

Investor's Behavior towards Investment Made in Capital Market

* Dr. D. Senthil

*Asst Professor, Management Wing, DDE, Annamalai University

Abstract

Investment made on capital market is observed as an avenue for investor to generate income of their investment. The study has aimed to evaluate the investor's behaviour such as over confidence, Loss aversion, Representativeness, Price anchoring. A sample of 150 respondents are taken for this study. Statistical tools t-test and Anova has been applied in the study. The study suggests rebuilding investor's confidence through literacy programs as a part of college/university curriculum. It would impart consciousness to the new generation

Keywords: Investment, Price Anchoring, Commercial Banks, Financial Assets

Introduction

Capital is a crucial factor in the development of an economy. The role of the financial system is to channel funds from surplus sectors to deficit sectors. Facilitating such flows on a national level increases the level of investment and effective demand and thus accelerates economic development. Capital market development has been closely related to an economy's overall development. At low levels of development, commercial banks tend to dominate the financial system. As economy grows, specialized financial intermediaries and securities markets develop and especially individual investors can invest their funds directly in financial assets issued by firms.

Investors may be institutions or individuals. Individual investors are of strategic importance as households account for the lion's share of the gross savings in the country. The players and regulators in the capital market cannot afford to ignore the aspirations, attitudes, perceptions and expectations of individual investors.

Review of Literature

Sunil Poshakwale (1996) analyzed the returns of Bombay Stock Exchange for the period 1987 to 1994 by using various techniques like descriptive statistics, Kolmogorov-Smirnov, Runs test, Serial Correlation test and concluded (on the basis of interpretation of runs test and serial correlation test) that the returns in Indian Capital Markets were non-random and therefore rejected the null hypothesis of Indian Capital Markets being efficient in weak.

Rajarajan V (2003) classified investors on the basis of their demographics. He found the investors' characteristics on the basis of their investment size and the percentage of risky assets to total financial investments had declined as the investor moves up through various stages in life cycle. Further, he noted investors' lifestyles based characteristics.

Shylajan and Sushama Marathe (2006) in their research article "A study of attitudes and trading behaviour of stock market investors", identify the major factors responsible for determining the attitudes and trading behavior of stock market

investors. Based on their shared investing attitude and behaviour, the stock market investors are classified into two categories i.e. Aggressive investors and non-aggressive investors.

Tripathi (2009) observed that most of the investors use both fundamental as well as technical analysis while investing in the Indian stock market. The investors strongly agree that various company fundamentals significantly influence stock prices in India. Moreover, the investment horizon of investors has also reduced due to higher volatility.

Mehta and Aggarwal (2011) observed that there is association of demographic profiles and personality type of investor with investment choice. The differences among genders were found to be significant for provident funds, fixed deposits, and real estate. Females were found more conservative than males. The investors in the higher age groups preferred post office as an investment option compared to the investors in the lower age groups. Most of the investors preferred to consult their family members for making investment.

Gnani Dharmaja et al (2012) proposed the share brokerage firms to take care of the factors influencing their investors and offer them proper asset allocation strategies. The study aimed at identifying the most and the least influencing factors of the individual investors.

Sarita Bahl (2012) observed that unless the common person becomes a wiser investor and is protected from wrong doings, wealth creation for the investor and the economy will remain a distant dream.

Senthil D (2012) investigated the investor's behaviour in terms of goals, preferences, factors influencing while selecting the schemes, service expectations etc., The study found that the investor's main goal is wealth appreciation and suggests that the mutual fund companies should control the charges to be paid by the retail investors and bring the expense to a reasonable level.

Objectives of the Study

1. To study the investment behavior of Investors
2. To study the factors effecting of different investors (in term of age group, education, income)

Research Methodology

Sample and Procedure

The data used in this study was obtained from 150 investors in this field. Questionnaire was **constructed** based on the following aspects of trading.

(1) Personnel demographic data:

- a) Gender
- b) Family Status
- c) Age
- d) Education
- e) Occupation
- f) Total Monthly income

(2) Contributing variable:

- a) Over confidence
- b) Loss Aversion

- c) Representativeness
- d) Price Anchoring

Gender

Out of 150 respondents, 108 are male and 42 are female

Family status

Out of 150 respondents, 96 investors belong to nuclear families and remaining 54 investors are from joint families

Age

This study has grouped the investors into four age groups. 17 investors come under the category of below 30 years of age. 44 investors are between 30 and 45 years of age. 73 investors fall in the age group between 46 and 60 years of age. 16 investors are in the age group above 60 years of age.

