Factors Influencing Investment Decision of Individual Investors in Stocks (With reference to Indore City)

Dr. Akanksha Singhi

Abstract

The investor plays a very important role in the stock market because of their big share of savings in the country. The Regulators of the stock market never can ignore the behaviour of individual investor. This study aims to understand the behavior of individual investor in stock market, specifically their attitude and perception with respect to the stock market. A survey is conducted to collect data relating to the above subject. Respondents were classified into different categories like income, profession, education status, sex and age in the city of Indore. The study attempts to find the factors affecting the investment behavior of individual investors such as their awareness level, duration of investment etc. The study analyses the rationality of the investors of Indore during different market expectations, dividend and bonus announcements, and the impact of age, income levels and other market related information on investment decisions of investors from Indore.

Keywords: Investors Behaviour, Stock Market, Attitude, Perception, Awareness Level

Introduction

An investment is an asset or item that is purchased with the hope that it will generate income or appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. In finance, an investment is a monetary asset purchased with the idea that the asset will provide income in the future or appreciate and be sold at a higher price i.e. The building of a factory used to produce goods and the investment one makes by going to college or university are both examples of investments in the economic sense. In the financial sense investments include the purchase of bonds, stocks etc.

Stock market is an important part of the economy of a country. The stock market plays a play a pivotal role in the growth of the industry and commerce of the country that eventually affects the economy of the country to a great extent. That is reason that the government, industry and even the central banks of the country keep a close watch on the happenings of the stock market. The stock market is important from both the industry’s point of view as well as the investor’s point of view.

Stock market is a market where stocks are bought and sold. In an economy, besides playing the role of a source for financing investment, stock market also performs a function as a signalling mechanism to managers regarding investment decisions, and a catalyst for corporate governance.

However, stock market is best known for being the most effective channel for company’s capital raise. People are interested in stock because of “long-term growth of capital, dividends, and a hedge against the inflationary erosion of purchasing power. The other feature that makes the stock market more attractive than other types of investment is its liquidity. Most people invest in stocks because they want to be the owners of the firm, from which they benefit when the company pay dividends or when stock price increases.

* Senior Lecturer, School of Economics, Devi Ahilya Vishwavidyalaya, Indore
The shares of company are movable property and are transferable in the manner provided in the Articles of Association. A share is undoubtedly a movable property in the same way in which a bale of cloth or a bag of wheat is a movable property. With stocks and shares it's possible for investors to create wealth in three different ways:

- To receive an income from them in the form of dividends
- To hopefully see a growth in their value and sell them at a profit
- A combination of the above, known as balanced

Understanding investors’ behaviour starts from the investigation of its forming factors. Recognising that economic behavior is not limited only to qualitative analysis of market events and quantitative analysis of data, but it also reflects the understanding and evaluation of these events as well as data awareness of economic participants. At the same time the importance of subjectivity in making investment decisions is also been noted.

Global financial markets pose new challenges for investors, and activities of all investors are based on continuous decision-making, which is not always rational, unexplained by the traditional economic theory (assuming that all investors operating in the market are rational, and the capital market is efficient). That is why behavioral finance theory, contrary to traditional financial theories in their core provisions, was started to be actively developed. It holds that prediction of investment decisions cannot be based only on rationality, as far as significant influence on the investor’s decision is made by his/her provisions and subjective assessment of the situation.

Factors Affecting Investment Decision

1. STOCK AFFORDABILITY
2. MINIMIZING RISK
3. RELIGIOUS REGION
4. FINANCIAL STATEMENT CONDITIONS
5. CURRENT ECONOMIC INDICATORS
6. PAST PERFORMANCE OF COMPANY STOCK
7. EXPECTED BONUS ISSUE
8. DIVERSIFICATION OF INVESTMENT
9. GOODWILL
10. DAILIES / PERIODICALS
11. RUMOURS
12. GOVT. HAS A SHARE IN COMPANY
13. FRIENDS RECOMMENDATION
14. RECOMMENDATION OF FINANCIAL ADVISOR / ANALYSTS
15. CHART PATTERN
16. FIRM STATUS IN INDUSTRY
17. EXCHANGE LISTING
18. LOCAL OPERATIONS
19. TAX EFFECT

Literature Review
A literature review is an evaluative report of information found in the literature related to your selected areas of study. The review should describe, summarizes, evaluate and clarify this literature. It should give a theoretical base for the research and help you (the author) determine the nature of your research.

