A Study on Individual Investors Behavior in Indian Capital Market in Special Reference with Pondicherry Town

***Dr.F.Andrews**
****D. Dharmaraj**

*Assistant Professor in Commerce, St. Joseph's College of Arts and Science (Autonomous) Cuddalore.
**M.Phil (Commerce), St. Joseph's College of Arts and Science (Autonomous), Cuddalore. 607 001

Abstract

This study aims to investigate the factors influencing behaviour of individual investor in Stock Market. The study is mainly based on primary data that have been collected from 100 randomly selected individual Stock Market investors from different puducherry town using structured questionnaire. The major findings of descriptive statistics, Chi Square Test, Factor Analysis, Correlation Model using SPSS and data Software indicate that the Perceived Risk Attitude of individual investors are in a good position. and it is mainly based on cognition in comparison to affect component of Perceived Risk Attitude that means that their perceived risk attitude is based on mental process involved in gaining knowledge and comprehension including thinking, knowing, remembering, judging and problem solving rather than emotional component of an attitude that refers to an individual's feeling about something or someone. Heuristics dimension, Prospects dimension and Markets dimension of investment behaviour are strong in the Stock Market whereas Herding dimension of investment behaviour are not so strong in the Stock Market. The study concludes that behaviour of individual investor in Stock Market is significantly influenced by their demographic factors and Perceived Risk Attitude.

Introduction

Humans are social creatures with unique values that have a propensity to make decisions in accordance with their demeanor and emotions. It cannot be expected from humans to reach at a decision entirely on the basis of objective factors; rather the issues such as their behavior and mood are the major predictors in shaping their decisions. Human behavior is extremely tricky to examine because of its multifaceted nature. The actions taken by individuals are based on the complex persuasion of both internal and external stimulants. In psychology, this interaction of stimulants is called behavior. Thus, the term behavior is defined as the mode of action, or the way humans react.

Background of the study

An important step in research is to form a conceptual framework on the subject under investigation. Such a conceptual review helps the researcher to understand the problem better and serves as a background material, which will help to bring out clearly the real contribution of the present study. Review of related literature enables the researcher to get acquainted with the knowledge in the field of study.

Capital Market in India

Standing the test of time, the Indian capital market has undergone phenomenal changes. Since the mid-eighties, a metamorphic transformation involving multi-dimensional growth has taken place in an otherwise dormant Indian financial system. The magnitude of growth could be gauged in terms of massive jumps in funds mobilization, the turnover on the stock exchanges, the amount of market capitalization, and the expansion of investor population. The regulatory framework has been strengthened and streamlined in order to tackle effectively the problems associated with the massive growth of the market.

Infrastructure Stage

The period between 1947 and 1973 marked the period of the development of infrastructure for capital markets. The stage saw the process 31 of strengthening of capital market through the establishment of a network of development financial institutions such as IFCI (1948), ICICI (1955), IDBI and UTI (1964), SFCs (during the fifties and sixties) and SIDCs (during the sixties and early seventies). A number of important enactments covering the functioning of different segments of capital market were legislated during this period. These include: Capital Issues (Control) Act, 1947, Securities Contracts (Regulation) Act, 1956 and Companies Act, 1956. Development of an organized indigenous capital market was inhibited in the initial years following independence owing to a variety of factors as stated below:

- Insignificant demand for long-term funds owing to weak industrial base and low serving rate.
- Dependence of many foreign companies upon the London capital market for raising funds rather than on the Indian capital market.
- Adverse consequences of the managing agency system, which performed different functions of promotion, management and underwriting of new capital issues.
- Lukewarm interest shown by Indian corporate for mobilizing capital through the instruments of shares and debentures from capital market and more reliance of the industry on the bank credit which offered credit at relatively lower (often subsidized) rates of interest; and
- Hazards of administered interest rate structure.

Establishment of SEBI

The Controller of Capital Issues (CCI) which was mostly responsible for regulating the issue of capital market in instruments and not for post-issue-regulations and investors' protection was abolished with effect from May 29, 1992. The Securities and Exchange Board of India (SEBI) came in to existence on January 30, 1992 by virtue of an ordinance promulgated by the President of India. The aim of establishing SEBI was to protect the interests of investors in securities, to promote and regulate the development of the securities market. The SEBI has issued new comprehensive guidelines on June 11, 1992 in order to envisage a system of checks and balances in the capital market.

Through these guidelines are not fool-proof measures to protect investors, still it is a definite attempt to strike a balance between the right of investors and promoters. The SEBI since its inception has always been trying to work as a watch-dog of the security market. By an amendment to the SEBI Acts in 1995, more powers of both civil and criminal nature to control the intermediaries and the players in the capital market are now vested with SEBI (Mishra Bishnu Priya, 2007).

