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Factor Influencing Investor's Decision Through Their Investing

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Abstract - The research article can be determine how the investor's personal investment is affected by the level of knowledge an investor possesses among different investment instrument, knowledge of the relationship between risk and return along with the knowledge of company's performance analysis technique and portfolio management techniques. The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market. They should evaluate all the variables in the environment instead of considering only one variable. Investors do also need to diversify their investment in different companies by developing a portfolio of investments to minimize risks and maximize returns.

Keywords: Individual Investor's, Stock market, Self-image, Accounting information, Personal financial needs

I. INTRODUCTION

Stock market is a market where stocks are bought and sold. In an economy, besides playing the role of a source for financing investment, stock market also performs a function as a signaling mechanism to managers regarding investment decisions, and a catalyst for corporate governance. However, stock market is best known for being the most effective channel for company's capital raise. People are interested in stock because of "long-term growth of capital, dividends, and a hedge against the inflationary erosion of purchasing power". The other feature that makes the stock market more attractive than other types of investment is its liquidity. Most people invest in stocks because they want to be the owners of the firm, from which they benefit when the company pay dividends or when stock price increases. However, many people buy stocks for the purpose of control over the firms. Regularly, shareholders need to own specific amount of shares to be in the board of directors who can make strategic decisions and set directions for the firms.

Tracing back to the past, financial activities relating to stock market seemed to exist in ancient civilization. The Roman became the pioneer in establishing corporative organizations, of which capital was raised by selling shares into the public, for bidding government contracts in the second century BC. The place for trading in Rome was near the Temple of Castor, which was called Forum. The Forum was said to be regarded as an immense stock exchange where people bought and sold not only shares, bonds but also various goods for cash. By 1000, although some share-holding firms were held in Europe resembling old Roman companies, sole proprietorship was preferred. By the fifteenth century, the first brokers appeared. During this period, Rialto Bridge of Venice was the business center for Europe. The commercial revolution during the sixteenth, seventeenth and eighteenth century was the impetus for the boom and bust in hundreds of joint-stock ventures. The first active market was held in Antwerp and then in Amsterdam in the sixteenth century, which was the financial center of northern Europe. London Stock Exchange was formed in 1801 by brokers and dealer. In America, a place for trading slaves and corn was first held by a group of merchants in 1752, and then a formal market was established at the foot of Broad Street and later in Fraunces Tavern.

Objectives of the study

The primary objectives of the study are as follows

1. To identify the factors that affect investor's investment decisions and hence their portfolio.

2. To determine the factors that drive investors to choose one investment over another and determine how they make their investment portfolios.

3. To identify the impact of accounting information on individual investor behavior.

Significances of the research

To the individual investors: The research is a good reference of stock-investment behavior for the investors to consider and analyze the stock market trend before making suitable decisions of investment.

To the security organizations: The research provides them with a good background for their prediction of future stock-market trend and giving more reliable consultant information to the investors.

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II. METHODOLOGY

Theoretical Framework

Research Problem

Methodology

Population: The population of this research is depends on Finance students, Teachers and Bankers of Tamilnadu.

Sources of Data:

Primary data was collected using questionnaires which were examined by the researcher personally. The questionnaire items represented three categories: self-image/firm-image coincidence, accounting information and personal financial needs. The questionnaires were administered to the individual investors personally. This method was appropriate since it encouraged prompt responses from the respondents. The questionnaire was structured into two sections. Section 1 sought to capture the general data (Bio-Data) about the investor. Section II was concerned with the data on factors that affect individual investment decisions.

Sample size: By considering the time constraints we distributed 100 questionnaires out of which 75 are received remaining unfilled and uncollected. These respondents are selected randomly. **Sample unit**: Sample of this study includes the finance students of Bharathidasan University, Tiruchirappalli, Finance teachers and bank employees from Trichy, Madurai and Coimbatore.

Study Period: The study was conducted during the period between May 2018 to October 2018.