Education

In the case of educational qualification, 28 investors have completed school level, 58 investors are under graduates and 64 investors have done post-graduation.

Occupation

In this study, occupation is classified into four categories. 44 investors are Government employee, 21 investors are in Private, 60 are in Business and 25 investors are Professional.

Income level

In this study, Total monthly income is classified into four categories. 13 investors are in the income group of less than Rs30000 per month. 29 investors are in the income group between Rs.30000 and Rs.45000. 25 investors are in the income group of Rs.45000 to Rs.60000. 83 investors fall in the income group of above Rs.60000.

Overconfidence

People generally perceive themselves as better decision makers than they really are. This common investor behavior spells overconfidence where people tend to overestimate their knowledge, skills and the precision of their information. For example, many investors have high regard of their own investing skills and believe in their good timing to obtain a hot stock. When the market is uprising, most stocks, including those that they pick, will do well. This will reassure their accuracy and acumen. On the contrary, when stocks prices take a plunge, investors generally blame it on unforeseen circumstances such as the economic situations or general market conditions. Overconfident investors are not going to learn from their mistakes because they do not see overconfidence as a bias or mistake affecting their decision-making

Loss Aversion

It is observed that most investors react to their large losses by avoiding owning more stocks. They experienced a heightened sense of fear of more losses, which caused them to try and avoid assuming higher risks. They called this phenomenon loss aversion. Loss aversion may take hold when an investor desires to hold on to his 'losing' stocks to avoid feeling regretful over a poor decision. This aversion can cause investors to hold out to avoid recognition of the associated loss if the underperforming stocks are sold. Investor also avoids selling underperforming stocks to avoid the embarrassment of reporting a loss. Loss aversion may encourage investor to avoid trading their underperforming stocks, as they perceive that today's underperforming stocks may eventually outperform today's winning stocks. Loss aversion can also cause investors to be too conservative in their investment strategy. Investors may turn to other investment products such as fixed deposits; unaware that the return on investment could be negative when inflation is factored in. Consequently they fail to protect their real wealth.

Representativeness

More often than not, people judge probabilities by equating situation A to situation B or by the level of similarities between A and B. This condition is called the representativeness heuristic, and it happens when investors confront uncertainty over a lack of information. In making investment decision, they scout for familiar patterns and equate future patterns to the past often without performing enough reasoning to the probabilities of these patterns repeating themselves.

Price anchoring

Reference points can also lead to anchoring. Some investors concentrate on a specific price. These specific prices are termed reference points while the fixation is called anchoring where a reference point was the stock price that investors compared with. The reference point is a crucial measurement as investors think to determine the opportunity of obtaining a profit or liability in experiencing a loss.

Hypothesis

H0: There is no difference of opinion towards study variables based on gender of respondents.

H0: There is no difference of opinion towards study variables based on family status of respondents

H0: There is no difference of opinion towards study variables based on age of respondents

H0: There is no difference of opinion towards study variables based on education of respondents

H0: There is no difference of opinion towards study variables based on occupation of respondents

H0: There is no difference of opinion towards study variables based on income of respondents

Analysis of Data

	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree	Total
Over Confidence						
I am an experienced investor	30	15	45	45	15	150
I feel more confident in my own investment opinions over opinions of my colleagues or friends	15	30	59	31	15	150
I consult other (family, friends or colleagues) before making stock purchase (reverse coded)	15	30	60	15	30	150
Loss Aversion						
I am more concerned about a large loss in my stock than missing a substantial gain (profits)	15	30	60	30	15	150
I feel nervous when large paper losses (price drops) have in my invested stocks	15	15	45	45	30	150
I will not increase my investment when the market performance is poor	15	30	30	60	15	150
when it comes to investment, no loss of capital (invested money) is more important than returns (profits)	30	30	30	30	30	150
Representativeness						
I tried to avoid investing in companies with a history of poor earnings.	30	30	15	45	30	150
I rely on past performance to buy stocks because I believe that good performance will continue	15	30	60	30	15	150
good stocks are firms with past consistent earnings growth	30	15	30	45	30	150
Price Anchoring						
I compare the current stock prices with their recent 52 week high and low price to justify my stock purchase	30	15	60	30	15	150
I am likely to sell my stock after the price hits recent 52 week high	15	30	60	30	15	150
I am unlikely to buy a stock if it was more expensive than last year	15	30	45	45	15	150
I see the stock price as high if the price has increased to 52 week high	0	60	15	60	15	150
I believe that the position of 52 week high and low price determines the current stock price movement range	30	30	15	45	30	150

Overconfidence

30% of the investors agree that they are experienced investors. 20% of investors agree that they are more confident on their own decisions while investing.

