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"An Empirical Analysis of Financial Risk Tolerance and Risk Capacity with respect to Investment Strategies"

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ABSTRACT

Financial risk tolerance plays a critical role in investment decisions. It acts as a compass, guiding individuals towards investments that align with their comfort level for risk. Since investment decisions aim to maximize expected utility (satisfaction from returns), accurately measuring risk tolerance becomes essential.

This research paper aims to investigate the empirical relationship between financial risk tolerance and risk capacity concerning investment strategies. The study intends to measure the degree of risk an investor is willing to take and their financial ability to bear the risk. The research will use a quantitative research design to collect primary data from a sample of investors through surveys. The findings of this study may provide insights into the factors that influence investors' risk-taking behaviour and how financial institutions can tailor investment products to cater to individuals with different risk profiles. In essence, this paper sheds light on how factors like age, income, and marital status can influence an investor's risk tolerance.

Ultimately, this research on the connection between demographics and risk tolerance and risk capacity contributes to a more comprehensive understanding of investor behaviour. This knowledge empowers both individuals and financial institutions to navigate the investment landscape more effectively.

Key words: Risk Tolerance, Risk Capacity, Investor behaviour, Investment strategies

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INTRODUCTION

1.1 INTRODUCTION

Financial decision-making lies at the heart of a successful investment strategy. Yet, this process transcends mere calculations and cold logic. It delves into the realm of human psychology, where emotions and risk tolerance play a critical role. This project delves into the intricate relationship between an individual's financial risk tolerance and risk capacity and the investment strategies they employ.

The realm of personal finance is a landscape intricately woven with opportunities and challenges. At the heart of navigating this terrain lies the concept of risk tolerance, a multifaceted construct that significantly influences investment decisions and ultimately shapes an individual's financial future. Traditionally defined as the maximum level of volatility an investor can absorb; risk tolerance delves deeper than mere statistics. It encompasses a complex tapestry of psychological, social, and ethical considerations that colour each investment choice.

This report delves into the multifaceted nature of risk tolerance, exploring its far-reaching impact on savings and investment behaviours. It goes beyond a singular definition, acknowledging the existence of four key dimensions that shape an individual's risk profile:

- **Financial Risk Tolerance:** This core aspect focuses on the comfort level with potential financial losses. It reflects an investor's ability to withstand fluctuations in market value and their willingness to accept short-term volatility in pursuit of potentially higher returns. Someone with a high financial risk tolerance might embrace a more aggressive approach, readily accepting short-term swings in exchange for the possibility of greater long-term gains. Conversely, an investor with a low financial risk tolerance may prioritize capital preservation and seek out more conservative investment options, even if they offer lower potential returns.
- **Physical Risk Tolerance:** This dimension explores the comfort level with potential physical consequences associated with certain investment choices. For instance, an investor might be averse to investments that pose environmental risks, prioritizing sustainability alongside financial returns. This aspect highlights the growing importance of Environmental, Social, and Governance (ESG) factors in modern investment strategies.
- **Social Risk Tolerance:** This facet delves into the influence of social circles and societal norms on investment decisions. Social media, family advice, and cultural expectations can all shape an individual's risk profile. For example, an investor surrounded by friends who embrace cryptocurrency might be more likely to consider such a potentially volatile asset class compared to someone with a social network focused on traditional investment approaches.
- **Ethical Risk Tolerance:** This dimension focuses on the alignment of investment choices with an individual's moral compass. Some investors might avoid industries or companies that conflict with their ethical principles, even if they offer high potential returns. This aspect acknowledges the growing impact of socially responsible investing (SRI) where ethical considerations and financial goals are intertwined.

Understanding the interplay between these four dimensions is crucial for developing a comprehensive picture of an individual's risk tolerance. Ignoring any of these facets can lead to suboptimal investment decisions. For instance, focusing solely on financial risk tolerance might overlook the potential for emotional distress caused by market volatility, even if an investor claims a high financial risk tolerance.

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Conversely, neglecting the financial consequences of overly conservative investments might hinder the ability to achieve long-term financial goals.

1.2 LINKING DEMOGRAPHICS TO RISK TOLERANCE

Previous research has established a strong link between an individual's demographic characteristics and their risk tolerance profile. Several key factors can influence an investor's ability and willingness to take risks:

- **Age:** Generally, younger investors have a longer time horizon, allowing them to potentially recover from short-term losses. This often translates to a higher risk tolerance compared to individuals nearing retirement who may prioritize capital preservation.
- **Gender:** Studies suggest potential differences in risk tolerance between genders, with some research indicating a tendency for men to exhibit higher risk tolerance than women.
- **Marital Status:** Married couples might have a higher risk tolerance compared to single individuals due to potential income diversification and a safety net provided by a spouse's income.
- **Occupation:** The level of job security and potential for future income can influence risk tolerance. Individuals with stable, high-paying jobs might be more comfortable with riskier investments compared to those with less secure employment.
- **Income:** Higher income earners may have a larger financial buffer to absorb potential losses, potentially leading to a higher risk tolerance.
- **Time Horizon:** The length of time until an investor needs their money plays a significant role. A longer time horizon allows for greater risk tolerance as there's more time to recover from potential losses.
- **Liquidity Needs:** Individuals with immediate or near-term financial needs may require a lower risk tolerance to ensure readily available funds.
- **Portfolio Size:** Investors with a larger portfolio might be more comfortable allocating a portion to riskier assets compared to those with limited investment capital.
- **Investment Knowledge:** A greater understanding of financial markets and investment vehicles can lead to a more informed risk tolerance assessment and potentially a higher risk tolerance due to increased confidence in managing risk.
- **Attitude Toward Price Fluctuations:** An investor's emotional response to market volatility is a key aspect of risk tolerance. Those who are easily stressed by fluctuations might have a lower risk tolerance.

