POLITICS & INTERNATIONAL RELATIONS | RESEARCH ARTICLE

Analysing the risk tolerance levels of stokvel investors

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Abstract: Stokvels (globally known as credit unions) as an investment alternative has been one of the most profitable informal investment products. Yet, it is not recognised as a formal investment product due to the large risk attached to its informal investment process. For this reason, it is pertinent to analyse the propensity to take risk of investors who choose to invest in stokvels compared to other investment products. Therefore, to profile stock investors, this paper aimed to analyse the risk tolerance levels of investors investing in stokvels based on their demographical factors. In terms of the demographics of the investors, the results of this study were similar to those of previous studies indicating a higher risk tolerance level for male investors, younger individual investors and those in high-income brackets. In aggregate, it was found that the majority of participants were willing to take average financial and investment risk with the expectation of earning average returns, therefore can be classified as risk-averse or conservative. Furthermore, it was found that investors investing in stokvels had the highest propensity to take on financial risk compared to all other investment product choices, especially those investing in government bonds. This will aid in the creation of investment offerings that investment companies offer to stokvel members, in range with their risk tolerance levels and possible investment objectives. This will be a step in the right direction of making stokvels safer for members and more profitable for investment companies.

Subjects: Statistics for Social Sciences;; African Cultural Studies;; Investment & Securities

Keywords: investors; stokvels; risk tolerance; South Africa

ABOUT THE AUTHOR

Katleho Mokoena was a student at the North West University, Vaal Triangle Campus. This study was conducted during her post-graduate year, completing her Honours Degree in Bcom Hons Economics with Risk Management. Dr Zandri Dickason-Koekemoer and Dr Suné Ferreira-Schenk specialise in financial risk management having obtained their PhD degrees in this field. Their main focus area is on financial risk tolerance, depositor behaviour, investor behaviour, behavioural finance, and the financial well-being of investors. These researchers have already published several articles in accredited journals regarding this field of interest.

PUBLIC INTEREST STATEMENT

This paper investigates the risk tolerance level of individuals who save and invest money into Stokvels. Based on the gender, age and income demographics of the participants studied, it was concluded by this study that the participants were high risk tolerant, in other words, most likely to invest their money in high-risk investment instruments.
1. Introduction and background

A stokvel can be described as a type of credit union in which a group of members agree to contribute a fixed amount of money to a common pool either weekly, fortnightly, or monthly (NASASA, 2020; Verhoef, 2001). Moreover, a type of savings and micro-lending scheme in which a group of people would agree to contribute a fixed amount of money to a common pool in which they will later receive a lump sum payment Lukhele & Johannesburg. Johannesburg, 1990. Ncoboko and Chisasa (2018) describe stokvels as another means of income that individuals use to afford necessities and in some cases, some luxuries. Due to the informality in the investment process of a stokvel and the lack of regulation thereof, this investment instrument has not still been classified as a formal investment product. Stokvels can be seen to be similar if not the same as credit unions, as the functions are also similar, where money is pooled and loans made to members. Nembhard (2013), describes credit unions as affordable financial services providing loans, savings and investment opportunities to their members.

As a means of additional income, lower-income classes are participating in stokvels, as well as middle-class and upper-class participation in this form of informal investment product. According to NASASA (2020), there are over 800,000 stokvels in South Africa, which represents over 11 million of the population using stokvels as a means of enhancing their financial stability and social financial well-being. In a study done by Mulaudzi (2017), it was found that stokvels in general around South Africa generate R44 billion (S$2 498 072 509.96) each year. However, Bophela and Khumalo (2019) found that at the municipal level, 80.4 percent of stokvels are not affiliated with the National Stokvels Association of South Africa (NASASA). The reason might be due to the money generated by these stokvels not being accounted for in the statistics taken by NASASA. With the different types of stokvels, the reasons for people to join these stokvels will also not be the same. There are eight different stokvel schemes in South Africa, which include the grocery stokvel, burial societies, investment clubs, savings clubs, rotational stokvel clubs, social clubs, borrowing stokvels, and multi-function stokvels (NASASA, 2020).

