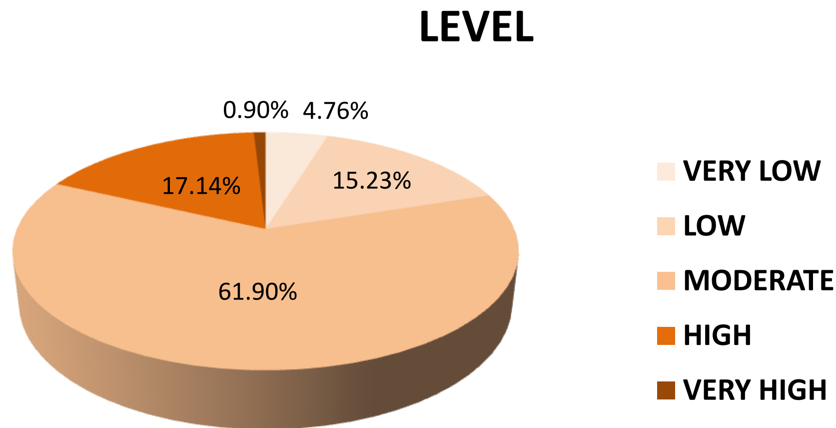


FIG. NO. 5.2 RISK TOLERANCE LEVEL

ANALYSIS :

The information in this table shows the various risk tolerances of investors. Sixty-nine percent of respondents have a moderate risk tolerance, while seventeen percent have a high risk tolerance. Only 4.76% of people have a very low risk tolerance, compared to a lower percentage of 15.23% who have a poor risk tolerance. Furthermore, less than 1% have a very high tolerance for risk. This suggests that most investors are willing to take a certain amount of risk in search of investing opportunities, as evidenced by the fact that they fall into the moderate to high risk tolerance category. Developing investing strategies that suit investors' goals and preferences requires an understanding of their risk tolerance levels.

3. RISK MANAGEMENT TECHNIQUE RELIED ON MOST

Which risk management techniques investors most commonly use are displayed in Table 5.3. Of the respondents, 48.57% rely on diversification, making it the most preferred option. Option hedging, used by 30.47% of investors, is just behind. Stop-loss orders account for a smaller but noteworthy portion of the total, at 15.23%. Portfolio diversity is the least trusted option, with only 5.71% of respondents selecting it. This data illustrates how investors generally recognize and employ diversification as an essential risk management strategy. It also highlights the use of other risk-reduction techniques, like stop-loss orders and option hedging. It is necessary to comprehend investors' preferred risk management techniques in order to develop successful investing strategies that align with their objectives and risk tolerance.

