

# INVESTOR BEHAVIOUR TOWARDS VARIOUS CAPITAL MARKET INFORMATION

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## ABSTRACT

*Investing may offer expressive benefits like status and feelings of social responsibility besides utilitarian benefits like low risk in combination with high returns. Investor behaviour is characterised by overexcitement and overreaction in a volatile market. Investors get carried away by the financial magazine ratings, media impact, tips from share brokers, friends and others and the sources of information were not adequately tapped. The goal of financial independence and wealth drive millions of investors to seek out vehicles by which success may be achieved through any investment avenue. Investors have more socially oriented needs, which can have important implications for their decision making process. In this paper investor behaviour is analysed whether they behave rationally or irrationally towards various capital market information like bonus issue, rights issue, dividend declaration etc and the result show that investors behave rationally towards specific capital market information.*

**Keywords:** investment decision, rational, irrational, overreaction, influence, opinion.

### Introduction:

#### Indian Capital Market – An Overview:

The Indian Capital Market has witnessed major transformation and structural changes during the past one decade as a result of ongoing economic reforms initiated by the Government of India, since 1991. These reforms have been aimed at improving market efficiency, enhancing transparency, preventing unfair trade practices and bringing the Indian capital market to international standards.

In spite of the fact that the Indian capital market has made a rapid transformation in both the primary and secondary markets, there are certain major issues which are faced by the investors are vanishing companies, stock scams, insider trading, lack of necessary professional expertise, frequent threat from terrorists, etc.

#### Investor Behaviour – Characteristics:

Investments are made with an avowed objective of maximising the wealth. Investors need to make rational decisions for maximising their returns based on the information available by taking judgements free from emotions (Brabazon.T, 2000). Investor behaviour is characterised by overexcitement and overreaction in both rising and falling stock market and various factors influences their decision making processes. Investment decisions are also affected by investor psychology.

Investors make investment decisions before outcomes are certain. Psychologists have found that as decisions become more difficult and involve higher levels of uncertainty the decisions tend to be more greatly influenced by emotions and feelings (Cianci A.M, 2008). For eg., investors are reluctant to sell a stock at a loss. They often want to hold a stock until it goes back up to the price paid for it no matter how long it takes. Such a decision is based not much on the opinion that the stock is a greater investment opportunity for them but more on the desire to avoid that awful feeling associated with admitting a mistake. Successful investors are able to understand and overcome these adverse psychological influences (Iyer B and Baskar R.K, 2002).

The ability to understand the judgement heuristics like rationality or irrationality of the investment pattern and behaviour will enable the investor to act with caution as the consequences are likely to affect the asset value, lifestyle, relationship with others and social interaction. Investors in various places (Shanmugasundaram V and Balakrishnan V, 2010) acknowledge the role of emotions in investment decision making and their empirical results suggested that the demographic factors influence the investors' investment decision.

Behavioural finance is a new paradigm of finance which seeks to supplement the standard theories of finance by introducing behavioural aspects to the decision making process of investors. This field merges the concepts of financial economics and cognitive psychology in an

attempt to construct a more detailed model of human behaviour in financial markets. Ricciardi V, 2005 ascertains that behavioural finance investigates the cognitive factors and emotional issues that individuals, financial experts and traders exhibit within the securities market. Waweru N M et al., (2008) investigated the role of behavioural finance and investor psychology in investment decision making and identified that certain behavioural factors affected the decision making behaviour of the investors. It acquired importance because in stock market, decisions are not guided by rationality or prudence, but the emotions, greed and insufficient knowledge in stock market operations in the highly overloaded information environment (Shanmugasundaram V and Balakrishnan V, 2009).

A prudent investor who can control his emotions can use his money for hedging against inflation by identifying sources of right analytical presentations and by sparing sufficient time for investment decision for directly partaking in the stock market operation including futures and options, (Shanmugasundaram V and Balakrishnan V, 2006) otherwise he can choose the mutual fund route or portfolio manager and operate through systematic plan, where his investments will attain its real worth.

