

Revised Final Proposal

Measures For Improving Common Investor Confidence In Indian Primary Market: A Survey

ABSTRACT

This research paper discusses the various measures of revival of common investor confidence in the Indian equity primary markets. The study is based on questionnaire survey results in ten cities of India.

The first part of the study concentrates on the decisions taken by the investors while investing in primary markets. It appeared from the analysis that the sample investors give importance to own analysis as compared to brokers' advice. They also consider market price as a better indicator than analyst recommendations.

The second part of the study identifies the factors, which are affecting primary market situation in India. Issue price, information availability, market price after listing and liquidity emerge as important factors.

The third part of the study evaluates various revival measures available. The evidence from this study suggests that investors need to be assured of some return and current level of risk associated with investment in market is very high. They have bad experience in terms of lower market price after listing and high issue price. Accordingly number of suggestive measures in terms of regulatory, policy level and market oriented were suggested to improve the investor confidence in equity primary markets.

The emphasis is on teamwork of all the market players in continuously improving the system and communication of the same to the investors.

Introduction.

Capital market is the backbone of any country's economy. It facilitates conversion of savings to investments. Capital market can be classified as primary and secondary market. The fresh issue of securities takes place in primary market and trading among investors takes place in secondary market. Primary market is also known as new issues market. Equity investors first enter capital market through investment in primary market. In India, common investors participating in the equity primary market is massive. The number of companies offering equity through primary markets increased continuously in the post independence period till the year 1995. After 1995, there is a continuous slump experienced by the primary market offering equity. The main reason for slump is lack of investor confidence in the primary market. So it is important to understand the causes and measures of revival of investor confidence leading to capital mobilization and investment in right avenues creating, economic growth in the country.

Globally, there are increased evidences to suggest that investor confidence has assumed an important role in the economic development of a country. The Economist (1998) indicated that a lot of issues need to be addressed to make capital markets safer. Transparency, strengthening financial system and managing crises are the issues, which cannot be quickly fixed. But they add up to a stronger system. David Bullard (1998) in Business Times has indicated that the private investors are the big losers on South African listings scam. Companies with no earning record and with inexperienced directors got listed on stock exchanges. Their only objective was profit making out of inflated market price. The net result is private investors lost confidence in the market.

Lee Hsien Loong (2000) while addressing Financial Institutions in Bangkok stressed the importance of rebuilding investor confidence for prosperity of ASEAN countries. He indicated that for investor confidence, rebuilding of sound fundamentals, dealing with capital account risks, economic co-operation among ASEAN, corporate restructuring, banking sector reforms and improvement of political and social conditions is important. Joseph.J.Oliver (2002) in his presentation to the senate standing committee on banking, trade and commerce, suggested that close to half of all Canadians have investments in equities and their confidence is essential to healthy and dynamic capital market. Deep bear market, corporate scandals, insider trading, high levels of executive compensation and inaccuracy of published financial statements are cited as reasons for lack of investor confidence in Canadian capital markets. He indicated that regulators, the accounting professionals, analysts, brokerage firms, public companies, shareholders and Government must contribute to ensure good corporate governance and reduce corporate failures. McCall (2002) in his testimony before the committee on financial services United States house representatives, observed that integrity of the financial markets and economic well being of the country depend on corporate accountability and investor confidence.

Revival of confidence of the investors is necessary to make the securities market more efficient means of converting savings to investment. Carolyn Kay Brancato (2002) indicated that even though Singapore had its share of stock market scams and corporate scandals, measures have been initiated to restore investor confidence. Reforms initiated by Government of Singapore, Regulatory authority, associations and media have resulted in regaining investor confidence. The Hindu (2002), online edition of Indian national newspaper has indicated that the spate of scandals in United States were being addressed by stricter laws and strong actions against culprits to prevent any recurrence of these events and to restore investor confidence.

2.0. Existing literature on Investor confidence

Many researchers have undertaken studies on the subject. Stiglitz and Weiss (1984) have indicated that any bunch of new entrants into the equity market contains a number of frauds. Potential investors know this, but cannot identify the frauds. Ritter (1991) has indicated that IPOs in the longrun are overpriced. Bumgarner and Pime (2000) have studied the capital flows to and from Hong Kong in the years prior to its reversion to Chinese sovereignty and during the transition. They have indicated that Government policies have an impact on investor confidence and capital mobility. Dechow, Hutton and Sloan (2001) found that analysts growth forecasts are routinely over optimistic around new equity offerings, but the most over optimistic are those analysts employed by the lead underwriters of the offerings. Bloomfield, Libby and Nelson (2002) have indicated that less informed investors are over confident in investments. Providing more information to professional investors only could harm the welfare of less informed investors if less informed investors are not aware of the extent of their informational disadvantage. Statman (2002) in his research compared the investors a century ago with investors today. He concluded that today's investors are more rapidly informed than their predecessors, but they are neither better informed nor better behaved. Hall (2002) has conducted research on broker's recommendations. He found that investors who invested in the Johannesburg securities Exchange (JSE) based on their brokers' advice, were able to get risk adjusted returns superior or equal to the market. Fieldstein and Yitzhaki (2000) have presented evidence to suggest that the corporate stock owned by high-income investors appreciate substantially faster than stock owned by investors with lower incomes. They have indicated that high-income individuals have larger portfolios and can therefore devote more time or resources to their investments, thus resulting in higher returns. Stout (2002) has indicated that investors have adaptive and not rational expectations. Adaptive expectations result in both trust and mistrust in securities market based on past actions.

In the Indian context, Gupta (1996) has indicated that from the angle of investor protection, the regulation of the new issue market is important for several reasons. The number of small investors in new issue market is massive. Most of new investors make their first entry

into equity investments via the new issue market. So retaining common investor confidence in primary markets is important. Madhusoodan (1997) has indicated that in the Indian stock market, higher risk is not priced, hence investment in higher risk instruments is of no use. Kakati (1999) has indicated that Indian IPOs are under priced in the short run and overpriced in the long run. Selling after allotment, around the listing month, is the cause of major return differences between IPOs performance in the short run and long run. Gokaran (2000) has studied the financing patterns of the corporate growth in the country. The study indicated that equity markets suffer serious inadequacies as a mechanism for raising capital. Murali (2002) has indicated that New issues market (NIM) focuses on decreasing information asymmetry, easy accessibility of capital by large sections of medium and small enterprises, national level participation in promoting efficient investments, and increasing a culture of investments in productive sector. In order that these goals are achieved, a substantial level of improvement in the regulatory standards in India at the voluntary and enforcement levels is warranted. The most crucial steps to achieve these goals would be to develop measures to strengthen the New issues market.

