EPRA International Journal of Environmental Economics, Commerce and Educational Management
Journal DOI: 10.36713/epra0414 |ISI I.F Value: 0.815|SJIF Impact Factor (2024): 8.481 ISSN: 2348 – 814X
Volume: 11 | Issue:6 |June 2024

ANALYSING INVESTORS' BEHAVIOUR IN STOCK MARKET

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ABSTRACT

Purpose:
This study aims to analyse investor behaviour in stock market investments, focusing on understanding the various factors that influence their investment decisions. Furthermore, it seeks to conduct a detailed SWOC analysis of the financial behaviour of investors within the stock market.

Design/ Methodology:
The study's information collected from secondary sources like magazines, books, and journal papers that were found using search engines like Google Scholar, Researchgate, Emerald and others.

Findings/ Results:
The result of this study indicates that investment decision-making in the stock market is significantly influenced by different factors like fear, greed, behavioural changes, and so on, based on different theoretical models that exclusively focus on the nature of investors investing in the stock market.

Originality Value:
Every investor, while investing in the stock market, should think based on different factors influencing and various theories impacting the decision-making process. In addition to that, the study focused on the various strengths and opportunities available to investors by comparing them with the challenges attached from the point of view of risk.

Paper Type: *Case Study*

KEY WORDS*: Stock Market, investment, decision making, SWOC Analysis.*

1. INTRODUCTION

The primary four elements of financial behaviour are saving, funding, lending, and making investments. Each person has different practises, and these practises are influenced by a variety of factors, such as family guidance, financial literacy, peer pressure, advertisements, financial status, family status, outlook on the coming decades, income levels, etc. Although there is a sizable investment portfolio available today, most people choose a few attempted methods. The government as well as different administrative agencies is on a mission to raise awareness of the importance of smart financial behaviour and the decisions that go along with it [1]. A nation's economic growth is boosted by stock markets because they play a significant part in directing household savings towards corporate and governmental sectors. Corporates raise money from the capital market in this relationship, and investors work to achieve various beneficial goals like long-term development from capital earnings, dividends, and obtaining an inflation hedge [2].

As a better understanding of factors enables investors to choose a better stock investment decision making policy, the field of behavioural finance seeks to clarify and describe how stock investment decision-making was affected by financial behavioural factors [3]. The majority of the time, investors in stock exchanges makes investment decisions in an effort to increase their wealth. Other investors, however, are involved in analysing market timing tactics as a way to increase wealth. Furthermore, some investors are more risk averse and stick to stocks with low risk levels, while others deal with high risk stocks but use diversification strategies to reduce the uncontrollable risks [4]. Nevertheless, studies portrays the base for a new financial paradigm, where investors' socio-psychological aspects are prioritised over their rationality, was provided by the unpredictability of markets [5].

2. RELATED RESEARCH WORK

The study is taken from search engines such as Google scholar and Research gate from the year 2012-2023 and the key words are Financial Behavior, Investment Decisions, Investor Sentiment and Financial Literacy.

Table 1: Exhibits the financial behavior of investors in stock market

Sl No	Focus/Area	Contribution	References
1	The Impact of Economic Conditions on Investor Behavior	Investigating how different economic factors, such as inflation rates or GDP growth, influence the investment decisions of individual investors.	Naseem, et al., (2021). [6]
2	Investor Demographics and Investment Behavior	Analyzing how age, income, education, and other demographic factors affect the investment behavior of individuals.	Ramki, et al., (2021). [7]
3	Investor Sentiment and Investment Behavior	Examining how the sentiment of the market or the broader economy impacts the investment decisions of individual investors.	Anju & Anuradha (2015). [8]
4	Behavioral Biases and Investment Decision-Making	Exploring how cognitive biases, such as overconfidence or loss aversion, influence the investment decisions of individual investors.	Das, (2012). [9]
5	Social Influence and Investment Behavior	Investigating how social factors, such as peer pressure or social media, influence the investment decisions of individual investors.	Barber & Odean, (2013). [10]
6	Financial Literacy and Education	Financial behavior and literacy have a substantial influence on investment choices.	Mirosea & Hajar, (2023). [11]
7	Participation in the stock market, financial literacy, and attitude	Actual stock market investments are predicted by investment intention. Additionally, it was discovered that financial literacy significantly influenced investors' intentions to invest in the stock market.	Sivaramakrishnan, et al., (2017). [12]
8	Investors herding behaviour of stock market	There are different degrees of behavioral biases among investors. According to the study, herding behaviour is more common across markets, stronger for the most and least traded stocks, and stronger for growth stocks compared to value stocks.	Yao, et al., (2014). [13]

3. RESEARCH OBJECTIVES

- To study the behavior of the investors in stock market investments.
- To study the various factors influencing the investors on stock investment decisions.
- To study the SWOC analysis of financial behavior of investors in stock market.

