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A Study of Risk Tolerance amongst Women and the Influence on their Investment Decisions

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ABSTRACT:

Every person has unique monetary aspirations and their top goal is to limit losses and maximize gains. Skillful ladies occupy a large arena of the enabling societal progress cycle and are working enthusiastically beside men to acquire lucrative stability. Risk tolerance has two additives risk attitude which has mental attributes to it sometimes referred as personality trends and risk capacity which has monetary characteristic respectively. Gaining records about the investment behaviour of women regarding financial tools would possibly emerge as helpful to diverse sectors for financial development. This paper delves into risk tolerance and the way it influence on the component of selections taken amongst women. It is based on a taking a look which carried out on respondents in and round Kolkata, to realize their investment preferences and chance taking mind-set in addition to capacity. Further it consists of facts which get highlighted regularly via set up finance, and commercial/ organizational psychology literature within the vicinity of control.

***KEYWORDS*:**

Risk tolerance, Women, Investment Decisions

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INTRODUCTION

Skillful women occupy a large arena of the enabling societal progress cycle and are working enthusiastically along with men to procure lucrative stability. Education and employment of women have played a crucial role towards reforming the traditional attitude reflecting on them within the society and their families. Today, women are making their presence felt in every field. From being top level executives in the corporate world to ferrying the political scenario remarkably or handling businesses exclusively for decades, they are defying stereotype notion about them. It is common to find dynamic women in most of the neighborhood areas who effectively handles many tasks from raising children to managing household and taking up full time careers simultaneously. They are not only homemakers now but in most cases work as joint breadwinners for their families. They are also efficient at budgeting and managing expenses for the household. The concept goes like this 'provide a woman certain amount of money for running the house and she may still save something from the minimum at the end of the month'. It can be derived that, women have hailed from a long way with the perception of empowerment and keeps on creating their impact in the society. Yet it is ironic that there are still women who believe that they have less idea and confidence than men when it comes to money and investing. Therefore it becomes essential to understand the effect of psychological aspects on investment decisions and study how mind affects financial decision making progress in recent times. Since psychology verifies human behavior and welfare, it may also provide important clues about how actions differ among individual women.

Conceptual Background

Risk tolerance has two components risk attitude which has psychological attributes to it sometimes referred as personality traits and risk capacity which has financial attribute respectively. There are a number of ways to understand emotional risk tolerance, including filling out a questionnaire to check where an individual falls on the risk spectrum after that compare that against their investment strategy and financial risk capacity. Speculating on "Are these individuals taking on more risk than required to in order to achieve financial goals?" might be helpful. If some of them are more risk conservative, then working on what

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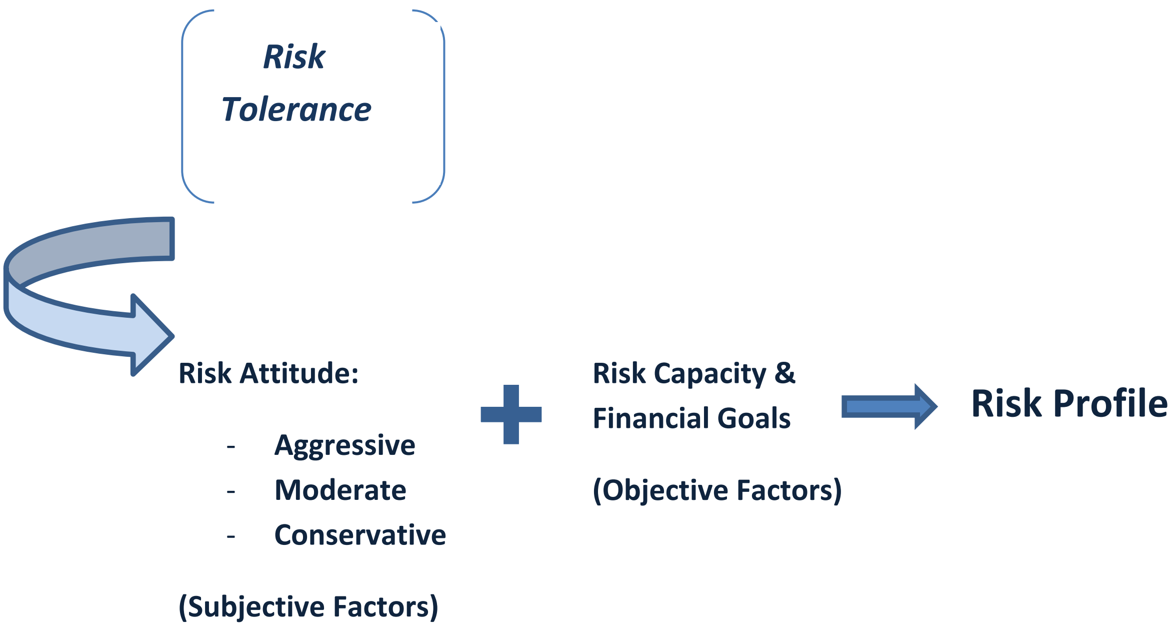
other factors can be control, such as working longer, saving more or modifying expenses should be assessed.

