



# Factors Influencing Investors Decisions in Real and Financial Assets

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## ABSTRACT

Investor behavior influences financial environment of a country. Risk and Return expectation of investors depend upon various demographic factors. This study tries to establish relationship between demographic attributes like age, gender, spiritual orientation of investor and his investment decision making. Structured questionnaire was administered on 100 investors. The present study was done to explore the factors which influences the investors decisions in Real and Financial Assets.

**Keywords:** Behavioral factors; Investment decision making; Use of financial tools; Firm level corporate governance; Equity fund managers; Individual Investors.

## INTRODUCTION

The growth of an economy depends on savings and investment patterns of the individuals. Investment decision making of individuals is affected by a number of internal and external factors. The investment behavior includes risk taking capacity, return expectation and investment objectives. Investor's decision is affected to a great extent by their demographic factors including age, gender, work experience, total income, their organizational setup and spirituality intelligence. All these factors have been widely researched but spirituality intelligence and its impact on investment behavior in Indian perspective is a less researched dimension to investment decision making. The dictionary definition of risk is the chance that an investment's actual return will be different than expected. While some investors are inclined to take more risk than others, there is always a place for low risk investments as part of a properly-balanced portfolio.

Determining what risk level is most appropriate for an investor isn't an easy question to answer. We assume that people with high spiritual intelligence have more faith in themselves, others and God as compared to those with low spiritual intelligence. The level of spirituality intelligence of an individual will affect his risk taking capacity and also his return expectation. In this study it is our endeavour to study the relationship between spiritual intelligence and investment behavior of the individuals. Risk tolerance differs from person to person. An investor's decision will depend on his/her goals, income and personal situation, among other factors. The rest of the paper is organized as

follows: review of literature, research methodology, results and discussion and conclusion.

## REVIEW OF LITERATURE

Drawing from the field of economics; Finance focuses on efficiency. From a societal perspective, a key function of finance is to ensure allocational efficiency – the efficient allocation of scarce resources to their most productive use. Emotional and psychological factors often override the rational expectations theory in financial decision making, affecting trading performance (Lo et al., 2005), and only if risk aversion is pegged at unrealistically high levels, does the efficient market hypothesis and rational expectations theory explain the volatility of the market overall (Shiller, 2003). “Risk aversion” is a preference for less risk over more. The Penguin Reference Dictionary of Psychology (Reber and Reber, 2001, p. 634) however defines “risk” as “An action that jeopardises something of value.” Most people are risk averse (Kahneman and Tversky, 1979). Wealthier investors are more willing to incur more risk than less wealthy ones. Optimal asset allocation in an investment portfolio must consider the tradeoff between expected return and risk (Yook and Everett, 2003). Investors’ risk preferences may affect this optimization (Hallahan et al., 2004). Risk-taking propensity is a multidimensional construct. Investment risk tolerance has four components: propensity, attitude, capacity, and knowledge. People with high sensation seeking tendencies showed greater risk-taking tendencies in financial decisions (Wong and Carducci, 1991). Lovric et al. (2008, p. 1) stated that the: [ . . . ] investment process is influenced by a number of interdependent variables and driven by dual mental systems, the interplay of which contributes to bounded rational behavior where investors use various heuristics and may exhibit behavioural biases. There are also other factors that skew decisions, such as misvaluations of financial assets (Ritter, 2003), lack of understanding and miscalculation of basic financial measures, such as volatility (Goldstein and Taleb, 2007), and finally, the effect of word of mouth and media driven feedback (Shiller, 2003). Simon (1956, 1959) proposed that decision makers are bounded rational and they aim at satisficing behaviour and not maximizing one. Neuroscience research has shown that “financial decision making has important roots in emotional and motivational processes and cannot be understood fully as the expression of cognitive limitations” (Sjobreg and Engelberg, 2006, p. 21). This is on account of the fact that investment decision making is a lot more than just mental processes that guide them. The argument for this awareness is based on the premise that people are very emotional when it comes to money matters and financial decision making under conditions of risk and/or uncertainty, and therefore ignoring this aspect would lead to an incomplete understanding of human behaviour (Zajonc, 1979; Lo and Repin, 2002; Lucey and Dowling, 2005). Assessment of risk is rooted in neurological processes (Peterson, 2007a). According to Tseng (2006, p. 10), “People’s cognitive evaluations of risks tend to differ from their emotional reactions to those risks”. One of the fundamental assumptions of Markowitz’s (1952), mean-variance (MV) theory is that risk is undesirable and therefore people are risk averse and that for a given level of risk people want the maximum returns and for a given return, people want to minimize risks. Thaler (1985) develops a concept of mental accounting in which decision makers apportion their wealth, knowledge and other resources into discrete and non-fungible mental accounts. In economic terms, this leads consumers to over-weight sunk costs and current cash outlays. It also leads to a number of behavioural anomalies. Thus, decisions involving risk are determined by expectations of how alternative outcomes will impact endowment, rather than on probabilities of the outcomes. This explains why a number of studies (e.g., Forlani, 2002) find that the facts of a decision are frequently ignored. And more qualitative – group of decision stimuli is the decision maker’s paradigm which comprises a pattern of personal features that are relatively stable across different decision types. These include competencies, personal attributes (especially demography and personality),

endowment, experience in previous decision making, and future aspirations. Hilary and Hui (2008) found that both individuals and organizations exhibiting a high degree of religiosity display lower levels of risk exposure in decision making. Similarly, Fernando and Jackson (2006) noted that in the individuals studied, outcomes of difficult decisions, and both good and bad, were in some way attributable to a religious, spiritual or value characteristic. Addressing the role of emotional intelligence in decision-making processes, Sevdalis et al. (2007) noted that although empirical research has emphasized the relevance of emotions in decision-making processes, individual differences in the perception and experience of emotion have been largely overlooked. The authors concluded when people make decisions, they often think about the emotions the outcomes are likely to trigger. Further,

