

A Study on Factors Influencing the Investors' Decision Making in Stock Market with Special Reference to Indian Stock Market

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Abstract: Stock market is a place where stocks are subscribed and traded. A share of company believed by an individual (or) group, companies raise capital by distributing stocks and enable the stock owners to partial ownership of the corporation. A Securites is any financial instrument that has a core value including equity, bonds, debentures. The investment choices are generally based upon the following factors, Liquidity, Return on investment, Safety, Management active involvement. The main purpose of this paper is to find the factors influencing the investment decision making in stock market.

Keywords: Investors decision making, Indian stock market, Factors influencing, Accounting Information.

1. INTRODUCTION

The stock market is one of the most key basis for companies to raise money. Stock market is a place where the securities can be sold and purchased at a decided price. Financial regulators, such as Securities and Exchange Board of India (SEBI)/Reserve Bank of India (RBI) has an eye on the activities of the stock markets in their selected jurisdictions so =as to ensure that investors are protected against fraudulent activities.

Stock markets may be classified into primary markets and secondary markets. In primary markets, new stocks or bond issues are sold to investors through public offer. On the other side, in secondary markets, liquidity to securities allotted in primary market are provided which means existing securities can be traded and subscribed among investors or traders through a recognized stock exchange.

2. MARKET MODULES

REGULATORS:

Ministry of Finance (Stock Exchange Division), Securities Exchange Board of India (SEBI) and Stock Exchanges.

INTERMEDIARIES:

Affiliates in the Indian capital market are required to register with SEBI to bring out their businesses, these includes

Stockbrokers, sub-brokers, share transfer agents, bankers to an issue, trustees of a trust deed, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers, and other such intermediaries who may be associated with the securities market in any manner.

In Stock market many investment choices are available and investment choices are generally based upon the following factors:

- Liquidity
- Protection

- Return on Investments
- Investor Life Cycle Stages
- Management Active participation
- Minimum amount required for investment.

Any investment in stocks or bonds arises with the following types of risks.

- Market Risk
- Industry Risk
- Regulatory Risk
- Business Risk

The **market risk** defines the total risk involved in the stock market investments. The stock market rises and falls conditional on a number of issues. The collective view of the investors to invest in a specific stock or bond plays a important role in the stock market rise and fall. The **industry risk** upsets all the companies of a certain industry. Hence the stocks within an industry fall under the industry risk. The **regulatory risk** may affect the investors if the investor's company comes under the compulsion of government implemented new principles and laws. The **business risk** may upset the investors if the company goes over some fit depending on management, strategies, market share and labor force.

STOCK:

A Stock is a type of security that signifies ownership in corporation and represents a claim on part of corporation assets and earnings. A share of a company held by an individual (OR) group. Firms raise capital by issuing stocks and entitle the stock owners to partial ownership of the corporation

SECURITIES:

A Security is a financial instrument that represents an ownership in publically such as bond, debentures and stocks.

Behavioral Finance:

The Behavioral Finance is defined by Shleifer. A (1999) as "a rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners".

(E. Bennet, Dr. M. Selvam, Eva Ebenezer, 2011) The stock selection process measured very vital behavioral finance. The factors that influence on stock selection decision are return on equity, quality of management, return on investment.

STOCK MARKET:

(Koti, 2014) The main function of the stock market is to allow trade in the shares of public companies, which in turn return the performance of the companies whose shares are traded in the stock market. (BRAHMABHATT, P.S RAGHU KUMARI, DR. SHAMIRA MALEKAR, 2012) Stock Markets have qualities because investors have emotions. Markets are ultimately driven by people and stock prices are what persons make them out to be. People have a leaning to see their own actions and decisions as totally rational, when the truth is they may not be. (Kukreja, 2012) Going public means to the process by which companies make their shares accessible to the public. In doing so, a company sells part ownership of its business to each investor, or "shareholder." This method of raising money is called "equity financing." There are further ways that companies can raise capital, such as selling debt through bonds and related securities. (M Rakesh, 2014) A stock market is a place in which long term capital is upraised by industry and commerce, the government and local authorities and it is regarded as capital market. The money derives from private investors, insurance companies, pension funds and banks and is regularly arranged by issuing houses and merchant banks. Stock exchanges are also portion of the capital market which provides a market for the shares and loan that denote the capital once it has been raised. Stock market is a place where the securities can be sold and purchased at an agreed price. (Akhter, 2013) The stock market is one of the most important sources for companies to raise money. This allows business to be publicly traded, or raise additional capital for increase by selling shares of ownership of the company in a public market. The liquidity that an argument provides affords investors the ability to sell securities quickly and easily. It plays a vital role in the financial system. It is measured as one of the best ways to increase funds.