It is essential to mention that the effect of psychological aspects on investment decisions and study of how mind affects financial decision making progress in recent times, may provide important piece of evidence on how it toils among women. Financial planning is a continuous process to obtain beneficial results towards handling monetary resources for substantial goals in life. Risk aversion is taken as one of the critical points in the process of investment and the change in relation to risk aversion has direct impact on financial markets and its structural series of decisions from time to time. Studies mentioned that women are risk averse and sensitive to fluctuations in financial sector. Still, to beat inflation by investing money and maximizing wealth for future in avenues which has risks associated is considered as better option. It is noticed the level of risk tolerance increases with higher income of investors, and they get interested in maintaining a higher cash balance and a secured portfolio.

Factors to assess risk perception:



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LITERATURE REVIEW

Ricciardi (2007) emphasized on the risk perception and mentioned about behavioural approach that is used to evaluate risk in experimental studies and questionnaires as instrument. Risk was explored as subjective and stated that it has certain beliefs, attitudes and feelings towards it, and generally do not change their mind and consider what they perceived.

Anderson L R. and Mellor J. (2008) tried to examine the stability of risk preference by comparing risk measures from an experiment consisting of real monetary rewards and a survey. The results indicate that risk preferences are mostly stable these two elicitation methods. According to them, the difference between risk elicitation methods and within the survey itself may have been due to two unexamined traits – comprehension and effort. Houghton, Simon, Aquino and Goldberg (2000) involved three independent variables which are laws of numbers, illusion of control, and overconfidence respectively to investigate the risk perception decision making. Yip (2000) studied about financial risk tolerance and treated this as a psychological trait. Participants in this study did on-line trading simulation and risk tolerance was measured by pre and post competition and time span was of eight weeks, after the competition. It was reported that financial experience and knowledge do not affect the stability of risk tolerance.

McConnel, Gibson and Haslem (1985) mentioned that risk perception is influenced by psychological factors while orienting the knowledge towards risk taking behaviour. The shareholders selected as the respondent and they answered through mailed questionnaire. This was to watch whether the investors' knowledge positively correlates with specific risk-return preferences.

A large body of financial and psychological literature suggests that women tend to be more risk averse than men. Barber and Odean (2001) stated that men are more overconfident than women. After a surveyed and evaluated study of stock-trading patterns of men and women, they found that men traded 45 percent more than women. Overconfidence seems prime financial clue which leads to more trading, and turn towards lower returns. Women on the other hand perceive that they have little investment experience and are hesitant towards investing. Men took on more risk and sustained riskier portfolios whereas women took less risk. Added to this, majority of men in the study conducted were only focused on short term

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results whereas women were focused on long term results so it turned out that women also have better long term investing results than men.

