

AN IN-DEPTH ANALYSIS OF INVESTORS STRATEGIES: AN EMPIRICAL STUDY

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Abstract

The study was conducted to know analysis of various strategies of investors and to know how they react to various situations. The study was also conducted to know how economical factors affect the strategies of investors; those are applied in various situations by investors. The project was carried out at Share Khan Ltd, Chennai and the sample size of 200 investors was taken. The sample is selected on the basis of descriptive sampling. The study is designed as descriptive research studies. Using the questionnaire data was collected. Chi- Square test was used to analyze the data. The suggestions part of this study show how the to choose strategies and how react to various situations. This study clearly says that if the investors do analyse the scrip and market before go to invest then they can book high profit at least can reduce loses.

Keywords: Shares, Strategies, Investors, Market.

1. Introduction

Generally Investment is the sacrifice of certain present value for the uncertain future reward. Financial Investment is a form of this general or extended sense of the term. It means an exchange of financial claims – stocks and bonds (Collectively termed securities), Real Estates, mortgages, etc. In the present study, investment would imply the employment of funds with the objective of realising additional income or growth in value of investment at a future.

The term ‘strategy’ is derived from Greek word *Strategos*, which means generalship-the actual direction of military force. Strategies are the course of actions, which are believed to be necessary to achieve the objectives of an individual or a group.

Objectives of Study

- To identify various investment strategies of Investors.
- To understand the investment selection methods adopted by the investors.
- To understand how the economic factors affect the investor’s strategies.
- To study the various techniques of technical analysis and suggest suitable strategies for investors.

Research Methodology

Research Design

This Study adopts descriptive research design.

Descriptive Research Study

Descriptive Research, also known as **statistical research**, describes data and characteristics about the population or phenomenon being studied. Descriptive research answers the questions *who, what, where, when* and how.

Sample Size

Taking into the account the nature and the extent of the study, along with the constraint of time, a survey of 200 investors were taken as sample for this study.

Sample Design

As the population is infinite for the current study, the project adopts Non-Probability sampling technique. Samples for the study were selected on the basis of convenience sampling method.

Table 16: MACD table for Satyam

S. No	Date	Close	12 day	48 day	MACD 12&48	Signal 9
1	30-Dec-08	160.7	170.36	238.80	-68.44	
2	31-Dec-08	170.8	170.43	236.03	-65.60	
3	1-Jan-09	181.7	172.16	233.81	-61.65	
4	2-Jan-09	177.2	172.94	231.50	-58.56	
5	5-Jan-09	167.15	172.05	228.87	-56.83	



