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A QUALITATIVE STUDY OF INVESTMENT DECISION IN STOCK MARKET WITH REFERENCE TO INDIVIDUAL INVESTOR: A BRIEF REVIEW OF RESEARCH

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ABSTRACT

The present study is an attempt to examine the factors which influence the individual investor's preferences while investing in stock market. The basic purpose of any investor is high return at low risk. Past study indicates that there is multiple instruments which are used by investors for investment. The present study emphasis on various investment options and probability of return. The research highlights the preferences of key fund by investors, criteria and fund switch.

In this Paper I have attempted to find out various factors that determine Individual Investors decision making in stock Market. Though most of the investors want a safe and secure return on their investment, they also look for maximum returns. The pure debt investment brings an average return with lesser liquidity as compared to the equity investments. So in search of higher return (keeping the risk factor in mind) investor are heading towards equity investment on analysis of recent year investment trends, FII, entrance and operations in Indian stock markets, it has been found that equity is gaining ground in India. The main attraction of equity among investors are-

- ✚ Higher return (especially in case of capitalization and dividend if any)*
- ✚ Higher Liquidity*
- ✚ Option to start trading with small investments*
- ✚ Daily trading (as it increases chances of more "buy or sell" transaction which leads to fast profit/loss generation*
- ✚ To create Portfolio and earn dividend that can be a source of additional income.*

With these benefits, equity has a risk factor of poor dividend payout (as against fixed "interest" income in debt) or the negligible capitalization. Moreover, sometime the investment in equity trading goes to bottom level and nothing is expected in return.

Still, the attraction of equity remains high in investors mind because of "return & liquidity factor. And this perception has led the investment trends from debt to equity and portfolio investment.

KEYWORDS: *Investors, Fund switch, equity, debt, reliability, risk*

1.1 BACKGROUND TO THE STUDY

Investment decisions are made by investors and investment managers. Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis judgment and their experience in the field. Investment decisions are often supported by various decision tools. It is assumed that information structure and the factors in the market systematically influence individuals' investment decisions as well as market outcomes. Investor market behavior derives from psychological principles of decision making to explain why people buy or sell stocks with reference to various parameters and objectives of Investment.

1.2 STATEMENT OF THE PROBLEM

According to conventional theory, investors are balanced while taking investment decision and consider those factors which minimize risk and enhance return. (Baker et al, 1977)¹. Baker and Haslem, (1973)² stated that dividends, expected returns and the firm's financial stability are key investment criteria for the investors who trade for Long Term Investments.

Potter, (1971)³ stated six factors: dividends, rapid growth, investment for saving purposes, quick profits through trading, professional investment management and long-term growth that affect individual investors' attitudes towards their investment decisions.

OBJECTIVES

1. To determine the factors which influence the investment decision of investors in stock market.
2. To analyze the investment preference and associated risk of investment instrument.
3. To analyze the investment objectives of investors

4. To analyze the relationship between type of investment and return of investment
5. To analyze the impact of buying and selling behavior on return of investors
6. To know the impact of association tenure with stock market on return of investors
7. To know the sources which influence the investment decision of investors

RESEARCH METHODOLOGY

This paper is on the whole is descriptive and analytical in nature. In this paper I have attempted to study various factors that are responsible in investment behavior of an individual in stock Market. The data used is from secondary sources according to the requirement of the study.

1.3 RESEARCH QUESTION

The specific research questions for the review were as follows:

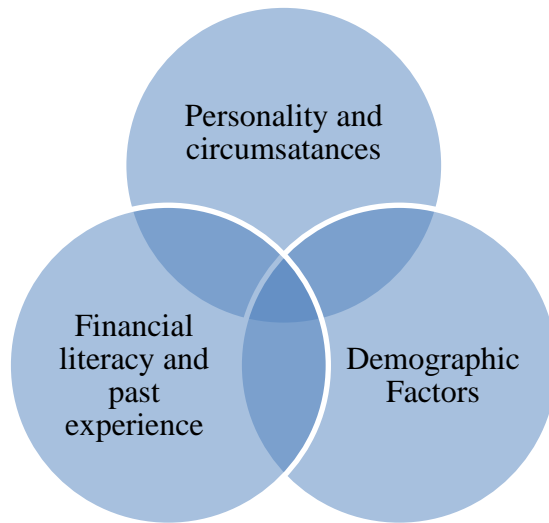
1. What literature has been reviewed about individuals' behavior while making investment choices?
2. What are the key factors which affect investment decision of individual investors?