Zuckerman and Kuhlman (2000) found in their study that, men are prone to take more risky ventures compared to women relating to financial matters. Studies conducted in the domain of investing also found consistent agreement for this difference. The example cited by them was that, non-professional women investors have been found to allocate less of their portfolios to volatile assets.

Dohmen T, Falk A, et al (2009, in a comprehensive paper discussed several open questions to measurement and nature of individual risk attitudes. Using a survey that asked people to give an assessment of their willingness to take risks in general, it was found in this research that gender, age, height and parental background showed an economic impact, risk attitudes are shown to be relatively stable across different contexts. Nosie' A and Weber M (2010), surveyed the determinants of investors' risk taking behavior, and the results of that showed that it gets affected by their risk and return of the investment alternative.

Manish Mittal and R K Vyas, in (2007), examined that men and women differ in their views while they select avenues of investment. Indian women prefer gold, bank /post office deposits and least goes for equity shares and this picture differs with men.

Keller & Siegrist (2006) carried a representative survey of private households in Switzerland where outcome reflected that women have the same willingness to invest in stocks as males. Nonetheless, the above mentioned literature is significantly countered by stating that gender matters. It is argued that women as investors are less willing to hold risky assets.

Eckel and Grossmann (2001), mentioned about differences among gender in choices among many of the prospects which are risky with women pointing their choice for less risky prospect and for long term. They further showcased that competence and (over) confidence may get straight away into investment behavior if women perceive themselves as less confident and not having proper information in the field of investment. They wish to preserve a larger part of the current earnings and put this into savings and invest conservatively without facing too much of capital risk.

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Powell and Ansic (1997) considered that gender acts primarily as most important explanatory factor affecting to confidence while taking investment decisions. Women were less confident about their decisions after taking factors such as age, experience, education, knowledge, and financial assets.

Steinerock (1991) found that women had a lower risk preference and a higher degree towards anxiety in case financial decisions compared to men, also they keen to use services of financial advisors".

Animisha (2008), presented certain factors which shows that Indian males invest a higher share of their financial wealth in stocks, while women have the preference towards safer assets such as Gold and saving accounts where risks as well as returns are low.

Hemalatha & Padmaja (2009) found similar evidences that the common tendency of Indian women generally is to invest less on equity shares and more on Gold. In their study they sorted out that Indian women have this perception of positive social recognition having a status symbol while investing on gold than on an investment product. According to these women, the reason for investing on equity shares is a purely investment decision and buying gold is like increasing family assets.

Kaur and Vohra (2012) pointed out the inequalities in the society, which prevents women from participating with men in the stock market. They feel there is a need of change in attitude and promotion of literacy programs to involve more women in the stock market.

Sumathi .N (2011) conducted a study on the investment psychology of Indian women investors, she made these observations like investing among working women on Equity Linked Saving Schemes (ELSS) is not done mainly for wealth generation but to gain benefits on tax exemption. Mostly Indian working women are not investing on equity as they are not encouraged to do so by their family also not consider any requirement to be interested in the equity markets as they feel very complex keeps on fluctuating.

Dawar & Wadhwa (2011), observed women to be conservative while deciding investments when they have less knowledge of financial market. They also stated that investment decisions are collective decisions which are gathered from numerous sources at hand. Several factors like age, income, education, retirement - planning and goal orientation in life have a

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positive reflection on investment behavior of individuals. Further the crucial fact is income level which directly affects the saving and expenditure behavior of individuals.

Emmanuel, Harris, and Komakech (2010) mentioned in their research that cognitive psychology relating to the investors' beliefs and preference cannot be separated with decision making. Portfolios in stock market are verified by investors to gather the beneficial prospects to them. Further, personal knowledge, experience and memory to search information work as components and provide opportunity for comparative analysis. Shalla Harrison and Kreps (1978) it was pointed out that the individual investors behave differently depending on the information they had or gather from sources. Dr. Kishore presented a paper, which claimed that investor behavior is affected by lack of quality of information available to them and it is the duty of the analysts to study the human element and devise strategies and instruments for them.