6	6-Jan-09	178.95	173.11	226.83	-53.73	
7	7-Jan-09	40.25	152.67	219.22	-66.55	
8	9-Jan-09	23.75	132.83	211.24	-78.41	
9	12-Jan-09	34.4	117.69	204.02	-86.33	-66.23
10	13-Jan-09	31.05	104.36	196.96	-92.60	-71.51
11	14-Jan-09	29.85	92.90	190.14	-97.24	-76.65
12	15-Jan-09	20.3	81.73	183.21	-101.48	-81.62
13	16-Jan-09	24.5	72.92	176.73	-103.81	-86.06
14	19-Jan-09	25.5	65.63	170.56	-104.93	-89.83
15	20-Jan-09	26.85	59.66	164.69	-105.03	-92.87
16	21-Jan-09	27.75	54.75	159.10	-104.35	-95.17
17	22-Jan-09	29.6	50.88	153.82	-102.93	-96.72
18	23-Jan-09	38.85	49.03	149.12	-100.09	-97.39
19	27-Jan-09	47.25	48.76	144.97	-96.21	-97.16
20	28-Jan-09	55.6	49.81	141.32	-91.51	-96.03
21	29-Jan-09	49.95	49.83	137.59	-87.76	-94.37
22	30-Jan-09	53.85	50.45	134.17	-83.72	-92.24
23	2-Feb-09	57.45	51.53	131.04	-79.51	-89.70
24	3-Feb-09	53.85	51.88	127.89	-76.01	-86.96
25	4-Feb-09	50.1	51.61	124.71	-73.10	-84.19
26	5-Feb-09	46.45	50.82	121.52	-70.70	-81.49
27	6-Feb-09	47.5	50.31	118.50	-68.19	-78.83
28	9-Feb-09	46.3	49.69	115.55	-65.86	-76.24
29	10-Feb-09	44.2	48.85	112.64	-63.79	-73.75
30	11-Feb-09	47.05	48.57	109.96	-61.39	-71.28
31	12-Feb-09	46.1	48.19	107.36	-59.17	-68.86
32	13-Feb-09	46.35	47.91	104.87	-56.96	-66.48
33	16-Feb-09	49.55	48.16	102.61	-54.45	-64.07
34	17-Feb-09	50.2	48.47	100.47	-52.00	-61.66
35	18-Feb-09	48.55	48.48	98.35	-49.86	-59.30
36	19-Feb-09	46.2	48.13	96.22	-48.09	-57.06
37	20-Feb-09	45.55	47.74	94.15	-46.42	-54.93
38	24-Feb-09	43.85	47.14	92.10	-44.96	-52.93
39	25-Feb-09	45.15	46.83	90.18	-43.35	-51.02
40	26-Feb-09	45.15	46.57	88.35	-41.77	-49.17
41	27-Feb-09	41.35	45.77	86.43	-40.66	-47.47
42	2-Mar-09	40.25	44.92	84.54	-39.62	-45.90
43	3-Mar-09	39.25	44.05	82.69	-38.65	-44.45
44	4-Mar-09	37.9	43.10	80.87	-37.76	-43.11
45	5-Mar-09	35.1	41.87	79.00	-37.13	-41.91
46	6-Mar-09	42.15	41.91	77.49	-35.58	-40.65
47	9-Mar-09	48.8	42.97	76.32	-33.35	-39.19
48	12-Mar-09	47.05	43.60	75.13	-31.53	-37.66
49	14-Mar-09	45.5	43.89	73.92	-30.03	-36.13

Figure 19: MACD of Satyam (last 4 months) Vs Signal of 9-Day

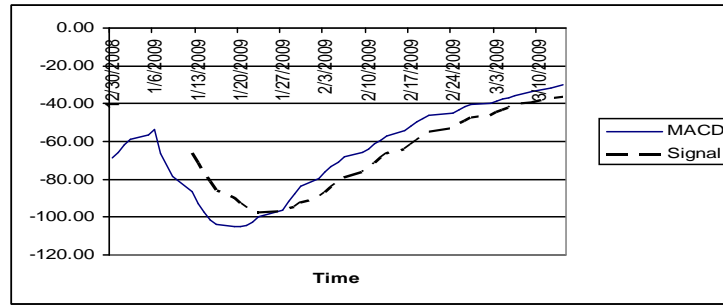
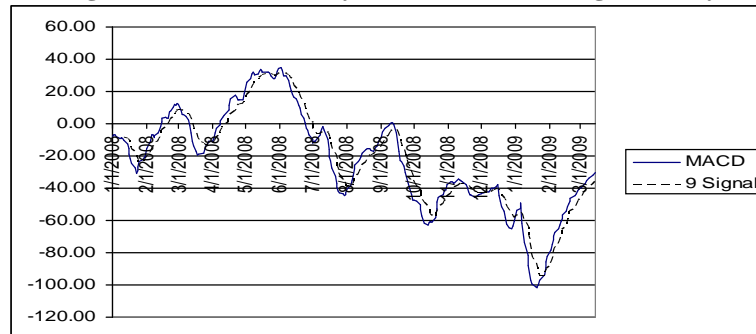


Figure 20: MACD of Satyam (Last Year) Vs Signal-9-Day



This MACD is useful for long term investment, but the above figure 2, shows trend for post period of Satyam scam, according to that graph there is no way to sell the scrip, and also that figure 2 has the MACD between 12 day and 48 day. When prepare MACD between 12 day and 26 day, it tells that the investors can buy scrip after 21st January but no way to sell the scrip. The figure 3 shows the full utility of MACD. The good strategy is to buy the scrip when the MACD moves up than signal line.

