

A Comparative Study Between Capital Market & Commodity Market As An Investment Avenue

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Abstract

In today's economic and competitive environment, different investment avenues are available to the investors. All investments have advantages & disadvantages. An investor tries to balance these benefits and shortcomings of different investment products before investing in them. Though there are different investments avenues available for an Indian investor, majority of them invest in stock market and commodity market. Investment made on capital market and commodity market is observed as an avenue for investor to generate income of their investment. Equity investment is a risky investment for which numerous factors have to be considered by the investors before investing in it. But nowadays more number of investors is shifting the investment from stock market to commodity market. The researcher analyse the stock market and commodity market with specific indices such Nifty and Commodity for the period of three financial years between March 2012 and March 2015. A comparative study is carried out based on the secondary data which examines two inter connected issues in commodity index and stock index with the help of statistical tools, the researcher has given the findings and conclusion along with the suggestions and recommendations.

Key words—Capital Market, Commodity Market, Investor, Investment, Nifty, Sectorial Indices, Commodity Index

Introduction

In India, generally all capital market investment products are perceived to be risky by the investors. Majority of the investors invests in the stock market and the commodity market, but they also get the benefits of the more return from their investments. But the younger generation investors are ready to invest in stock market and commodity market instruments. In recent days, trading volumes in the commodities market are picking up in India as the volatility and attractiveness of returns draws more investors. Investors may be individuals or institutions. The players and regulators in the capital market cannot afford to ignore the attitudes, aspirations, expectations and perceptions of individual investors. Investment in commodities can be done by day traders as well as medium and long-term position investors. Commodities are being used by global investors for hedging, hence it is a good investment option for position investors. In the current scenario, investing in stock markets is a unique challenge even for professionals. Derivatives acts as an alternative device tool for minimizing the risk involved in stock markets investments for getting the best results out of it. Trading in commodities is attractive due to the higher risk and higher return ratio. Commodities trades are highly leveraged, which means that the margin requirement for trading in commodities futures is rather low in comparison to overall position holding. Commodities prices are highly volatile in the recent times. Price fluctuation is due to turbulence in global markets, demand-supply mismatch, monsoon and high liquidity. This paper analyses two interrelated issues in capital and commodity markets, namely, the cyclical relationship between stock index and commodities index.

Literature Review

Senthil D (2015) has undertaken a study on the investor's behaviour towards investment made in capital market with an objective to study the investment behaviour of investors and to study the factors

effecting of different investors. The study was carried out with a sample of 150 respondents through a structured questionnaire. It was concluded that investor is one who not only make profit but also should study the market and understand the risk taking ability with clear investment objectives. The investor should also determine the rate of return and also the time period of his investment. It is also concluded that technology can also help in improving the awareness level of the investors and in rebuilding investor confidence. It also suggested that investors should take with stop loss and should not encourage over trade. Also the investor should not trade in all the stock of a particular sector, but trade in all the sectors.

Dhiraj Jains & Nakul Dashora (2012) has carried out a study on impact of market movements on investment decision “An empirical analysis with respect to investors in Udaipur, Rajasthan” with a sample of 110 respondents through a structured questionnaire. The study was conducted with an objective to study the influence of age on investment pattern and income level on investment decisions. It also analysed the investment pattern of investors to various capital market information. The results revealed that the ability to understand the judgment criteria like irrationality and rationality in investment pattern and behavior that enables the investor to be cautious as its consequences affect the lifestyle, asset value and relationship with others. The study also revealed that investors prefer investing in both primary and secondary market instruments. Further most of the decision are rational and influenced by the several information available in market. It was also found that investors prefer the wait and watch policy for taking their decision, and are very cautious and their decisions are influenced by various psychological factors and behavioral dimensions.

Anil Kothari & Deepti Gulati (2015) has carried out a study titled “Investment in Gold and Stock Market: An Analytical comparison” with an objective to find out the relationship between gold price and stock market index – Sensex and to compare investment returns from Gold and stock market. The study has considered the gold prices and Sensex index for the period from 1979 to 2013. It was concluded that Gold is a safe investment whereas stock market appears to be volatile and risky in nature. As per the granger causality test result indicates a unidirectional relationship from SENSEX to Gold prices indicating SENSEX effects Gold prices. High degree of positive correlation exists between SENSEX and Gold Prices. It also revealed that according to short run and long run return analysis it was observed that returns yielded by stock market were comparatively higher than gold investment returns. It was also suggested that one can use the information of SENSEX to predict Gold prices in the long run. It also recommended that long run information role of open interest is a good indicator for the usefulness of a technical analysis in future market.

