Review of Factors influencing Retail Investors' Investments Decisions in the Indian Stock Market: An Empirical Study

Vivekananda Journal of Research
January - June 2021, Vol. 10, Issue 1, 1-13
ISSN 2319-8702(Print)
ISSN 2456-7574(Online)
Peer Reviewed Refereed Journal

http://www.vips.edu/vjr.php

Harpreet Singh*

ABSTRACT

Stock market investments are high-risk and high-return. Hence an investor thinks from all perspectives before entering into the stock market. The Indian stock market has always been full of uncertainties. It has witnessed many scams and slowdowns; hence it is also considered as gamble by some of the a gamble.... risk-averse. However, with the passage of time, security in the stock markets has increased and the markets have regained the faith of customers again. Even after all the clarity and transparency in the markets and their functioning, the normal market risk always prevails. Some stocks give high returns and some stock gives loss to the investors. Therefore investors test shares not on one basis but many different factors. These factors may be rational, emotional, personal, investment objectives and opinion based. The present study is descriptive in nature. The study reviews the factors that influence the investment decision of the retail investors in the Indian stock markets. The study is based on primary data which have been collected from 271 investors. The data has been analyzed with the help of Factor Analysis.

Keywords: *Stock Market, Personal Factors, Rational Factors, Emotional Factors, Retail Investors*

INTRODUCTION

Investments are the life blood of any economy. They are an important chain in the

* Associate Professor , (SGGSCC, DU), University of Delhi, Delhi.
Email:- drhpsbhatia@gmail.com

prosperity cycle (saving, investment, production, income, consumption/saving). There are a handsome number of investment options for investors in India. Some of them are driven by tax saving and low risk and the others are driven by returns. Capital markets investments are generally considered in the high risk high return category. Stocks have always been associated with high risk – high return trade off. They are generally considered a risky option of investment. However, there are varieties of possibilities of risk in stock market. Fundamentally risk continuum depended basic stock characteristics e.g. small cap stocks, mid cap stocks and large cap stocks.

Stock markets are the money mobilizes in the economy. Savings are turned into investments through the stock markets. Stock markets are the heart of an economy and market indices are the barometers of the economy. In the last few decades, the Indian stock markets have developed in many ways. Investor's security has been improved with better regulations and more participation of the securities and Exchange Board of India (SEBI). In 2014, India got a stable government where even in a coalition, one party had the majority and as a matter of fact political stability assists stock market to a large extent. Hence, gradually, after having witnessed its biggest dip in 2009, the market has improved multi fold. And, this improvement has increased investors faith in the economy. The factors such as competitive investor performance, Market Trend, Industry growth, Tax Exposure, Investment Horizon, Economic condition, Investment needs, Accounting information, Return Needs, Information about investment avenues, Advocate recommendations, Risk tolerance, Capital amount of investment, Past experience, Place of investment, The profitability of investment and Income level of investor (Sharma, 2014). Stock market fulfills the requirement of mobilization of money from people to industry. It provides high growth to the investors Srivastava (2017). In India; less number of people invests in stock market as compared with the other developed countries. India has more passive investors rather than active and direct investors in stock market. Also the investors are quiet clustered and concentrated to the western India such as Mumbai and Pune region Wazal (2017).

FACTORS INFLUENCING STOCK MARKET INVESTMENT

The first and the most important decision taken by an investor is whether to invest in the stock market or not. Investors may or may not invest in the stock market because they, Other/better investment avenues, No knowledge of the market, No background of stock market investment, Taxation/ Long term capital gain, Low Risk taking ability and Other issues such as fear of stock market because of feedback from relatives or friends or heard about failure stories of the stock market.

An investor may or may not once it is decided by an investor that he/she is going to invest in the market, and then he first decides his objectives of his investments. The objectives may be long term growth, short term profit or speculation. Investment is also affected by the persona factors. The personal factors that determine the pattern of investment in the stock market are Knowledge of stock market, Risk Bearing Capacity, Education and Past Experience. The other factors that affect the stock market investments are Current and Future Market Conditions Current and Future Economic Conditions, Other investment avenues, Interest Rate and Demand and Consumption. The personal and other factor directs an investor to further decided upon how to invest. Some of the important decisions at this stage are capitalization based Stocks Selection such as Large Cap, Mid – Cap and Small Cap. The selection of category for stocks is again a critical decision and probably most important decision to be taken by an investor. The stocks can be selected by first selecting the industries. Industries may be Banking, Pharmaceutical Industry, Metal (steel, aluminum etc.), Textile, Agro, Automobile, NBFCs. These are followed by Market Based Decisions such as one wants to trade in the spot market of wants to play in the future market with the help of futures and options.