#### Statement of The Problem:

During the past several years the equity markets have been characterized by increasing volatility and fluctuations. From an investor's point of view, the vulnerability of markets has lead to increased uncertainty and unpredictability, as market conditions cannot always be judged with the help of standard financial measures and tools. Market participants have for a long time relied on the notion of efficient markets and rational investor behaviour when making financial decisions. However, the idea of fully rational investors who always maximize their utility and demonstrate perfect self-control is becoming inadequate. Approaches based on perfect predictions, completely flexible prices, and complete knowledge of investment decisions of other players in the market, are increasingly unrealistic in today's global financial markets. The fact that even the most prominent and well-educated institutional investors, as well as individual investors, were affected by the collapse of the market demonstrates that something might well be fundamentally wrong in our current models of rational market behaviour. Our purpose is to describe and conduct a research on what factors, investing characteristics, and decision-making processes affected individual investors. Within this rationale, the study aims to analyse investors' behavioural dimensions towards various capital market information.

#### Review of Literature:

There has been substantial theoretical as well as applied evidence about the explanatory facets of investors' perception and investment decision making. Over the last two decades, investor behaviour has been put under the

microscope for analysing their decision making and the factors that influences their investment behaviour. The evolution of Behavioural Finance led researchers to examine the psychological traits of investors and how they influence their investment-decision making strategies in various investment avenues.

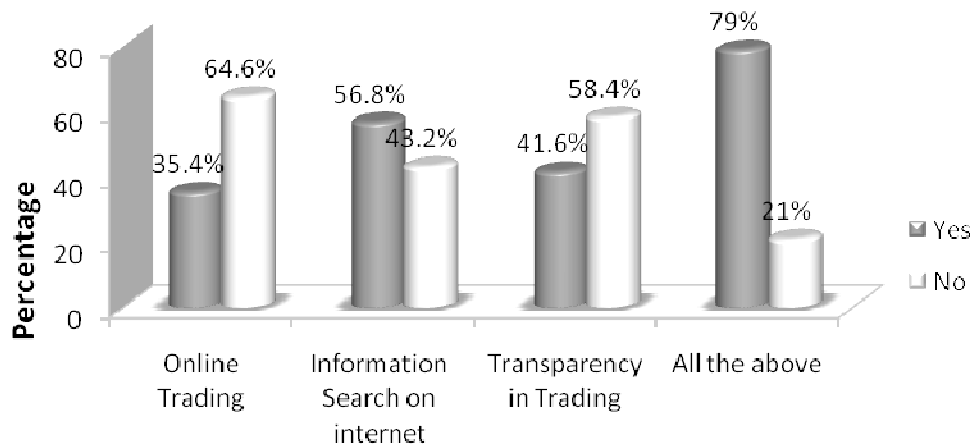
- ❖ **Nicolosi G et al., (2009)** analysed individual investors' learning behaviour from two perspectives, the first being based on the relation between trade performance and trading behaviour and presented strong evidence that individual investors learn from their trading experiences. Further they posit that not only do excess portfolio returns improve with account tenure, but they also found that trade quality significantly increases with experience and concluded that individual stock investors do learn, and they consequently adjust their behaviour and thus effectively improve their future investment performance.
- ❖ **Mittal M and Vyas R.K (2008)** explored the relationship between various demographic factors and the investment personality exhibited by the investors. Empirical evidence suggested that factors such as income, education and marital status affect an individual's investment decision. Further the results revealed that investors in India can be classified into four dominant investment personalities namely casual, technical, informed and cautions.
- ❖ **Barber B et al., (2008)** documented that individual investor trading results in systematic and economically large losses with reference to Taiwanese individual investors and found that they incur trading losses, trading costs, and market timing losses that reduce their aggregate portfolio return by 3.8 percent annually.
- ❖ **Hvidkjaer S (2008)** analysed the relationship between retail investor trading behaviour and the cross section of future stock returns. The result suggests that stocks favoured by retail investors subsequently experience prolonged underperformance relative to stock out of favour with them. This results link the systematic component of retail investor behaviour to future returns, i.e., informed investors might begin selling stocks that they believe to be overvalued. The overvaluation that these investors perceived could be driven by changes in firms fundamental values.
- ❖ **Rudramurthy B.V and Raju H.K (2008)** evaluated the investment strategies based on the technical indicators for IT stocks in Indian capital market and identified through an analytical study that technical analysis do play a vital role in timing the market and enables an investor to gain more than the other participants who do not follow technical charts. Hence investors are advised to take investment decision by timing the market based on certain tools and techniques.
- ❖ **Chaubey D.S and Dimri R.P (2009)** in their empirical investigation identified that investment perception and various factors which influence the investors in their selection of the investment avenues. They found that