TECHNIQUES	RESPONSES	IN PERCENTAGE
DIVERSIFICATION	51	48.57%
STOP LOSS ORDER	16	15.23%
OPTION HEDGING	32	30.47%

PORTFOLIO DIVERSIFICATION	6	5.71%
TOTAL	105	100

TABLE NO. 5.3 RISK MANAGEMENT TECHNIQUE RELIED ON MOST

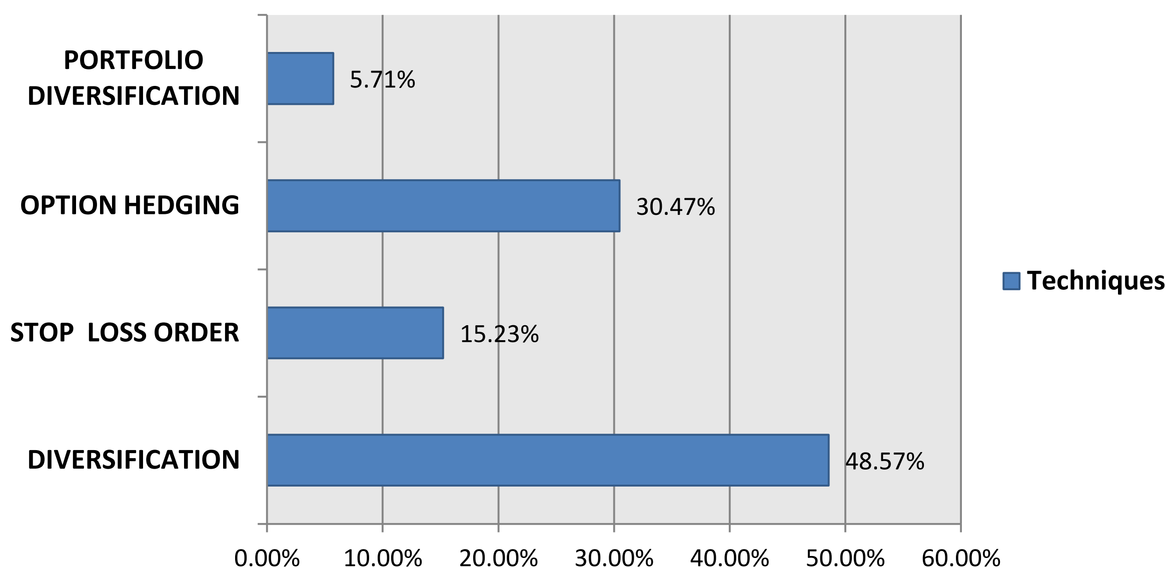


FIG. NO. 5.3 RISK MANAGEMENT TECHNIQUE RELIED ON MOST

ANALYSIS :

The information in Table 5.3 shows which risk management strategies investors most frequently rely on. As the most popular option, diversification is relied upon by 48.57% of respondents. Just behind is option hedging, which is employed by 30.47% of investors. At 15.23%, stop-loss orders make up a smaller but significant share of the total. The least trusted strategy is portfolio diversity, as only 5.71% of respondents chose it. This information demonstrates how diversification is widely acknowledged and used by investors as a crucial risk management tactic. It also emphasizes the use of alternate strategies to reduce investing risks, such as option hedging and stop-loss orders. Creating successful investing strategies that complement investors' goals and risk tolerance requires an understanding of their preferred risk management approaches.

4. EXTERNAL FACTORS THAT ACTS AS A THREAT TO YOUR INVESTMENTS

The external factors that respondents thought could endanger their possessions. The economic downturn has been seen as the biggest threat, with 30.47% of respondents expressing anxiety about it. Inflation comes next, as reported by 27.61% of respondents, who felt it posed a risk to their investments. Twenty percent of respondents viewed the global pandemic as a threat, which is another major concern. Political instability was mentioned by 15.23% of respondents as a less significant but still significant concern. Just 6.66% of respondents said they were most concerned about the market's volatility.

FACTORS	RESPONSES	IN PERCENTAGE
ECONOMIC RECESSION	32	30.47%
POLITICAL INSTABILITY	16	15.23%
GLOBAL PANDEMIC	21	20%
INFLATION	29	27.61%

