ROLE OF RISK TOLERANCE IN PORTFOLIO MANAGEMENT

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INTRODUCTION

Risk tolerance is one of the most significant components in the investment markets. An individual should have a clear understanding about his (or) her investments. Investors who take too much of risk will lead to a wrong selling in the wrong time. **(Investopedia).**

In practice, the three main components which affect the investor towards risk tolerance are,

- Time Management
- Investment choices
- Investor environmental forces.

In General, each and every investor is associated with risk tolerance, while investing in the Stock markets. So therefore, an ample of questions is raised like, (how to invest and were to invest) to the investors towards risk. Before investing in the stock market the investor has to find the various sources of risk factors in the stock markets.

The Source of Risk a raise due to the following factors like,

- Lack of awareness in Finance Markets
- Interest rate fluctuation in Stock Markets
- Basic factors like Economic, Social and political chaos in the country.
- Lack of security and trustworthy in financial institutions, which impact on high risk towards investment purpose.

The above listed point which highlighted about the source of risk. So every investor has to understand the risk tolerance before investing in the stock market. Based on the demographic factors, the investors accelerate the investment decisions. Here the decision making plays a vital role in this investment process, due to investment are subject to market risk. Subsequently the investors should be very cautious while investing.

Portfolio management indicates that, a mixture of financial assets which an investor can have their own preference to invest their funds in the financial markets. Investment portfolio includes,

- Mutual Funds
- Life Insurance
- PPF
- Annuities

- NSC
- Fixed Deposits
- Equity Share
- Options / Futures
- Stock / Securities
- Bonds / Debentures

RIVEW OF LITERATURE

The researcher is interested to review the previous research works on Role of Risk tolerance in Portfolio Management both national and international reviews are in their Chronological Order.

Al-Ajmi (2008) Bahrain, The study explains about decline towards risk tolerance in order to financial commitment towards individual retirement stage.

Ajmi Jy.A. (2008) This study refers to, men are less risk averse than women, less educated investors are less likely to take risks and demographic factor is also important in risk tolerance and also investors are more risk tolerance than the less wealthy investors.

Sharon Collard (2009), the study deals with individual investment behavior. The research is carried out to indicate the Personal Accounts Delivery Authority should be making decisions for its members with regard to pension fund choices. In further, the review highlights that, lack of knowledge updation of understanding the various investment schemes. The approach towards investment is minimum losses and maximum the return in relation to long term investments.

Amir Barnea, Henrik Cronqvist, and Stephen Siegel, (2009), the study examines that, investor behavior is segregated into two parts like genetic and environmental influences. It was found that 45% of the variation in stock market participation like, assets allocation and portfolio choices are influenced by genetic component. Parallel environmental influence indicate that, for the most part, these environments are not shared by individuals growing up in the same family, and these environmental influences that contribute to individual heterogeneity in financial behavior are those that make the family member differently.

Kabra.et.al (2010), the study undertaken that, the factors influence towards risk tolerance and decision making process on the basis of age and gender of the investors.

Kelly Halliam (2011) this study refers to, emerging markets towards Investment Portfolio. Here emerging markets insists that BRIC countries like (Brazil, Russia, India, China) has two integrated commonly, so as to improve the global economy. This will create an identity on the investment portfolio. This helps to identify potential investors in the markets. The investment standardization will be developed towards investment process.

K. Prabhakaran and P. Karthika (2011), the research deals with risk perception and portfolio management of equity investors. The paper commented on risk tolerance and risk perception on their investment decision. The researcher measured, by using demographic factors in order to find the key elements, which influence the individual investor's investments. In further, the study is analyzed that the investor are not aware of the portfolio, which would minimize the risk and maximize the return. Hence, proper guidance has to take by the investor to invest in the equity markets.

Dmitry Salimov (2012), the study connected with individual investor behavior in selecting portfolio decisions. The main choice of the individual investor behavior such as share, risk assets, amount of investment, choice of investment instrument and duration of relationship with the investment company. The researcher concludes that, the choice of the aggregate level of risk by the investor is actually quite rational, and it relies on the ability of the investor.

