International Journal of Applied Business and Economic Research
Volume 16, Number 4, 2018, ISSN : 0972-7302
available at http: www.serialsjournals.com

BEHAVIORAL FINANCE - WHAT DRIVES STOCK MARKET INVESTMENT DECISIONS

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Abstract: Financial system plays an important role in the economic growth of a country. Financial system allows exchange of money between savers and borrowers. Various financial institutions, markets, instruments and services work in the complexly knit financial system and paves for the smooth transfer and allocation of funds efficiently and effectively. Indian stock market is one of the vital area of market economy were investors park their funds and thereby claim to be the owners of the company. Behavioural finance deals with psychological influence of investor's behaviour with respect to financial decision making and its impact on the markets. The main aim of this research is to identify Indian investor's investment objective to invest in Indian stock market.

Keywords: Retail Investor, Behavioural finance, Stock market, Investments in India, Investment Decisions, Drivers of investment

1. INTRODUCTION

Behavioural Finance is the integration of different thoughts of psychology, sociology, economics and finance. It has multidisciplinary nature and it is rapidly growing since 90's. Most of the financial decisions like spending, investing, saving and borrowing money are not rational and logical and made on the basis of emotions and the state of mind when such decisions are made.

Various factors that influence the financial decision-making process of individual (retail investors), group (mutual fund, portfolio managers) and organisations are influenced by the psychological and sociological factors. The theories like Capital Asset Pricing Model and Efficient market Hypothesis are based on rational and logical theories. These theories could explain about ideal events but practically the market participants behave very unpredictably. Most of the investors especially retail make decisions based on emotions not on logic. Investors generally prefer to invest in risk -adverse investments and therefore it is very interesting to study and examine the attitude of retail investor's towards the market. The objective of the study is to analyse the investor's perception towards making investment in Indian stock market.

2. REVIEW OF LITERATURE

Paul Slovic (1972) in his research found that investors before making investing decision looked into the returns of equity shares of reputed firms or returns of stock market indices. Although past trend need not continue but investors are of the opinion that equity shares giving better returns tend to beat inflation rate. Diacon S. (2002) in his research found that retail investors believed that equity investments are suitable to achieve their long term objective and those preferring higher returns in less than three years of investments prefer to invest in fixed income bearing shares. Indian Investors are of the perception investing in equity shares and equity oriented securities are risky. Also as the retail investors though aware about the positive returns on equity investments they still lack in understanding the risk minimisation techniques which makes them keep away from equity investments (Lakshmi C.N, (2005). Also, Koundinya C (2010) found from his study that Indian investors felt that investment in stock market is not idle for investment which notion was developed after Indian market crash during global economic recession of 2007-08.

Hemanth. P.K (2011) in his study concluded that by using a survey study on Indian investors that they invests in equity through Mutual fund schemes and they found that taking experts help will yield better results rather than investing by their own intuition. Further, Srivatsava V. (2012) in his study found that equity investors of India firmly believed that in the long run equity investments will undoubtedly offer higher returns than other alternative investments and so in spite of the market crash in 2007-08 many new equity investors invested in equity shares after the recession in 2007. Wurgler J. and K. Zhuravskaya (2002) observed that by investing in stock market people would not earn profits every time. Investors with positive attitude utilize the correction in the stock market for investing more in stock market and take the benefit whenever the prices fall so they are able to earn additional profit. Rao.C.J (2010) in his survey study conducted among first time equity investors in India found that very highly self-motivated individuals with the attitude to learn things entered into the market however riskier the area of investment may be in equity market.

Polk. C. and P. Sapienza (2001) concluded from the study that investors with the apetite for learning is very high have an ambition for sharing the knowledge which they acquire through learning with others and also feels contempt when other investors makes profit based on the advice which they had shared. Such investors are encourage others also to invest in shares market. Ritter Jay (2003), observed in his study investors having certain target price to enter and exit the market and they act accordingly. Further even when they come to know about the rise in price do not regret after their sale. Such investors who placed value on their investments generally spared time to track the performance of the stock movement.

Samantha (2010), in her survey study in USA among 500 respondents found that some invest just because their friends invest. Their objective is not good returns but to keep in association of their friends. Also, Chan, Y. and L. Kogan (2002) found that friends are the main source who inspire in case of investment decision. Investors tend to approach their friends in making investment decision as they get mental support.

