An Investigative Study on the Attitudes of Investors – A Special Reference to Indian Stock Exchanges

Dr. J. Paul Sundar Kirubakaran, Assistant Professor,
Department of International Business Administration, College of Applied Sciences Nizwa, Nizwa, Sultanate of Oman

&

Dr. S. SUJA, Professor and Head,
Paavai Group of Institutions, Namakkal, Tamil Nadu, India

ABSTRACT

The current scenario of Indian stock market is very mixed and has a sluggish economy. Due to recent scandals such as Satyam scam to insider trading or be it account of fake company creation or Foreign Investment or be the political scenario which is present in India. Apart from the normal business of the listed companies all the above factors create impact on the stock and make the indexes go up and down as and when a situation arsis. In short the stock market’s growth or fall is unpredictable and this leads the investor to be confused on how good his investment in the stock Exchange would be. Apart from this, the information overload which a normal investor has to undergo, like the stock analyst’s views about the market and the cold calculations of financial wizards.

The main purpose of this project is to assess the factors that influence individual investors’ behaviours and drive a momentum effect in stock returns. In order to achieve the purpose, survey method was used and a questionnaire was developed which displayed certain behavioural questions that an investor faces commonly and the existing investor’s reaction to the questions were found. After analyzing the data collected, the results thus obtained revealed some characteristics of investors that lie behind stock entry and exit.

I. INTRODUCTION

This research is based on Behavioural Finance. Behavioural Finance is the study of the influence of psychology on the behavior of financial practitioners and the subsequent effect on markets as mentioned by Sewell (2005). As well as a part of Consumer Behaviour it helps to understand the behaviour of the consumer better as an Investor in Stock Market.

Behavioral Finance is defined by Shefrin (1999) as “a rapidly growing area that deals with the influence of psychology on the behavior of financial practitioners”. Behavioral finance research is developing rapidly and now beginning to answer questions such as

- Why, when all the evidence shows investors cannot beat the market on any systematic basis, they still resolutely do;
- how can we explain the stock market “bubbles”; why is the volume of trading in financial markets so excessive and why is the stock market so volatile;
- why do investment analysts have so much difficulty in identifying under- and over-valued stocks;
- why do stock prices appear to under-react to bad news; why do acquisitions on average turn out to be unsuccessful;
- why do corporate managers find it so difficult to terminate loss-making projects;
- why do most boards believe their companies are undervalued by the stock market; why should new issues exhibit short-run stock market out-performance and then long run under-performance.

A better understanding of behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements would help investment advisors devise appropriate asset allocation strategies for their clients. For government, identifying the most influencing factors on investors’ behavior would affect the required legislations.
and the additional procedures needed in order to satisfy investors’ desires and also to give more support to market efficiency.

Most of the finance theories are based on the conviction that individual investors behave in a rational approach and that all existing information is embedded in the investment cycle. The famous “Efficient Market Theory” makes two major predictions. The first prediction is concerned with the equilibrium price of securities, which assumes that prices of securities always strive towards the equilibrium price. In other words, financial assets have an intrinsic value based on the economic conditions, expected cash flows and level of risk, and the market price of the securities moves in accordance with the changes in the intrinsic value. The second prediction is concerned with the informational efficiency. According to this assumption, prices tend to adjust rapidly with the arrival of new information. As the new information arrives randomly past price changes do not predict the future price changes. But there are very few investors for whom the prediction is entirely correct: they are rational and reflection of new information is immediately and accurately transmitted on security prices as per the Efficient Market Theory. However, the theory does not consider the influence of human behavior in the investment process. From the view-point of behavioral finance, investors give different preferences to identical investment alternatives and under similar situation.

II. OBJECTIVES

1. To ascertain the normative and informational conformity behavior of the investor
2. To ascertain the risk seeking behavior of the investor
3. To identify the motives and factors influencing investor equity investment
4. To analyze the level of satisfaction obtained by the Investors.
5. To suggest the ways and means for effective Operations of Indian stock market.

III. RESEARCH METHODOLOGY

Research Methodology is a systematic way to solve research problem. It may be understood as a science of studying how research is done scientifically. It is a tool which helps to take decision in the absence of certainty.