JEKETERINA KARTAŠOVA (2013) has identified basic factors forming Lithuanian individual investors’ behavior on the stock market and illustrate the logical relationship between these factors and individual investors’ personal characteristics such as gender, age, investment experience and profession. The author combined psychological biases into closed-end questions without stating the bias itself and checked whether the investors felt the influence or not. According to the results, women are more overconfident investors than men. In addition, the direct connection between investment experience and influence of over confidence was noted. The purpose of the research was to identify the irrational behaviour of individual investors, its forming factors, and to assess their impact on the decisions of investors made in the stock market.

Ambrose Jagongo (2014) have analyzed that the most important factors that influence individual investment decisions were: reputation of the firm, firm’s status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the economy and expected divided by investors. Results of factor analysis revealed that the most important factors were: Firms position and performance; Investment returns and economic conditions; Diversification and loss minimisation; Third party opinion; The goodwill of the firm and accounting information; Perception towards the firm; Environmental factors; Firms feeling and Risk minimization. Friedman’s ranking was used to identify the most important individual factors that influence investment decision in NSE. The factors were reputation of the firm, firm’s status in industry, expected corporate earnings, profit and condition of statement, past performance firm’s stock, price per share, feeling on the economy and expected divided by investors. In conclusion this study tested the tenets of the behavioral finance theory on the factors that influence investment decisions under conditions of uncertainty.

Dr. Syed Tabassum Sultana and Dr S Pardhasaradhi (2012) have taken factors Individual Eccentric, Wealth Maximisation, Risk Minimisation, Brand Perception, Social Responsibility, Financial Expectation, Accounting information, Government & Media, Economic Expectation and Advocate recommendation. The emphasis is on thinking things and also on weighing the outcomes and alternatives before arriving at a final decision. They came to conclusion that the Investment decisions made today often are critical for financial security in later life, due to the potential for large financial loss and the high costs of revising or recovering from a wrongful investment decision. Most of the equity investors do not have the sufficient knowledge of basic economic concepts required to make investment decisions. Thus, there is a need to conduct research on factors, other than knowledge, that could influence investment decisions.

Khoacuongphan, Jian Zhou have identified the existence of psychological factors having impacts on behavioral decisions made by individual investors in the stock market (Phan and Zhou 2014). Accordingly investors’ decision-making is not always based on rational factors but also influenced by the psychological ones (Sehgal/Singh, 2012; Murgea, 2008). In fact, psychological factors may leave significant impact on their attitude and behavior; namely when people are in good mood, they become more optimistic in their judgments but when they are not, they turn more pessimistic. Study has also provided strong evidences for the existence of psychological factors which supports the hypothesis that four psychological factors (overconfidence, excessive optimism, psychology of risk and herd behavior) do have significant impact on the individuals’ attitude towards investment.

Dr. Taqadus Bashir have analysed that behavioral finance assumes that characteristics of market participants and information structure systematically have an influence on individuals’ investment decisions. This research paper aims at identifying the factors that influences the Pakistan’s individual investor behavior. Frequency table of
significantly influencing variables shown that out of the total 33 items the 6 most influencing items which belongs to the self-image/firm’s image and accounting information like dividend paid, reputation of firm, feelings for a firm’s products and services, get rich quick, firm's involvement in solving community problems, and firm’s status in industry. On other side factors that were found to be least influencing with respect to order of importance were friend or coworker recommendations, opinions of the firm's majority stockholder, recent price movement in the firm's stock, Religious Reason, Family member opinion and Broker recommendation related to other variable categories. In this study researcher investigates does the market over react? Study gave the evidence that most of the people overreact to the dramatic news. Investors” reaction to the bad news creates the mispricing of the stock traded on the NYSE. (Bondt, 1985)

Tomola Marshal Obamuyi, 2013 in his study seeks to determine the main factors influencing investment decisions of investors and how these factors are related to the investors’ socio-economic characteristics in the Nigerian Capital Market. The study covers individual investors using convenient sampling method to obtain information from 297 respondents through a modified questionnaire developed by Al-Tamimi (2005). Independent t-test, Analysis of variance (ANOVA) and post hoc tests were employed. The results indicate that the five most influencing factors on investment decisions of investors in Nigeria are past performance of the company’s stock, expected stock split/capital increases/bonus, dividend policy, expected corporate earnings and get-rich-quick. Also, the five least influencing factors include religions, rumors, loyalty to the company’s products/services, opinions of members of the family and expected losses in other investments. The study finds that the socio-economic characteristics of investors (age, gender, marital status and educational qualifications) statistically and significantly influenced the investment decisions of investors in Nigeria.