VOLATILITY IN THE MARKET	7	6.66%
TOTAL	105	100

TABLE NO. 5.4 EXTERNAL FACTORS THAT ACTS AS A THREAT TO YOUR INVESTMENTS

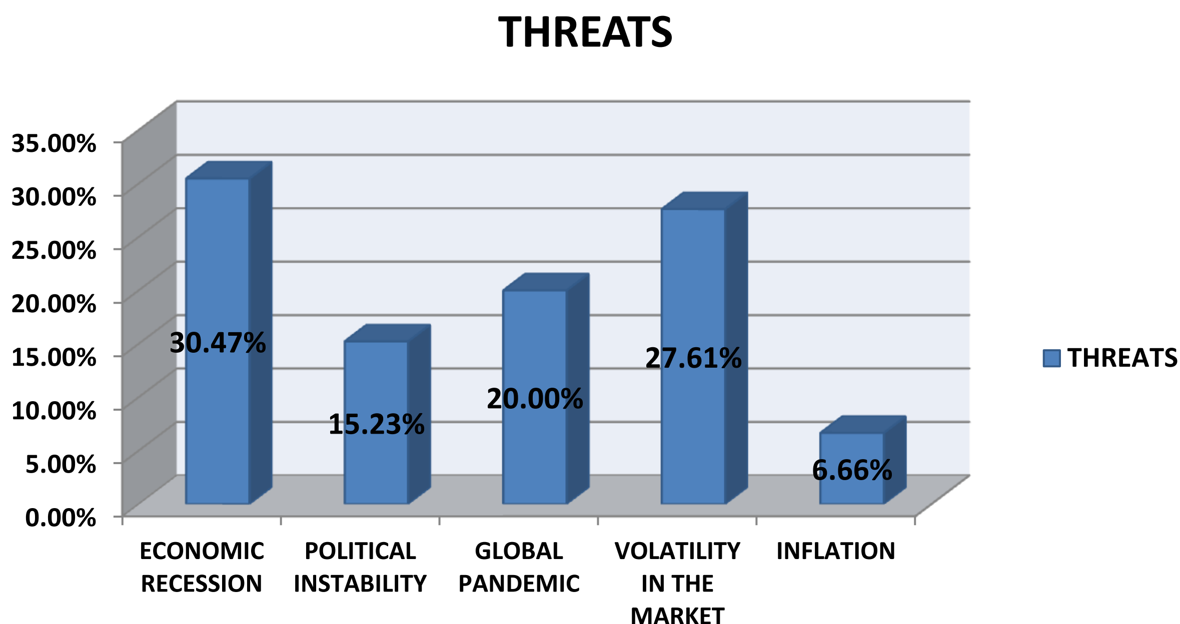


FIG. NO. 5.4 EXTERNAL FACTORS THAT ACTS AS A THREAT TO YOUR INVESTMENTS

ANALYSIS :

The information in Table 5.4 lists the outside variables that respondents believed to be risks to their assets. The greatest threat is determined to be the economic slump, with 30.47% of respondents voicing concern about it. Next in line is inflation, which 27.61% of respondents said posed a risk to their investments. Another significant worry is the global pandemic, which 20% of respondents saw as a threat. A lesser but no less important worry, expressed by 15.23% of respondents, is political instability. The market's volatility is regarded as the least serious concern, according to just 6.66% of respondents. **These findings highlight the wide range of external issues, mostly macroeconomic and economic ones, that investors view as possible dangers to their assets. Comprehending these issues can help investing methods that try to reduce the risks brought on by these outside variables.**

5. PERIOD OF FREQUENT INVESTMENT REVIEW

The frequency with which investors review their assets is detailed in Table 5.5. The most common time frame for conducting investment reviews is every three months, as reported by 22.85% of respondents. Monthly reviews, which were selected by 21.90% of investors, came in second place. Weekly and annual reviews are also typical; these were chosen by about 18–21% of participants. Daily reviews comprise the least amount, at 16.19%. This study indicates that investors monitor their investments in a variety of ways; a sizable portion would want to review them once a month or every three months. Understanding investors' review patterns might help develop strategies for promptly updating and providing insights in response to their informational requests.

DURATION	RESPONSES	IN PERCENTAGE
DAILY	17	16.19%
WEEKLY	19	18.09%
MONTHLY	23	21.90%
QUARTERLY	24	22.85%
ANNUALLY	22	20.95%
TOTAL	105	100

