An EmpiricalStudy on Investor Behaviour Toward Equity Investment With Special Reference to Nashik

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Abstract:

The Stock market plays a significant role in the growth of themanufacturing and service industries of the country. The deep and liquid markets have a profound and pervasive impact on our economy. It facilitates the conversion of savings into equity investments tosupport the booming economy. Stock price movements have a profoundpsychological impact on the individual investor and businesses. The stockmarket is the story of the human behavior that is responsible for overreactionin both directions (Klarman 1991).

The present study is made to determine the impact of personality traits, investor'sattitude bias towards investor's behaviour and to measure the direct and indirect effectsof the variables relating to personality traits, investors attitude bias towardsinvestors behavior.

Introduction:

The Stock market plays a significant role in the growth ofmanufacturing and service industries of the country. The deep and liquid markets have a profound and pervasive impact on our economy. It channelizes the savings of the public into equity investmentsto support the booming economy. Stock price movements have a profoundpsychological impact on the individual investor and businesses. The stockmarket is the story of the human behaviour that is responsible for overreactionin both directions (klarman 1998). The introduction of the financial reformprocess in early 90s usurped in significant economic development of Indiaand the stock market remained as an important conduit for the long term funddestination for the corporate.

Liquidity and capital appreciation attracted theinvestors both institutional and retail investors. In spite of the stock marketgrowth, barring institutional investors both domestic and foreign, very fewretail investors stand to benefit out of the boom. The meager two percent ofthe Indian population in equity market participation reflects disillusionment ofthe retail investors with the market. The traditional theories of finance such asEfficient Market Hypotheses (EMH) and Random Walk Theory (RWT)assume that investors make rational decisions in order to maximize theirreturns. However, these theories could not stand up to the scrutiny andchallenged for the lack of practical perspective on the stock market. Theanomalies such as price over reactions and excess volatility were not explained by the tenants of EMH theory. Malkiel (1973) argued that rejecting the ideal of sound financial decision making is in reality the modern world.

The emergence of the Liberalization, Privatization, Globalization(LPG) era and subsequent financial reforms in India initiated in 90s, with agoal of turning the economy in to more market oriented, invited hugeinvestment from Domestic and Foreign investors. The impact of the reformsincreased the prospects of stock market as Potential Avenue for wealthmaximization

Literature Review:

Grant & Kendall (2016) in the paper "From Investor Education to Investor Protection: The Limits of Disclosure and the Way Forward" found that during the wake of the 2008 financial crisis, policymakers around the globe have expressed deep concern about investor protection and the widespread lack of financial knowledge. Regulatory efforts forced disclosure requirements. However, policymakers preferred to embrace financial-literacy education. The researcher found that the pursuit of the disclosure-education model as the panacea for investor protection illustrates the triumph of hopeover experience. The researcher further added that while a modified disclosure regime and targeted steps toward better financial-literacy education will avoid some traditional shortcomings and assist in facilitating investor protection, greater regulatory enforcement and responsiveness are required to address the root causes of investor vulnerability in stock market.

Lodhi&Samreen (2014) in their paper "Factors influencing individual investor behaviour: An empirical study of city Karachi" studied the influence of risk taker or risk averter on the government's financial literacy assistance accounting details, versatility, and ergonometric consultingon private investors' choicesthe length of an investment. Further to factors surrounding any investment decision. Short-term transactions are quite complex, riskier than alternative assets such as stocks and shares. There were five independent experimenters variables include job standard, financial awareness, secondary school, usage of accounting data, value of reviewing financial statements and age that couldinfluence the investment decision of any person. The contingent variable(s) was risky, risky expenditure, risk aversion, knowledge asymmetry, and asymmetric information. They spend the evidence showed an inverse association between financial literacy and rising debt accounting knowledge allows investors to capture information asymmetry and detect innovations requires investors to engage in volatile income-generating tools. While, age and experienceincreases, however declines, investors' appetite for less volatile investments, but as well as goal to emphasize rising dividend payouts above capital appreciation.

Kourtidis et al. (2011) in their paper “Investors trading activity: A behavioural perspective and empirical results” tried to classify investors, individuals, and professionals into different segments based on their psychological biases and personality traits to see if these biases and traits drive investment behaviour. There are several different studies in behavioural finance suggesting the four main factors that influence investment behaviour. The following factors could aid investors when investing over-confidence, risk tolerance, self-monitoring and social influence, low degree of over-confidence, risk tolerance, self-monitoring and social influence in low-profile investors. The study found that investors with higher profile achieve greater success trading stocks;This study brings to light the importance of financial knowledge for investors.

