PSYCHOLOGY OF INVESTORS BASED ON VALUE AND LIFESTYLE SURVEY

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ABSTRACT

The Investors' sentiment can be defined as investors' attitude and opinion towards investing in the Stocks. The aim of this study is to analyse the individual investors' sentiment and analyses the influence of Market Specific Factors on investors' sentiment. The Investor's attitude towards investing is influenced by rumours, intuition, herd behaviour among investors and media coverage of the stock. A simple random sample of 375 Investors in Haryana were chosen for the study. The sample Investors were administered a structured Schedule containing pre-validated scales to measure the Investor Sentiment. Once the constructs were found to be both reliable and valid, the impact of Risk and Cost factors, performance factors and confidence level of Institutional Investors, Best Game in Town factors were tested using bootstrapping method. The Market Specific Factors had a significant impact on the Investors Sentiment.

***Key Words**: Investors 'Sentiment, Boot Strapping, PLS Path Modeling, Performance Factors, Risk & Cost, Best Game in Town.* *a. Ph. D Research Scholar, Department of Commerce and Financial Studies,Bharathidasan University, Tiruchirappalli – 620 024. India* bennetebenezer@yahoo.com

INTRODUCTION

The research in behavioural finance is comparatively less in India, when compared to other foreign countries. Behavioural finance is defined by Shleifer, A (1999), ―a rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners‖. Within behavioural finance it is assumed that information structure and the characteristics of market participants systematically influence individuals 'investment decisions as well as market outcomes. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. The globalization of financial markets has been increasing the retail investors 'community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process.

The retail investors generally consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. Their attitude is influenced by variety of factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness programme, experience of other successful investors etc. A better understanding of behavioral processes and outcomes is important for financial planners because an

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understanding of how investors generally respond to market movements should help investment advisors in devising appropriate asset allocation strategies for clients. (Hussein et al 2006).

Are the Investors' Rational?

LITERATURE REVIEW

The following are the select earlier Research Studies conducted in the area of Behavioural Finance. The literature on investor‘s sentiment is still in its infancy, and much remains to be discovered and learnt about the roles of investor sentiment in financial markets. The first few papers develop proxies of sentiment and show that stocks become overpriced (underpriced) during periods of high (low) sentiment, which leads to predictable subsequent returns **(Baker and Wurgler (2006, 2007)**, **Lemmon and Portniaguina (2006)** and **Qiu and Welch (2006)**.

Peter Roger Eiving (1970) carried out a study to identify those factors which motivate (or) guide the investment decisions of the common stock investors. The study identified the factors (i) Income from dividends (ii) rapid growth (iii) purposeful investment as a protective outlet of savings (iv) Professional investment management. **Shanmugam** (1990) studied a group of 90 investors to examine the factors affecting investment decision. The study focused its analysis on the investment objective and the extent of awareness on factors affecting investment decision. The study found that the Indian investors are high risk takers. Investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

Theoretical framework and hypothesis

According to E. Bennet and M. Selvam, 2010 SPERTEL Risks had influence on the Value of Equity Shares. The Market Factors had influence over the Stock Selection Decision of Retail Investors (E. Bennet, M. Selvam and G. Indhumathi, 2010). The Market Factors had influence over the Attitude of Retail Investors towards investing in the Equity Stocks (E. Bennet and M. Selvam et al 2010).

Most of the Investors expect the stock prices to go up to a degree greater than most of their investments. If the market has gone down, they think it will rebound. If the market is up, they think it will go further. In either case they make investment decision on account of the assumption that the stock market will give better returns. Hence the following hypothesis is formulated.

Risk and Cost factor: The individual investors identified two factors as most important for cutting down the cost and to improve the efficiency at the corporate level. The first one is cost cutting at the operations level and the second being technological advancement. Similarly they also identified two aspects of risk that influenced the investor‘s attitude. First investors believe that higher the risk higher the return. Hence they admit that they are taking more risk than ever before and secondly investor‘s view the stability and the able governance of the Government as an important factor influencing their faith in the Stock market.

Performance Factor and Confidence Level of Institutional Investors: The overall performance of the Indian Economy, Indian Stock Market and the corporate world were identified one of the important factor that would influence the Individual Investors to invest in the Stock market. The overall confidence level of the Institutional investor was also considered as another factor.

