

Retail Individual Investors Towards Equity Investment – An Empirical Study on Their Behavioral Aspects

Mrs. Subha R & Mrs. Padmashree R

Assistant Professors, Department of Commerce and Management Studies

Don Bosco Institute of Bio Sciences and Management Studies,

Bangalore

Abstract:- In the era of volatility and uncertainty investors are exposed to greater risk in investment.

When it comes to equity Investment the uncertainty becomes more as direct influence of the volatility and fluctuations are there in the return of equity i.e. on capital appreciation and dividend income. In post globalized world even business practices are changing due to more competition and forces working in the environment which result in changing investor's expectations. Now a day's investor's behavioral outlook is getting modified due to changing behavior and psychology towards financial decision making. It happens to subject matter of study how retail equity investors' adapt themselves to the changed situation and take equity decision. This research paper is an attempt to study and analyze the behavior influence of retail investors in equity investment and how their expectations are getting changes in the era of volatility. For the study primary data will be collected from the retail individual investors by designing questionnaire and secondary data will also be collected from websites, journals, research papers and news articles. Research can assist to throw light on changing expectations of individual investors which can lead to promote more domestic retail investment in equities as well as to formulate organizations dividend policy.

Keywords: Competition, Dividend, Dividend decision, liberalization, organizations

INTRODUCTION:

Behavior is important and crucial to decision making process as it leads to psychology how individual perceive the state of affairs. Behavioral and cognitive psychology provides explanations for influence of behavioral factors as why people make irrational financial decisions. Investor's behavioral point of view is getting altered due to changing behavior and psychology towards financial decision making in present situation. It is essential to know their expectations and decisions making as it influence the retail individual investment in equities. Investors return expectations and risk appetite is persuaded by their behavioral approach. This can assist to improve existing retail investment and understand the influencing factors. Due to unpredictability and volatile it happens to subject matter of study how retail equity investors' adapt themselves to the changed situation and take equity decision. This paper is an attempt to focus and explore on

study and analyze the behavior influence of retail investors in equity investment and how their expectations are getting changes in the era of volatility.

Objectives of the study are:

- To study and understand expectations of retail individual investors' associated with equity Investment.
- To study the behavioral influence of retail investors in equity investment decision.
- To investigate the investors' expectations in terms of overall return from equity in changed and volatile situation.

Conceptual Framework:

This research work comes under Behavioral finance as spotlight and attempt to study the behavioral factors influencing equity decisions.

Behavioral finance:

Behavioral finance is defined as a field of finance which looks for behavioral and cognitive psychological factors and theory with usual economics to make available clarifications and reasons for people behavior and basis for why sometimes individual make irrational financial decisions.

It can be also defined as – A Study of behavior based on psychology attempt to comprehend how sentiment and cognitive error influence financial decision making.

Behavioral Approaches:

Heuristics Theory: Heuristics defined the concept which makes decision making easier, especially in complex and uncertain situations by diminishing the complexity of assessing probabilities and predicting values to easier judgments. Major components defined under heuristics are: representativeness, anchoring, availability bias, and overconfidence.

Prospect Theory: Prospect theory spotlight on individual decision-making influenced by the investors' value system. Prospect theory depicts states of mind influencing an individual's decision-making processes

including: loss aversion, mental accounting and regret aversion.

Market Theory: Investors behaviour affects financial market as change reflects alteration in their perception towards market. It is thought that the investors may have over or under reaction to market share price changes or news as new information; extrapolation of past trends into the future; lack of consideration to fundamentals underlying share as can be focus on popular or stable stocks and cyclical movements.

Herding Theory: Herding effect can be said to a behavioural approach which defines inclination of investors' behaviours to follow the others investors' decisions and performance. In the viewpoint of behaviour, herding can be basis of various emotional biases, including congruity conformity and cognitive conflict. Investors may have a preference for herding if they think that herding can assist them to extract valuable and reliable information.

Identified behavioral factors:

For retail individual investors equity investment is influenced by a variety of psychological and behavioral factors as these factor persuade and decide the risk appetite and return expectations of investors .In reference to analyze behavioral influence the below said factors are identified.

- a) Attitude (Prospect - Loss Aversion, Regret Aversion)
- b) Anchoring /Overconfidence & Availability bias(Heuristic)
- c) Expectations
- d) Experience learning (past loss or gain)
- e) Financial Literacy (availability ,awareness and analysis)
- f) Knowledge base (Market Information - Price changes, market information, past trends, fundamental of underlying Investment, over reaction to price changes or corporate actions)
- g) Influence of decision of other investors(buying and selling choice and Volume- Herding effect)

Above said factors are crucial to individual's financial and investment decision making.

These factors directly or indirectly affect the equity decision of individual investors.