Suresh Babu R (2014) has undertaken a study on individual investor's perception on equity investment with a sample of 120 respondents. The study was carried out in Chennai with an objective to find the investors perception towards the equity and tax saving mutual funds and to study the performance of the equity / tax saving mutual funds. It also aimed to find out the consistency of performance confined to selective equity / tax saving mutual funds. The research revealed that major parameters namely, Rate of Return, Liquidity and Market share the elite performance of the Equity/Tax saving mutual fund. The researcher has taken the growth in NAV to arrive at the elite performance of Equity/Tax saving mutual fund. It also revealed that the AMCs plays with the funds of the investment it is the moral responsibility to maximization the wealth of the investor's. Hence it is imperative that the organization should be watchful in making investment towards the various financial instruments which safeguard the interest of the investors.

Sivarethinamohan & Aranganathan P (2013) has carried out a study on investors' perception in Indian Commodities market with an objective to study the investors' preference in commodity market and to understand the relationship between the demographic factors and the various factors influencing the investor's decision regarding the commodity market. The study was conducted with a sample of 200 respondents in the district of Trichy, Tamilnadu. The research concluded with investment behavior

of investors and their attitude towards commodities market investments stating that different respondents consider the different factors to take their investment decisions particularly in commodities market investments, such as risk and return factors. It also revealed that Long term investments are highly suggested than short term investment, because long term investments give a steady return for long time also it will make the investors to increase their knowledge in commodities market products and its trend and directions.

Kaushal A Bhatt (2013) undertook a study to analyse the investment and trading pattern of individuals dealing in stock market with a sample of 150 respondents from the city of Jamnagar. The researcher conducted the study with the objective to analyse the investment habit of the people of Jamnagar, to understanding the influencing force behind the decision making and to find out the best suitable medium for investing in different investment avenues. The research concluded that the investors are very sensitive about safety of their investment they insist more safety and reliability also. Equity market is more popular among investors due to higher return but at the same time lack of proper knowledge and ambiguity, investors do not invest in that sector. But investors who have proper knowledge and willingness to take risk up to some extent are investing in Equity market. It also concluded that investors of Jamnagar city are investing their money with the balance of safety, reliability and return on investment.

Rajeev Jain (2012) has done a study on Investor's attitude towards secondary market equity investments and influence of behavioural finance with an objective to evaluate investor's attitude towards stock market operations and to analyse the investors' preference towards traditional trading and online trading in derivatives and cash segments. The study was carried out with a sample 494 respondents in Indore and Ujjain cities. The study revealed that only a few investors create immense wealth from the stock market and also manage to keep it for long period. The investors learn from their mistakes and capitalize their investment during the next rise. It also revealed that managing money is the most difficult and important skill. It also helped in understanding the satisfaction level with their investment pattern and the psychology that works behind equity market investment decisions.

Objective of the study

1. To analyse the performance on the return on investments between stock indices and commodity indices.
2. To compare Nifty with Commodity Index and identify the return generated by the sectoral indices and commodity index.
3. To study the correlation between the Nifty and sectoral indices.
4. To study the correlation between the Stock and commodity Index.

Research Methodology

The present study has been conducted on the basis of the secondary data and descriptive in nature. The required data has been collected through the websites of National stock exchange and Commodity stock exchange. The researcher selected the sectoral index such as Nifty Junior, Nifty Midcap, Bank Nifty, Energy, FMCG, Information Technology, Automobiles and Metal Indices. Similarly in the Commodity market, indexes of Agriculture, Commodity, Metal and Energy are considered. The secondary data has been collected for the period between March 2012 and March 2015.

Data Analysis and Interpretation

Secondary data has been collected from the National stock exchange and Commodity stock Exchange website. The Historical data collected has been analysed and the same has been tabulated in the tables given below:

Table - 1 Monthly closing values of selected indices of Stocks for the period March 2012 to March 2015.