Committees/Working Groups

An important part of growth during this period was the constitution of a number of committees in order to suggest measures to revamp and restructure the working of the secondary market and cause buoyancy in the primary market so as to instill confidence in the investing community. These included the following:

1. A Committee on Organization and Management of Stock Exchange, 1986 under the chairmanship of Mr. G.S. Patel.
2. A Study Group for Guidelines Relating to Valuation and New Instruments, 1991 under the chairmanship of Mr. M.J. Pherwani.
3. A High Powered Study Group on Establishment New Stock Exchanges, 1991 under the chairmanship of Mr. M.J. Pherwani.
4. A Committee on Trading in Public Sector Bonds and Units of Mutual Funds, 1992 under the chairmanship of Mr. S.S. Nadkarni.

A number of recommendations of the above committees were implemented to help streamline the operations of the capital market. However, this period witnessed one of the worst crises in the Indian capital market with a major scam in securities breaking out. Large-scale irregularities in securities transactions that took place in 1992 exposed the loopholes in the existing systems and procedures of stock trading. This necessitated the overhauling of the regulatory framework of the capital market for preventing recurrence of such irregularities in the future.

Statement of the Problem

There are diverse players in the Indian Capital Market namely Individual investors, mutual funds and Foreign Institutional Investors (FII's). Individual investing activity takes place in the shadow of institutional investing activity. Indian capital market is dominated by Institutional Investors both domestic and foreign. There is every chance that the interest of the individuals might be affected because of the smaller size of their holding and the resultant vulnerability. There is a need to study the problems of the small investor. The stock market witnesses volatility due to the entry and sudden exit of Institutional Investors.

Need for the Study

It is need to have a better understanding about the investor and their mind setting. Different investors have different risk taking a capacity. So it is better to understand and to create a profile of investors

Objectives of the Study

✓ To study the various factors influencing the investment behavior of individual investors
✓ Identifying the impact levels of behavioral factors on the investment decisions and performance of individual investors at the INDIAN STOCK MARKET.
✓ Giving some recommendations for individual investors to adjust their behaviors to achieve good investment results.

Research Methodology

Types of Data Used for the Research

Both secondary data as well as primary data have their importance in any research. When the primary data gives first hand information, secondary data gives an idea about the research done earlier in the related topic. It is 100 very useful to supplement any research. Hence both primary and secondary data have been used for this research.

i) Primary Data

The researcher used the survey method to collect the primary data from the respondents in the Town of Puducherry. Primary data were collected mainly from the work places of different companies, Government officers (State, Central and Public sector), and Small and Medium business establishments.

ii) Secondary Data

The secondary data have been collected from different sources like journals, research reports etc. The data pertaining Annual Reports of SEBI, Indian Economic Survey released by the Ministry of Finance.

Tools and Techniques

Chi Square Test

$$Ei = \frac{(Oi-Ei)^2}{Ei}$$

Correlation.

$$r = \frac{\sum XY - \sum X . \sum Y / N}{\sqrt{\sum X^2 - \frac{(\sum X)^2}{N}} * \sqrt{\sum Y^2 - \frac{(\sum Y)^2}{N}}}$$

Sampling Design

Since the population of the selected locations for the research is very large and all the respondents could not be interviewed due to practical difficulties, only selected samples have been taken up for the study. Many investors were reluctant to divulge their financial details especially amount of money invested in different investment avenues. Hence the data were collected from the respondents who were willing to divulge the information. 100

Limitations of the Study

➢ The study is mainly based on the primary data collected from 100 respondents in the cities of Puducherry. The inherent drawbacks of the primary data are applicable to the study.
➢ The data analysis is on the basis of primary data. It may not be reflected in near future as the market changes from time to time.
➢ Brokerage, commission, loan & taxes have been ignored.

Review of Related Literature

Rajarajan (1997, 1998, 2000, and 2003) has done extensive research on the characteristics of investors. He classified individual investors on their investment size and demographic characteristics. He also used cluster analysis to segment individual investors based on their lifestyles. He brought out details about the association between lifestyles of individual investors and their demographic and investment related characteristics to understand them and their financial product needs better. Risk taking capacity has been a subject of interest to many of his researches.

Mullainathan and Thaler (2000) stated that financial markets have greater arbitrage opportunities than other markets, so behavioral factors might be thought to be less important here, but it was concluded that even here the limits of arbitrage create anomalies that the psychology of decision making helps explain. Since saving for retirement requires both complex calculations and willpower, behavioral factors are essential elements of any complete descriptive theory.

Shanmugham (2000) conducted a survey of 201 individual investors to study the information sourcing by investors, their perception of various investment strategy dimensions and the factors motivating share investment decisions, and reported that, psychological and sociological factors dominated economic factors in share investment decisions.

