

Analysing the Factors Which Influence Investment Decision in Stock Market

Abstract

There are several investment opportunities available to investors which vary in terms of degree of risk and return. Stock Investment is also one of the most sought investment avenues and is more risky in terms of risk, but at the same time may give higher returns. Investors decide to invest in share market for various reasons. It may be the desire to get higher returns or may be due to influence of friends or other people who influence them to do so. The objective to invest in stock market may depend upon the time horizon of investment. This paper aims to understand the factors which influence the investment decision of investors in the stock market with respect to the time of investment. The study shows that the investors invest in stocks for long term capital requirement i.e. for more than 5 years. Likewise people invest in market for long time period to ensure sufficient funds at the time of retirement, take suggestions from peers, relatives etc.

Keywords: Investment Decision, Stock Market, Behavioral Factors

Introduction

Stock market is a market where stocks are bought and sold (Zuravicky, 2005). In an economy, besides playing the role of a source for financing investment, stock market also performs a function as a signaling mechanism to managers regarding investment decisions, and a catalyst for corporate governance (Samuel, 1996). People are interested in stock because of "long-term growth of capital, dividends, and a hedge against the inflationary erosion of purchasing power" (Teweles & Bradley, 1998). Investment decisions are made by investors and investment managers. Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis and judgment. Investment decisions are often supported by decision tools. A person's investment decision is a tradeoff between immediate consumption and deferred consumption so as to enjoy greater consumption in future. In traditional finance theory, which derives from neo-classical economic theory, investors are assumed to be rational and competent (Popescu, 2008). Kahneman and Tversky (1979) found that under conditions of uncertainty, human decisions depart from those predicted by standard finance theory. Probability of profit and loss in the investment process makes decision-making difficult for individuals. In this scope, the rational use of savings is determined by how quickly and efficiently information about investment reaches the investor, the income the individual will get and the level of risk. When the historical development of the theories on investment activities is examined, it is discovered that the traditional portfolio approach was the dominant approach in the market until the 1950s. Although this approach lacked a scientific base, it is seen that it was the dominant view in the market for a long time due to the fact that its feasibility was relatively easy. The point of distinction between investors' investing behaviour includes factors like demographic factors which includes socio-economic background, educational attainment level, age, race and sex. The most crucial challenge faced by the investors is in the area of investment decisions. The majority of the market is governed by non-tangible and non-quantifiable factor known as market sentiments. Because of this reason in the present scenario, behavioural finance has become an indispensable part of investors. Decision making process that guides them in deciding the best portfolio for investing which can give them the advantage of diversification. Proper understanding of behavioral finance will help the investors in choosing the portfolio matching their requirements.

Aim of the Study

The present study aims at understanding the factors which influence investment behavior in stock market. The stock market investment is different from other investment due to the inherent nature of



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risk and return. In the past years the market have given returns which are more than average as compared to other investment opportunities like fixed deposit ,recurring deposit , post office savings. In view of the above the investors are attracted towards the stock market.The study aims to

1. To study the saving pattern of the investors.
2. Analyse the factors which influence the investment decision

Review of Literature

A number of psychological biases, that affect investors' behavior and subsequently their decisions, have been dealt with in several previous studies across the world. Investment is the exchange of current funds for future benefits. The objective of any investor is to maximize those benefits and to achieve that; his investment decision must be guided by certain factors that range from economic to some which are not so economic. Sultan (2010) found out that the object of most investors was either capital appreciation or balance of capital appreciation or current income. An efficient portfolio is one that has maximum expected return for a given variance or minimum variance for a given expected return. Proponents of behavioral finance believe that the key to understanding why investors deviate from expected utility when they evaluate risk lies in understanding psychology (Popescu, 2008). Kadiyala and Rau, (2004) investigated investor reaction to corporate event announcements. They concluded that investors appear to under-react to prior information as well as to information conveyed by the event, leading to different patterns. Baker and Haslem, (1973) argue that investors are primarily concerned with expectations about the future, considering earnings projection and historical data to be of high interest to investors. Epstein, (1994) examined the demand for social information by individual investors. The results indicate the usefulness of annual reports to corporate shareholders. Krishnan and Booker, (2002) analyzed the factors influencing the decisions of investor who use analysts' recommendations to arrive at a short-term decision to hold or sell a stock. The results indicate that a strong form of the analyst summary