Month	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy	FMCG	Info Tech	Auto	Metal
Mar-12	5295.55	10450.20	2301.00	10212.750	7557.20	11426.05	6516.00	4207.00	3054.75
Apr-12	5248.15	10226.25	2206.65	10276.800	7503.30	12139.85	6085.40	4433.15	2970.25
May-12	4924.25	9563.15	1984.55	9534.050	7073.55	11646.15	6008.80	3739.75	2698.55
Jun-12	5278.90	10099.55	2137.00	10340.650	7543.50	12729.10	6144.60	3966.40	2870.35
Jul-12	5229.00	10028.55	2059.05	10384.100	7567.70	12893.30	5695.25	3829.75	2783.15
Aug-12	5258.50	9892.15	1994.30	9990.500	7620.20	13641.60	6072.35	3889.25	2554.80
Sep-12	5703.30	11042.75	2252.45	11456.800	8071.65	14136.00	6313.80	4369.55	2768.40
Oct-12	5619.70	10898.45	2174.40	11475.150	7785.65	14523.50	6087.85	4329.40	2665.75
Nov-12	5879.85	11790.60	2288.45	12158.900	7740.30	15551.85	6263.25	4556.00	2711.30
Dec-12	5905.10	12340.05	2369.50	12474.250	7927.40	15175.25	6024.95	4830.55	2900.25
Jan-13	6034.75	12270.55	2324.85	12708.600	8482.65	15265.35	6778.00	4649.90	2773.25
Feb-13	5693.05	11457.75	2011.55	11487.350	7828.95	14594.25	7106.65	4424.80	2360.35
Mar-13	5682.55	11222.80	1933.00	11361.850	7551.50	15321.90	7219.05	4224.60	2232.10
Apr-13	5930.20	12042.40	2089.20	12561.550	7935.10	16815.95	6047.70	4632.45	2199.30
May-13	5985.95	12312.05	2023.75	12475.650	7852.10	17509.05	6472.05	4769.05	2155.10
Jun-13	5842.20	11546.65	1891.65	11617.250	7998.50	16688.20	6634.15	4539.45	1969.20
Jul-13	5742.00	11161.95	1830.00	10015.750	7716.65	17480.95	7787.35	4441.40	1736.30
Aug-13	5471.80	10494.40	1769.55	9049.200	7379.90	16283.05	8382.40	4345.60	1932.55
Sep-13	5735.30	11208.00	1884.35	9617.800	7515.35	17637.40	8167.80	4681.95	2067.80
Oct-13	6299.15	12209.40	2084.45	11473.150	8100.05	17617.00	8852.80	5163.90	2284.15
Nov-13	6176.10	12363.40	2177.90	11153.950	7799.05	17004.00	8820.75	5283.15	2346.00
Dec-13	6304.00	12933.25	2302.75	11385.250	7961.20	17020.15	9517.85	5285.00	2486.60
Jan-14	6073.70	11993.05	2131.20	10237.750	7516.30	16861.20	9957.45	5009.85	2279.65
Feb-14	6276.	12180.00	2168.50	10764.70	7424.	16845.	10338.5	5467.	2163.

Month	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy	FMCG	Info Tech	Auto	Metal
14	95			0	15	70	5	25	65
Mar-14	6704.20	13469.05	2465.15	12742.050	8329.45	18085.25	9298.00	5803.20	2429.45
Apr-14	6696.40	13587.30	2525.35	12855.850	8310.80	17573.25	9227.95	5866.50	2501.20
May-14	7229.95	15511.95	3049.30	14793.400	9667.50	17831.60	8970.30	6385.10	3096.90
Jun-14	7611.35	16486.20	3380.25	15241.900	9968.45	17434.00	9912.30	6775.15	3308.75
Jul-14	7721.30	16285.70	3150.45	15267.600	9510.50	18778.75	10304.70	6907.15	3295.80
Aug-14	7954.35	16764.70	3131.40	15740.400	9629.00	19308.60	10679.65	7683.60	3080.50
Sep-14	7964.80	17003.85	3127.50	15392.250	9275.15	19876.05	11302.70	7899.35	2865.50
Oct-14	8322.20	17715.65	3293.30	17045.050	9758.90	19393.90	11341.05	8246.90	2966.40
Nov-14	8588.25	18568.00	3418.35	18513.150	9465.30	20027.45	11898.05	8540.25	2838.65
Dec-14	8282.70	18677.70	3363.45	18736.650	8640.90	20126.20	11216.30	8281.20	2661.05
Jan-15	8808.90	19546.45	3484.30	19843.750	8920.65	21165.75	11824.75	8930.85	2513.30
Feb-15	8901.85	19704.35	3438.50	19691.200	8696.15	21102.35	12659.80	8935.35	2600.05
Mar-15	8491.00	19441.70	3373.65	18206.650	8264.25	19879.60	12083.00	8621.75	2324.45

Table -2 Compounded Annual Growth Rate (CAGR) of selected stock indices for 3 years

	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy Index	FMCG Index	IT Index	Auto Index	Metal Index
CAGR - 3 Years	17.04	22.99	13.60	21.25	3.03	20.27	22.86	27.02	-8.70

Following can be inferred from the above table-2

- All the indices have given positive return except for Metal Index.
- Automobile Index has given the highest return with 27.02% over a period of three years while Junior Nifty and Information Technology index has taken the second and third position with 22.99% and 22.86% respectively.
- Bank Nifty has given a compounded annual growth rate of 21.25% and FMCG index has grown 20.27%
- Nifty junior, Bank Nifty, FMCG Index, IT Index and Automobile Index have outperformed the Nifty over the period of 3 years.
- Energy Index has given a return of 3.03% over the three year period.
- Metal Index has given a negative return of 8.70% for the 3 year period.