The amount of the different types of stokvels generated each year is worth noting as it shows how successful these schemes are, but the study also showed that stokvel members receive little to no reward from these schemes. This may be because the members of these stokvels do not have the financial education to make sure that their stokvels improve their lives, another reason may be because members join these stokvels with only short-term goals and objectives. Ncoboko and Chisasa (2018) have found that members of these stokvels are mostly found in townships, and they are low to middle-class income earners, ranging from ages between 21 and 50 years with matric as their highest educational qualification. Moreover, the level of education, age, and level of income may also be contributing factors.

Research studies have been conducted about the factors surrounding stokvels all over South Africa (Mulaudzi, 2017). Surveys have been made to find out how many men and women participate in stokvels, the educational level of members, the impact that the stokvels have on its members, and how different stokvels are from other investment instruments (Gwamanda, 2019). A study has not yet been conducted on the risk tolerance of stokvel investors and that of investors in formal investment instruments. Due to the lack of research conducted in analysing the difference between investors’ risk tolerance levels for formal investment products and informal investment products (stokvels), there is a gap in the knowledge of stokvels as an investment instrument (Gwamanda, 2019). Looking into the different risk tolerance levels between stokvel investors (informal) and investors in the formal investment products, such as government bonds, mutual funds, unit trusts, stocks, and the property is necessary for understanding why stokvels remain an investment instrument that some investors still find attractive even though stokvels are informal investment products. This is important because it will serve as new information for investment managers and companies to better understand the reasons why some people prefer investing in stokvels rather than in more formal investment products. With the knowledge from the investor lifecycle theory which states the investors in the accumulations phase tend to invest in more high-
risk products, while those in the consolidation phase would invest in moderate-risk products and those in the spending and gifting phase would invest in low-risk products (Reilly & Brown, 2012). This study will also aid in the creation of investment offerings that investment companies offer to stokvel members that will be in range with their risk tolerance levels and possibly investment objectives. This will be a step in the right direction of making stokvels safer for members and more profitable for investment companies.

For this reason, it is pertinent to analyse the propensity to take risk of investors who choose to invest in stokvels compared to other investment products. This paper will start by providing background into the origin of stokvels in South Africa, then move to identify the investors of stokvels. In identifying the type of people who invest in stokvels, this paper will be looking into their demographics, such as age, gender, income level, investment product choice and investor risk tolerance.

2. Literature review
The first credit union in the United States was established in the early nineteen hundreds (1900s) under “common bond” which could have been the same employment/employer, industry, community organisation, religious institution, etc. (Nembhard, 2013). The common bond was used to ensure that members were employed and/or a stable member of a community which alluded to common interest (Nembhard, 2013). However, in South Africa, stokvels started as an informal investment product that was initially established as a burial society. According to Lukhele and Johannesburg. Johannesburg (1990), stokvels date back as far and as early as the nineteenth century where black farmers and labourers would attend stock fairs from which the word “Stokvels” originated. These stock fairs were where cattle auctioning between farmers happened. However, Lukhele and Johannesburg. Johannesburg (1990) found that in 1990 there were about 24,000 stokvels that generated R52 million a month and there were about 680,000 black people that were participating in stokvels. During the 1990s about 60 percent of the stokvel members that were employed were women. Stokvels have since been known for their purpose of bulk buying or extensive consumption by members at the end of the year, but stokvels started as burial societies. Burial societies became popular in the 1930s, where migrant workers, particularly men, preferred to be buried in their rural areas during the outburst of Cholera, smallpox, and tuberculosis Lukhele & Johannesburg. Johannesburg, 1990. Also, Townsend and Mosala (2009) state that colleagues of those workers who died then decided to contribute money for the transportation of the deceased to their hometown, which is how burial societies began. African women in urban areas would then meet and have tea, it was in these meetings that savings organisations began what have since been known as stokvels (Verhoef, 2001). It is astounding to see that today stokvels have been modernised and are more than just burial societies that are partaken mostly by women and serve for different purposes.