3. 0. COLLECTION OF DATA AND METHODOLOGY

The questionnaire approach was used by Schiller (2002) to measure investor confidence in the United States capital markets. Subsequently Tsutsui and Kon-ya along with Schiller used the same approach to measure investor confidence in secondary stock market in Japan. This survey also uses questionnaires (annexure B). Maiti (1997) has observed that shareholding is mainly restricted to ten cities in India. In this study, the primary data was collected from these ten cities of India. These cities had the highest shareholding density in the country. The cities are Kolkata, Bangalore, Pune, Chennai, New Delhi, Jaipur, Vadodara, Mumbai, Surat and Ahmedabad. A total of about 5,000 questionnaires were sent to the investors located in these cities using brokers, investor associations, managers of companies, professionals, Internet groups and other contacts. A response of 367 valid questionnaires was received. The responses were received from those investors who were willing to spend their time and wished contribute to research willingly only. So it constitutes a convenience sample.

The questionnaire has three parts. In the first part, the investor preferences for the decisions in primary market issues were graded using Likert scale. The data collected from the questionnaires in this part are analyzed using factor analysis. Factor analysis is used to identify the important combination of decisions taken by the investors while investing in primary market. In the second part the factors affecting the primary equity market were studied using ranks. Ranks were analyzed using Fried-Man two-way analysis of variance, to see whether a significant difference exist between various ranks given by the investors. The third part consisted of an open-ended question relating to measures to improve primary market situation. Content analysis was carried out to find out the important measures of revival.

3.0. DATA CHARACTERISTICS

The sample data is collected from 10 cities across India. The actual and proposed sample size is given in the table below.

TABLE 1. CITY-WISE DISTRIBUTION

Actual Responses Received	Frequency (%)	Proposed Sample Size	Frequency (%)	
Kolkata	70	19.1	64	6.4
Bangalore	28	7.6	50	5.0
Pune	48	13.1	77	7.7
Chennai	54	14.7	52	5.2
Delhi	53	14.4	81	8.1
Mumbai	48	13.1	178	17.8
Vadodara	18	4.9	178	17.8
Surat	12	3.3	62	6.2
Jaipur	23	6.3	70	7.0
Ahmedabad	13	3.5	188	18.8
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Total	367	100.0	1000	100.0

Out of proposed 1000 sample size, only 367 responses were received. Out of the total 367 responses received, maximum responses of 70(19.1%) were from Kolkata followed by Chennai 54 (14.7%) and Delhi 53 (14.4%).

TABLE 2. AGE-WISE DISTRIBUTION

The age of the respondents was categorized into three classes. 18-40 years category is for young persons, 40-60 middle aged and 60 and above senior persons. The age-wise distribution of the respondents is given as below.

The Age-wise distribution of the sample of respondents is given below:

Table:

AGE GROUP	SIZE	FREQUENCY(%)
18-40 Yrs	177	48.2
40-60 Yrs	174	47.4
60 and above	16	4.4
	-----	-----
Total	367	100.0

48.2% respondents are in the age group of 18-40 and 47.4% respondents are in the age group of 40-60 years and rest 4.4% respondents are in the age group of above 60 years.

TABLE 3. OCCUPATION-WISE DISTRIBUTION

The occupations are classified in to 4 categories. Those who are employed with public or private sector enterprises are classified as service category. Professionals such as doctors, lawyers, chartered accountants constitute the profession category. Those who run their own business are classified under business category and retired persons and housewives are classified as others. The occupation-wise distribution of the respondents is given below.

Table:

OCCUPATION	SIZE	FREQUENCY (%)
Service	233	63.5
Profession	39	10.6
Business	63	17.2
Others	32	8.7
	-----	-----
Total	367	100.0

63.5% of the respondents fall in service category followed by 17.2% in business, 10.6% in profession and 8.7% in others category.

4.1.0. INVESTOR DECISIONS IN PRIMARY MARKET

The responses given by the investors in the part I of questionnaire designed for the survey, decisions taken by the individuals for investing in primary market, are summarized as below.

4.1.1. The decision based on, investment in listed companies with good current market price, received the following responses.

Weight given	no. of Respondents	Percent
1.00 (least agree)	65	17.7
2.00 (some what agree)	35	9.5
3.00 (agree moderately)	58	15.8
4.00 (agree to a great extent)	72	19.6
5.00 (strongly agree)	137	37.3
	-----	-----
Total	367	100.0

From the 267 (72.7%) responses generated for weights 3,4 and 5, indicate that the investors agree that current market price is an important indicator before investing in new issues.

4.1. 2. The decision of investment based on advice from the broker received the following responses.

Weight given	No. of Respondents	Percent
1.00 (least agree)	115	31.3
2.00	65	17.7
3.00	99	27.0
4.00	49	13.4
5.00(strongly agree)	39	10.6
	-----	-----
Total	367	100.0

The responses generated for the weights 3,4 and 5 indicate that 187 (31.3%) of investors depend on the investment advice from the broker for investing in primary market.

4.1.3. Personal analysis is the self-evaluation of the information contained in the offer document by the investors. The decision of investment based on personal analysis generated the following responses.

Weight given	No. of respondents	Percent
1.00(least agree)	31	8.4
2.00	45	12.3
3.00	63	17.2
4.00	84	22.9
5.00(strongly agree)	144	39.2
	-----	-----
Total	367	100.0

The 291 (79.3%) responses generated for weights 3,4 and 5 together indicate that investors do personal analysis of the offer document before investing in the issue.

4.1.4. The distribution of investors who may sell shares after allotment is made is as given below.

Weight given	No. of respondents	Percent
1.00(least agree)	99	27.0
2.00	49	13.4
3.00	85	23.2
4.00	64	17.4
5.00(strongly agree)	70	19.1
	-----	-----
Total	367	100.0

219 respondents (59.7%), have indicated that they may sell shares after allotment in the primary market issues.