Chart – 1 Compound Average Growth Rate (CAGR) of Stock Indices for 3 years

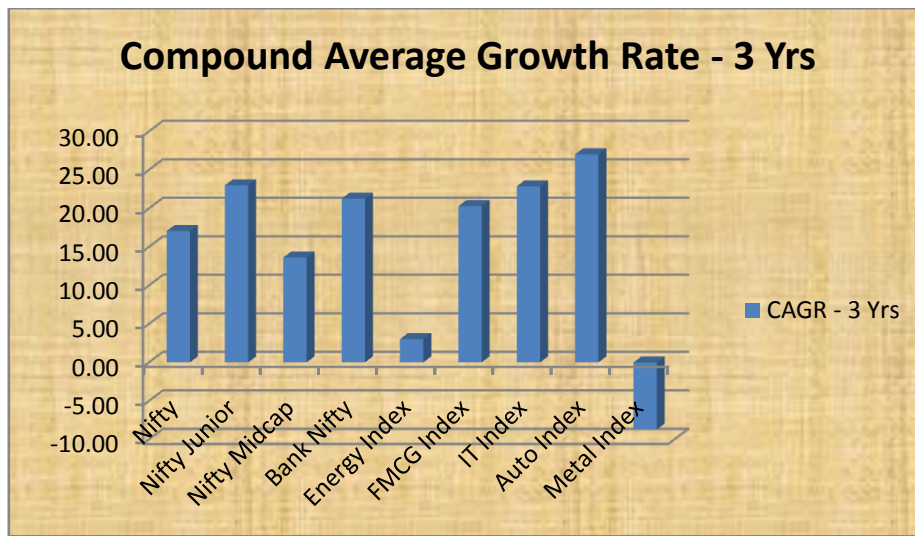


Table – 3 Return and performance comparison of selected indices and Nifty for the period March 2012 to March 2015

Absolute Return - Year wise									
	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy Index	FMCG Index	IT Index	Auto Index	Metal Index
Year 1	7.31	7.39	-15.99	11.25	-0.08	34.10	10.79	0.42	-26.93
Year 2	17.98	20.02	27.53	12.15	10.30	18.04	28.80	37.37	8.84
Year 3	26.65	44.34	36.85	42.89	-0.78	9.92	29.95	48.57	-4.32
3 Years absolute	60.34	86.04	46.62	78.27	9.36	73.98	85.44	104.94	-23.91

Following inferences can be made from the above table - 3

- Auto industries index has the highest absolute return for a three year period with 104.94% while Nifty Junior and Info technology index has taken the second and third position with 86.04% and 85.44% respectively for the same period.
- Metal Index has given a negative return of 23.91% over the three year period.
- Energy Index has very negligible positive return with 9.36%. However it has given negative returns for year 2012-13 and year 2014-15
- Highest return of 44.34% was given by Junior Nifty in year 3 followed by 42.89% by Bank Nifty in the year 3
- Highest negative return was 26.93% by Metal Index in year 1 followed by 15.99% negative return by Nifty Midcap also in year 1
- Nifty, Junior Nifty, Nifty Midcap, Bank Nifty, IT Index and Auto Index has given consistent increase in year on year return.
- Other indices have given a return between 40% and 80%

Table – 4 Observations of Indices relating to absolute Return

Absolute Return –Observations									
	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy Index	FMCG Index	IT Index	Auto Index	Metal Index

Absolute Return –Observations									
	Nifty	Nifty Junior	Nifty Midcap	Bank Nifty	Energy Index	FMCG Index	IT Index	Auto Index	Metal Index
No of Years	3	3	3	3	3	3	3	3	3
Negative observation returns	0	0	1	0	2	0	0	0	1
Median Return %	17.98	20.02	27.53	12.15	-0.08	18.04	28.80	37.37	-4.32
Average Return %	17.31	23.92	16.13	22.10	3.15	20.68	23.18	28.78	-7.47
Max Return %	26.65	44.34	36.85	42.89	10.30	34.10	29.95	48.57	8.84
Minimum Return %	7.31	7.39	-15.99	11.25	-0.08	18.04	10.79	0.42	-26.93
Standard Deviation %	9.69	18.78	28.21	18.01	6.21	12.30	10.75	25.20	18.09

Following are the interpretations from the above table – 4

- Energy Index has given negative return for 2 years and Nifty Midcap and Metal Index has given negative returns for 1 year each.
- Standard Deviation is very high in case of Nifty Midcap and it is very low in case of Energy Index.