LITERATURE REVIEW

Recent qualitative research from the UK found that most consumers had a basic understanding of the risk-reward relationship (i.e. higher risk meant potentially greater rewards; lower risk meant they stood to lose less but in turn the rewards would be less). Beyond this, however, understanding was limited. Most did not have a clear idea of what these risks actually were and many felt that long-term investments were riskier, mainly because they would not be able to access their money in the case of unexpected events (IFF Research, 2007)⁴.

1.3.1 Attitude towards Risk

Fig. No. 1 Analysis of Factors affecting attitude



Source, (Finke and Huston, 2003)⁵

Finke and Huston (2003)⁵ stated in their work that financial literacy level, personality and circumstances, demographic factors such as age, income, marital status are very important determinant which influence the investment decision of individual. (Clark and Strauss, 2008)⁶ highlighted the importance of genders while investment. They indicated that females are having more risk bearing capacity than men and young age people are more aggressive in investment option than old age people. (Gai and Vause, 2005)⁷ also supported the findings of Clark and Strauss that time is most important factor which influence the investment decision of individuals. A number of studies have indicated that age, education, income, wealth and marital status, and gender difference exists while investment. (Sunden and Surette, 1998)⁸ indicated in their work that marital status and wealth are most important factors than gender.

1.3.2 Accounting information and investment decision

Baker and Haslem, (1973)⁵ argue that investors are primarily concerned with expectations about the future, considering earnings projection and historical data to be of high interest to investors. Past study indicates that still conservative investors have more reliance on financial information. Malhotra and Tandon (2013)⁹ state that in those factors, financial accounting information is the main factor that most investors usually consider in making investment decisions as to whether to invest in a company shares or not. Investors usually rely on financial accounting information to assist them with stock selection. According to Wiliam¹⁰ importance of information either accounting or non accounting depends upon the priority and objectives of investor. As stated by accounting information merely indicates the financial position of the company while there are multiple variable which affect the investment of the investors.

1.3.3 Identification of key factors for investment decision

Table No.1 Factors Affecting Investment Decision

Factor	Name of the Factors
1	Position and performance which includes Firms status in industry, Price per share and Past performance of firm's stock
2	Investment returns and economic conditions which includes Dividends paid, Expected dividends by Investors, Development in Stock Index, Current Economic Indicators, Recent Price Fluctuation and Attractiveness of nonstick
3	Diversification and loss minimization which includes Price per share, Attractiveness of non-stock, Need for diversification, Ease of Obtaining funds and Minimizing risk of loss.
4	Third party opinion which includes Family member opinion, Friend recommendations and People Opinion on the stock.
5	The goodwill of the firm and accounting information which includes Reputation of the firm, Expected Corporate Earnings and Profit and condition of statements
6	Perception towards the firm) which includes Perceived ethics of firm and Firms involvement in Community
7	(Environmental factors) which includes the Press and Statement of Government officials.
8	(Firms feeling) involves of feelings for a firm. loss.
9	(Risk minimization) involves Minimizing risk of loss

Source, Ambrose Jagongo and Vincent S. Mutswenje(2014)¹¹

Analysis of Risk and attitude of Investors towards investment

Madhumathi.R (1998) in her study entitled “Risk Perception of Individual Investors and its Impact on their Investment Decisions” examined the risk perception of 450 individual investors, selected at random from major metropolitan cities in India, dividing them into three groups as risk seekers, risk bearers and risk avoiders. The major findings of the study revealed that majority of the investors were risk bearers and they had the tendency to use the company’s performance as a basic factor to take investment decisions. They also depend on the advice of share brokers and investment consultants. The risk

seekers generally took decisions based on market conditions, industrial positions and social changes. They relied on newspapers and reports for information. Risk avoiders did not have any specific traits. They were very objective and looked for facts and certainty in their investment decisions. They relied on the advice of their friends and relatives.

