Factors Influencing Investment Decision in Equity Shares – A Study in Kanyakumari District

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Abstract

Investors are the backbone of capital market. A developing economy, like India, needs a growing amount of savings to flow to corporate enterprises. The level of participation of the retail investors in the equity market has been increasing over the past few years. Investors typically perform technical or fundamental analysis to determine favorable investment opportunities, and generally prefer to minimise risk while maximizing returns. Equity investment gives an opportunity to become a part of the company ownership and also gives regular returns on investment as dividend income or through appreciation in share price. Investing in equity also allows investor to enjoy the flexibility of staying invested as long as he/she wish to, take advantage of the price movements and thus utilize the liquidity. There are various factors influencing investment decisions from different aspects. These factors have different levels of impact on each investor. More knowledge about the market will help the investors to know about this factors, analysing those factors and finally to make right decision about investment and make money. This study was undertaken to identify the various factors which the equity investors take in to account while investing in equity shares.

Introduction

Investment is the flow of capital that is employed for productive purposes. There is a great emphasis on investment for being the main instrument of economic growth and development for a country. For improving productivity and increasing the competitiveness of an economy, investment is important. If there is no savings and no investment, the consumption level of an economy will be high, but this creates an unbalanced economy. The countries that are more committed and give more importance to investment are more progressive.

Investment instruments available today are many. Some of them are marketable and liquid while others are non-marketable and illiquid. There are instruments which are highly risky while others are almost riskless (Arup Kumar Sarkar and Tarak Nath Sahu, 2018).

For investors, investment decision making is a challenging activity, especially in the dynamic environment with multidimensional alternatives. Investment decisions cannot be made in a void by depending on the personal resources and complex models. Investors must have to be alert and should have up to date information to achieve the desired goals. Risk aversion and different behavioral factors have impact on investment decision making (Aisha Farooq et. al., 2015).

The investors choose avenues, depending upon their specific need, risk appetite, and return expected. Investment avenues can broadly be categorized into two spheres, namely, economic investment and financial investment. Purchasing of a physical asset such as a building or equipment is an economic investment. Economic investments contribute to the net additions to the capital stock of a society. Financial investments, on the other hand, refer to investment in financial instruments like shares, debentures, insurance policies, mutual fund units etc. Financial investments help in creating the capital stock of the country (Arup Kumar Sarkar and Tarak Nath Sahu, 2018).

Investment is always profitable if the investor invests in right time and at right place. To be successful in investment in stock market an investor must have knowledge about risks associated with stock market, risk tolerance level he is capable to withstand, return offered by investment sources and financial profile of the listed companies in which he is willing to invest. It is always advised to learn as much as one can about the market before investing.

There are various factors influencing investment decisions from different aspects. These factors have different levels of impact on each investor. More knowledge about the market will help the investors to know about these factors, analyse those factors and finally to make right decision about investment and make money (Surajit Sarbabidya and Trina Saha, 2018).

The decision making process is a cognitive process which results in the selection of a course of action among several alternatives. In this process, the emphasis is on thinking things through and also on weighing the outcomes and alternatives before arriving at a final decision. Every decision-making process produces a final choice. The output can be an action or an opinion of choice (Lusardi, A and Mitchell, 2006).

The decision-making process of individual investors regarding investment includes the following steps: **Amount of Investible Surplus:** The amount of money an individual is able or willing to keep aside for investments is referred as surplus investible. This plays a vital role in selecting from various asset classes as the minimum investment amounts differ and so do the risks and returns. **Sources of Investment Information search :** At this stage, investor wants to find out the information about the financial products, return, risk involved and tax-benefit. **Evaluation of stocks :** After collecting the information, investors arrive at some conclusion about which companies' stock can be purchased. At this stage, investor compares different stocks on set parameters, which he/she thinks required. The evaluation process varies from investor to investor. **Choosing a Stock :** After evaluating the stock based on various factors the investor chooses the one. **Purchasing a Stock :** At this stage investor purchases the most preferred stock (Syed Tabassum Sultana and S Pardhasaradhi, 2012)

Investment decisions made today often are critical for financial security in later life, due to the potential for large financial loss and the high costs of revising or recovering from a wrongful investment decision. Most of the equity investors do not have the sufficient knowledge of basic economic concepts required to make investment decisions. Thus, there is a need to conduct research on factors, other than knowledge, that could influence investment decisions. (Lusardi and Mitchell, 2006).