Sevdalis et al. (2007) outlined decision-makers: 1. Anticipate their emotions before a decision materializes; 2. Experience them when they receive the outcomes of their decision; Recall them from memory when they contemplate past decisions (good or poor). There has been a debate on whether financial scandals are caused due to excessive profit seeking. One of the real root causes of the corporate scandals is “the overemphasis corporations have been forced to give in recent years to maximizing shareholder value without regard for the effect of their actions on other stakeholders”

(Kochan, 2002, p. 139). Many corporations have profit-sharing programs that are intended to align management interests with owners’ value maximization goals. Profit-based mechanisms create a huge amount of pressure and opportunity for individual managers and may have some serious flaws.

Bazerman and Watkins (2004) have found that financial scandals are actually surprises, which firms can predict well in advance. Owing to psychological, organizational and political factors, firms fail to predict them. By proper recognizing, prioritising and mobilizing firms can reduce their vulnerability to such scandals.

## **OBJECTIVE OF THE STUDY**

- To explore the factors influencing investors decisions in real and financial assets.

## **RESEARCH METHODOLOGY**

**The Study** – The Study is exploratory in nature.

**The Sample** – Non probability judgemental sampling technique has been used. For the research, 100 questionnaires were distributed to the target respondents that covered customers in Indore through email and collected the responses online. Due to time and money constraints, it is not convenient for the researcher to take a larger sample size. Research has introduced relation between investors and investors decisions

**The Tools for Data Collection** – Exploratory Factor Analysis has been used to explore the factors.

**Tools for Data Analysis** - The data coded in excel using MS-Office package. The coded data was then analyzed using SPSS version 20.0.

## RESULTS AND DISCUSSIONS

The results and discussion are as follows –

This table shows the value of KMO and Bartlett's Test which is .886 and shows that the researcher is eligible to do factor analysis.

**Table – 1 KMO and Bartlett's Test**

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	.886
Approx. Chi-Square	790.921
Bartlett's Test of Sphericity	df
	153
	Sig.
	.000

After doing factor analysis three factors were explored which are as follows –

**Table – 2 – Details of Return on Investment**

Factor	Items	Item Load
<b>Return on Investment</b>	Q16 Do Inflation in the country affect your investment decisions.	.807
	Q17 Do Interest Rate in the country affect your investment decisions.	.782
	Q15 Do GDP of the country affect your investment decisions.	.759
	Q18 Do your invest in the Assets that require big amount.	.663
	Q11 Government Regulations affect your investment decisions.	.657
	Q9 Attractiveness of an industry or market affect your investment decisions.	.639
	Q1 Is Size of Business affects your investment decisions.	.558
	Q8 Do you prefer to look at financial statement conditions before making any investment decisions.	.545

	Q12 Do you prefer Assets that can convert easily into cash.	.443
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**Table -3 – Details of Liquidity**

<b>Factor</b>	<b>Items</b>	<b>Item Load</b>
<b>LIQUIDITY</b>	Q6 Interest rates affects investment decisions.	.774
	Q13 Do you prefer assets having life more than 5 years.	.708
	Q7 Political Condition of a country affect investment decision.	.682
	Q10 Do you prefer to invest in different Sectors/ Industries.	.614
	Q3 Is Announcement of dividends affect your investment decisions.	.594
	Q2 Is past return of the company affect your investment decisions.	.512
	Q5 Do Investors sentiment affect your investment decisions.	.511

**Table -4 – Details of Risk in Investment**

<b>Factor</b>	<b>Items</b>	<b>Item Load</b>
<b>Risk in Investment</b>	Q4 Do you prefer Volatile Stock for investment.	.787
	Q14 On the following scale please indicate your tolerance for risk.	.634

**CONCLUSION**

The above discussion concludes that investment decision making is affected by numerous factors. The results reveal that Indian investors majority want to get low risk and higher returns. Their preferred investment alternatives are saving bank accounts, Fixed Deposits, Insurance Plans, Gold, Mutual Funds and Real Estate. This research study concludes that decision making process of investor is affected by many behavioral factors. These behavioral factors impact on decision making is vary to different degrees. The study makes some suggestions for equity fund managers or individual investors to make improvement in their investing activity by educating themselves about behavioral factors that make influence on their decision making and cause to their irrational behavior. This could help investors

in diminishing the uncertainty in their decision making of investment and may help them in uplifting their confidence. This may cause to raise their profits and market efficiency.

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