

## **A STUDY OF FACTORS INFLUENCING INVESTMENT DECISION OF INVESTORS IN STOCK MARKET**

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### **ABSTRACT**

Investment in equity in stock market is one of popular investment but there are many factors which influence the investment decision which can be external as well internal. The study explored various factors which influence investment decision of investors while investing in stock market. The study was conducted by collecting primary data through questionnaire consisting of 30 variables which might influence investment decision and it was found that firms' credibility, Information, brokers' recommendations, stakeholders' opinion, market sentiments and investors expectations have been emerged as key factors which influence investment decision.

**Keywords:** Investment Behaviour, Investment Decision, Stock Market, Investors Sentiments, Capital Market

### **INTRODUCTION**

Investment refers to allocation of savings to existing opportunities with an expected return in future. Investment in stock market is very popular because of high return and high risk. Due to rapid growth of financial market and recent economic changes investors are more concern towards investment decision and worried because of very high fluctuations in stock market. The responsiveness of information in Indian stock market is very high because of it runs in a very high technological base and provide recent information on screen based system. This system provides information to millions of investors trading together at a time and thus a little negative information can bring a huge downfall in stock market. Thus, trading online on real time platform always create a buzz in market regarding returns of stock market.

Investment decision of investors in stock market is very challenging in such environment where stock market continuously changing and dependent on market participant and informational efficiency. There are many factors affecting investment decision of investors out of which some are psychological or inherent reason like heuristics biases and some are external like country's economic situations and worldwide information impact on stock market. Therefore it very important to understand which factors influence the most and to what extent these factors are responsible in taking appropriate decision in a given situation.

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According traditional classical investment theory, investors are rational and take their decision according to information. It also assumes that investors are capable enough to calculate expected return and expected risk and then take decision. However recent psychological theories suggested that investor's decision are biased because of psychological reason, overconfidence and belief.

#### LITERATURE REVIEW

Mirji and Prashantha (2016) studied investment decision making and stock market analysis of investors belong to Karnataka region. They found that investors were mostly influenced by their own judgments based on their self analysis. They also concluded that rural investor rely more on stock broker as they lack in financial knowledge and awareness. Chandra and Kumar (2012) studied factors affecting investment behaviour of individual investors and found that investment decision of individual investors were influenced mostly by psychological reasons i.e., heuristics, anchoring, overconfidence in their judgments. They also found behavioral factors like representativeness and mental accounting also influence investment decision while investing in stock market. Khan et. al., (2015) identified the factors influencing investment decision in stock market in Bangladesh. They found that financial security of investor was the main influencing factor and market factors, hedging factors and economic factors were also found to have significant impact on investment decisions. Monticone and Chiara (2010) studied the reason to earn positive return of investors engaged in online trading. They found financial knowledge of investors and market information related to stocks plays a crucial role influencing investment decision. Their research also concluded that the level of financial literacy increases the risk taking ability of investors. Farooq and Sajid (2015) found determinants of investment decision making and found behavioral factors like heuristics, corporate governance and use of financial tools were having significant impact on investment decision. They also concluded that risk aversion was negatively correlation with investment decision making. Udeepa (2015) found factors affecting investment decision in stock market and influence of demographics affect factors influencing investment decision. The study found that company's stocks dividend policy, to get rich quickly, expected corporate earning and marketability of company were main factors which affect investment decision. She also found all the demographic characteristics like age, gender, marital status, education and income have significant impact on investment decision making of investors.

#### OBJECTIVE OF THE STUDY

To identify the factors influencing investment decision of investors in stock market

#### RESEARCH METHODOLOGY

**The Study:** The study is exploratory in nature aimed to explore determinants of investment decision of individual investors while investing in stock market.

**The Sample:** Convenient sampling technique was used on 100 individual investors to study determinants affecting their investment decision in stock market

**The Tool for Data Collection:** A Self designed questionnaire was incorporated on 100 respondents to identify factors affecting investment decision. Questionnaire was divided into two sections A and B. Section A consisting of questions related to demographic profile of respondents like age, income, gender, occupation and education. Section B consisted of 28 variables affecting investment decision taken from various past researches which were asked on five point likert scale ranging from five to one whereas five represent strongly agree and one represent strongly disagree

#### The Tool for Data Analysis

Percentage and Arithmetic Mean was used to analyze the respondents' demographic profile. Cronbach's alpha was used to measure reliability of 28 variables affecting investment decisions.