III. LITERATURE REVIEW

A wide choice of investments is available today, but these can be categorized broadly according to three fundamental characteristics – safety, income and growth – which also correspond to the types of investor objectives. According to **Hoffmann, Shefrin and Pennings (2010),** investors whose primary investment objective is to build a financial buffer or save for retirement have lower aspirations.

Veld-Merkoulova (2009) stated that a longer investment horizon leads to an increasing share of risky financial investments, regardless of investors' age. The findings of **Fagereng, Gottlieb and Guiso (2015)** from research conducted in Norway showed that people tend to enter the stock market early in life as they accumulate assets and invest a greater share of their wealth in stocks. As they approach retirement, they adjust their portfolio, reducing it gradually.

Praba (2011) conducted a study aiming to understand how the saving objectives of individuals relate to the investment avenue. It is observed that investors' major saving objectives are wealth maximization, contingency management and children's welfare. Different factors, like age, gender, profession and annual income, also determine the investment objective of individuals. **Jain and Mandot (2012)** also studied the impact of demographic factors on the investment decision of investors in Rajasthan, concluding that various demographic factors, like age, marital status, gender, city, income level, market knowledge, occupation and qualifications, have a major impact on the investment decision of investors.

According to the findings of **Shah, Zanwar, and Deshmukh (2011)**, the lifecycle stages have a significant relationship with the investment avenues, objectives behind the investment, and sources of information and guiding factors of investment. **Maheswari (2014)** stated that there is a significant correlation between the age of the investor and the financial planning. An ANOVA test showed that there is the difference in the perception of planning by investors in different age groups.

People living in the same society and having same income level are different in their investment behavior. The research indicated about factors influencing the decisions in India used two factors age and gender. They admit that various factors affect the investor's behavior. People with different age and gender have different investment behaviors. People with different ages and gender have varying persecutions. The risk level of people of different age differs as well as gender also contributes to the level risk tolerance in decision making of investments. **(Mishra & Dash, 2010)**

Factors that affect the investor's behavior have their intensity to affect. The study used five factors self-image or firm-image, accounting information, neutral information, advocate recommendation and personal financial needs. They admit that all these variables affect the investor's decision makings but with different intensity. Few have more affect and few have lesser affect. Accounting information has high intensity towards affecting investor's behavior and advocate recommendation have least effect on investors decision making. **(Gnani, Ganesh &Santhi, 2012)**

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The empirical factors that influence the individual investor behavior have varying degree of effects on the investors of Greeks Stock Exchange. The variables accounting information, subjective/personal, neutral information, advocate recommendation and personal financial needs were subdivided into other 27 variables. This study indicated the factors that have significant influence and the factors that have least influence on the Greek Stock Exchange investors. The research result showed the accounting information has significant and personal financial needs have least influence in Greek. **(Anna, Andreas, George & Prasad, 2004)**

The conventional finance theories put emphasis on theories such as Modern Portfolio Theory as well as Efficient Market Hypothesis. The advancement of these theories in the form of behavioral finance focuses on the cognitive and emotional factors that affect the individual decision making process. This study used overconfidence, cognitive dissonance, regret theory and prospect theory. The influence of these factors was checked on the investors of Kenya (Nairobi Stock Exchange). Investors show rational as well as irrational behaviors due to different emotional and cognitive factors. **(Aduda, Oduor & Onwonga, 2012)**

Saving and investment are made by different types of investors. The study described the attitude of the salaried person towards investments. Investment is very important factor in the economic development of any country. The salaried person needs security and guaranty of the investments he made out of his salary. Many new salaried people make wrong decision regarding their investments. The need appropriate guidelines for the proper investments. Government should use proper measure to assure the investments and increase the saving habits among salaried persons. **(Pandiyan&Aranganathan, 2012)**

In an expanded study by **Williams [2007]** surveyed on 5170 investors across five countries, namely Australia, Canada, United Kingdom and United States, to analyze determinants of socially responsible investments. The results showed that investors took company environmental and social behavior into consideration in making investment choices, which is actually reflected though the stakeholders' attitude toward the company from different sides of company performance.

