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Investors Perception of Risk Awareness and Portfolio Management towards the Cryptocurrency Investment in Kerala

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ABSTRACT

In contemporary financial landscapes, cryptocurrency investments have gained substantial traction, drawing the attention of investors in regions such as Kerala, India. With an increasing shift towards digital assets, investors are navigating a realm characterized by dynamic market forces and regulatory frameworks. This paper aims to scrutinize the evolving landscape of cryptocurrency investments in Kerala, shedding light on investors' perceptions of risk and their awareness levels. Against the backdrop of global trends and local influences, the study endeavours to unravel the intricacies of decision-making processes among investors, offering insights into the challenges and opportunities associated with cryptocurrency investments in this region.

Keywords: Cryptocurrency Investments, Investor Perception, Risk Awareness, Portfolio

I. INTRODUCTION

Investors from all around the world, including those in Kerala, a state in southern India, have taken an interest in the emerging cryptocurrency market. To comprehend the regional quirks that influence cryptocurrency investments in Kerala, it becomes essential to investigate the complex dynamics of investor perception and risk awareness within this field. Investors face a distinct set of opportunities and challenges as the digital assets market develops, which are influenced by global market trends, technological advancements, and regulatory developments. This study aims to shed light on the variables that influence decision-making in this dynamic and quickly changing financial ecosystem by delving into the specifics of how Keralan investors understand and manage the risks associated with cryptocurrency investments.

Cryptocurrency

Cryptocurrency is a form of digital or virtual currency that uses cryptography for security. It operates on a technology called blockchain, which is a decentralized and distributed ledger. Unlike traditional currencies issued by governments (fiat), cryptocurrencies are typically not controlled by any central authority. They enable secure and transparent peer-to-peer transactions, providing a decentralized alternative to conventional financial systems. Bitcoin is the first and most well-known cryptocurrency, but there are thousands of others, commonly referred to as altcoins. Users can buy, sell, and trade cryptocurrencies through online platforms known as cryptocurrency exchanges. When it comes to risk in cryptocurrency, it primarily involves the potential for financial loss due to market volatility. Cryptocurrency prices can be highly unpredictable, with values fluctuating significantly over short periods. Other risks include regulatory uncertainties, security concerns, and the potential for technological vulnerabilities. Investors should be aware of these factors and conduct thorough research before engaging in cryptocurrency activities.

Brief History of Cryptocurrency

Cryptocurrency's journey spans back to the late 20th century, but its pivotal moment arrived with the inception of Bitcoin in 2009 by the mysterious Satoshi Nakamoto. The 1980s and 1990s witnessed early discussions in academic and cryptographic circles, exploring the concept of digital currency. Bitcoin's introduction marked the establishment of decentralized cryptocurrency, outlined in Nakamoto's whitepaper, proposing a peer-to-peer electronic cash system built on blockchain technology. Subsequent years, particularly from 2010 to 2013, saw Bitcoin's rise, accompanied by the emergence of alternative cryptocurrencies or altcoins, with Litecoin being an early example.

The period of 2013 to 2017 witnessed the expansion of Bitcoin's popularity and acceptance, with merchants and businesses starting to embrace it as a form of payment. Blockchain technology gained broader recognition beyond its application in cryptocurrencies. The year 2017 saw the advent of Initial Coin Offerings (ICOs) as a fundraising method, but it was met with increased regulatory scrutiny, reflecting concerns about fraud and investor protection. The subsequent years, from 2018 to 2020, were characterized by significant market volatility, maturation, and the rise of stablecoins pegged to traditional currencies.

2020 - 2023 marked a bullish surge for Bitcoin, reaching \$29,000 fuelled by institutional interest. The DeFi boom added innovation. 2021 saw new highs, with Bitcoin peaking at \$69,000 due to Tesla's purchase and Coinbase's IPO. Regulatory concerns and China's crackdown led to corrections. In 2022, a "crypto winter" ensued as Bitcoin fell below \$30,000 amid rising interest rates and market crashes. Recovery in 2023, with Bitcoin surpassing \$34,000, was attributed to market stabilization, improved economic outlook, and increased institutional adoption, signalling optimism in the crypto space.

