A STUDY OF FACTORS AFFECTING INVESTORS’ DECISION TOWARDS MAKING INVESTMENTS IN FINANCIAL MARKET

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ABSTRACT This paper is especially oriented towards those people who have savings but avoid investing their money in the financial market. Investment is the application of our funds somewhere with an aim to gain some more as we are applying. The researcher tried to find out the causes which are obstacles between the flows of fund from savers to the demanding people. The success of financial market depends on the smooth flow of fund from both sides. It was found that there is a gap between borrowers and lenders. To fulfill this gap it is necessary to inspire the common people towards investment. In the developing countries like India out of 1.2 billion people only 5 Crore people are active in investment process, rest all are preventing themselves from investments especially in financial market. However, some people invest their money in traditional avenues like gold, real estate, etc but such type of investment is not enough for our financial growth. This paper tries to find out the factors which actually prevent the investors from doing investment in financial market. The results indicated that decisions to invest in financial market are influenced by some economic and behavioral factors known as preventive factors.

Keywords:- Investment, avenue, financial market, preventing factors, investor, invest, behavior, decision etc.

1. INTRODUCTION Instead of increasing trend in economic growth, the investment of money in financial market is an untouched area for maximum population of India. Out of maximum percentage of people in India, only a minor part of the population invests their money and gives contribution in economic development. If we want to change the state of being developing and make our country a developed then we have to apply more efforts and motivate the people to invest their idle money in financial market. Individuals who are not investing or preventing themselves from doing investments should be focused to withdraw their savings from banks and employ in financial market for the smooth functioning of economy of our country so that they can get better returns. Investors can do it only when they keep positive thinking towards financial market and overcome some fear factors. The researcher says today’s investment will be beneficial for tomorrow, so people
should understand the importance of investment in financial market without any hesitation and they can enjoy its benefits in future and celebrate every moment of future as festival but to get such a secure future, invest now.

Any investor who do personal investment of his fund in the capital market with the various objectives of future benefits and who takes the financial decisions of his own called individual investor. Doing or not doing investment is again an important decision taken by the investor on the basis of his/her perception. Perception is the personal feeling of any investors toward a particular object. In the case of investment, the perception of an investor is affected by many factors out of which his psychology is very important.

As uncertainty is the basic characteristics of the financial market and where there is a return, there is always a risk associate with it. Investment comes with risks. Sometimes those risks are minimal, as is the case with treasury bonds, but other times, such as with stocks, options and commodities, the risk can be substantial. The more risk the investor is willing to take, the more potential for high returns. But great investors know that managing risk is more important than making a profit and proper risk management is what leads to profitable investing. The investors tend to match their needs with the features of the instrument available for investment. They have varied degrees of preferences for different savings vehicles. Each investor tends to keep some cash balance and maintain a certain amount in the form of bank deposit to meet his/her immediate requirements and protective needs. In the case of salaried people, contribution to Employees Provident Fund (EPF) becomes compulsory. Life Insurance is generally preferred to face situations arising out of untimely deaths of the bread earner of the family. The disposable income after meeting the statutory requirements / commitments constitutes savings and here arises the need of selecting a good investment options.

finance explains why individual do not always make the decisions they are expected to make and why markets do not reliably behave as they are expected to behave. Recent research shows that the average investors make decisions based on emotion, not logic; most investor’s buy Behavioral high on speculations and sale low on panic mood. Psychological studies reveal that the pain of losing money from investment is really three times greater than the joy of earning money. Emotions such as fear and greed often play a pivotal role in investor’s decision; there are also other causes of irrational behavior. It is observed that stock price moves up and down on a daily basis without any change in fundamental of economies. It is also observed that people in the stock market move in herds and this influence stock price.

2. STATEMENT OF THE PROBLEM Ignoring behavior of the common people of India towards investment especially in financial market is the biggest obstacle in the growth of economic development of India. To move the idle savings into financial market and to generate the interest of investors towards financial market, it is needed to find out the factors which are responsible for this type of behavior of people. This paper considering
each and every aspect of investors and financial market and try to making link between them which is ultimately beneficial for our country’s prosperity.

