

Investor's Attitude Towards Investments in Equity Shares

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Abstract

Equity investment decisions are crucial for investors. Equity prices are influenced by a large number of factors. Given the higher level of fluctuations in share prices, investors need to choose the best stocks that yield superior returns commensurate with their risk level. This study examined the attitude of retail investors towards equity share investment decisions in Bangalore city using a sample of 150 respondents. Percentage analysis and factor analysis were used for analyzing the data. The study found that past performance and cues from friends and relatives, herd behaviour, future price prediction, strong fundamentals and availability of information about stocks are the major influencing factors.

Keywords: *Equity Investments, Factor Analysis, Retail Investors*

1. Introduction

Investment decision making is one of the crucial challenges faced by investor. Every investor differs from the other in all aspects due to various factors like demographic causes, socio-economic background, educational attainment level, age, sex, and race. An optimum investment decision plays an active role and is significant consideration. In designing an investment portfolio, the investor should consider his financial goals, risk tolerance level, and other constraints.

Selecting an ideal stock for investment given the level of risk-taking ability is one of the most interesting areas of research in finance literature. In order to earn returns commensurate with the level of risk, an investor has to plan well as to where and how to invest. In choosing a specific stock one needs to have definite and clear financial goals. Stock market performance does not simply depend on intelligible characteristics but also on the emotions that are still baffling to the analysts. Despite loads of information spiraling from all directions, it is not the cold calculations of financial wizards, or company's performance of widely accepted criteria of stock performance but the investor's irrational emotions like overconfidence, fear, risk aversion etc., that seem to decisively drive and dictate the fortunes of markets. Against this background, the present study is undertaken to examine the attitude of retail investors towards equity share investments.

2. Review of Literature

Lewellen, Lease and Schlarbaum (1977) by using a data set of 972 individual investors from 1964 through 1970, report that men spend more time and money on security analysis and rely less on their brokers, make more transactions, believe returns are more highly predictable, and anticipate higher possible returns than women. **Statman (1988)** observed that the people trade for both cognitive and emotional reasons. They trade because they think they have information, when in reality they make out nothing but noise and trade only because trading brings them joy and pride. Trading brings pride when decisions made are profitable, but it brings regrets when they are not. Investors try to avoid the pain of regret by avoiding realization of losses, employing investment advisors as scapegoats and avoiding stocks of companies with low reputation.

Nagy and Obenberger (1994) examined factors influencing individual investor behaviour. The study was concluded with the individual equity investors with substantial holdings in fortune 500 firms. The study revealed that individuals base their stock purchase decision on classical wealth maximization criteria combined with diverse other variables. They do not tend to rely on a single integrated approach. **Goetzman and Peles (1997)** established that there is evidence of investor psychology affecting fund/scheme selection and switching.

In a Survey of Indian Investors by **Securities and Exchange Board of India (SEBI) and NCEAR (2000)** it was reported that safety and liquidity were the primary considerations which determined the choice of an asset. **Shanmugham (2000)** conducted a survey of 201 individual investors to study the information sourcing by investors, their perceptions of various investment strategy dimensions and the factors motivating share investment decisions and reports that among the various factors, psychological and sociological factors dominated the economic factors in share investment decisions.

Karthikeyan (2001) studied small investors' perception on post office saving schemes and found that there was significant difference among the four age groups, in the level of awareness for Kisan Vikas Patra (KVP), National Savings Scheme (NSS), and Deposit Scheme for Retired Employees (DSRE), and the overall score confirmed that the level of awareness among investors in the old age group was higher than that of young age group. No differences were observed among male and female investors except for NSS and KVP. **Krishnan and Booker (2002)** analyzed the factors influencing the decisions of investors who use analysts' recommendations to arrive at a short-term decision to hold or to sell the stock. The results indicated that a strong form of the analyst summary recommendation report, i.e., one with additional information supporting the analysts' position further, reduces the disposition error for gains and also reduces the disposition error for losses. **Kadiyala and Rau (2004)** investigated investor reaction to corporate event announcements. They concluded that investors appear to under react to prior information as well as to information conveyed by the event, leading to the different patterns: return continuations and return reveals, both documented in long-

horizon return. They found no support for the overreaction hypothesis.

Anderson et al (2005) found that individuals who place the most orders and have the highest number of transactions enjoy higher returns than those with fewer orders and transactions. **Lucey and Dowling (2005)** surveyed the research on the influence of investors' feelings on equity pricing. The study asserted how investors appear to allow their mood state at the time of making an investment decision to influence their judgement. **Kannadhasan. M (2006)** examined the factors that influence the retail investors' decision in investing. The decisions of the retail investors are based on various dependent variables viz. gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. **Sachithanantham et al (2007)** studied the relationship between capital market reforms and amount of money invested by the investors. It was found that the educative reforms and attractive reforms were statistically significant but they had negative influence over the money invested by the investors at the Indian capital market.