Peteros et al (2013) in their paper mentioned that, investment decision makers do not always behave in ways that are consistent with the assumptions made in investment education books. Old beliefs about investors suggest that investors are controlled by their emotions. Poorly trained investors do not understand the consequences of their investor behaviour on investment performance. By linking behavioural finance with data-driven investment decision making, this will improve investment results. The study demonstrated the significance of investing courses on the investor behaviour.

Economists' beliefs about markets reached their height in the 1970s. Belief in the efficient market theory (EMT) began to be eroded in the 1980s and 1990s. Traditional financial literature suggests that efficient markets theory's core benefits are poorly conveyed. Since the 1990s, behavioural finance research started emerging. The study proposes the presence of bias such as anchoring bias, framing bias and regret aversion bias. This paper attempts to state reasons on the weaknesses of traditional theory of finance, and how behavioral finance can save us.

"Investment strategies and gender: A study of emerging patterns in India". The survey sample comprised employed, professionals, business owners and housewives. The data showed that there were no significant differences in investment orientation of the suburban and rural investors in India. This finding is counter to a significant number of earlier findings. Many analysts were cautious that local investors lack the knowledge of the financial markets. This is also a strong consideration. India's new and youthful investors may play a significant role in stabilizing the financial system of India. Financial service firms have taken steps to promote investment education programs in order to encourage better and empower investors in rural areas.

Objectives of the Study:

The study has the following objectives:

1. To analyse the relationship between the demographic factorsand the personality traits, the investors attitude bias and theinvestors behaviour.
2. To determine the impact of the personality traits, the investorsattitude bias towards the investors behaviour

Research Methodology

The present study is descriptive in nature as it is associated with opinion and behaviour towards the equity investment during the period of the study. The study attempts to ascertain the behaviour of the retail equity investor in Nashik City, Maharashtra. The respondents are selected from the stock broking offices in Nashik city for the purpose of collecting the primary data. The purposive sampling method has been applied to select the equity investors.

In order to study the investor's behaviour, the questionnaire had been distributed to equity investors in various stock broking firms in Nashik city. The researcher distributed 500 questionnaires to equity investors and was able to collect 447 filledquestionnaires. Finally, 430 completely filled questionnaires were conceded for the study. Statistical techniques such as descriptive statistics, chi –square test, correlation, regression are used for the analysis.

Data Analysis and Interpretation

Table1 :Investor behaviour of Demographic variables

Attribute	Parameter	Level of Investor Behaviour			Total
		Passive	Moderate	Active	
Sex	Male	101	117	128	346
	Female	37	34	13	84
Age	Below 35 Years	48	41	36	125
	36-45 years	47	42	28	117
	46-55years	29	39	39	107
	Above 55 yeas	14	29	38	81
Education Qualification	School Level	13	25	29	67
	College Level	54	75	73	202
	Professional Level	71	51	39	161
Occupation	Salaried	17	53	50	120
	Business	70	65	60	195
	Professional	44	25	23	92
	Retired	7	8	8	23
Monthly Income (in Rupees)	Below Rs. 20,000	19	23	23	65
	Rs. 20,001-Rs. 40,000	55	45	29	129

	Rs. 40001- Rs. 60,000	43	48	45	138
	Above Rs. 60,000	21	35	44	100
Amount Invested (in Rupees)	Below Rs. 3 Lakhs	37	24	34	95
	Rs. 3 Lakhs –Rs. 6 Lakhs	34	71	48	153
	Above Rs. 6 Lakhs	67	56	59	182
Investing Period	Below 3 years	38	21	25	84
	3 years – 6 years	23	46	33	102
	6 years – 9 years	41	51	37	129
	More than 9 years	36	33	46	115

(Source: Primary Data)

Sex and Level of Investor Behaviour:It is observed from the above table that the investorbehaviour of male respondents on equity investments are higher than female respondent. Majority of the male investor are in active and moderate category of whereas female investor are in passive category.

Age and Level of Investor Behaviour: The percentage of the activelevel of behaviour on equity investment was the highest among therespondents belong to 46 to 55 age group. Thepercentage of the moderate level of behaviour on equity investment was thehighest among the respondents who belong to 36 to 45 years.

Educational Qualification and Level of Investor Behaviour: Education creates knowledge to the individual and through gainingthe knowledge they can practice the same in various endeavors includinginvestment on equity shares. The knowledge gained through education shapesthe personality and sharpens the mind. It is lime lighted from the above table that the percentage of theactive level of investor behaviour on equity shares of educated respondentswas the highest among the college level

Occupation and Level of Investor Behaviour: An occupation is a status symbol in the society. People arerecognized and respected based on their higher occupation status. It is highlighted from the above table that the percentage of theactive level of investor behaviour on equity shares was the highest among the respondents belonging to business group.

