Risk Tolerance Level among Working Adults in Kuala Lumpur Malaysia

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ABSTRACT

This paper examines the relationship between demographic factors such as gender, age, marital status, education level and income with the level of risk tolerance. We use a survey questionnaire from 147 respondents of working adults in Kuala Lumpur. The results show that the respondents prefer to keep/invest in liquid assets such as savings account, cash in hand and Employment Pension Funds (EPF). This indicates that a majority of them are risk averse with a small percentage of respondents who invest in risky assets like gold, mutual funds/unit trust, real estate. Male respondents owned more risky assets, signifying that they are more risk tolerant than the female respondents. The study also shows that individuals with higher education levels, specifically tertiary education have greater risk tolerance. Results from the regression analysis show that only age and marital status are to be statistically significant to risk tolerance of working adults. This indicates that older respondents tend to be more risk adverse compared to the younger ones while the married respondents seem to be risk takers than the single ones.

Key words: Risk tolerance; Demographic; Financial assets

1. INTRODUCTION

A market with no risk and high returns would make investing the perfect adventure. With 100 per cent ability to foresee investment returns, individuals would not experience risk aversion and be able to conquer the market by investing in various asset classes with perfect market timing to avail the benefits of their investments. Reality however sets in and seizes that idealistic vision of risk and returns. The business world is a battlefield made up of trade-offs and differences in investment making decisions caused by risk aversion that originates from impactful demographic attributes. Risk aversion, as defined by the Oxford Dictionary is the reluctance to undertake risks, in daily life. The science of behavioural finance throughout the years has greatly contributed to the evolution of financial risk tolerance. The study of financial risk tolerance has opened channels to further understand the empowering impact of investors’ demographic characteristics and behavioural traits that translate into investment making decisions (Sharma & Vasakarla, 2013).