**Table 1.1 Frequency Distribution of Factors Influencing Investment Decision**

Influencing Factors	Yes		No		Total
	Count	%	Count	%	
Online Trading	177	35.40	323	64.60	500
Information Search on internet	284	56.80	216	43.20	500
Demat holding and Transparent transactions	208	41.60	292	58.40	500
<b>All the above</b>	<b>395</b>	<b>79.00</b>	<b>105</b>	<b>21.00</b>	<b>500</b>

Note : Multiple responses

**Chart 1.2 Showing Various Factors That Influences Investment Decision Of Investors**



**Factors influencing investment decision**

the behaviour of investors for designing effective investment policies which indicated that investors’ choice of their investment scheme is associated with the demographic factors like age ender, marital status, occupation and income but it is not associated with their level of education, family size and annual savings. They concluded that physiological profiling is the most important aspect which needs to be taken care for various investment avenues.

**Objectives And Methodology:**

**Objectives of The Study:**

1. To study the various factors that influences investors’ decision making process.
2. To analyse the information reach and its impact on investors’ decision making process.

**Limitations of The Study:**

Though the present research is aimed to achieve the above mentioned objective in full earnest and accuracy there are certain limitations. The data has been taken from primary

sources so that the findings are true to the extent of authentication of the data.

The time factor was the main limitation for completion of the research and the study was conducted targeting the investors in major cities and towns alone in Tamil Nadu. The primary data has been collected from 500 investors by using a structured questionnaire.

Even though the survey was conducted among the investors having portfolio of the capital market instruments it may not reflect the real opinion of the total population of Tamil Nadu. The samples may behave or give opinions differently at different times because of their psychological temperament. This will have major impact on the survey.

**Hypotheses of The Study:**

Based on the objectives stated above, to achieve the objectives the following hypotheses were framed to find out the answer for the research problem.

**Hypothesis 1:** Investors behave rationally towards various capital market information.

**Hypothesis 2:** Various technological factors influences investment decision of investors.

**Table 1.3 Chi Square Test For Association Between Investor Behaviour And Various Capital Market Information**

No.	Capital market information	Investor reaction	Investor Behaviour			Chi Square Value	P Value
			Buy	Sell	Hold		
1	Bullish Market	Confused	63(49.6)	40(31.5)	24(18.9)	3.381	0.184
		Rational	158(42.4)	116(31.1)	99(26.5)		
2	Result better than Expected	Confused	31(24.4)	70(55.1)	26(20.5)	9.895	0.007**
		Rational	143(38.3)	151(40.5)	69(21.2)		
3	Result below expectation	Confused	16(12.6)	43(33.9)	68(53.5)	1.292	0.524
		Rational	54(14.5)	141(37.8)	178(47.7)		
4	Dividend announcement	Confused	42(33.1)	32(25.2)	53(41.7)	1.380	0.502
		Rational	103(27.6)	100(26.8)	170(45.6)		
5	Bonus announcement	Confused	39(30.7)	36(28.3)	52(40.9)	5.518	0.053*
		Rational	147(39.4)	72(19.3)	154(41.3)		
6	Stock split announcement	Confused	17(13.4)	37(29.1)	73(57.5)	5.949	0.050*
		Rational	88(23.6)	96(25.7)	198(50.7)		
7	News of merger	Confused	49(38.6)	35(27.6)	43(33.9)	14.875	0.001**
		Rational	87(22.3)	104(27.9)	186(49.9)		
8	Expansion plans	Confused	34(26.8)	50(39.4)	43(33.9)	8.170	0.012**
		Rational	87(23.3)	107(28.7)	179(48.0)		
9	Diversification plans	Confused	19(15.0)	44(34.6)	64(50.4)	0.984	0.611
		Rational	70(18.8)	127(34.0)	176(47.2)		

\*denotes significant at 5% level

\*\* denotes significant at 1% level

**Data Sources:**

The study is mainly based on primary data which was collected through a well structured questionnaire consisting of 21 questions. The data was collected extensively from various cities and towns in Tamil Nadu identifying investors through share broker officers and financial institutions. Those investors were identified and focussed since they had sufficient knowledge about investment in capital market.