TABLE NO. 5.5 PERIOD OF FREQUENT INVESTMENT REVIEW

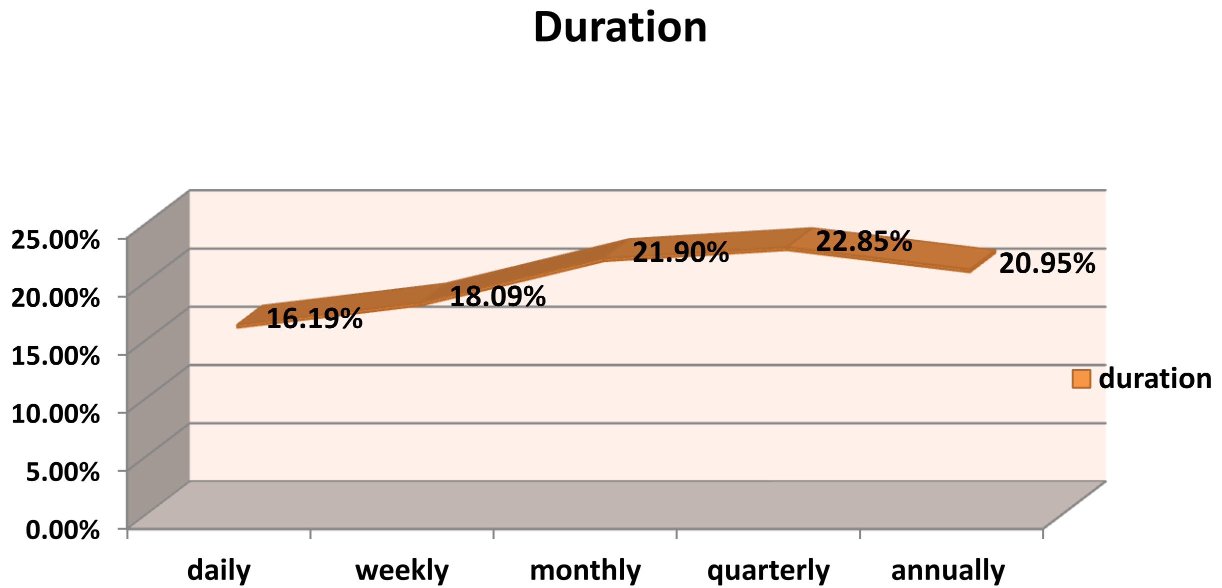


FIG. NO. 5.5 PERIOD OF FREQUENT INVESTMENT REVIEW

ANALYSIS :

The information in Table 5.5 describes how frequently investors examine their holdings. Quarterly reviews are the most typical time frame for which investment reviews are conducted, with 22.85% of respondents following this pattern. In close second place are monthly reviews, chosen by 21.90% of investors. Additionally common are weekly and annual reviews, which were selected by roughly 18–21% of participants. At 16.19%, daily reviews make up the least amount. According to this research, investors have different methods for keeping an eye on their investments; a considerable number of them would rather evaluate them every quarter or month. Strategies for meeting investors' informational demands with timely updates and insights can be informed by knowledge of their review patterns.

6. IMPROVEMENTS EXPECTED IN RISK MANAGEMENT FIELD TO SERVE INVESTORS

The responses in Table No. 5.6 point to key areas for enhancing risk management practices in order to better meet investor needs. Significantly, 27.61% of respondents said that employing state-of-the-art technology solutions is advised. Moreover, 17.14% of respondents said that regulatory reforms are unquestionably important. There is a clear need for more qualified professionals in the field, as evidenced by the 30.47% of respondents who supported the idea for better education and training. Furthermore, 24.76% of respondents said that sufficient regulation and transparency are necessary to control investor risks. The data presented above illustrates the wide variety of improvements in risk management and emphasizes the need of technology, education, supervision, and transparency in delivering effective services to investors.

SUGGESTIONS	RESPONSES	IN PERCENTAGE
ADVANCED TECHNOLOGICAL SOLUTIONS	29	27.61%
REGULATORY REFORMS	18	17.14%
ENHANCED EDUCATION AND TRAINING	32	30.47%
TRANSPARENCY AND REGULATION	26	24.76%