Glaser et al (2009) tested whether individual investor sentiment was related to daily stock returns by using vector auto regressive models and granger causality tests. According to this study, there exists a mutual influence between sentiment and stock market returns, but only in the very short-run (one and two trading days). The returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is stronger and vice versa. **Krishnamoorthi (2009)** conducted a survey about the investment behaviour of 200 respondents belonging to Coimbatore district in Tamil Nadu, and found that irrespective of the developments in the capital market/ economic conditions, investors like to invest regularly and this investment behaviour is highly related to educational background, their occupation, reading habit of investment news and the time taken for investment decision making process. **Kabra et al (2010)** examined the factors influencing investment decision of generations in India and the differences in perception of investors in the decision to invest based on the age and gender. The study concluded that investor's age and gender predominantly decide his risk taking capacity.

According to Singh and Bhawal (2010), perception of risk is manageable if investor is very much aware of every aspect of risk and fluctuations occurring at the level of risk. **Sultana (2010)** examined the individual investor behaviour in India. The study attempted to discover the relationship between dependent variables (risk tolerance level) and independent variables (high income, level of education, salaries, independence in making investment decision and conservative investors). The study found that there is a strong negative co-relation between age and risk tolerance level of the investor. Television as a media largely influenced the investors' decision. The study concluded that the investment product should be designed catering to the needs of low risk tolerant investors. **Bennet et al (2011)** studied the attitude of investors on stock selection decision based on 29 factors. They found that majority of sample retail investors in Tamil Nadu considered all

these factors before selecting the shares for investment. The study revealed that return on equity, quality of life, return on investment, profit-earnings ratio influence the decision makers. The retail investors gave lowest priority to factors such as analyst recommendation, broker and research report, recommendations by friends, family and peer groups, geographical location and social responsibility.

Shafi et al (2011) analyzed the relationship between risk perception and investment behaviour of employees. The findings suggested that employees' risk perception is directly related with their investment behaviour and there is a strong relationship between them. **Shah and Verma (2011)** studied the behaviour of Indian youth investors during the recovery phase of Indian stock market. The study investigated the impact of demographic characteristics on various sources of information on the basis of behavioural aspects, Youth investors were divided into 2 clusters. The study asserted that companies and financial institutions can strategize themselves in attracting prospective investors in companies' shares and decide the mode of communication for them. **Ajaz and Gupta (2012)** examined the investment decision of retail investors in mutual fund industry. The study explored the effects of demographic factors such as gender, age, level of education, marital status, occupation, household monthly income, cities on investment decision of 841 retail investors. The study revealed that gender has least impact on retail investor decision while other demographic attributes stated above have major impact on retail investors' decision. **Santhiyavalli and Usharani (2012)** studied the savings pattern of investors, investment avenues, awareness about various investments and preference towards mutual fund and their types. The results concluded that the investors always preferred to invest in financial products which provide risk free returns. This confirms that investors prefer to play safe in the market.

1. Scope and Objectives of the Study

In the present study, only the present retail investors of Bangalore city were considered. The study was conducted in February and March 2012. The objectives of the study are as follows:

- i) To develop a profile of sample retail investors in terms of their demographic characteristics;
- ii) To examine the perception of share investors in the Indian Capital Market;
- iii) To figure out the attitude of retail investors towards equity share investments.

1. Research Methodology

This is an empirical study based on primary data collected through a well structured questionnaire. The questionnaire had three sections. The first section contained questions regarding demographic profile of the share investors, while the second section contained questions regarding the sources of information about investment, objectives of investments, frequency of investment etc. The final section three contained a list of 17 statements pertaining to various attributes of share investment decisions. Using five point Likert scale, the statements were coded from 1 to 5, 1 being strongly disagree and 5 being strongly agree.

Respondents were to tick one parameter of each statement depending on whether he/she feels the statement to be, strongly disagree (score 1), disagree (score 2), neutral (score 3), agree (score 4), strongly agree (score 5). Thus, a higher mean score implies that the respondent favours that particular statement. Judgemental sampling method was used. Of the 180 samples, 13 respondents did not reply while 17 questionnaires were rejected due to inadequate information. Therefore, the analysis was conducted on 150 respondents. Percentage analysis and factor analysis are used for analysis of data.

