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A Study of Investment Decisions by Individual Investors

Management

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ABSTRACT

The globalization of financial markets has caused an increasing participation of retail investors over the past two decades by providing a huge range of market and investment options. The retail investors take into consideration their investment needs, goals, objectives and constraints in making investment decisions, but it is not practically possible to make successful investment decisions every time. The attitude of investors is influenced by a number of factors such as dividend, 'Get Rich Quickly' strategy, cases of those investors who have attained great success, online trading, programmes related to the awareness of investors , experience of other successful investors and a lot more.

INTRODUCTION

An extensive study is required before an individual investor decides to take the first step in investing. The financial markets all over the world have greatly attracted investors all over. It has also increased the number of retail investors in India as well The investors need to have technical education and experience related to the stock market before they step into the sea of securities so that their hard earned money is made best use of.

RETAIL INVESTOR

Investment Decision making is one of the great challenges faced by retail investors. A retail investor is a person who purchases securities for one's personal account instead of those for an organization. Each retail investor is significantly different from the other investor as far as age, educational background, economic position, sex, family background are concerned . In the present securities market, there are many choices available to the investor to invest, as the investment avenues are abundant. It is becoming tedious for retail investors to decide the right investment among the large variety of securities to achieve their goals. Thus the retail investor needs to invest carefully; hence they need some kind of help or guidance.

FACTORS INFLUENCING INVESTMENT DECISIONS

The Stock Selection Process is undoubtedly very important. Hence investors need to find out those factors which influence the stock selection decision including demographic factors. Factors which would influence investment decisions of investors are past performance of the company's stock, expected stock split, capital increases, bonus, dividend policy and expected corporate earnings. The partially influencing factors in investment are aspects like religions, rumours, loyalty to the company's products and the opinions of family members Other significant factor is the socio-economic characteristics of investors like age, gender, marital status and educational qualification which have a great affect on the decisions taken by investors . Since the identified most influencing factors are usually classified as wealth maximising factors, so the investment climate and the market environment be made friendly and conducive to pull investors by developing programmes and policies that affect the decisions of investors so as to maximise the value of the firms and increase the wealth of the investors. It should be the duty of the players in the market to re-organise the market and implement accommodating policies which would give way to the elimination of fraud from the market.

THE STOCK BROKER & THE STOCK EXCHANGE

With the emphasis on increase in domestic savings and improvement in deployment of Investment through markets, the need of stocks broker has gone on a high rise. A stock broker is like a bridge between the stock exchange and the investors. Over the last few decades, there has been a rapid growth in the Indian Financial market. The resent day stock exchange is equipped with advanced technology and on-line based transactions. Stock exchanges play a powerful role by bringing the buyers close to the sellers in the secondary market. The buying and selling operations of securities at the stock exchange is permissible to only the members of stock exchange. The stock brokers are the commission agents who are also called as the floor agents. Their work is to behave as an intermediary to buy and sell securities on behalf of the investors. They bring the buyers and sellers together and help them to make a deal.

The stock brokers are helpful to investors for investing in various financial instruments in the market and guide them for the safety investment. The stock brokers help them to invest in different type of securities.

Retail brokers specialize by offering distinct services, and this gives way to systematic differences in clientele and trade informativeness. Retail investors of certain characteristics are inclined to focus on minimizing brokerage costs and wish to trade through discount retail brokers.

Individual investors who have longer investment horizons and incur transaction costs infrequently, who have a lot of money, or who have a high opportunity cost of time may be less concerned with brokerage cost. These investors, as well as individual investors who are cautious, may want to use a full-service broker because they think that a full service broker may be able to provide useful information, advice, or services to improve the efficiency and outcomes of their investments. The information of individual investors' trades may vary across broker types due to the clientele selection effect and precious advive given by the brokers.

The informativeness of retail order flow has a strong broker-specific component (Kelley and Tetlock (2013), drawing inferences from trades from a small number of brokers about the population of individual investors' trades is limited by broker.

LITERATURE REVIEW

A number of studies have been carried out related to investment decisions taken by individuals.

