Volume - 5, Issue- 10,October 2017 IC Value : 56.46 e-ISSN : 2347 - 9671| p- ISSN : 2349 - 0187
EPRA International Journal of Economic and Business Review SJIF Impact Factor(2016) : 6.484
ISI Impact Factor (2013): 1.259(Dubai)

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Research Paper

INFLUENCES OF STOCK MARKET FACTORS ON INVESTMENT DECISIONS – A STUDY IN RELATION TO INVESTORS PERCEPTION

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ABSTRACT

Stock markets are considered to be integral part of the economy. They are considered to be the best indicators of performance of economy when it comes to buying and selling of securities. Indian stock markets have experienced significant changes in the last few decades. It is worthwhile to mention that investors perceptions play an important role in deciding the direction of stock market. Several research studies have identified the factors influencing investors perception towards stock markets while it is important to test whether it influences the investment decisions of investors. This study seeks to identify whether factors influencing investor perceptions has a significant impact on their investment choices and arrives at a meaningful conclusion which can benefit people dealing in stock exchanges and also provides scope for further researches in this area for researchers.

KEYWORDS: *Stock markets, investor perceptions and investment choices.*

INTRODUCTION

Investors are the heart of stock exchanges in any country. Without them it is impossible to imagine trading of securities in the stock markets. Perception, a psychological factor, influences the behavior of people whether it is in home or work place or businesses. With regard to stock markets investor perceptions play a significant role in it. The choice of their investment depends on their perception about stock market activities, brokers and investment avenues available. A successful investor should understand the factors affecting the stock market operations. Therefore it is important for the investors to understand the influences of various factors on investment decisions.

REVIEW OF LITEARTURE

Abdul Aziz Ansari and Samiran Jana (2009) in their article "Stock Price Decision of Indian Investors" published in The Indian journal of commerce, July-September 2009 concluded that there will be two kinds of investors – rational traders and noise traders. His study shows that rational traders are using both fundamental analysis and technical analysis as stock selection tools, which does not support the view of finance theorist. In an uncertain situation decision making process of noise trader will go through mental biases – self attribution bias, loss aversion bias, confirmation bias and overconfidence bias. As a result the noise traders will belief that some irrelevant information will be more important for price decision and they will trade more. This study has proved that some of the rational traders decision process also guided by all these biases. So rational traders also will not be able to predict the mental behavior of noise traders and effect of sentiment will be at Indian stock market.

A. Lalitha and M. Surekha (2008) in their article "Retail Investor in Indian Capital Market : Profile, Pattern of Investment and Profitability" published in The Indian journal of commerce, July-September 2008 concluded that the retail investor is here to stay and the capital markets may well emerge as strong contenders for traditional investment avenues like bank/post office deposits. They also focused on investor's education and investment decision of retail investors.

Alex Wang (2011) in his article "Younger Generations' Investing Behaviors in Mutual Funds: Does Gender Matter?" published in The Journal of Wealth Management, Spring 2011 concluded that This study aims to understand younger generations' investing behaviors in mutual funds in order to help wealth advisors understand how better to work with younger generations. his study reveals that knowledge, experience, and income are important factors that influence younger generations' investing behaviors in mutual funds. Moreover, gender emerges as the most important factor that differentiates younger generations' investing behaviors in mutual funds. The findings point out challenges for younger women's wealth management, as they tend to exhibit fewer investing behaviors in mutual funds than their counterparts do. Consistent with previous research on wealth management among older generations, gender differences have significant implications for wealth advisors. As a result, wealth advisors should help younger women enhance their wealth management and financial future by facilitating their acquisition of necessary financial knowledge and experiences and their involvement with their wealth management.

STATEMENT OF THE PROBLEM

The stock markets play an important role in the Indian Economy. Apart from various economic indicators like GDP, per capita income etc, stock market indices like SENSEX, NIFTY also indicates the performance of the economy. Investors judge the performance of the markets for investment decisions based on these indices. Investment decisions of the investors also depend upon various other factors. Investor perceptions play an important role in deciding the trend of the market. Of course, trend of the market and investor perceptions are interrelated. At present scenario, it is important to study the importance of various factors influencing investors perception towards investment decisions. During the last few months, Indian stock markets have reached its enormous heights and also witnessed some falls too irrespective of unfavorable conditions in the market. Hence it becomes necessary to study the impact of various factors affecting investor perceptions towards their investment decisions.

RATIONALE OF THE STUDY

Several research studies focused on various factors affecting the investor perceptions towards various investment avenues. These factors generally revolve company oriented factors and economic factors affecting the market as a whole. Investors' demographic profiles and their risk taking abilities also affect the investor perception. However few research studies focused on the influence of these factors on investment decisions. Investment decisions determines the success or failure of the investor in the stock market. Thus there is a research gap which needs to covered to study the impact of the factors on investment decisions and hence this study is carried out. This study will further help in better understanding of investor psychology in respect of various investment avenues.