Loss aversion

30% of the investor agrees that they feel nervous when there are large paper losses in the investment. 30% of the investor agree that they will not increase their investment when the market performance is poor. Only 10% of investors invest even when the market performance is poor.

Representativeness

30% of investors agree, they avoid the scripts with historical poor performance. 30% of the investors agree good stocks are firms with past consistent earnings growth

Price anchoring

20% of the investors agree the select stock on the basis of low and high of recent 52 weeks. 30% of the investors agree avoid to buy a stock if it was more expensive than last year. 30% of the investor agree that they believe 52 week high and low price determine the current stock price movement.

Gender t-test

Factors	Gender and Mean value		T-test	
	Male	Female	t-value	P- value
Overconfident	9.333	7.8095	2572	0.011
Loss Aversion	12.0741	13.9524	-4.144	0.000
Representativeness	8.9815	10.1190	-3.209	0.002
Price anchoring	14.6759	16.9048	-2.735	0.007

Source: Primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on Gender.

To know the difference between male and female with respect to factors related to investor’s behavior, the independent t- test was applied.

The above table shows that the investors psychological factors such as Overconfidence, Loss Aversion, Representativeness and Price anchoring differs based on their gender while investing in stock market. P-value < 0.05 indicates that Null hypothesis is not supported. From the above observation, it is proved that there is difference of opinion towards study variable based on Gender.

Family Status t- test

Factors	Family status and Mean value		T-test	
	Nuclear	Joint	t-value	P- value
Overconfident	9.4688	7.9074	2.830	.005
Loss Aversion	12.2500	13.2222	-2.206	.029
Representativeness	9.1771	9.5185	-0.999	.319
Price anchoring	15.3958	15.1296	0.341	.734

Source: primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on Family status.

To know the difference between Nuclear and Joint families with respect to factors related to investors’ behavior while investing in the share market, the independent t- test was applied.

From the above table it is clear that Nuclear and joint families adopt different approach while investing in stock market. The p-value < 0.05 indicates that Null hypothesis not supported. From the above observation there is difference of opinion towards study variable based on Family status

Age Anova

Factors	Age and Mean value				ANOVA Result	
	Less than 30 years	30-45 years	46-60 years	Above 60 years	F- value	P- value
Overconfident	9.2353	9.5455	9.2055	5.4375	7.492	0.000
Loss Aversion	11.8824	13.8409	11.1370	16.6250	44.833	0.000
Representativeness	9.5882	10.1591	8.5479	10.0625	7.952	0.000
Price anchoring	14.2941	16.7955	13.4932	20.5000	16.394	0.000

Source: primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on Age of respondents.

One way ANOVA was applied to find out the variance among various categories. It is observed that the respondents of age less than 30 years highly favor price anchoring (14.29) and over confidence is less favored (9.2). Other favorable factors are Representativeness (9.5) and Loss Aversion (11.8). In the case of 30-45 years age group, price anchoring (16.7) is highly favored and Overconfidence (9.5) is less favored. In the age group of 46-60 years, price anchoring (13.4) is high favored and Representativeness (8.5) is less favorable factor. In the case of above 60 age group Price anchoring (20.5) is high favourable whereas Overconfident (5.4) is a less favourable factor.

ANOVA is used to test the variation between investor behavior while investing in the stock market and Age level. The result indicate that all the four factors i.e overconfident, Loss aversion, representativeness, price anchoring are significant. This implies that Age factor is dependable while investor is investing in capital market.

Education ANOVA

Factors	Education and Mean Value			ANOVA Result	
	School (1)	UG (2)	PG (3)	F- value	P- value
Overconfident	7.0357	7.8621	10.6719	20.714	0.000
Loss Aversion	13.5000	12.4828	12.3125	2.120	0.124
Representativeness	8.7143	9.7931	9.1094	3.325	0.039
Price anchoring	14.3929	16.1897	14.8906	1.925	0.150

Source: Primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on educational qualification of respondents.

One way ANOVA was applied to find out the variance among various categories. It is observed that the respondents having school level support price anchoring (14.39) and less favored factor is over confident (7.03). The other favorable factors are Representativeness (8.71) and Overconfident (7.03). In the case of UG level price anchoring (16.1) is high favorable and Overconfident (7.8) is less favorable. In PG level price anchoring (14.8) is high favorable and Representativeness (9.1) is less favorable factor.

