

Factors Influencing Retail Investors' Attitude Towards Investing in Equity Stocks: A Study in Tamil Nadu

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Research in behavioral finance is comparatively less in India, when compared to other foreign countries. Globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process. This paper aims at identifying the factors influencing the retail investor's attitude. This paper develops a modified questionnaire. The average value of the five top highly influential factors according to the sample retail investors' were Investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business. Four factors were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks. Stories of successful investors was considered to be the lowest influencing factors among the four, get rich quick philosophy, information available on internet, cost cutting by companies.

Keywords: behavioral finance, investors' attitude, influencing factors, globalization

Introduction

Research in behavioural finance is comparatively less in India, when compared to other foreign countries. Within behavioural finance it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. Behavioural finance is defined by Shleifer (1999), "A rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners". The globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process.

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The retail investors consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by various factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness programme, experience of other successful investors etc.. A better understanding of behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors in devising appropriate asset allocation strategies for clients (Hussein & Al-Tamimi, 2006). The various studies have been conducted in other countries but to the best of the researcher's knowledge, the researcher could not find any similar study in Tamil Nadu. Hence this study attempts to find out the factors influencing investors' attitude towards investing in equity stocks.

Review of Literature

In this paper a comprehensive literature review about behavioural finance has been carried out. Petter (1970) carried out a study to identify those factors which motivate or guide the investment decisions of the common stock investors. The study identified the factors: (1) income from dividends; (2) rapid growth; (3) purposeful investment as a protective outlet of savings; (4) professional investment management. Warren, Stevens and Meconky (1996) attempted to develop lifestyle and demographic profiles of investors based on the value and types of investment holding. Krishnan and Booker (2002) analyzed the factors influencing the decisions of investor who basically used analysts' recommendations to arrive at a short-term decision to hold or to sell a stock. A. A. Merikas, A. G. Merikas, Vozikis, and Prasad (2000) analyzed the factors influencing Greek investor behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables. Hussein and Al-Tamimi (2006) identified the factors influencing the UAE investor behaviour. Six factors were found the most influencing factors on the UAE investor behaviour. The most influencing factors were expected corporate earnings, get rich quick, past performance of the firms stock. On the other hand few factors were found to be least influencing like expected losses in international financial markets, family member opinion, gut feeling on the economy. Kannadhasan (2006) examined the factors that influence the retail investors' decision in investing. The decision of the retail investors are based on their various dependent variables viz., gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. Glaser, Schmitz, and Weber (2009) tested whether individual investor sentiment was related 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 (one and two trading days). The returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is stronger than vice versa.

From the above review, it is clear that there are some differences among the retail investors on the factors that influence investor's attitude towards investing in equity stocks.

Methodology

Objective of the Study

To identify the various factors that influence the retail investors' attitude towards investing in equity stock markets.

Sources of Data

The research design for the study is descriptive in nature. The researcher depended heavily on primary data. The required data were collected from the retail investors living in Tamil Nadu. The study was conducted during the period between July and October 2010 through a structured questionnaire.

Sampling Size and Procedure

The sample size covered 200 retail investors who were spread through ten different places in Tamil Nadu. The important places where large investors are available are identified for this study using purposive sampling method. In order to collect information from the retail investors, the sampling design has been carefully decided and properly chosen for the study. Totally ten important places in Tamil Nadu were identified (Chennai, Coimbatore, Trichy, Madurai, Karaikudi, Kumbakonam, Hosur, Tirunelveli, Erode and Tiruppur). From each identified places two approved stock brokers were chosen and ten investors were contacted with the help of brokers. However, on a detailed scrutiny of the filled in questionnaires, it was found that 12 of them had given incomplete information and hence the responses could not be used for further analysis. Thus, this study is based on 188 selected respondents from the retail investors.

Variables

Participants were asked to evaluate the importance of 26 variables, identified from the literature and personal interviews as potentially influencing the value of equity shares, by making seven choices for every one of the 26 variables: "strongly agree" for the variables which had a strong influence on the factors considered to be influencing equity shares and "strongly disagree" for the variables that does not have much influence on the factors considered to be influencing equity shares.

Statistical Tools

The data collected have been analyzed through descriptive statistics and factor analysis.

Results and Discussions

Factor analysis: Kaiser-Meyer-Olkin measure of sampling adequacy is employed to examine the appropriateness of the data for factor analysis. High values (between 0.5 and 1) indicate that the factor analysis is appropriate. Further, Bartlett's test of sphericity is a test statistics used to examine the hypothesis that the variables are uncorrelated in the population. From Table 1, it is clear that the data used for the study is conducive for performance factor analysis. It is also evident from Table 1 that the variables are significantly related to the population.

Table 1

KMO and Bartlett's Test

| Variable | Kaiser-Meyer-Olkin measure of sampling adequacy | Bartlett's test of sphericity | | | Result |
|---|---|-------------------------------|-----|-------|-------------|
| | | Approx. Chi-Square | df | Sig. | |
| Factors influencing investors' attitude | 0.725 | 2.159 | 325 | 0.000 | Significant |

Table 2 presents the results of factor analysis of the sample data as well as the suggested label for each factor. Factor loading for each item exceeded the minimum threshold level of 0.40 (Kim & Mueller, 1978; Noursis, 1985).

