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# AN EMPIRICAL STUDY ON UAE INVESTOR ATTITUDE TOWARDS INVESTMENT

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## *Abstract*

*Mobilization of savings and leveraging of the investment in a multi-cultural environment like the UAE, remains a major policy issue. The present study, utilizing the results of an Attitude Survey, analyses the motivations of investors and their attitude towards participation across a range of investment initiatives and attempts to gain an enhanced understanding of how an individual investor uses information contained in analyst and management forecasts. The study also covers the pattern of Investor Attitude towards alternate investment opportunities, the market cycle, reasons for holding an investment portfolio, evaluative factors and perspectives concerning the attraction of private finance into the investment.*

**Keywords :** *Private Sector Investment, Investor Attitude, UAE's Investment Opportunities.*

## **1.1 Introduction**

The present study presents a case study analysis of the Investment Process and Investor Attitude, with reference to UAE which is one of the growing urban economies, undergoing tremendous transition in recent times. Dubai Investors, like any international investors, are wealthy individuals but are still hesitant to invest in the local real estate market unlike in the pre-recession time. The present study on Investor Attitude enables us to gain an enhanced understanding of how an individual investor uses information contained in analyst and management forecasts. For example, in the capital market, we only observe the buy or sell decision but not how confident an investor feels

about the decision, although confidence can be inferred from the offer price and the number of shares in the order placed. This Behavioural Accounting Approach draws on theories from Psychology to understand the actions of individuals and explain anomalies in the Capital Market. Mobilization of Urban Savings and leveraging of Private Sector Investment in a multi-cultural environment like the UAE, remains a major policy issue.

## **2.1 Research Objectives**

The specific objectives of this study are listed below:

1. To understand and review the existing literature on the motivations of investors and

their attitude towards participation across a range of urban investment initiatives

2. To study the Investor Attitude in UAE and examine the factors influencing the same.
3. To examine the individual investor's usage of information contained in analyst and management forecasts.
4. To Understand the pattern of mobilization of urban savings and leveraging of the investment in a multi-cultural environment like the UAE.

## **2.2 Methodology**

The study is exploratory and empirical in nature and primary data were employed for the study. The study consists of 50 sample investors in UAE. The data set include primary data collected through a structured questionnaire and secondary data collected from relevant publications and websites. The data were converted into readable data and tabulated and analyzed for logical status, using Microsoft-Excel spread-sheets and other appropriate statistical method. In this study, Chi-Square Test was employed to interpret. Suitable hypotheses were framed and analyzed, to predict the preference of the investors.

### **Hypotheses of the Study**

Hypotheses were framed for Chi-Square Analysis to check whether there was any association between variables. The variables identified for analysis include Investment Objectives, Investor Willingness to Take Risk, Attitude towards Portfolio Construction etc.,

## **Data Collection**

The Researchers selected samples to represent all segments in the data. Keeping this fact in view, after identifying the factors influencing the attitude, a questionnaire was prepared and it was pre tested and necessary modifications were incorporated in the final draft which was administered for the collection of primary data. By virtue of data obtained from the research survey, descriptive and analytical tests were carried out.

## **Statistical Tools**

The questionnaires were entered, verified, and edited, using Microsoft-Excel spread-sheets. Completed Questionnaires were analysed and tests were calculated by using Microsoft-Excel 2003 version as the tools of the study. Further, the Chi-Square Test was employed to test the relationship between the socio-economic background and the level of attitude of the respondents.

## **3.1 Review of Literature**

Before undertaking the study on the motivations of UAE Investors, an exhaustive review of existing literature, related to investor attitudes in the participation across a range of urban investment initiatives, was undertaken to understand how an individual investor uses information contained in analyst and management forecasts, reasons for holding an urban regeneration investment portfolio, evaluate factors and perspectives concerning the attraction of private finance into urban investment.