Secondary data has been collected through various websites, research articles published in various online journals, national and international publications (refer to references) by visiting well reputed institution libraries which include all the Indian Institute of Management (IIMs) across India, Indian School of Business, Hyderabad, Institute of Financial Management and Research (IFMR), Chennai, Indian Institute of Technology(IIT) Chennai, Bombay Stock Exchange (BSE) Training Institute and various Business Schools in India.

**Methodology of The Study:**

The nature of the study is descriptive, whereby it includes survey and fact finding enquiries and describes the state of affairs, as it exists at present. An extensive literature survey can be used to identify the conceptual framework that might be relevant to the behavioural dimensions of investors in capital market. To empirically test the hypotheses framed based on the objectives of the study, a well structured questionnaire was prepared. Before administering the questionnaire, it was made clear to all the respondents that it was a non-commercial academic

study and that under no circumstances their individual data would be made available to anyone. It was moreover possible for respondents to complete the questionnaire anonymously.

The questionnaire was distributed to collect the primary data from 515 investors from various towns and cities in Tamil Nadu. A total of about 515 questionnaires were sent to the investors located in various towns and cities mainly through broker offices in the city. The responses of 500 valid questionnaires were selected after omitting the incomplete questionnaires.

The questionnaire had two sections. In the first section, the demographic details with respect to investor’s educational qualification, age and income details, gender, occupation, marital status were recorded primarily for the classification of investors.

The second section of the questionnaire was related to the behavioural details of the investor. The various avenues the investor has invested in and details regarding investment in capital market Further this section questions are framed to find out what other factors affect investor to change their investment profile, life style characteristics. After the data were collected, diverse statistical tools and techniques were used to get an insight into the behavioural aspects of investors. Data were analysed using the Software Package for Social Sciences (SPSS). The collected data from 500 respondents (investors) had been analysed with descriptive and Inferential statistical analysis.

Data presented in above table 1.1 with multiple responses indicates that 35.40 percent accept that online trading facilities their investment decision. 56.80 percent of them

accept that information search on the internet facilitates and 41.60 percent acknowledge that transparency in trading and holding of shares in demat form facilitates them in investment decision. The majority of the respondents i.e 79 percent accepted that all the three latest technologies mentioned above facilitates them and influenced them in taking investment decision.

### Testing of Hypothesis:

**Hypothesis 1 :** Investors behave rationally towards various capital market information.

**Null Hypothesis:** There is no association between investor behaviour and various capital market information.

The above table 1.3, reveals that, during bullish market condition 49.6 percent of the investors are confused while buying shares and 31.5 percent are confused while selling and 18.9 are confused whether to hold the shares existing with them. Further 42.4 percent of the investors take rational decision while buying shares and 31.1 percent take rational decision while selling and 26.5 percent decides to hold.

When the results of the company announced is better than expected 24.4 percent wants to buy shares of that company 55.1 percent are willing to sell and 20.5 percent are willing to hold while in a confused state of mind in taking investment decision. Further among the investors who take rational decision, 38.3 percent wants to buy, 40.5 percent wants to sell and only 21.2 percent are willing to hold the shares of the company.

When the results announced is not upto the expectation, among the investors who are in a confused state of mind, only 12.6 percent wants to buy shares, 33.9 percent wants to sell and 53.5 percent of the investors prefer to wait and watch by holding the shares. Among the investors who take rational decision, only 14.5 percent wants to buy, 37.8 percent wants to sell and 47.7 percent wants to hold the shares.

When a company announces dividend 33.1 percent of the investors buy that company shares 25.2 percent of the investors sell the shares and 41.7 percent of them are willing to hold when they are in confused state of mind. Further 27.6 percent of the investors buy the shares, 26.8 percent sell it and 45.6 percent are willing to hold while taking rational decision.