4. METHODOLOGY

Secondary sources of data were used in the case study. Research publications, journals, magazines, and books are some of the informational sources used in this article. The financial behavior of investors in stock market was reviewed using a SWOC analysis.

5. INVESTORS BEHAVIOUR IN STOCK MARKET INVESTMENTS

Investment behavior of the individual investors got popularity in academics because of participation of individual investors in the stock market has suddenly increased in recent years [14]. There are several causes for this increase: first, is the unprecedented return on the assets of the stock market, opportunities of “making money work” and attaining returns on invested money. Second, the high liquidity of financial instruments which means an investor could rapidly convert to financial market instrument into cash. Third, a variety of financial assets that means a series of financial assets accessible to individuals, they can select assets according to the objectives of their investment [15]. Meanwhile, a wide range of financial assets and services offered by financial market have made it more complex and difficult for individual investors to make investment rationally, consequently, investors indulge in irrational behavior. Behavioral finance argues that numerous investors possess a risk-averse attitude and influenced by others that lead them toward behavioral biases [16].

Individual investors are influenced by different psychological and emotional elements, which may lead them towards irrational investment behavior [17]. The rational investment decision-making process requires complete information regarding investment, rational thinking and proper analysis of information associated with investment. Most individual investors fail to make rational investment decisions due to ignorance of their investment goals [18]. Moreover, individuals are misled and confused about their investment objectives and fail to achieve their investment goals because they cannot align their projected returns with their risk-taking attitude. Hence, there is a need to understand the investment behaviour of individuals and what factors affect the behaviour of individual investors in a stock market [19].

There are several theoretical models which describes the investment behaviour in the stock market investments are as follows:

1. **Efficient Market Hypothesis**

One of the components of modern finance is the efficient market hypothesis, which is based on the idea that all information that is made publicly available can be regarded as accessible to financial investors, stock market participants, and other players in the financial markets, and as a result, asset prices always incorporate and reflect all relevant data [20].

2. **CAPM Model**

When it comes to returns, investments made in the capital market often yield higher rates than those made in the financial sector. Selecting stocks that offer a high return at a low risk can be a challenge for investors at times. Both efficient and inefficient equities, particularly those in the banking industry, can be described using the CAPM approach [21].

3. **Prospect theory**

Prospect theory is one of the most important theories in behavioural science, particularly for studies on risk-averse decision-making. In a 1979 study, Kahneman and Tversky examined financial decisions in risky situations. They found that these decisions strayed greatly from the assumptions of expected utility theory, which profoundly affected industry, science, and policy [22].

4. **Heuristic-Driven Biases Model**

The study discovers that heuristic-driven biases, such as representativeness, anchoring, and availability, have a significant impact on investors' decisions. The findings provide credence to the theory that behavioural biases cause irrationality in stock market decisions made by investors in India. Despite the fact that biases influence their decisions, investors feel confident in their attitudes towards making financial decisions [23].

5. **Theory of Planned Behaviour**

By considering the psychological variables that influence investment decisions, the Theory of Planned Behaviour (TPB) can be applied to investment behaviour. The concept suggests that Perceived Behavioural Control, Subjective Norms, and Attitude affect an individual's investment intention [24].

6. **Regret Aversion Theory**

According to the theory of regret aversion, investors should make choices that reduce the likelihood of regret in the future. This may result in undesirable investing practices, such as hanging onto lost stocks for an extended period or shunning potentially profitable investments. Researchers examine the best time to invest in a principal-agent model with asymmetric information. A management aware of the project's quality must be given the authority to decide whether to invest in it on behalf of the owner. Compared to the normal model, the equilibrium trade-off between investment efficiency and information rent is impacted when the owner experiences regret aversion [25].