2.1 LITERATURE REVIEW

Financial risk tolerance has been attracting attention of many researchers in various disciplines including behavioural economists (e.g., Roszkowski and Snelbecker 1990); consumer research (e.g., Grable and Joo 1999); cognitive psychologists (e.g., Holtgrave and Weber 1993; Kahneman and Tversky 1984; Liverant and Scodel 1960); social psychologists (e.g., Carducci and Wong, 1998; Wong and Carducci, 1991; Zuckerman, 1983), as well as financial analysts and financial planners (e.g., Riley and Chow, 1992; Quattlebaum, 1988).

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In broader term, risk tolerance, as research did not emerge as a subject of importance until the 1900s. Bernoulli's logic for the basis of risk-taking propensity was accepted by the all economist until two notable studies prior to the 1950s were undertaken first by Keynes (1921) and second by Knight (1921). Wallach and Kogan (1959; 1961) had contributed a major advancement in the study of choice in risky situations. These researchers developed the widely used Choice Dilemmas Questionnaire to measure risk tolerance in everyday life situations.

However, financial risk tolerance (FRT) has engrossed the curiosity of researchers in various disciplines, such as cognitive psychologists like Liverant and Scodel (1960), Kahneman and Tversky (1984), and Holtgrave and Weber (1993); social psychologists like Zuckerman (1983), Wong and Carducci (1991), and Carducci and Wong (1998); as well as consumer research like Garble and Joo (1999); they have shown important of FRT.

Roszkowski and Snelbecker (1990) have studied and established the importance of FRT and its impact on investment decision in their study. Quattlebaum (1988) and Riley and Chow (1992) have investigated the important of FRT in financial analysis and financial planning and emphasised that the level of FRT of an individual helps the investment firms to design tailormade investment products for the target clients and also define strategies to sell their investment products. To study FRT further in more detailed manner, it was categorised in three categories such as Capital Risk Tolerance (CRT), Investment Risk Tolerance (IRT), and Speculative Risk tolerance (SRT) (Gilliam, Chatterjee, and Garble, 2010).

DATA ANALYSIS PLAN

This research employs a quantitative approach to explore the factors influencing financial risk tolerance and risk capacity. A survey instrument was utilized to collect data from a diverse sample of individual investors. The target population is adults aged 18 and above who are currently engaged in some form of investment activity.

A self-administered online survey is the primary tool for data collection. The survey was developed based on established measures of financial risk tolerance and risk capacity, demographic characteristics, socioeconomic factors, psychological traits, social influences, and ethical considerations.

- **Financial Risk Tolerance:** A validated risk tolerance scale will be employed to assess participants' comfort level with potential investment losses.
- **Demographic Characteristics:** Basic demographic information such as age, gender, marital status, occupation, and education level will be collected.
- **Socioeconomic Factors:** Annual income will be used as a proxy for socioeconomic status.
- **Psychological Traits:** Standardized measures will be used to assess loss aversion and optimism.
- **Social Influences:** Questions will explore the perceived influence of family, friends, and media on investment decisions.

A pilot test was conducted with a small sample to assess the clarity, comprehensiveness, and reliability of the instrument before full-scale deployment.

The collected data will be analysed using appropriate statistical methods. Descriptive statistics will be used to summarize the demographic characteristics and risk tolerance levels of the sample. Hypotheses

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regarding the relationships between the various factors and risk tolerance will be tested using inferential statistics, such as correlation analysis and regression analysis.

OPERATIONALIZATION OF VARIABLES

The following table provides a brief overview of the variables used in this study and their measurement:

Variables	Description	Measurement
Financial Risk Tolerance	An individual's comfort level with potential investment losses	Validated risk tolerance scale (e.g., Financial Risk Tolerance Inventory)
Age	Chronological age of the participant	Self-reported in years
Gender	Participant's identification as male, female, or non-binary	Self-reported categorical variable
Marital Status	Participant's current marital status (e.g., married, single, divorced)	Self-reported categorical variable
Occupation	Participant's current primary occupation	Self-reported open-ended question with pre-defined categories for coding
Education Level	Highest level of formal education attained by the participant	Self-reported categorical variable (e.g., high school diploma, bachelor's degree)
Income	Participant's annual household income before taxes	Self-reported categorical ranges (e.g., less than Rs.500,000, Rs.500,000-Rs.10,00,000)
Loss Aversion	The tendency to feel the pain of losses more intensely than the pleasure of gains	Standardized loss aversion scale
Optimism	A general tendency to expect positive outcomes	Standardized optimism scale
Social Influences	Perceived influence of family, friends, and media on investment decisions	Survey questions with Likert scale responses (e.g., "strongly disagree" to "strongly agree")

RESEARCH METHODOLOGY

3.1. OBJECTIVES AND HYPOTHESES

3.1.1 Objectives of the study

1. To assess the financial risk tolerance of individual investors.
2. To examine the dependence/independence of the demographic factors of the investors and his/her financial risk tolerance.

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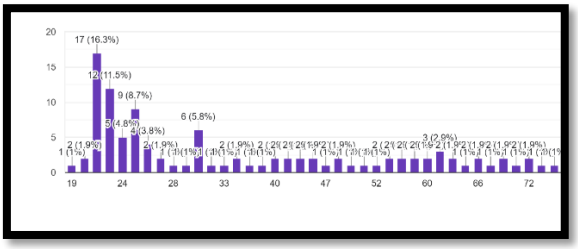
3.1.2 Hypotheses used for the study

1. Gender and financial risk tolerance of individual investors are independent of each other.
2. Increase in age decreases the financial risk tolerance of individual investors.
3. There is a positive correlation between the level of security in an investor's job/business and their risk tolerance.

3.2 TOOLS OF DATA COLLECTION & DATA INTERPRETATION

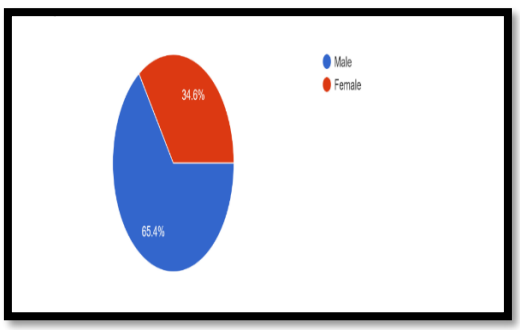
A questionnaire was prepared with the help of a detailed study of literature available in the field of investment and portfolio management. The questionnaire was sent out to gather data and insights from individuals or respondents who have expertise or experience in the subject. The information collected through this questionnaire will be used for academic research. The data obtained will be analyzed to intended analysis or outcomes, like identifying trends, risk assessment, or optimizing investment strategies.

