A Study on Factors Influencing Investment Decision: The Case of Individual Investors

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Abstract

Investments behavior is concerned with choice of purchasing the securities. All investment decisions are supported by decision tools. It is assumed that information structure and the factors in the market systematically influence individual's investment decisions and the market outcomes. The objective of the study was to establish the factors influencing investment decisions of the investors of Mysuru city.The study was conducted on the 60 investors that constituted sample size. Structured questionnaire method has been used to collect the data from the respondents. The data have been analyzed using frequencies, mean squares, standard deviations and factor analysis.
Keywords: Investments, Investors Behavior, Investment Decisions, Market Outcomes

Introduction

Investment decisions are basically made by investors and investment consultants. Investors use fundamental analysis, technical analysis and perception towards stocks for the purpose of trading. As already aware that decisions are supported by decision tools, information structure and the market conditions systematically influence investment decisions. Market behavior derives from psychological principles of decision making to explain why people buy and sell securities. These factors will depend on how investors interpret and act on information to make investment decisions.

Theories of Investors behaviour

Regret theory

It deals with the emotional reaction people experience after realizing they've made an error in judgment. Faced with the prospect of selling a stock, investors become emotionally affected by the price at which they purchased the stock. So, they avoid selling it as a way to avoid the regret of having made a bad investment, as well as the embarrassment of reporting a loss. Regret theory can also hold true for investors who find a stock they had considered buying but did not went up in value. Some investors avoid the possibility of feeling this regret by following the conventional wisdom and buying only stocks that everyone else is buying, rationalizing their decision with "everyone else is doing it" (Pareto, 1997).

Prospect or loss aversion theory

It suggests that people express a different degree of emotion towards gains than towards losses. Individuals are more stressed by prospective losses than they are happy from equal gains. An investment advisor won't necessarily get flooded with calls from her client when she's reported, say, a $500,000 gain in the client's portfolio. But, you can bet that phone will ring when it posts a $500,000 loss! A loss always appears larger than a gain of equal size - when it goes deep into our pockets, the value of money changes. Prospect theory also explains why investors hold onto losing stocks: people often take more risks to avoid losses than to realize gains. For this reason, investors willingly remain in a risky stock position, hoping the price will bounce back. Gamblers on a losing streak will behave in a similar fashion, doubling up bets in a bid to recoup what's already been lost. So, despite our rational desire to get a return for the risks we take, we tend to value something we own higher than the price we'd normally be prepared to pay for it. The loss-aversion theory points to another reason why investors might choose to hold their losers and sell their winners: they may believe that today's losers may soon outperform today's winners. Investors often make the mistake of chasing market action by investing in stocks or funds which garner the most attention. Research shows that money flows into high-performance mutual funds more rapidly than money flows out from funds that are underperforming (Kahneman and Tversky, 1979)

Theory of overconfidence

It says that people generally rate themselves as being above average in their abilities. They also overestimate the precision of their knowledge and their knowledge relative to others. Many investors believe they can consistently time the market. But in reality there's an overwhelming amount of evidence that proves otherwise. Overconfidence results in excess trades, with trading costs denting profits, (Tapia and Yermo, 2007).

Literature review

Barber and Odean (2001) supported the theoretical models and predicted that overconfident investors trade excessively.

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. The behavioral finance literature has proposed two contradictory models of irrational investor behavior. In the first model, investors have a tendency to overreact to information, leading to a pattern of long term return reversals when firms announce corporate events such as new issues of stock. In the second model, investors underreact to information, leading to long term return continuations when firms announce corporate events such as open-market share repurchases or cash-financed tender offers. Behavioral models have been viewed with skepticism partly because they do not reconcile why investors seemingly overreact to a corporate event such as a seasoned equity offering, while seeming to underreact to an event such as a share repurchase.

Maditinos et al. (2007) said that individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis.

Dimitrios I. M, (2007) conducted a study on Investors behavior in the (ASE) and found that individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis and less on portfolio analysis. Market participants are exposed to a constant flow of information, ranging from quantitative financial data to financial news in the media, and socially exchanged opinions and recommendations. Processing all this information is a difficult task. Variables that are loaded heavily on this factor include coverage in the financial and general press, recent stock index returns, information obtained from internet, current economic indicators and recommendations by investment advisory services. Each of these variables represents an outside source of information that is perceived to be unbiased.