recommendation report, i.e., one with additional information supporting the analysts' position further, reduces the disposition error for gains and also reduces the disposition error for losses. Earlier studies conclude that women invest their asset portfolios more conservatively than their male counterparts. Women's investment has historically been lower than men's for several reasons, including Social and various demographic concerns. 2006).In making any Investment Decision Risk Aversion and Financial Literacy is a major factor. Although different literature available on risk define it variedly but in common the word risk refers to situations in which a decision is made whose consequences depend on the outcomes of future events having known probabilities (Lopes,1987). Somil (2007) observed that the proponent of the theory of rational investor assume that an individual makes a decision on the basis of the principles of maximization, self-interest and consistent choice. Aregbeyen and Mbadiugha (2011) in their study in Nigeria found that the ten most influencing factors on investor's decision in order of importance are: motivation by people who have attained financial security through share investment, future financial security, recommendations by reputable and trusted stock brokers, management team of the company, awareness of the prospects of investing in shares, composition of the board of directors of companies, recent financial performance of the company, ownership structure of the company, reputable predictions of future increment in share value and bonus payments.

Research Methodology

This study aims at understanding the factors that influence the investment decisions of the investors in the stock market. A sample size of 80 investors was selected who have invested in the stock market. The proposed factors underlying the investment behavior are risk and return, information about company, expert opinion, technical research, availability of internet, investment horizon, company image and past returns. The data is collected by using the 5 point likert scale.

Demographic Profiling

Table 1: Investment Horizon

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 1 year	15	18.8	18.8	18.8
	1-5 Year	45	56.3	56.3	75.0
	> 5 Year	20	25.0	25.0	100.0
	Total	80	100.0	100.0	

Table 2: Amount of Investment

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	< 1 Lakh	47	58.8	58.8	58.8
	1-5 lakh	33	41.3	41.3	100.0
	Total	80	100.0	100.0	

Table 3: Age of Investor

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	<30years	15	18.8	18.8	18.8
	30-50 Years	46	57.5	57.5	76.3
	> 50 Years	19	23.8	23.8	100.0
	Total	80	100.0	100.0	

Table 4: Education of Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Graduate	25	31.3	31.3	31.3
	Post Graduate and above	55	68.8	68.8	100.0
	Total	80	100.0	100.0	

Table 5: Occupation of Investors

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Service	40	50.0	50.0	50.0
	Professionals (self)	31	38.8	38.8	88.8
	Student	9	11.3	11.3	100.0
	Total	80	100.0	100.0	

Table 6: Gender

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	69	86.3	86.3	86.3
	Female	11	13.8	13.8	100.0
	Total	80	100.0	100.0	

Data Analysis

Testing the means by one way ANOVA across the different investment horizon.

Table 7: ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
Invest To Meet My Family Needs In Future	Between Groups	9.176	2	4.588	4.630	.013
	Within Groups	76.311	77	.991		
	Total	85.488	79			
Invest To Meet Emergency Needs	Between Groups	.822	2	.411	.586	.559
	Within Groups	53.978	77	.701		
	Total	54.800	79			
Invest To Live A Safe And Secure Life	Between Groups	6.156	2	3.078	4.506	.014
	Within Groups	52.594	77	.683		
	Total	58.750	79			
Capital Growth Is The Reason For Investment	Between Groups	3.289	2	1.644	13.313	.000
	Within Groups	9.511	77	.124		
	Total	12.800	79			
Take Suggestion From Peers	Between Groups	9.876	2	4.938	17.676	.000
	Within Groups	21.511	77	.279		
	Total	31.388	79			
Take Suggestion From Relatives Before Investments	Between Groups	12.960	2	6.480	28.466	.000
	Within Groups	17.528	77	.228		
	Total	30.488	79			
Having Good Knowledge Of Investment Plans	Between Groups	49.422	2	24.711	44.689	.000
	Within Groups	42.578	77	.553		
	Total	92.000	79			
Having Good Knowledge Of Financial Planning	Between Groups	7.039	2	3.519	6.497	.002
	Within Groups	41.711	77	.542		
	Total	48.750	79			
Protection From Inflation Is Reason For Investment	Between Groups	9.906	2	4.953	39.542	.000
	Within Groups	9.644	77	.125		
	Total	19.550	79			
Take Suggestion From Financial Advisor Before Investments	Between Groups	2.606	2	1.303	1.999	.143
	Within Groups	50.194	77	.652		
	Total	52.800	79			
Invest To Take Advantage Of Tax Benefits	Between Groups	13.889	2	6.944	15.699	.000
	Within Groups	34.061	77	.442		
	Total	47.950	79			
Risk Coverage Is Reason For Investment	Between Groups	1.837	2	.919	2.410	.097
	Within Groups	29.350	77	.381		
	Total	31.187	79			
Invest For Better Returns	Between Groups	7.800	2	3.900	15.847	.000
	Within Groups	18.950	77	.246		
	Total	26.750	79			