TOTAL	69	100

TABLE NO. 5.6 IMPROVEMENTS EXPECTED IN RISK MANAGEMENT FIELD TO SERVE INVESTORS

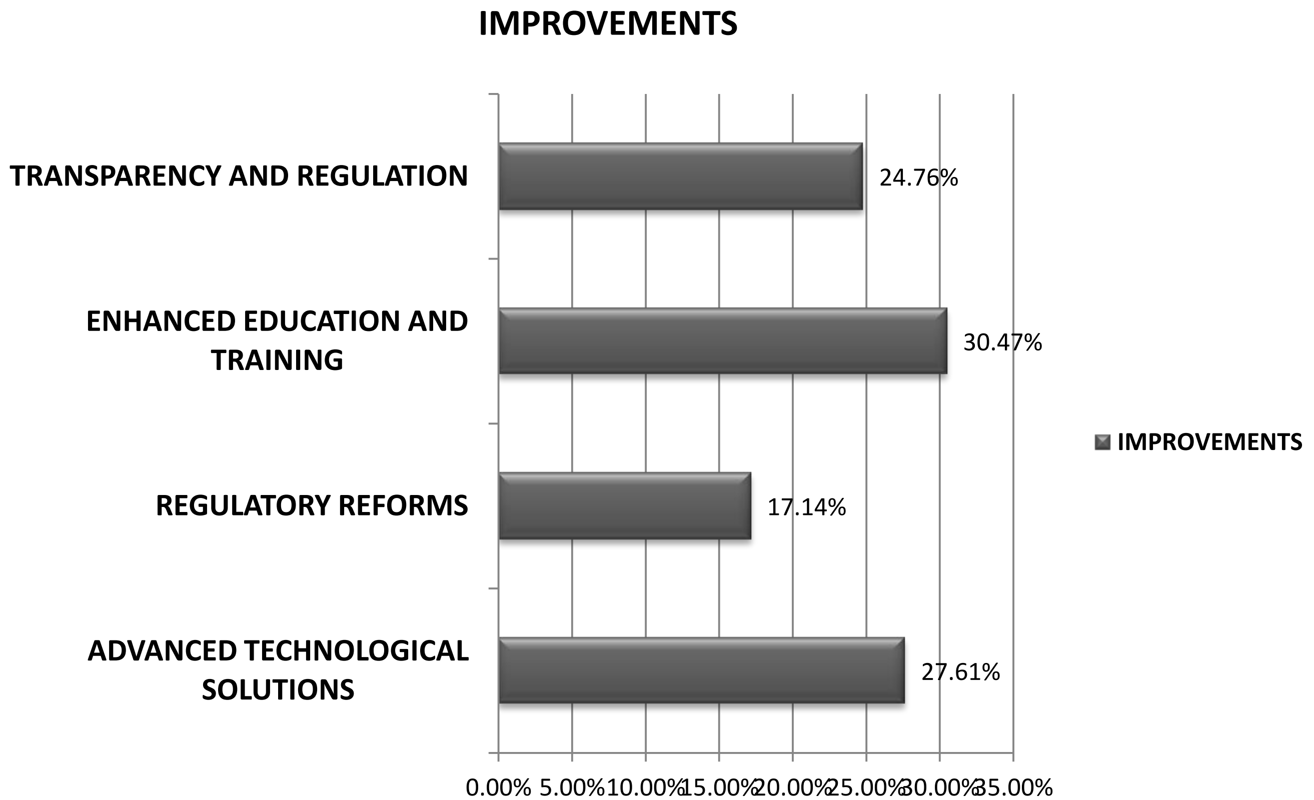


FIG. NO. 5.6 IMPROVEMENTS EXPECTED IN RISK MANAGEMENT FIELD TO

SERVE INVESTORS

ANALYSIS :

In order to better serve the needs of investors, the answers in Table No. 5.6 highlight important areas for improving risk management procedures. Significantly, using cutting-edge technical solutions is recommended, as supported by 27.61% of respondents. Moreover, regulatory reforms are clearly important, as indicated by 17.14% of respondents. The proposal for improved education and training, endorsed by 30.47% of respondents, is particularly noteworthy since it indicates a significant need for qualified experts in the subject. Furthermore, according to 24.76% of respondents, controlling risks for investors requires adequate regulation and transparency. The aforementioned data highlights the diverse range of risk management enhancements, underscoring the significance of technology, instruction, oversight, and openness in providing efficient services to investors.

RESEARCH HYPOTHESIS :

INDEPENDENT	DEPENDENT
FACTORS	RISK TOLERANCE
RISK MANAGEMENT TECHNIQUES	RELIABILITY/EFFICIENCY

There are various variables considered in order to analyse the cause and effect of the variables and to conclude

Variables considered for hypothesis :

Hypothesis Statements.