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6. FACTORS INFLUENCING THE INVESTORS ON STOCK INVESTMENT DECISIONS

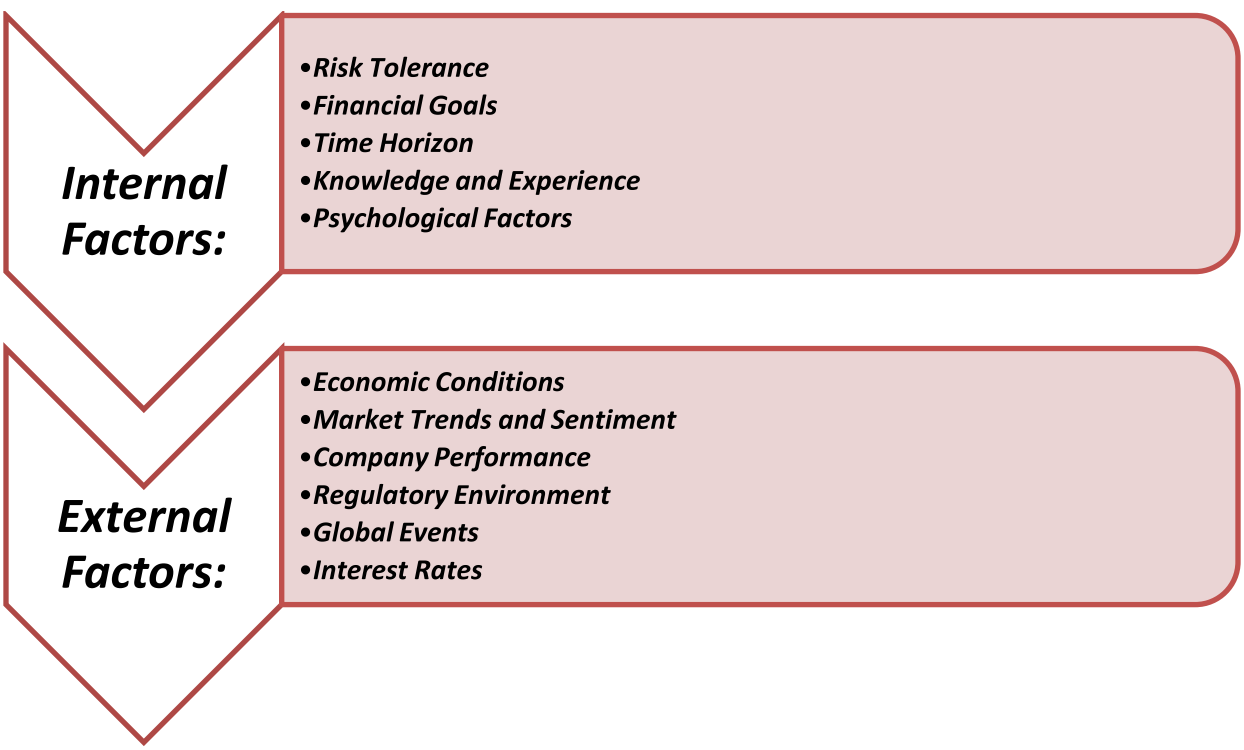
Individual investors articulate their behaviour towards investment based on projected outcomes of investment, expected risks and benefits regarding their investment, and social influence. Moreover, knowledge and awareness of that investment could be the most important factor that influences the behaviour of individual investors [26].

Investment behaviour of investors can be investigated by employing theoretical framework of Theory of Planned Behaviour (TPB) that developed by Ajzen [27]. This theory explains that behavioural intentions affect an individual's behaviour, while behavioural intention affected by the attitude of individuals to perform an act and subjective norms. Furthermore, "perceived behaviour control" also has an effect on the behavioural intentions and individual's behaviour. The attitude to perform an act can be defined as positive and negative emotions about the consequences of that particular act. Whereas subjective norms represent social pressure induces an individual to involve in a particular behaviour and perceived behaviour control could be a barrier or facilitator to perform that behaviour [28]. The TPB intends that the intention of an individual is the direct precursor for their behaviour, however, attitude, subjective norms and perceived behavioural control has an influence on an individual's intention [29].

The five factors that have the greatest impact on investors' investment decisions, according to the researchers' study, are the past performance of the company's stock, anticipated stock splits, capital increases, and bonuses, dividend policy, anticipated corporate earnings, and get-rich-quick schemes. Furthermore, the study indicates that religions, rumours, fidelity to the company's products and services, opinions of family members, and expected losses in other investments round out the five least influencing factors [30].

