

## FACTORS INFLUENCING INVESTMENT DECISIONS : A STUDY OF RETAIL INVESTORS IN HOOGHLY DISTRICT OF WEST BENGAL

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### Abstract

*This study aims to identify the factors influencing the investment decisions of retail investors in Hooghly district of West Bengal. In today's financial world, several investment avenues are available in front of retail investors but in spite of this availability, people are investing their hard earned money at wrong places. With the continuous change in the dynamic environment, investors' behaviour is also getting changed but the awareness level is not getting enhanced which is reflected in different irrational decisions of investors. Irrational financial decision implies investors' inability to match their investment objectives and features of the selected investment avenue. The study concludes that retail investors choose a particular investment avenue to meet their long term family needs in future and emergency needs, to protect themselves from inflation, to avail tax benefits, to cover risk factors and for capital growth. As per the study most of respondents invest to meet their long term family need in future. The second preference is towards availing tax benefits.*

**Keywords:** Awareness, Factors influencing decision, Investment avenues, Irrational financial decisions, Retail investors

### I. Introduction

In today's financial world, several investment avenues are available in front of retail investors but in spite of this availability, people are investing their hard earned money at wrong places. Therefore, investors' motives and behaviour have become matters of increased interest now-a-days. To understand the reason behind this irrational financial decisions of retail investors, continuous efforts are being put forward. With the continuous change in the dynamic environment, investors' behaviour is also getting changed but the awareness level is not getting enhanced which is reflected in different irrational decisions of investors. Therefore, proper analysis is essential to understand their financial behaviour. Irrational financial decision implies investors' inability to match their investment objectives and features of the selected investment avenue. Therefore they should be very specific regarding their investment goals before taking any investment decisions. In today's fast changing world, the key to a successful financial plan is to keep apart a larger amount of savings and invest it intelligently, by using a longer period of time. The turnover rate in investments should exceed the inflation rate and cover taxes as well as should allow the investors to earn an amount that compensates the risks taken. Keeping these scenarios in mind, the present research will try to study the common reasons for investment by retail investors in different investment avenues in Hooghly district of West Bengal.

### II. Literature Review

Plethora of studies have been done on the evaluation of the performance of Indian Mutual Fund Schemes Review of some of the studies is presented below:-

**Kiran and Rao (2005)** examined whether demographic and psychographic variables were effective on risk-bearing capacity of Indian investors by conducting a sampling survey. By analyzing the collected data through multinomial logistic regression and factor analysis (FA) of SPSS, they verified a strong relationship between risk taking attitude and demographic and psychographic variables.

**Kabra, Mishra, and Dash (2010)** studied to gain knowledge about key factors that influence investment behaviour and the ways, by which, these factors impact investment risk tolerance and decision making process among men and women and among different age groups. The study attempted to find out factors which affects individual investment decision and differences in the perception of Investors in the decision of investing on basis of Age and on the basis of Gender. The study concluded that investors' age and gender predominantly decides the risk taking capacity of investors.

**Shaikh and Kalkundrikar (2011)** argued that the factors influencing investors' investment decisions are based on various demographic factors like age, gender, marital status, level of income, level of market knowledge, educational qualification and the number of dependents.

**Aregbeyen and Mbadiugha (2011)** found through a study conducted in Nigeria 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.

**Azam and Kumar (2011)** examined the factors influencing Pakistan investors' behaviour on the Karachi Stock Exchange and found that the earning per share, foreign direct investment and gross domestic product growth rate have a significant impact on stock prices.

**Bennet et al. (2011)** sought to identify various factors that influence retail investors' attitude towards investing in equity stock markets. They applied a structured questionnaire to retail investors in Tamil Nadu, India. Collected data were analyzed through descriptive statistics and FA. According to the test results, out of the total 26 variables, it was found out that five factors (investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and government policy towards business) had a very high influence over retail investors' attitude towards investing in equity stocks.

