



A study on role of demographic factors and awareness level of Investors towards Investment pattern in Stock Market

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Abstract

Today the financial services sector has become highly diversified offering the investor with a wide range of investment avenues. For years, traditional finance has always presumed that investors are rational in their decision making process in the stock market about risk return trade-offs and maximizing utility. The individual investor plays an important role in the stock market because of the big share of their savings are invested in the stock market. The present study is an attempt to identify the awareness level among Bangalore investors regarding stock market, and to study and understand the role of demographic factors in investment pattern decision making. It is found that marital status, age play major role in investment decision making.

Keywords: demographic factors, investment pattern, investors' decision making

Introduction

A stock market or equity market is a public market for the trading of company stock (shares) and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately. Over the decade, general finance has constantly presumed that investors are typical and sensitive in their investment decision making in the stock market and therefore they are impassive about risk return trade-offs and exploiting value. They must have incorporated all the necessary information available according to the efficient market hypothesis and are impartial in analyzing securities and choosing winning stocks. However psychologists have found that human beings do not behave as rationally as economists suppose.

The behavioural finance investigates the precise facets and interactions in the human brain, faced with the uncertainty of making economic decisions. The most common human traits (fear, anger, greed, selfishness) place considerable emphasis on our decisions about money. Intellect (grasping a situation), reason (long-term consequences of the action taken) and emotion (considering a course of action) are all interrelated; they are the springs behind human decision. Human behaviour is generally reactive, not proactive; therefore, it is difficult to make predictions on the basis of narrow rules. Behavioural finances can relatively easily explain why an individual has made a decision, but have difficulty in quantifying what effects that decision will have on the individual.

Investment decisions are made by investors and investment managers. Investors commonly perform investment analysis by making use of fundamental analysis, technical analysis and judgment. Investment decisions are often supported by decision tools. It is assumed that information structure and the factors in the market systematically influence individuals' investment decisions as well as market outcomes. Investor market behaviour derives from psychological principles of decision making to explain why people buy or sell stocks.

These factors will focus upon how investors interpret and act on information to make investment decisions. Behavioural finance is defined by Shefrin, (2000) as "a rapidly growing area that deals with the influence of psychology on the behaviour of financial practitioners". Individual investments behaviour is concerned with choices about purchases of small amounts of securities for his or her own account (Nofsinger and Richard, 2002). No matter how much an investor is well informed, has done research, studied deeply about the stock before investing, he also behaves irrationally with the fear of loss in the future. This different behaviour in the individual investors is caused by various factors which compromise the investor rationality. An individual investor is one who purchases generally small amounts of securities for his or her own account. 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.

Akerlof and Shiller (2009) ^[6] substitute the rationality hypothesis to the investors' behaviour to explain the volatility of market profits. They attribute economic dysfunction especially to what they call "animal spirits" and extend the General Theory (The General Theory of Employment Interest and Money, McMillan London) developed by Keynes J. M. in 1936. The latter defined animal spirit as "a spontaneous urge to action, rather than inaction". Although the author considered that most economic activities have rational economic motivations, people also have non-economic reasons, much of the economic activity being governed by these animal spirits. With this respect, the authors state that it is "necessary to incorporate animal spirits into macroeconomic theory in order to know how the economy really works."

Demography is the study of the vital and measurable statistics

of a population. Demographic variables include age, gender, marital status, family size, family life cycle, income, occupation, education religion and social class. Size stands for the number of individual’s in a population, while structure describes the population in terms of age, income, education and occupation. Distribution of the population describes the location of individuals in terms of geographical regions and rural, urban, or suburban locations. Each of these factors influences the behaviour of the investor

P. M. Deleep Kumar and G. Raju (2001) showed that the equity market is becoming more and more risky and complex in nature so that ordinary investors are unable to keep track of its movement and direction. The study revealed that the Indian market is probably more volatile than developed country markets, which is probably why a much higher proportion of savings in developed countries go into equities.

Umamaheswari and Ashok Kumar (2013) [7] stated that investment decisions made by investors are not solely dependent on price movement and stability of the markets. His study has resulted in listing factors as age, sex, education, family, and the past performance of a company’s securities as variables attributes, having significant influence and impact on the investor’s investment decision making process.

For investors, investment decision-making is very important. It can bring them to high profit or heavy losses. Therefore, the investor should be aware of his/her decision-making and the factors affecting these decisions. There can be many factors affecting the investor’s decision-making, i.e. economical and psychological. Investors keep in mind about economic factors like expected earnings, condition of financial statements of firms/companies, recent price movements, risk, returns, etc. before investing.

Statement of the problem

After a thorough literature review, a need was felt to study the demographic and perceived risk attitude which in fluences the decisions of investors in Bangalore to invest in securities market. Further, impact of such variables on their preferences of investments respectively was an area found to be where research was found to be lacking.

An analysis of the available literature revealed that there are no studies or researches related investment behavior in Bangalore city. Bangalore is the fastest growing city where it is compulsory to study the behavior of investors likely to attract more investors and frame the investment policies keeping in mind the study.