3. THEORITICAL AND DISCUSSIONS

(Jain, 2012)The financial structure or the financial sector of any country consists of specialized and non-specialized financial institutions, of organized and unorganized financial markets, of financial instruments and services which facilitate transfer of funds. The word 'system', in the term 'financial system', implies a set of complex and closely connected or added institutions, agents, practices, markets, transactions, claims, and liabilities in the economy.

(Kengatharan, 2014) Studied on the behavioral factors influencing individual investors' results at the Colombo Stock Exchange. Besides, the relations between these factors and investment performance were also examined. The results exhibited that herding, heuristics (overconfidence and availability bias), prospect and market factors all have influence on the investment decisions of individual investors at the Colombo Stock Exchange. Most of the factors have reasonable impacts except for the anchoring variable from heuristics factor that exhibits great influence on investment decision. On the other hand, only three of the variables examined have influence on the investment performance. The variables are the desire of stock from herding factor with negative influence on the performance, overconfidence variable from heuristics with negative influence and lastly anchoring from heuristics with positive influence on investment performance. There is also a positive correlation between investment decisions with risk averse, prospect, anchoring and herding.

(CH, 2015)The stock market is one of the most attentive and inquisitive area for investors who always want to create substantial capital in the shortest time phase since stocks are the most wonderful category of financial instruments and one of the greatest tools ever invented for building financial wealth.

(Prosad, 2014) found the presence and impact of four behavioral biases in the Indian equity market, namely; herd behavior, optimism (pessimism), overconfidence and the outlook effect, using both primary and secondary data.

(Bennet. E, Selvam. M, G. Indhumathi, R. Rajesh Ramkumar., 2011) found that the market factors had influenced the approach of retail investors towards investing in the equity stocks.

(Kadariya, 2012)The most influencing factors for decision making are media and friends. The most used methods of investment are fundamental analysis, and the market noise, media and informal talks.

(Dakshayani, 2014) Analyzed Perception of Investors towards Equity and Alternative Investments the factors includes Internet and business networks are important source of study for investors. Dividend record, growth rate of a firm, previous record of the firm and show of firms are important for those who are interested to invest in equity.

(M Rakesh , 2014) found the investors are fully aware about the stock market and they feel that market activities affect the investment pattern of investors in the stock market

(Ebenezer Bennet,Murugesan Selvam, 2011) found that five factors had very high influence over the retail investor's attitude towards investing in equity stocks. They are specifically investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government practice towards business.

(Kengatharan, 2014) The behavioral finance theory which is based on psychology seeks to know how emotions and thinking errors influence behaviors of individual investors

(Nagy, 2014) used seven classifications: social relevance, self-image/firm-image coincidence, neutral information, classic wealth maximization, accounting information, advocate recommendation, and personal financial needs.

(Merikas, A; Merikas, A.G; Vozikis, G.S)used five categories namely: accounting information, subjective/personal, neutral information, advocate suggestion, and personal monetary needs to explain the factors that influence individual investor behavior.

(CH, 2015)An investment decision always includes the sacrifice of immediate benefits for better future returns. An investment is always made with certain specific objectives in mind. The primary objectives are the risk and returns is the part of investment. The secondary objectives are safety against inflation, growth, liquidity.

(BRAHMABHATT,P.S RAGHU KUMARI,DR. SHAMIRA MALEKAR, 2012)The common perception of investors is to buy when the market supports in uptrend and not to invest in the falling time. They wait for the stabilization in the market. The markets have personalities because investors have emotions. Markets are ultimately driven by people and stock prices are what individuals make them out to be.

4. VARIABLES FOUND

A. Accounting Information

- a. Dividend paid
- b. Financial statement
- c. Stock marketability(easily sold)

B. Self-image/Firms image

- a. Firms reputation in industry
- b. Contribution of firms in social causes
- c. Firms Governing body

C. Neutral information

- a. Current economic indicators
- b. Recent price movements of firms stock
- c. Information obtained from internet & Existing share holders

D. Advocate recommendations

- a. Brokers Recommendation
- b. Family Member opinion
- c. Friend/Customer opinion

E. Wealth Maximization

- a) Stock Affordability (lesser stock prices)
- b) Minimizing risk

5. DISCUSSION AND CONCLUSION

This paper presents a review of literature in Stock Market in India. The review has been made on different journal papers regarding factors influencing investment decisions in stock market in India. This paper identified the various factors affecting investor's decision making in stock market.

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