Kim, K.A.,and John R. Nofsinger. (2007) who have conducted a research in Japan to understand investor behaviour found that media telecasting various investor education programmes in Japan turns individuals to invest in share market. Sita L.Y. (2011) found that, income played a peculiar role in influencing Indian equity investor. She stated that, contrary to many earlier researchers' opinion, a good number of low income group investors have also invested along with other income classes on equity oriented securities. The notion to get rich faster drives investors to invest in equity and derivatives in India. Vikram Bisen and Madhulikapandey (2016) in their study of a sample size of one hundred on investor's behaviour in Lucknow city found that the psychological factor that plays an important role in decision and investors based on past performance of shares in market make investment decision.

3. NEED FOR THE STUDY

According to the analyst, money gives security, independence, freedom and the ability to leave a legacy that individuals wanted most from money. The trend of investors investing on equity oriented securities is not confined only to advanced nations, in a developing nation like India, National Council of Applied Economic Research (NCAER) found in its survey, the number of retail investors investing on equity oriented securities has doubled in just two years span from 2009 to 2011 and it further stated that the proportion of investment on equity oriented securities as a percentage of total investment on all financial assets. Given the above backdrop, it is felt that, there is a greater need to study on "investment behaviour" of retail investors for making investment decision of investing in Indian Stock market.

4. OBJECTIVE OF THE STUDY

The objective of the study is to analyse the investor's perception towards Indian Stock market by focussing on the various reasons for investing in stock market in India.

5. HYPOTHESES

H1: There is no significant difference in the investment objective and gender.

H2: There is no significant difference in the investment objective and age.

H3: There is no significant difference in the investment objective and occupation.

6. METHODOLOGY

6.1. Sources of Data

This research is basically primary data analysis. It is an exploratory research and so information regarding retail investor's preferences and awareness about equity market was collected through questionnaire survey. This study is based on survey in Hyderabad city carried out during the period July 2017 to August 2017. Further to carry out the study journals, research papers, magazines and newspapers were also referred.

6.2. Sample size and sample composition

Convenient Sampling was used for conducting survey. The sample size consists of sixty retail investors living in various areas in Chennai city. However after scrutiny of the filled questionnaires, five questionnaires were incomplete and thus the study had been conducted on fifty five respondents.

6.3. Statistical Applications

The analysis of the data collected has been done by applying statistical tool such as Independent t test and ANOVA are used. Test has been done using SPSS.

7. DATA ANALYSIS AND INTERPRETATION

For the purpose of this study a simple questionnaire has been used to analyse the perception of investors towards Indian Stock market. From the frequency distribution Table 1 given below it has been analysed that out of sample of fifty five respondents 34.5% were female and 65.5% were males. Demographic variables regarding gender, age, education, Occupation, Average Annual Income, Experience in the market, percentage of income invested in shares, risk appetite, expected return and source of information were collected from the respondents. Age factor included were below 30, range of 30 to 40, range of 41 to 50 and above The demographic variable included respondents working in Agriculture business, employed in private organisation, public organisation, Business and others which included retired employees, housewife and student.

Seventeen respondents have age below fifty years followed by 26% of total sample have age below 3o years. Thirty two of the total respondents are having a qualification of Graduation and above 42% of the respondents are having education qualification of less than graduation. Seventeen respondents are private sector employees followed by 15% of respondents are business people and only three are from agriculture sector. Out of fifty five respondents, 36% , average income of investors range of Rs. 2,50,000 to Rs. 5,00,000, followed by 29% between Rs.5,00,001 to Rs. 10,00,000. Half of the investors are having more than 5 years of experience in the market. Nearly, 30% of the investors are investing 10%-15% of their income in the market. Thirty eight percent of investors are taking low risk, 34% are taking moderate risk and 28% are taking high risk. Most of the investors expected return in the range of 13% to 24%. Twenty eight percent of 55 respondents take information from press and 26% from brokers for investing decision.