1. Relationship Between Factors and Risk Tolerance of investors

Null Hypothesis (H0): There Is No Association Between The Factors And Risk Tolerance Level Of Investors
Alternate Hypothesis (H1): There Is A Significant Association Between Between The Factors And Risk Tolerance Level Of Investors

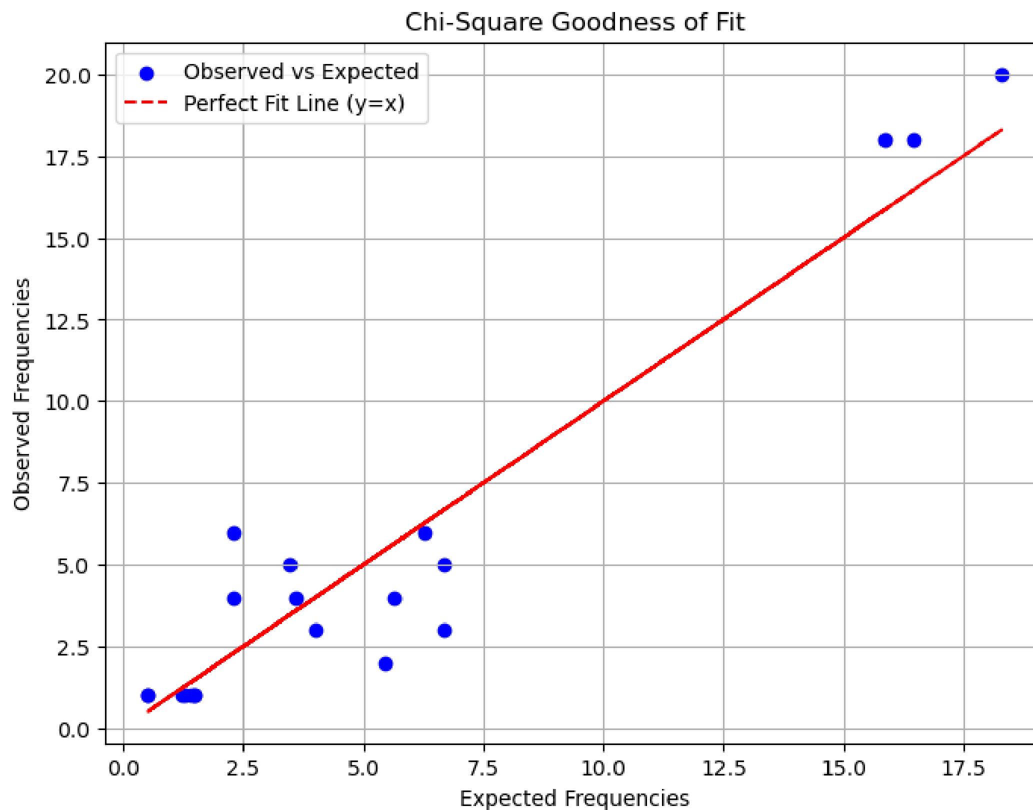
Independent variable :the factors (macroeconomic external factors)
Dependent variable :risk tolerance level of investors

Chi-square test data table

N	DF	CHI SQUARE	P VALUE	SIGN. LVL
105	12	15.3033	0.22526	0.5

The chi-square statistic calculated from the contingency table is 15.3033 with a p-value of 0.225267.
Since the p-value (0.225267) is greater than the significance level (usually set at 0.5), we fail to reject the null hypothesis
There is no significant relationship between the external factors given (economic recession, political instability, global pandemic, inflation, volatility in the market) and the risk tolerance levels (high, moderate, low, very low) of the investors.