Fig. 3.1 AGE-WISE DISTRIBUTION OF THE RESPONDENTS



- Most of the respondents fall within the age range of 0-30, comprising 66.3% of the total responses. This suggests a skew towards younger participants in the survey.
- There is a noticeable drop in responses in the age range of 41-50 and beyond, indicating fewer participants in middle and older age groups.
- Younger age groups (0-30) might generally have a lower risk tolerance due to factors such as less financial experience, lower income, and fewer assets to invest.
- Middle-aged respondents (31-50) may have higher risk tolerance and capacity, as they might have more stable financial situations, higher income, and accumulated assets.

Fig 3.2 GENDER-WISE DISTRIBUTION OF THE RESPONDENTS



Out of the total responses, males represent a higher proportion at around 65.4%, while females represent approximately 34.6%. This gender distribution suggests a predominance of male participants in the survey.

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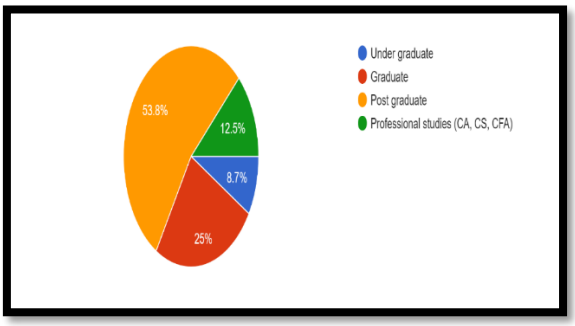
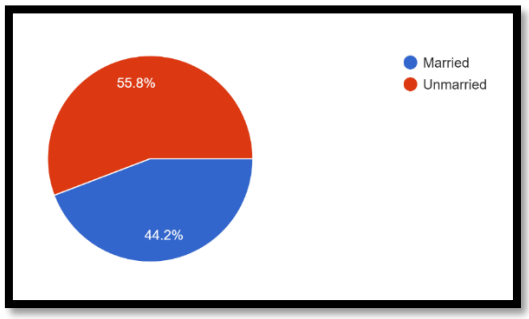
Fig 3.3 LEVEL OF EDUCATION OF THE RESPONDENTS



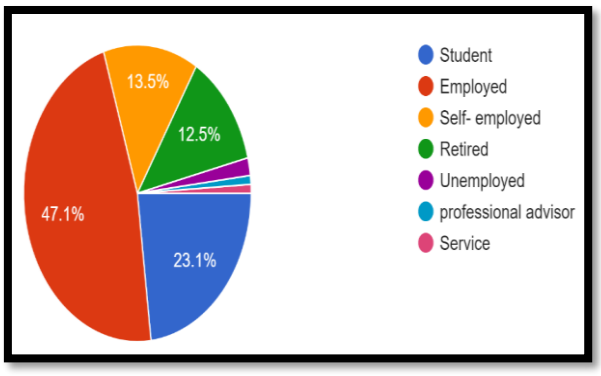
The responses outline the educational backgrounds of the respondents with 8.7% having a qualification up to graduation level and 12.5% bearing professional qualification and 53.8% being Postgraduate.

Fig 3.4 MARITAL STATUS OF THE RESPONDENTS



This distribution suggests a relatively balanced representation of marital statuses in the survey sample. Analysis of how marital status influences financial decision-making, risk tolerance, and investment strategies could provide valuable insights into the relationship between personal relationships and financial behaviours.

Fig 3.5 OCCUPATION OF THE RESPONDENTS



The provided data presents the occupations of the respondents. The data indicates that employed comprise the largest group, accounting for approximately 47.1% of the respondents, followed by students at around 23.1%, and self-employed individuals at approximately 13.5%.

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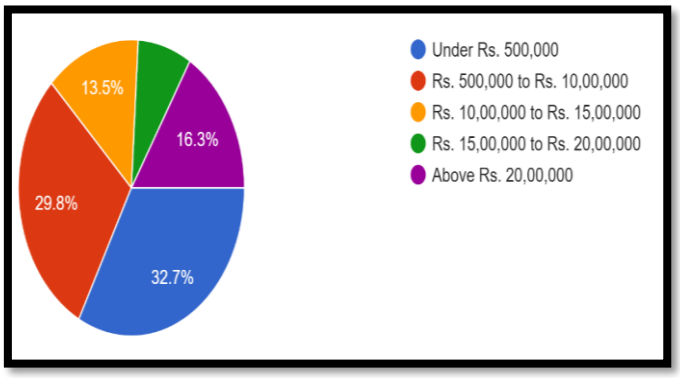
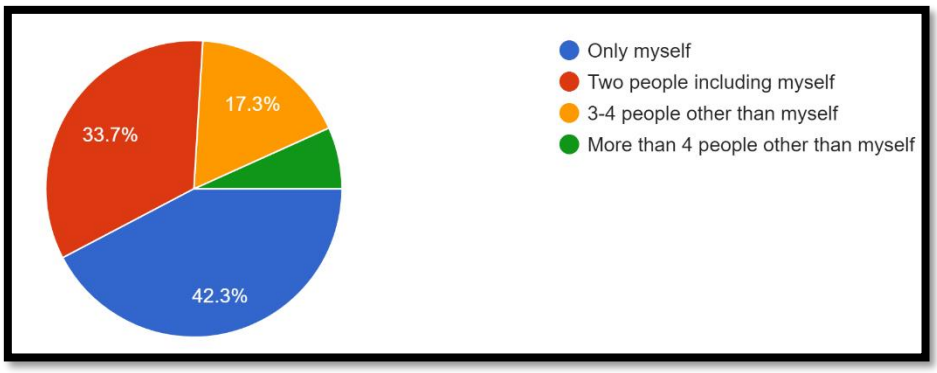
Fig 3.6 INCOME WISE DISTRIBUTION OF THE RESPONDENTS