SCOPE OF THE STUDY

The study titled "Influences of perception factors on investment decisions of investors" is limited to the perceptions of investors in Chennai city. The study limits its scope only by considering economic, company and demographic factors affecting the investment decisions of the investors. The investors surveyed for this studied covers only retail investors who involve in stock market operations mainly through institutional brokers like banks. Further, the study covers different categories of investors who are either self employed or salaried employees who have a good knowledge about the activities and operations of the Indian stock market.

OBJECTIVES OF THE STUDY

The objectives of this study are as follows

- ✓ To understand the various factors affecting the perceptions of investors
- ✓ To test whether there is any relationship between economic factors and investment decisions of the investors.
- ✓ To test whether there is any relationship between company factors and investment decisions of the investors.
- ✓ To suggest measures for choosing a best investment option.

SIGNIFICANCE OF THE STUDY

The results of this study seeks to benefit the following categories of people dealing in stock market trading

1. Investors: No doubt, the stock market operations depends upon the investor perception which in turn depend upon various factors influencing their perception. This study will benefit the investors as it will provide them with an insight about the investing pattern of others investors trading in the stock market. So the investors who have not considered so far the factors considered in this study, through the results of this study can revise criteria in their future investment decisions.
2. Brokers: The stock brokers play an important role in the stock market. They act as intermediaries between buyer and seller of securities. This study will benefit the stock brokers as this study will enable them in understanding the various factors which has a significant impact on investor choice of investment avenues. This understanding will enable them to reap maximum benefits during peak stock market conditions and protect themselves and the investors during adverse market conditions.
3. Companies : The companies dealing in stock markets will also benefits from this study. The study will provide them with the idea about the influences of various factors in investor decision. This will help them in formulating strategies during unfavorable market conditions and protect themselves from major fall in their position in the stock market. In otherwords, it will help them in taking proactive approach rather than reactive approach.

RESEARCH METHODOLOGY

The data required for this study is collected both from primary and secondary sources.

Primary Data

The primary data for this study is collected through questionnaires. The questionnaire is divided into two parts consisting of demographic profile and factors influencing investor perceptions.

Secondary data

The secondary data for this study is collected from various journals, websites and magazines to support this research study.

Sample Size

The sample size for this study is 90 respondents. The sample consists of retail investors in Chennai city who engage in stock market trading through institutional brokers mostly the banks. The sampling design used for this study is random sampling.

Statistical Design

The statistical technique used in this study is Structured Equation Modeling. Structural equation modeling is a multivariate statistical analysis technique that is used to analyze structural relationships. This technique is the combination of factor analysis and multiple regression analysis, and it is used to analyze the structural relationship between measured variables and latent constructs.

LIMITATIONS OF THE STUDY

The various limitations of this study are as follows

- ✓ The study considers only retail investors and therefore the results may not be applicable to all classes of investors trading in stock market.
- ✓ Further this study focuses only on retail investors in Chennai city. Therefore it is not reflective of entire class of retail investors in Tamilnadu.

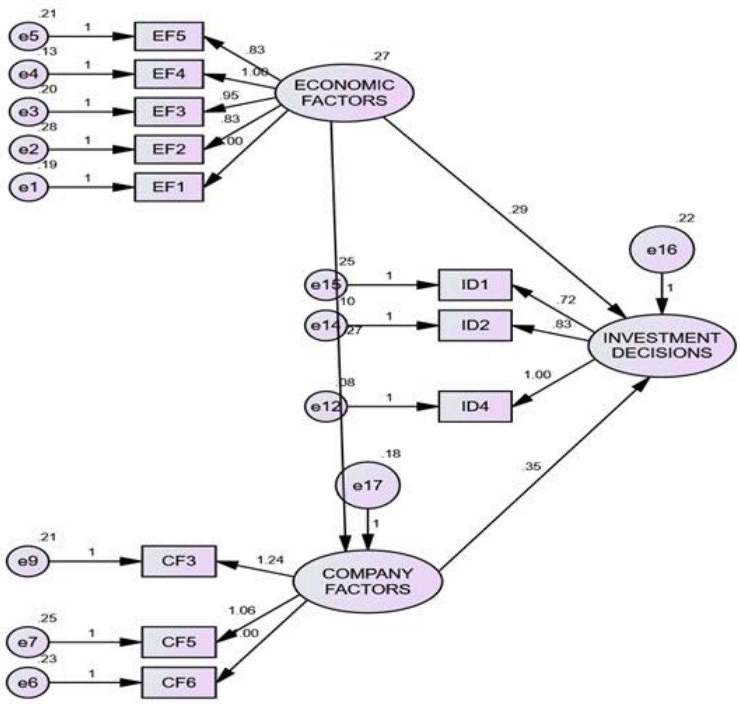
DATA ANALYSIS AND INTERPRETATIONS

SOCIO-DEMOGRAPHIC PROFILE OF THE RESPONDENTS

Socio – Demographic Profile	Classification	Frequency	Percentage
Age	21 – 31	78	86.7%
	32 – 42	04	4.4%
	Above 53	08	8.9%
Income	Above 250000 but below 500000	31	34.4%
	Above 500000 but below 700000	28	31.1%
	Above 700000 below 1000000	13	14.4%
	Above 1000000	18	20.0%
Occupation	Salaried Employee	82	91.1%
	Self Employed	08	8.9%