Principal component analysis using varimax method of exploratory factor analysis was used to identify the factors affecting investment decision. Appropriateness of data for factor analysis was checked with the help of Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test of sphericity.

## RESULTS AND FINDINGS

### Respondents Profile

The data was collected through questionnaire on 100 individual investors. Out of 100 respondents 58 were males and 42 were female investors. It was also observed that 47% investors belong 30 to 50 years of age while 32% percent belong to less than 30 years of age and rest 21% belong to more than 50 years of age. It was also found that maximum investors i.e., 63% were post graduate and 37% percent belong to graduation or less. Out of 100 respondents 35% investors having less than 5 years of investment experience while 55% investors were having investment experience between 5 years to 10 years and rest 10% investors were having more than 10 years of experience. It was also found that the most preferred time preference of investors was between 5 years to 10 years i.e. medium term investment time horizon. Also the 65% of investors invest 10 percent of their earning in different investment avenues.

### Reliability Test

**Table 01: Reliability Statistics**

Cronbach's Alpha	N of Items
.934	28

Reliability of the four categories of factors affecting the investor decision was investigated with Cronbach's alpha to measure how strong the scale of internal Consistency is. As a general rule, a coefficient greater than or equal to 0.7 is considered acceptable and a good indication of construct reliability (Nunnally, 1978). The results of reliability coefficients (alpha) as shown in Table indicate that scale strongly meet the acceptable level of 0.7 or higher. The value of Cronbach's alpha is 0.934.

### Factor Analysis

The Kaiser-Meyer-Olkin measure of sampling adequacy and Bartlett's test of sphericity were applied to check appropriateness of data for factor analysis. The KMO static varies between 0 and 1. Kaiser recommends accepting values greater than 0.5 as acceptable. Furthermore, values between 0.5 and 0.7 are mediocre, values between 0.7 and 0.8 are good, and values between 0.8 and 0.9 are great. For these the value of data is 0.853 (Table 01) which falls in the range of great so factor analysis is appropriate for this data. Bartlett's measures test the null hypothesis that the original correlation matrix is an identity matrix. For factor analysis relationship between variables and if the R-matrix were an identity matrix, then all the correlation coefficient would be zero. For these data, Bartlett's test is significant ( $p=0.00$ ), and therefore factor analysis is appropriate (Table 01).

**Table 02: Summarized result of Factor Analysis**

<b>FACTOR</b>	<b>VARIABLES</b>	<b>FACTOR LOAD</b>	<b>TOTAL LOAD</b>	<b>Variance (%)</b>	<b>Cumulati-ve Variance ( %)</b>
	Past performance of the firm stock	.735			
	Reputation of the firm	.714			
	Expected Bonus Share	.698			
	Result of technical analysis	.688			
	Increase of the firms involvement in solving community problems	.601	<b>5.055</b>	<b>15.704</b>	<b>15.704</b>
<b>Firm's Credibility</b>	Firm status in industry	.587			
	Diversification purpose	.568			
	Perceived ethics of the firm	.464			
	Rumors	.706			
	Information obtained from internet	.686	<b>3.518</b>		
<b>Market Information</b>	Insiders information	.634		<b>11.591</b>	<b>27.295</b>
	Statement from government officials	.576			
	Brokers recommendations	.460			
	Minimizing risk	.456			
<b>Brokers recomm endations</b>	Financial advisors and analyst recommendations	.641	<b>2.85</b>		
	Government holdings	.638			
	Stock marketability	.636		<b>11.569</b>	<b>38.864</b>
	Reputation of firms shareholders	.522			
	Dividend paid	.413			
<b>Stake holders Opinion</b>	Opinion of the firms majority stockholders	.732	<b>2.479</b>	<b>9.268</b>	<b>48.132</b>
	Family members opinion	.730			

	Affordable share price	.537		
	Friends recommendations	.480		
<b>Market</b>	Fluctuation development			
<b>sentiments</b>	in stock index	.679	<b>1.897</b>	
	Get rich quick	.657		<b>8.606</b>
	Current economic indicators	.561		<b>56.738</b>
<b>Investors</b>				
<b>Expectation</b>	Expected dividend	.554	<b>1.101</b>	
	Expected losses in			<b>5.234</b>
	other local investment	.547		<b>61.972</b>

## FINDINGS AND DISCUSSIONS

The study explored six factors that were crucial for investment decision making of investors in stock market. The factors identified in the study were Firm's Credibility, Information, Broker's Recommendations, Stakeholder's Opinion, and Market Sentiments and Investors Expectation. These factors collectively explaining 61.97% of total variance (table 06)