5. Analysis and Discussions

5.1 Demographic Characteristics and Share Investments Decisions

Table 1 displays the demographic characteristics of sample respondents. Of the 150 respondents, 78% are male while the remaining 22% are female. Based on the age factor, about 69% are below 35 years of age, 29% fall under the age group of 35-50 years while only 2% are above 50 years. The respondents were further classified on the basis of status of their employment. Majority of them were salaried followed by self-employed, professionals and retired in that order. On the basis of gross monthly income, 44 respondents fell under the income group of ₹21,000-30,000, 39 respondents earned above Rs. 40,000 per month only 5 respondents were in the lowest monthly income group of up to Rs. 10,000. Number of dependents was also included to examine the impact on share investment. About 39% of the respondents had a single dependent, 25% had 2 dependents, 20% had 3 dependents while the remaining 16% had more than 3 dependents.

Table 1- Demographic Characteristics of Respondents

Characteristics	Attributes	Frequency	Percentage
Gender	Male	117	78
	Female	33	22
Age	Below 35	104	69
	35-50	43	29
	51-60	3	2
Marital Status	Single	78	52
	Married	72	48
Status of Employment	Salaried	116	77
	Self-Employed	20	13
	Retired	2	2
	Professional	12	8
Education Level	Under Graduate	37	25
	Post Graduate	88	59
	Above Post Graduation	25	16
Occupation	Accountants and Financial Advisors	13	9
	Professional	87	58
	Others	50	33
Monthly Earnings (₹)	Up to 10,000	5	3
	10,001-20,000	28	19
	20,001-30,000	44	29
	30,001-40,000	34	23
	Above 40,000	39	26
No. of Dependents	One	58	39
	Two	38	25
	Three	30	20
	More than three	24	16

Table 2 shows the percentage analysis of respondents towards the sources of investment information. It is divulged from the above table that majority of the respondents (50%) were taking their investment decision on their own. This indicates that the investors are well-versed in the investment process and the functioning of the stock market. Interalia, it shows that the investors are mature enough to make their investment on their own based on their past experience and investments. Further, of 150 respondents 28% and 22% were dependent on the recommendation of brokers and friends and relatives respectively. It shows that the broker analysis about the stock market plays a key role in the share investment decision. Investors could attribute their investment decision to the performance of the stock over a period of time.

Table 2 - Sources of Investment Information

Information Sources	Frequency	Percentage
On Own	75	50
Brokers	42	28
Friends and Relatives	33	22
Total	150	100

Generally, higher the risk higher the return and vice-versa. It is evident from table 3 that about 51% of the sample respondents prefer moderate level of risk while 20% are risk averse investors and the remaining 21% are risk seeking investors. This supports that majority of them are risk neutral thereby aim at maintaining the value of their investments intact.

Table 3- Level of Risk Tolerance

Level	Frequency	Percentage
Low	30	20
Medium	88	50.7
High	32	21.3
Total	150	100

The percentage analysis of sources of awareness about investment is presented in table 4. Financial newspapers, electronic media and internet are the most preferred sources of information among the sample respondents. Only a few respondents rely on information service agencies and business periodicals. These sources give a lot of information about the stocks which the investors can buy, hold and sell. Investors can accordingly formulate their investment strategies to gain from broad market movement.

Table 4- Sources of awareness about Investments

Sources of awareness	Frequency	Weightage (%)	Rank
Financial Newspapers	107	23	1
Business Periodicals	37	8	6
Information Service Agencies	20	4	7
Brokers and Consultants	46	10	5
Electronic Media (TV)	88	19	3
Internet	98	21	2
Relatives and Friends	60	13	4
Total	456	100	

The percentage analysis of objectives of investment is exhibited in table 5. It is inferred from the table that majority of investors aim at minimizing tax liability followed by preservation of capital, regularity of income, capital appreciation in that order. A small percentage of investors invest with the goal of supplementing their current income.

Table 5- Objectives of Investment

Objective	Frequency	Weightage (%)	Rank
Preservation of Capital	60	19	3
Regular Income	61	20	2
Capital Appreciation	60	19	4
Tax Benefits	82	27	1
Supplement their current Income	46	15	5
Total	309	100	

5.2 Results of Factor Analysis

Before proceeding to factor analysis, the data has to be tested for its sampling adequacy. KMO (Kaiser-Meyer-Olkin) and Bartlett's test is used for measuring the sampling adequacy. If the KMO measure of sampling adequacy is greater than 0.5, factor analysis can best fit the data.