Sampling procedure
The sampling procedure used is Simple random sampling method. A sample is a finite part of a statistical population whose properties are studied to gain information about the whole. When dealing with people, it can be defined as a set of respondents (people) selected from a larger population for the purpose of a survey.
In statistics, a simple random sample is a subset of individuals (a sample) chosen from a larger set (a population). Each individual is chosen randomly and entirely by chance, such that each individual has the same probability of being chosen at any stage during the sampling process, and each subset of $k$ individuals has the same probability of being chosen for the sample as any other subset of $k$ individuals.
This process and technique is known as simple random sampling. A sample of 100 employees is collected by using simple random sampling method.

METHODS OF DATA COLLECTION

The data used for the study include both primary and secondary data
Primary data: Primary data is fresh data collected for the first time. The researcher can obtain primary data either through observation or through direct communication with respondents in one form or another or through personal interviews. The questionnaire framed for this study was encompassed of close-ended questions.
Secondary data: It was collected through company profile, journals, websites, annual report and other database of the company. All these data were helpful in carrying out the analysis.
TOOLs FOR ANALYSIS

Based on the responses of the questionnaire, analysis has been carried out. Statistical methods such as Chi-square test of independence of attributes and Correlation have been used to uncover relationships among the variables.

The following statistical tools are used for analysis and interpretation of data in the project:
- Chi-square test
- Correlation analysis
- Factor analysis
- Anova

IV. ANALYSIS AND INTERPRETATION

TO FIND THE ASSOCIATION BETWEEN PREFERENCE TOWARDS INVESTMENT WITH LOW RISK AND PROTECTION OF INVESTMENT

Null hypothesis, H0: There is no association between preference towards investment with low risk and protection of investment

Alternate hypothesis, H1: There is association between preference towards investment with low risk and protection of investment

Table No.1 Association between Preference towards Investment with Low Risk and Protection of Investment

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>15.986(a)</td>
<td>16</td>
<td>.454</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>15.786</td>
<td>16</td>
<td>.468</td>
</tr>
<tr>
<td>Linear-by-Linear Association</td>
<td>1.838</td>
<td>1</td>
<td>.175</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>100</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Inference: It is clearly revealed that there is no such association preference towards investment with low risk and protection of investment since p value (0.001) > 0.05, accept H0.

CORRELATION ANALYSIS

TO FIND THE RELATIONSHIP BETWEEN ANNUAL INCOME AND BUYING MOTIVE

Relationship between Annual Income and Buying Motive

Table No. 2. Annual income and buying motive Cross tabulation

<table>
<thead>
<tr>
<th></th>
<th>Individual Annual Income</th>
<th>Buying motive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Annual Income</td>
<td>Pearson Correlation</td>
<td>.024</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.811</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
</tr>
<tr>
<td>Buying motive</td>
<td>Pearson Correlation</td>
<td>.024</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
<td>.811</td>
</tr>
<tr>
<td></td>
<td>N</td>
<td>100</td>
</tr>
</tbody>
</table>

Inference: From the analysis it is observed that there is a positive correlation between annual income and buying motive of securities as the value is .024.
TO FIND THE RELATIONSHIP BETWEEN STOCK MARKET EXPERIENCE AND BUYING MOTIVE

Relationship between Stock Market Experience and Buying Motive

Table No. 3 Stock Market Experience and Buying motive Cross tabulation

<table>
<thead>
<tr>
<th>Stock market experience</th>
<th>Stock market experience</th>
<th>Buying motive</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.114</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.257</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Inference:
Since the table value is -.114 there is no significant relationship between stock market experience and buying motive of securities.

TO FIND RELATIONSHIP BETWEEN INCOME AND INVESTMENT SIZE

Table No. 5 Relationship between Income and Investment Size

<table>
<thead>
<tr>
<th>Income</th>
<th>Investment Size</th>
<th>Cross tabulation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Annual Income</td>
<td>Pearson Correlation</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.224</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Investment Size</td>
<td>Pearson Correlation</td>
<td>.123</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.224</td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Inference:
Since the value is .123 there exists a least positive correlation between income and investment size.