The above table shows that there is significant difference (shaded p values) in the mean values across the investment horizon of the investors.

Multiple Comparisons**Scheffe**

Dependent Variable	(I) investment horizon	(J) investment horizon	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
Invest To Meet My Family Needs In Future	< 1 year	1-5 Year	-.556	.297	.180	-1.30	.19
		> 5 Year	.200	.340	.841	-.65	1.05
	1-5 Year	< 1 year	.556	.297	.180	-.19	1.30
		> 5 Year	.756	.268	.022	.09	1.42
	> 5 Year	< 1 year	-.200	.340	.841	-1.05	.65
		1-5 Year	-.756	.268	.022	-1.42	-.09
Invest To Meet Emergency Needs	< 1 year	1-5 Year	.222	.250	.674	-.40	.85
		> 5 Year	.300	.286	.579	-.41	1.01
	1-5 Year	< 1 year	-.222	.250	.674	-.85	.40
		> 5 Year	.078	.225	.942	-.48	.64
	> 5 Year	< 1 year	-.300	.286	.579	-1.01	.41
		1-5 Year	-.078	.225	.942	-.64	.48
Invest To Live A Safe And Secure Life	< 1 year	1-5 Year	.111	.246	.903	-.50	.73
		> 5 Year	-.550	.282	.157	-1.25	.15
	1-5 Year	< 1 year	-.111	.246	.903	-.73	.50
		> 5 Year	-.661	.222	.015	-1.22	-.11
	> 5 Year	< 1 year	.550	.282	.157	-.15	1.25
		1-5 Year	.661	.222	.015	.11	1.22
Capital Growth Is The Reason For Investment	< 1 year	1-5 Year	-.444	.105	.000	-.71	-.18
		> 5 Year	-.600	.120	.000	-.90	-.30
	1-5 Year	< 1 year	.444	.105	.000	.18	.71
		> 5 Year	-.156	.094	.264	-.39	.08
	> 5 Year	< 1 year	.600	.120	.000	.30	.90
		1-5 Year	.156	.094	.264	-.08	.39
Take Suggestion From Peers	< 1 year	1-5 Year	-.244	.158	.306	-.64	.15
		> 5 Year	.600	.181	.006	.15	1.05
	1-5 Year	< 1 year	.244	.158	.306	-.15	.64
		> 5 Year	.844	.142	.000	.49	1.20
	> 5 Year	< 1 year	-.600	.181	.006	-1.05	-.15
		1-5 Year	-.844	.142	.000	-1.20	-.49
Take Suggestion From Relatives Before Investments	< 1 year	1-5 Year	-.978	.142	.000	-1.33	-.62
		> 5 Year	-.350	.163	.106	-.76	.06
	1-5 Year	< 1 year	.978	.142	.000	.62	1.33
		> 5 Year	.628	.128	.000	.31	.95
	> 5 Year	< 1 year	.350	.163	.106	-.06	.76
		1-5 Year	-.628	.128	.000	-.95	-.31
Having Good Knowledge Of Investment Plans	< 1 year	1-5 Year	-1.422	.222	.000	-1.98	-.87
		> 5 Year	-2.400	.254	.000	-3.03	-1.77
	1-5 Year	< 1 year	1.422	.222	.000	.87	1.98
		> 5 Year	-.978	.200	.000	-1.48	-.48
	> 5 Year	< 1 year	2.400	.254	.000	1.77	3.03
		1-5 Year	.978	.200	.000	.48	1.48
Having Good Knowledge Of Financial Planning	< 1 year	1-5 Year	-.444	.219	.136	-.99	.10
		> 5 Year	-.900	.251	.003	-1.53	-.27
	1-5 Year	< 1 year	.444	.219	.136	-.10	.99
		> 5 Year	-.456	.198	.077	-.95	.04
	> 5 Year	< 1 year	.900	.251	.003	.27	1.53
		1-5 Year	.456	.198	.077	-.04	.95
Protection From Inflation Is Reason For Investment	< 1 year	1-5 Year	.311	.106	.016	.05	.57
		> 5 Year	1.000	.121	.000	.70	1.30
	1-5 Year	< 1 year	-.311	.106	.016	-.57	-.05
		> 5 Year	.689	.095	.000	.45	.93
	> 5 Year	< 1 year	-1.000	.121	.000	-1.30	-.70