CHI-SQUARE GRAPH



This graph is a representation of how closely the observed frequencies match the expected frequencies. If all points lie along the red dashed line (y = x), it indicates a perfect fit between observed and expected frequencies, suggesting that the model fits the data well. If points deviate significantly from this line, it indicates a poor fit.
Interpretation:

The chi-square test assesses whether there is a significant association between the two categorical variables, in this case, "External Factors" and "Risk Tolerance Levels". The null hypothesis (H0) is that there is no association between the variables, meaning they are independent.
The chi-square statistic calculated from the contingency table is 15.3033 with a p-value of 0.225267.
Since the p-value (0.225267) is greater than the significance level (usually set at 0.5), we fail to reject the null hypothesis. This means that there is insufficient evidence to conclude that there is a significant association between external factors and risk tolerance levels among the observed data.
In other words, based on this analysis, there is no significant relationship between the external factors listed (economic recession, political instability, global pandemic, inflation, volatility in the market) and the risk tolerance levels (high, moderate, low, very low) of the investors.
Based on the analysis of the chi-square test results, there is insufficient evidence to conclude that there is a significant association between the factors (economic recession, political instability, global pandemic, inflation, volatility) and risk tolerance level of investors. The null hypothesis cannot be rejected at the 0.05 significance level. This suggests that, according to this analysis, there is no significant relationship between these factors and investors' risk tolerance levels

2.Effectiveness of risk management tools

Null Hypothesis (H0): There Is nosignificant relationship between risk management techniques and their extreme effectiveness on investments
Alternate Hypothesis (H1): There Issignificant relationship between risk management techniques and their extreme effectiveness on investments

Independent variable :risk management tools
Dependent variable :their extreme effectiveness in investment and risk management

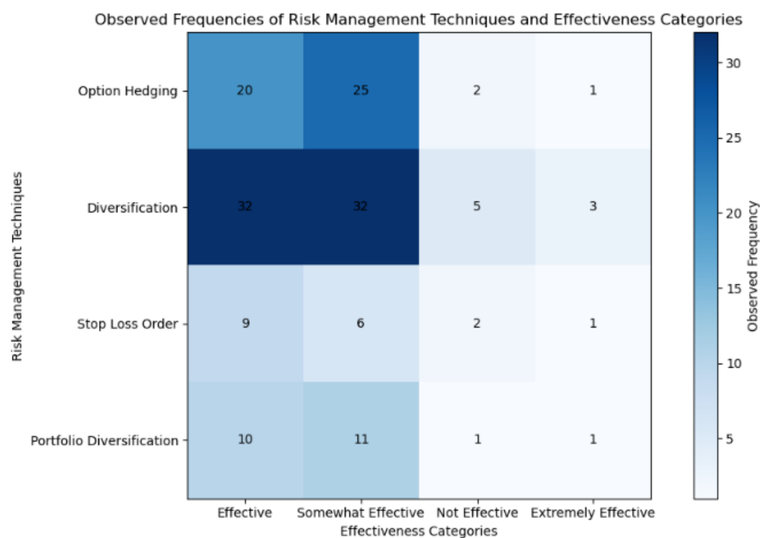
Chi-square test data table

N	DF	CHI SQUARE	P VALUE	SIGN. LVL
105	9	3.0602	0.961862	0.5

The chi-square statistic is 3.0602, and the associated p-value is 0.961862. With a significance level of 0.05, the p-value exceeds this threshold, indicating that we fail to reject the null hypothesis. Therefore, based on this analysis, there is insufficient evidence to conclude that there is a significant relationship between risk management techniques and their extreme effectiveness on investments.

HEATMAP REPRESENTING EFFECTIVENESS OF RISK MANAGEMENT TOOLS

HEATMAP



A heatmap plot showing the observed frequencies of each risk management technique across different effectiveness categories. The color intensity represents the frequency, with darker shades indicating higher frequencies.

Interpretation

The provided hypothesis seeks to investigate the relationship between different risk management techniques and their extreme effectiveness in investment and risk management. The null hypothesis (H0) states that there is no significant relationship between risk management techniques and their extreme effectiveness on investments, while the alternative hypothesis (H1) suggests that there is a significant relationship.

To analyze the hypothesis, we can interpret the chi-square test results. The chi-square statistic is 3.0602, and the associated p-value is 0.961862. With a significance level of 0.05, the p-value exceeds this threshold, indicating that we fail to reject the null hypothesis. Therefore, based on this analysis, there is insufficient evidence to conclude that there is a significant relationship between risk management techniques and their extreme effectiveness on investments.