### **3.2 Analyst and Management Forecasts influence on Investor Decision Making.**

Analyst and Management Forecasts are the two sources of publicly available information that signal a firm's future prospects and play a part in reducing the information asymmetry that exists between investors and management. Research on the information content of these forecasts suggests that investors perceive them to contain value-relevant information (Givoly & Lakonishok 1979; Penman 1980; Waymire 1984). However, other research works suggest that investors have expectations about the underlying incentives for analysts and managements to issue reports or release information (Ajinkya & Gift 1984; Francis & Philbrick 1993; Nagar, Nanda & Wysocki 2003). Hence, although Analyst and Management Forecasts should be complementary sources of information, the weighting placed on these forecasts may lie in investors' perceptions of the differing motives of the Information Providers. Confidence in one's investment decision making is important because, as shown by Griffin & Tversky (1974), less-informed investors potentially suffer from overconfidence, resulting in overaggressive trading. Such trading behaviour also leads to welfare transfers to more-informed investors. The effect of favourable and unfavourable news on individual investor's decisions was considered by Hirst, Koonce & Simko (1995), Cote (2000) and Krishnan & Booker (2002), but these studies examined this issue solely in the context of analyst forecasts, but their study has not considered the impact of news released by both analysts and management on individual investor's decisions. By examining

these forecasts together, we can separately assess the effect of different types of news released by analysts and management. However, bad or unfavourable news did not appear to improve the confidence investors placed in their decisions. Their confidence may not have improved due to the realization that management plays expectations earnings games. Comparing the influence of the news released by the two sources, analyst forecasts are more influential on investors' decision making, suggesting that analysts are perceived to be a comparatively more impartial source, with less opportunity to directly manipulate information or time its release opportunistically.

In a more recent study, Dhar & Zhu (2006) used investor trading records to investigate individual differences in the Disposition Effect. They found that a fifth of the sample exhibited behaviour contrary to the Disposition Effect. They attributed this to investors' information quality and ability to analytically process information. Interestingly, they found that wealthier, older and professional investors exhibited less of the Disposition Effect. They also found that trading experience reduced the tendency of investors to commit the Disposition Effect. Individual behavioural examination of methods to alleviate the Disposition Effect is a new direction in the literature. Krishnan & Booker (2002) observed the characteristics which influenced investor decision making while using analyst recommendations to make a short-term decision to hold or sell a stock. They found that the 'strength' of the forecasts, which was determined by the level of detail in the forecast, was a contributing factor in reducing the

Disposition Effect. When a weak analyst forecast was provided (i.e. no supporting information was provided to support the analyst recommendation), it was found that it reduced the Disposition Effect for gains, but it had no impact on losses. However, when an analyst forecast was strong, it reduced the Disposition Effect for both gains and losses. Krishnan & Booker found that investors had a tendency for 'Regret Aversion,' consistent with Shefrin & Statman (1985). In this respect, investors preferred to follow the analysts' recommendations rather than to do the opposite. This was especially apparent for the strong analyst recommendations for a paper loss, which is also consistent with the Loss Aversion Theory (Odean 1998) where investors were reluctant to realise their losses. Krishnan & Booker (2002) examined a plausible solution to reduce the Disposition Effect with the use of detailed analyst forecasts.

More recently, the interrelationship between disclosures provided by Management and Analysts, has received considerable attention where the latter have been labelled as accomplices in management's earnings guidance situations where they have been manipulated by Management in their effort to improve perceived performance (Mittendorf & Zhang 2005). The central theme of attribution theory is that individuals 'interpret behaviour in terms of its causes and that these interpretations play an important role in determining reactions to the behaviour' (Kelley & Michaela 1980, p. 458). We draw on this framework to explain our prediction that news that is contrary to investors'

expectations will have a greater influence on their decisions.

### **3.3 Investor Attitudes and Behaviour Towards Inherent Risk and Potential Returns**

Consumer Behaviour Research began in the 1960s but there have been few studies on consumer decision-making under risk about financial service industry. Investors often purchase investment products by drawing on experience or through the investment appraisal process (Harrison, 2003). Therefore, past investment experience and expertise of investors, provide them with risk awareness and thus have become important commodity risk assessment factors in future. Some personal traits such as risk preference, and personal experience affect risk assessment and awareness.