Investors in the markets are not necessarily always rational in their decisions and that other factors might affect them when they are making their investment decisions (Thaler, 2015)

Therefore, it is very important to identify and understand the underlying demographic, socio economic and behavioral factors affecting individual's financing, specially investing decision, because their decision making channel that drives the price dynamics of the stocks in the market is not always objective or rational.

Review of Literature

Aregbeyen & Mbadiugha (2011) in their study identified Social factor as most influencing factor next to economic factors followed by psychological and cultural factors.

Alleyne and Broome (2010) in their study observed that attitudes and referent groups (peers, family and significant

others) and beliefs influence investors' intentions to invest. They also found that the influence of friends and relatives, and easy access to funds are significant predictors of investment intentions of investors

Hussein (2006) in his study identified the most influencing and least influencing factor in investment decision. The most influencing factor by order of importance are : expected corporate earnings, get rich quick, stock marketability, past performance of the firm's stock, government holdings and the creation of the organized financial markets. The least influencing factor, by order of importance are : expected losses in other local investments, minimizing risk, expected losses in international financial markets, family member opinions and gut feeling on the economy.

Objectives of the Study

The main objective of this study is to identify the factors which influence the retail investors' investment decision making in equity shares.

Methodology

The present study used data from primary sources. The primary data was collected by using a well prepared interview schedule. Personal interview method was adopted to collect information from the respondents.

The number of broking agents who give training and investment ideas to the equity investors in share market situated in Kanyakumari district were identified. In Nagercoil there are 15 broking agents, in Thuckalay 2, in Marthandam 4, in Kaliakkavilai 2, in Kuzhithurai and in Colachal one each are situated. Thus a total of 25 broking agents were situated in kanyakumari district. From these broking agents the list of retail share traders who have at least six months of trading experience was taken. There were 1258 traders. Among them 20 per cent were selected as samples for the present study. Thus a total of 250 sample investors were selected. Simple random sampling method was adopted for selecting the respondents.

All the 250 retail equity investors were contacted by way of direct personal interview to collect information. A well prepared interview schedule was used for the purpose of data collection. The interview schedule was framed in such a way to gather information regarding their socio-economic background and regarding the share trading activities. Discussions have been made with stock brokers and other experts while designing the interview schedule

Discussions

Factors Influencing Investment Decision

Stock price is affected by a number of factors and events, some of which influence stock prices directly and others do so indirectly. The factors which influence the investors' investment decision are identified and analysed under the following heads:

1.Internal Factors

The internal factors play an important role in determining the share prices of a company. In this study, the researcher has identified the internal factors such as profit earned by the company in the past, company's balance sheet, share holding pattern, and company management; all these affect the share prices of individual company directly or indirectly, and in turn influence investor's investment decision.

Profit made by a particular company has its impact on the share price**.** The best-run companies tend to have the widest profit margins. The balance sheet summarizes a company's assets, liabilities and shareholder's equity at a specific point of time. These three balance sheet segments give investors an idea as to what the company owns and owes, as well as the amount invested by shareholders. Shareholding pattern is used in the context of company's equity. It shows the amount of shares held by specific set of investors. Company's management activities also affect the stock market adversely or positively. Share price can also be affected by the hype about a company or the release of new products or services. The internal factors influencing investment decision is analysed in table No. 1.

Table No. 1

Internal Factors Influencing Investment Decision

SI.No.	Internal Factors	No. of Respondents (n=250)	Percentage
1	Profit of the company	225	90
2	Balance sheet	112	44.8
3	Share holding pattern	149	59.6
4	Company management	102	40.8
5	Involvement of the company in future projects/ new products	109	43.6

Source: Primary data

Table No. 1 shows that profit earned by the company in the previous years is the major internal factor considered by the investors while investing in equity shares as this answer is said by 90 per cent of the respondents. The other factors taken in to account are, share holding pattern (59.6 per cent), balance sheet (44.8 per cent), company management (40.8 per cent) and involvement of the company in future projects/ products (43.6 per cent).

2. External Factors

There are certain underlying external factors which have a strong influence over the movement of share prices and the stock market in general. Many external things affect the stock market every day. The researcher has identified four external factors, they are; political factors, geographical factors, rumours and tips. These will affect the share prices directly or indirectly and positively or negatively.