Chart – 2 Growth of selected stock Indices for the period 3 years from April 2012 to March 2015

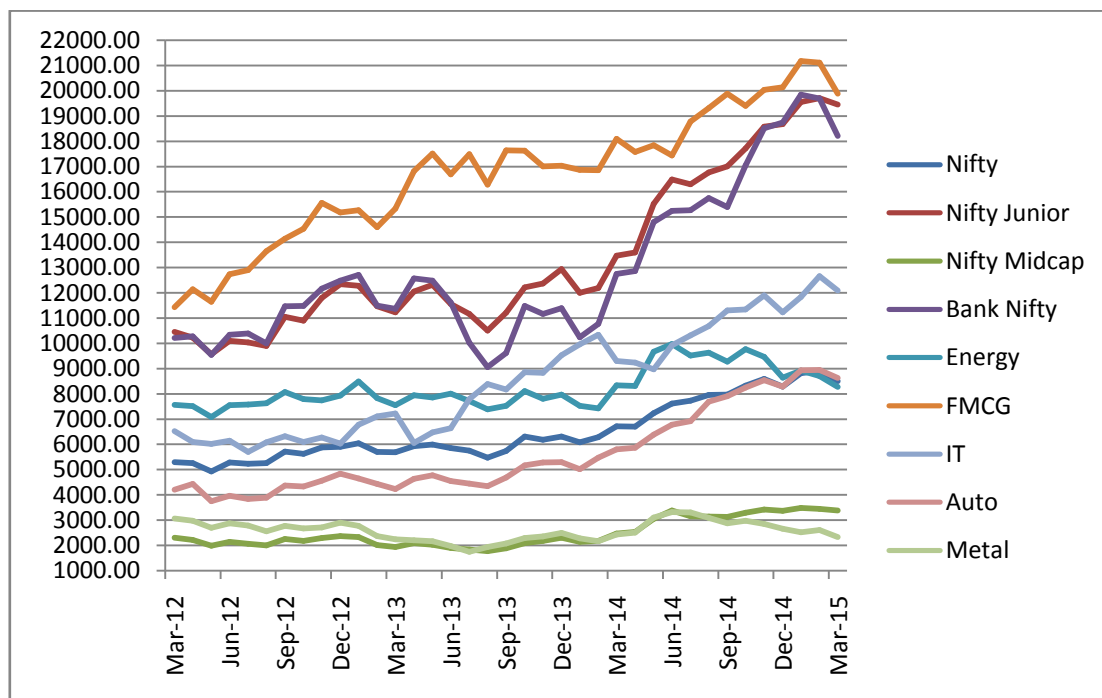


Table – 5 shows the major categories of commodities traded in the Commodity Market

Name of the Commodity Index	Major Commodities traded
Metal Commodities	Aluminum, Copper, Nickel and Zinc
Agricultural Commodities	Sugar, Channa, Chilli, Pepper, Soya and Mustard oil
Energy Commodities	Crude Oil and Natural Gas

Table - 6 Monthly closing values of selected indices of Commodities for the period March 2012 to March 2015.

