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"Theoritical perspectives of Emotional Intelligence and Its Importance towards Portfolio Management of Individual Investors in Indian Stock Market"

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ABSTRACT

Over the decades behavioral finance and its study has remained a hot cake to many researchers and it has always provided a wide platform for several contributions towards development of market conditions. Investment decision is one of the essential factors which affect the investor directly in the stock market. There are many factors which contribute to the investment decision of the investor among which is emotions. The current research article being descriptive in nature is an approach in expressing fundamental factors towards investment behavior in the Indian stock market and their relation with emotional intelligence. The study basically has a focus on five aspects, that is Goleman's EQ model. The influence of five factors of Goleman's EQ model have been traced out, the importance and effects of the presence and absence of the same in individual investor's behavior in Indian stock market has been analyzed.

Keywords: Emotional intelligence, Self-awareness, Self-Regulation, Motivation, Empathy. Social skills, Investment behavior

Introduction:

Financial markets have been centers since centuries and are enabling arrangements to provide facilities for buying and selling of financial claims and services, such as equities, bonds, currencies and derivatives. They are classically well-defined by having transparent pricing, basic regulations on trading, costs and fees and market forces determining the prices of securities that trade. Some financial markets only allow participants that meet certain criteria, which can be based on factors like the amount of money held, the investor's geographical location, knowledge of the markets or the profession of the participant. The money earned is partly spent and the rest saved for meeting future expenses. Instead of retaining the savings idle an investor may like to use the savings in order to get return on it in the future. "An investor without investment objectives is like a traveler without a destination" as said, an investment is the setting up of money into something with the expectation of profit. Specifically, it becomes the commitment of money or capital to the purchase of financial instruments or other assets so as to gain profitable returns in the form of interest, income (dividends), or appreciation (capital gains) of the value of the instrument. It is related to saving or deferring consumption. Investment is involved in many areas of the economy, such as business management and finance no matter for households, firms, or governments. An investment involves the choice by an individual or an organization, such as a pension fund, after some analysis or thought, to place or lend money in a vehicle, instrument or asset, such as property, commodity, stock, bond, financial derivatives (e.g. futures or options), or the foreign asset denominated in foreign currency, that has certain level of risk and provides the possibility of generating returns over a period of time.

Emotional intelligence is a psychological characteristic that describes how effectively an individual identifies, understands, and regulates emotions and then uses them in invest. It is all about how an individual manages emotions, along with the capacity to recognize one's own feelings and deal with decision making. Studies show that emotional intelligence surpasses IQ by a ratio of two-to-one when determining successful people by Psychologist Daniel Goleman.

Review of literature

Kaneko H. (2004), focused on investment trusts and debated the behavior of individual investors and found that investment trusts are only the means of managing assets.

Chandra collected the data from survey to know the factors influencing Indian individual investor behavior in stock market. Using univariate and multivariate analysis and found five major factors that affect the investment behavior of individual investor in stock market namely prudence, and precautions attitude, conservatism, under confidence, informational asymmetry and financial addition. Finally, he concluded that these are the major psychological components seem to be influencing individual investor's trading behavior in Indian stock market.

Tamimi, H. A. H.identified the factors influencing the UAE investor Behavior. Using questionnaire found six factors were most influencing factors on the UAE investor behavior namely 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.

AjmiJy.A. (2008) used a questionnaire to know determinants of risk tolerance of individual investors and collected responses from 1500 respondents. He concluded that the men are less risk averse than women, less educated investors are less likely to take risk and age factor is also important in risk tolerance and also investors are more risk tolerance than the less wealthy investors.

Kabra, G., Mishra, P.K. and Dash M.K. (2010), studied the factors effecting investment behavior and concluded that investors age and gender are the main factors which decide the risk taking capacity of investors.

Dr. D. P. Warne (2012), studied Investment Behavior of individual Investors in the stock Market to understand the attitude and perception of Investors, concluded that market movements affect the investment pattern of investors in the stock market.