The propensity to build up risk can further affect actual behaviour, where risk refers to how far decision makers are prepared to extend their exposure to risk. Risk Perception forms the basis of risk communication which means that people facing uncertainty and ambiguity in the available information, construct inferences and draw conclusions from them. These faculties determine people's attitude to risk and their behavior in risk related decisions. Risk Perception is determined by the questions investors ask, their familiarity with organizational and management systems etc. all of which are important factors. Risk Perception and Propensity to Risk have a strong negative correlation. In fact, Prospect Theory does not deal with the effects of past investor experience on future investment behaviour. Sitkin and Pablo (1992) developed a

model of determinants of risk behaviour. In this model, personal risk preferences and past experiences form an important risk factor in which to frame the problem, and social influence also affects the individual's perception. Sitkin and Weingart (1995) extend the Sitkin-Pablo Model, leading to the definition that Risk Perception and Propensity are the mediators in risk behaviour of uncertainty decision-making. In this hypothesis, past investment establishes the frame for the propensity to risk, risk transfer, and risk awareness which impact decision-making behaviour. Thus Risk Orientation and Risk Perception are reduced to antecedent variables in decision-making behaviour under risk.

Investment Experience is an important factor influencing behaviour. Investors with more experience have relatively high risk tolerance and they construct portfolios of higher risk (Corter and Chen, 2006). The success or failure of past investor experience influences the tendencies of investors towards risk and risk perception, and further affects decision-making behaviour. Kathleen Byrne (2005) shows that risk and investment experience tend to indicate a positive correlation and past experience of successful investment increases investor tolerance of risk. Inversely, unsuccessful past experience leads to reduced tolerance to risk. Therefore past investment behaviour affects future investment behaviour.

The impact of behavioural differences by gender is also an important variable. Female Investors, more often than their male counterparts, tend towards risk aversion which is demonstrated by their more conservative

investment behaviour. This claim is evidenced by a smaller number of market enquiries, lower trading volume and lower frequency of transactions attributable to females (Fellner and Maciejovsky, 2007). Ronay and Kim (2006) have pointed out that there is no difference in risk attitude between individuals of different gender, but between these two groups, males indicate a stronger inclination to risk tolerance. That is, no gender difference was found at an individual level, but in groups, males expressed a stronger pro-risk position than females.

Investor Perception of Risk affects the expected return on investment. In traditional concepts of finance, it is understood that investors do not welcome risk but investments with higher expected rates of return are also understood to bear higher levels of risk. Thus risk and reward are in positive correlation. However, not all investors possess this knowledge. Despite a wealth of literature and trained professional opinion supporting the existence of a positive correlation between risk and return, some novice traders and unskilled investors perceive expected return to be in negative correlation to risk (Muradoglu, 2005) (Byrne, 2005).

Despite Risk Perception influencing the decision making behaviour, people continue to make investments in the face of uncertainty. This decision making under risk is reflected in the individual investor's portfolio construction. That is, Risk Perception affects return expectations and asset allocation behaviour simultaneously. Therefore the expected Utility Theory, based on a traditional finance perspective, cannot explain

the anomalous investment behavior of irrational people. Since this incongruity was noticed, Kahneman and Tversky have proposed Prospect Theory as a reasoned theoretical explanation of this phenomenon.

Normal Investors are affected by cognitive bias and emotions in decision-making behaviours but rational investors are not (Statman, 2005). Scholars in Behavioural Finance have already proved that the act of engaging in risky decision-making in uncertain circumstances cannot be considered “rational” and that this descriptor should best be replaced with the more appropriate, “heuristic”, in that such decisions are by the rule of thumb (they are experience based). Thus decision-making in such circumstances may be understood without cognitive bias. Heuristics is an important feature of the individual decision-making process, which may be considered to include Thought Representativeness Heuristics (Tversky and Kahneman, 1972, 1973, 1974 and 1982) and Availability Heuristics (Tversky and Kahneman, 1973 and 1979). It is important here to understand that there is Anchoring Bias in the decision-making process, which arises from factors such as overconfidence, loss aversion, status quo bias, mental accounting, framing and so on. Investors, in the process of assessing the risks and returns, are influenced by this Anchor Effect (Tversky and Kahneman, 1974). Kahneman and Tversky claim that in the process of assessment, people use certain starting values as reference points, and that these reference points may be volatile values to which subjects add necessary adjustments. The KT experiment demonstrates

that this adjustment is usually not reliable and people, confronted with different situations, produce different anchor values. Perceptions of Risk are affected by Anchors, which lead investors to raise their returns expectations when given a bias/anchor of a higher value.