Table 17: RSI Table for Satyam

Date	Close	Avg Gain	Avg Loss	9 Day Avg (RS)	RSI- 9 Day
3-Nov-08	299.55				
4-Nov-08	277.2	0	22.35		
5-Nov-08	277.45	0.25	0		
6-Nov-08	269.95	0	7.5		
7-Nov-08	276.35	6.4	0		
10-Nov-08	296.6	20.25	0		
11-Nov-08	269.3	0	27.3		
12-Nov-08	265.35	0	3.95		
14-Nov-08	261.4	0	3.95		
17-Nov-08	251.9	0	9.5	0.360831657	26.515525
18-Nov-08	242.1	0	9.8		
19-Nov-08	233.3	0	8.8		
20-Nov-08	233.85	0.55	0		
21-Nov-08	240.6	6.75	0		
24-Nov-08	229.4	0	11.2		
25-Nov-08	234.35	4.95	0		
26-Nov-08	236.8	2.45	0		
28-Nov-08	242.9	6.1	0		
1-Dec-08	235.7	0	7.2	0.562162162	35.986159
2-Dec-08	232.75	0	2.95		
3-Dec-08	229.8	0	2.95		
4-Dec-08	232.3	2.5	0		



5-Dec-08	225.15	0	7.15		
8-Dec-08	223.55	0	1.6		
10-Dec-08	236.6	13.05	0		
11-Dec-08	224.45	0	12.15		
12-Dec-08	220.55	0	3.9		
15-Dec-08	225.65	5.1	0	0.672638436	40.214216
16-Dec-08	226.55	0.9	0		
17-Dec-08	157.1	0	69.45		
18-Dec-08	169.5	12.4	0		
19-Dec-08	162.7	0	6.8		
22-Dec-08	162.45	0	0.25		
23-Dec-08	140.7	0	21.75		
24-Dec-08	134.65	0	6.05		
26-Dec-08	135.65	1	0		
29-Dec-08	148.1	12.45	0	0.256471716	20.412056
30-Dec-08	160.7	12.6	0		
31-Dec-08	170.8	10.1	0		
1-Jan-09	181.7	10.9	0		
2-Jan-09	177.2	0	4.5		
5-Jan-09	167.15	0	10.05		
6-Jan-09	178.95	11.8	0		
7-Jan-09	40.25	0	138.7		
9-Jan-09	23.75	0	16.5		
12-Jan-09	34.4	10.65	0	0.330191458	24.822852
13-Jan-09	31.05	0	3.35		
14-Jan-09	29.85	0	1.2		
15-Jan-09	20.3	0	9.55		
16-Jan-09	24.5	4.2	0		
19-Jan-09	25.5	1	0		
20-Jan-09	26.85	1.35	0		
21-Jan-09	27.75	0.9	0		
22-Jan-09	29.6	1.85	0		
23-Jan-09	38.85	9.25	0	1.315602837	56.814701
27-Jan-09	47.25	8.4	0		
28-Jan-09	55.6	8.35	0		
29-Jan-09	49.95	0	5.65		
30-Jan-09	53.85	3.9	0		
2-Feb-09	57.45	3.6	0		
3-Feb-09	53.85	0	3.6		
4-Feb-09	50.1	0	3.75		
5-Feb-09	46.45	0	3.65		
6-Feb-09	47.5	1.05	0	1.51951952	60.309893
9-Feb-09	46.3	0	1.2		
10-Feb-09	44.2	0	2.1		
11-Feb-09	47.05	2.85	0		
12-Feb-09	46.1	0	0.95		
13-Feb-09	46.35	0.25	0		
16-Feb-09	49.55	3.2	0		
17-Feb-09	50.2	0.65	0		
18-Feb-09	48.55	0	1.65		
19-Feb-09	46.2	0	2.35	0.842424242	45.723684
20-Feb-09	45.55	0	0.65		
24-Feb-09	43.85	0	1.7		
25-Feb-09	45.15	1.3	0		