World political conditions affect the stock market in a big way. The stock market is affected by the national election cycle. Politics, in terms of actual or implied government support, can also affect stocks. Other country's political ideologies and policies also affect the Indian Stock market. Geographical factors and natural disasters can also gets reflected in the economy and in turn the Stock market. News about day-to-day happenings in the stock market affect stock prices. The investors review the news about the trading done, the performance of shares, future projects and management of other companies. Now- a- days there are many ways by which an investor gets tips about investment whether to buy, hold or sell a particular share.

These tips come from television channels, through blogs, investment analysts and from websites and magazines. These tips are generally given by experts and it helps the investor in decision making.

Table No. 2

External Factors Influencing Investment Decision

SI.No.	External Factors	No. of. respondents (n=250)	Percentage
1	Political factors	206	82.4
2	Geographical factors	192	76.8
3	News, Rumors about the companies	171	68.4
4	Tips regarding investment	133	53.2

Source: Primary Data

Table No. 2 shows the various external factors which are taken into account by the investors. Political changes is the major external factor which the investors consider while making investment decision in share market as this is reported by 82.4 per cent of the respondents. Other external factors which are considered are geographical factors (76.8 per cent), news rumours about the company (68.4 per cent) and tips regarding investment (53.2 per cent).

3. Personal Factors

There are a number of things that can affect an investor's entry (buy) into or exit (sell) out of a given stock and/or sector. Depending on the investor, his or her goals and investing time frame, the importance and timing of the entry will differ. The researcher has identified the personal factors such as urgency to earn, family support and psychological of the investor. Some of the investors may have urgent needs to make money and they undertake share trading with high risk. Sometimes high risk will give high profit. Family support is very important as it provides psychological support to the investors. Family have lot of skills, and energy resources to support the investors in investment activities. Psychological factors like happiness, sadness, tension, alcohol may also affect the profit and loss condition of the investors.

Table No. 3

Personal Factors Influencing Investment Decision

SI.No.	Personal Factors	No.of respondents	Percentage
1	Urgency to earn	110	44.0
2	Family support	106	42.4
3	Psychological factors	59	23.6

Source: Primary Data

Table No. 3 reveals that, among the personal factors, urgency to earn is the major factor reported by 44 per cent of the respondents, and the other factors are, the support from the family which is said by 42.4 per cent of the respondents, followed by the psychological factors which 23.6 per cent of the respondents consider while making investment in equity shares.

4. Economic Factors

Several economic factors affect the stock market operation that every investor are aware of before getting involved in investing. Economic factors like inflation or deflation, rupee value depreciation or appreciation, foreign investment and world stock market crisis affect the stock market positively or negatively.

Foreign currency exchange rates have a direct impact on the price and value of stocks in foreign countries, and changes in exchange rates will increase or decrease the cost of doing business in a country, which will affect the price of stocks of companies doing business abroad. If foreign exchange start to fall or experience sharp drops it cause investors to anticipate a ripple effect, resulting in a drop in the stock exchange.

The bulk buying and selling by foreign traders will affect the stock market prices immediately. When the domestic interest rate falls, the investors will invest in foreign market. This may affect the stock market. Economic growth of a country also plays an important role in the stock market. High inflation causes investors to think that companies may hold back on spending; this causes a decrease in revenue and the higher cost of goods coupled with the drop in revenue causes the stock market to drop. On the other hand deflation causes a drop in the stock market because investors perceive deflation as the result of a weak economy.

Table No. 4

Economic Factors Influencing Investment Decision

SI.No.	Economic Factors	No. of. respondents (n=250)	Percentage
1	Rupee value appreciation / depreciation	210	84.0
2	Foreign investment	210	84.0
3	World market crisis	217	86.8
4	Growth rate of the economy	206	82.4
5	Inflation/ Deflation	214	85.6

Source: Primary data

Table No. 4 shows the various economic factors which the respondents take into account while investing in shares. World market crisis is the major factor as this aspect is considered by 86.8 per cent of the respondents. The following factors are inflation/ deflation (85.6 per cent), rupee value appreciation/ depreciation, foreign investment (84 per cent) and growth rate of the economy (82.4 per cent).

Conclusion

Investment decision process is considered critical decision for every investor, especially when investing in equities as it involves high risk and the returns are not certain. This research identiefied the various factors which the investors consider while making investment decision. This study will be beneficial for financial professionals, regulatory authorities or investment advisors so they can understand or focus on those factors that cause volatility in stock market. This study will help them to understand the relationship and impact of these factors on decision making and investor's perception toward investment in equity shares.

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