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Factors Influencing Investment Decisions of Retail Investors- A Descriptive Study

Aruna P* and Dr.H. Rajashekar**
**Assistant Professor, Department of Commerce, Christ University, Bengaluru-29*
***Professor, Department of Commerce, Manasagangothri, Mysore University, Mysuru-*

ABSTRACT: *Investment decisions have gained importance due to the general increase in employment opportunities and economic development of a nation. Awareness of investment avenues has led to the ability and willingness of working people to save and invest their funds for returns, in that perspective this study was conducted. The volatile behaviour of markets has challenged the hypothesis of efficient markets which motivates ones to understand the driving forces behind it. It is the major concern for academicians, investors and portfolio managers to understand the reasons causing irrationality in the markets. This paper uses the theory of behavioural finance to examine the factors influencing investment decisions of individual investors. From the extensive literature review, it was found that there is no single factor which influences the investment decisions of an individual. Moreover factors influencing investment decision varies from time to time, place to place, person to person, securities to securities etc. It was suggested that the policy makers of investment avenues must consider all the variables and its impact on the investors investment decisions while introducing any investment avenues to the market.*

Keywords: *Behavioural finance, Factors, Investment Decisions, Investment Avenues, Retail investors.*

I. INTRODUCTION

Investors are always assumed to be rational creature, prior to invest that hard earned money, investors analyse the market condition by using approaches like technical, fundamental, Capital asset pricing model, Arbitrage Pricing theory.Behavioural finance assumes that characteristics of market participants and information structure systematically have an influence on individuals' investment decisions. Within behavioural finance it is assumed that characteristics of market individuals and information structure influence investment decisions of individuals and market outcomes as well. The main focus of behavioural finance is upon the ways people do interpret and act upon information for making investment decisions.

There is an extraordinary growth in the investment sector both in terms of volume and number of investors in India over the past decade due to the deregulation of Indian financial sector. There is a spurt of various investment products with numerous options to lure the investors to invest. The number of regional stock exchanges in India has increased. Equity shares as an investment option has come a long way from the mere higher dividend expectations to the greater capital appreciation. Price discovery through Book Building process has given tremendous boost to the Initial public offers and further public offers. The quality of ever changing regulations, the payment guarantee by the depositories, Productive involvement of the Government, vibrant intermediaries and up to date technologically advanced exchanges, all have instilled a sense of confidence among the investors in India. The investment scenario of Indian Financial market wears a new look, with an overwhelming response not only from the Indian investors but also from foreign institutional investors.In conventional financial theory, investors are assumed to be rational wealth maximisers, following basic financial rules and basing their investment strategies purely on the risk-return consideration. However, in practice, the level of risk investors are willing to undertake is not the same, and depends mainly on their personal attitudes to risk.

Behavioural finance is a part of finance. It investigates and explains factors of human psychology and their effects on investment decision making in financial market. It also uses the special knowledge in Psychology, Sociology as well as Finance to explain uncommon behaviours of investors which cannot be understood fully by Traditional Finance. Behavioural finance evaluates people in the real world because individual investors are normal people who are affected by factors of demography, psychology, economic, social and organisation. It can be denied that investors make decisions rationally but also depend on various factors. As they have a good feeling, they will become overoptimistic while with a bad emotion, they tend to criticize, claim or become excessively pessimistic.

II. LITERATURE REVIEW

1. Viswanadham, Edward, Dorika and Mwakapala (2014) this study attempts to identify the factors influencing the buying behaviour of investors in Tanzania Equity market. Data was collected with the help of interview, questionnaire and documentary evidence. It was found in the paper that all listed companies give more importance to the factors like quality management decisions, building brand, transparency in settlement issues. Specifically, companies should constantly review the interest rates and observe alternative companies marketing strategies to acquire better position in market.
2. Srinivasa and Rasure(2011) This is an empirical survey of the factors, which mostly influence individual investor behaviour in the Indian stock market. The results revealed that there seems to be a certain degree of correlation between the factors that behavioural finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behaviour of active investors in the Bombay Stock Exchange (BSE) influenced by the overall trends prevailing at the time of the survey in the BSE.
3. Geetha and Ramesh(2011) examinedon the people’s choice in investment avenues of Kurumbalur. The main objective of this paper is to know the factor that influences investment behaviour of the people and to know about the attitude of the respondents towards different investment choices. Data were collected using structured questionnaires. After analysis and interpretation of data it is concluded that in Kurumbalur respondents are medium aware about various investment choices but they do not know aware about stock market, equity, bound and debentures. Findings show that all age groups give more important to invest in Insurance, NSC, PPF and bank deposit.
4. Parimalakanthi (2015) This paper aims to find the behaviour of individual investors from Coimbatore city towards available investment avenues in Indian financial markets. This also analyse factors affecting the Investment decision and to find out the risk tolerance level of individual investors with respect to demographic variables.. This research paper depicts that investor’s education is immensely important for the present day investors in Coimbatore. The study also concludes that safety was also a foremost preferred aspect in fixed income and investment for safety. Capital appreciation was the foremost preferred aspect in long term investment.
5. Harrison (2003) stated that past investment experience and expertise of investors provides them with risk awareness and so have become important commodity risk assessment factors in future. Some personal traits such as risk preference, and personal experience affect risk assessment and awareness. The propensity to build up risk can further affect actual behaviour, where risk refers to how far decision makers are prepared to extend their exposure to risk.