Monthly Income and Level of Investor Behaviour: Income is one of the main factors to ascertain an individual. Theincome earned by the respondents gives the will and courage to invest theirmoney in high risk and return area. It is pinpointed that the percentage ofactive level of investor behaviour on equity investment was the highestamong the respondents belong to earning Rs 40001 to Rs 60000 permonth category

Amount Invested and Level of Investor Behaviour: A person who earns money from various sources allocates forcommon expenditure of the personal family. The surplus amount is properlyplanned and invested in better avenues. Normally the common man expectsgood returns on investment within a short span of time which is not possiblein fixed deposits in the banks or saving bonds in the form of National SavingCertificate (NSC) etc. Hence, they are concentrating more on investments inshares and debentures which could fetch alternative remuneration within ashort span of time. The percentage ofthe active level of the investor behaviour on equity investment was thehighest among the respondents of above Rs. 6 lakhs investor typecategory

Investing Period and Level of Investor Behaviour: Investing period in the equity market gives the insight about thenumber of years the investor is being active in the market till the time of thestudy. The investing and the trading experience over years in the equitymarket imparts confidence among the investors to participate in the marketactively and improves their investor behaviour. The active level ofinvestor behaviour on equity investment was the highest among therespondents who belonged to above 9 years investing period.

Correlation Analysis on Factors of Investor Behaviour:

The relationship between the investor attitude bias of individualequity investors is analyzed by Pearson correlation coefficients and the results are presented in the following Table No 2.

The results show that the risk propensity positively correlated withover optimism, sensitivity to rumour and illusion of control at high levelwhereas it is positively correlated with anchoring and regret aversion at lowerlevel. The anchoring bias is positively correlated with regret aversion andover optimism at high level whereas it is positively correlated with sensitivityto rumour and illusion of control at moderate level. The regret aversion biasexhibits positive correlation with over-optimism, sensitivity to rumour andillusion of control at medium level. The result also show that sensitivity torumour positively correlated with illusion of control whereas over optimismbias positively correlated with illusion of control at higher level and positivelycorrelated with sensitivity to rumour at lower level. The correlationcoefficient study of the investor attitude bias reveals that there is a significantpositive relationship between all the variables.

Table2 : Pearson correlation coefficient test between factors of investor attitude bias

Investor Attitude Bias (Y)	X1	X2	X3	X4	X5
Risk Propensity (X1)	1	0.341*	0.499**	0.783*	0.620*
Anchoring (X2)		1	0.689*	0.760*	0.513**
Regret Aversion (X3)			1	0.476**	0.548**
Over- Optimism (X4)				1	0.342**
Sensitivity to Rumour (X5)					1

Note: ** Correlation is significant at 0.01 level (2 tailed)

* Correlation is significant at 0.05 level (2 tailed)

Multiple Regression Analysis of Investor Attitude Bias onInvestor Behaviour

Regression is the determination of statistical relationship betweentwo or more variables.

Variables	Unstandardized Co-efficient		Standard Coefficient Beta	t- value	P Value
	B	Std. Error			
Constant	5.890	0.626	-	9.415	<0.001**
X1	-0.015	0.043	-0.025	0.344	0.731
X2	-0.032	0.040	-0.058	0.789	0.431
X3	-0.203	0.037	-0.233	5.491	<0.001**
X4	-0.138	0.030	-0.189	4.638	<0.001**
X5	-0.191	0.031	-0.237	6.145	<0.001**

Note: ** Demonstrate significant at l 0.01 level (2 tailed)

Multiple R value: 0.764

R Square value: 0.584

F value: 99.105

P value : <0.001**

Regression Equation

$$Y=5.890-0.015X1-0.032X2-0.203X3-0.138X4-0.191X5$$

The multiple correlation coefficient is 0.764 measures the degreeof relationship between the actual values and the predicted values of theinvestor behaviour.

Conclusion:

The equity market is uncertain and its movements have a profoundpsychological impact on the individual investor and businesses. The buoyant economy requires infusion of capital at every phase ofits economic development and the capital market provides the long termequity. Baring the structural protection given by the regulatory mechanisms,the individual investors are prone to various attitude biases and influences ofthe personality traits and make irrational decisions. The results of this studybased on the behavioural finance offered recommendations to the investors tomanage their irrational behaviour in equity investments.