Scholars in Behaviour Finance believe in objective consideration of investment risk and return because these factors can be strongly impacted by subjective framing influences. Decision-making processes, relying on frames, often cause problems to be viewed in different ways, which leads to different choices. Investors in financial markets receive a spectrum of reports which can be interpreted differently, making cognition a factor in the final decision-making response. Shefrin and Statman (1994) found that Noise Traders have a greater cognitive bias than Informed Traders.

Overconfidence and Optimism are other forms of bias. De Bondt (1993) found that individuals rely on their personal past experience as a foundation and it is from this that excessive self-confidence in decision-making can originate. Such investors make inappropriate decisions, with insufficient information, due to this personal trait (Shefrin and Statman, 1994). In addition to overconfidence bias, optimism is an Achilles Heel, leading to investment losses. Individuals with this failing often feel they possess an innate talent and in their optimism, over-rate their own assessment ability (Kahneman and Riepe, 1998). Having overconfidence and optimism causes people to further overestimate their own knowledge, underestimate risk, and it even reduces risk recognition.

### **3.4 Evaluation of Investor Behaviour in Urban Regeneration.**

From the private sector perspective, inner cities and urban regeneration projects are commonly considered to present high levels of risk, with a general lack of information about the value of assets. Furthermore, given the need for financial prudence, decision-making may bypass the potential opportunities offered by urban regeneration locations. Despite a raft of regeneration initiatives over the past two decades, many urban areas still experience a range of problems which affect the fabric of their neighbourhoods, their social and economic infrastructure and the well-being of their residents. While pockets of poverty have always existed, these have tended to be in lower-income areas where strong family and community support systems have acted in a substitute capacity. The distinctive character of investors in urban regeneration is emphasised by the relatively high allocation to residential property contrasting with non-regeneration portfolios. Mobility of investment is apparent suggesting that urban regeneration produces diversification benefits and it is not necessarily tied to local sources and actors. (Alastair Adair, Jim Berry, Stanley McGreal, Bill Deddis and Suzanne Hirst, 1998).

#### **4.1 Attitude of UAE Investors**

Industry Experts say that UAE millionaires are now changing their investment approach and they are looking at spreading their wealth over different types of properties and lucrative locations. Investors were not only over-exposed to property as an asset but they were also over-

exposed to property in one geographical market, and often, these investments were not diversified across property asset types. Investors in the UAE fall into two camps. There are those who seek preservation of capital and those who look to speculate. The speculators are in the majority. If their companies are making profits of 20 per cent or more each year, why would they look for returns on investments that would be lower than that?" says Gregory. Investor Attitudes are relatively short term, yet also cautious because they are not used to asset management vehicles and hence they are looking at growth and also at things such as expecting to get their money back.

The UAE specific findings concur with the overall global trends - with investors worldwide sharing an appetite for alternatives. Intuitively, absolute returns make a lot of sense and we see that more Middle Eastern Investors are thinking in those terms. Assets like hedge funds, derivatives and structured financial products, Shariah-compliant products can all be used to manage risk, reduce volatility and stabilise results. The Region has seen huge development in the Islamic Finance Sector in recent years and this is rapidly filtering through to the asset management arena where considerable product development is now taking place. While investors in the UAE understand the importance of diversifying their assets, few have enough confidence in their financial knowledge to do this successfully. Fewer than half of those surveyed were confident in their knowledge and understanding of key aspects of personal finance. Despite more investors saying they plan to invest



in alternative investments, these vehicles were understood by very few people, revealing a need for more financial education and specialist advice. Interestingly, the knowledge gap narrows for the older and more affluent individuals. This is because the financial sophistication of investors tends to increase with wealth, in part because they have more access to private bankers and wealth advisers.

### **Hypothesis Testing**

The survey on investor attitude, *prima facie*, attempts to understand the attitude- influencing variables such as age and willingness to take risk, investment goals and investor attitude towards portfolio. Hence we have formulated a null hypothesis to know the existence or otherwise of any relationship between selected variables.

**Ho1:** *There is no significant association between age of the investor and investor willingness to take risk.*

The data pertaining to investor willingness to take risk and the age pattern of the investor, were tested by chi-square test, to estimate the likelihood that some factors other than the association relationship exist or not. The critical values from chi-square distribution for 12 degrees of freedom are 21.026 and 26.2170 at 0.05 and 0.01 level of significance ( p value) respectively. The calculated chi-square value of 14.43 is lower than the critical value at 0.05 and 0.01 significance levels. Hence we accept the null-hypothesis and conclude that there is no association relationship between the Age of the Investor and his Willingness to take Risk (refer Table – 1).