26-Feb-09	45.15	0	0		
27-Feb-09	41.35	0	3.8		
2-Mar-09	40.25	0	1.1		
3-Mar-09	39.25	0	1		
4-Mar-09	37.9	0	1.35		
5-Mar-09	35.1	0	2.8	0.10483871	9.4890511
6-Mar-09	42.15	7.05	0		
9-Mar-09	48.8	6.65	0		
12-Mar-09	47.05	0	1.75		
14-Mar-09	45.5	0	1.55		

Date	RSI - 9 Day
17-Nov-08	26.52
1-Dec-08	35.99
15-Dec-08	40.21
29-Dec-08	20.41
12-Jan-09	24.82
23-Jan-09	56.81
6-Feb-09	60.31
19-Feb-09	45.72
5-Mar-09	9.49

Figure 21: RSI of Satyam for last few months.

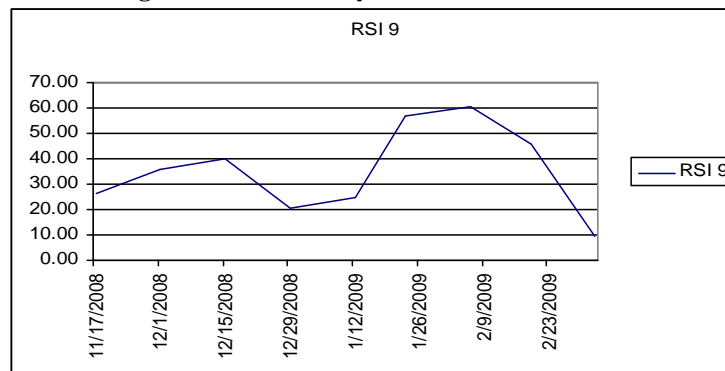


Figure 22: Closing Price of Satyam for short term

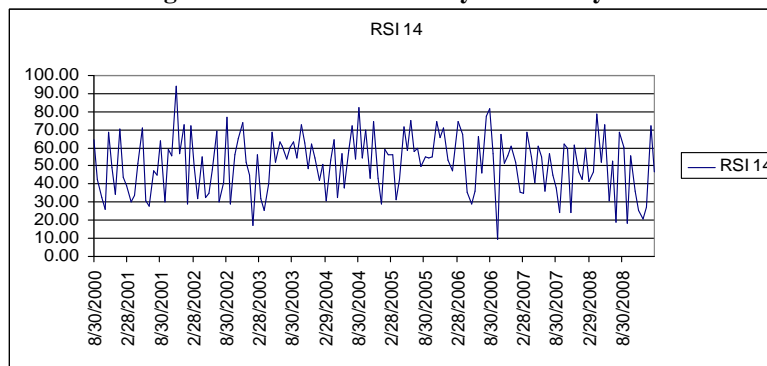


The RSI method tells that to buy the scrip when the RSI goes below the 30 points and to sell the scrip when it hits 70. When see the graph the scrip could buy at various stages but the traders cannot book much profit over the scrip.

Figure 23: Closing Price of Satyam for long term



Figure 24: RSI chart for Satyam over 8 years



11. Findings

- 42.5% of investors are doing Share market related jobs, and 31% of investors feel as a part time job. Only 12.5% of investors are doing as a main job and 13.5% of them are simply learners who all feel that trading is the time pass.
- Nearly 50% of investors are trading in weekly basis. It indicates that 18.5% of investors are trading in daily basis, 25.5% of them are occasional traders and less than 10% of investors only monthly traders.
- Nearly 38% of investors aim is to save their money in some places, 12% of the investors aim is to get huge profit, and 18.5% of investors have different idea for making investment. Even though the others category is the perception basis, Most of them in the others category feel that they have better social status when invest in investing avenues.
- The Risk table and charts shows that 68% of investors are moderate risk takers, 18.5% of investors are low risk takers and 6.5% of investors are huge risk takers. Only 7% of investors are no risk takers.
- The return table shows that 54.5% of investors expect minimum return between 10 and 20 percentages, nearly 20% of investors expect between 20 and 50 percentages, 11% of them expect more than 50% of return, and only less than 15% of them expects low return.
- When income of investors with expected returns of investors, both factors have positively correlated relationship. Their relationship coefficient is $r = 0.2966$
- From the chi-square analysis, the selection of media reference of investors for trading depends on the experience and also most of investors refer the T.V/ News paper and suggestion of stockbrokers than other Medias.
- 37% of investors like Technical than fundamental analysis, 37% of them like both analyses instead to prefer any of them, and 26% of investors like fundamental analysis.
- Nearly 50% of investors prefer to analyse the financial performance of company, 36% of investors prefer the other company details like their management, good will, reputation, etc... to select the scrip and 12% of investors like the economical analysis to select the scrip, only 2.5% of them prefer industrial details in fundamental analysis.
- 56.5% of investors like both intraday and delivery, 25% of them like intraday pattern and 18.5% only like delivery.
- 51% of investors like to invest only in growth period, 37% of them feel that Recession period is good for investing and 12% of them like to invest in recovery stage.
- From the Chi-square table, it is known that the reaction to the particular situation is depending on the risk level of the investor preference, the Reactions of investors when market goes down day by day and the scrip goes up depend on the risk level of the investors.