According to Isbister (1992), Community Development Credit Unions (CDCUs) are financial institutions that serve low- to moderate-income earners and their communities to provide asset preserving and building opportunities as well as financial assistance to its members. In contrast to the credit union, the purpose of the participation or establishment in a stokvel can be different. According to Radebe (2019), stokvels are a product of capitalism but are different from other products of capitalism as stokvels oppose the oppressive nature of capitalism. Stokvels are mostly dominated by lower and middle-class black people Lukhele & Johannesburg. Johannesburg, 1990. In a study done by Verhoef (2001), it was found that even people who earned about R20 000 monthly (approximately 1 USD 135.49) still participated in stokvels, which indicated that it was low- to middle-class income earners who participated in stokvels. The lower-class in South Africa in 2008 per total household income earned between R0—R1 519 monthly, while the middle-class earned between R1 520—R4 560 monthly, this indicates that households who earned above R4 560 per month were regarded as upper-class income earners (Visage, 2013). According to the objectives of the members of the stokvels, stokvels would generally serve the same purpose. The most common reason would be that stokvels serve as savings and micro-lending schemes.
amongst people who have established a strong foundation of trust and dependency (Moliea, 2007). An assumption made in this paper was that this social behaviour was influenced by another successful group of people participating in a similar savings club. For a burial society, the main purpose would be that in the case of a financial shock like the passing of a family member, the stokvel member would have immediate money to cover the funeral expenses without having to worry about credit, members of burial societies also provide support to the family of the deceased in terms of preparations (NASASA, 2020). In the case of a savings club members contribute a pool of money in the form of group commitment for individual and sometimes group objectives, such as being able to finally renovate the house for some, being able to go on a nice holiday for others, or simply being able to buy enough food and groceries to last the family for the first 3 months of the new year, while they pay school fees and buy school uniforms (Gwamanda, 2019). For a member who is in the borrowing stokvel, their reasons may also differ, one would be because they want to have easy access loans without the paperwork since trust has already been established; however, these microloans charge high interest rates for the profitability of the stokvel (NASASA, 2020).

In general investment terms, risk can be explained as the uncertainty of future returns or potential losses (Van De Berg & Johannesburg, 2004). Risk tolerance is one of the most comprehensive concepts used in the financial industry and a fundamental factor that needs to be taken into consideration when planning an individual’s investment strategy (Rutgers, 2014). Because of the different objectives of stokvels, it can be detected that the members would range in their risk tolerance levels. The “High risk, High return” saying goes by so much in the investment field that most people engage in investment know that the higher the risk, the higher the return, which might be the case for stokvel investors (Mulaudzi, 2016). An individual encounters risk daily. An individual’s life experiences, to some extent, are therefore linked with his/her understanding of the relationship between risk and return (Crouhy et al., 2014). These life experiences will play an important role in an individual’s income, available capital, liquidity requirements, knowledge about investments, emotional resilience, as well as their attitude towards price volatility (Friedman, 1996; Hanna & Chen, 1997). Looking at stokvel investors’ objectives one can immediately assume that they are risk-averse. In a study done by Mulaudzi (2016), it was found that stokvel members were not at all unfamiliar with “High risk, High return” and these members did openly say that they are risk-averse since they depended on the money and could not risk losing it. Risk is created from uncertainty and the inability to accurately predict market prices, however, risk that results from uncertainty can be managed (Crouhy et al., 2014).

However, these members are aware of the risks involved in steps being taken to protect their joint contributions (Buiks, 1998). For members belonging to an investment stokvel club, the case would be different because according to NASASA (2020), the objective for contributing money to an investment stokvel pool would be for reasons of investing through earning interest, venturing into business, or buying equities. For burial societies’ members would not even be open to investing their funds, taking into account that an event such as death cannot be anticipated. Verhoef (2001) argues that because many stokvel members join to achieve short- and medium-term needs, not all stokvels’ savings will be used for any long-term higher risk investments. This makes the time frame of a stokvel investment important for an investor who either has a short or longer time horizon to make investment decisions that align accordingly with their time horizon.