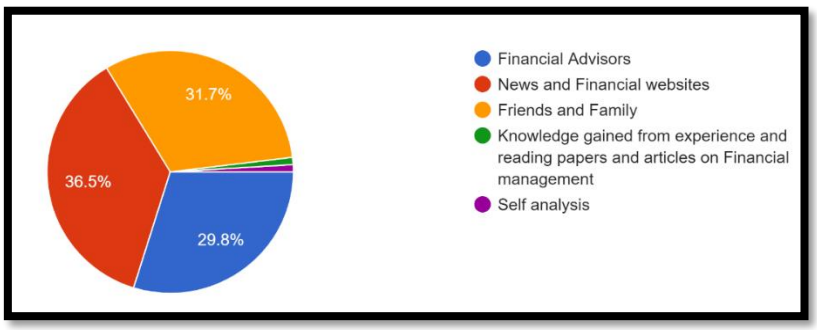
The majority of respondents, comprising approximately 32.7%, fall into the income bracket of under Rs. 5,00,000. This is followed by individuals earning under income bracket of Rs. 500,000 to Rs. 10,00,000, accounting for approximately 32.7%. Income ranges of Rs. 10,00,000 to Rs. 15,00,000 have lower proportions of respondents at approximately 13.5% and lowest income bracket of Rs. 15,00,000 to Rs. 20,00,000 of 7.7%.

Fig 3.7 NO OF DEPENDANTS



Most of the respondents, comprising approximately 42.3%, financially support only themselves. This is followed by individuals supporting two people including myself, accounting for approximately 33.7%. A smaller proportion of respondents support 3-4 people other than themselves (approximately 17.3%), while only a few respondents support more than 4 people other than themselves (approximately 6.7%). Understanding the number of dependents individuals financially support can provide insights into their financial obligations, risk tolerance, and investment strategies.

Fig 3.8 SOURCES OF INFORMATION PERTAINING TO FINANCIAL MARKETS



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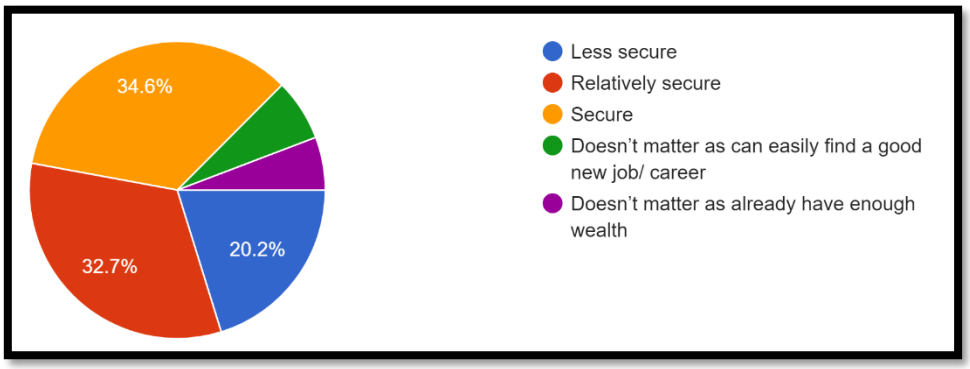
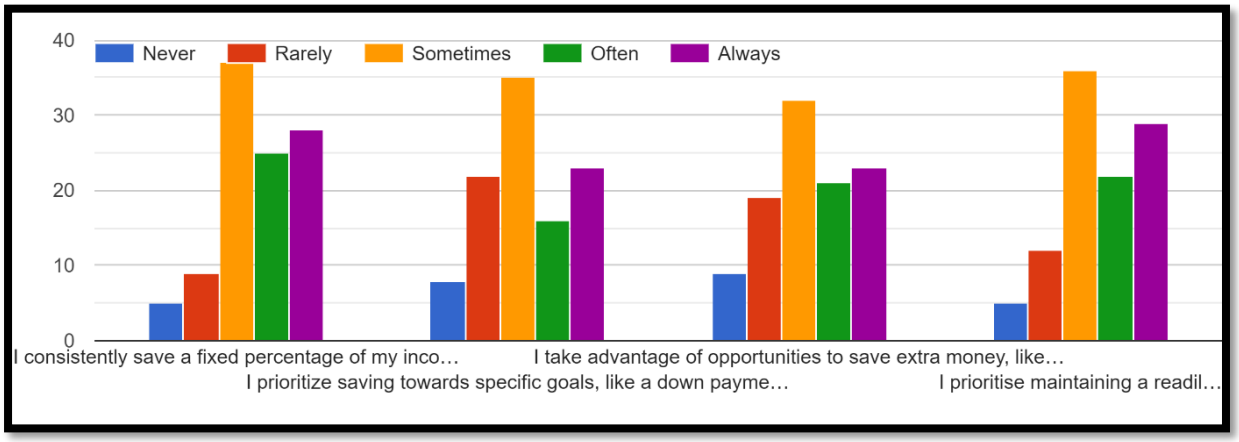
According to the responses, news and financial websites are the most preferred sources of information, with approximately 36.5% of respondents consulting them before making investment decisions. Friends and family are also commonly consulted, with approximately 31.7% of respondents relying on their advice. Financial advisors are consulted by approximately 29.8% of respondents. Only a small proportion of respondents rely on knowledge gained from experience and reading papers and articles on financial management, each accounting for approximately 1% of the responses.

FIG 3.9 LEVEL OF JOB SECURITY IN THE CURRENT JOB OF THE RESPONDENTS



The majority of respondents perceive their current job/business as relatively secure, accounting for approximately 34.6% of responses. This is followed closely by individuals who perceive their job/business as secure, comprising approximately 32.7% of responses. Additionally, some respondents indicated that the level of security in their current job/business doesn't matter to them either because they believe they can easily find a good new job/career (approximately 6.7%) or because they already have enough wealth (approximately 5.8%). Understanding perceptions of job/business security can provide insights into individuals' financial stability and risk tolerance.