**Factor 1: Firm's Credibility** is constituted of past performance of the firm stock, reputation of firm, expected bonus share, result of technical analysis, increase of the firms involvement in solving community problems, firm status in industry, diversification purpose and perceived ethics of firm. This factor has the highest factor load that is 5.055 and explains 15.704 percent of variance which indicated the strength of this factor influencing investment decision of investors. Firms' credibility is the amount of trustworthiness or expertise that a company has in the eyes of its clients, customers, business partners and financial resources. Michael (2013) also found that investors decision heavily depend on firms' credibility with reference to its financial data and financial statements. Wei and Wang (2016) also support the findings of study as they found management credibility reflects

**Factor 2: Market Information** identified as the second most important factor which influence investment decision in stock market. This factor includes six variables rumors, information obtained from internet, insider's information, statement from government officials, broker's recommendation and minimizing risk. Market information plays a significant role in creating a buzz in the market and affects directly on investors sentiments. Load of this factor is 3.518 and explains 11.591 percent of variance. The term information refers to what the investor would get to know about the product. Mirshekary and Saudagaran (2005) also assessed how different users of financial statements use the information items disclosed in the annual reports, as well as the importance of different sources of information in making investment decisions

**Factor 3: Broker's Recommendations** includes five variables financial advisor and analyst recommendation, government holding, stock marketability, reputation of firms shareholders and dividend paid. Load of this factor is 2.85 and explain 11.569 percent of variance. Broker's recommendation means advising investors to take action regarding a particular stock and when to take decision to buy or sell stocks. Sunil kumar (2013) investigated the rural investors' attitude and he found that maximum of them were found dependent on financial advisor's opinion because of lacking financial knowledge of financial market.

**Factor 4: Stakeholder's Opinion** which includes four variables i.e., opinion of the firm's majority stockholders, family member opinion, affordable share price, and friend's recommendation. Total load of this factor is 2.479 and explained 9.268 percent of variance. Stakeholders can be defined as a person, group or organization that has interest or concern in an organization and they can be affected by the organization's actions, objectives and policies.

**Factor 5: Market Sentiments** which includes three variables fluctuation development in stock index get rich quick and current economic indicators. Load of this factor is 1.897 and this factor explained 8.606 percent of variance. Market sentiment can be explained as the feeling of a market or its participant's psychology which revealed through the activity and price movement of the securities which are traded in that market. Brown and Cliff (2004) also investigated market sentiment explained by investors' reactions and its relation to near term stock market returns. They concluded that although sentiment levels changes and strongly correlated with contemporaneous market returns but sentiment has little predictive power for near-term future stock returns.

**Factor 6: Investor Expectations** which includes two variables expected dividend and expected losses in other local investment. Total load of this factor is 1.101 and explained 5.234 percent of variance. Investors' expectation regarding investment decision is very important as defines the risk bearing capacity of investors. Investors with higher expected return will have to bear higher risk and vice versa. Gakhar and Prakash (2013) found that expected risk and return of investors play very significant role while investing in stock market.

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## ANNEXURE

Table 04: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.853
Bartlett's Test of Sphericity Approx. Chi-Square	1404.407
Df	378
Sig.	.000

Table 05: Rotated Component Matrix<sup>a</sup>

Component	Component					
	1	2	3	4	5	6
Past performance of the firms stock	.735					
Reputation of the firm	.714					
Expected bonus share	.698					
Result of technical analysis	.688					
Increase of the firms involvement in solving community problems	.601					
Firm status in industry	.587					
Diversification purpose	.568					
Perceived ethics of the firm	.464					
Rumors		.706				
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Stock marketability			.636			
Reputation of firms shareholders			.522			
Dividend paid			.413			

Opinion of the firms		
majority stockholders	.732	
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Affordable share price	.537	
Friends recommendations	.480	
Fluctation development		
in stock index	.679	
Get rich quick	.657	
Current economic indicators	.561	
Expected dividend		.554
Expected losses in		
other local investment		.547

**Table 06: Total Variance Explained**

Component	Extraction Sums of Squared Loadings	Rotation Sums of Squared Loadings			
		Cumulative %	Total	% of Variance	Cumulative %
1	36.598		4.397	15.704	15.704
2	44.315		3.246	11.591	27.295
3	49.128		3.239	11.569	38.864
4	53.675		2.595	9.268	48.132
5	57.927		2.410	8.606	56.738
6	61.972		1.466	5.234	61.972
7					
8					
9					
10					