Measuring financial risk tolerance and determining the factors that affect financial risk perception has been of interest to investors and researchers alike for many years. There are many variables that, once grouped and discussed, can interpret an individual’s risk tolerance level. These variables include age, sex, marital status, occupation and wealth. Individual financial risk tolerance is assumed to be the primary determinant of choice behaviour in a situation that the individual is facing when investing (Bailey & Kinerson, 2005; Grabble & Lytton, 2001). Taking a look at the conventional investor who invests in more formal investment instruments, an investor who is in their early years of employment and has a long time horizon to retirement, we would expect the investor to have high-risk tolerance and to invest in equities, property, derivatives and less liquid instruments, and this is according to the
investor lifecycle (De Beer et al., 2017; Masenya, 2018). For an investor who is already in retirement or is close to retirement, the case would be different as they would tend to be more risk-averse. Grable and Lytton (1997) and Yao et al. (2011) argue that as an investor gets older they tend to have lower risk tolerance as their time horizon shortens because then the investor has little time to recover from losses before their retirement. Ngcobo and Chisasa (2018) and Mulaudzi (2016) conducted their research on participants ranging from the age of 10 years old to 50 years old. With the assumption that the average age of participation is 21–50 years old, a member who is 25 years old and participating in investment and a social club, according to the investor lifecycle, we would expect the member to be in the accumulation phase and to have a long time horizon and therefore, have a high-risk tolerance. For a member who is 50 years old and participating in a burial society and a grocery stokvel, we would expect this member to be in the retirement phase and thus have a short time horizon and therefore be risk-averse with contributed money (Reilly & Brown, 2012). Previous studies specifically on risk tolerance and age have found a negative relationship between age and risk tolerance which is in line with the investor lifecycle theory (Wallach & Kogan, 1961; McInish, 1982; Morin & Suarez, 1983; Hawley & Fuji, 1993; Palsson, 1996; J. Grable, 1997; Hallahan et. al., 2003; Yao et al., 2011, 2011; Van Schalkwyk, 2012; Dickason & Ferreira, 2018a; Van Den Bergh, 2018; Ferreira & Dickason-Koekemoer, 2019).

In general, Van Den Bergh (2018) found that there is a positive relationship between educational levels and risk tolerance, which means that with higher education there is higher risk tolerance. Koekemoer (2019) found that there is a higher risk tolerance level for an individual with a postgraduate degree than one with a lower educational level. Ngcobo and Chisasa (2018) found that stokvel members in their study have Grade 12 or high school education as their highest education, one could assume that relative to members with a bachelor’s degree and higher would have higher risk tolerance than members with lower education (Halek & Eisenhauer, 2001; J.E. Grable, 2016).

Gender and age of members may also be a factor in the risk tolerance of these stokvel investors. Previous studies conducted in South Africa, such as Van Schalkwyk (2012, p. 285), Mabalane (2015), Dickason (2017), Dickason and Ferreira (2018b), Van Den Bergh (2018), Masenya (2018), and Dickason and Ferreira (2019), and Lawrenson (2020), and Evangelou (2020) assumed that younger male investors would have a higher risk tolerance than older female investors. In a study done by Bophela and Khumalo (2019) which looked at stokvels at the municipal level, it was found that stokvels are mostly dominated by women. Additionally, in a study conducted by Gwamanda (2019), it was found that black women are the predominant participants. This may be an indication of the risk tolerance level that stokvels have, with the stokvel membership being dominated by women who are more likely to be older, and based on the literature less risk-tolerant, the stokvels are likely to be less risk-tolerant.