As per the research conducted by T. Tamil Selvi(2015) geographical location also influence investment pattern of investors. He studied urban and rural population to analyze their investment behavior and factors which influence them. He identified that urban people investment behavior is different than rural people. He identified following factors:-

Table No. 2 Perception of Urban and Rural Investors

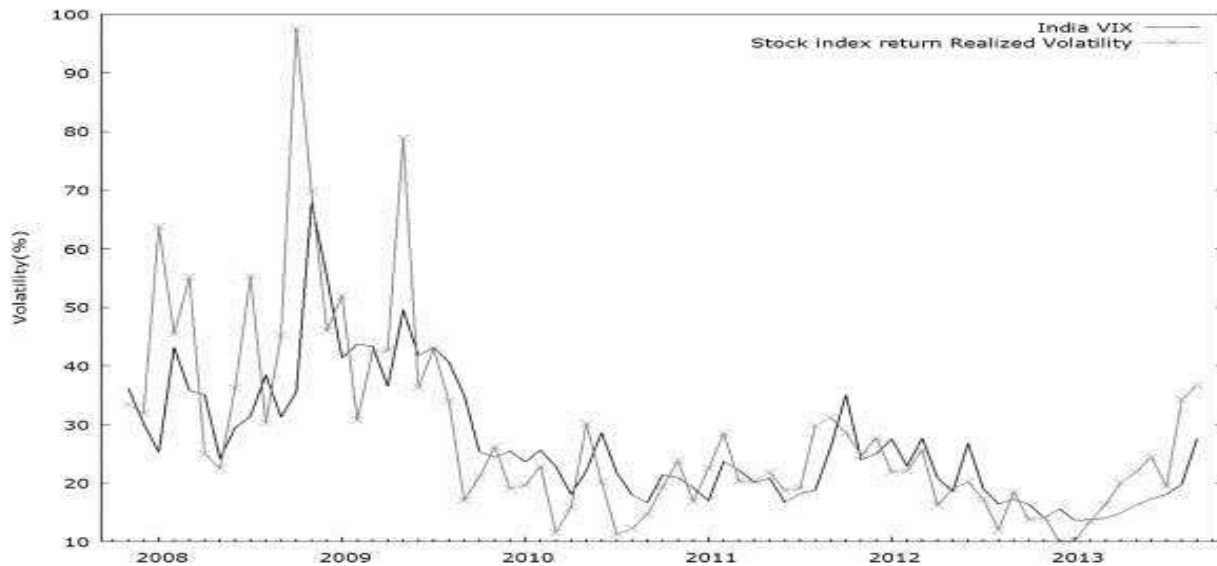
Sr.No.	Attitude	Mean Score		Mean Rank	
		Urban	Rural	Urban	Rural
1	Investing today is for a better tomorrow	670	661	I	I
2	Investment offers safety	628	607	II	II
3	It is profitable	571	532	IV	VI
4	It is Liquid	524	521	VII	VII
5	It postpones the joy of today to an uncertain tomorrow	520	487	VIII	X
6	It is a tough task but is a must	561	534	V	V
7	Investment is an inborn habit of many people	512	505	XI	IX
8	Increase in wants reduces the investments	514	539	IX	IV
9	Genuine investors are cheated by unscrupulous persons	513	473	X	XI
10	Government securities are not attractive	425	435	XIV	XII
11	Investment reduces liability	534	514	VI	VIII
12	Invest today and smile tomorrow	622	588	III	III
13	Never invest money with private parities	484	429	XII	XIII
14	Investment is a long term affair	450	422	XIII	XIV
15	Investor is guided by credit rating agencies	377	360	XV	XV

Source, T. Tamil Selvi(2015)

urban and rural both the investors consider the factor “ investing today is for a better tomorrow is most important factor as mean score for for urban and rural is 670 and 661 respectively. Table further state that long term affair, government securities are not

attractive and investor is guided by credit rating agencies secured the least mean scores. A Study of Investment Behavior of Middle income group –

Implied Volatility Index-



To describe how this implied volatility acts as the investors' *fear*, and explains the future stock market volatility

Challenges

Some of the Challenges faced by investors while investing in stock Market are –

- Lack of Knowledge and study on same , Financial Literacy
- Safety of Funds invested
- Growth of Money
- Historical Performance of the stock
- Age at which they started investment

LIMITATIONS OF THE STUDY

- Study is purely based on secondary data and cover limited literature.
- Findings can be more realistic if primary data is used

CONCLUSION

The results of the study indicate that there are various factors which influence the investment decision of investors out of which firm reputation, safety of return and liquidity are very important Factors influencing the decision of an individual are as follows-

1. Age, gender, occupation, income, financial literacy, financial consultants, friends has significant influence upon investment decision of investors.

2. There is a no relation between type of investment and return of investment.
3. Financial literacy among male and female investors is also an important aspect.
4. There is a strong relationship between tenure of association from stock market and return on investment. Usually Companies that are fundamentally strong give good amount of dividend every year to their investors.
5. There is a significant relationship between type of investment and associated risk.
6. There is a significant relationship between investment objectives and rate of return

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