ANOVA is used to test the variation between investor behavior while investing in the stock market and education level. The result indicates that the two factors do not vary significantly, but other two factors namely overconfident, representativeness are significant. This implies that education level is dependent on overconfident factors and representativeness factors while investing in capital market.

Occupation ANOVA

Factors	Occupation and Mean value				ANOVA Result	
	Government	Private	Business	Professional	F- value	P- value
Overconfident	8.7273	5.1905	10.2667	9.0800	15.854	0.000
Loss Aversion	12.6591	13.3333	13.3667	10.0400	12.566	0.000
Representativeness	8.2955	10.1429	10.4667	7.5600	27.402	0.000
Price anchoring	14.8409	15.2381	16.6167	13.0000	4.156	0.007

Source: primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on Occupation of respondents.

One way ANOVA was applied to find out the variance among various categories. It is observed that the respondents having government level of high favorableness is price anchoring (14.84) and less favorableness factor is Representativeness (8.29). The other favorable factors are Loss Aversion (12.6) and Overconfident (8.7) In the case of private, price anchoring (15.2) is high favorable and Overconfident (5.1) is less favorable .In business, price anchoring (16.6) is high favorable and Overconfident (10.2) is less favorable factor. In the case of professional group Price anchoring (13) is high favourable and Representativeness (7.5) is less favourable.

ANOVA is used to test the variation between investor behavior while investing in the stock market and Occupation level. The result indicate that all the factors vary significantly remaining This implies that Occupation is dependent on all factors of overconfident factors, Loss Aversion, representativeness and Price anchoring factors while investor investing in capital market.

Income ANOVA

Factors	Income and Mean value				ANOVA Result	
	Less than 30000	30000-45000	45001-60000	Above 60000	F-value	P-value
Overconfident	12.7692	8.6897	6.4400	9.1205	13.256	.000
Loss Aversion	11.0769	11.0345	13.2800	13.1807	7.740	.000
Representativeness	10.9231	8.8276	9.8400	9.0482	4.729	.004
Price anchoring	17.0769	16.1379	14.9200	14.8434	1.318	.271

Source: Primary data, Significant at one percent level

Ho: There is no difference of opinion towards study variable based on Income of respondents.

One way ANOVA was applied to find out the variance among various categories. It is observed that the respondents having income less than Rs.30000 highly favor price anchoring (17.07) and less favorableness factor is Representativeness (10.9). The other favorable factors are Loss Aversion (11) and Overconfident (12.7). In the case of Rs.30000-45000 price anchoring (16.13) is high favorable and Overconfident (8.6) is less favorable .In Rs.45001-60000 price anchoring (14.9) is high favorable and Overconfident (6.4) is less favorable factor. In the case of group Price above Rs.60000 anchoring (14) is highly favourable and Representativeness (9.04) is less favourable factor.

ANOVA is used to test the variation between investor behavior while investing in the stock market and Income level. The result indicates that all the factors vary significantly except price anchoring. This implies that Income level, the factors of overconfident, Loss Aversion, representativeness are dependent while investor investing in capital market.

Suggestions

1. To rebuild investor's confidence through literacy programs as a part of college/university curriculum. It would impart consciousness to the new generation
2. Investor should develop their net selectivity skills and time ability skills through fundamental analysis and technical analysis.
3. Investors should keep in mind that past performance is not reliable in the future.
4. Investor should never trade without stop loss
5. Investor should not encourage over trade.
6. Do not trade in all stocks of one sector. Trade with different sectors.
7. Only buy fundamentally strong stocks, which are undervalued.
8. Investors should select scripts based on very strong PE ratio and growth in earning per shares
9. Investors' confidence needs to be rebuilt by enhancing investor's protection, better transparency, and enhanced monitoring authority supervision over market intermediaries.
10. Beginners should select good broker agencies for stock recommendation.

Scope for Further Research

1. In this research only limited personnel demographic data like gender, family status, age, education, occupation, income has been considered. The impact of other demographics can also be researched.
2. Relation between various factors can also be researched.

Conclusion

A successful investor is not the one who makes huge profits but one who studies the market, understands his risk taking ability, sets the clear cut investment objectives, determines the expected rate of return and also decides the time and period of investment. Technology can help in a big way in making investor aware and in rebuilding investor confidence.

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