Advantages of Cryptocurrency Investment

1. **Decentralization:** Cryptocurrencies operate on decentralized networks, reducing reliance on central authorities like banks and governments.
2. **Security:** Blockchain technology ensures secure and transparent transactions through cryptographic techniques, enhancing the security of financial transactions.
3. **Global Accessibility:** Cryptocurrencies can be accessed and transacted globally, enabling financial inclusion for those without traditional banking access.
4. **Lower Transaction Costs:** Cryptocurrency transactions often have lower fees compared to traditional financial services, especially for international transactions.
5. **Ownership and Control:** Users have greater control over their funds and financial activities, reducing the risk of censorship or asset seizure by third parties.
6. **Innovation in Finance:** Cryptocurrencies have spurred innovation in financial technology, leading to developments like decentralized finance (DeFi) and smart contracts.
7. **Privacy:** Some cryptocurrencies offer enhanced privacy features, allowing users to conduct transactions with a greater degree of anonymity. (Frankenfield, 2023)

Disadvantages of Cryptocurrency Investment

1. **Volatility:** Cryptocurrency markets are highly volatile, leading to substantial price fluctuations that can pose risks for investors.
2. **Regulatory Uncertainty:** Lack of consistent regulations globally can create uncertainty for users and businesses operating in the cryptocurrency space.
3. **Security Risks:** While blockchain is secure, the surrounding infrastructure (wallets, exchanges) can be susceptible to hacking, leading to the loss of funds.
4. **Limited Acceptance:** Cryptocurrency acceptance as a means of payment is not widespread, limiting its utility in daily transactions compared to traditional currencies.
5. **Irreversibility:** Cryptocurrency transactions, once confirmed on the blockchain, are irreversible. Mistaken transactions or fraud may result in permanent loss.
6. **Perceived Illicit Use:** Cryptocurrencies are sometimes associated with illegal activities due to their pseudonymous nature, leading to regulatory scrutiny and reputational challenges.
7. **Technical Complexity:** Understanding and using cryptocurrencies require a certain level of technical knowledge, which may be a barrier for some potential users.
8. **Environmental Concerns:** Proof-of-work cryptocurrencies, like Bitcoin, have been criticized for their energy consumption and potential environmental impact. (Frankenfield, 2023)

Review of Literature

Almeida et al., (2022) investigates uncertainty and risk in cryptocurrency investments, analysing seven cryptocurrencies from August 2015 to October 2021, including the COVID-19 pandemic. Results show similar patterns in uncertainty and risk, except for Tether. Interestingly, during the pandemic, uncertainty increased while risk decreased, suggesting potential safe haven properties. Maturity plays a role, with BTC and LTC showing similar behaviours. USDT is the least risky but provides zero returns. ETH, XLM, and XRP appeal to non-risk-averse investors. Implications

include insights for fund allocation and policy design to stabilize the market. Future research could explore the impact of other non-financial crises. (Almeida et al., 2022).

Elsayed et al., (2022) scrutinizes return and volatility transmissions among Bitcoin, traditional financial assets, and global uncertainty measures during the COVID-19 era. Utilizing sophisticated methods, the research reveals unprecedented spillovers, with gold acting as a return hub and Bitcoin transmitting volatility. Economic Policy Uncertainty emerges as the sole global factor amplifying Bitcoin's volatility. The study holds implications for policymakers, cautioning on their decisions' impact, and advises investors about Bitcoin's spillover effects on traditional markets. (Elsayed et al., 2022)

Colon et al., (2021) delves into the nuanced impact of uncertainty on the cryptocurrency market, expanding beyond Bitcoin to include the top 25 cryptocurrencies. Departing from previous research, the findings reveal that the cryptocurrency market acts as a robust hedge against geopolitical risks in most scenarios. However, its role as a weak hedge and safe haven during a bull market against economic policy uncertainty is noteworthy. The study underscores that the cryptocurrency market responds diversely to different types of uncertainty, highlighting its nuanced nature. Overall, the research establishes the pivotal role of uncertainty as a determining factor in cryptocurrency returns, offering valuable insights into the market's dynamics. (Colon et al., 2021)