Fig 3.10 PREFERENCES OF THE RESPONDENTS WHILE DOING SAVINGS



- Most of the respondents (approximately 61.6%) save a fixed percentage of their income However, there is a notable portion (approximately 13.5%) who rarely or never save in this way, indicating room for improvement in consistent saving habits.
- The data shows that a considerable portion of respondents (approximately 71.2%) prioritize saving towards specific goals. However, there is still a significant number (approximately 28.8%) who rarely or never prioritize saving in this manner.

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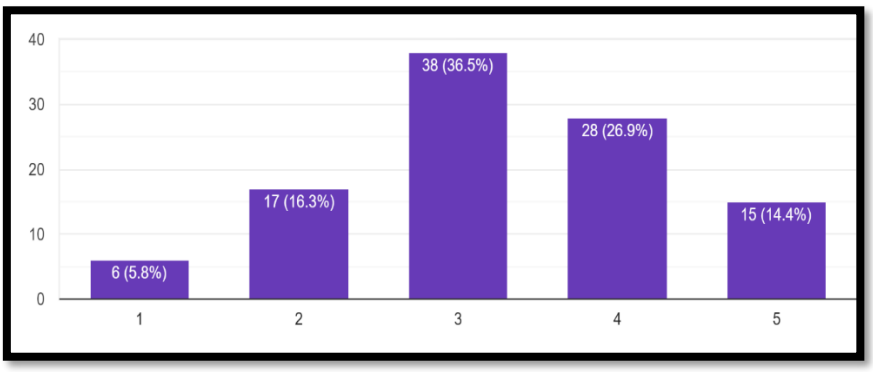
- About 72.9% of respondents take advantage of opportunities to save extra money. However, there is still a notable proportion (approximately 27.1%) who rarely or never capitalize on such opportunities.
- Most of the respondents (approximately 83.7%) prioritize maintaining an emergency fund. However, there are still few respondents (approximately 16.3%) who rarely or never prioritize having an emergency fund readily available.

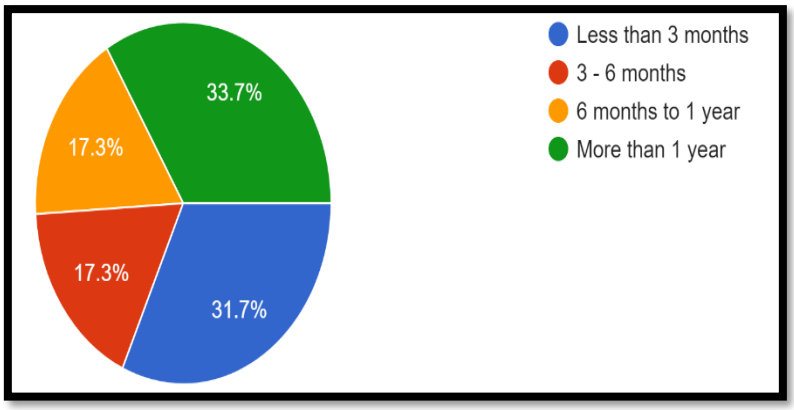
Overall, the data suggests that while a significant portion of respondents demonstrate positive saving habits, there is still room for improvement in terms of consistent saving, prioritizing specific saving goals, taking advantage of opportunities to save extra money, and maintaining emergency funds.

Fig 3.11 LEVEL OF UNDERSTANDING ABOUT INVESTMENTS AND PORTFOLIO MANAGEMENT OF THE RESPONDENTS



Majority of the respondents (approximately 63.8%) rated their understanding of investment and portfolio management as moderate to high, with ratings of 3, 4, or 5. A smaller proportion of respondents (approximately 22.1%) rated their understanding as low to moderate, with ratings of 1 or 2.

Fig 3.12 THE CURRENT SAVINGS OF THE RESPONDENT CAN PROVIDE FINANCIAL SUPPORT TO THE FAMILY FOR HOW MANY MONTHS, PROVIDED THEIR SOURCE OF INCOME STOPS TODAY



According to the responses received,

- Approximately 31.7% of respondents believe they could financially support themselves and their families for less than 3 months if their income flow stopped today. This indicates a relatively lower level of financial preparedness for emergencies among this group.

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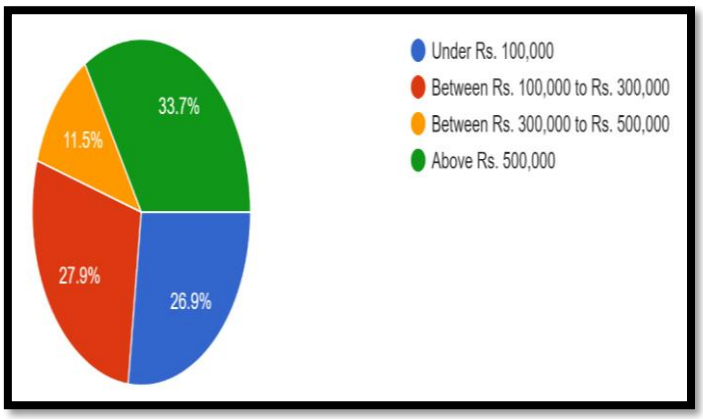
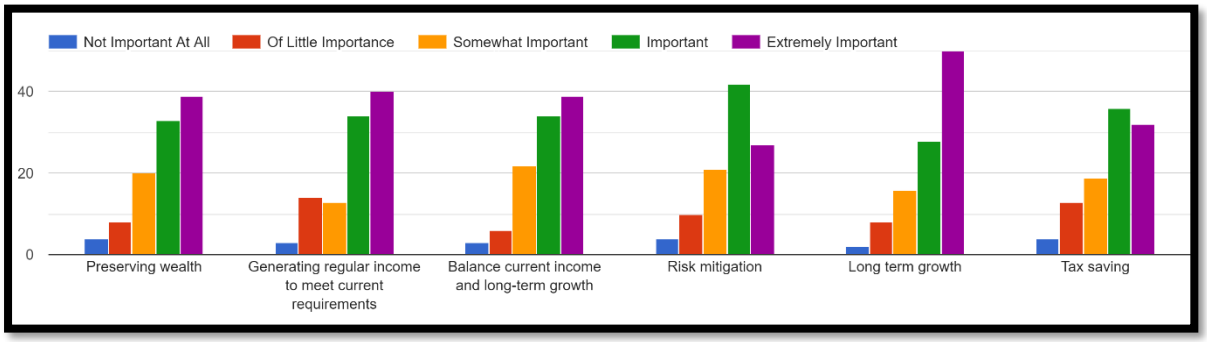
- Roughly 17.3% of respondents estimate they could support themselves for 3 - 6 months or 6 months to 1 year, showing a moderate level of financial preparedness.
- A significant portion, approximately 33.7%, believe they could financially support themselves and their families for more than 1 year if their income flow stopped today, indicating a higher level of financial preparedness among this group.