- When the particular industry hits recession, 36% of investors want to reduce the volume of that particular industry from their portfolio, 26.5% of them don't feel about value of industry they invest in some other industries to maintain the value in ideal so they keep same percentage of shares in their portfolio. At the same time 18.5% of them like to sell that industry shares and they replace the industry from their portfolio to diversify the risk and 19% of investors like to buy more shares of particular industry to maintain the value of portfolio.
- Among 37% recession period liking investors, 32.43% of them only like to buy the share in recession period, 51.35% of investors would like to reduce the volume on that particular recession period and 9.46% of them like to sell the shares, which show that their people like market recession not industry recession.
- Most of growth liking people doesn't like to buy the scrip when the industry hits recession; they mostly prefer either to keep same percentage (35.29%) or to reduce the volume (31.37%).
- From Chi-Square analysis it is known that, Portfolio selection of investors depend on the Risk level of Investor, Reaction of investors when the company is announced the dividend depend on the Risk level of Investor.
- The market over reacts when the company announce dividend and the Relevance model of Dividend theory is applicable for Satyam Company than Irrelevance Theory.
- Income and inflation are two very important factors, which affect the investment strategies of investors.
- It has found that the inflation and Sensex as well as Nifty are Negatively Correlated from rank correlation.
- The Indian Market is Semi strong and Strong of Efficient Market Hypothesis.