III. NEED AND SIGNIFICANCE OF THE STUDY

Investment decisions are influenced by many factors. It is an acceptable fact that the investors are the focal point to the financial market. The behaviour ofinvestors is not a static one. It varies from place to place and from security to security. Hence it is necessary to identify thefactors which influence the investment decisions. In order to boost investment and formulate appropriate theories and policies, it is necessary to understand how individuals invest in the securities. India as a developing country is becoming economically more powerful requires huge capital for various developmental activities. In order to boost the investment among individual investors it is necessary to study the investment behaviour of individuals and identify the factors that motivatethem to invest, so that idle savings can be channelized into investment.

IV. OBJECTIVES OF THE STUDY

1. To identify the various factors influencing investment decisions of Retail investors
2. To suggest the policy makers, to come up with lot of innovative investment avenues based on the influencing factors of investment decisions of retail investors

V. SCOPE OF THE STUDY

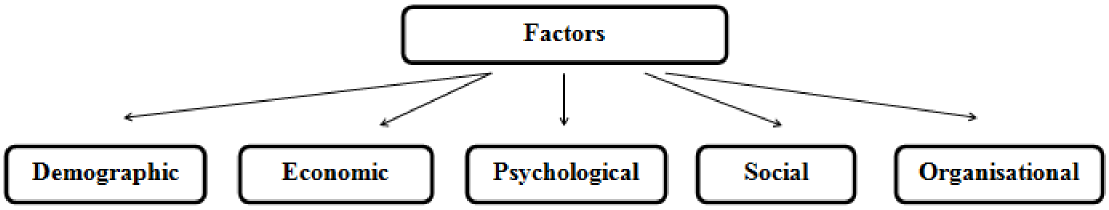
The study is confined to retail investors only. This paper focuses most influencing variables under each factor, these variables/factors are decided based on the extensive review of literature.

VI. METHODOLOGY OF THE STUDY

The study is based on the secondary sources of data collected from research articles, journals, magazines, and research websites etc.

VII. FACTORS INFLUENCING INVESTMENT DECISION

From the various literature reviews the following factors were identified as the most influencing factors of investment decisions of retail investors. Those factors were broadly categorised under five heads.



Demographic factors

Demographic factors are personal characteristics are used to collect and evaluate data on people in a given population. Demographic factors include age, gender, marital status, race, education, income and occupation. Each variable under demographic factor has influence on the investment decision and such influence may vary from person to person, place to placesecurities to securities etc.

Economic factors

Economic factors are the set of fundamentalinformation that affects aninvestment's value. Various economic factors needto be taken into account when determining thecurrent and expected future value of aninvestment portfolio. For an investment, keyeconomic factors include Income, price, interestrates, government policy, taxes and management.

Psychological factors

Psychology is the study of behaviour and mind, embracing all aspects of human experience. Thesciencethatdealswithmentalprocessesandbehaviour.Theemotionalandbehaviouralcharacteristicsofanindividual, agroup, oranactivity. The most influencing psychological factors are Over confidence, Excessive optimism, Excessive pessimistic, Herd behaviour, Risk tolerance

Social factors

Social factors usually take many forms and may help to explain why human behaviour goes wrong or right. Social factors reflect the region and socio-economic background from which he/she come. These factors help to shape the thoughts, beliefs and actions of an individual. The various social factors arefamily, educational setting, religion, peer pressures, firm's reputation in the industry, firm's governing body, contribution of a firm towards social cause, firm's perceived ethics, general and financial press coverage, firms commitment towards social responsibility, media, internet etc.

Organisational factors

Organisational factors relate to the type of working condition, incentives, pay scale, retirement benefit etc. available to the employees. These factors can influence the individuals' behaviour in investment also. The most influencing variable under this factor are Job security, pay scale, retirement benefit by the organisation, working environment, promotion system, incentives, financial assistance, increment etc.

VIII. CONCLUSION

Behavioural finance is gaining strong attention in financial research now-a-days. It explains that individual's investment decision is not based on a particular factor besides which are influenced by the more than one factors.Every individual is different from others due to various factors which include demographic factors,age, race and sex, education level, social and economic background; same is the situation with the investors.The most critical challenge faced by them is the investment decision; they act in a rational manner and usuallyfollow their instincts and emotional biases while making investment decisions. From the various literatures it is found that there is no single variable or factor which influences the investment decisions of an individual, it differs from person to person, place to place, securities to securities etc.

This paper concludes that the investor's behaviour depends on howthe available information is being presented to them and how much they are prone to taking risk while makingdecisions; thus each variable of the factors playing a significant role in determining the investment style of an investor.

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