Fig 3.13 NET FAMILY SAVINGS OF THE FAMILY



The responses received suggests that a significant portion of respondents (approximately 45.2%) have annual family savings under Rs. 300,000, indicating potential financial challenges in accumulating substantial savings. However, around 33.7% of respondents have annual family savings above Rs. 500,000, suggesting a relatively higher level of financial stability and potential for investment or wealth accumulation among this group.

Fig 3.14 PRIMARY OBJECTIVES OF SAVINGS AND INVESTMENTS



- The majority of respondents (approximately 69.2%) view preserving wealth as important to extremely important, indicating a focus on maintaining the value of their investments over time.
- Generating regular income to meet current requirements is considered important to extremely important by the majority of respondents (approximately 71.2%), highlighting a need for investments that provide consistent income streams.
- Balancing current income and long-term growth is viewed as important to extremely important by most of the respondents (approximately 70.2%), indicating a desire for investment strategies that balance short-term income needs with long-term growth objectives.

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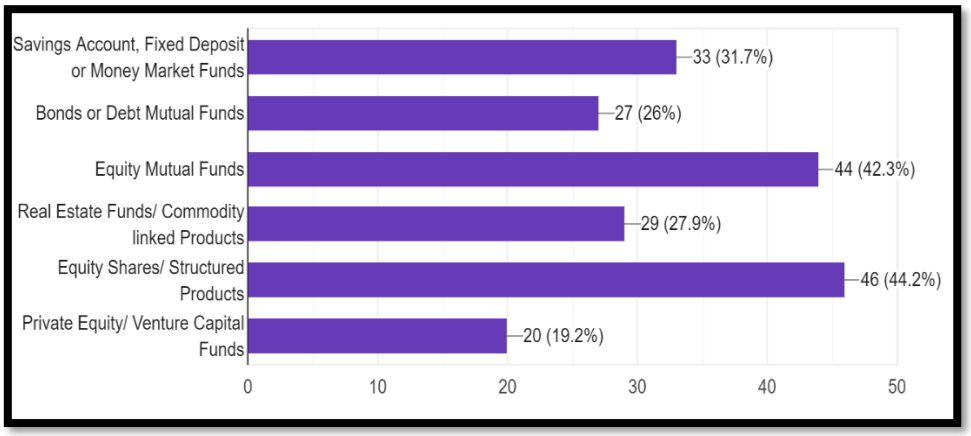
- Risk mitigation is considered important to extremely important by the majority of respondents (approximately 66.4%), highlighting the significance of managing investment risks in their portfolios.
- Long-term growth is considered extremely important by the majority of respondents (approximately 74.9%), indicating a strong emphasis on building wealth over the long term through investments.
- Tax saving is considered important to extremely important by the majority of respondents (approximately 65.4%), indicating a recognition of the importance of tax-efficient investment strategies.

Fig 3.15 PREFERENCE OF THE RESPONDENTS TOWARDS VARIOUS INVESTMENT AVENUES



Based on the responses, the riskiest investment option preferred by respondents is:

- Equity Shares/Structured Products: 46 responses (approximately 44.2%)

Following this, the next riskiest options preferred are:

- Equity Mutual Funds: 44 responses (approximately 42.3%)
- Private Equity/Venture Capital Funds: 33 responses (approximately 31.7%)

The other options ranked as follows in terms of preference for riskiest investment:

- Real Estate Funds/Commodity linked Products: 29 responses (approximately 27.9%)
- Bonds or Debt Mutual Funds: 27 responses (approximately 26%)
- Savings Account, Fixed Deposit, or Money Market Funds: 20 responses (approximately 19.2%)

Fig 3.16 RESPONDENTS BELIEF IN DIVERSIFICATION OF INVESTMENTS

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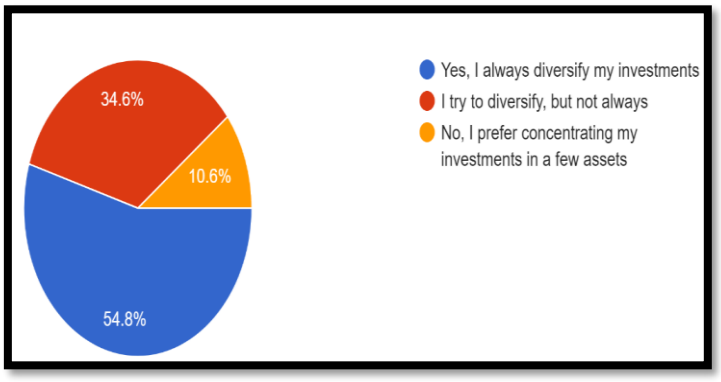
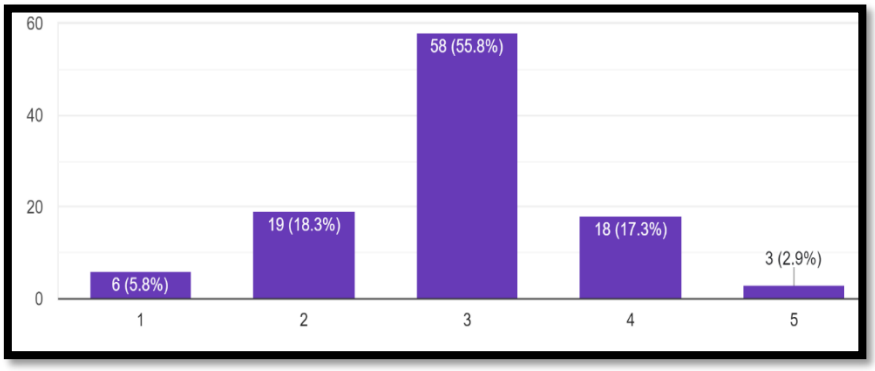