**Geetha and Ramesh (2012)** studied the relevance of demographic factors in investment decisions in Tamilnadu, India, and claimed that the demographic factors have a significant influence over some of the investment decision elements, while insignificant influence was found on some other elements.

**Sultana and Pardhasadhi (2012)** investigated factors influencing Indian individual equity investors' decision making and behaviour. As per applying factor analysis, the 40 attributes were reduced to ten factors of individual eccentric, wealth maximisation, risk minimisation, brand perception, social responsibility, financial expectation, accounting information, government and media, economic expectation and advocate recommendation factors.

**Awan and Arshad (2012)** explored the factors that investors value, while making investment decisions regarding mutual funds and type of behaviour they exhibit. AHP and factor analysis was used by the researchers to screen out variables and then further their indexes were formulated. Primary data was collected from five major cities of Pakistan i.e. Karachi, Lahore, Multan, Islamabad, Faisalabad during the period of 15 September 2011 to October 2011. Major findings were that investor age group and cities have different impact on fund selection schemes but income, education level and occupation has no effect. Attributes like past performance of fund, reputation of company, withdrawal facility, Company services towards investor have greater impact on decision making. Investors are overconfident in term that they have selected best

scheme. Investors are risk averse, exhibit representativeness, status quo bias, and are conservative. Investors consider that losses in investment are due to incorrect recommendations of family and friends and gains are due to better result of investing companies. Image conscious investors are more inclined towards sponsor related services than professional investors.

**Geetha and Vimala (2014)** investigated the effect of demographic variables on the investment decisions by performing a sample survey method in Chennai, India. According to analysis results, from the investors' point of view, changes in demographic factors such as age, income, education, and occupation had an influence in the investment avenue preference.

### III. Objectives of the Study:

1. To study the investment behaviour of retail investors.
2. To identify the factors influencing the investing decision of retail investors.

### IV. Research Methodology

The study is based on a survey of thirty respondents with the help of a structured questionnaire in Hooghly district of West Bengal. Purposive sampling is used for data collection. The data obtained from the survey were analysed by using Factor Analysis for identification of the key factors chosen by the respondents while investing. Principal component analysis is commonly used method for grouping the variables under few orthogonal factors. Varimax rotation is used for proper interpretation of factors.

An investor considers various factors while selecting a particular investment avenue. These range of factors includes Long term family need in future, Long term family need in future, Capital Growth, Protection from inflation, Tax Benefits Risk coverage. So from the informal discussion with different investors, few brokers and agents and referring to certain studies, all the relevant variables which investors consider important for selecting a particular investment avenue, are considered. For measuring perception of investors 5 point Likert Scale is used.

The first step towards identification of factors valued by retail investors for selection of a particular investment avenue and perception regarding the factors is Kaiser-Meyer-Olkin and Bartlett's Test for measuring sampling adequacy. The Kaiser-Meyer-Olkin Measure of Sampling Adequacy is a statistic which indicates the proportion of variance in the variables which is common variance, i.e. which might be caused by underlying factors. High values (close to 1.0) generally indicate that a factor analysis may be useful with the data. If the value is less than 0.5, the results of the factor analysis probably won't be very useful. Bartlett's test of sphericity indicates whether the correlation matrix is an identity matrix, which would indicate that the variables are unrelated. The significance level gives the result of the test. Very small values (less than .05) indicate that there are probably significant relationships among the variables. A value higher than about .10 or so may indicate that the data are not suitable for factor analysis. After testing the accuracy of the sample next step is to find out factors.