FACTORS INFLUENCING THE INVESTMENT IN THE STOCK MARKET

There are many other factors to choose a specific stock such as based on fundamental, technical or efficient market hypothesis. Moreover the specific stocks are chosen on many other bases and biases. The factors that influence the stock market may be categorized as 'Rational factors', emotional factors, Opinion based factors, personal factors and Attractiveness of Other Investment Avenues. Rational factors are based on fundamentals and technical analysis that is calculated by the investor himself or buy others, it is based on data and neither opinions nor emotions. Emotional factors contain liking for a share, patriotism or any other sentiments such as if investor is a customer of that particular company etc. Opinion based factors are neither fully rational and nor fully emotional. The opinion may come from experienced investors, Investment experts in TV shows, individual broker house and mails or sentiments sent by the broker to the investor. The personal factors are risk profile of an investor, demographic profile such as age, gender, location, own investment experience, amount of money to be invested and personal expectations of returns.

REVIEW OF EXISTING LITERATURE

Investors have a habit of mitigating risk by making a large portfolio. They put in small investments in large bucket. The possibility of investment in a large portfolio and variety of industries and shares provide investors a psychological security while investing in the stock market, and this is the reason that a common man afford to take risk of investing in the market. The management of portfolio of securities is easier and at low cost (Bala, 2013). Electronic media, such as business news channels and internet, constituting a large number of money and investment websites are the two major sources of information for stock market investment decisions. The investors consider performance of the company through P/E Ratio (Price-Earnings Ratio) and EPS (Earning per Share) with company's prestige for selecting company while investing. The investors also take into account the government policies, flow of FIIs (Foreign Institutional Investments) while investing in the market. Interestingly, investors feel that along with the technical and fundamental aspects the luck or fortune also play an important role in the performance of stocks. Lastly investors also prefer for variety of industries to invest, so that their risk is minimized (Batra, 2017).

Stock market investors were found psychologically biased. It makes investors self centric and due to it, individuality comes in the investing behavior of investors (Jayaraja, 2013). It was further found that there are six factors that influence the stock market investing decision. These factors are – conservatism, diligent and discreet, remorse abhorrence (the investors do not want to repent their decisions), cognition, prudence and precaution and under confidence. Joshi (2013) found some of the most relevant and important factors that affect the stock market are also considered important for the investors before investing. These factors are flow of foreign institutional investors, political stability, growth of gross domestic product, inflation, liquidity and different interest rate and global level factors. Kaur (2015) found that, the major reason of people not investing in the stock market is lack of knowledge and second most important reason is risk of loss. Kanojia (2018) found an investor is influenced by representative bias, followed by overconfidence, cognitive dissonance and disposition effect. However, no impact of herd behavior was found on the respondents. Madhvi (2014) explored that information and completeness of information has a g great impact on behaivour of investors in the stock market. If the information is incomplete it may lead to bad return, whereas perfection and alertness leads to good and stable return. Investors explore the risk management alternatives with the help of which the risk can be minimized. Malathy (2017) ascertained company reputation, return on investment, and reputation of the members of board; past results of company and dividend policy, ROI (return on investment) and short term profitability are the most important factor that affect the investment decision in the stock market.

Mishra (2015) found that the investors consider, health of economy as a very important aspect for investing in stock market because performance of the capital market. Mutswenje (2014) found that in the case of stock market investments experience and knowledge of the investors matter a lot. Rajashekar (2016) found that demographic factors, age, race and sex, education level, social and economic background. Emotional biasness of an investor was considered as the most critical factor along with the factors mentioned above. The author also concluded that the investment decision varies from person to person, place to place and securities to securities etc. Rubani (2017) found that investors consider the changes in the exchange rate and financial risks of the corporate world. Favorable changes motivate and investor to invest and adverse changes lead him to stay away from the market. Sah (nd) found seasonality as an important factor that influences the beahivour of investors in the stock market. In a study conducted by Samal (2017), it was found that first of all the investors try to avoid the uncertainty while investing in the market. Further, influence of brokers and fear of loss of capital are two very important aspects that put a significant impact on the investing behavior.