TO FIND RELATIONSHIP BETWEEN STOCK MARKET EXPERIENCE AND COMFORTABLE FLUCTUATIONS WITHIN 6 MONTHS

Table No. 6. Relationship between Stock Market Experience and Comfortable Fluctuations within 6 Months

<p>| Stock Market Experience * Comfortable Fluctuations within 6 Months Cross tabulation |
|---------------------------------------------|---------------------------------------------|</p>
<table>
<thead>
<tr>
<th>Stock Market Experience</th>
<th>Pearson Correlation</th>
<th>Stock Experience</th>
<th>Comfortable fluctuations within 6 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>1</td>
<td>-.017</td>
<td></td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>Comfortable fluctuations within 6 months</td>
<td>Pearson Correlation</td>
<td>.017</td>
<td>1</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.864</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N</td>
<td>100</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Inference:
Since the value is -.017 there exists a negative correlation stock market experience and comfortable fluctuations within 6 months.
FACTOR ANALYSIS

FACTOR ANALYSIS FOR NORMATIVE AND INFORMATIONAL CONFORMITY BEHAVIOR OF THE INVESTOR
The present study included 7 variables to measure the factors which influence the behavior of the investor. The selected investors were asked to rate the 7 variables at five point scale on the basis of their preference. The score on these 7 variables are included for the factor analysis in order to narrate the variables into factors and to know which factor has more impact on the investors’ behavior.

Table No.7: Factor Loading For Investor’s Normative and Informational Conformity Behavior

<table>
<thead>
<tr>
<th>Component</th>
<th>Initial Eigen values</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>Consent of others in buying the stock</td>
<td>1.604</td>
<td>32.088</td>
</tr>
<tr>
<td>Procure same stocks as others</td>
<td>1.125</td>
<td>22.497</td>
</tr>
<tr>
<td>Stock selection parallel to others</td>
<td>.918</td>
<td>18.364</td>
</tr>
<tr>
<td>Update folks regarding buying/selling the stocks</td>
<td>.687</td>
<td>13.747</td>
</tr>
<tr>
<td>Explore about unfamiliar stocks</td>
<td>.665</td>
<td>13.304</td>
</tr>
</tbody>
</table>

The 5 variables related to the factors which influence the normative and informational conformity behavior are clustered together and shown in the above table with their Eigen values. The Eigen value indicates to how far a variable has an impact on investors’ criteria for stock selection.

Inference:
From the above result of factor analysis of normative and informational conformity behavior, referring to the Eigen values it can be inferred that consent of others in buying the stock, procure same stocks as others has a major impact in determining normative and informational conformity behavior since they are greater than the Eigen value 1. since KMO is >.5 the factor analysis is appropriate.

ONE WAY ANOVA:

TO FIND ASSOCIATION BETWEEN INVESTORS’ PROFILE VARIABLES AND RISK SEEKING BEHAVIOR OF THE INVESTOR

Null Hypothesis, H0: Difference = 0, i.e. there is no significant difference between the investors’ profile variables and risk seeking behavior of the investor
Alternate Hypothesis, H1: Difference ≠ 0, i.e. there is significant difference between the investors’ profile variables and risk seeking behavior of the investor
Association between the investors’ profile variables and risk seeking behavior of the investor are shown in the above table. Since p-value >.05 accept null hypothesis and vice-versa.

Inference:
From the above result of One Way ANOVA, it can be inferred that there is significant difference between stock market experience and reaction to bearish market, as the p-values for this variable is less than 0.05. In other words it can be said that reaction to bearish market differs with experience. Other profile variables don’t make much difference to investors’ risk seeking behavior.

**TO FIND ASSOCIATION BETWEEN CONSENT OF OTHERS IN BUYING THE STOCK AND PROCURING SAME STOCK AS OTHERS.**

**Null Hypothesis, H0:** Difference = 0, i.e. there is no significant difference between consent of others in buying the stock and procuring same stock as others.

**Alternate Hypothesis, H1:** Difference ≠ 0, i.e. there is significant difference between consent of others in buying the stock and procuring same stock as others.

Association between the consent of others in buying the stock and procuring same stock as others are shown in the above table. Since p-value >.05 accept null hypothesis and vice-versa.

**Inference:**
From the above result of One Way ANOVA, it can be inferred that there is no association between consent of others in buying the stock and procuring same stock as others.
V. FINDINGS

Profile of the Investors
- It is found that 39% of the investors are below 30 years of age.
- Around 56% of the investors cover an individual annual income of less than 5 lakhs.
- About 57% of the respondents have less than 2 years of experience in the stock market.
- Roughly 57% of the investors invested less than 1 lakh in the stock market.