**Ho2:** *There is no significant association between investment goals and investor attitude towards portfolio.*

The Researcher had applied chi-square test to estimate the likelihood that some factors other than the association relationship exist or not. The critical values from chi-square distribution for 6 degrees of freedom were 12.5916 and 16.819 at 0.05 and 0.01 level of significance ( p value) respectively. The calculated chi-square value of 1.6160 was lower than the critical value at 0.05 and 0.01 significance levels. Hence the null hypothesis was accepted and there was no association relationship between the Investment Goals of the Investor and his Attitude towards Portfolio.

### **5.0 Conclusion**

UAE investors are sceptical about investing under current market conditions and currently prefer to put their money in low-risk assets like Government Bonds, Cash and Gold as the favoured investment vehicles. Perhaps unsurprisingly, a large proportion of people surveyed in the UAE believe that it is important to use ethically screened investments, including Shariah-compliant products. The Region's investment markets are still quite unpredictable and this is reflected in the investor sentiment. Attitudes have certainly changed over the past year and investor caution has resulted in savings plans becoming the top choice of investment. While planning medium to long-term investments, investors are being more selective and they are carefully researching their options. This is a very good practice to undertake. If managed properly, there are still good opportunities to invest and

earn returns. Optimism amongst investors in the UAE is improving and residents are becoming a little more bullish about investment markets. This in turn means that there is an even greater need for careful financial planning.

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**Web based Reports.**

1. The Friends Provident International Investor Attitudes report- <http://www.ameinfo.com/244051.html>
2. Global report on Investment published by Barclays Wealth - <http://www.ameinfo.com/135893.html>.

**Table – 1: Showing the Relationship between Age of the Investor and Investor Willingness to Take Risk.**

<u>Observed variables (A)</u> <u>Willingness to take risk</u>	<u>Age pattern</u>				<u>Grand Total</u>
	<u>Less Than 35</u>	<u>35-50</u>	<u>51-60</u>	<u>61 and above</u>	
Avg. risk taker	2	10	7		19
High-risk taker	1				1
Low risk taker	4	4	11	1	20
Very high-risk taker	1				1
Very low risk taker	3	3	3		9
<b>Grand Total</b>	<b>11</b>	<b>17</b>	<b>21</b>	<b>1</b>	<b>50</b>

<u>Absolute Values</u>	<u>Less Than 35</u>	<u>Age pattern 35-50</u>	<u>51-60</u>	<u>Age 61 and above</u>	<u>Grand Total</u>
Avg. risk taker	1.14	1.94	0.12	0.38	
High-risk taker	2.77	0.34	0.42	0.02	
Low risk taker	0.04	1.15	0.80	0.90	
Very high-risk taker	2.77	0.34	0.42	0.02	
Very low risk taker	0.53	0.00	0.16	0.18	
	14.430				
Chi Square Statistic $\chi^2$	= 14.43				
Degree of freedom	= (5-1) (4-1)	12			
D (f)=(r-1) (c-1)					

**Table – 2 : Showing the Relationship between Age of the Investor Attitude towards Investment Goals And Investor Attitude Towards Portfolio.**

<u>Observed variables</u> <u>attitude towards investment goal</u>	<u>attitude towards Portfolio</u>			<u>Grand Total</u>
	<u>gaining value</u>	<u>least of maintaining same value</u>	<u>loosing value</u>	
to develop with caution	14	4	4	22
to grow aggressively	7	1	4	12
to stay away from losing money	11	2	3	16
<b>Grand Total</b>	<b>32</b>	<b>7</b>	<b>11</b>	<b>50</b>

<u>Absolute Values</u>	<u>Age pattern</u>			<u>Grand Total</u>
	<u>gaining value</u>	<u>least of maintaining same value</u>	<u>loosing value</u>	
attitude towards investment goal	0.00	0.27	0.15	
to develop with caution	0.06	0.28	0.70	
to grow aggressively	0.06	0.03	0.08	
to stay away from losing money	0.00	0.00	0.00	1.6160
Chi Square Statistic $\chi^2$	1.62			
Degree of freedom	=(4-1)(3-1)	6		
Df=(r-1)(c-1)				