In other words, the data does not provide support for the idea that certain risk management techniques are significantly more effective than others in producing extreme outcomes in investments. This suggests that within the context of the dataset provided, extreme effectiveness in investment and risk management may not be strongly influenced by the choice of risk management technique.

However, it's important to note that while the statistical analysis does not find a significant relationship, this does not imply that risk management techniques are ineffective altogether. Other factors not captured in this analysis, such as market conditions, investor behavior, and the specific implementation of these techniques, could also influence investment outcomes. Therefore, further research and analysis may be warranted to explore these factors comprehensively.

RANKING THE CHOICES OF INVESTMENT AVANUES AMONG RESPONDANTS

This table helps to understand most preferred investment choice relevance to their interest , psychology , income level , or risk tolerance level.

INVESTMENTS	IN PERCENTAGE	RANKS
STOCK MARKET	26.66%	2
REAL ESTATE	32.38%	1
GOLD	18.09%	3
MUTUAL FUNDS	10.47%	4
G-BONDS	5.71%	6
DERIVATIVES	6.66%	5

The table is the result of most preferred investment choice among the respondents. Since real estate is the most preferred investment avenue due to its capital appreciation nature and increased returns it is also highly risky in today s scenario due to legal obligations hence, real estate and stock market prove that risk also earns rewards.

SUGGESTIONS/RECOMMENDATIONS :

Stability and expansion in the financial markets depend on boosting investor confidence. The following are some ideas and recommendations for your research on risk management's role in boosting investor confidence:

1. Transparency and Communication :Evaluate the efficiency with which financial organizations and regulatory agencies communicate information regarding investment products, market circumstances, and risk management procedures. Suggestions could include making disclosures more transparent, giving regular and clear updates on risk factors, and making instructional materials more easily accessible.

2. Education and Empowerment: Examine how investor education initiatives can improve risk awareness and give investors the information they need to make wise decisions. Determine the gaps in the current educational programs and suggest ways to fill them in, including modifying the content to appeal to different investor groups and encouraging lifetime learning of risk management concepts and methods.

3. Regulatory Framework: Examine if regulatory systems are sufficient and effective in defending investor interests and fostering trust in the financial system. Suggest actions to improve enforcement procedures, fortify regulatory supervision, and tackle new threats to investor safety, like cyberattacks and technological developments in the financial services industry.

4. Industry Best Practices: Determine the best practices in the sector for risk management and investor protection by analyzing case studies and international benchmarks. Encourage financial institutions, asset managers, and other market players to embrace these practices by putting up initiatives that highlight the significance of risk governance, client-centricity, and ethical behavior.

CONCLUSION :

The research on investors' perceptions of risk management emphasizes the complex interactions that exist between personal preferences, market forces, and institutional tactics. It emphasizes how crucial it is to thoroughly evaluate and manage investor sentiment in order to promote a more robust and flexible investment ecosystem.

The results also highlight how important investor education and communication are in influencing attitudes and encouraging wise decision-making. Investors may traverse uncertainty more skillfully and eventually produce more stable and sustainable financial outcomes by developing a deeper understanding of risk management principles and tactics. The report also highlights the necessity of continuous research and cooperation between academic institutions, business sectors, and regulatory agencies in order to improve risk management procedures and adapt them to changing investor demands and market circumstances.

The study serves as a valuable resource for stakeholders seeking to enhance risk management practices and promote financial stability and prosperity in the investment landscapeIn addition to offering insightful information on individual attitudes and behaviors, the study on investors' perceptions of risk management also includes practical advice for practitioners and regulators. Through an exploration of the intricate details around investor risk perception, the research enables the creation of customized risk management plans that more closely conform to the tastes and expectations of investors.

It also emphasizes how crucial responsibility, openness, and moral behavior are to building investor trust and confidence. Financial institutions and regulators may create more resilient risk management frameworks that support stability and long-term value creation if they have a better knowledge of investor attitudes.