Table 2

Results of Factor Analysis Factors Influencing Retail Investors' Attitude Towards Investing in Equity Stocks

| Factor 1 | |
|---|---------|
| Item | Loading |
| Cost cutting by companies | 0.782 |
| Technological advancements at company level | 0.738 |
| Investors' tolerance for risk | 0.814 |
| Mergers and acquisitions in the corporate sector | 0.689 |
| Performance of Internet stocks | 0.520 |
| Variance explained (%) | 11.838 |
| Eigen Value | 7.587 |
| Cronbach's Alpha | 0.824 |
| Factor 2 | |
| Item | Loading |
| Satisfactions with the investments in equity stocks | 0.655 |
| Availability of corporate research | 0.589 |
| Government policies towards business | 0.596 |
| Rate of inflation | |
| Variance explained (%) | 10.824 |
| Eigen Value | 2.384 |
| Cronbach's Alpha | 0.733 |
| Factor 3 | |
| Item | Loading |
| Performance of the Indian Stock Market | 0.562 |
| Confidence level of institutional investors | 0.775 |
| Greed among investors | 0.656 |
| Strength of the financial sector | 0.607 |
| Media focus on the stock market | 0.586 |
| Variance explained (%) | 9.793 |
| Eigen Value | 2.017 |
| Cronbach's Alpha | 0.814 |
| Factor 4 | |
| Item | Loading |
| Strength of Indian economy vs. other countries | 0.537 |
| Access to information | 0.776 |
| Access to tools and technology | 0.675 |
| Low cost of executing trade | 0.599 |
| Variance explained (%) | 9.598 |
| Eigen Value | 1.685 |
| Cronbach's Alpha | 0.780 |
| Factor 5 | |
| Item | Loading |
| Stories of successful investor | 0.806 |
| "Get rich quickly" philosophy | 0.806 |
| Price to earning ratio | 0.620 |
| Variance explained (%) | 8.941 |
| Eigen Value | 1.400 |
| Cronbach's Alpha | 0.759 |
| Factor 6 | |
| Item | Loading |
| Online trading | 0.740 |
| Political Stability | 0.714 |
| Variance explained (%) | 8.368 |
| Eigen Value | 1.185 |
| Cronbach's Alpha | 0.560 |

(to be continued)

| | |
|--|-------|
| Factor 7 | |
| Item | |
| Information available on the internet | 0.679 |
| Perception of easy money among investors | 0.729 |
| Variance explained (%) | 6.462 |
| Eigen Value | 1.112 |
| Cronbach's Alpha | 0.759 |

Note. Total variance of factors influencing retail investors towards investing in equity market explained by two factors = 70.743.

Table 3 shows the mean value and the standard deviation of each statement that could possibly influence the attitude of the retail investors investing in equity stocks. The average value of the five top highly influential factors according to the sample retail investors' were investors' tolerance for risk with a mean value of 5.53 (SD 1.201), strength of the Indian economy with a mean value of 5.49 (SD 1.217), media focus on the stock market with a mean value of 5.46 (SD 1.443), political stability with the same mean value of 5.46 (SD 1.313) and finally government policy towards business with a mean level at fifth position of 5.43 (SD 1.167).

Table 3

Descriptive Statistics

| Statements | Mean | Std. deviation |
|--|------|----------------|
| My satisfaction with the investments | 5.33 | 1.303 |
| Dividend | 5.27 | 1.509 |
| Availability of corporate research | 5.19 | 1.321 |
| Government policy towards business | 5.43 | 1.167 |
| Rate of inflation | 5.38 | 1.168 |
| Stories of successful investors | 4.85 | 1.610 |
| Get rich quick philosophy | 4.94 | 1.731 |
| Price to earnings ratio | 5.31 | 1.320 |
| Information available on the internet | 4.95 | 1.353 |
| Perception of easy money among investors | 5.15 | 1.424 |
| Strength of the Indian economy | 5.49 | 1.217 |
| Access to information | 5.38 | 1.258 |
| Access to tools and technology | 5.42 | 1.331 |
| Low cost of executing a trade | 5.25 | 1.399 |
| Performance of the Indian stock market | 5.36 | 1.167 |
| Confidence level of institution investors | 5.38 | 1.393 |
| Greed among investors | 5.23 | 1.572 |
| Strength of the financial sector | 5.41 | 1.524 |
| Media focus on the stock market | 5.46 | 1.443 |
| Online trading | 5.29 | 1.241 |
| Cost cutting by companies | 4.99 | 1.403 |
| Technological advancements at company level | 5.29 | 1.237 |
| Investors' tolerance for risk | 5.53 | 1.201 |
| Mergers and acquisitions in the corporate sector | 5.29 | 1.520 |
| Performance of Internet stocks | 5.39 | 1.435 |
| Political stability | 5.46 | 1.313 |

The sample retail investors also felt that the following four factors were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks. Stories of successful investors was considered to be the lowest influencing factors among the four with a average mean value of 4.85 (SD

1.610), get rich quick philosophy with a mean value of 4.94 (SD 1.731), information available on internet had a mean value of 4.94 (SD 1.353), cost cutting by companies had a mean value of 4.99 (SD 1.403).

Conclusion

Out of the total 26 variables, it is found out that five factors had very high influence over the retail investor's attitude towards investing in equity stocks. They are namely investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business. Hence this study is concluded that the factors had very high influence over the retail investor's attitude towards investing in equity stocks.

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