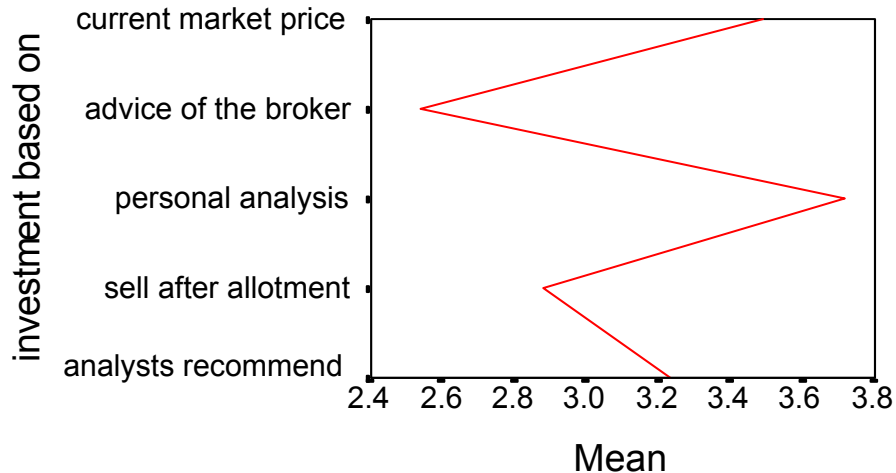
4.1.5. The distribution of investors, using analyst's recommendations, privately circulated or published is given as below.

weight given	No. of respondents	Percent
1.00(least agree)	62	16.9
2.00	45	12.3
3.00	85	23.2
4.00	94	25.6
5.00(strongly agree)	81	22.1
	-----	-----
Total	367	100.0

The responses generated for the weights 3,4 and 5 together indicate that 260 respondents (70.9%) use analyst recommendations for the investment decisions in the primary market investments.

4.2.0. Semantic Differential Profile

Semantic differential profile is a graphical representation of the mean weights, of all the responses given by the respondents, in the part I, decisions in the questionnaire.



1. least agree 5. strongly agree

A semantic profile of the investor decisions indicates that while investors give importance to current market price, own analysis and to some extent analyst recommendations, they give comparatively less weightage to brokers advice and for selling on allotment.

4.3.0 Factor Analysis

Factor analysis was carried out to find out the significant factors affecting investor decisions. Using data from a large sample, factor analysis applies an advanced form of correlation analysis to the responses to a number of statements. The purpose of this analysis is to determine if the responses to statements are highly correlated.

The result of the factor analysis is given as below.

4.3.1. Factor matrix

Factors are a combination of decisions that are important for investor decisions in primary market. These are linear equations of the statements (variables) measured during the course of study. How the factors are correlated with the statements is given by factor loading given below.

	Factor 1	Factor 2	Factor 3
Current market price	.22361	.68744	.54196
Advice from brokers	-.61826	-.00682	.62124
Personal analysis	.67051	.38653	-.12916
Sell after allotment	-.55910	.32434	-.45962
Analysts recommendations	.35895	-.65684	.25779

Three Factors were extracted using factor analysis. The factor 1 has a positive loading with personal analysis and negative loading with variable advice from broker. The factor 2 has a positive loading with investment based on current market price and negative loading with analysts' recommendation. Factor 3 is based on single statement, which is brokers advice.

4.3.2. Communalities and Eigen values

Communalities indicate the proportion of variance in the responses to statements, which are explained by the three factors. Eigen values are used to indicate how well any given factor fits the data from all of the respondents on all of the statements. Eigen values of above 1 or close to 1 are considered best.

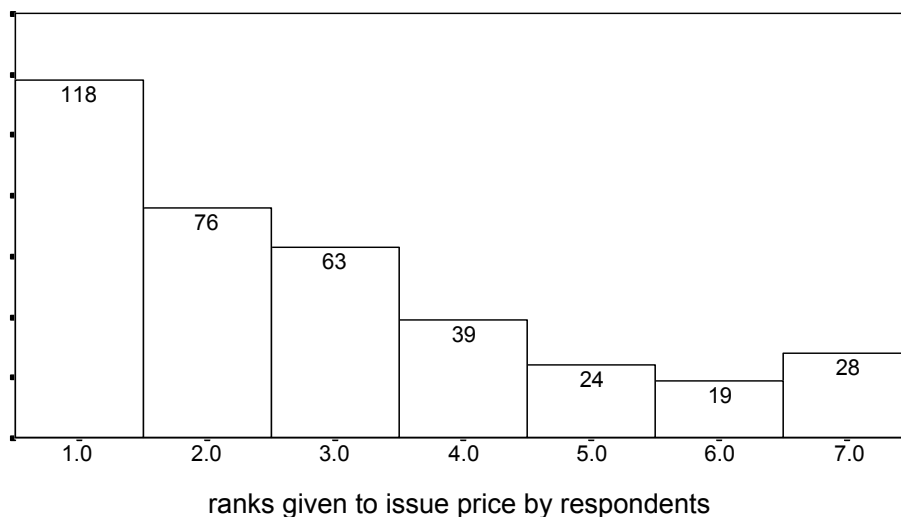
Variable	Communality	* Factor	Eigen value	Var.(%)	Cum(%)
Current market price	.81630	* 1	1.32327	26.5	26.5
Advice from brokers	.76823	* 2	1.15867	23.2	49.6
Personal Analysis	.61567	* 3	.97404	19.5	69.1
Sell after allotment	.62904	*			
Analysts recommendations	.62674	*			

The three factors have Eigen value equal to or greater than 1.0. Indicating that they best fit the data obtained from the responses to investment decisions in part I of questionnaire. Also the three factors together explain almost 69 % of the total variance in the responses to statements.

5. 0. FACTORS AFFECTING PRIMARY MARKET ISSUES

Respondents gave ranks from 1 (most important) to 7 (least important) on various factors affecting the primary market issues. These ranks were summarized and also tabulated based on the age and income categories of the respondents.

5.1.0. Issue price



296 (80.7%) respondents gave issue price the first four ranks indicating that it's an important factor affecting primary market situation.

5.1.1. Issue price rankings based on age

The rankings given by investors based on age are given as below.

Ranks	18-40yrs	40-60yrs	60 and above	Total	
1.00(most Imp)	54		57	7	118
				32.2	
2.00	46	28	2	76	
				20.7	
3.00	35	26	2	63	
				17.2	
4.00	11	27	1	39	
				10.6	
5.00	12	11	1	24	
				6.5	
6.00	11	7	1	19	
				5.2	
7.00(least imp)	8	18	2	28	
				7.6	
Column	177	174	16	367	
Total	48.2	47.4	4.4	100.0	

All the age groups have shown a similar importance to issue price, with more respondents giving first four ranks.

5.1.2. Issue price rankings based on occupation

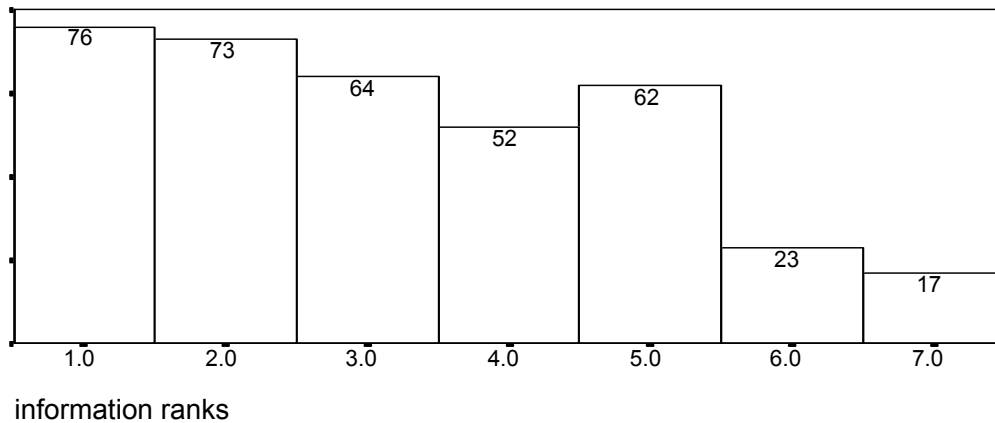
Issue price rankings given by the respondents based on occupation are given as below.