Objectives

The objectives of this paper focus on:

- Identifying about the initiatives taken by women towards financial investments
- Analyzing how risk taking is perceived among women and its effect on their decisions

METHODOLOGY

A study has been carried with the help of survey method among 107 women respondents between the age-group of 20 to 50 years, in and around Kolkata. Out of these respondents 75 are working in different sectors like Govt. Employees; Pvt. Employees; Self-employed respectively and 32 are homemakers. Primary data has been collected through personal interview with a structured questionnaire and the information shared by them has been jotted, calculations were done on the IBM SPSS version 21. The perspective is to review substantive findings and recent trends of theoretical and experimental works done to study how women behave in financial setting and their attitude for taking risks.

Constraints noticed in this study:

Few respondents, mainly among homemakers were hesitant about sharing the information which they thought is quite personal relating to family; household income and investment decisions.

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Time was too short for in depth study and data is not sufficient, so it does not represent the entire group of women to draw any specific conclusions on all-encompassing viewpoint.

RESULTS & FINDINGS

Demographic Profile

Status	*No. of Respondents*
Women	107
Age Group:	
Below 20	0
20 to 30	13
30 to 40	67
40 to50	27
Above 50	0
Qualification:	
Undergraduates	6
Graduates	15
Post Graduates	86
Occupation:	
Government Employees	24
Private Employees	24
Self Employed	27
Homemakers	32
Marital Status:	
Unmarried	6
Married	98
Separated/ Divorced	3
Household Income (Monthly):	
Below 10,000	0
10,000 to 20,000	0
20,000 to 40,000	0
40,000 to 60,000	7
Above 60,000	100

On the basis of respondents' Demographic Profile and responses made by them certain information are exhibited:

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Frequencies

Statistics

		GENDER	AGE	QUALIFICATION	OCC	MS	HI	IP	FMI	RA
N	Valid	107	107	107	107	107	107	107	107	107
	Missing	0	0	0	0	0	0	0	0	0
Mean		2.0000	2.1308	2.7477	2.6262	1.9720	1.9346	2.4860	2.0467	1.5794
Median		2.0000	2.0000	3.0000	3.0000	2.0000	2.0000	2.0000	2.0000	1.0000
Std. Deviation		.00000	.60006	.55104	1.13705	.29002	.24843	1.29122	.71879	.64483
Std. Error of Skewness		.234	.234	.234	.234	.234	.234	.234	.234	.234
Skewness			-.054	-2.121	-.162	-.886	-3.565	.366	-.070	.666

Frequency Table

GENDER

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	2.00	107	100.0	100.0	100.0

AGE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	13	12.1	12.1	12.1
	2.00	67	62.6	62.6	74.8
	3.00	27	25.2	25.2	100.0
	Total	107	100.0	100.0	