In a study done by Dickason and Ferreira (2018b), it was found that in the South African context, African investors have a higher risk tolerance, and it was also found that high-income investors are higher risk-tolerant than low-income investors. Additionally, the study found that low-income investors are more risk-averse. Literature has found higher percentages of stokvels members being poor or low-income earners (Verhoeif, 2001). Based on the low income some of these members have, the risk of losing their regular contributions is greater than those who are higher-income earners. With a stokvel with more members who are low-income earners who contribute between four and eight percent of their monthly income, the risk tolerance of the stokvel may be lower than that of a stokvel with high-income earners (Moliea, 2007). Financial institutions and advisors should understand individual investors’ risk tolerance, in addition to their ability and willingness to take on risk as a fundamental component in the investment planning process (Larkin et al., 2013). Although risk tolerance is an important factor when determining an individual’s asset composition or asset portfolio, it is not an easy process due to risk tolerance being regarded as a multidimensional attitude, that is likely to be influenced by numerous predisposing factors (Grable & Joo, 2004). As such, investment managers, as well as researchers in the last decade, have renewed their interest in better comprehending risk tolerance associated with investors.
3. Research design and methodology
The review of the literature revealed that there is a gap in the literature and the empirical evidence in studying stokvels regarding the risk tolerance of stokvel members. This paper has reviewed the literature on previous and recent studies on the impact of stokvels in the South African economy as an informal investment instrument as well as an empirical study on the risk tolerance of stokvel members. This study aimed to determine the risk tolerance of investors in stokvels. This research was based on a quantitative research approach by using secondary data.

3.1. Empirical study
In this study, a quantitative research approach has been applied. The aim was to understand how the theory of a textbook investor applies to the real investor who invests in an informal investment instrument, such as a stokvel. This study used the constructivist paradigm. Adom et al. (2016) argued that this paradigm can be used by researchers who aim to understand the influence of social behaviour by a group or society. Therefore, it aimed at finding out why certain investors chose to invest in stokvels and whether this is influenced by their demographics, risk tolerance, objectives, etc.

3.2. Research population and sample
The research population in this study includes individual investors from an investment company based in South Africa. The sample frame is an investment company. A sample size of 683 participants was used for this study. These participants were individual investors from an investment company in South Africa from all nine provinces. The data were collected through self-administered electronic questionnaires, through which the participants were found in the investment company’s database.

3.3. Measuring instrument
In Table 1 Demographic variables such as age, gender and level of annual income were included in the questionnaire to achieve the objectives of this article. An existing risk tolerance scale from J.E. Grable (2016) was used to measure the subjective risk tolerance level of investors.

- Take substantial financial risks expecting to earn substantial returns;
- Take above-average financial risks expecting to earn above-average returns;
- Take average financial risks expecting to earn average returns;
- Not willing to take any financial risks.

The statements were reverse coded in the dataset where a lower risk tolerance level was given a lower value and a higher risk tolerance level was given a higher score (ranging from 1 to 4). The participants also had to indicate their investment product choices while investing at this specific investment company.

3.4. Statistical analysis
This study used age, gender, and income as demographical factors that influence the risk tolerance of a stokvel investor. A series of descriptive statistics have been provided analysing age, gender, and income. Investment products have been compared on average to determine which investment products did the sample invest in the most and the least. By determining how many of the participants on average invest in stokvels, based on age, gender, and income, the objective of the study was achieved.

4. Data analysis

4.1. Descriptive analysis
The majority of the sample consisted of investors older than 50 years of age (39.4%) followed by the age group 35–49 years of age (35.6%). Younger investors between the ages of 16 and 34 represented 25 percent of the collected sample. Female investors represented more than
56 percent of the sample, while male investors followed with 43.6 percent. Almost 36 percent of the sample earns less than R200 000 per annum, this indicates that approximately a third of the participants earn a salary of between R0—R200 000 per annum. Participants earning between R500 001—R800 000 were the second-highest income category with 17.1 percent. Table 2 indicates the different risk tolerance that investors have based on the returns investors are willing to accept.