Ranks	Service	Profession	Business	Others	Total
1.00	68	14	27	9	118
					32.2
2.00	51	7	11	7	76
					20.7
3.00	48	6	2	7	63
					17.2
4.00	29	2	6	2	39
					10.6
5.00	15	3	4	2	24
					6.5
6.00	8	4	6	1	19
					5.2
7.00	14	3	7	4	28
					7.6
Column	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

Service segment has more weight in the sample and they (81.2%) have ranked issue price highly. Similarly in professionals, businesspersons and other categories highest number of respondents (74.3%, 73% and 78% respectively) gave first four ranks to issue price.

5.2 .0. Information availability

Ranks given by various respondents based on information availability are given as below.



265 (72.2%) respondents have indicated that they would rank information availability in the first four ranks. Thus indicating that information availability is an important factor affecting primary market issues.

5.2.1. Information availability rankings based on age

The various ranks given for information availability as compared to other factors, based on age categories are given as below.

	18-40yrs	40-60yrs	60 above	Total
Rankings				
1.00	43	29	4	76
				20.7
2.00	36	35	2	73
				19.9
3.00	34	30		64
				17.4
4.00	22	27	3	52
				14.2
5.00	26	31	5	62
				16.9
6.00	9	13	1	23
				6.3
7.00	7	9	1	17
				4.6
Column	177	174	16	367
Total	48.2	47.4	4.4	100.0

The various age groups have accorded importance to information availability. In the age group of 18-40 years, max respondents (76.2%) gave 1st to 4th ranks to information availability. In the Age group of 40-60 years, 69.5% respondents gave first four ranks and in the age group of 60 and above 56.25% respondents gave first four ranks to information availability.

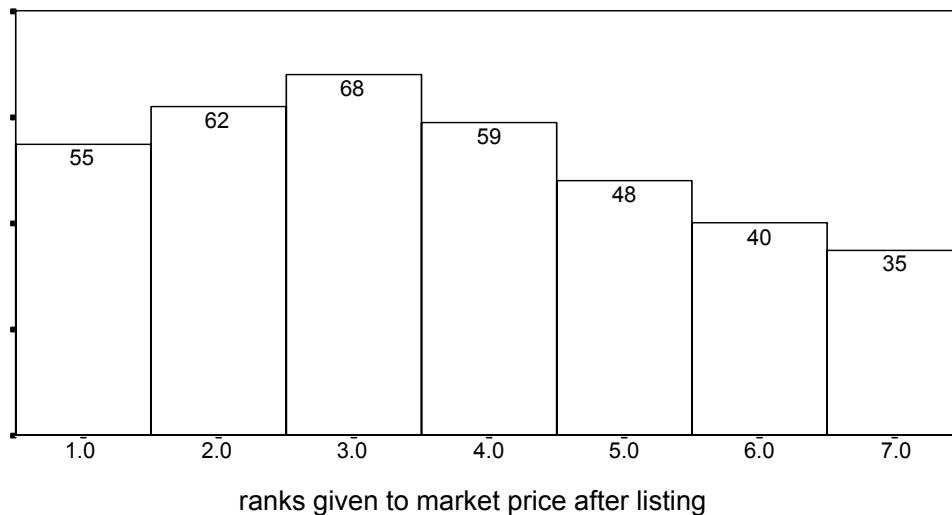
5.2.2. Information availability rankings based on occupation

Information availability as a factor affecting the primary market situation based on the occupation of the respondents is given as below.

	Service	Profession	Business	Others	Total
Ranks					
1.00	53	9	8	6	76
					20.7
2.00	54	6	8	5	73
					19.9
3.00	38	7	12	7	64
					17.4
4.00	26	10	11	5	52
					14.2
5.00	38	4	13	7	62
					16.9
6.00	16	2	4	1	23
					6.3
7.00	8	1	7	1	17
					4.6
Column	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

82% of professionals and 73.3% of service category and 71.8% of others and 62% of business category respondents ranked information availability as an important factor affecting primary market situation

5.3.0. Market price immediately after listing of securities and within the first week
The combined ranks given to market price after listing are given as below.



244(66%) respondents gave market price after listing as an important factor affecting primary market condition based on the first four ranks assigned by them .

5.3.1. Market price rankings on age

Ranks	18-40yrs	40-60yrs	60 above	Total
1.00	31	23	1	55
				15.0
2.00	23	35	4	62
				16.9
3.00	36	27	5	68
				18.5
4.00	26	33		59
				16.1
5.00	25	21	2	48
				13.1
6.00	20	17	3	40
				10.9
7.00	16	18	1	35
				9.5
Column	177	174	16	367
Total	48.2	47.4	4.4	100.0

In the age group of 18-40 years, 65.5% of respondents gave market price first four ranks. While in the age group 40 – 60 years, 67.8% gave importance to market price. 62.5% respondents gave market price first four ranks in age group of above 60 years.

5.3.2. Market price rankings on profession

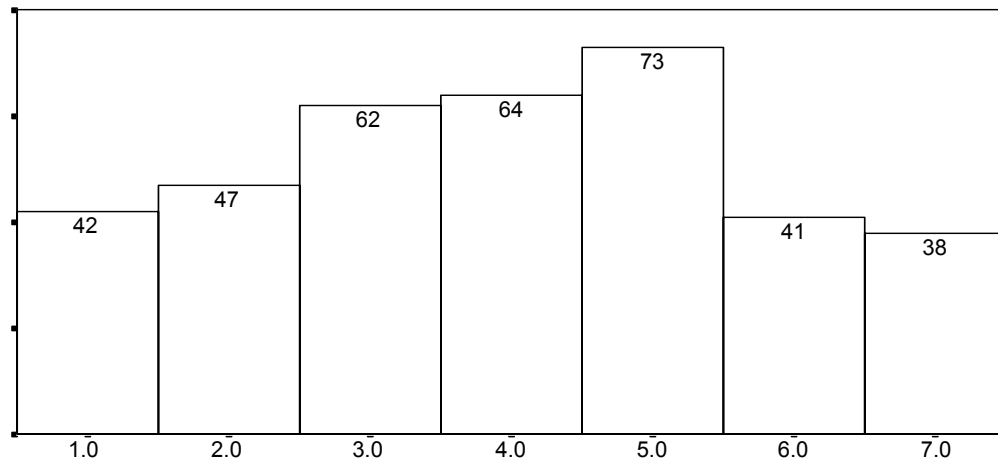
Market price ranking classification based on occupation are as given below.