Investment behaviour constitute to a major aspect of behavioural finance which explains use of Heuristics biases, Prospect biases, Market biases and Herding biases by

investors to take investment decisions. These biases influence the decision of individual investors and were found to be the most important topics of research.

Objectives of the Study

- To identify the role of demographic factors on investment pattern of investors in stock market.
- To find out the level of awareness among investors about stock market.

Methodology

This study will provide the foundation that individual investors need to understand the factors which play an important role in investment decision-making process. The purpose of research was to identify the psychological factors effecting individual investor’s behaviour in equity market. Exploratory research was used to identify cause and effect relationship between variables. Researcher has selected Stock Exchange of Bangalore for research & population was the individual investors of the Bangalore Stock Exchange (BSE). The sample size for the study was 50 and convenience sampling technique was used for the selection of sample.

Research Design

The study was cross-sectional. It was also descriptive to the extent of measuring the level of awareness of the potential local investors and their attitudes towards Stock Market investments.

Source of data collection

The study used both primary and secondary data. Primary data was obtained by the use of a semi structured questionnaire. Secondary data was obtained from various newsletters, reports, journals, text books, newspapers and other form of electronically stored information like internet and other data accounts. All relevant literature was reviewed to provide a basis for interpretation of responses.

Survey population and sample size

The study population was made up of 50 respondents composed of 30 locally known investors, 10 visionary entrepreneurs, and 10 officials from the existing brokerage firms in the country. The elements covered in the study included Investor outlook, the stock market, market orientation, broker services, securities industry and attitudes towards financial investments

Data analysis

The collected data was analyzed and tabulated below:

Table 1: Distribution of respondents by Gender

Gender	Male	No of Respondents	Percentage
			40
	Female	10	20.0
	Married	40	80.0

The data on investment is collected both from male and female investors, which are summarized in the above table. Male dominance is seen in the above sample as relevant in our

social set up where male dominance is seen in financial decision making, income generation and other household decision making. From the table it is observed that eighty

percent of sample respondents consisted of males and twenty percent of females, thus the proportion of male to female are in the ratio of 4:1.

It is evident from the study that, middle aged people invest more in stock market when compared to other age groups.

Table 2: Distribution of respondents by Age group and marital status

		No of Respondents	Percentage
Age group	20 years and below	2	4.0
	21-30	07	14.0
	31-40	30	60.0
	40 and above	11	22.0
Marital status	Single	10	20.0
	Married	40	80.0

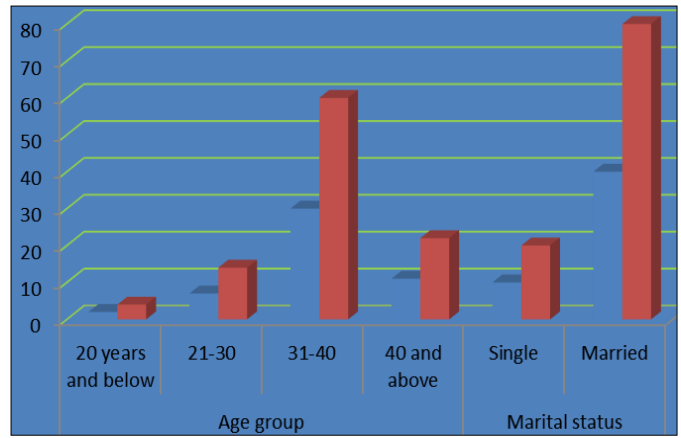


Fig 1: Distribution of respondents by Age group and marital status

From table it is observed that around eighty percent of sample investors are married. The percentage of unmarried investors is nearly twenty percent.

Table 3: Distribution of respondents by educational qualification and annual income

		No of Respondents	Percentage
Education qualification	SSLC	2	4.0
	P U C	3	6.0
	Degree	10	20.0
	Master Degree	20	40.0
	Ph D	15	30.0
Annual income	Below 5 lakh	05	10.0
	5-10 lakhs	12	24.0
	10- 15 lakhs	18	36.0
	15 lakhs and above	15	30.0

Education is one of the factors which may affect the income level as well as investment decision making process. Therefore, with a suitable set of options the question was set up in the questionnaire. From above table, it can be seen that secondary school educated investors are less in the sample. The highest number of respondents is having post graduate qualification which is forty percent, followed by graduate respondents (20.0%) and PhD respondents (30.0%) respectively. The probable reason of most of the respondents

being post graduate may be due to the fact that the responses were solicited from the contacts of the researcher who are associated with postgraduate course such as Masters in Business Administration and Master of Commerce across the country.

The above table analyses the Percentage of Annual Incomes of sample Respondents. Thirty six percent of sample respondents, whose annual income is 10-15 lakhs, seem to be interested in stocks investment.