Most of the respondents (approximately 89.4%) either always diversify their investments or try to do so, indicating a strong belief in the benefits of diversification. However, a smaller proportion (approximately 10.6%) prefer concentrating their investments in a few assets, suggesting a preference for a more focused investment approach. Diversification is a commonly recommended strategy to manage risk and optimize returns in investment portfolios, and the data reflects a broad acceptance of this principle among the respondents.

Fig 3.17 RISK APPETITE OF THE RESPONDENTS



The majority of respondents (approximately 55.8%) rated their risk appetite as a 3, indicating a moderate level of risk tolerance. Additionally, approximately 17.3% of respondents rated their risk appetite as a 4, indicating a slightly higher level of risk tolerance. A smaller portion of respondents (approximately 18.3%) rated their risk appetite as a 2, indicating a lower level of risk tolerance, while approximately 5.8% rated their risk appetite as a 1, indicating the lowest level of risk tolerance. Only around 2.9% of respondents rated their risk appetite as a 5, indicating the highest level of risk tolerance.

3.3 HYPOTHESIS TESTING

Hypothesis Statement:

1. **Null Hypothesis (H0): There is no difference in financial risk tolerance between males and females.**

Result:

Independent Samples T-Test					
		Statistic	**df**	**p**	

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Financial Risk Tolerance	Student's t	-0.505	104	0.615	
Group Descriptive					
	Group	**N**	**Mean**	**Median**	**SD**	**SE**
Financial Risk Tolerance	Female	37	42.5	44	8.93	1.47
	Male	69	43.4	43	8.75	1.05

Based on the results of the independent samples t-test for financial risk tolerance, the t-statistic value is -0.505 with 104 degrees of freedom, resulting in a p-value of 0.615. This indicates that there is no statistically significant difference in financial risk tolerance between males and females.

Conclusion: Since the p-value (0.615) is greater than the typical significance level of 0.05, we fail to reject the null hypothesis. Therefore, we do not have sufficient evidence to conclude that there is a significant difference in financial risk tolerance between males and females.

2. **Null Hypothesis (H0): There is no difference in financial risk tolerance across different age groups.**

Result:

One-Way ANOVA (Welch's)					
	F	**df1**	**df2**	**p**	
Financial Risk Tolerance	3.2	2	57	0.048	
Group Descriptive					
	Age	**N**	**Mean**	**SD**	**SE**
Financial Risk Tolerance	19-29	55	41.5	9.58	1.29
	30-49	24	46.5	7.4	1.51
	Above 49	27	42.8	7.56	1.45

Tukey Post-Hoc Test – Financial Risk Tolerance				
		19-29	**30-49**	**Above 49**
19-29	Mean difference	—	-4.99	-1.34
	p-value	—	0.053	0.787
30-49	Mean difference		—	3.64
	p-value		—	0.294
Above 49	Mean difference			—

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	p-value			—
Note. * p < .05, ** p < .01, *** p < .001				

Based on the results of the one-way ANOVA (Welch's) test for financial risk tolerance, the F-statistic is 3.2 with 2 and 57 degrees of freedom for the numerator and denominator respectively, resulting in a p-value of 0.048. This suggests that there is a statistically significant difference in financial risk tolerance across the age groups.

The Tukey post-hoc test provides further insight into the specific differences between age groups:

- The mean difference between the age groups 19-29 and 30-49 is -4.99 with a p-value of 0.053. Although the p-value is slightly above the typical significance level of 0.05, it is still considered marginally significant.
- The mean difference between the age groups 30-49 and Above 49 is 3.64 with a p-value of 0.294, indicating no significant difference between these two groups.
- There is no significant difference between the age groups 19-29 and Above 49 (p-value = 0.787).

Conclusion: Given the one-way ANOVA results, we reject the null hypothesis, indicating that there is a significant difference in financial risk tolerance across different age groups. Specifically, individuals aged 19-29 exhibit a different level of financial risk tolerance compared to those aged 30-49. However, there is no significant difference between individuals aged 30-49 and those above 49, nor between individuals aged 19-29 and those above 49.

3. **Null Hypothesis (H0): There is no difference in financial risk tolerance across different levels of job/business security**

Result:

Based on the results of the one-way ANOVA (Welch's) test for financial risk tolerance across different levels of job/business security, the F-statistic is 3.29 with 2 and 52.9 degrees of freedom for the numerator and denominator respectively, resulting in a p-value of 0.045. This suggests that there is a statistically significant difference in financial risk tolerance across different levels of job/business security.

Tukey Post-Hoc Test: The Tukey post-hoc test is used to determine which specific comparisons are significant among the different levels of job/business security.

- The mean difference between individuals who perceive their job/business as "Less secure" and "Relatively secure" is -4.41 with a p-value of 0.154, which is not significant.
- The mean difference between individuals who perceive their job/business as "Less secure" and "Secure" is -5.75 with a p-value of 0.028, which is significant.
- There is no significant difference between individuals who perceive their job/business as "Relatively secure" and "Secure".