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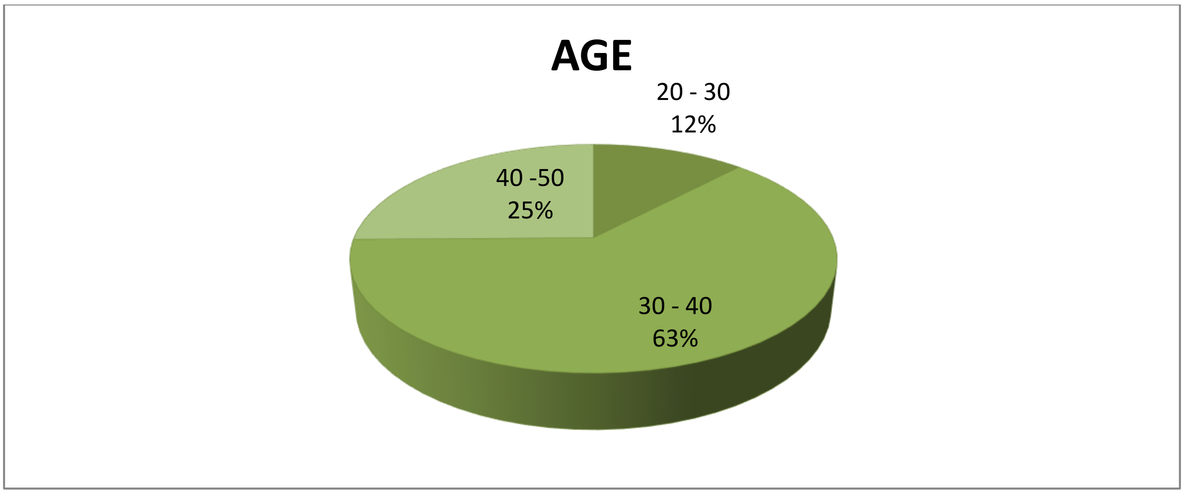
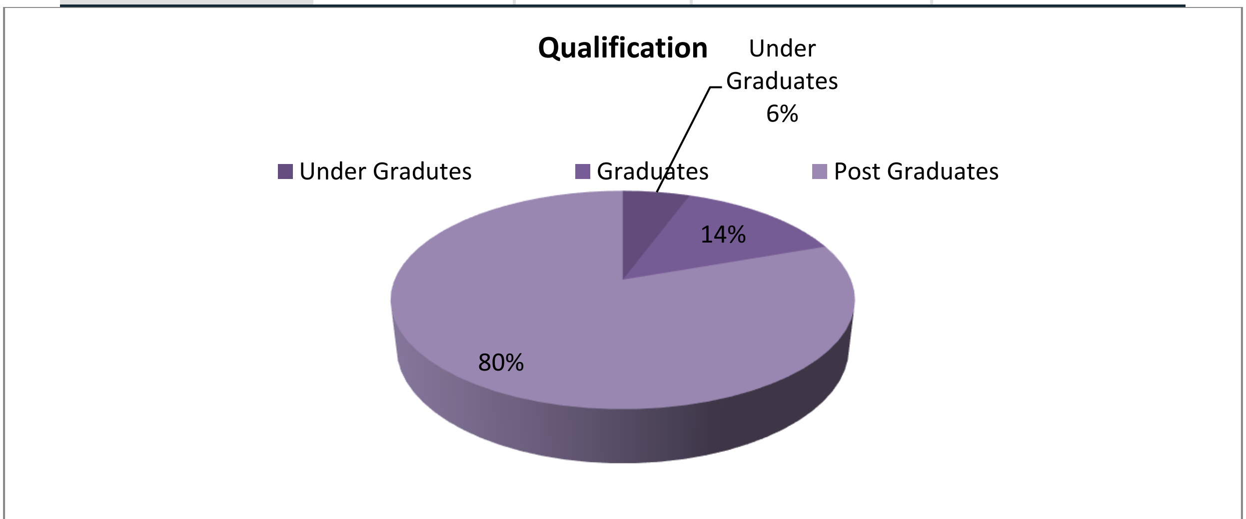


QUALIFICATION

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	6	5.6	5.6	5.6
	2.00	15	14.0	14.0	19.6
	3.00	86	80.4	80.4	100.0
	Total	107	100.0	100.0	