INTERPRETATION

The above table shows the socio demographic profile of the respondents. Understanding the socio – demographic profile of the population is essential for studying the investment decisions of the investors. From the above table it is clear that nearly 86.7% of the investors are young investors. The income of the majority of the respondents is between Rs.250000 and Rs.500000. The income between Rs.500000 and Rs.700000 is also good. Most of the respondents are salaried employees.



Indices	Value	Suggested Values
Chi square / DF	1.392	Less than 5.00
GFI	0.910	Greater than 0.90
CFI	0.956	Greater than 0.90
RMSEA	0.066	Less than 0.08

Indices	Hypothesis 1	Hypothesis 2
P – value	0.025	0.030

INTERPRETATION

From the above table it is clear that the model is perfectly fit as it sartisfies the basic crieria for the model fit. For the purpose of this study we framed two hypothesis.

Hypothesis 1

H_0- Economic factors has no significant impact on investment decisions of the investors.

H_1- Economic factors has a significant impact on investment decisions of the investors.

From the above table it clear that the economic factors has a significant impact on the investment decisions of the investors. In the above the p – value for the hypothesis is 0.025 which is less than the significance level of 0.05. Therefore we conclude that there is a significant relationship between economic factors and investment decisions of the investors. This is because stock market trend depends upon the performance of the economy. For example, if the GDP of the economy is in the increasing trend, the stock market will move in the upward trend reflecting a bullish period for the market. This will increase the FII flow into the market as the market becomes the favourable place for overseas investors to invest. Apart from GDP, other economic factors like balance of payments position, inflation, Interest rates also influences the investment decisions of the investors. However it should be noted that the investment decision is not affected by single economic factor but requires consideration of several other economic factors. Hence the economic factors has a significant imapct on the investment decisions of the investors.

Hypothesis 2

Ho – Company factors has no significant impact on investment decisions of the investors.

H1 – Company factors has a significant impact on investment decisions of the investors.

The company oriented factors also has a significant imapct on investment decisions of the investors. Since the computed p-value is less than 0.05 we reject our null hypothesis and accept the alternate hypothesis. The key company factors considered for investment purposes are earnings per share, price earnings ratio, debt equity mix and non operating income impact on profits. Earnings per share indicates the revenue generated by very one equity share. So if the company's earnings per share show an increasing trend, it is a good sign for investors to invest in those companies. Similarly price earnings ratio also indicates position of the company. If the earnings ratio is higher than the standard earnings in the industry, then the company becomes a good choice of investment by the investors. Similarly debt equity mix also requires special consideration. If the presence of debt content in the capital structure of the company is huge, it is not a good sign. However if the company enjoys stability in their earnings, then it is not a problem for the company. Otherwise, higher debt content will take away much of the profits of the company in the form of interest. Similarly, if the equity content is more the company can declare some part of the profits as dividend and retain some part of earnings as reserves. It is also not compulsory to declare dividend. If the income of the company consist more of non operating income then it is not a good sign, as operating income sales is not consisitent. Thus the company factors have a significant impact on the investment decisions of the investors.

FINDINGS

The findings of the study are as follows

- The study finds that economic factors has a significant impact on investment decisions of the investors.
- Similary company factors has a signifcant imapct on investment decisions of the investors.
- The socio demographic profile of the respondents revealed that 86.7% investors afll under the age 21-31 and 91% investors are salaried employee. Majority of the investors income comes between Rs.250000 and Rs.500000.

SUGGESTIONS

Primarily the investors should consider various factors before choosing a investment avenue. Economic factors like GDP, inflation rate, BOP position indicates performance of the market. Therfore investors should consider these factors before investing. Stock Indices reflect the market. Apart from various factors discussed by the study, the investors should also consider the nature of investment avenues and its past performance in the market. Similarly investors should invest with the objective of long term holding rather than for short term gains. They can start less risky investments like mutual funds and after developing a good knowledge of stock markets can go for equity investments and after a period 8 to 10 years can diversify their investments.

CONCLUSION

Good financial background alone is not sufficient to be successful investor. Investors should be risk loving to be successful in the investments. Not all investors are successful investors. The success of the investor in the stock market depends on his or her investment decision. The right investment choice will give right benefits to the investors. Early they enter more profitable opportunities for them. Therefore investors should consider economic factors, company factors and their demographic profile while deciding the investment avenues.

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