Table 2 indicates that 44.5 percent of the participants who represented 304 of the 683 participants took average financial risks expecting to earn average returns. Participants who took above-average financial risks expected to earn above-average returns represented by 25.0 percent which is 171 out of 683 of the participants. Approximately, 21.1 percent of the participants were not willing to take any financial risks. Participants who were willing to take substantial financial risk expecting to earn substantial returns represented 9.4 percent which is 64 of 683 of the total participants. It is classified from the sample that 9.4 percent and 25.0 percent are high-risk categories. While the majority of the sample is risk-averse with 44.5 percent and 21.1 percent can be classified as a low-risk category.

Table 3 above shows that it was found in the study that 47.4 percent of the stokvel investors were in the accumulation phase, 36.8 percent in the consolidation phase and 15.8 percent were in...
the gifting and spending phase. The majority of stokvel investors being in the accumulation phase concur with the investor lifecycle theory that investors in the accumulation phase are most likely to invest in high-risk products. However, 15.8 percent of stokvel investors in the gifting and spending phase contract with the investor lifecycle theory, as it states that it is most likely that investors in this phase invest in low-risk products.

4.2. Descriptive analysis
This section highlights the descriptive statistics of the demographic items in this study. Descriptive analysis is important in describing the basic features of that data. Table 4 below illuminates the descriptive statistics of demographics.

Table 3. Investor lifecycle of stokvel investors

| Investment lifecycle                  | Percent (%) |
|---------------------------------------|-------------|
| Accumulation phase                    | 47.4        |
| Consolidation phase                   | 36.8        |
| Gifting and spending phase            | 15.8        |

Table 4 indicates a significant difference between individual investors’ risk tolerance and their age. Investors in the age category of 16–34 years were more risk-tolerant than investors in the age category of 35–49 years and above 50 years. Investors in the 50 years and older category were found to be the least likely to take on financial risks. However, individual investors that are 50 years and older were the least risk-tolerant. The statistically significant difference represented in Table 4 between investors’ risk tolerance and age suggests clearly that investors in different age categories perceive risk differently where younger investors are keener to take on financial risk than older investors. These results are

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Table 4. Risk tolerance level ANOVA between age, gender and income

| Category               | Mean | Std. Deviation |
|------------------------|------|----------------|
| Categorised age        |      |                |
| 16–34                  | 2.42 | 0.827          |
| 35–49                  | 2.24 | 0.895          |
| 50+                    | 2.09 | 0.812          |
| Risk Tolerance         |      |                |
| Sum of Squares         |      |                |
| Between groups         | 9.040| 3              |
| Within groups          | 416.898| 679         |
| Total                  | 425.939| 682         |
| Gender                 |      |                |
| Male                   | 2.40 | 0.887          |
| Female                 | 2.09 | 0.856          |
| Risk Tolerance         |      |                |
| Sum of Squares         |      |                |
| Between groups         | 6.571| 3              |
| Within groups          | 161.408| 679         |
| Total                  | 167.980| 682         |
| Annual income          |      |                |
| R0–R200 000            | 2.18 | 0.953          |
| R200 001–R300 000      | 2.04 | 0.842          |
| R300 001–R400 000      | 2.18 | 0.783          |
| R400 001–R500 000      | 2.20 | 0.833          |
| R500 001–R800 000      | 2.41 | 0.785          |
| More than R800 000     | 2.52 | 0.751          |
Table 5. Mean comparisons of investment products

| Category            | Mean  | Std. Deviation |
|---------------------|-------|----------------|
| Banked cash         | 2.31  | 0.824          |
| Burial scheme       | 2.34  | 1.057          |
| Endowments          | 2.38  | 0.879          |
| Funeral policies    | 2.22  | 0.921          |
| Government bonds    | 2.07  | 0.917          |
| Guaranteed annuities| 2.21  | 0.704          |
| Living annuities    | 2.12  | 0.659          |
| Money market        | 2.36  | 0.801          |
| Offshore investments| 2.45  | 0.552          |
| Pension funds       | 2.25  | 0.883          |
| Property            | 2.29  | 0.824          |
| Retirement annuities| 2.27  | 0.838          |
| Home loan savings   | 2.47  | 0.814          |
| Shares              | 2.45  | 0.744          |
| Stokvels            | 2.50  | 1.109          |
| Unit trusts         | 2.38  | 0.733          |

Concurring with several previous studies, for instance, Wallach and Kogan (1961), McInish (1982), and Morin and Suarez (1983), Hawley and Fujii (1993, p. 1), J. Grable (1997), Hallahan et al. (2003), Yao et al. (2004), Yao et al. (2011), Van Schalkwyk (2012), as well as more recent studies by Dickason and Ferreira (2018b), Van Den Bergh (2018), and Ferreira and Dickason-Koeckemoer (2019) that found younger individuals to be more risk tolerant than older individuals.