Puneet Bhushan (2014), the study examines that, the awareness level and investment behavior of salaried individuals towards financial products. The researcher insists that, to find out the awareness level of salaried individual about the various financial products. Financial products like savings account, bank fixed deposit, public provident fund, National Savings Certificate (NSC), Post office savings, mutual fund, debentures, bonds, Life insurance, stock market, commodity market and forex market. The researcher concludes that, the investor is aware about their investment should be in safe mode and high return. And moreover the result suggested that, the investor should be more educated towards, a new investment portfolio, which is available in the financial markets. This helps them to identify the suitable product to invest to get high returns.

Reena Rani (2014), the researcher observed from the study that, general factors like herding, over-reaction, cognitive basis, over and under-confidence, demographic factors, which have a greater impact on investor behavior in the stock market, and also these factors influence the individual investor's decision making in the investment markets.

Gaps in Literature

After reviewing above mentioned reviews the researcher identifies that none of the researcher addressed the direct relationship between risk tolerance and portfolio management for the specific financial assets. This gap induced the researcher to venture in determining the nature of the relationship.

Objective of the study

- ✓ To study the investor perception on risk tolerance
- ✓ To find the influence of portfolio investment detail on risk tolerance

Methodology

The study is based on both Primary and Secondary data. The primary data are obtained through the structure questionnaire comprising investor perception towards risk tolerance. Both optional type and statement on a Lickerts .5 scale is used to perceive the investor's perception.

Sampling Method

The convenience sampling method is applied to collect the response from investors. The researcher collected 500 samples from an unknown population of the investors in Chennai city.

Data Analysis

The researcher used simple percentage analysis, mean analysis, T-test and analysis of variance for analyzing the primary data of investors.

Analysis and Discussion

Investors Perception on Risk Tolerance

The manifestation of the Risk Tolerance criteria is well documented in the below table. The mean values for the five financial assets assort from 1.95 to 3.89, with suitable standard deviations. These results are tested further by employing the One Sample test which portrays the t-values and their significance.

TABLE 1
One-Sample Statistics for Risk Tolerance

Source: Primary Data

Variables	N	Mean	Std. Deviation	Std. Error Mean	t	Sig.(2-tailed)
					Lower	Lower
LIC	500	1.9500	.79547	.03557	-29.516	.000
MF	500	3.8900	.35518	.01588	56.031	.000
PPF	500	2.0000	.71345	.03191	-31.341	.000
FD	500	1.9960	.70780	.03165	-31.718	.000
NSC	500	2.1340	.73288	.03278	-26.422	.000

Investigation of the One sample test with regard to Risk Tolerable Criteria presents the t-values as -29.52, 56.03, -31.34, -31.72 and -26.42. In the investment portfolio of investors, positive value is reflected in Mutual Funds, which suggest that investors of mutual funds are highly Risk most tolerant. This is also statistically significant at 5% level.

Empirical insight into the nature of financial risk tolerance of Life Insurance, Public Provident Fund, National Savings Certificate and Fixed Deposits advocate that investors of these assets are less risk tolerant. This is because these assets are considered as less risky assets. The available evidence also supports the view that the t-values are negative and significant at the 5 % level of significance.

Hence the test gives the results that risk is high for mutual funds as they are speculative in nature, whereas low for the remaining financial assets as they are non-speculative in their character.

ANOVA Risk Tolerance and Investment Portfolio Reviews

TABLE 2

Variable		Sum of Squares	df	Mean Square	F	Sig.
LIC	Between Groups	7.423	3	2.474	3.980	.008
	Within Groups	308.327	496	.622		
	Total	315.750	499			

Source: Primary Data

In the above table analytical approximations are derived and the value of F rests at 3.980. This value underlies for investors of Life Insurance. This value is very appealing because of its significant influence on risk tolerance. Implicitly the mean value accounts at 1.60 for monthly reviews. This undoubtedly denotes the reality that investors who track investments every month possess less risk tolerant capability. But, investors' who track their portfolios annually (Mean = 2.15) hold high risk tolerant capacity.

Finding and Conclusion

It is found that the five investment avenues are more popular among investors and they expose less tolerance to the investors. This financial asset possesses only moderate returns with assured returns. The risk is high for the speculative mutual funds whereas in the non-speculative sectors the risk tolerance is minimal. Therefore it determined that the meticulous investors with periodic tracking of risk involved in the investment always go for LIC Investments.

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