	Service	Profession	Business	Others	Total	
Ranks	1.00	30	8	12	5	55
						15.0
	2.00	40	5	12	5	62
						16.9
	3.00	47	5	7	9	68
						18.5
	4.00	44	4	7	4	59
						16.1
	5.00	29	5	11	3	48
						13.1
	6.00	21	6	7	6	40
						10.9
	7.00	22	6	7		35
						9.5
Column	233	39	63	32	367	
Total	63.5	10.6	17.2	8.7	100.0	

69% of service category, 56.4% of profession category, 60.3% of business category and 71.8% of others category have ranked market price as a factor affecting primary market situation based on the first four ranks assigned by them.

5.4.0. Liquidity after listing

The ranks given by respondents for liquidity after listing are as below.



rankings given to liquidity in the shares

211(57.4%) respondents gave first 4 ranks to liquidity after listing as a factor affecting primary market.

5.4.1. Liquidity rankings on age

	18-40ys	40-60yrs	60 above	Total
Rankings				
1.00	17	22	3	42
2.00	21	25	1	47
3.00	24	36	2	62
4.00	33	27	4	64
5.00	40	30	3	73
6.00	23	18		41
7.00	19	16	3	38
Column	177	174	16	367
Total	48.2	47.4	4.4	100.0

53.6% of 18-40 years group, 63.2% of 40-60 year group and 62.5% of 60 and above category gave liquidity after listing in top four ranks as compared to other factors affecting primary market condition.

5.4.2. Liquidity rankings on occupation

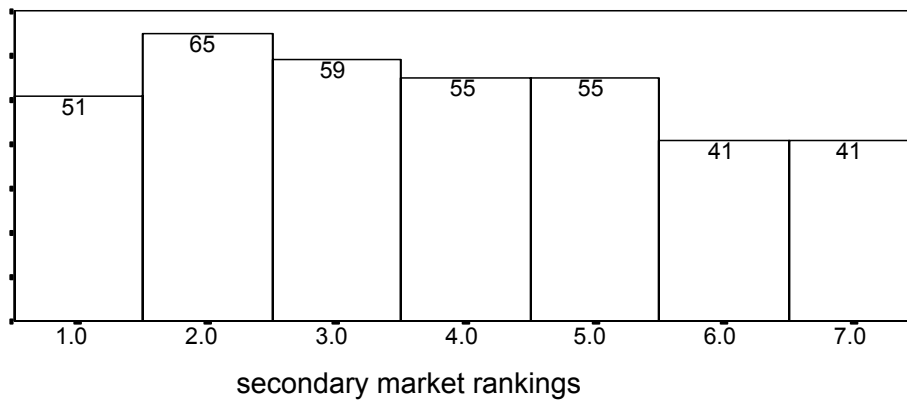
	Service	Profession	Business	Others	Total
Rankings					
1.00	29	5	5	3	42

					11.4
2.00	32	4	8	3	47
					12.8
3.00	31	8	19	4	62
					16.9
4.00	42	9	7	6	64
					17.4
5.00	51	5	8	9	73
					19.9
6.00	28	3	6	4	41
					11.2
7.00	20	5	10	3	38
					10.4
Column Total	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

75.7% of service category, 66.6% of professional category, 61.9% of business category and 50% of others category have ranked liquidity after listing in top four ranks.

5.5.0. Secondary market situation

The rankings given by respondents to secondary market situation as a factor affecting primary market, are as given below.



230 (62.6%) respondents ranked secondary market in the first four ranks, as a factor affecting primary market.

5.5.1. Secondary market rankings on age

Rankings	18-40yrs	40-60yrs	60 above	Total
1.00	19	29	3	51

				13.9
2.00	31	29	5	65
				17.7
3.00	31	25	3	59
				16.1
4.00	30	24	1	55
				15.0
5.00	28	25	2	55
				15.0
6.00	18	21	2	41
				11.2
7.00	20	21		41
				11.2
Column	177	174	16	367
Total	48.2	47.4	4.4	100.0

62.7% of 18-40 years age group and 61.5% of 40-60 years age group and 75% of above 60 age group considered secondary market as an important factor and assigned top 4 ranks.

5.5.2. Secondary market rankings on occupation

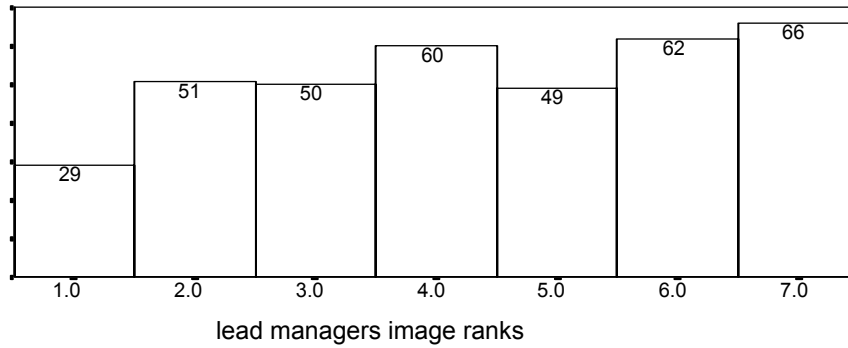
The ranks given by respondents to secondary market situation as a factor affecting primary market, are as given below.

Rankings	Service	Profession	Business	Others	Total
1.00	29	6	13	3	51
					13.9
2.00	40	12	7	6	65
					17.7
3.00	40	6	10	3	59
					16.1
4.00	34	4	12	5	55
					15.0
5.00	37	5	8	5	55
					15.0
6.00	26	2	8	5	41
					11.2
7.00	27	4	5	5	41
					11.2
Column	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

In service category 61.3% of respondents, in profession category 76.9% of respondents, in the business category 66.6% respondents and 53.12% respondents in others category gave secondary market top four ranks.

5.6.0. Lead managers' image

The ranks given by the respondents to lead managers' image as a factor affecting primary market situation are as below.



The first four ranks were given to lead managers' image by 190 (51.7%) respondents.