Objectives of the Study

1. To find out the risk perception of crypto investors in Kerla
2. To understand the major portfolio of crypto investors from Kerala

Statement of the Problem

The increasing interest in cryptocurrency investments in Kerala has caught attention, but there's a vital concern about how much investors understand the associated risks. Given the unpredictable nature of the cryptocurrency market, investors in Kerala might face various risks like market volatility, unclear regulations, and security issues. It's crucial to grasp the depth of their risk awareness and what factors shape it to protect investors and keep the market stable. The lack of thorough studies on these aspects in the Kerala context makes it challenging to create targeted educational programs and awareness. Therefore, this research aims to fill this gap by checking how much cryptocurrency investors in Kerala are aware of the risks and identifying what factors affect their perception of risk. The goal is to offer insights for policymakers, regulators, and market players, helping improve strategies for managing risks and creating a safer, more informed cryptocurrency investment environment in Kerala.

Research Methodology

For this study involving 205 cryptocurrency investors in Kerala, a straightforward research methodology will be adopted. A quantitative approach will be employed to gather data on two key aspects. Firstly, a survey questionnaire will be distributed to the sampled investors to assess their risk perception regarding cryptocurrency investments. The questionnaire will include Likert-scale questions to quantify their attitudes and awareness of associated risks. Secondly, the survey will

inquire about the major components of their investment portfolios, aiming to understand the diverse assets these investors hold. Data analysis will involve descriptive statistics to summarize the findings. Ethical considerations, such as informed consent and participant confidentiality, will be prioritized throughout the research process. This simplified methodology aims to efficiently capture insights into the risk perceptions and investment portfolios of cryptocurrency investors in Kerala.

Limitations of the Study

1. The study only looks at a specific point in time (cross-sectional), it might miss changes or trends over time. Long-term studies would provide a more comprehensive understanding of how things evolve especially the technological changes are directly affects cryptocurrencies.
2. People might not always provide honest answers, especially on sensitive topics, leading to biased results.
3. The study may not accurately represent the entire population.

Analysis and Interpretation of Data

Table No.1 Gender of the respondents

Gender	Frequency	Percentage
Male	157	76.6
Female	48	23.4
Total	205	100.00

Table 1 presents the distribution of respondents based on their gender. Out of the total 205 respondents, 157 identified as male, constituting 76.6% of the sample, while 48 respondents, or 23.4%, identified as female. This information provides an overview of the gender composition within the surveyed population.

Table No. 2 Age of the Respondents

Age group	Frequency	Percentage
Below 25 years	105	51.22
26-30 years	83	40.49
Above 30 years	17	8.29
Total	205	100.00

Table 2 outlines the distribution of respondents categorized by their age groups. Among the total 205 respondents, 105 individuals, representing 51.22%, fall below 25 years of age. The age group of 26-30 years comprises 83 respondents, making up 40.49% of the sample. The remaining 17 respondents, accounting for 8.29%, are above 30 years of age. This data provides an insight into the age demographics of the surveyed population.

Table No. 3 Cryptocurrency and Risk Perception (Mean Value)

Statements	N	Mean	Std. Deviation
Government Regulation	205	3.0634	1.12061
Hackers / security breaches -theft or "ransom" of data	205	2.9317	.98778
System limitations (e.g., transaction speed, scaling /throughput)., transaction speed, scaling /throughput)]	205	3.0244	1.00215
Fraudulent offerings of crypto currencies	205	2.5854	1.12841
Manipulative trading of crypto currencies	205	2.8634	1.16774
Money laundering and the finance of crime	205	2.7512	1.02017

Table 3 The descriptive statistics reveal insights into how 205 participants perceive various cryptocurrency risks. On average, participants consider government regulation and system limitations in cryptocurrency transactions as moderately impactful, with moderate variability in responses. The risk of hackers or security breaches is also viewed as moderate, but with lower variability. Fraudulent offerings of cryptocurrencies are seen as having relatively lower risk, yet opinions vary widely. Manipulative trading risk is perceived as moderate, with higher variability. The risk of money laundering and crime finance through cryptocurrencies is also viewed as moderate, with a moderate level of variability.