		1-5 Year	-.689	.095	.000	-.93	-.45
Take Suggestion From Financial Advisor Before Investments	< 1 year	1-5 Year	.289	.241	.490	-.31	.89
		> 5 Year	.550	.276	.144	-.14	1.24
	1-5 Year	< 1 year	-.289	.241	.490	-.89	.31
		> 5 Year	.261	.217	.488	-.28	.80
	> 5 Year	< 1 year	-.550	.276	.144	-1.24	.14
		1-5 Year	-.261	.217	.488	-.80	.28
Invest To Take Advantage Of Tax Benefits	< 1 year	1-5 Year	.556	.198	.024	.06	1.05
		> 5 Year	1.250	.227	.000	.68	1.82
	1-5 Year	< 1 year	-.556	.198	.024	-1.05	-.06
		> 5 Year	.694	.179	.001	.25	1.14
	> 5 Year	< 1 year	-1.250	.227	.000	-1.82	-.68
		1-5 Year	-.694	.179	.001	-1.14	-.25
Risk Coverage Is Reason For Investment	< 1 year	1-5 Year	-.400	.184	.101	-.86	.06
		> 5 Year	-.350	.211	.258	-.88	.18
	1-5 Year	< 1 year	.400	.184	.101	-.06	.86
		> 5 Year	.050	.166	.956	-.36	.46
	> 5 Year	< 1 year	.350	.211	.258	-.18	.88
		1-5 Year	-.050	.166	.956	-.46	.36
Invest For Better Returns	< 1 year	1-5 Year	-.200	.148	.405	-.57	.17
		> 5 Year	-.850	.169	.000	-1.27	-.43
	1-5 Year	< 1 year	.200	.148	.405	-.17	.57
		> 5 Year	-.650	.133	.000	-.98	-.32
	> 5 Year	< 1 year	.850	.169	.000	.43	1.27
		1-5 Year	.650	.133	.000	.32	.98

*. The mean difference is significant at the 0.05 level.

The shaded values show that the mean of the groups are significantly different.

Managerial Implications

The study indicates that the investors behave differently with respect to the time horizon of the investment. The decision regarding investing for the future needs of the family is different for the short and long run investors. Likewise factors such as investment for safe and secure life, capital appreciation and suggestion from friends and peers, protection from inflation also is significantly different for various investment horizons.

Conclusion

The earlier studies which shows that the investors behave rationally as far the investment is concerned but may be swayed away at some times. The present study very much support the previous studies that the desire to get better return for the long term investment drives the investors to opt for stock market investment. Very interestingly it is evident from the paper that the as far the objective to meet emergency needs is concerned there is no difference in the time horizon of investment. This is due to the fact that emergency may occur at any time and the investment needs to be redeemed at any time. Moreover the study also reveals that as far taking suggestions from the financial advisor is concerned there is no difference with regard to the time period of investment. Further studies need to be carried out to understand the investment behavior across the gender and varied income groups.

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