



Factors Affecting Investors' Decision Making Behaviour in The Stock Market: An Analytical Review

KEYWORDS

Stock market, Investment decision making, Investment behavior

Reena Rani

PhD Research Scholar, Department of Commerce, Maharshi Dayanand University, Rohtak

ABSTRACT *Investment, in the broadest sense, means the sacrifice of current money for the future income. There are two attributes involved: time and risk. The investment takes place in the present and is generally certain. The reward comes later and the amount of reward is generally uncertain. There are large numbers of investment avenues available in the market. The investors choose avenues, depending upon their specific need, risk appetite, and return expected. Every individual is different from others due to different factors which include demographic factors, age, race and sex, education level, social and economic background; same is the situation with the investors. The most important challenge faced by them is the investment decision. The investigation of previous studies reveals the significance of various factors which affect their investment decision making behavior. This paper aims an attempt to discuss the various factors affecting investor decision making behavior in the stock market, were identified by extensive review of literature.*

INTRODUCTION

Investment, in the broadest sense, means the sacrifice of current money for the future income. Investment is the flow of capital which is used for productive purposes. There are large numbers of investment avenues available in the market. The investors choose avenues, depending upon their specific need, risk appetite, and expected return. Investment avenues can broadly be categorized into two spheres, namely, Real Investment and Financial Investment. Real investments, involve a tangible (physical) asset, such as land, machinery etc. Financial investments, on the other hand, involve investment in financial instruments like shares, debentures, insurance policies, mutual fund units etc. The Behavioral Finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. The Behavioral Finance is defined, as "a rapidly growing area that deals with the influence of psychology on the behaviour of financial practitioners" (Shleifer, 1999). The stock selection process is considered significant in behavioral finance. Hence this paper aims to find out the various factors influencing investors' decisions making behavior on the basis of comprehensive review of related studies. The present study is descriptive in nature and based on secondary data which has been collected from various published sources and websites.

REVIEW OF LITERATURE

Barber and Odean (2001) supported the theoretical models and predicted that overconfident investors trade excessively. Maditinos et al. (2007) said that individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis. Hou et al. (2009) concluded that price momentum profits are higher among high volume stocks, but earnings momentum profits are higher among low volume stocks. Walia and Kiran (2009) in their study, revealed the preferences of var-

ied investors who desire to invest in mutual funds but also want some innovations and added quality dimensions in existing services. Kabra et al. (2010), Patidar (2010) concluded that investors' age and gender predominantly decides the risk taking capacity of investors. Chandra and Kumar (2011) concluded that five major factors influence individual investor behavior in Indian stock market, named as prudence and precautionous attitude, conservatism, under confidence, informational asymmetry, and financial addiction. According to Bennet et al. (2011) factors influencing stock selection decision are: fundamental, market factors, earning, decision making, industry related corporate governance, positioning, image building, goodwill and industry competition factors. Qureshi et al. (2012) studied the effect of behavioral factors such as heuristics, risk aversion, use of financial tools and firm level corporate governance on the decision making of equity fund managers of Pakistan. Riaz et al. (2012) information plays an important role in investor's decision making. Khanifar et al. (2012) found, financial statements and midterm reports are considered more important than economy market and industry related factors by analysts at Tehran Stock Exchange. Kadariya (2012) found that both the tangible and intangible information are essential for investors to succeed in Nepalese capital market. Raheja and Lamba (2013) concluded that there are various investment avenues available in the market and different people prefer to invest in different avenues according to their choice. It was also concluded that life cycle stages and investment objectives are dependent on each other. Obamuyi (2013) characteristics of investors' age, gender, marital status and educational qualifications significantly influenced the investment decisions of investors in Nigeria. Jagongo and Mutswenje (2014) found that the most important factors that influence individual investment decisions were: reputation and firms' status in industry, expected corporate earnings, past performance firms stock, and expected dividend by investors.