Table 4. Preferred Investment Portfolio according to Crypto Investors

Investment Portfolio	Frequency	Percent
Bank Account	42	20.5
Bank Account, MF, PF, PI, SM	39	19.0
Bank Account, MF, SM	38	18.5
Bank Account, SM	34	16.6
Bank Account, MF, PF, SE	31	15.1
Bank Account, MF, SM,	21	10.2
Total	205	100.0

Table 4 illustrates the preferred investment portfolios of 205 cryptocurrency investors. The most frequent choice is having funds in a Bank Account, selected by 42 participants, constituting 20.5% of the total. The second most common preference, chosen by 39 participants (19.0%), is a diversified portfolio comprising Bank Account, Mutual Funds (MF), Provident Fund (PF), Public Investments (PI), and Stock Market (SM). Other popular choices include combinations involving Bank Account, MF, and SM. In total, these preferences showcase a varied spectrum of investment strategies, with a notable portion favouring a mix of traditional banking and diverse investment avenues.

Suggestions

The study suggests two key recommendations. Firstly, there's a need for targeted educational efforts, especially among the younger demographic (below 25 years), to enhance understanding of cryptocurrencies. This can cultivate a more informed and engaged investor community. Secondly, effective communication and continuous investment in cybersecurity measures are essential to address varied risk

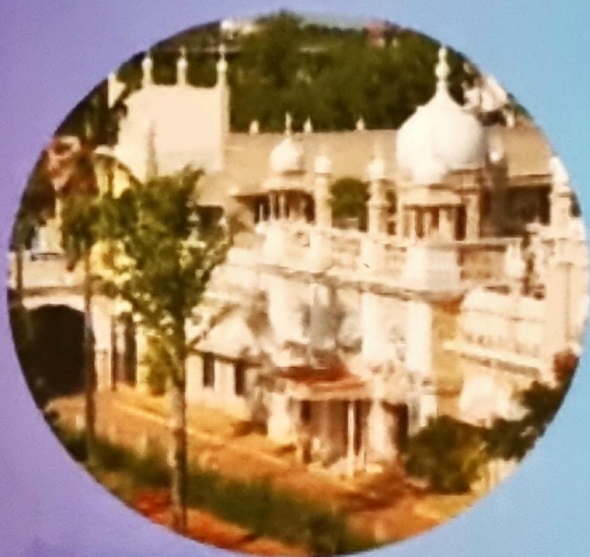
perceptions, particularly regarding government regulation and security breaches. This promotes trust and security within the cryptocurrency space. Moreover, recognizing diverse investment preferences, financial institutions should offer tailored products combining traditional banking and cryptocurrency options. Regular monitoring, adaptation to market trends, and engagement with regulatory bodies are crucial for industry relevance. Prioritizing financial literacy, particularly in cryptocurrency, through educational programs empowers investors for informed decision-making, contributing to a knowledgeable and confident investor base. These measures collectively aim to enhance the sustainability, security, and inclusivity of the cryptocurrency market.

II. CONCLUSION

In conclusion, the data analysis reveals notable patterns in the respondents' demographics, risk perception regarding cryptocurrencies, and preferred investment portfolios. The majority of respondents identified as male and the age distribution indicates a significant representation of individuals below 25 years. Regarding cryptocurrency risk perception, participants generally view government regulation and system limitations as moderately impactful. The risk of hackers or security breaches is also considered moderate but with lower variability. Manipulative trading risk is seen as moderate, with higher variability, while the risk of money laundering and crime finance through cryptocurrencies is viewed as moderate with a moderate level of variability.

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