### V. Results and Discussion

To test the reliability of the data Cronbach's alpha is used. Cronbach's alpha consists of estimates of how much variation in scores of different variables is attributable to chance or random errors. As a general rule, a coefficient greater than or equal to 0.5 is considered acceptable and a good indication of reliability. The overall Cronbach's alpha for the six variables is 0.556 as shown below:

**Reliability Statistics**

Cronbach's Alpha	N of Items
.556	6

After checking the reliability of the data Factor Analysis was conducted the results of which are stated below :-

**KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Adequacy Measure of Sampling		.526
Bartlett's Test of Sphericity	Approx. Chi-Square of df	27.031 15
	Sig.	.028

**Communalities**

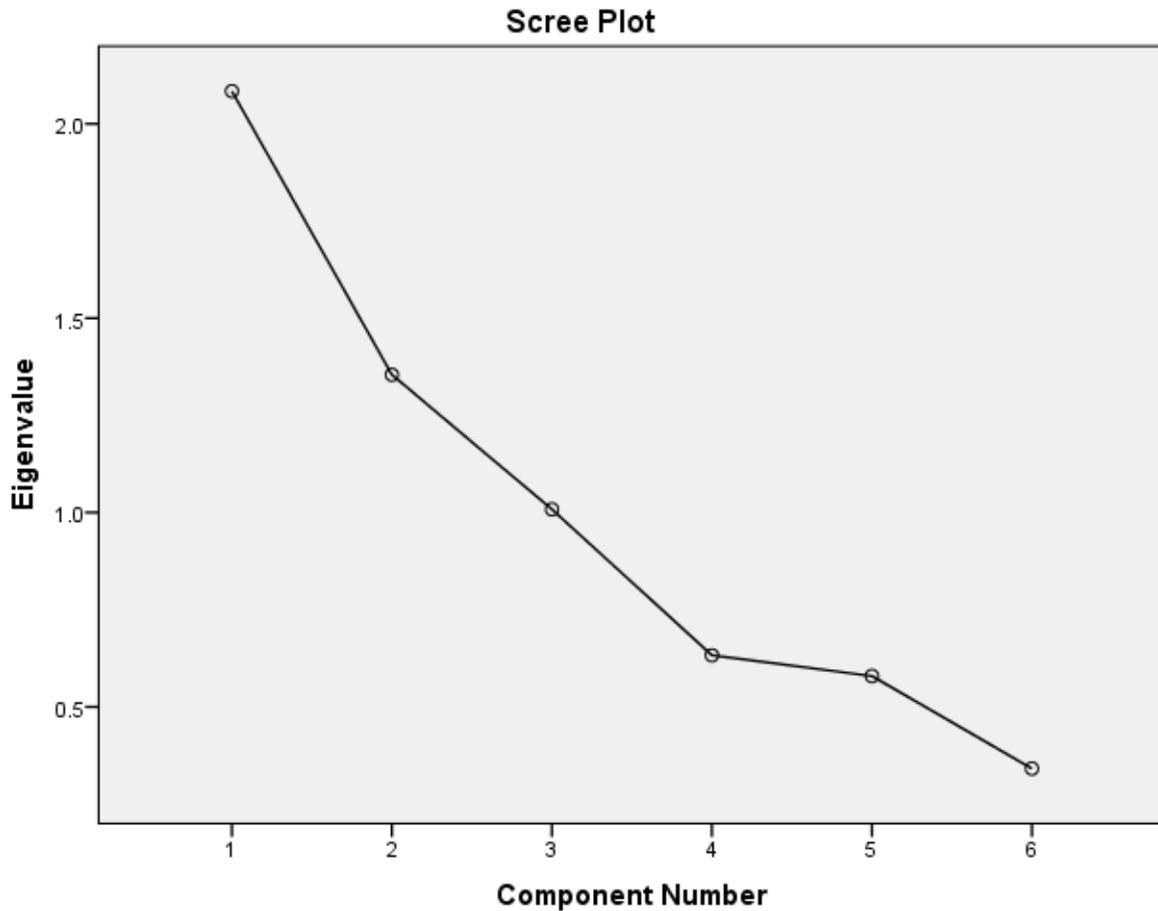
	Initial	Extraction
Long term family need in future	1.000	.770
Emergency Needs	1.000	.717
Capital Growth	1.000	.951
Protection from inflation	1.000	.659
Tax Benefits	1.000	.676
Risk Coverage	1.000	.674

Extraction Method: Principal Component Analysis.