Best Game in Town: Almost all investors felt that among all the investment avenues available like Post office savings, Life Insurance, Treasury Bills, Chit Funds etc, is very low when compared to equity investment. Hence this is one of the reasons for mass participation in stock investing. This makes stock market as the only place attractive to invest and for some investors it has become a national pastime.

H1: The Investor‘s expectation of stock prices rising for the next 12 months is likely to be influenced by Risk and Cost factor, Performance Factor and Confidence Level of Institutional Investors, Best Game in Town.

MATERIAL AND METHOD

Data collection and instrument administered

The instrument used for this study consists of four constructs namely Herd Behaviour of Investors, Internet Led Access to Information and Trading, Macro Economic Factors and Stock Prices rising for the next twelve months. These four constructs are measured using an already validated instrument developed by Shiller's (1999) and Vandana Singhvi (2001). Investors living in Haryana through a structured Interview Schedule. The study was conducted during the period between May and September, 2010.
Sampling Size and Procedure: In order to collect information from the retail investors, the sampling design has been carefully decided and properly chosen for the study. The sample size covered 400 retail investors who were spread through ten different investment centres in Haryana. The important places where large investors are available are identified as Investment Centres for this study using purposive sampling method. The ten important places in Haryana include Rohtak, Ambala, Kurukshetra, Mahendargarh, Gurgaon . From each identified investment centre, five approved stock brokers were chosen and eight investors were contacted with the help of brokers. However, on a detailed scrutiny of the filled in Schedules, it was found that 25 of them had given incomplete information and hence the responses could not be used for further analysis. Thus, this study is based on 375 selected respondents of the retail investors.

Variables

a. This study consists of the following dependent variables

i. Stock prices in India will rise in the next 12 months.

ii. I will stay invested in the Indian Stock Market even during Crisis.

iii. I plan to increase my investment in the Indian Stock market in the next 12 months.

b. ***Independent Variables**:* Identifying the Market Specific Factors influencing Investor Sentiment

The in-depth interviews and secondary research identified three multi-item market specific factors that possibly influence on investor‘s attitude towards investing. survey, the sample respondents were asked to rate each item on a one (not important) to seven (very important) point scale indicating the extent to which they thought each of the item is likely to influence the individual investor's attitude towards investing. The idea was to get the relative importance of market factors likely to influence investors 'sentiment. This rating was used to list the independent market variables that could impact investors 'sentiment. The three multi-item market specific factors are Herd Behaviour of Investors', Internet led access to information and Trading and Macroeconomic factors

Risk and Cost factor: Investors 'believe that higher the risk higher the return. Hence they admit that they are taking more risk. (Alpha = 0.841)

Performance Factor and Confidence Level of Institutional Investors: The overall confidence level of the Institutional investor was also considered as another factor. (Alpha = 0.769)

In this research we use structural equation modeling to test the unidimensionality of the constructs. There are two approaches to structural equation modeling— covariance methods and PLS path modeling. Covariance methods make rigid assumptions about the distribution of variables (multivariate normality) and the sample size (at least 200). Another criterion is the degrees of freedom, which means that each construct should have at least three indicators for it to be identified. This makes them unsuitable for use in this research. The PLS methods, on the other hand, are nonparametric in nature. They do not make any assumptions about the distribution of the data, and the sample size needed for model validation and testing (5-10 times the largest number of indicators/construct in the model) is much smaller each construct is checked by examining the Average Variance Extracted'(AVE) values. Constructs which have AVE values greater than 0.5 are said to have convergent validity or unidimensionality. In some cases, values up to 0.4 are also considered if they are central to the model (Chin, 1995 and 1998; Chin and Newsted, 1999; and Chin *et al.*, 2003). Discriminant validity of constructs is ascertained by comparing the AVE scores of the two constructs with the square of the correlation between the two constructs. If both the AVE values are larger than the square of the correlation, the constructs can be considered to show discriminant validity (Fornell and Larcker, 1981). The large-scale validation results on each of the constructs - Risk and Cost factors, performance level and confidence level of Institutional Investors, Best Game in Town and Stock Prices rising for the next twelve months. For each construct the instrument assessment methodology described above has been applied.

CONCLUSION

This research paper tested the reliability and validity of four constructs. The constructs were found to be both reliable and valid. It was found that Investor's expectation of stock prices rising for the next 12 months is likely to be influenced by influenced by both Performance factors & Confidence Level of Institutional Investors and the Best Game in Town factors. ***Global Conference on Innovations in***

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