Mark Grinblatt and Mattikeloharju; (2001); presents a comprehensive analysis of the determinants of buy and sell transactions. With a variety of tests, it shows that past returns, reference price effects, the size of the holding period capital gain or loss, tax-loss selling, and, to a small extent, the smoothing of consumption over the life cycle all are determinants of trading.

Samreen Lodhi; (2014); This research study intends to examine the impact of financial literacy, accounting information, openness to experience and information asymmetry on individual investors. The obtained results show that financial literacy and accounting information helps investors in lowering information asymmetry and allows investors to invest in risky instruments. But as age and experience increase investors preference changes to less risky investments, it does not mean that investor does not prefer to invest in shares, he will but with the intension of getting dividend return rather than capital gain.

Objectives of The Study

To analyze whether the following affects the behaviour of individual investors in investment decision in shares of a company:-

A) With reference to fundamental and technical analysis.
B) With reference to colleagues, rumours and taxation.
C) With reference to dailies/periodicals and views of the experts.

Research Methodology

Both primary and secondary data are used in this research project work “A STUDY ON FACTORS INFLUENCING INVESTMENT DECISION IN SHARES OF A COMPANY WITH REFERENCE TO INDIVIDUAL INVESTORS”.
Questionnaires got filled by applying convenient random sampling through 100 people from Indore for the conduct of study and secondary source data are collected from different reports, bulletins, websites and literatures, E-journals which are relevant to the theme of the study.: Appropriate statistical tools would be used for the research work. Some are as follows:

- **T test**: look at differences between two groups on some variable of interest
- **One way ANOVA**: test the significance of group differences between Two or more groups

### Factors taken in the study

1. **Stock Affordability**: It means the price of script per share. The higher is the price lesser is the affordability of the investor and vice versa.
2. **Minimizing Risk**: Since the movement of prices are highly uncertain, therefore it is wise not to invest only in one particular security instead invest in two or more securities in order to hedge risk.
3. **Religious Reasons**: It has also been noticed that sometimes the investment decision in scripts also get influenced by religious reasons. Though it is not a reasonable factor but still some people consider it before investing.
4. **Financial Statement Conditions**: The financial statements also affect the decision to invest in shares of the company. Generally, the balance sheet and profit and loss statement helps in taking the right decision.
5. **Current Economic Indicators**: The current economic indicators like the GDP, inflation rate etc can help in taking the decision that it is the right time to invest or not.
6. **Past performance of company stock and dividend distribution**: Generally help in determining the trend of future price and thus affects the decision.
7. **Expected bonus issue**: Sometimes the company in its AGM announces bonus issue. This may seem lucrative to the investors and thus can affect decision.
8. **Diversification of investment**: In order to hedge the risk diversification is necessary. So this may also affect the decision.
9. **Goodwill**: A company which has a better goodwill among the investors, the more the investors feel secure.
10. **Dailies/Periodicals**: These also affect the decision. Ex. The news related to mergers and acquisitions, expansion etc affects the decision.
11. **Rumors**: They are deprived of scientific tools. And hence the decisions can be wrong.
12. **Govt. Share in company**: This gives a pre - notion to the investors that the company will not liquidate in the near future.
13. **Friends recommendation**: This can be another factor in purchase/sell of shares.
14. **Recommendation of financial advisor**: Referring the financial advisors or experts can greatly help in maintaining the accuracy.
15. **Chart pattern**: It helps in predicting the future prices and hence it is a better medium to invest in short term.
16. **Firm status in industry**: Goodwill also affects the decision criteria while investing.