Month	Commodity Index	Agriculture Index	Metal Index	Energy Index
Mar-12	3925.86	3613.21	4946.50	3454.13
Apr-12	4010.83	3477.28	5071.75	3617.76
May-12	3711.22	2763.45	4949.43	3318.01
Jun-12	3676.50	2801.95	4939.45	3218.47
Jul-12	3766.84	2846.56	4966.70	3403.81
Aug-12	3922.26	2794.18	5174.94	3625.85
Sep-12	3805.49	2260.71	5363.59	3400.33
Oct-12	3679.83	2236.66	5136.93	3312.29
Nov-12	3808.83	2253.28	5375.84	3400.47
Dec-12	3801.01	2327.97	5239.98	3478.65
Jan-13	3835.16	2332.52	5224.76	3580.40
Feb-13	3741.40	2330.16	5031.53	3531.03
Mar-13	3788.55	2277.95	4925.04	3786.21
Apr-13	3503.75	2221.53	4435.38	3563.61
May-13	3618.26	2309.93	4541.65	3710.86
Jun-13	3667.37	2400.61	4358.07	3976.80
Jul-13	3879.64	2320.76	4583.87	4342.80
Aug-13	4509.09	2577.38	5489.21	4945.72
Sep-13	4109.47	2436.83	5027.23	4438.96
Oct-13	4015.81	2564.37	4989.74	4169.19
Nov-13	3942.26	2584.44	4842.00	4115.66
Dec-13	3996.76	2523.62	4813.02	4316.75
Jan-14	3962.19	2439.41	4750.94	4331.05
Feb-14	4134.85	2640.80	4952.96	4477.26
Mar-14	3925.02	2612.05	4622.62	4276.41
Apr-14	3939.24	2524.64	4706.62	4273.08
May-14	3806.67	2337.28	4452.98	4275.72
Jun-14	3999.26	2355.97	4795.44	4424.64
Jul-14	3906.82	2304.36	4848.47	4157.09
Aug-14	3804.92	2023.15	4813.14	4068.08
Sep-14	3686.40	2100.52	4542.76	3991.62
Oct-14	3455.54	2115.00	4401.09	3525.81
Nov-14	3257.02	2019.92	4365.95	3092.33
Dec-14	3040.26	2118.90	4375.84	2469.38
Jan-15	2883.52	2031.51	4361.98	2119.43
Feb-15	2948.45	2167.27	4271.91	2310.43
Mar-15	2914.81	2091.98	4266.19	2266.31

Table -7 Compounded Annual Growth Rate (CAGR) of selected Commodity indices for 3 years

	Commodity Index	Agriculture Index	Metal Index	Energy Index
CAGR - 3 Yrs	-9.45	-16.65	-4.81	-13.11

Following can be inferred from the above table-6

- All the indices have given negative return for the period of 3 years.

- Among the indices Agricultural index has the highest negative return of 16.65% and metal index has the lowest the negative return of 4.81%

Chart – 3 Compound Average Growth Rate (CAGR) of Commodity Indices for 3 years

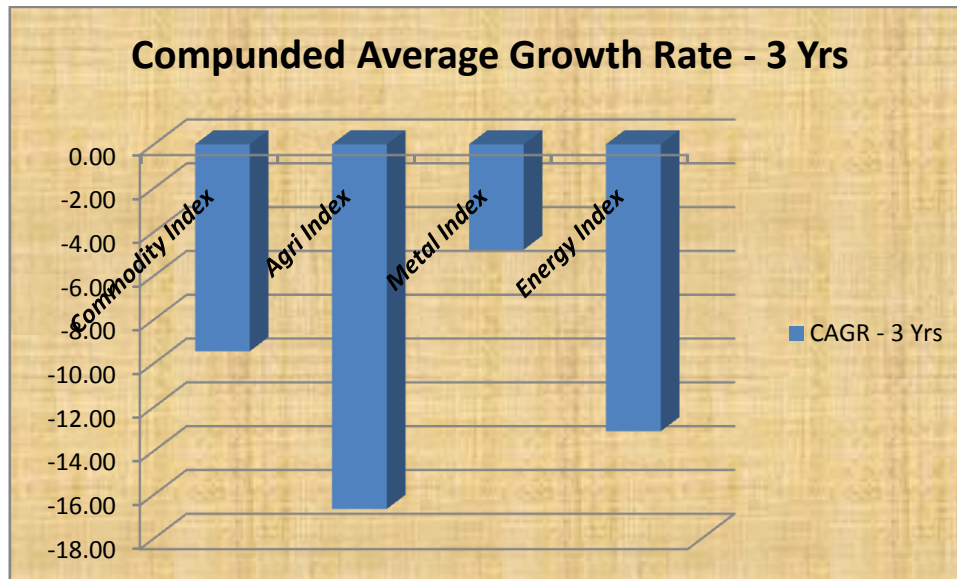


Table – 8 Return and performance comparison of selected indices and Nifty for the period March 2012 to March 2015

Absolute Return - Year wise				
	Commodity Index	Agriculture Index	Metal Index	Energy Index
Year 1	-3.50	-36.95	-0.43	9.61
Year 2	3.60	14.67	-6.14	12.95
Year 3	-25.74	-19.91	-7.71	-47.00
3 Years absolute	-25.75	-42.10	-13.75	-34.39

Following inferences can be made from the above table - 7

- Energy index has given positive return in year 1. Similarly Agriculture index and Energy index has given positive return in year 2. Commodity index has also given marginal positive return in year 2.
- All indices have negative return during year 3 with Energy being the highest negative return with 47%.