Sarkar (2017) conducted the study on the age group 28 to 37 years investors. In fact this age group invests in stock market the most. As per the characteristics of the stock market investors it was found that most of them were educated and at least graduates with annual incomes between 1,00,000 to 5,00,000. Most of them were connected to the stock market for more than 5 years and objective of such investors was short term profit. The perceived risk attitude of these investors was found to be 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. Singh (2015) found that there when an individual makes an investing decision, he/she considers tax planning, future needs, safety of investments, recurring income, etc. The investment decisions are mainly influenced by the objectives of investments. The author further argued that whether male or female both are concerned about past dividends while investing in the market. It was also noted in the study that male investors analyze the financial ratios such P/E ratio, D/P ratio and other liquidity ratios while female investors due to lack of financial literacy are not so convenient with financial ratios. Yadav (2017) opined that stock market investment is highly suitable for the investor. The stock market investment provides liquidity and high returns at the same time.

RESEARCH METHODOLOGY

The present study is descriptive in nature. There is good number of studies that have found many factors influencing the stock market investment decision. This study however is an attempt to make a comprehensive analysis and propose a scale to measure the influencing factors in the Indian stock market. The data has been collected from 271 respondents (450 questionnaires were distributed, out of which 297 filled questionnaires were received and 271 were found fit for the study). The respondents were chosen on the basis of judgment sampling. Only those investors were chosen for the study whose portfolio size does not exceed Rs. 2 million

For analyzing the data, exploratory factor analysis was performed based on Principal component analysis and Eigen value greater than one. Principal Component Analysis (PCA) is a statistical procedure that uses an orthogonal transformation to convert a set of observations of possibly correlated variables into a set of values of linearly uncorrelated variables called principal components. Eigen value is the amount of variance explained by a factor.

DATA ANALYSIS AND INTERPRETATIONS:

Demographic Characteristics:

Table 1: Demographic Characteristics

Demographic Factors	Category	Respondents	% age
Gender	Male	193	71.22
(n=650)	Female	78	28.78
Age in years	Below 25	60	22.14
	25-45	119	43.91
	>45	92	33.95
Occupation	Salaried	121	44.65
	Business	85	31.37
	Professional	65	23.99
Monthly income*	100000-200000 pm	124	45.76
	200000-500000 pm	105	38.75
	>500000	42	15.50
Education	Undergraduate or graduate	93	34.32
	Postgraduate or above	178	65.68
Risk Profile	High Risk Taker	45	16.61
	Moderate Risk Taker	145	53.51
	Low Risk Taker	81	29.89

Investing Experience**	2-5 years	60	22.14
	5-10 years	148	54.61
	> 10 years	63	23.25

*Investors below the income of Rs. 1,00,000 per month were not contacted
**Investors below the experience of less than 2 years were not contacted

Table 1 gives the demographic characteristics of the respondents. The males comprised the majority of the respondents which constituted 71.22 percent. The females constituted the rest of the sample (28.78 percent). The maximum respondent belonged to the age category of 25-40 years, which comprised of 43.91 percent of the respondents. Occupation wise, the majority of the respondents belonged to the category of salaried which represented 44.65 percent of the total respondents. Income –wise, there was predominance of the respondents belonging to the monthly income category of 1,00,000 to 2,00,000 which accounted for 45 percent of the total respondents. Education wise, the majority of the respondents belonged to postgraduate or above which constituted 65.68 percent of the total respondents. And as per the risk profile chosen

FACTORS INFLUENCING STOCK MARKET INVESTMENT

Exploratory Factor Analysis is a multivariate in which variables are under investigation are evaluated together to extract the factors. In order to establish the strength of the factor analysis solution, it is essential to establish the reliability and validity of the obtained factors.