Conclusion: Since the p-value (0.045) is less than the typical significance level of 0.05, we reject the null hypothesis. Therefore, we have evidence to conclude that there is a significant difference in

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financial risk tolerance across different levels of job/business security. Overall, the results suggest that individuals who perceive their job/business as more secure tend to have a higher financial risk tolerance compared to those who perceive their job/business as less secure.

One-Way ANOVA (Welch's)					
	F	**df1**	**df2**	**p**	
Financial Risk Tolerance	3.29	2	52.9	0.045	
Group Descriptive					
	Indicate the Level of Security in your current Job/Business.	**N**	**Mean**	**SD**	**SE**
Financial Risk Tolerance	Less secure	21	38.9	8.45	1.84
	Relatively secure	34	43.3	7.55	1.29
	Secure	51	44.6	9.11	1.28

Tukey Post-Hoc Test – Financial Risk Tolerance				
		Less secure	**Relatively secure**	**Secure**
Less secure	Mean difference	—	-4.41	-5.75
	p-value	—	0.154	0.028
Relatively secure	Mean difference		—	-1.34
	p-value		—	0.757
Secure	Mean difference			—
	p-value			—
Note. * p < .05, ** p < .01, *** p < .001				

FINDINGS

- Gender and Financial Risk Tolerance: There is no statistically significant difference in financial risk tolerance between males and females. Thus, gender does not appear to influence financial risk tolerance.
- Age and Financial Risk Tolerance: There is a significant difference in financial risk tolerance across different age groups. Specifically, individuals aged 19-29 exhibit a different level of financial risk tolerance compared to those aged 30-49. However, there is no significant

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difference between individuals aged 30-49 and those above 49, nor between individuals aged 19-29 and those above 49.

- Level of Job/Business Security and Financial Risk Tolerance: There is a statistically significant difference in financial risk tolerance across different levels of job/business security. Specifically, individuals who perceive their job/business as more secure tend to have a higher financial risk tolerance compared to those who perceive their job/business as less secure.

Overall, while demographic factors such as age and job/business security seem to influence financial risk tolerance, other factors such as gender, marital status, education, annual income, and number of dependents do not have a significant impact. These findings suggest that individual perceptions of job/business security and life stage may play a more significant role in shaping financial risk tolerance. Understanding these influences can be valuable for financial advisors and individuals in developing tailored investment strategies that align with their risk preferences and circumstances.

CONCLUSION

5.1 RISK CAPACITY SCROING

RISK CAPACITY	Low	Medium	High
Score	1-15	16-25	26-35
Description	Your risk-taking capacity is Low as your earnings and/ or wealth minimally matches your current liabilities and lifestyle and/ or you have little time left to retire. In order to achieve your financial goals, you have low scope for risky investments, as the capital loss scenario in quest of high returns does not match your risk capacity.	Your risk-taking capacity is Medium as either you have a medium level of earning and wealth and/ or have little time left to retire; any loss on risky investments may have an effect on your current status. Therefore, you have the capacity to take low to medium risks on your investments for low to medium returns or losses.	Your risk-taking capacity is High due to your earnings/ wealth and the financial goals and/ or time available to fulfil them. You may withstand losses on risky investments without a very significant effect on your current status. Therefore, you have capacity to take high risks on your investments for equally high returns or losses.

The responses received suggests that 104 investors are categorized into three risk capacity profiles: Low, Medium, and High.

- Individuals with a Low-risk capacity (**10 investors**) have minimal earnings and/or wealth that only minimally match their current liabilities and lifestyle. They may have little time left until retirement. Consequently, they have low scope for risky investments, as potential capital loss could significantly impact their financial situation.

- Those with a Medium risk capacity (**69 investors**) typically have a moderate level of earnings and/or wealth and may have limited time left until retirement. Losses from risky investments

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could have an effect on their current financial status. Therefore, they are inclined to take low to medium risks on investments for corresponding returns or losses.

- Individuals with a High-risk capacity (**25 investors**) have higher earnings and/or wealth and have sufficient time to fulfil their financial goals. They can withstand losses from risky investments without a significant impact on their current financial status. Hence, they are more inclined to take high risks on investments for potentially higher returns or losses.

The majority of respondents fall into the medium risk capacity category, indicating a balanced approach to risk-taking, while fewer individuals are categorized as having Low or High risk capacity. This suggests a range of risk appetites among respondents, with most having a moderate tolerance for risk.

5.2 RISK TOLERANCE SCROING

RISK TOLERANCE	Conservative	Moderate	Aggressive
Score	1-25	26-50	51-75
Description	You are a Conservative investor. Risk should be low, and you are prepared to accept lower returns to protect capital. The negative effects of inflation may not concern you, provided your initial investment is protected.	You are a balanced investor who wants a diversified portfolio to work towards medium to long-term financial goals. You require an investment strategy that may cope with the effects of inflation. Calculated risks may be acceptable to you to achieve good returns.	You are an Aggressive investor prepared to compromise portfolio balance to pursue potentially greater long-term returns. Security of capital is secondary to the potential for wealth accumulation.

From the received responses, 104 individuals are categorized into three investment profiles: Conservative, Moderate, and Aggressive.

- Conservative investors (**3 investors**) prioritize low risk and are willing to accept lower returns in order to protect their initial investment. They are less concerned about the negative effects of inflation as long as their capital is preserved.
- Moderate investors (**57 investors**) seek a balanced approach, aiming for medium to long-term financial goals. They prefer a diversified portfolio to mitigate risk and are willing to tolerate some calculated risks to achieve good returns. They are also concerned about the effects of inflation and look for investment strategies to cope with it.
- Aggressive investors (**44 investors**) are focused on pursuing potentially greater long-term returns and are willing to compromise portfolio balance for this purpose. They prioritize wealth accumulation over security of capital and are prepared to take on higher levels of risk.

The distribution of responses indicates that the majority of individuals fall into the Moderate category, followed by Aggressive, with Conservative investors being the least represented. This suggests a range of risk appetites among the respondents, with a notable proportion favoring a balanced approach while still valuing potential long-term returns.

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