5.6.1. Lead manager's image rankings on age

Rankings	18-40ys	40-60yrs	60 above	Total
1.00	16	12	1	29
2.00	23	27	1	51
3.00	20	27	3	50
4.00	32	24	4	60
5.00	30	17	2	49
6.00	22	38	2	62
7.00	34	29	3	66
Column Total	177	174	16	367
Average	48.2	47.4	4.4	100.0

Lead manager's image was ranked in top four ranks by 51.4% of 18-40 years group, 51.7% by 40-60 years group and 56.25% of the respondents in the age group of above 60 years.

5.6.2. Lead Managers' image rankings on occupation

The ranks obtained for lead managers' image, as a factor affecting the primary market situation are given as below.

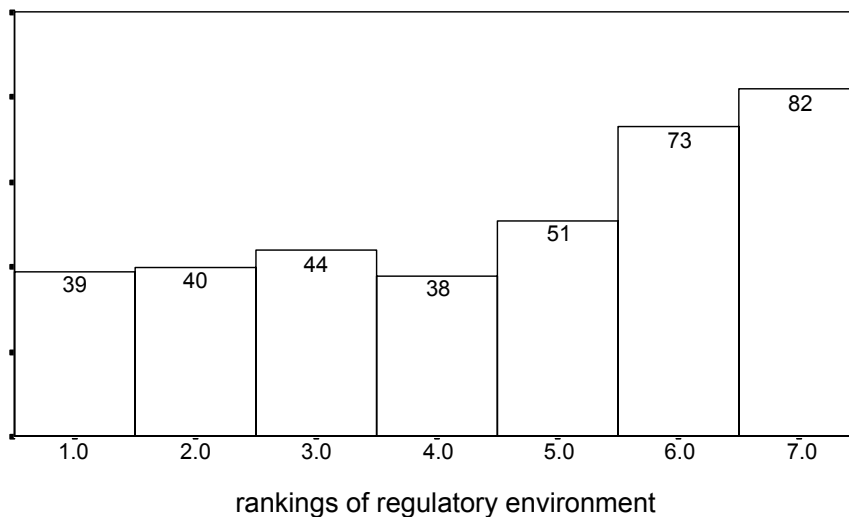
Rankings	Service	Profession	Business	Others	Total
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1.00	19	2	6	2	29
					7.9
2.00	31	5	14	1	51
					13.9
3.00	32	4	12	2	50
					13.6
4.00	36	5	11	8	60
					16.3
5.00	35	6	4	4	49
					13.4
6.00	37	10	8	7	62
					16.9
7.00	43	7	8	8	66
					18.0
Column	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

50.6% in service category, 41% in profession category , 68.2% in business category and 40.6% in others category gave lead managers' image the first four ranks.

5.7.0. Regulatory environment

The ranks given by the respondents to the regulatory environment, as a factor affecting primary market, are given as below.



161 (43.9%) respondents to regulatory environment gave the top four ranks. 206(56.1%) respondents gave the last three ranks to the regulatory environment as a factor affecting primary market situation.

5.7.1. Rankings of Regulatory environment on age

The rankings given by various age categories to regulatory environment are as given below.

Rankings	18-40yrs	40-60yrs	60 above	Total
1.00	20	17	2	39
				10.6
2.00	16	22	2	40
				10.9
3.00	20	18	6	44
				12.0
4.00	24	13	1	38
				10.4
5.00	19	31	1	51
				13.9
6.00	38	33	2	73
				19.9
7.00	40	40	2	82
				22.3
Column	177	174	16	367
Total	48.2	47.4	4.4	100.0

45.2% in the age groups 18-40 years, 40.2% in the age group of 40-60 years and 68.75% in the age group of 60 and above gave first four ranks to regulatory environment.

5.7.2. Rankings of Regulatory environment on occupation

The rankings given by respondents based on occupational categories are as given below.

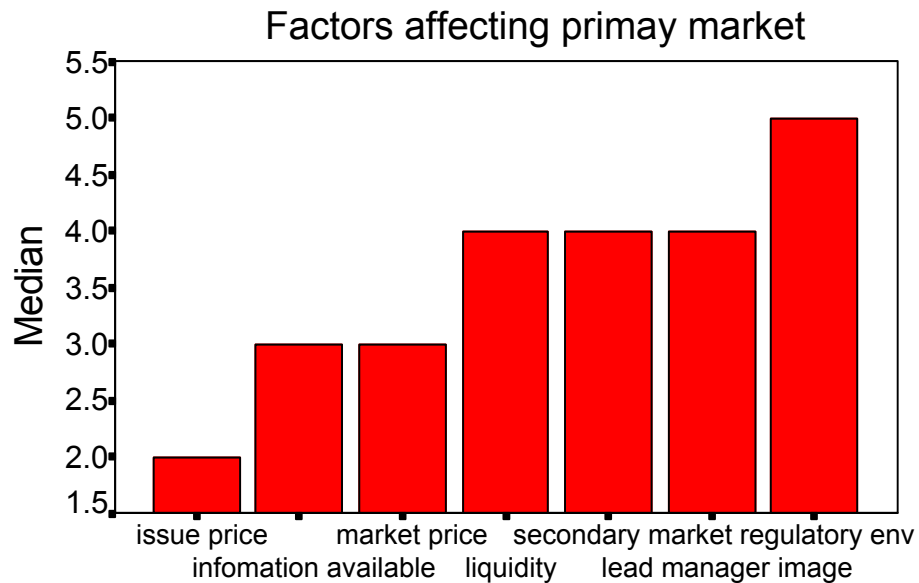
Rankings	Service	Profession	Business	Others	Total
1.00	25	3	8	3	39
					10.6
2.00	21	4	11	4	40
					10.9
3.00	29	6	5	4	44
					12.0
4.00	30	3	2	3	38
					10.4
5.00	30	7	8	6	51
					13.9
6.00	49	7	14	3	73
					19.9
7.00	49	9	15	9	82
					22.3
Column	233	39	63	32	367
Total	63.5	10.6	17.2	8.7	100.0

45% of service category, 41% of Profession category, 41.2% of business category and 62.5% of others ranked regulatory environment in top four ranks.

5.8.0. Percentiles of rankings

(Median)		
25th	50th	75th

	N	Percentile	Percentile	Percentile
Issue Price	367	1.0000	2.0000	4.0000
Information	367	2.0000	3.0000	5.0000
Market Price	367	2.0000	3.0000	5.0000
Liquidity	367	3.0000	4.0000	5.0000
Secondary Market	367	2.0000	4.0000	5.0000
Lead Manager's Image	367	3.0000	4.0000	6.0000
Regulatory Environment	367	3.0000	5.0000	6.0000



5.9.0. Friedman two-way Anova

Null hypothesis: The median ranks of all the factors are same.

Alternate hypothesis: The median ranks of atleast two factors differ.