**Total Variance Explained**

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	2.084	34.734	34.734	2.084	34.734	34.734	1.800	30.002	30.002
2	1.354	22.575	57.309	1.354	22.575	57.309	1.547	25.780	55.782
3	1.008	16.803	74.112	1.008	16.803	74.112	1.100	18.330	74.112
4	.633	10.546	84.658						
5	.579	9.656	94.314						
6	.341	5.686	100.000						

Extraction Method: Principal Component Analysis.



**Component Matrix<sup>a</sup>**

	Component		
	1	2	3
Long term family need in future	.444	.754	-.068
Emergency Needs	.612	.472	-.346
Capital Growth	-.208	.455	.837
Protection from inflation	.547	-.537	.268
Tax Benefits	.751	-.044	.331
Risk Coverage	.778	-.259	.028

Extraction Method: Principal Component Analysis.

a. 3 components extracted.

**Rotated Component Matrix<sup>a</sup>**

	Component		
	1	2	3
Long term family need in future	.006	.856	.193
Emergency Needs	.168	.805	-.202
Capital Growth	-.069	.006	.973
Protection from inflation	.783	-.198	-.081
Tax Benefits	.756	.284	.155
Risk Coverage	.763	.216	-.211

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 4 iterations.

**Component Transformation Matrix**

Component	1	2	3
1	.820	.549	-.159
2	-.443	.786	.431
3	.362	-.283	.888

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

As per the above results, Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.526 which indicates that data is useful for factor analysis. Bartlett's test of sphericity significance is 0.028. Since it is less than 0.05, we can go ahead. Communality is the proportion of each variable's variance that can be explained by the factors. The variance of each variable is standardized to unity and partitioned into two parts—communality of that variable and specific variance of that variable, i.e.,  $\text{communality} + \text{specific variance} = 1$ . Therefore no communality can be more than one. Communality is due to the correlation among variables. For extracting communalities principal component method is used and initial communalities are taken as unity. In principal component method, factor is called as component. The initial number of factors is same as the number of variables used in the factor analysis but all six factors will not be retained eventually. The number of factors will be the number of eigenvalues of correlation matrix more than 1. Initial eigenvalues are the eigenvalues of correlation matrix. As per results, three eigenvalues are more than 1 and the three factors explain 74.112 % variance. The Scree Plot is a plot between eigenvalue and the factor number. The Component Matrix table contains the unrotated factors loadings, which are the correlations between the variable and the factor. Rotated Component Matrix table contains the correlations between the variable and the factor. The Component Transformation Matrix is the matrix by which we multiply the unrotated factor matrix to get the rotated factor matrix. Since Factor 1 loads on emergency needs, protection from inflation, tax benefits and risk coverage, Factor 2 loads on long term family needs in future and Factor 3 loads on capital growth.

**VI. Conclusion & Recommendation:**

The study concludes that retail investors chooses a particular investment avenue to meet their long term family needs in future and emergency needs , to protect themselves from inflation, to avail tax benefits, to cover risk factors and for capital growth. As per the study most of respondents invest to meet their long term family need in future. The second preference is towards availing tax benefits. Although the reasons are quite sensible but in most of the cases investors could not invest in the relevant investment avenue which matches their investment objective. Therefore it is recommended that the retail investors need to analyse the factors carefully using the reasonable business knowledge before making an investment decision. They should not blindly rely on the information available in the internet, published journal and other sources and analyse the information according to their need. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns. Prudent decision after proper analysis is the key to get the desired benefit from the investment. Therefor identification of the factors influencing investment decision is very essential for the retail investors to choose correct investment avenue according to their needs.

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