3. LITERATURE REVIEW Rastogi (2015) strongly supports the presence of behavioral aspects in investment decisions of the investors. He found that the behavioral finance can explain answers to many questions related to financial investment which cannot be explained appropriately by conventional finance theory. Sindhu and Rajitha (2014) noted that risk is inherent features in all types of financial investments due to variability in the expected returns and the actual returns achieved. So calculation the amount of risk what an individual can bear becomes very important. Chandra and Kumar (2012) stated that it is important to study individual investor’s behavior. He reported that Indian individual investors are more prone to psychological biases while making financial decision making. Presence of financial heuristics, self-regulation, prudence and precautionous attitude financial addiction and lack of information effects the decision making of the investors. Bhatt, Brahma, P. S. Raghu Kumari, and Shamira Malekar (2012) in the study titled “A Study of Investor Behavior on Investment Avenues in Mumbai Fenil” aimed to understand the investment behaviour and it proves women are attracted towards investing in gold than any other investment avenues. Most of the investors are in the habit of discussing the options with their family and friends before making any investment decision. Sita L.Y. (2011) found that, income played a peculiar role in influencing Indian equity investor Geetha and Ramesh (2011) in “A Study on People’s Preferences in Investment Behaviour” show most of the respondents are unaware about stock market opportunities and most of the investors preferred life insurance policies. In a survey of US employers offering 401(k) plans, 80 per cent of employers reported that Their employees were confused about ‘where to invest/what fund to use’ and 55 per cent reported that employees were confused about how much to save for retirement (Deloitte, 2008). Kannadhasan (2006) examined the factors that influence the retail investors“ decision in investing. The decision of the retail investors is based on various dependent variables viz., gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. Lakshmi C. (2005) has stated that the reason for not investing on equity shares and equity oriented securities by Indian investors is the perception that equity investments are risky. She added that though the investors are aware of success stories of equity investment, as they perceive that they do not understand various risk minimisation techniques, they feel it is better to stay away from equity investment. Quantitative and qualitative research carried out in the past indicates that attitudes to investment risk depend on factors such as personality, circumstances, educational attainment, level of financial knowledge and experience, and extent of financial product portfolio (Conquest Research Limited, 2004; Distribution Technology, 2005).

Jay Ritter (2003) has given a brief introduction of behavioral finance published in Pacific Basin Finance Journal. In his research article, he rejected the traditional assumption of expected utility
maximization with rational investors in efficient market. The two building blocks of behavioral finance are cognitive psychology (How People Think) and the limit of arbitrage (when market will be inefficient). The article further highlights many empirical patterns like stock market bubbles in Japan, Taiwan and the US. Olsen (1998) mentioned that “Behavioral finance seeks to understand and predict systematic financial market implications of psychological decision process.” Similarly, Kahneman and Mark W Riepe (1998) bring forth the beliefs, preferences and biases that humans have which influence their investment decision making.

4. OBJECTIVE The main objective of present study is to analyze some factors that bind the investors to invest in financial market. There are some preventing factors that discourage investment habits of investors and affect their investment decisions. These factors are directly and indirectly divert the thinking of investors so danger for a healthy economy. To encourage and inspire a common people by create favorable picture of fin. Mkt. against preventing factors is the one of the objective of this paper. In this paper the researchers were trying to - 1. Identify the factors affecting the investor’s decision to invest in financial market.

5. RESEARCH METHODOLOGY Present study is based on the identification of factors influencing the investors in their investment decision in financial market. This paper used the exploratory research design. To understand the causes due to which individual don’t invest in financial market a survey has been conducted on investors so primary data has been used and the data was gathered using structured questionnaire. The sample was chosen from individual retail investors from Indore city. Collected data was analyzed by using statistical tools like SPSS and MS Excel for tabulation and editing of data.