Odean (1998) states that overconfidence occurs when investors overestimate the precision of their private signals and their knowledge about the value of a financial security and always remember the succeed part and easily forget the failure. Accordingly, investor should evaluate information objectively to avoid overconfidence. Finally, the higher the self-control is, the less the disposition effect exists. Therefore, investor must try to practice some mechanisms to control his (her) irrational behavior.

Analysis and Interpretation

Meaning of Square Test:

The square test is an important test amongst the several tests of significance developed by statisticians. Chi-square, symbolically written as x^2 (Pronounced as Ki –square), is a statistical measure used in the context of sampling analysis for comparing a variance to a theoretical variance. "It can used to determine if categorical data shows dependencies of the two classifications are independent. it can also be used to make comparison between theoretical populations and actual data when categories are used".

Ho: There is no relationship between the Annual Income and the way of measuring the risk

H1: There is relationship between the Annual Income and the way of measuring the risk

TABLE. 1

	A	B	C	D	E	Total
A	2	2	6	4	20	34
B	1	0	9	12	18	40
C	1	1	10	5	0	16
D	0	0	7	0	3	10
Total	3	3	32	21	41	**100**

$$\mathbf{Ei} = \frac{(\mathbf{Oi}-\mathbf{Ei})^2}{\mathbf{Ei}}$$

TABLE. 2

Oi	Ei	Oi-Ei	$(Oi-Ei)^2$	$\frac{(Oi-Ei)^2}{Ei}$
2	1.259	0.259	0.067	0.053
2	1.259	0.259	0.067	0.053
6	1.888	0.259	0.067	0.035
4	2.518	0.518	0.268	0.106
20	27.074	1.926	3.709	0.136
1	0.333	0.333	0.110	0.330
0	0.333	0.667	0.444	1.333
9	0.5	0.95	0.9025	1.805
12	0.666	0.334	0.111	0.1666
18	7.666	1.166	1.359	0.189
0	0.259	1.741	3.031	11.702
1	0.259	0.259	0.067	0.258
10	0.388	0.388	0.150	0.386
5	0.518	0.482	0.232	0.447
0	5.57	0.57	0.324	0.058
0	0.148	0.148	0.021	0.141
0	0.148	0.148	0.021	0.141
7	0.222	0.778	0.605	2.725
0	0.296	0.296	0.087	0.293
3	3.185	0.185	0.034	0.010
			Total	**32.464**

Degree of Freedom = (C-1) (R-1)

= (5-1) (4-1)

= (4) (3)

= 12

12 = **32.464**

Inference:

The calculated value is less than the tabulated value. So we accept the hypothesis. There is relationship between the Annual Income and the way of measuring the risk.

Correlation

It is the most widely used method of measuring the degree of relationship between to variables. This coefficient assumes the following:

i. That there is liner relationship between the two variables.

ii. That the two variable are casually related which means that one of the variable is independent and the other one is dependent: and

iii. A large number of independent causes are operating in both variables so as to produce normal distribution.

TABLE : 3

Regular Investor and Habit of Buying In Fall of Market.

X **Regular**	**Y** **Habit buying**	**X^2**	**Y^2**	**XY**
75	36	5625	6400	6000
25	18	625	200	500
100	**54**	**6250**	**6800**	**6500**

$$r = \frac{\sum XY - \sum X . \sum Y / N}{\sqrt{\sum X^2 - \frac{(\sum X)^2}{N}} * \sqrt{\sum Y^2 - \frac{(\sum Y)^2}{N}}}$$

$$r = \frac{3150 - 100 * 100/2}{\sqrt{6250 - \frac{100^2}{2}} * \sqrt{6800 - \frac{(100)^2}{2}}}$$

$$r = \frac{6500-5000}{\sqrt{6250-5000} x \sqrt{1620-5000}}$$

$$r = \frac{1500}{\sqrt{1250} \quad x\sqrt{1800}}$$

$$r = \frac{1500}{35.35 \quad x \quad 42.42}$$

$$\frac{1500}{1499.54}$$

r = 1

INFERENCE:

The relationship between Regular Investor and habit of buying in fall of market is positive correlated.

Findings

- It can be stated majority of the respondents 69% belongs to Male category.
- 52% of the respondents belong to below 30 age category and 31% of the respondents below to the age category of between 31-40.
- Majority of the respondents 55% are graduates and 23% of the respondents are Post-graduate holders.
- 57% of the respondents are married and 39% of the respondents are unmarried.

➢ 58% Respondents who are doing business invest more in share market, next 29% respondents who is getting salary invest in share market. Few professionals and very few respondents who are retired invest in shares.

➢ 47% of respondents who are getting an annual income of below 100000 will be investing in share market and others don't show much interest in investing.

➢ 65%of them do their investment through brokers, 19% of them through phone and 16%of them through internet.