In terms of gender, a statistical difference was found in the mean risk tolerance level of male and female investors. Male investors had a relatively higher mean risk tolerance level compared to those female investors. Previous studies conducted in South Africa such as Van Schalkwyk (2012), Mabalane (2015), Dickason (2017), Dickason and Ferreira (2018b), Van Den Bergh (2018), and Masenya (2018), and Dickason and Ferreira (2019), and Lawsonren (2020), and Evangolou (2020) found similar results.

Table 4 reflects a clear trend in risk tolerance as investors income increases. The more the income, the higher the propensity to accept risk. Investors who earn between R200 000 and R300 000 per year were found to be the least risk-tolerant when compared to other income groups. As previous theory and empirical studies suggest (Hawley & Fujii, 1993, p. 197; Verhoef, 2001; Moliea, 2007; Dickason & Ferreira, 2018a) high-income earners within the highest income bracket (more than R800 000) were the most risk-tolerant, having the highest mean value of 2.52.

From Table 5, it is indicated that participants that invested in stokvels showed the highest risk tolerance level with a mean of 2.50 compared to participants who invested in government bonds who showed the lowest mean risk tolerance level of 2.07. Therefore, the risk tolerance associated with stokvels is more relative to the level of risk when investing in shares (2.45), home loan saving (2.47) and offshore investments (2.45). Living annuities also indicated a low-risk tolerance level with a mean value of 2.12 in comparison to stokvels. This means that, on average, the participants in this study, considered to be risk-averse, had low/medium risk tolerance levels when investing in living annuities. As mentioned previously, due to the different objectives of stokvels mentioned in the literature review, it can be assumed that the members would range in their risk tolerance levels. Although previous studies such as Mulaudzi (2016) have concluded stokvel investors to be risk-averse, this study indicates contrary results. This might be because most people who engage
in stokvels might be unconsciously taking on a high-risk type of investment due to its informal and unregulated investment process, placing these investors in a high-risk category.

5. Conclusion

Given previous literature on the risk profile of a South African stokvel investor, using an investment company in South Africa, this study aimed to contribute by analysing the risk tolerance levels of stokvel investors. The objective of this study was to determine the risk tolerance levels of participants in the study towards stokvels through the use of mean comparison of demographics. In terms of the demographics of investors, the results of this study were similar to those of previous studies indicating a higher risk tolerance level for male investors, younger individual investors and those in high-income brackets. On the contrary, female investors, older investors and those in lower income brackets were found to have a significantly lower risk tolerance level. In aggregate, it was found that the majority of participants were willing to take average financial and investment risk with the expectation of earning average returns, therefore can be classified as risk-averse or conservative. Furthermore, it was found that investors investing in stokvels had the highest propensity to take on financial risk compared to all other investment product choices, especially those investing in government bonds. Together with the investment theory and the consideration of the gender, age, and income of the majority participants, it was concluded that participants in this study were risk-averse or conservative, and their choice of investment products reflected their risk tolerance. Based on this study, stokvels are high-risk products and, therefore, investors in stokvels are high-risk-tolerant. This is important for investment managers because it allows them to create investment opportunities within stokvels for a niche market of high-risk-tolerant investors. For a more diversified target market, investment managers can offer more regulated stokvels that are less high risk to cater to risk-averse and conservative investors. Further research could involve a study of stokvel members within a wide range of stokvel clubs where the investment in stokvels and other investment products are studied to analyse the risk tolerance within the members based on their investment objectives.

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