### Independent Samples Test

<table>
<thead>
<tr>
<th>Levene’s Test for Equality of Variances</th>
<th>T-test for Equality of Means</th>
</tr>
</thead>
</table>


**Group Statistics**

<table>
<thead>
<tr>
<th>Investd</th>
<th>GENDER</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error Mean</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>MALE</td>
<td>50</td>
<td>36.4400</td>
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<td>1.08239</td>
</tr>
<tr>
<td></td>
<td>FEMALE</td>
<td>50</td>
<td>33.9000</td>
<td>6.67389</td>
<td>.94383</td>
</tr>
</tbody>
</table>

17. Exchange Listing: Exchange listing increases the trust among the investors for investment decisions.

18. Local Operations: Local level of operations and its profit margin also have a significant impact on investors.

19. Tax Effect: The period of holding also determines the nature of capital assets

**Statistical Analysis**

Statistical tools such as T test (on gender wise investment decision), One way Annova (on occupation and age) have been applied to know the impact of the factors on the investment decisions of the investors

**T Test**

**H0:** There is no significant difference between the score of factors influencing the investment decision taken by male and female investors.

**H1:** There is significant difference between the score of factors influencing the investment decision taken by male and female investors.

**Interpretation:** it is clearly visible that sig. Value is .036 which is less than .05 so equal variances not assumed. Finally sig. (2-tailed) value is .080 which is more than .05 so null hypothesis will be accepted i.e. There is no significant difference between the score of factors influencing the investment decision taken by male and female investors.

**One Way ANOVA**

**H0:** Age wise there is no significant difference in the score of factors influencing investment decision.

**H1:** Age wise there is significant difference in the score of factors influencing investment decision.

**Descriptives**
### Invested

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>95% Confidence Interval for Mean</th>
<th>Minimum</th>
<th>Maximum</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Lower Bound</td>
<td></td>
<td></td>
</tr>
<tr>
<td>20 to 25</td>
<td>19</td>
<td>32.0526</td>
<td>2.77836</td>
<td>.63740</td>
<td>30.7135</td>
<td>30.00</td>
<td>40.00</td>
</tr>
<tr>
<td>25 to 30</td>
<td>15</td>
<td>39.6667</td>
<td>7.01699</td>
<td>1.81178</td>
<td>35.7808</td>
<td>27.00</td>
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<tr>
<td>30 to 35</td>
<td>24</td>
<td>39.3750</td>
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<td>1.41397</td>
<td>36.4500</td>
<td>27.00</td>
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<tr>
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<td>32.5714</td>
<td>7.13337</td>
<td>1.10070</td>
<td>30.3485</td>
<td>26.00</td>
<td>48.00</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>35.1700</td>
<td>7.25726</td>
<td>.72573</td>
<td>33.7300</td>
<td>26.00</td>
<td>48.00</td>
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### Test of Homogeneity of Variances

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<th>Levene Statistic</th>
<th>Df1</th>
<th>Df2</th>
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<td></td>
<td>7.465</td>
<td>3</td>
<td>96</td>
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### ANOVA

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<th>Sig.</th>
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<td>1195.919</td>
<td>3</td>
<td>398.640</td>
<td>9.524</td>
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<tr>
<td>Within Groups</td>
<td>4018.191</td>
<td>96</td>
<td>41.856</td>
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<tr>
<td>Total</td>
<td>5214.110</td>
<td>99</td>
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</table>