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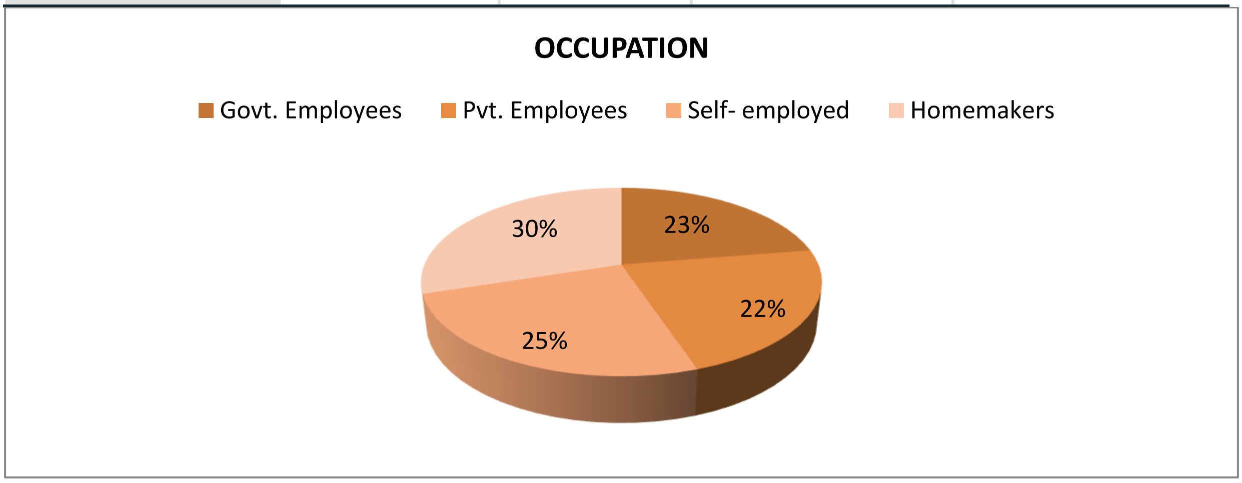
OCCUPATION

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	24	22.4	22.4	22.4
	2.00	24	22.4	22.4	44.9
	3.00	27	25.2	25.2	70.1
	4.00	32	29.9	29.9	100.0
	Total	107	100.0	100.0	



MARITAL STATUS

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	6	5.6	5.6	5.6
	2.00	98	91.6	91.6	97.2
	3.00	3	2.8	2.8	100.0
	Total	107	100.0	100.0	

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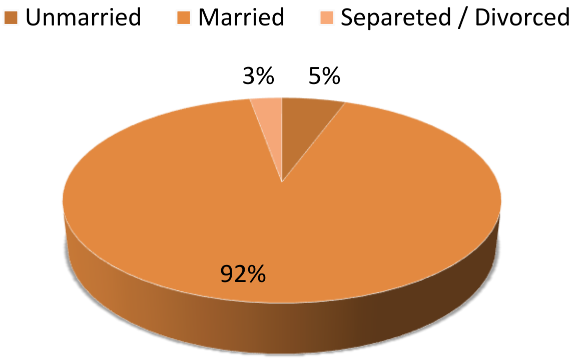
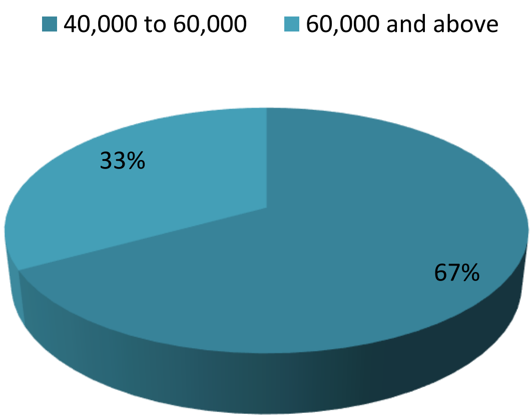
MARITAL STATUS



HOUSEHOLD INCOME (MONTHLY)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	7	6.5	6.5	6.5
	2.00	100	93.5	93.5	100.0
	Total	107	100.0	100.0	

HOUSEHOLD INCOME (MONTHLY)