Need for the study and Scope of the study

In the stock market, gains and losses are a normal part of the economic cycle. But investors feel positive emotions from a realized gain and relatively negative emotions from a realized loss, due to this the investor will sell his more profit-making stock immediately to cover his short-term loss. So, this is to understand an investors' relation towards emotions, which play a major part in his day to day trading business. Moreover, the study provides an insight to understand the emotional intelligence factors that influence towards portfolio management, the importance of this kind of behavior and the effect due to the behavior of an individual investor in Indian stock market.

Limitations of the study

The paper is of descriptive nature, by which we could capture and describe the observed behavioral phenomena of the investor. These behavioral phenomena vary from investor to investor it is difficult to integrate them into a simple and parsimonious framework. However, it is possible to indicate some of the relationship by finding evidence in the existing behavioral finance literature.

Relation of the emotional intelligence and investor behavior towards stock market

Relation of the emotional intelligence and investor behavior to the modern financial system is important capability which reveals the capability of investor in detecting the emotion of member of environment; it can also contribute in good investment decision making of individuals. Investor decision is most of the time affected when they recall the previous experience they had in similar situations. Emotions have negative impact on investment decisions and performances because investors hate loses which they may face if their taken decisions results are negative.

This research covered the emotional intelligence of investors and consideration of emotions in their decision making. Further, explored emotional intelligence during investment process and also explored the basic common emotions investors have during decision makings and differences due to that their decision is affected.

The five domains of Goleman's EQ model and its effect on individual investment behavior

Emotional intelligence and emotion are different in their definition. Emotions force the investor to make decision according to his past experiences from which he is suffering at that time and an intelligent investor has the skills to identify and manipulate his emotions according to the situation to make the investment productive.

The effects of the Goleman's EQ model on individual investor in case of presence and absence

	Presence	**Absence**
Self-awareness	Self confidence in making decisions Self-assessment of the market Low degree of cheating and helps in constantly building up of market knowledge.	Low Self-confidence, leads to take immature decisions in investment High degree of cheating, and leads to take immature decisions in investment
Self-Regulation	Trustworthiness and integrity, openness to make changes in the trading activities, ambiguity in the work Retain calmness and helps in controlled physical & mentally as well	Increases in-anxiety, provokes to take wrong investment decision, and makes him to undergo loss. Increases in-anxiety, provokes moving out of cool tempered, rises frustration level
Motivation	Optimism, even they undergo maximizing in investment opportunity, Strong driven to achieve goals Constant stimulation and impulses to be proactive in trading, increase the determination	Discourage from being positive and drives them towards act pessimist for the market condition Wavers interest, Makes deactivate from trading
Empathy	Expertise in understanding others emotions	The level of understanding the

	and take a proper decision Identification of market conditions tempts to be strong	psychology declines. Market understanding remains zero.
Social Skills	Helps to grows the investor to develop healthy environment and enable good communication	Diminishes the ability of constructing health relation in market and eliminates healthy communication

Table No. 1

Self-awareness is the ability to understand how emotions affect yourself and other people. Investors should identify his current emotional state and be self-aware of the market condition. The market can provide ample experience if investor takes over his emotions. Market can't be predicted investor should never get too high or too low about his abilities when he gets immune to periodic losses or underperformance. Self-aware investors never get overconfident after a string of gains just like it makes no sense to take losses personally.

Self-awareness creates self confidence in investor and motivates him in making decisions at the right time, meanwhile also attains self-assessment of the market. Low degree of duplicitousness helps in constantly building up market knowledge, where as in absence of self confidence the investor experiences high degree of cheating and leads to taking immature decisions in investments.

Self-Regulation is the ability to control impulsive decisions. Instead of reacting rashly, the investor should allow his emotions to guide his actions, and move in a portfolio manner. Most of the investors' moves that may feel right are the wrongs ones. Successful investing can be very counterintuitive and requires the ability to go against your own natural instincts. The investors' willpower takes the best forms of self-regulation and has a repeatable process.

The presence of Self-Regulation helps in attaining trustworthiness and integrity enables an investors' openness to make changes in the trading activities, ambiguity in the work. If an investor is sustaining with this factor, he retains calmness and it helps him control physical & psychological reactions due to changes.