Cases	chi-square	D.F.	Significance
367	168.7348	6	.0000

Chi-square critical value at 6 degrees of freedom and alpha = 0.001 is 22.46

Since the observed chi-square value is greater than critical value, we reject the null hypothesis that the median ranks of all the factors are same.

6.0. THE CONCLUSION

In the first part of the study, the decisions taken by small investors while investing in equity primary markets were studied. The decisions studied were investment in listed companies with good current market price, investment based on the advice from the broker, personal analysis of the offer document, selling shares after allotment and using analysts' recommendations in investment decisions. 72.7% of investors indicated that current market price is important. 31.3% investors use investment advice from the broker. 79.3% of the investors do personal analysis of the offer document before investing. 59.7% indicated that they may sell shares after allotment. 70.9% investors use analysts' recommendations in the investment decisions. The mean values given by the semantic profile also indicate the importance given to current market price, personal analysis and analysts recommendations.

Factor analysis indicates that investment decisions are based on personal analysis than brokers advice also current market price is a better investment indicator for investors than analysts' recommendations.

In the second part of the study, factors affecting primary market situation are studied. These factors are issue price, information availability, market price after listing, liquidity after listing, secondary market situation, lead managers' image and regulatory environment. The issue price emerges as one of the important factor affecting primary market issues with 80.7% of respondents giving first four ranks to issue price. A similar preference in various categories based on age and occupation were found. 72.2% respondents gave first four ranks to information availability as a factor affecting primary market situation. In the age category of above 60, only 56.25% considered information availability as important factor based on first four ranks. In the occupation categories, 82% of professionals considered information availability important as compared to 62% of businesspersons consider it important.

66% of respondents gave market price after listing as an important factor affecting primary market condition. The market price rankings based on age indicated similar responses. But in the

occupation categories, 56% of professionals gave importance and 71.8% of others, gave importance to market price after listing as a factor affecting primary market situation. 57.4% respondents gave liquidity as a factor affecting primary market condition. The classification based on age indicates similar preference. But in the classifications based on occupation, 75.7% of service category ranked liquidity as a important factor as compared to 50% in others category.

62.6% of the respondents ranked secondary market situation as an important factor affecting primary market situation. 75% of 60 and above age category and 76.9% of professional category consider secondary market situation as an important factor affecting primary market situation. 51.7% of the respondents ranked lead managers image as an important factor affecting primary market situation. The rankings based on age showed similar percentages. But in occupation category, 68.2% of businesspersons considered lead managers image as an important factor affecting primary market situation. 43.9% of the respondents ranked regulatory environment as an important factor affecting primary market situation. In the age category of above 60, 68.7% considered regulatory environment important and in the occupation category of others, 62.5% of others considered regulatory environment as an important factor.

The Fried-man test has indicated that median ranks of atleast two factors differ. The Issue price ranks first with the lowest median value (highest preference). Information availability market price after listing occupies 2nd and 3rd ranks respectively. Liquidity, secondary market situation and lead managers image occupy 4th, 5th and 6th ranks respectively. 7th rank is accorded to regulatory environment as a factor affecting primary market situation based on the highest median value (lowest preference)

Securities and Exchange Board of India (SEBI) – National Council for Applied Economic Research (NCEAR) report (June 2000) indicates that despite the expansion of the securities market, a very small percentage (1.4%) household savings is channeled into the securities market. Out of 12.1 million equity investors, 84% have invested in equity market through primary market. Thus primary markets play an important role in bringing investments into equity markets. Also the report indicates that 80% of equity investor households were first generation investors. So retaining their confidence is important. Report has also indicated that there is a decrease in

preference for equity due to the losses made in investments by the investors in equity markets. These losses in primary market are due to lower market price after listing. The study conducted on investor confidence also indicated the importance of issue price and market price, which were given an overall first and third respectively.

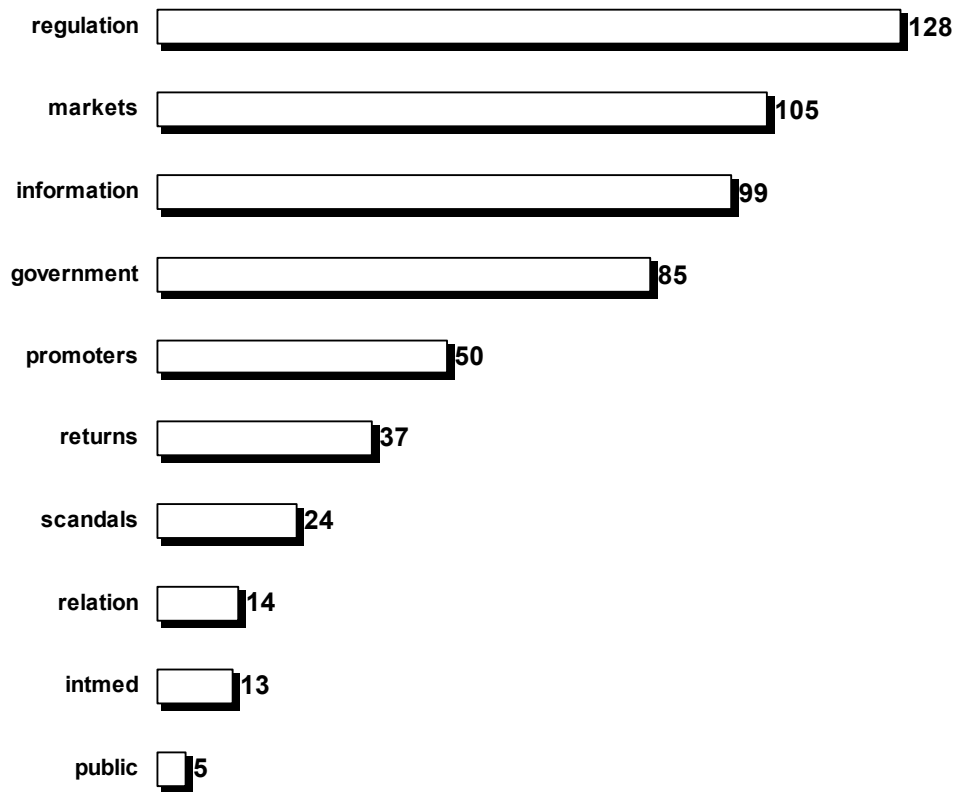
SEBI – NCEAR report also indicated that safety and liquidity are two primary considerations for choosing an asset. Safety in primary market implies that market price after listing should not fall below the issue price. Numbers of issues are trading at a discount to the issue price. Thus again issue price and market price relationship is an important concern, which needs attention. Liquidity in primary market implies ability to sell shares any time after listing without a substantial loss in investment value. Liquidity was ranked fourth in the investor confidence survey only behind market price.