Table – 9 Observations of Indices relating to absolute Return

Absolute Return - Year wise				
	Commodity Index	Agriculture Index	Metal Index	Energy Index
No of Years	3	3	3	3
Negative observation returns	2	2	3	2
Median Return %	-3.50	-19.91	-6.14	9.61
Average Return %	-8.54	-14.07	-4.76	-8.15
Max Return %	3.60	14.67	-0.43	12.95
Minimum Return %	-3.50	-36.95	-6.14	9.61

Standard Deviation %	15.31	26.30	3.83	33.69
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Following are the interpretations from the above table – 9

- All the Indices have given negative returns for 2 years.
- Standard Deviation is very high in case of agriculture index and it is very low in case of Metal Index.

Chart – 4 Growth of selected Commodity Indices for the period 3 years from April 2012 to March 2015

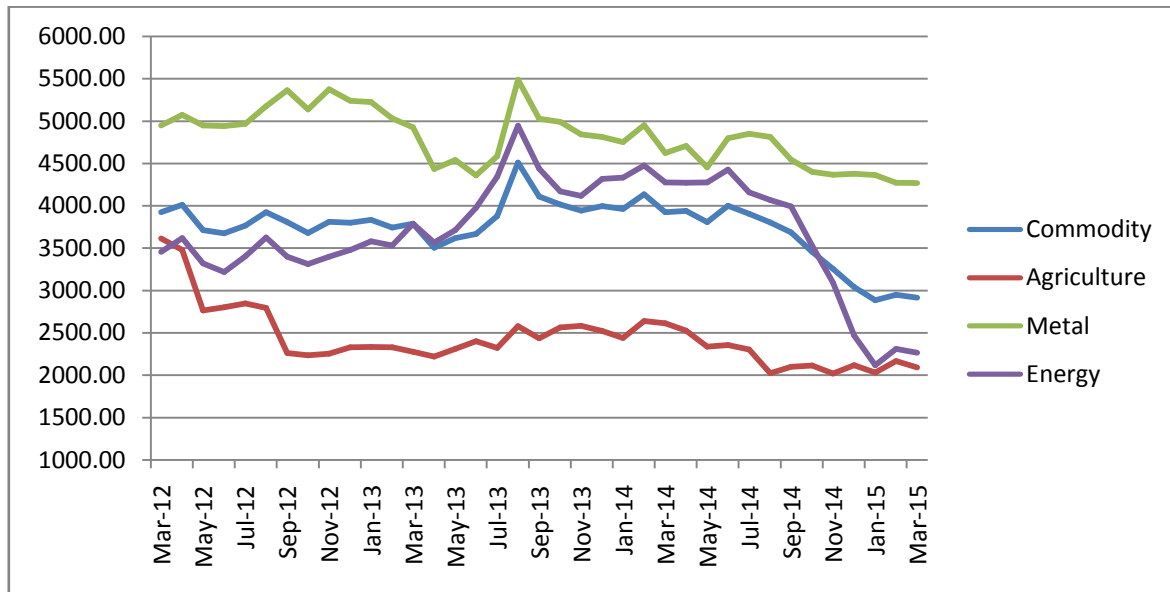
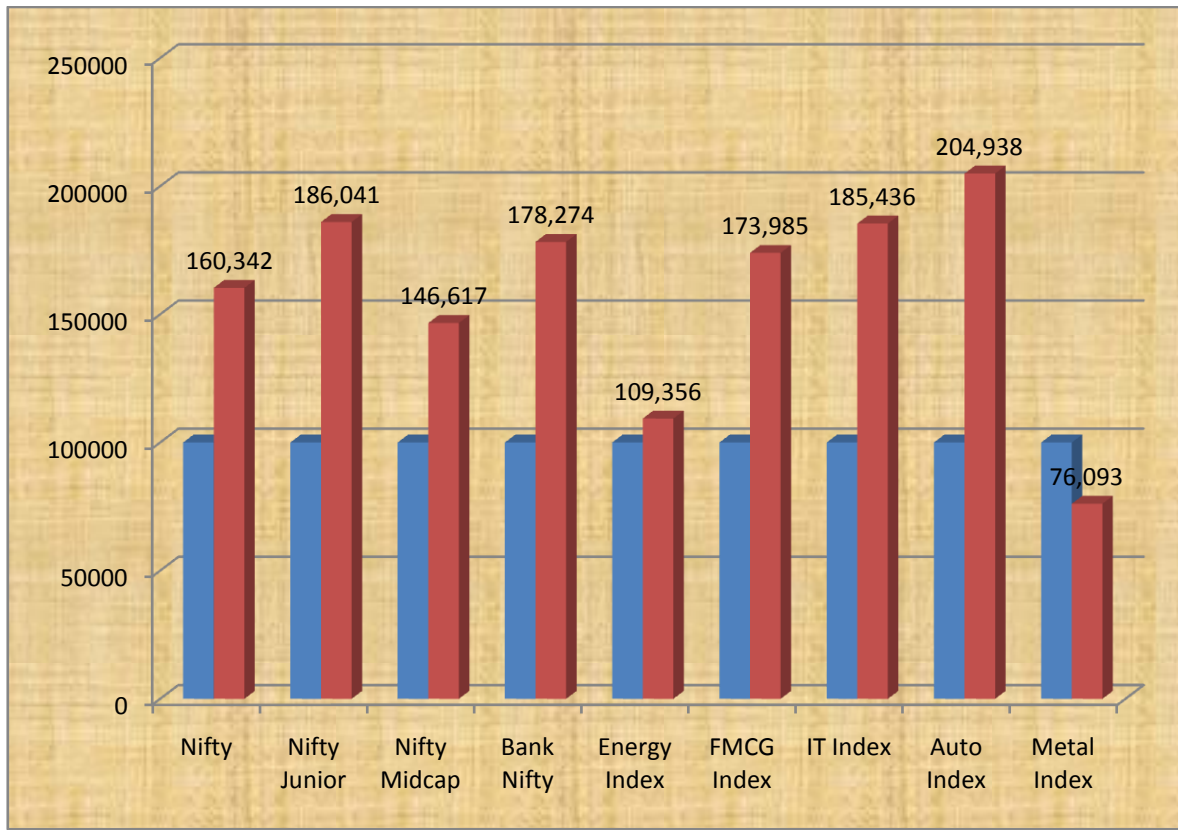