Whereas the absence of Self-Regulation increases in-anxiety, provokes to take wrong investment decisions. This directly or indirectly makes him undergo loss. Adding to this the investors' increases in-anxiety, provokes him to move out of being cool tempered and also upsurges his frustration level.

Motivation is having a passion for what you do along with a curiosity for learning. Learning is continuous process, an investor should argue to learn the financial markets, he should realize the more he learns the market, the better he understands. It really never stops. If the investor has any genuine interest in the market he will never make it on his own. Investors who are emotionally intelligent are motivated by things beyond mere external market conditions they have a passion to fulfill their own inner needs and goals.

In the presence of Motivation factor irrespective with intrinsic or extrinsic, an investor attains the maximum optimism, even may undergo maximizing in investment opportunity. This factor drives an investor strongly towards goals that is trading behavior. It constantly stimulates and impulses to be proactive in trading until he achieves being earning maximum profit. This keeps him boosted, also increases the determination of being upbeat.

Whereas in absence of Motivation factor an individual investor feels discouraged from being positive and drives him towards being pessimistic for the market conditions. The interest towards operating in market gets deteriorated day by day and finally it may also lead him to be deactivated from trading regularly.

Empathy is the ability to understand the emotional reaction of other people. Perception of other's emotions and taking an active interest in their concerns comprehends the psychology of the crowd works. Sometimes the market can get silly and you have to appreciate the market and crack it eventually. The boom and bust cycle is never going away, so a solid grasp of the way that fear and greed that can envelop the entire market is essential.

In the presence of Empathy an individual investor is an expert in understanding others emotions and taking appropriate decisions according to the reactions of behavior in the market. It helps him in identifying the market conditions, also tempts him to be strong when there is over and underreaction of other investors in the market.

Whereas in absence of Empathy factor, an individual investor's level of understanding the psychology declines, an investor fails to identify the market conditions. It makes investor remain far from analyzing others psychology. It drops an investors' confidence from predicting the market conditions.

Social Skills come from building relationships and networking with others. This factor is probably the most important for the leaders of investment organizations and those that work directly with clients but are having a network to bounce ideas off and get alternative viewpoints can make a better investor. In fact, an investor should actively seek opinions that differ from his own on a regular basis. Seeing both sides of any trade or investment helps to keep his views grounded. True emotional understanding involves more than his emotions and feelings of others, investor need to put this information to work in daily interactions and communications which puts a focus on risk control it allows the investor to think in terms of probabilities instead of certainties.

In the presence of Social skill an individual investor enables to grow the investor to develop healthy environment and enable good communication.

Whereas the absence of the factor makes an investor diminishing his ability of constructing health relation in market and eliminates healthy communication.

Conclusion:

In this study we tried to study the relationship among emotional intelligence and investment decisions of the investors. There is relation among empathy, motivation, social skills and the investment decisions of the investors. The study provides valuable insight in understanding the relationships between dimensions of emotional intelligence and investment decisions in this new era. The investment decision depends upon the different dimensions of Emotional Intelligence the investor with the emotional intelligence the investor make more profit than the investor who takes rational decision. The stock broking company ought to plan their venture items as indicated by the high and low emotional intelligence of the investors. Emotional intelligence appears to help investment managers and investor in the capital markets to form an opinion regarding the likely actions of others and thereby reducing the degree of ambiguity in the market. Investors investments depend upon his past results negative events in life have a negative impact upon future decision and investor's EI. Emotional self-Awareness, emotional expression, emotional self-Control and particularly emotional self-Management were variables used to find the negative and positive events impact on investor psychology.

The key intension of admitting investor's capital is to generate decent returns that can meet their goals. However, many investors are now choosing to make investment on the option at which they not only get respectful earnings but also which provides them less risk and investment tools which drives them safe through the investment journey. The purpose of this study was to analyze the investment behavior and to determine the basic issued faced by an individual investor being controlled by emotions intelligence. The study establishes that investors feel that awareness is the most important factor before making any investment decision. Hence during the transmission of information, the perception an individual and his mental status matter in huge amount.

Finally, to enhance their investment behavior the financial players, Government & non-government, Business firms should actively contribute in bringing the necessary action in order to attract the investor.

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