From psychological aspects of human being, it is observed that people are not always rationale and their decisions are not always objective. Technically financial metrics like P/E ratio, EAT, Dividend payout ratio, etc. should be the basis of investment decisions, but such is not the case most of the times, because the prices of indices are also governed by various aspects and factors of human mindset expectations, sentiments and excitement to name a few. **S. Usmani (2012)** incorporated a study by taking 30 variables from diverse decision criteria including contemporary concerns. Results revealed seven homogenous groups among these 30 variables which were grouped into seven factors that address major investor considerations. The findings suggest that individual's base their stock purchase decisions on wealth-maximization criteria combined with past and present stock performance along with other diverse variables; they do not rely on a single approach.

Investors' high expectation and irrational behavior **(Haque, & Faruquee, 2013)** cause undue increase in market index and ultimately result in great fall in Stock market.

A number of accounting variables have been used to explain equity value and equity return. **Bhatt & Sumangala (2012)** conducted a study on 50 top-listed companies of India over 5 year's period data and they concluded that Earnings per Share (EPS) impact the market value of an equity share in the Indian context.

Halonen, Parlovic and Pearson (2012) investigated value relevance of financial reporting in Sweden after the introduction of the International Financial Reporting Standard in 2005. They found that value relevance of book values had increased but the value relevance of earnings had decreased over the period.

Makrani & Abdi (2014) observed the effects of book value, net earnings and cash flow on stock prices of 129 selected firms listed on Tehran Stock Exchange over the period 2007-2012, the study has determined that the effects of book value, net earnings as well as cash flow decreases over the time although the effects of book value is bigger than net earnings and cash flow.

Reliability of Measure

Table No. 1

No.	Variables	Alpha	Alpha's Values
1	Self-image	0.778	0.620
2	Accounting Information	0.790	0.672
3	Personal Financial Needs	0.640	0.617

Table No. 2

No.	Variables	Mean	Std. Deviation
1	Self-image	4.65	0.903
2	Accounting Information	4.883	0.852
3	Personal Financial Needs	4.657	1.086

Alpha is measures for assessing the reliability of the questionnaire. The alpha is acceptable if it is equal or more than 0.5 and shows that the good reliability of the questions. In this study three categories of variables are

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included like self-image, accounting information and personal financial needs.

IV. RESULTS AND DISCUSSION

Mean and Standard Deviation

In the above table the mean and standard deviation of the three categories of the variables self-image, accounting information and personal financial needs is calculated. The above calculation shows that the value of all variable mean and is positive which means that all 34 factors that were included in questionnaire are someway affecting the Tamilnadu investor's decision making in investment. The calculation of mean and standard deviations indicate the effect of all items on decision making of individual investor but these do not describe the degree of influence on the decision making of an individual.

V. CONCLUSION

This study was aimed at identifying the variables that have most and the least influence factors on the investor's investment behavior. There were thirty three items belongs to three main categories taken as independent: self-image, accounting information, personal financial needs. The results according to calculated mean shown that all variables are somewhat affecting the decision making behavior of individual investors of TamilNadu. Most important category by order of importance was: accounting information, self-image/firm image, personal financial needs. And out of all variables the most influencing six items by the order of importance were dividend paid, reputation of firm, feelings for a firm's products and services, get rich quick, firm's involvement in solving community problems, and firm's status in industry related to firm's image/self-image and accounting information. And the six least influencing factors with the other classes of selected variables were Friend or coworker recommendations, Opinions of the firm's majority stockholder, recent price movement in the firm's stock, Religious Reason, Family member opinion and Broker recommendation. This study supports the entire hypothesis. The reason of least influencing factors is the people of the TamilNadu mostly have no knowledge about these factors like creation of organized market. There is no organized market in the TamilNadu so the investors don't know about the effect of it on the investment decision.

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