Table – 9 shows the correlation between Nifty and Commodity Indices with other sectoral indices.

Correlation between	Value of r	Remarks
Nifty and Nifty Junior	0.9947	Strong and Positive
Nifty and Nifty Midcap	0.9436	Strong and Positive
Nifty and Bank Nifty	0.9590	Strong and Positive
Nifty and Energy Index	0.8195	Positive
Nifty and FMCG Index	0.8847	Strong and Positive
Nifty and Information technology Index	0.9106	Strong and Positive
Nifty and Automobile Index	0.9925	Strong and Positive
Nifty and Metal Index	0.2958	Positive and Weak
Commodity and Agricultural index	0.4944	Positive
Commodity and Metal Index	0.6949	Positive
Commodity and Energy Index	0.8938	Positive and strong
Nifty and Commodity	(-) 0.6543	Negative
Metal stock and Metal commodity	0.0629	Weak and positive
Energy stock and Energy Commodity	(-) 0.0794	Weak and Negative

Table-10 shows an amount of Rs.100000 invested in March 2012 on different stock indices would have become the following in March 2015



Salient Findings

1. Investments in Stock indices yield better return than the commodity indices.
2. Nifty has given absolute return of 60.34% over the 3 year period from March 2012 to March 2015.
3. All the stock indices have given positive return on Compounded Annual growth rate except for Metal Index where it was negative growth.
4. Auto industries index has the highest absolute return for a three year period with 104.94% while Nifty Junior and Info technology index has taken the second and third position with 86.04% and 85.44% respectively for the same period.
5. Majority of the selected stock indices has given an return of more than 20% over the three year period.
6. Commodity indices are more volatile and riskier than the Stock indices. Commodity indices are suitable for very short term investment up to 3 months.
7. All the commodity indices have given negative return for the period of 3 years.
8. Nifty junior, Bank Nifty, FMCG Index, IT Index and Automobile Index have outperformed the Nifty over the period of 3 years.
9. Except for metal stock index all other sectoral indices have strong and positive correlation with Nifty.
10. Nifty and Commodity index are negatively correlated.

Conclusion

A successful investor is not only makes huge profits but also studies the market, understands his risk taking ability, sets the clear investment objectives, determines the expected rate of return and also decides the time and period of investment. Technology can support in a big way in making investor aware and in rebuilding investor confidence. Though there is no one-to-one correlation between commodities stock price movement and commodity prices, if all other things are equal, commodity prices form the most important factor in the pricing of commoditiesbased stocks. Agricultural

commodities are difficult investment avenues for the small and medium investors and traders. However, there is a lot of price volatility in agricultural commodities that creates speculative opportunities for investors with a high risk appetite. The research concludes that investment in stock indices would be more beneficial to the investors as against the investment on commodities indices which is more volatile and highly risky. Also the commodities market would not be suitable for a long term investments.

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