SUMMARY OF THE FACTORS AFFECTING INVESTOR DECISION MAKING BEHAVIOR

Author	Year	Topic of the study	Factors Affecting Investment Decision Making Behavior
Brad M. Barber And Terrance Odean	2001	Boys Will Be Boys: Gender, Overconfidence and Common Stock Investment	Gender plays an important role in investment decision. Men are more overconfident than women
Alexander Ljungqvist and Matthew Richardson	2003	The Investment Behaviour of Private Equity Fund Managers	Controlling for fund characteristics and market position
Dimitrios I. Maditinos, Z eljko Sevic, and Nikolaos G. Theriou	2007	Investors' Behaviour in The Athens Stock Exchange (ASE)	Individual investors rely more on newspapers/media and noise in the market while professional investors rely more on fundamental and technical analysis
Sophie Shive	2008	An Epidemic Model of Investor Behavior	Present news, past returns, volume, and characteristics like education and income
Nidhi Walia and Dr. Mrs. Ravi Kiran	2009	An Analysis of Investor's Risk Perception towards Mutual Funds Services	Stock market volatility
Gaurav Kabra, Prashant Kumar Mishra and Manoj Kumar Dash	2010	Factors Influencing Investment Decision of Generations in India: An Econometric Study	Demographic factors, Knowledge about investment avenues, Risk taking ability
Sohan Patidar	2010	Investors' Behavior Towards Share Market (A Study of Dhar District of Madhya Pradesh)	Investor's age, Income, Awareness regarding investment channel and Past experience
P.Varadharajan and Dr.P Vikkraman	2011	A Study on Investor's Perception Towards Investment Decision in Equity Market	Gender, Age, Education, The stock affordability, company related factors etc.
Yu-Je Lee, Gao-Liang Wang, Kae-Shuan Kao, Ching-Yaw Chen and Fong-Ping Zhu	2011	The Investment Behavior, Decision Factors and Their Effects Toward Investment Performance in the Taiwan Stock Market	Macroeconomic factors followed by market selection and investors' expectations.
Bennet E., Selvam M., Ebenezer E., V. Karpagam and S. Vanitha	2011	Investors' Attitude on Stock Selection Decision	Fundamental and Market factors, Earning, Decision making, Industry related, Corporate governance Positioning and Image building and Goodwill factors
Abhijeet Chandra and Ravinder Kumar	2011	Determinants of Individual Investor Behaviour: An Orthogonal Linear Transformation Approach	Prudence and precautious Attitude, Conservatism, Under confidence, Informational asymmetry, and Financial addiction
Haroon Shafi, Muhammad Akram, Mubashir Hussain, Syed Imran Sajjad and Kashif Ur Rehman	2011	Relationship Between Risk Perception and Employee Investment Behavior	Risk attitude, Control, Confidence and Time horizon
Lubna Riaz, Ahmed Imran Hunjra and Rauf-i-Azam	2012	Impact of Psychological Factors on Investment Decision Making Mediating by Risk Perception: A Conceptual Study	Propensity to take risk, Information available and how it is presented to investors
Salman Ali Qureshi, Kashifur Rehman and Ahmed Imran Hunjra	2012	Factors Affecting Investment Decision Making of Equity Fund Managers	Firm-level corporate governance, and Investment Decision Making
Hossein Khanifar, Nasser Jamshidi and Mohammadbagher Mohammadinejad	2012	Studying Affecting Factors on Analysts' Decisions Regarding Share Analysis in Tehran Stock Exchange: A Fundamental Analysis Approach	Factors like financial statement elements, real EPS(earning per share) are considered important than economy and industry related factors
Sudarshan Kadariya	2012	Factors affecting investor decision making: A case of Nepalese capital market	Capital structure, Average pricing Political and media coverage, Belief on luck, The financial education and Trend analysis
Saloni Raheja and Bhuvan Lamba	2013	Behaviour of Investors Towards Investment	investment avenues in the market, preference to invest
Tomola Marshal Obamuyi	2013	Factors Influencing Investment Decisions in Capital Market: A Study of Individual Investors in Nigeria	Investors' age, gender, marital status and educational qualifications
Ambrose Jagongo and Vincent S. Mutswenje	2014	A Survey of the Factors Influencing Investment Decisions: The Case of Individual Investors at the NSE	Firm's reputation, status in industry, Expected corporate earnings, Past performance of firms' stock, and Expected dividend by investors

CONCLUSION

From the review of above studies, it can be concluded that there are various factors that influence the individual investor's behavior in stock market. Some factors affect majorly while other have slight role in influencing the behavior of an individual investor. The factors can be classified into demographic, economic, social, and psychological in nature. The most general factors that have a significant impact on the investors' behavior are herding, over-reaction, cognitive bias, confidence (over or under), gender, age, income, education, risk factor, dividends, influence of people's opinion (friends or family), past performance of the company, accounting information, ownership structure, expected corporate earnings.