Table 2: KMO and Barlett's Test

KMO and Bartlett's Test		
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.905
Bartlett's Test of Sphericity	Approx. Chi-Square	6272.703
	df	300
	Sig.	.000

The KMO value obtained was found to be .905 which is greater than 0.5 which signifies that sample was adequate. KMO stands for the Kaiser- Meyer- Olkin, which is a measure of sampling adequacy test. The value of KMO varies from 0 to 1. The Bartlett's test of sphericity tests for the significance of the correlation matrix of the variables indicates that the correlation coefficient matrix is significant as indicated by the p value corresponding to the chi square statistics. The p value is .000 which is less than 0.05, the assumed level of significance as depicted in the table 2, The null hypothesis for Bartlett's test of spherecity, correlation matrix is an identity matrix. The Eigen value greater than one was considered for the analysis. The Eigen value represents the variance explained by a factor.

Table 3: Total Variance Explained

Total Variance Explained									
Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	9.464	37.855	37.855	9.464	37.855	37.855	4.622	18.488	18.488
2	3.903	15.610	53.465	3.903	15.610	53.465	4.221	16.883	35.371
3	2.631	10.523	63.988	2.631	10.523	63.988	4.071	16.284	51.655
4	2.370	9.481	73.469	2.370	9.481	73.469	3.609	14.437	66.092
5	1.214	4.855	78.324	1.214	4.855	78.324	3.058	12.233	78.324
6	.756	3.023	81.347						
7	.542	2.166	83.513						
8	.436	1.745	85.258						
9	.377	1.507	86.766						
10	.357	1.429	88.195						
11	.323	1.293	89.488						
12	.310	1.242	90.730						
13	.288	1.152	91.881						
14	.271	1.083	92.964						
15	.247	.988	93.952						
16	.241	.965	94.917						
17	.207	.829	95.746						
18	.190	.762	96.507						
19	.182	.727	97.234						
20	.158	.631	97.865						
21	.153	.614	98.479						
22	.136	.545	99.024						
23	.106	.424	99.447						
24	.083	.331	99.778						
25	.055	.222	100.000						
Extraction Method: Principal Component Analysis.									

Table 3 shows that total variance explained. The total items were 25, which constituted 5 factors or components. The total variance explained by the by 5 components is around 78% which is quite good, as the minimum % age of variance explained in factor analysis should be 66%.

Table 4 Rotated Component Matrix

	Component				
	1	2	3	4	5
Fundamentals of the company	.827				
Price Earning Ratio (P/E Ratio)	.875				
Flow of Foreign Institutional Investors (FIIs)	.837				
Government Stability, Inflation Rate, Interest Rate, global factors etc	.871				
Health of Economy	.884				
Technical Factors – company charts, industry or market charts or movements	.866				
Liking for particular Company				.606	
Being a customer of a particular company products				.891	
Because I believe that this company shall perform good				.858	
I personal sentiments are highly connected with this stock				.796	
This company is a good corporate citizen				.677	
Other investment avenues and their returns					.751
Diversification of Risk					.796
Long Term Capital Appreciation					.817
Liquidity					.811
Opinion of Individual Broker			.811		
Opinion of Brokerage House			.876		
Opinion of friend/relative			.842		
Opinion of TV experts			.858		
Opinion of Experienced individual investors			.847		
My own risk profile		.879			
My demographics such as age, gender, location		.862			
My own knowledge and experience of stock market		.875			
Quantum of Money in hand for investment		.867			
My own risk profile		.841			