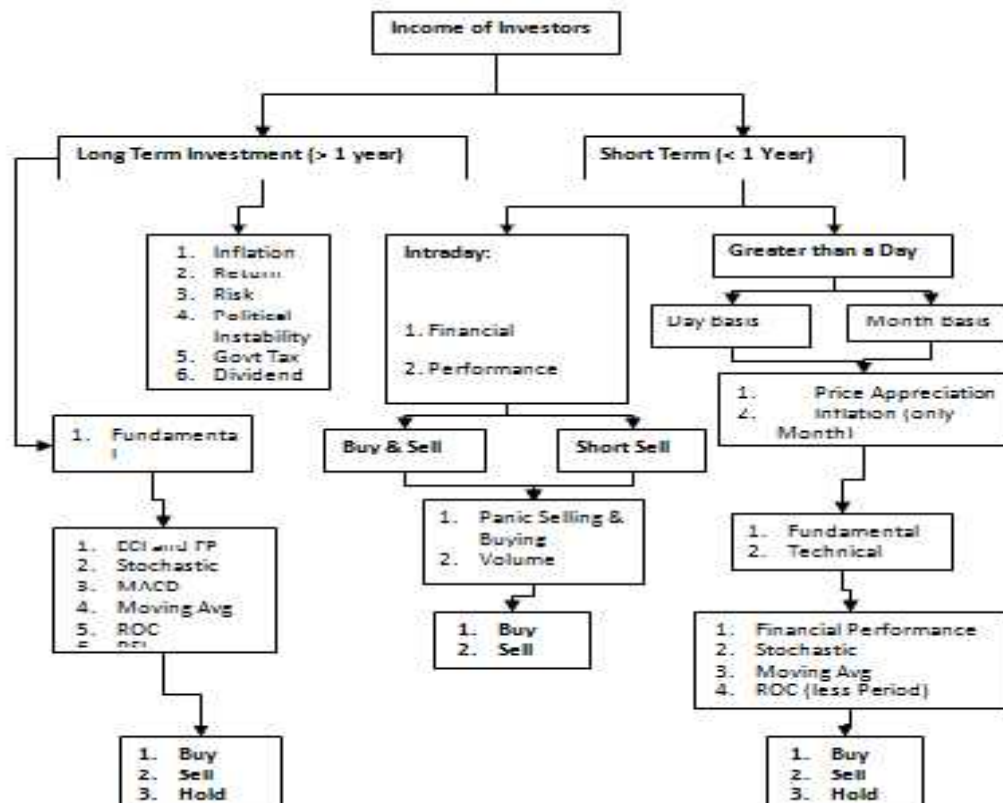
Suggestions

- The investors should always follow Technical and Fundamental analysis for trading.
- It is better not to take high risk for lower return; the return must be high when they take high.
- The good strategy is to choose the scrip depend on their risk and expected return, not to over expect return from the scrip.
- The correlation between the average expected return and the income of investors is 0.2966, the covariance is 30% when assume the standard deviations of both factor is 10%.
- As most of them use TV/ News paper as reference mode, there is possible for panic selling and panic buying, so the investors are advised not to take participate in those activities.
- 37% of investors prefer Technical analysis and 26% of investors like only fundamental analysis, so nearly 67% of them would not prefer both analyses. It is not good for investors; they must go through both analyses as much as possible.
- Nearly 50% of investors give more importance to financial performance than other, though the financial performance is good for very short-term trading, other factor (EIC) also important to select the scrip.
- The EIC analysis is very useful to maintain portfolio effectively.
- The following chart is very useful for the investor to select the scrip and to choose the corresponding strategies.
- The strategies are fully depend on the investors risk and expected return from the scrip of investors.
- The Technical charts only can tell what is to be done in those particular situations.

The Investment Chart for Investors

- 62.5% of investors like to buy the shares at low rate, when more sellers to the particular scrip. According to all technical analysis the best strategy is to sell the scrip when it has started to get down and buy at low rate. Even long-term investors are also advised to do the practice. When to buy and sell the scrip, is called risk level to this situation.
- 37% of investors like not to hold the scrip when the scrip is appreciated even the market goes down day by day, and 37% of investors like not to react to the situation. According to **Dow Theory** and moving average method the best strategy is to hold the scrip until it starts to come down, then sell the scrip.
- Though the portfolio construction depends on the risk preference of investors, the investors are suggested to refer all technical and fundamental analysis to reconstruct the portfolio. The market always over reacts for dividend announcement, so the investors are suggested to do analysis first, whether the dividend of particular company affects the market or not. If reacts then choose strategy according to that situation, if the market not react then better to not react to the situation.
- 0% of investors like not to invest in maturity period, but many companies have good performance even at maturity period also, some of industries don't have maturity stage like Pharmacy industries, so they are suggested to join those industries in their portfolio for average return.

Figure: 25: Investment guideline chart



- The investors are advised to predict the inflation range at the maturity period of the investment before choose the scrip. If the scrip ready to give more return than the inflation then they can choose those scrip otherwise not.
- More than 70% families live with one earning person, so that respondents will have fear to invest more in Market.
- If the company create new product, which has low brokerage rate, then most of them can trade more in market.
- Finally the all investors are suggested to find out the standard deviation and expected return from the past data before chooses the scrip.

Conclusion

Most of investors apply wrong strategies in various situations; it is the major cause for loses. If they analyse the scrip before go to invest then the can make profit but most of odd lot traders follow the panic selling and panic buying with out knowledge of the pattern and trend. If they give some to analyse then they can book profit at least they can reduce loses from trading. If traders refer the suggestion table then they can get clear idea about the scrip.

Future Idea

The study only analysed the strategies of investors in equity market not derivatives and commodity market. This study is base to analyse strategies of other market in future.

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