Table 4: The Table Showing the Awareness Level on Stock Market

		No of Respondents	Percentage
Awareness	Well versed	20	40.0
	Moderately versed	18	36.0
	No idea	12	24.0
In which Sectors you have invested	IT	17	34.0
	Real estate	15	30.0
	Automobiles	13	26.0
	PSUs	05	10.0

The study aimed at finding out how many investors had awareness about stock market. The study shows that, the forty percent of investors have awareness about stock market when compared to the thirty six percent of respondents are

moderately aware of investment patterns and rest twenty four percent of sample respondents do not have awareness of stock market investments.

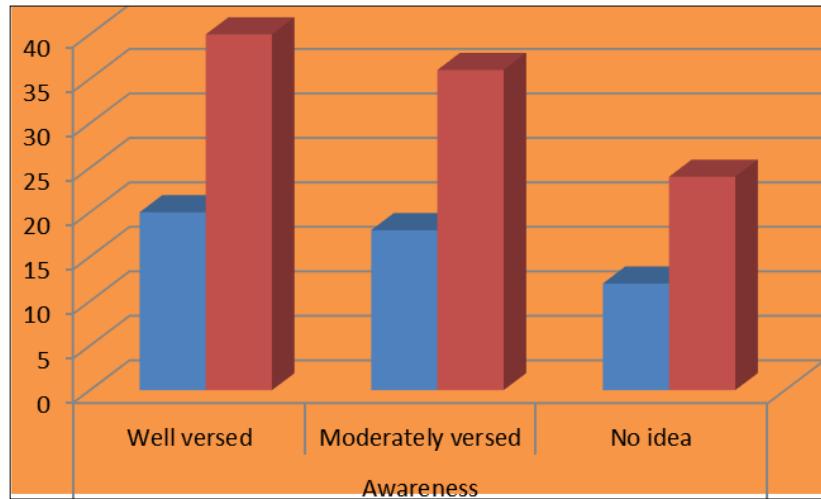


Fig 2: Graph showing the awareness level on stock market

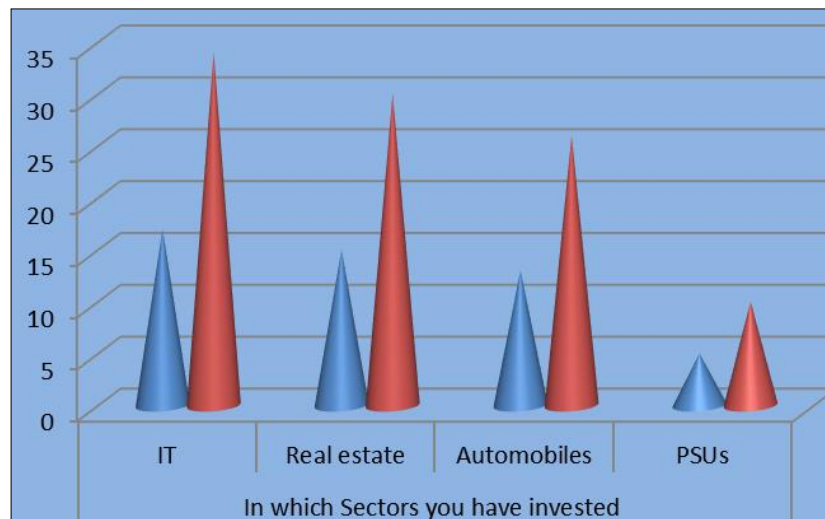


Fig 3: The graph showing the investment pattern of investor in selected sectors

From the study it is revealed that, the majority of the investor (34.0%) preferred to invest in IT sector followed by Thirty percent of investors in Real estate and PSUs is the least

preferred investment sector by the investor. Hence, there is a need to create awareness among the investors in various sectors.

Table 5: Showing the investment pattern of investor in last three years stock market

		No of Respondents	Percentage
In last three years how many times your investment pattern changed	More than four times	20	40.0
	Two –four times	13	26.0
	One –two times	12	24.0
	Not at all	05	10.0

From the analysis it has been found that, Today’s investors are very dynamic in their investment pattern.

Discussion and Conclusion

Sex of respondents was considered as an important factor since gender balance is up-to-date. Stock market investment initiatives should optimally utilize the available capacity from both sexes. This indicated the need to bring more women on board to participate in the growing financial asset sector and more specifically the Stock Exchange Industry. Having majority of the respondents in the 31 -40 age group implied

that most of the respondents had experience in financial assets investments and were in position provide a judgment of the future and status of the sector. Attainment of a Masters level of education by most respondents showed that they were knowledgeable enough about financial assets which imply that they are more confident in stock market.

The research reveals that the demographic factors have impact on the investment pattern of investors in stock market. Further it can be concluded that male investors are more when compared to the female investors. The findings clearly indicate that there is a significant relationship between the

investor's attitudes and their awareness on stock market investments. Further, there is a significant relationship between the local investor's perception of stock market regulations and their Intention to participate in stock market. The investors have more confidence to invest in IT and real estate sector when compared to Automobiles and PSUs. To have more local investors participating in the stock market, efforts should be directed towards stronger Regulation and creation of more awareness. It is the need of hour to identify basic intricacies of investor's demographical factors motivating them to invest and take corrective steps to ameliorate investment and capital generation activities in the country.

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