The extraction of factors has been shown in the table 4 'Rotated component matrix'. The rotated component matrix is a result of Varimax Rotaion under Factor Analysis, performed with the help of SPSS. The matrix shows 5 components as named as Rational Factors (RF), Opinion Based Factors (OBF), Emotional Factors (EF) Investment Objectives and Other Avenues (IOOA) and Personal Factors (PF). The constituting items of all the factors have been given in the table 5. The value (sum of the squared loading) is a determinant of retaining or not retaining a factor. A total of five factors were obtained. These obtained factors were named as **Rational Factors, Emotional Factors, Investment Objectives and Other Avenues Opinion Based Factors Personal Factors**. The total variance explained by these six factors was 75.908%. The first component is **'Rational Factors'**. This contains 6 items namely Fundamentals of the company, Price Earning Ratio (P/E Ratio), Flow of Foreign Institutional Investors (FIIs), Government Stability, Inflation Rate, Interest Rate, global factors etc, Health of Economy and Technical Factors – company charts, industry or market charts or movements. This factor explains around 18% of the variance and its construct reliability is .943. The second component is **Emotional Factors** which is constituted by 5 items namely Liking for particular Company, Being a customer of a particular product/s of a company, Because I believe that this company shall perform good, I personal sentiments are highly connected with this stock, This company is a good corporate citizen explains around 17% of the variance and its construct reliability is .932. The third component is Investment Objectives and Other Investment Avenues. This component is constituted by 5 items namely 'other investment avenues and their returns, Diversification of Risk, Long Term Capital Appreciation, Liquidity and High returns. This factor explains 16% of the variance and its construct reliability is .936. The fourth component is Opinion based Factors. It contains 5 items namely Opinion of Individual Broker, Opinion of Brokerage House, Opinion of friend/ relative, Opinion of TV experts and Opinion of Experienced individual investors. It explains 14% of the variance and its construct reliability is .874. The fifth and last component is **'Personal Factors.** This factor contains 4 items namely 'my demographics such as age, gender, location', 'My own knowledge and experience of stock market' and 'Quantum of Money in hand for investment'. This factor explains around 12% of the variance and its construct reliability is .854.

CONCLUSION AND DISCUSSION

Traditionally, it is considered that the factors influencing investment in the stock market are based on risk taking ability of a person, his demographic profile and investment needs. However, certain push factors such low interest rates on risk free investments and moderate returns on mutual funds have also pushed an investor to enter into stock market. Similarly, certain pull factors such as high returns, liquidity and wide diversification opportunities along with self control on the portfolio has also attracted investors towards the stock market. Though, financial decisions are rational, but when it comes to the retail investors, emotions cannot be set aside. The present study finds comprehensive list of the factors that influence stock market investment decision of the investors. It has been found that the Rational factors such as PE ratio, FIIs flow, government stability etc. are the most important factors. This result is consistent with the earlier studies carried out by Batra (2017); Rubani (2017) and Singh (2015). Emotional factors such as liking for a company, personal belief, company image etc. have also been found important influencers for investment in stock market (Malathi, 2017; Kanojia, 2018). The study has found that investment objectives and availability of other avenues influence the investment decision. Investors choose investment alternatives based on their objectives and also which of the alternatives comes out to be the best out of all, hence availability of other investment alternatives affect their decision of investing in the stock market (Singh, 2015; Yadav, 2017). Along with the Rational and Emotional factors; investment objectives and availability of other alternatives, the fourth most important factor influencing the stock market investment was found as opinion based factors. There is not much research on opinion based factors as a complete construct. The opinion based factors include opinion of stock broker, company, friends, relatives or experienced investors. Lastly, 'Personal Factors' such as demographic factors, risk profile, knowledge and experience and quantum of money in hand also affect the investment decision (Rajashekar, 2016). The present study gives a wide spectrum to the stock market intermediaries to think and re-think upon the factors that affect investor while he/she makes decision of investing in the stock market. Indian investors are not as passionate of investing in the stocks as the investors from other countries (Wazal, 2017). The stock market intermediaries may use these influencing factors in order to attract more and more investors towards the stock market.

PRACTICAL IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

The study contributes in the existing literature by providing a comprehensive list of factors that influence the stock market investment. Also, it contributes by segregating the different category of factors based on their importance. The study gives useful insights for the various intermediaries working in the field of stock market investment such as stock broking firms, wealth management companies and investment advisors. The market intermediaries may predict the investment patterns and behavior of the potential investors based on his demographic and psychographic profiling. The factors that influence investment behavior may guide financial advisors to motivate an investor appropriately and as per their objectives. The study provides inputs not only to the investment facilitators but also banks and other financial institutions to customize their investment and banking products, which may include manipulation in the existing and future interest rates.

This study is limited to determine the factors that influence the investors' investing behavior; however, the limitation of study is that the study does not predict the behavior. Further, the study is limited to the respondents of Delhi and NCR (National Capital Region) of India only, and cannot be generalized to all kinds of investors in India. Considering limitations, the future studies may be carried out to predict the behavior of investors based on the factors influencing their investment decisions. Hence, casual relationships among the factors influencing and various categories of investment decisions may be established. The future studies may be conducted to compare the influencing factors based on various demographics, psychographics and geographic characteristics of the investors throughout India.

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