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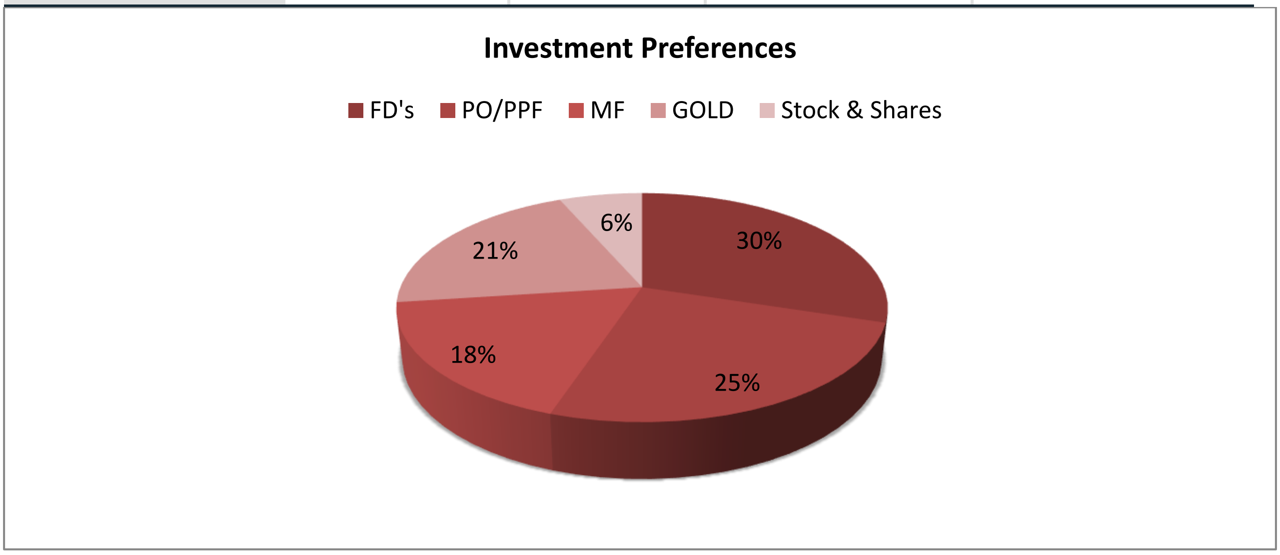
INVESTMENT PREFERENCES

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	32	29.9	29.9	29.9
	2.00	27	25.2	25.2	55.1
	3.00	19	17.8	17.8	72.9
	4.00	22	20.6	20.6	93.5
	5.00	7	6.5	6.5	100.0
	Total	107	100.0	100.0	



RISK ATTITUDE

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	1.00	54	50.5	50.5	50.5
	2.00	44	41.1	41.1	91.6
	3.00	9	8.4	8.4	100.0
	Total	107	100.0	100.0	

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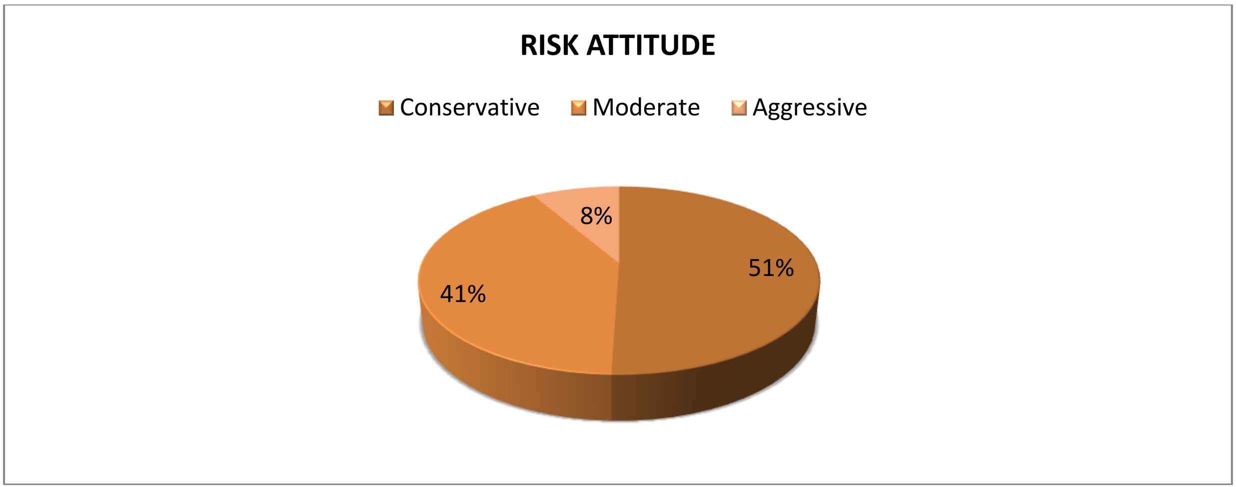