REFERENCE

- Barber B. and Odean T. (2001). "Boys will be boys: Gender, overconfidence and common Stock Investment", *Quarterly Journal of Economics*, Volume 116, No. 2, pp.261-292.
- Bennet E., Selvam M., Ebenezer E., V. Karpagam and S. Vanitha (2011). "Investors' attitude on stock selection decision", *International Journal of Management & Business Studies*, Volume1, Issue 2, pp.7-15.
- Chandra, Abhijeet and Kumar, Ravinder (2011). "Determinants of individual investor behaviour: An orthogonal linear transformation approach", *MPRA Paper No. 29722*, pp. 1-30.
- Jagongo A., Mutswenje V.S. (2014). "A survey of the factors influencing investment decisions: the case of individual investors at the NSE", *International Journal of Humanities and Social Science* Vol. 4, No. 4, pp.92-102.
- Kabra G., Mishra P.K., and Dash M. K. (2010). "Factors influencing investment decision of generations in India: An econometric study", *Asian Journal of Management Research* ISSN 2229 – 3795, pp.308-325.
- Khanifar H., Jamshidi N. and Mohammadinejad M. (2012). "Studying affecting factors on analysts' decisions regarding share analysis in Tehran stock exchange: A fundamental analysis approach", *European Journal of Economics, Finance and Administrative Sciences*, ISSN 1450-2275 Issue 44, pp. 77-86.
- Kadariya S. (2012). "Factors affecting investor decision making: A case of Nepalese capital market", *Journal of Research in Economics and International Finance (JREIF)*, Vol. 1, No.1, pp. 16-30.
- Lee Yu-Je, Wang Gao-Liang, Kao Kae-Shuan, Chen Ching-Yaw and Zhu Fong-Ping (2011). "The investment behavior, decision factors and their effects toward investment performance in the Taiwan stock market", available at www.jqbm.org/page/22%20Yu-Je%20Lee%20.pdf.
- Maditinos D. I., Sevic Z. and Theriou N.G. (2007). "Investors' behaviour in the Athens stock exchange (ASE)", *Studies in Economics and Finance*, Volume 24, No. 1, pp. 32-50.
- Obamuyi T. M. (2013). "Factors influencing investment decisions in capital market: A study of individual investors in Nigeria", *Organizations and Markets in Emerging Economies*, Vol. 4, No. 1, pp. 141-161.
- Patidar S. (2010). "Investors' behavior towards share market", *International Research Journal*, Volume1, Issue13, pp.55-57.
- Qureshi A. S., Rehman K., Hunjra I. A. (2012). "Factors affecting investment decision making of equity fund managers", *Wulfenia Journal Klagenfurt, Austria*, Volume 19, No. 10, 280-291.
- Riaz L., Hunjra A. I. and Azam R. (2012). "Impact of psychological factors on investment decision making mediating by risk perception: A conceptual study", *Middle-East Journal of Scientific Research*, Vol.12, No.6, pp.789-795.
- Raheja S. and Lamba B. (2013). "Behaviour of Investors towards Investment", *Indian Journal of Applied Research*, Vol. 3, Issue 10, pp. 1-2.
- Shleifer, A. (1999), "Inefficient Markets: An Introduction to Behavioral Finance", Oxford University Press, 1999.
- Shive S. (2008). "An epidemic model of investor behavior", available at www.eui.eu/Personal/Guiso/Courses/Lecture8/EpidemicModel.pdf, retrieved on 24 June 2014.
- Varadharajan P. and Vikkraman P. (2011). "A study on investor's perception towards investment decision in equity market", *International Journal of Management, IT and Engineering*, Volume 1, Issue 3, pp.62-71.
- Walia N. and Kiran R. (2009) "An analysis of investor's risk perception towards mutual funds services", *International Journal of Business and Management*, Volume 4, No.5, pp.106-120.