Hou et al. (2009) concluded that price momentum profits are higher among high volume stocks, but earnings momentum profits are higher among low volume stocks.

Walia and Kiran (2009) in their study, revealed the preferences of varied investors who desire to invest in mutual funds but also want some innovations and added quality dimensions in existing services.

Kabra et al., Patidar (2010) concluded that investors' age and gender predominantly decides the risk taking capacity of investors.

Chandra and Kumar (2011) concluded that five major factors influence individual investor behavior in Indian stock market, named as prudence and precautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction.

Bennet et al. (2011) factors influencing stock selection decision are: fundamental, market factors, earning, decision making, industry related corporate governance, positioning, image building, goodwill and industry competition factors. Qureshi et al. (2012) studied the effect of behavioral factors such as heuristics, risk aversion, use of financial tools and firm level corporate governance on the decision making of equity fund managers of Pakistan. Riaz et al. (2012) information plays an important role in investor's decision making.

Khanifar et al. (2012) found, financial statements and midterm reports are considered more important than economy market and industry related factors by analysts at Tehran Stock Exchange.

Kadariya (2012) found that both the tangible and intangible information are essential for investors to succeed in Nepalese capital market.

Raheja and Lamba (2013) concluded that there are various investment avenues available in the market and different people prefer to invest in different avenues according to their choice. It was also concluded that life cycle stages and investment objectives are dependent on each other.
Obamuyi (2013) characteristics of investors' age, gender, marital status and educational qualifications significantly influenced the investment decisions of investors in Nigeria.

Jagongo and Mutswenje (2014) found that the most important factors that influence individual investment decisions were: reputation and firms' status in industry, expected corporate earnings, past performance firms stock, and expected divided by investors.

Objectives of the study

1. To analyze the investors behavior
2. To find the major factors which influences the investor in investment decisions

Scope of the study

Share price of company will be determined by the market by considering many factors which includes economy, industry and company analysis, these are considered to be the fundamental factors. The technical analysis is used to determine the stock price which includes MACD, ROC etc. The important factor attributed to the variation in stock prices is the investor's behavior. This paper tries to examine the factors influencing investment decisions in the stock market.

Research methodology

Type of research: Descriptive research
Sampling method: Non-Probability Sampling Method
Sampling type: Convenience sampling
Sample size: 60
Type of data: Primary data
Collection of data through structured questionnaires
Tools for analyzing the data: SPSS

Limitations of the study

1. The study is limited to 60 Investors
2. The study have been conducted to analyze some factors effecting investment behavior of investors
3. The survey is conducted only from the investors who have invested in through IIFL brokerage house

Data analysis and Interpretation

Reliability test:
The reliability of the measures was assessed with the use of Cronbach's Alpha. It allows measuring the reliability of the different categories. It estimates how much variation in scores of different variables is attributable to chance or random errors. The overall Cronbach's Alpha for the five categories is 0.813

Table 1: Reliability Statistics

Reliability Statistics	
Cronbach's Alpha	No. of Items
0.813	60

Table 2: Important Factors in deciding which shares to buy

	Factor	Very small extent	Small extent	Moderate extent	Great extent	Very great extent
1	Company compliance with religious principles	0	12	25	22	1
2	Quality consideration of a firm's products	5	6	11	37	1
3	Perceived ethics of the company	8	4	22	13	13
4	Company involvement in community problems	8	12	33	6	1
5	Company contributions to charity	8	17	20	8	7
6	Coverage in the press	23	10	7	15	5
7	Reputation of the firm's shareholders	0	15	6	21	18
8	Broker recommendations	0	8	6	32	14
9	Family member opinion	0	20	8	25	7
10	Friends and co-workers recommendations	0	7	20	33	0
11	Popular opinion/shares in high demand	0	12	12	18	18

As per the above table, Company compliance with religious principles, perceived ethics of the company, Company involvement in community problems, and Company contributions to charity has moderate extent. Quality consideration of a firm's products, Broker recommendations, Broker recommendations, and Friends and co-workers recommendations has great extent. Popular opinion/shares in high demand have both great and very great extent.