FINDINGS

Women of different occupations tries to save funds for future, with a motive which has been mentioned by these respondents are investing towards fixed deposits with banks; Systematic Investment Plan for *Safety, Consistent Earnings and Tax Benefits.*

Reason for investing in gold mainly goes with *high recognition and status quo* in our society. Along with wearing it in forms of jewels it is treated as a safe mode of investment avenues' mostly by homemakers. Among the respondents, the number is less who thinks that Gold can become helpful as an asset in times of uncertainty rather few of them suggested Insurances are for *gaining reimbursement to the benefactors* in times of need and for tax benefit.

Main objective for investing among Govt. employees are to attain financial security, preserve for children education especially for higher stages, planning for retirement rather than higher returns expected from investing in stocks or real estate only. 13 of them stated that they have fear and do not rely on Investing in MF or Stocks as these comes with a caption "subjected to market risks".

Priority is given by most of the respondents are towards *safe investing* compared to taking an attitude of bearing risk for higher returns. Out of 107 respondents only 7 of them mentioned that they invested in stock market and willing to take risks for higher returns, 2 among these women are certified accountants and manage their portfolios on their own. 47 respondents *showed interest in stocks and shares* and 29 among them who are Pvt. employees and self-employed, shared that they have less awareness regarding markets hence sustained a conservative approach due to lack of *proper financial knowledge* and would like to enhance

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that in near future. 4 respondents who are self-employed shared that they have seen their own family members at risk due to losing money by investing in stocks and shares, so they are not willing to opt for that.

19 respondents have invested in Mutual Funds and none in Real Estate but 2 of them shared that they are planning to invest as of now they do not have sufficient funds. Further 5 respondents stated that they are interested to invest in Mutual Funds but whenever they tried to seek advice from financial consultants they felt that these advisers tries to push the ideas for their own interest, so they could not trust these individuals. 2.8% of respondents who are divorced/ separated prefer wealth generation in form of Government Saving schemes regular returns.

As per this survey there is a slight step taken towards investing in equity market among women, if nurtured with vigor, can help the individual investor for financial security with higher returns added to it companies may use the unutilized funds which surely will generate countries economic development.

CONCLUSION

Today's women are independent and many of them head the important senior posts in multiple sectors, so financial investments sites an important aspect for long term goals. If the amount earned is invested in the right manner, individual may maximize their wealth. . The prime factor is to analyze the risk bearing capacity of among women which is considered low. This is due to lack of knowledge in investment avenues and financial market. Women must attain financial literacy, so it does not be too difficult for them to manage their portfolios on their own with high visibility.

FURTHER RESEARCH

There is ample scope for extensive research in this area of study. As limited data has been taken into consideration from the women – who are working professionals belonging to different sectors as well as who are homemakers in Kolkata & around only, hence it has got certain bindings. Research can be pursued on comparative study of investment behavior of working women who are working in different states of India or in foreign countries and analyze with India. There is huge scope also for obtaining study on psychological aspects like

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perceptions, emotional intelligence and cognitive factors among women as investors here in India & also in abroad.

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