RESEARCH METHODOLOGY:

- i) **Type of research** - Research also aims to understand and study the attitude ,behavior and expectations of retail individual investors' for investment in equity in form of dividend which lead to make it also of descriptive in nature.
- ii) **Population** - All the Individuals who invest in equity for their own purpose in Cuddalore region. In case of retail individual investors it can be assumed that exact population figure cannot be determined so **infinite population** is considered for the same.
- iii) **Sampling Frame** - All the Individuals who invest in equity for their own purpose in Cuddalore region of the age group of the 18 to 65.
- iv) **Size of Sample-** As population cannot be clearly defined so for more than 2, 50,000 populations or for infinite population **384 will be the accepted sample size.**
- iv) **Types of Sampling Technique-** For retail individual investor's **non probability sampling** will be used as population is infinite or undefined. In non probability sampling, **Purposive sampling** will be used for the collection of primary data of retail individual investors.

Data Analysis:

Data is collected by filling Questionnaire form the retail individual investors who investment on their own on equity. For the data analysis percentage method is used for the investor's behavioral factors analysis. Analysis of 384 respondents and the interpretation in percentage terms is done in the below said table.

DATA ANALYSIS AND INTERPRETATION-

Sr. No.	List of Questions	Yes(%)	No (%)
1.	In equity Investment you prefer capital appreciation and dividend both.	92	8
2.	Whether in equity return dividend is considered a crucial factor?	88.5	11.5
3.	Do you prefer more aggressive stock or stable? If stable say yes and for aggressive say no	71	29
4.	Whether you have phobia of losing money in share market which restricts your investment decision.	74.3	25.7
5.	Does trading volume affect your stock selection and investment decision?	71.5	28.5
6.	Do you fix a target price before buying and selling	69	31
7.	If your analysis is different from the Experts analysis whether you change your decision or not	73	27
8.	Do you consider new information in making your decision?	81.7	18.3
9.	Do you able to anticipate the return favorable/unfavorable of the market?	68	32
10.	In slack period whether you hold your stock? If Hold say yes if sold out than say no	69.5	30.5
11.	In holding period whether you expect for more dividend?	93	7
12.	Do you consider past performance of company before investment?	86.6	13.4
13.	From past wrong decisions can you become more careful?	78	22
14.	Does your mind try to justify Your decision taken in past? Whether it is right or wrong.	81	19
15.	Whether you compare with opportunity cost involved in other investment as compared to equity investment?	80	20
16.	If a minimum assured return will be there in stock to meet the opportunity cost of other investment. Do you prefer to investment and increase amount in the particular stock?	92.2	7.8
17.	Do you get influenced by decision of other investors? As in terms of choices and volume changed.	82.3	17.7

Findings and Observations (Interpretation)

- Respondents consider both capital appreciation and dividend important for equity return as 92 % respondents given yes. So it can be interpreted that investors prefer regular as well as capital appreciation.
- Retail individual investors give preference to dividend also at time of their decision towards equity investment as 88.5 % as considered dividend decision as crucial.
- Investors are risk averse or moderate risk takers as they expect the opportunity cost in other investment to be compensated with return in equity as 92.2

respondents said yes as they will be interested to invest and increase amount of investment in equities.

- Investors do past information analysis as past financial performances are also considered by them in decision making as 86.6 % have said yes.
- Investors now a day's give thought to new information also as they believe it affects return on the investment as 81.7 % said yes.
- Investors try to predict performance in terms of returns as some times show overconfidence.

- Investors decision are also influence by decision of other investors as 82.3 % said yes for changing their decision on experts suggestions and by other investors.
- Investors restrict their investment when they get loss on the investment which reflects their risk averse and conservative behavior as 74.3% respondents said yes.
- In holding period investors expect more dividend income as to compensate with time value of money and for cost of holding as 93 % respondents said yes for this.
- Investors learn from their past experiences and their future action is also outcome of past learning.

MAJOR OUTCOMES:

- Influence of Dividend on market price depicts investor's expectations as their behavioral aspect affects their investment approach.
- Identified major behavioral factors are attitude, Expectations, Overconfidence, herding, prospect, Heuristic and market information.
- Investors past experience and Influence of decision of other investors affect their decision. (Past learning and herding effect).
- Available market information and interpretation of same reflects the unusual changes in stock prices as how they perceive new information.
- Attitude toward risk as to take risk or avoid also influence the decision of equity investment as what type is to choose and how much to invest.
- Scope of the study:
- This study is restricted to study retail individual behavior only for equity not for other investment options. As this study is attempt to analyze retail individual behavior in connection to equity investment so it can assist organizations in making dividend policy as investor's expectations in term of their behavior towards equity investment are studied.
- This study can also aid in knowing important behavioral factors which can lead to promote more domestic retail individual investment in equities.

SCOPE FOR FURTHER RESEARCH:

This research work can be further extended to know behavioral factors for other avenues or options of investment. Further future research can be done for different sectors and for different locations also.

CONCLUSION:

Behavior is always said to be fundamental factor in decision making and when it comes to investment decision that it becomes more critical. In the research work researcher come cross various behavioral factors influencing equity decision in which important factors are attitude, Expectations, Overconfidence, herding, prospect, Heuristic and market information. In conclusion it can be said if opportunity cost will be there as compared to other investment opportunity than more equity retail individual investment can be promoted as risk factor will be reduced.

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