Table 3: Statements about dealing in the stock market

	Statement	Very small extent	Small extent	Moderate extent	Great extent	Very great extent
1	You have held some shares for some time because their prices have not risen sufficiently and if you sell them you will make losses	8	0	9	26	17
2	You have sufficient knowledge of the market trend	5	16	17	10	12
3	You think your portfolio is better than other people's portfolios	0	22	12	17	9
4	You derive pleasure in buying and selling shares	9	9	22	15	5
5	You have the ability to handle difficulty situations in stock market	20	1	10	27	2
6	You believe that successful people always take risks	9	4	8	13	26

According to the findings, factors like, investors have held shares for some time because their prices have not risen sufficiently and if they sell them they will make losses, and they have the ability to handle difficulty situations in stock market has great extent,they have sufficient knowledge of the market trend, and they derive pleasure in buying and selling shares has moderate extent, they think their portfolio is better than other people's portfolios has small extent and they believe that successful people always take risks has very great extent.

Table 4: True statements about investment decisions in equity stocks

	Argument	Yes, Frequency	Yes, percentage	No, Frequency	No, percentage
1	You asses and mitigate against financial risks before investing	32	53.3	28	46.7
2	You are uncomfortable with market volatility	51	85	9	15
3	You are averse to uncertainties	32	53.3	28	46.7
4	You prefer lower chances of losses	45	75	15	25
5	You choose not to operate in unfamiliar situations	46	76.7	14	23.3
6	You require more information about an investment before you venture	46	76.7	14	23.3

Factor Analysis

Table 5: Communalities

	Initial	Extraction
Religious Principles	1	0.87
Quality	1	0.769
Ethics	1	0.961
Community	1	0.926
Charity	1	0.725
Coverage	1	0.876
Reputation	1	0.687
Brokers	1	0.821
Family Member	1	0.757
Friends	1	0.649
Popular Opinion	1	0.843

Table 6: Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.035	36.679	36.679	4.04	36.679	36.679
2	1.96	17.82	54.499	1.96	17.82	54.499
3	1.618	14.705	69.204	1.62	14.705	69.204
4	1.273	11.574	80.778	1.27	11.574	80.778
5	0.84	7.639	88.417			
6	0.682	6.199	94.616			
7	0.235	2.136	96.752			
8	0.222	2.02	98.772			
9	0.092	0.834	99.606			
10	0.036	0.325	99.931			
11	0.008	0.069	100			

Table 7: Rotation Sums of Squared Loadings

Rotation Sums of Squared Loadings		
Total	% of Variance	Cumulative %
3.003	27.299	27.299
2.348	21.342	48.641
1.845	16.769	65.41
1.69	15.368	80.778

The table above shows the factors that are measured significant when determining which shares to buy. The rotation sums of squares show that there are four factors to be considered significant. They all subsidize to 80.778% of the total variance.

Table 8: Component Matrix

	1	2	3	4
Religious Principles	0.595	-0.612	0.375	-0
Quality	0.325	0.007	-0.16	**0.8**
Ethics	0.876	0.353	-0.1	-0.2
Community	0.**651**	0.**651**	0.223	-0.2
Charity	0.**715**	0.16	-0.167	-0.4
Coverage	0.016	0.**701**	0.**607**	0.13
Reputation	-0.247	0.596	-0.446	0.27
Brokers	-0.296	0.043	0.**816**	0.26
Family Member	0.**812**	-0.108	0.239	0.17
Friends	0.618	0.103	-0.271	0.43
Popular Opinion	0.**827**	-0.377	-0.017	0.13

Extraction Method: Principal Component

The above table indicates the delivery of each variable in each component and the first influence is popular opinion which represents 82.7%. Utmost people depend on popular opinion in deciding which shares to buy. This shows herd behavior, a thoughtless mental movement in which individual's react to signals from the performance of others. The second factor is press coverage at 70.1%. The third and fourth factors are broker's recommendation at 81.6 % and Quality consideration of a firm's products at 80% individually. These again are matter influences which respondents considered significant in deciding which shares to purchase.

Conclusion

Investors take the decisions based on their choice and financial goals for investment. There are various investment alternatives available to the investors and an average financial specialist choose to put resources into stocks which tends to be less volatile.

The inferences of the results of the factor analysis have led to the conclusion that there are multiple factors that have greater influence on the behaviors of investors in stock markets in India. The main factors that have such greater influence are quality, community, coverage, reputation and popular opinion.

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