Another aspect identified by SEBI – NCEAR report is that inadequate diversification of portfolio is the main reason for lack of protection from volatility in the market. For proper diversification, information about investment avenues or financial assets, also macro and micro level changes affecting market prices and understanding about diversification is important. Thus information about the issue and how it is going to affect ones own portfolio is to be analyzed. The investor confidence survey also indicates that information availability is second important factor, next to issue price. It indicates that investors prefer personal analysis to brokers advice. For carrying out personal analysis also information is required. Thus information plays an important role in investment decisions and needs of the investors in this area also need to be addressed.

Society for Capital Market Research and Development (SCMRD) (June 2001) report indicates that the reforms made secondary market safer but primary market is still perceived riskier than before. Thus policy initiatives are required for reducing this perceived risk. Investors have suggested number of recommendations in this regard.

7.0.0. RECOMMENDATIONS

The sample investors were asked to give their suggestions for improvement of primary market situation and they gave the following measures for strengthening primary market.



7.1.0. INFORMATION RELATED MEASURES

- Latest and easy availability of information
- Public information should be available
- Education of investors
- Transparency in the system
- Improve awareness of investors in the primary market

- f. Sensitive information should be made available to everyone at the same time
- g. Action against issue managers, analysts and company for providing over optimistic and wrong information
- h. Information related to promoters background and project implementation experience should be available
- i. Advertisements on the improvements taking place in the market should be released regularly

7.2.0. SCANDALS

- a. No scandals
- b. Regulation to control scandals
- c. Prevent corporate frauds
- d. Bogus companies not to be allowed to raise funds

7.3.0. PROMOTERS

- a. Strict action against cheaters
- b. Moral character of Board of Directors to be checked
- c. Only experienced promoters should be allowed
- d. More transparency in activities
- e. Dishonest promoters not to be allowed to raise funds
- f. At least 3 years of good past performance of companies
- g. At least 5 years of experience of promoters in the industry
- h. Disclosure of loans taken from various sources

7.4.0. PUBLIC

- a. More active investor associations to be provided
- b. Public consciousness development is important
- c. Understanding the riskiness associated with investment in shares

7.5.0. RELATIONSHIP WITH SHAREHOLDERS

- a. Provide better service
- b. Investors to have a say in decision making process
- c. Better communication between top management and shareholders
- d. Shareholders' interest to be considered while companies take decisions

7.6.0. RETURNS TO SHAREHOLDERS

- a. Security of investment
- b. More liquidity in primary market investment

7.7.0. REGULATIONS

- a. Tighter regulations
- b. Stable companies allowed to enter market
- c. Market price control
- d. Companies with good image of disclosures only to be allowed
- e. Stability of market
- f. Transparency in operations
- g. Excess regulation to be avoided
- h. Simplified and stringent procedures to be adopted
- i. Issue price should be controlled
- j. More powers to take action against frauds
- k. Post listing performance of company to be monitored
- l. Autonomy to regulatory authorities
- m. Better means of project appraisal

- n. Better methods of determining issue price
- o. Minimum standards for companies to enter market
- p. Improve quality of paper
- q. Prompt action against companies with complaints
- r. Demat account information should be proper and regular
- s. Price rigging before issue of securities to be controlled
- t. Speed up process of issuance so that issue price is not decided 3 months before listing
- u. Black list brokers, underwriters and merchant bankers
- v. Issue of shares at par or premium through separate agency
- w. More stringent screening of securities
- x. Ensure market stability.

7.8.0. GOVERNMENT

- a. Improve infrastructure
- b. Improve economic condition
- c. Abolish taxes on investment in shares
- d. Promote and attract investors
- e. Consumer friendly enactment are necessary
- f. Corruption to be checked at various levels
- g. Appoint independent nominees with good character
- h. Introduce rating of equity
- i. Take steps to protect small investors
- j. Encourage companies to buyback shares if not listed or saleable
- k. Encourage more Multi National Companies (MNC's) to get listed on Indian stock exchanges
- l. Develop stable policies
- m. Insurance of stock market investments should be developed
- n. Grievance redresses machinery should be more efficient
- o. Reduce political interference in markets
- p. Pension and provident funds should be allowed to invest in primary markets

7.9.0. INTERMEDIARIES

- a. Improve faith in brokers
- b. Honesty and fair dealing in brokers should be encouraged
- c. Lower brokerage
- d. Improve relationships with customers
- e. Broker activities are to be regulated
- f. Reduce number of brokers
- g. Take action against brokers with bad conduct
- h. Brokers with good research facilities to be allowed
- i. Banks and Financial Institutions to play a leading role
- j. Mutual funds should be allowed to actively invest in primary markets

7.10.0. MARKETS

- a. Improve trust of small investors
- b. Transparency of markets
- c. Volatility to be checked
- d. Market vigilance is important
- e. Proper audit of exchanges should take place
- f. Improve liquidity
- g. Allow good issue managers to manage issues
- h. Delisting of companies should be avoided

- i. Proper information on post listing activities should be made available by stock exchanges to investors
- j. Compulsory listing after completion of requirements only
- k. Market making activity to be improved
- l. Renew faith in the long-term
- m. Ensure new investors' confidence in the market
- n. More investment avenues to be made available
- o. Small investors to get firm allotment
- p. More margin to be taken from brokers
- q. Liquidity should be improved

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ANNEXURE I

Questionnaire for data collection.

Dear respondent, Your valuable time and effort in filling this questionnaire are highly appreciated. The information collected through this questionnaire will be used for academic purpose only.

PART I : Decisions.

Given below are some of the decisions taken by the individuals for investing in primary market. If you strongly agree put a tick (✓) under 5 and if you least agree put a tick (✓) under 1. Points 2,3 and 4 refer to various levels of agreement starting from somewhat agree, agree moderately and agree to a great extent. Please tick relevant box as per your choice. I request you to tick only one box per decision.

Decision	least agree					strongly
disagree	1	2	3	4	5	

1. I invest in primary market issues of listed companies with good current market price.
2. Investment decision is based on advice from the broker
3. I invest in shares based on personal analysis
4. I sell shares after allotment
5. I use analysts recommendations either privately
Circulated or published

Part 2: Factors affecting equity primary market issues.

Please rank the following factors in the order of decreasing importance, 1 highest and 7 lowest.

Factors	rank
a. issue price	
b. information availability	
c. market price immediately after listing	
d. liquidity after listing	
e. secondary market situation	
f. lead managers image	
g. regulatory environment	

Part 3: Revival measures

What important measures need to be undertaken to strengthen primary market situation?

- a.
- b.
- c.
- d.
- e.

Personal details: name (optional) age
occupation

Address (city)