Different investment objectives exist for both individual and institutional investors. Before making an investment in the stock market, every investor will consider their required returns, risk tolerance, and time horizon based on their investment objectives. Investors might also have specific needs related to liquidity, tax considerations, legal requirements, adhering to religious or ethical standards, or other unique circumstances. It's essential to reassess investors' needs annually because their circumstances and needs change over time [31].

Source: Author



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7. SWOC ANALYSIS OF FINANCIAL BEHAVIOUR OF INVESTORS IN STOCK MARKET

The SWOC serves as the basis for assessing the potential and constraints within the organisation as well as the opportunities and threats that arise from the external environment. It considers every aspect, both internal and external to the company that influences success. SWOC analysis will not only help the institute to focus and capitalize on the strengths, address weaknesses and deter challenges but also help in attracting investors of stock market and improving the quality of investment [32].

Strengths: Investments in the shares contribute towards the possibility of getting high returns especially with well planned and strategic selection of shares. The stock market provides diversification opportunities across various sectors by enabling investors to mitigate risk. Investors have unique access to information, which can make wiser choices and execute more successful investment methods. The application of innovative technologies, such as AI advisors and automated trading, improves trading efficiency and gives investors access to advanced techniques for managing their investments.
Weaknesses: Rather than using a logical analysis, investors frequently base decisions on their emotions, which can result in undesirable financial outcomes. A lot of investors make bad investment decisions and suffer financial losses because they lack adequate knowledge of financial markets and investment principles. Investment is at risk due to the stock market's intrinsic volatility and the possibility of large swings in investment returns. Frequent trading can result in lower overall returns and reduce potential gains due to high transaction fees and taxes.
Opportunities: A period of economic growth offers investors an opportunity to improve profit from growing stock prices and higher company profitability Constant technology innovation improves market accessibility and trading efficiency while bringing up new investment opportunities in developing industries. As the world becomes more interconnected, there are more possibilities for foreign market investments, enabling greater diversification and possible growth. Favourable regulatory reforms have the potential to strengthen investor protection, enhance market conditions, and promote an environment that is more open and effective for investments.
Challenges: Stock values can drop substantially during recessions and slowdowns, leaving investors with large losses. Unpredictability and adverse effects on international financial markets can result from disruptive politics, conflicts, and tensions between nations. When the market undergoes manipulation, it can lead to unfair market practices that damage individual investors and erode investor trust. Unpredictable and uncommon occurrences, like pandemics or natural disasters, can unexpectedly and significantly upset the market, putting investments into danger.

8. FINDINGS

- Investment decision-making in the stock market is significantly influenced by emotions such as fear and greed.
- In comparison with elder investors, who might favour more conservative investment techniques, younger investors usually take on more risks.
- Experienced investors frequently make more accurate, less emotionally charged choices.
- The emergence of automated trading has altered the dynamics of the market, giving high-frequency traders benefits while also increasing volatility.

- Data and analysis that were exclusively available to institutional investors are now accessible to regular investors due to the internet's and social media's democratic exchange of information.
- Research regarding the investment decisions from scholarly article indicates that male investors trade more frequently and are typically more overconfident than female investors, who typically produce higher profits by taking a more careful approach [34].

9. SUGGESTIONS

To meet their investment objectives, investors always invest time in learning about basic financial principles, market mechanisms, and investment strategies related to the stock market. Within the stock portfolio, diversify across different sectors and geographic regions to deal with sector-specific or country-specific risks. Investors should stay invested through market fluctuations and avoid making impulsive decisions based on short-term market movements. Based on different models, it has been observed that investors must try to keep emotions in check and make decisions based on rational analysis rather than fear or greed. Investors can improve their decision-making processes, manage risks better, and work towards achieving their financial goals in a more structured and informed manner by analysing all kinds of factors influencing their decisions.

10. CONCLUSION

A comprehensive strategy that incorporates financial literacy, strategic planning, diversification, psychological awareness, and the efficient use of technology and expert advice is necessary for a successful stock market investment. Investors can enhance their decision-making abilities, efficiently manage risks, and progress toward accomplishing their long-term financial objectives by implementing evidence-based solutions. Research on behavioural finance offers important insights that help investors navigate the complexity of the stock market and, in the end, make more intelligent and sensible investing decisions.

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