Peter Roger Eiving (1970) gave a list of those factors which guided the investment decisions of the common stock investors. The factors include (i) Income from Dividends (ii) Rapid Growth (iii) Purposeful Investment as a protective outlet of savings (iv) Professional Investment Management.

Shanmugam (1990) also gave a view of the factors which affect the investment decision and that the investors are high risk takers. The investors possessed adequate knowledge of Government regulations, monetary and fiscal policy.

Glaser et al. (2009) tried to find out whether individual investor's sentiment had any relation to daily stock returns by using vector auto regressive models and Granger causality tests. They found out that there exists a mutual influence between sentiment and stock market returns, but only in the very short-run.

Sachithanantham et al. (2007) studied the relationship between capital market reforms and amount of money invested by the investors. It was found that educative reforms and attractive reforms were statistically significant but they had negative influence over money invested by investors at the Capital Market.

Chakarabati and Rungta (2000) examined the importance of brand effect in determining the competitive advantage of AMCs. The study revealed that brand image influenced the investor's perception and ultimately the fund/scheme selection.

Bennet et al (2011) designed catering to the needs of investors on the 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 the lowest priority to factors such as analyst recommendation, broker and research report, recommendations by friends, family and peer groups, geographical location and social responsibility.

Shivakumar Deene and Satyanarayan Pathi (2013) said that the respondents' with the lack of technical education about the securities market were reluctant to park their savings in the market and vice-a-vice the small individual investors with less number of experience also unwilling to park their hard earned money in the securities market. If we take the whole India in a single instance, the major portion is dominated by the different educational group & investor's with different experience and that too, people with traditional thinking grumping the market. The only way to attracting these small investors towards the securities market and getting maximum benefits out of it is, educating the people concerned about the capital market as a whole and its surrounding climates.

Nupur Gupta and Vijay Agarwal (2013) their paper attempted to examine the investment pattern of households in India's two largest metros-Mumbai and Delhi. It was found that bank deposits still continue to be the most preferred form of investment, followed by mutual funds, real estate.

Gaurav Gupta and Geeta Gupta (2014) gave his view on the general factors which were considered by investors when they took investment decision. Most of the surveyed individuals prefers to invest in equity and equity related instruments and due to high industrialization growth and high return on investment most of the surveyed individuals have been seen investing in stock market from a long time i.e. 3-5 years. But still people feel stock market is very risky and only very few people invest more than 40% of their income in stock market. The risk factor associated in stock market has made majority of the people prefer to invest in fixed deposits. A large number of investors invest by their own in the stock market and this is not a good way to invest they should take proper advice from the expert or they should get some more training.

THE RATIONALITY OF INVESTMENT

Investment in the capital market can be undertaking by an investor for three basic objectives:

(i) wealth maximisation;
(ii) liquidity maintenance; and
(iii) risk minimisation.

This implies that a rational investor is influenced by these objectives when making investment decisions.

As Masomi and Ghayekhloo (2011) observed, under the paradigm of traditional financial economics, decision makers are considered to be rational and utility maximising.

According to Chandra and Kumar (2008), investor rationality can be explained as, being reasonable and making decisions that are in their best interest.

Somil (2007) observed that the proponent of the theory of rational investor assume that an individual makes a decision which is based on the principles of maximisation, self-interest and consistent choice, rationality . It is also assumed that an investor has perfect information of his surroundings and makes the decisions are made with the only objective to maximize profit. The reasoning derivable from this principle of rationality is that the capital market must be efficient. The good functioning of the capital market means that all information regarding the market is completely and instantaneously seen in security prices and is readily available to all investors. But practically it is not so because most capital markets operate under not very good conditions and it is difficult to make rational decisions.

As Somil (2007) recorded, the theory of rational investor has been opposed by neoclassical economic theory. This theory has put forth that an investor has limited access to information and an individual is bounded by external constraints and one's own behaviour.

Simon (1986) believed that investors make irrational decisions and do not behave rationally because of their limitations of capacity to process the information.

CONCLUSION

We can say that the people have a tendency to trade for two reasons which are, cognitive and emotional . Even when people get no profit, they still trade because they think they have information, because trading brings them enjoyment. Trading, definitely gives esteem to the investor when they make profitable decision. There are differences in perception of investors in decision to invest and to take risk.

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