Table 1
Profile of Respondents

Variables	*Category*	*Respondents*
Gender	Male	43
	Female	12
Age	Below 30	14
	30-40	13
	41-50	11
	Above 50	17
Education	Below Graduation	23
	Above Graduation	32
Occupation	Agriculture	3
	Private	17
	Public	9

contd. table 1

Variables	Category	Respondents
	Business	15
	Others (Retired, housewife, student)	11
Average Annual Income (Rs)	Less than 2,50,000	13
	2,50,000-5,00,000	20
	5,00,001-10,00,000	15
	Above 10,00,000	7
Experience in Market	0-1 year	7
	1-3 year	9
	3-5 year	12
	5-10year	19
	>10 year	8
% of income invested in shares	Less than 10%	14
	10-15%	17
	16-20%	13
	Above 20%	11
Risk Appetite	Low	21
	Medium	19
	Higher	15
Expected Return	Up to 12%	10
	13-24%	22
	25-36%	15
	Above 36%	8
Source of Information	Internet	12
	Press	15
	Media (TV)	14
	Brokers	14

(Source: Compiled by researcher)

Table 2 below presents the various factors influencing investor's decision to invest in equity market. Questionnaire containing various reasons viz Capital appreciation, Maturity period, Safety of investment, Rate of return, Tax benefit, Liquidity were given to the respondents and they were asked to mark in a five point Likert's scale ranging from 1 to 5. Where, 1 stands for not important factor, 2 for slightly important, 3 for moderate important factor, 4 for very important and 5 for extremely important.

Table 2
Investors objective of Investment

Descriptive Statistics					
	N	*Mini*	*Maxi*	*Mean*	*Std. Deviation*
Capital appreciation	55	1	5	3.58	1.199
Maturity Period	55	1	5	2.72	1.326
Safety of Investment	55	1	5	3.55	1.242
Rate of Return	55	1	5	3.76	1.224
Tax Benefit	55	1	5	2.85	1.201
Liquidity	55	1	5	3.48	1.299
Valid N	55				

From the table 2 above it can be found that with a mean of 3.76 and standard deviation of 1.224 most of the investors felt Rate of return as the first important objective of investment, followed by Safety of investment (Mean= 3.55 and Standard Deviation 1.242) and Capital appreciation (Mean =3.58) are very important objectives for investment. Tax benefit and Maturity period with a mean of 2.72 and standard deviation of 1.326 are moderately important objectives of their investment.

7.1. Hypothesis testing

To carry out the testing of the hypothesis that there is no significant difference in the investment objective and gender, variable like Capital appreciation, Maturity period, Safety of investment, Rate of return, tax benefit and liquidity were considered for the reasons for Investment objective. Independent t test was used as a statistical tool for this study.

From the below table 3 by using Independent t test it was observed that for the variable Capital appreciation the p value was 0.511 and for the variable safety of investment as 0.985 whose values are greater than 0.05 indicating that the hypothesis for the variables are accepted.

Overall the reasons of investment objective viz; Capital appreciation, Maturity period, Safety of investment, Rate of return, Tax benefits and Liquidity the p value is greater than '0.05, which implies that the hypothesis is accepted. Hence it can be seen from the test results the hypothesis that there is no significant difference in the investment objective and gender is accepted.

Table 3
Investment objective and gender

		T	*Df*	*Sig.2 Tailed*
Capital appreciation	Equal variance assumed	-0.660	54	.511
	Equal variance not assumed	-0.664	18.7	.511
Maturity period	Equal variance assumed	2.392	54	.191
	Equal variance not assumed	2.574	20.3	.142
Safety of investment	Equal variance assumed	0.019	54	.985
	Equal variance not assumed	0.020	18.75	.984
Rate of return	Equal variance assumed	0.338	54	.736
	Equal variance not assumed	0.314	16.8	.756
Tax benefit	Equal variance assumed	-1.066	54	.289
	Equal variance not assumed	-1.023	17.5	.314
Liquidity	Equal variance assumed	0.660	54	.511
	Equal variance not assumed	0.617	16.8	.542

From the below table 4 it can be seen that the F value for capital appreciation as 1.828 and significance value as 0.147 which is below 0.05. Also, it is also observed that the F value for tax benefit as 0.293 and p value as 0.893 which is also below 0.05.

