

**An Empirical Study of Investors' Risk Aversion Behaviour and Decisions on
Investment Options**

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Abstract

Given the wide range of products available, Sri Lankans choose to invest in savings and fixed deposit products provided by banks and financial institutions. Therefore, the adoption of alternative and new investment options is low in the Sri Lankan context. This research was carried out based on two objectives; where the first objective was to determine the degree of risk aversion of individual retail investors and the second objective was to determine the impact of risk aversion on the selection of investment options. Hence, the hypothesis of the study was that risk aversion significantly impacts the selection of investment options. To test the hypothesis of the study, the statistical tests performed included factor analysis, correlation and linear regression. To gather primary data for the study, the authors distributed a structured questionnaire to a sample of 384 different investors, where this study considered any individual who owns a deposit (savings) in a bank as an investor. The descriptive analysis of the risk aversion variable indicated a high degree of risk aversion among the respondents. According to the analysis of investment options, currently, mostly held investment is savings while investors' highly preferred future investment is fixed deposits. The high-risk aversion of the

investors in the sample could be attributed to the high inclination towards savings and fixed deposit investments and the currently low stock market participation in the country. Moreover, according to Pearson's correlation analysis, the study revealed a statistically significant relationship between risk aversion and the selection of investment options. The findings of this study provide integral information to investors and financial intermediaries on the importance of understanding each investor's risk aversion.

Keywords: *Investment option, Level of risk aversion, Risk aversion, Behavioral finance, Decision- making behavior*

JEL Classification: *D81, D91, G11, G41*