6. ANALYSIS To fulfill the main objective of the study, 244 respondents were selected from Indore city based on the different demographic profile. Questionnaire was distributed to respondents to measure and evaluate factors that affect the investors“ decision to invest. The reliability of the information collected from the respondents was assessed by using Cronbach“s Alpha. The Alpha so computed basically measures the average correlation among the observed variables. The value of the reliability statistics was found 82% and this is greater than 60%. The sampling adequacy was measured by KMO and Bartlett“s test. The measured value was found to be 74% which is acceptable. Therefore, sampling was considered satisfactory and appropriate for further analysis. The value of Chi-Square statistics is also good and is considered highly significant. Hence factor Analysis can be carried out on the basis of responses collected from the respondents. Factor analysis was performed to extract actual factors that were influencing individual investment decision in financial market. Initially, correlation analysis was run to check for interdependence among the factors after which Principal Component Analysis (PCA) was run. The objective of performing PCA was to transform a set of interrelated variables into a set of unrelated linear combinations of these variables in to a set of uncorrelated linear combinations. Varimax rotation together with Kaiser Criterion was used to classify and reduce
the factors to interpretable components. A total of 5 components were extracted from the variables. The components are orthogonal to one another, meaning they are uncorrelated. For a component to account for at least one variable, it should have an Eigen value (the sum of squares of its factor loadings) of at least one. This is the cut off point for determining the number of components to be extracted with maximum or near maximum loadings. The rotated component matrix that was used to extract independent variables highly related to particular components was performed. Orthogonal Varimax rotation together with the Kaiser Normalization was used to force the entries in the initial factor to be near 0 or 1. Such loadings show more clearly which variables go together and thus easily interpretable. Factor #1: Knowledge and Environment of Financial Market In the study factor which is preferred for decision making amongst the Investors for investing in financial market is Knowledge and Environment of Financial Market. This factor was identified to impact the behavioral aspects of investors in relation to investment in financial market as it’s percentage of variance explained is 15.413%. There were 11 statements which were clubbed under this factor. In the study factor which is preferred for decision making amongst the Investors for investing in financial market is Fear of Risk. This factor was identified to impact the behavioral aspects of investors in relation to investment in financial market as it’s percentage of variance explained is 12.509%. In the study factor which is preferred for decision making amongst the Investors for investing in financial market is Perception about Financial Market. This factor was identified to impact the behavioral aspects of investors in relation to investment in financial market as it’s percentage of variance explained is 7.013%. There were 8 statements which were clubbed under this factor. In the study factor which is preferred for decision making amongst the Investors for investing in financial market is Awareness and Time. This factor was identified to impact the behavioral aspects of investors in relation to investment in financial market as it’s percentage of variance explained is 4.900%. In the study factor which is preferred for decision making amongst the Investors for investing in financial market is Availability of other Investment Avenues. This factor was identified to impact the behavioral aspects of investors in relation to investment in financial market as it’s percentage of variance explained is 4.367%. There were 5 statements which were clubbed under this factor. To summarize all the five factors that affect the investor’s decision to invest in financial market are: Knowledge and Environment of Financial Market, Fear of Risk, Perception about Financial Market, Awareness and Time and Availability of other Investment Avenues.

7. CONCLUSION Behavioral finance provides explanations for why investors make irrational financial decisions. It demonstrates how emotions and cognitive errors influence investors in the decision making process. The various causes that led to behavioral finance are anchoring,
overconfidence, herd behavior, over and under reaction and loss aversions. In essence, behavioral finance approach investigates the behavioral patterns of investors and tries to understand how these patterns guide investment decision. Behavioral finance offers many useful insights for investment professionals and thus, provides a framework for evaluating active investment strategies for the investors. In the current study, the researchers found few factors which actually prevents or stops the investors to invest in financial market. The decision to invest is in turn getting affected by the behavior of people. So in all total 5 factors were identified based on various variables and these factors were classified based on the similarities between them. The researchers leave the option to continue this study as to confirm the effect of these factors further.

REFERENCES