Most of the investors enter the stock market at an early age and their investment is less than 1 lakh with less than 2 years of experience.

Informational Conformity Behavior of the Investor
- Majority (59%) of the respondents strongly disagree that others should approve his stocks.
- Nearly 45% of the investors do not procure same stocks as others.
- Majority (48%) of the investors strongly disagree that they get a feeling of belongingness by choosing stocks parallel to others.
- Around 36% of them disagree with reference to updating folks regarding buying/selling stocks.
- Almost 61% of the respondents agree that they explore about the unfamiliar stocks.

The findings reveal that most of the investors take decision based on their own instinct and perception.

Risk Perception of the Investor
- Nearly 48% of the investors strongly agree that they prefer investments with low risk.
- About 76% of the investors are of the view that protecting the investment is their highest priority.
- Nearly 46% of the investor’s prime motive of buying security is intended for capital growth.
- Roughly 57% of the investors rates the risk associated with venture business as a very high risk.
- Around 51% of the investors are willing to take some risk with respect to the investment in the stock market.

Most of the investors though prepared to take some risk they have a preference towards investment with low risk and would like to protect their investment. The prime motive of buying stocks is for capital gain and they believe risk associated with venture business as high risk.

Motives and Factors Influencing Equity Investment
- About 35% of the respondents wish to invest more during periods of uncertainty and bearish trend in the stock market.
- Around 42% of the respondents make stock entry and exit based on their personal financial needs.
- Roughly 41% of the investors look into EPS and DPS while going for security selection.

The findings disclose that most of the investor likes to invest more during bearish condition and they formulate stock entry and exit based on their personal financial needs.

VI. SUGGESTIONS

Investing in financial assets is a challenging and stimulating process. The investor should consider the following factors before making decision: Setting an investment objective is a perquisite to any investment objective in terms of expected rate of return. Therefore, careful consideration should be given to formulating specific investment objective in terms of expected rate of return, tolerable level of risk, investment horizon, tax consequences and the cost of investing. Pertinent, reliable, adequate, and timely information should be obtained in order to make an informed and rational decision. In case of initial public offering, the prospectus published by the issuing company furnishes relevant information about the financial projection of the company.

For investing in the secondary market, annual reports of the company as well as the specialized publications providing general information, guidelines and specific buy/sell recommendations should be pursued.
The foremost factor to be considered while making investment decisions is the performance of the companies, which is measured on the basis of past performance in terms of market price of securities, earning per share, dividend per share, rate of return, and prospects of growth. However, investors should be cautious in applying the historical information for forecasting purposes. Historical record of better performance may not be there in future due to the exit of any key personnel and changes in any other business environment.

The benefit from investment depends to a large extent on the correct market timing. The investor can purchase securities just before raising the price and can sell just before decreasing the price, so as to achieve superior benefit from the stock market than other investors. In the case of any confusion regarding the market timing, risk can be minimized by investing in a portfolio rather than investing in a particular individual asset.

VII. SCOPE FOR THE FUTURE STUDY

The sample of this study was limited to individual investors. Future studies have to determine whether the specific results of this study also hold for the behavior of institutional and professional investors. Yet, individual investors constitute an important group in the financial marketplace and their decision-making behavior is likely to have an impact on the stock market as a whole.

Survey research can contribute in important ways to increase the understanding of investor behavior which would have possible effect of this behavior on overall stock market dynamics. Yet, for a true understanding of the dynamical properties of interactions between micro level investor behavior and macro level stock market dynamics, survey research has to be supported by additional research techniques.

VIII. CONCLUSION

This study provides some clues on the behavior of investors on the stock market. Although the number of respondents is relatively low, it may emphasize some key aspects.

This project individual investor behavior makes an attempt to discover the relationship between a dependent variable i.e., Risk seeking behavior of the investor and independent variables such as Age, Gender of an individual investor on the basis of the survey. From the empirical study it was found that irrespective of gender, most of the investors (51%) are found have low risk tolerance level and many others (21%) have moderate risk tolerance level and only 11% of them have high risk tolerance level. It is also found that there exists significant difference between stock market experience and reaction to bearish market. Personal financial needs largely influence the investor’s decisions in stock entry and exit.

REFERENCES &BIBLIOGRAPHY

- Kothari.C.R. Research Methodology methods and Techniques (Revised Ed; New Age International (P) Ltd, 2008)