### Multiple Comparisons

#### Tukey HSD

<table>
<thead>
<tr>
<th>(I) AGE</th>
<th>(J) AGE</th>
<th>Mean Difference (I-J)</th>
<th>Std. Error</th>
<th>Sig.</th>
<th>95% Confidence Interval</th>
<th>Lower Bound</th>
<th>Upper Bound</th>
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<tbody>
<tr>
<td>20 to 25</td>
<td>25 to 30</td>
<td>-7.61404</td>
<td>2.23458</td>
<td>.005</td>
<td>-13.4566</td>
<td>-1.7715</td>
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</tr>
<tr>
<td>25 to 30</td>
<td>30 to 35</td>
<td>-7.32237</td>
<td>1.98670</td>
<td>.002</td>
<td>-12.5168</td>
<td>-2.1279</td>
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<tr>
<td>20 to 35</td>
<td>35 and above</td>
<td>-5.1880</td>
<td>1.78872</td>
<td>.991</td>
<td>-5.1956</td>
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<tr>
<td>25 to 30</td>
<td>35 and above</td>
<td>7.61404</td>
<td>2.23458</td>
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<td>13.4566</td>
<td>5.8593</td>
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<td>30 to 35</td>
<td>30 to 35</td>
<td>0.29167</td>
<td>2.12942</td>
<td>.999</td>
<td>-5.2759</td>
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<tr>
<td>30 to 35</td>
<td>35 and above</td>
<td>7.09524</td>
<td>1.94602</td>
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<td>12.1833</td>
<td>12.1833</td>
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<td>30 to 25</td>
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<tr>
<td>35 and above</td>
<td>30 to 30</td>
<td>-7.09524</td>
<td>2.12942</td>
<td>.999</td>
<td>11.3200</td>
<td>5.1956</td>
<td></td>
</tr>
<tr>
<td>35 and above</td>
<td>35 and above</td>
<td>6.80357</td>
<td>1.65547</td>
<td>.000</td>
<td>11.1320</td>
<td>11.1320</td>
<td></td>
</tr>
</tbody>
</table>

#### Interpretation: Since the value of Sig. Is .000 which is less than .05 thus alternate hypothesis will be accepted i.e : Age wise there is significant difference in the score of factors influencing investment decision.
One Way ANOVA

**H0:** Occupation wise there is no significant difference in the score of factors influencing investment decision.

**H1:** Occupation wise there is significant difference in the score of factors influencing investment decision.

### Descriptive

<table>
<thead>
<tr>
<th>Invested</th>
<th>N</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Std. Error</th>
<th>95% Confidence Interval for Mean</th>
<th>Minimum</th>
<th>Maximum</th>
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</thead>
<tbody>
<tr>
<td>EMPLOYED</td>
<td>81</td>
<td>35.9012</td>
<td>7.78397</td>
<td>.86489</td>
<td>34.1801 to 37.6224</td>
<td>26.00</td>
<td>48.00</td>
</tr>
<tr>
<td>OTHERS</td>
<td>19</td>
<td>32.0526</td>
<td>2.77836</td>
<td>.63740</td>
<td>30.7135 to 33.3918</td>
<td>30.00</td>
<td>40.00</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>35.1700</td>
<td>7.25726</td>
<td>.72573</td>
<td>33.7300 to 36.6100</td>
<td>26.00</td>
<td>48.00</td>
</tr>
</tbody>
</table>

### ANOVA

<table>
<thead>
<tr>
<th>Between Groups</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
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</thead>
<tbody>
<tr>
<td>Within Groups</td>
<td>227.953</td>
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<td>227.953</td>
<td>4.480</td>
<td>.037</td>
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<td>98</td>
<td>50.879</td>
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</table>

**Interpretation:** Since the value of Sig. is .037 which is less than .05 thus alternate hypothesis will be accepted i.e. Occupation wise there is significant difference in the score of factors influencing investment decision.

### Conclusion

In the study it is reflected that fundamental (financial statements) and technical analysis (chart patterns) along with the dailies /periodicals do affect investors behaviour in shares of a company with reference to individual investors whereas Rumours, Friends recommendation don’t have any significant influence to the individual investors while investing in shares of a company. On the other hand tax effect has a significant influence as depicted by the graphical analysis earlier.

From the study it was found that apart from religious reasons, rumours

And friends recommendation other factors like stock affordability, minimizing risk, financial statement, current economic indicators, past performance of company stock, expected bonus issue, diversification of investment, firms commitment to csr, dailies, govt. Share in company, recommendation of financial advisor, chart pattern, firm status in industry, exchange listing, local operations and tax effect do have significant influence on individual investors decision.

5. The application of T−TEST on the “score of factors influencing the Investment decision and gender” stated that there is no significant difference between the score of factors influencing the investment decision taken by male and female investors.

6. The usage of one way anova tool on “age and score of factors influencing the investment decision” stated that age wise there is significant difference in the score of factors influencing investment decision.

7. Moreover one way anova test also interpreted that occupation wise there is significant difference in the score of factors influencing investment decision.
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