Overall, it is observed that by using ANOVA it is found that for all the variables used in this study the p-values are greater than 0.05, which implies the hypothesis is accepted. Hence, it can be found that the hypothesis there is no. significant difference in the investor objective and age is accepted as the p values for all the variables taken up for the study was greater than 0.05.

Table 4
Investor's objective and Age

		Sum of squares	*df*	*F*	*Sig*
Capital appreciation	Between groups	7.939	3	1.828	0.147
	Within groups	138.97	51		
	Total	146.910	54		
Maturity Period	Between groups	8.451	3	1.632	0.187
	Within groups	165.709	51		
	Total	174.16	54		
Safety of investments	Between groups	4.658	3	1.006	0.393
	Within groups	148.092	51		
	Total	152.75	54		
Rate of return	Between groups	4.892	3	1.092	0.356
	Within groups	143.348	51		
	Total	148.240	54		
Tax benefit	Between groups	1.294	3	0.293	0.831
	Within groups	141.456	51		
	Total	142.750	54		
Liquidity	Between groups	9.573	3	1.946	0.127
	Within groups	157.387	51		
	Total	166.960	54		

From the below table 5 it is observed that for the variable maturity period F value and P value are 2.224

and 0.072 respectively. Capital appreciation shows F value as 0.173 and P value as 0.952. The variable rate of return shows F value of 0.805 and significance value as 0.509 which is greater than 0.05. Also between groups value is 4.857 and within groups it is 143.383.

For the variables tax benefit the F value and P values shows 0.830 and 0.509 respectively. For the variable Liquidity, between the groups shows value of 6.911 and within group as 160.049. Its F value is 1.025 and P value as 0.398 whose value is greater than 0.05.

Overall, it can be seen that by using ANOVA it is found that as the p-values are greater than 0.05, which implies the hypothesis is accepted. Hence, it can be found that the hypothesis there is no significant difference in the investor objective and occupation is accepted.

Table 5
Investor's objective and Occupation

		Sum of squares	*Df*	*F*	*Sig*
Capital appreciation	Between groups	1.065	4	0.173	0.952
	Within groups	145.845	50		
	Total	146.910	54		
Maturity Period	Between groups	14.911	4	2.224	0.072
	Within groups	159.249	50		
	Total	174.160	54		
Safety of investments	Between groups	8.893	4	1.468	0.218
	Within groups	143.857	50		
	Total	152.750	54		
Rate of return	Between groups	4.857	4	0.805	0.525
	Within groups	143.383	50		
	Total	148.240	54		
Tax benefit	Between groups	4.821	4	0.830	0.509
	Within groups	137.929	50		
	Total	142.750	54		
Liquidity	Between groups	6.911	4	1.025	0.398
	Within groups	160.049	50		
	Total	166.960	54		

8. FINDINGS AND CONCLUSION

It is observed from the study that nearly 65.5% of the investors where male and 34.5% were females. Majority of investors were post graduates and above the age of 50. Nearly 31% of investors were employed in Private sector and only 5% of investors were employed in agricultural sector. Almost 63% of the investors were in the income bracket of Rs. 2,50,000 to Rs.10,00,000. Nearly 35% of the investors were having market experience of 5 to 10 years. Over 31% of investors invested 10% to 15% of their income in equity markets. High risk appetite was seen in 27% of the investors. About 40% of the investors expected 13% to 24% as return. Nearly 27% of the investor from this study was dependent on press for source of information. Most of the investors felt Rate of return as the first important objective of investment, followed by Safety of investment and Capital appreciation are very important objectives for investment. Tax benefit and Maturity period are moderately important objectives of their investment.

This research paper made an attempt to find out the retail investors perception on various investment objectives in equity market. Still many investors especially women and people working in agricultural sector are having least exposure to invest in equity market. Various stock broking firms can reach out to investors at various levels and conduct awareness programme about investing and explain them about the benefits of investing and harness the savings of people and encourage them to invest in equity market. Portfolio managers and mutual fund companies can focus on bringing about plans which increases the rate of return of investors.

9. SCOPE FOR FURTHER RESEARCH

This study is restricted to Hyderabad region and an attempt to find out the main objective of investors to invest in equity market was made. In future other influencing factors for investor objective for investing can be included covering wider region. Also comparative study among different regions and investor's objective can also be researched in future.

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