Table-6 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.774
Bartlett's Test of Sphericity Approx. Chi-Square	654.917
Df.	136
Sig.	.000

Table 6 presents the results of KMO and Bartlett's tests. As depicted in the table, the KMO measure of sampling adequacy for this sample was 0.774 which is well above the screening limit of 0.5. It signifies that the sample is validated for factor analysis. Further, the Bartlett's test of sphericity is carried out to test the null hypothesis that the population correlation matrix of the variables is an identity matrix against the alternate hypothesis that the variables are correlated with each other. The Chi-Square statistics is 654.917 and the corresponding p-value is 0.000. The significant

value of 0.000 tells that there is a correlation between the variables. Hence, the null hypothesis is rejected and the alternate hypothesis is accepted. This supports the validity of factor analysis of the data set.

Table 7- Results of Factor Loading

Factors	Variables	Loadings
F1: Past performance and cues from friends and relatives	(i) Use trend analysis of some representative stocks	0.687
	(ii) Information provided by friends and relatives	0.644
	(iii) Focus on market information	0.645
	(iv) Analysis of market fundamentals of underlying stocks	0.759
F2: Herd behaviour	(i) Other investors' decisions of choosing shares influence my investment decisions	0.792
	(ii) Other investors' decisions of the stock volume influence my investment decisions.	0.795
	(iii) Other investors' decisions of buying and selling stocks influence my investment decisions.	0.788
F3: Future price predictions	(i) Forecast the changes in share prices based on the recent share prices.	0.571
	(ii) After a prior gain, I am more risk-seeking than usual.	0.662
	(iii) I am over-reactive to share price changes.	0.690
F4: Strong fundamentals	(i) Prefer to buy 'hot' stocks.	0.794
	(ii) Sell shares that have increased in value and avoid selling shares that have decreased in value.	0.620
	(iii) Analyse the changes in share prices that I intend to buy.	0.569
F5: Availability of information about stock	(i) Due to availability of more information, I prefer Indian stocks than overseas stocks	0.870

Table 7 shows the results of factor loading. Factor one is designated as '*past performance and cues from friends and relatives*'. It shows that this factor contains variables about the past performance of stock and the investment decision making following the advice of friends and relatives. Investors base their investment decision focusing on trend analysis, market information and market fundamentals. In addition, they also take cues from friends and relatives before they invest in stock market.

Factor two is referred to as '*herd behaviour*'. The retail investors consider to some extent the decision of other investors regarding as their choice of investment in shares, stock volume, buying and selling stock etc. It can be said that investors' attitude towards share investment is led by other investors and the market as a whole.

The third factor is designated as '*future price prediction*'. The variables under this factor include predicting the future prices based on historical share prices and the attitude of investors towards risk following a prior gain.

Factor four is '*strong fundamentals*' that includes the characteristics related to the fundamentals of a company. Investors prefer stocks that have performed

reasonably well for their investment and sell the stocks that are showing an increasing trend in its prices.

The last factor is '*availability of information about stocks*'. Due to the availability of Indian stocks, investors prefer these stocks over overseas stocks.

6. Summary of Findings

Majority of the respondents take their investment decision on their own. This indicates that the investors are well-versed in the investment process and the functioning of the stock market and are mature enough to make their investment on their own based on their past experience and investment. Retail investors prefer high performing stocks over poor performing stocks. Investors prefer to buy stocks of Indian companies to overseas shares owing to availability of more information about Indian companies. Previous experience in the stock market plays a vital role while making an investment decision. It is found from the study that majority of investors behave neutrally in taking risk following a prior gain. The retail investors consider to some extent the decision of other investors regarding their choice of investment in shares, stock volume, buying and selling stock etc. There is very little percentage of investors who doesn't over-react to change in the price of shares. It is also found from the study that majority of retail investors analyze the share price before they buy it.

7. Conclusion, Policy Implications and Scope for Further Study

This study examined the factors influencing share investment decisions of retail investors in Bangalore. Percentage analysis and factor analysis were used for analyzing the data. The study found that past performance and cues from friends and relatives, herd behaviour, future price prediction, strong fundamentals and availability of information about stocks are the major factors influencing share investment decisions.

This study is of immense help to investors, researchers and academicians. Investors can broaden their skills of equity investments by knowing the pulse of the market and the economy as well. Researchers and academicians can uncover the investor psychology in stock market investments and build a strong framework from behavioural finance perspectives, sentiments in stock markets and can further their knowledge by incorporating the investor psychology.

Future studies can be undertaken with a larger sample covering a wide geographical jurisdiction. In addition, other variables such as psychology of investors in investment decision process can also be included.

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