➢ 26% of respondents invest their shares only when they find an opportunity and 54% of them regularly. Apart from them 10 invest only when I have excess money and 16 invest daily.

➢ 92% of respondents have been in the markets for less than 5 years, 8 of them from 5-10 years, and none of them are 10-20 years and more than 20 years.

➢ %34 of the respondents invest their shares through investor, trader and IPO's

➢ 50% of them invest their shares my own judgment, 10 of them by the information through magazines, 5 of them having knowledge about the stock market and 35% of respondents through influences of others are same.

➢ 60% of respondents have a very good profit in their investment, 20 of them are occasionally good, and 20 of them are moderate. None of them are not satisfactory.

➢ 60% respondents have up to 25% percent of investment in equity share, 32% up to 25-30% percent, 8 of them from 50-75 and none of them from 75-100.

➢ 45% of them prefer both technical and fundamental analysis.

➢ 45% respondents select their stocks by looking at the annual reports, P/E , EPs and book value of reports 30 than by looking at socio, economic and political situation

➢ 48% respondents are having the habit of buying shares whenever the market falls.

➢ 50% respondents review their investment decision in shares when results are announced. Some respondents review when any news of that company made daily/ regularly, announced are made like bonus, dividends, rights or occasionally.

➢ When the stock market shows a long term bearish trend, 35% respondent will sell all the shares buy the shares of blue chip company and below average go in for investments like mutual funds, shares etc.

➢ In very volatile market situations most of them buy good shares that have fallen considered, few of them take advantage of the intraday trading and wait and watch.

➢ 17% respondents says that horse racing, 14 of them both the above and 13 of them gambling and says none of the above. It's totally different.

➢ It could be seen from the above table 4.35 Most of the pupils are saving according to the data 85% of pupil are saving below 50000 and 14% of pupils saving above 500001-100000 and 1%saving 100000 for per annum.

Conclusion:

From the above study, we conclude that if we say share market means in that there are many types of investors and various risk are involved. We have to identify whether it is a short or long term investments etc. From the research work we may conclude that when they get more income they'll invest in shares and their mindset includes risk tolerance, perception, preferences and many more the identification of risk tolerance. This helps the investor to get fruits from the share market.

Reference:

1. **Martin T. Bohl, Christiane Goodfellow, Jedrzej Bialkowski (2015).** Individual investors surpass their reputation: Trading behavior on the Polish futures market, Economic Systems, In Press, Corrected Proof, Available online 25, March 2015.

2. **Cho-Min Lin, Yen-Hsien Lee, Chien-Liang Chiu (2009).** Structural changes in foreign investors' trading behavior and the corresponding impact on Taiwan's stock market. *Research in International Business and Finance*, Volume:23, Issue:1, Janunary 2009, pp.78-79.

3. **Dean Hanlon, Sean Pinder (2007).** An empirical investigation of whether Australian capital gains tax reforms influence individual investor behavior. *Pacific-Basin Finance Journal* Volume: 15, Issue: November 2007, pp.481-493.

4. **Itzhak Venezia, Zur Shapira (2007).** On the behavioral differences between professional and amateur investors after the weekend *Journal of Banking & Finance*, Volume 31, Issue 5, May 2007, pp.1417-1426.

5. **Xiao Lu Wang, Kan Shi, Hong Xia Fan (2006).** Psychological mechanisms of investors in Chinese Stock Markets. *Journal of Economic Psychology* , Volume 27, Issue 6, December 2006, pp.762-780.

6. **Akiko Kamesaka, John R. Nofsinger, Hidetaka Kawakita (2003**). Investment patterns and performance of investor groups in Japan *Pacific-Basin Finance Journal* ,Volume:11, Issue:1,January 2003pp.1-22.

7. **Rajarajan V. (1997).** Investment size based segmentation of individual investors , Management Researcher, 1997b, 21-28; Stages in life cycle and investment pattern, The Indian Journal of Commerce, 51 (2 & 3), 27 – 36; Investors demographics and risk bearing capacity , Finance India, 17(2), June 2003, pp.565 – 576; Chennai Investor is conservative, Business Line, 23 Feb.1997a.

8. **Michael Bowe, Daniela Domuta (2001).** Foreign investor behavior and the Asian financial crisis. *Journal of International Financial Markets,* Institutions and Money, Volume: 11, Issues: 3-4, September-December pp.395-422.

9. **Mullainathan and Thaler (2000).** Behavioral Economics (Less than159). Kent Daniel, David Hirshleifer, Siew Hong Teoh (2002). Investor psychology in capital markets: evidence and policy implications. *Journal of Monetary Economics*, Volume 49, Issue 1, January 2002, pp. 139-209.

10. **Mullainathan and Thaler (2000).** Behavioral Economics (Less than 159).

www.SEBI.com

www.google.com