When the company announces bonus shares 30.7 percent of the investors are buying, 28.3 percent are selling and 40.9 percent of them wants to hold when they are confused. Further 39.4 percent of the investors buy more shares, only 19.3 percent of them sell the shares as cum-bonus and 41.3 percent of them are willing to hold while taking rational decision.

When a company announces stock split of the shares among the investors who are confused in taking decision 13.4 percent buy shares 29.1 percent sell the shares and 57.5 percent were willing to hold it. Whilst among the investors who took rational decisions 23.6 percent buy shares, 25.7 percent sell the shares showing not much of

interest in stock split and 50.7 percent willing to wait and watch by holding their existing shares.

When there is any news of merger, among the investors who are confused, 38.6 percent shows interest in buying, 27.6 percent prefer to sell and 33.9 percent are willing to hold. Among the investors who took rational decisions 22.3 percent buy the shares 27.9 percent wish to come out of the investment by selling it and 49.9 percent of them are willing to hold the shares for further information from the company.

For the information on a company announcing expansion plans, among the investors who are confused while taking investment decision 26.8 percent wants to buy shares, 39.4 percent wants to sell and 33.9 percent preferred to hold. 23.3 percent wished to buy, 28.7 percent wished to sell and 48.0 percent wanted to hold among the investors who took rational decisions.

When a company announces diversification plans, among the investors who are confused in taking decision, 15.0 percent wanted to buy shares, 34.6 percent preferred to exit from their holdings and 50.4 percent of them preferred to hold their existing position. Further 18.8 percent wished to buy, 34.0 percent preferred to sell and 47.2 percent preferred to hold the shares while taking rational decisions.

### Major Findings of This Research:

From the Table 1.1 it is evident that latest technologies like online trading , holding shares in demat form and transparent transactions facilitates investment decision of investors.

From the table 1.3, based on the P values, it is evident that there is association between investor behaviour and the following capital market information.

- (i) Results better than expected which is significant at 1% level
- (ii) Bonus announcements which is significant at 5% level
- (iii) Stock-split announcements which is significant at 5% level
- (iv) Merger announcements which is significant at 1% level
- (v) Expansion plans which is significant at 1% level

Hence it is concluded that investors behave rationally towards specific capital market information.

### Conclusion:

Investor decisions are influenced by psychological factors and behavioural dimensions in accordance with the research results shown in other countries. However this research brings forth certain peculiar characteristics of Indian investors notably living in Tamilnadu.

As regards quantitative factors, the behavioural patterns indicate the investors follow the western analytical models. This research presents the dependence of small investors on the advice of leading companies. It shows their lack of confidence in their knowledge to decide. It is also found that investors behave differently during bullish and bearish market conditions. The results of this research shows that the investors behave rationally towards various capital

market information. Thus, results reinforce Warren Buffet's advice, "Avoid herd Mentality and keep your own counsel". He further advised that it does not need extra brilliance to make profitable investment decisions, but it requires a lot of discipline.

A prudent investor who can control his emotions can use his money for hedging against inflation by identifying sources of right analytical presentation and by sparing sufficient time for investment decisions. The knowledge of behavioural finance will enable the investor to acquire capability of deciding the investment in a more rational manner.

#### Suggestions And Recommendations:

The outcome this research lead to the suggestion that the SEBI (Securities and Exchange Board of India) must include the role of behavioural dimensions in its awareness campaign due to the critical nature of these factors in investment decisions.

It is recommended that the investment analyst must incorporate behavioral factors in their analytical model through they are qualitative in nature. The media including the TV channels must create awareness that the behavioral dimensions are equally important like that of technical factors.

This research also recommends appropriate measures to address the genuine apprehensions of the investors.

#### Scope For Future Research:

Studies could be carried out in the following areas to substantiate the existing literature and contribute for the growth of behavioural finance research.

- The interdisciplinary field exploring behavioural characteristics of the market with special reference to risk perception of investors in capital market has potential scope for future research.
- The prevalence of herd behavior and other market anomalies can be specifically considered for future studies.
- This study could be extended to the institutional investors (domestic and foreign) and their behavioural dimensions could be studied.

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