
A STUDY ON INVESTORS' ATTITUDE TOWARDS PRE-INVESTMENT DECISION MAKING

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Abstract

According to economic theorists, investors think and behave "rationally" when buying and selling stocks. Generally investors are presumed to use all available information to form "rational expectations" in investment decision making. In reality, individual investors do not think and behave rationally. Individual investor behaviour is motivated by a variety of psychological heuristics and biases. Indian stock market is considered to be highly volatile, sensitive and reactive to unanticipated shocks and news. At the same time, Indian stock market Survey findings reveal that investors use both fundamental as well as technical analysis while investing in Indian stock market. Most of the respondents strongly agree that various company fundamentals. It is believed that trading behaviour of individual investors rarely influences the stock prices. The paper aims in analyzing the determinants of the individual investor behaviour of Indian stock market and factors affecting their pre-investment decisions.

Key words: Indian capital market, Investor behaviour, Fundamental analysis, Discriminant analysis

Introduction

Indian Capital market is one of the fastest growing markets in the world. It has grown impressively during the recent years in tune with the global financial markets. A strong domestic stock market performance forms the basis for the well performing domestic corporate to raise capital in the international markets. The securities market facilitates the internationalization of the economy by linking it with the rest of the world. The factors influencing the share price and trading volume have been of great interest to analysts, academicians and most importantly to the players.

Stock market refers to the market place where investors can buy and sell stocks. The Price at which each buying and selling transaction takes is determined by market forces demand and supply for a particular stock. In earlier times, buyers and sellers used to assemble at stock exchanges to make a transaction but now with the dawn of IT, most of the operations are done electronically and the stock markets have become almost paperless. A market in which long term capital is raised by industry and commerce, the government and local authorities is called capital market.

An individual investor who makes investments in his own name and can act on behalf of others, for example, stock brokers or mutual fund managers make investments for others or else an investor can make investments for one's own personal account. An individual investor is a person who manages his/her own money in order to achieve personal financial goals. Individual investor who consider investing in individual stock have a lot of information to process; they are bombarded with a flood of information, some of which might be relevant for their decisions, some of which might be not perhaps instead of trying to obtain that information, people simply follow their gut-feelings or a fad and are thus "behavioural" trader.

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The field of "Behavioural finance" has evolved that attempts to better understand and explain how emotions and cognitive errors influence investors and the decision-making process. The investment refers to the commitment of funds at present in anticipate of some positive rate.

Scope of the Study

Theoretical research as well as empirical evidence offer mixed results regarding individual investor trading strategies and motives behind them. Empirical investigations into individual investor behaviour have thus focused on analyses of data. The small and medium investors are motivated when their savings and investments in the market are anticipated and appropriately valued.

Statement of the Problem

The basic questions arising from the scenario are: What are the main factors that have attracted the investors to invest in the capital market? What types of analysis are carried out by the investor before making their investment in share market? Does the type of investor influence the pre-investment decision making?

Objective

1. To study the investors' preference towards the type of analysis on investment decision.
2. To study the pre-investment behaviour of investor before investing in stock market

Hypotheses

H₀: There is no significant difference in the ranks provided by the investors to the five types of Fundamental analysis before the time of investment.

Methodology

Sources of Data

The study has depended on primary sources of data.

Questionnaire

Primary data were collected by administering a well conceived questionnaire to the sample investors.

Statistical Tools

Relevant statistical tools such as Fried man test and Discriminant analysis were used for the analysis and interpretation of survey data.

Sampling Design

Investors trading at National Stock Exchange are the sample taken for the study. The Investors from Madurai city is the sampling unit.

- (a) Sampling frame : 2850 Investors
- (b) Sampling size : 300 Investors
- (c) Sample method : Simple random sampling

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Research Design

The research design adopted in the present study is a "Descriptive Design" of conclusive one.

Literature Review

Mohtadi and Agarwal (2001) examine the relationship between stock market development and economic growth for 21 emerging markets over 21years, using a dynamic panel method. Results suggest a positive relationship between several indicators of the stock market performance and economic growth both directly and indirectly by boosting private investment behaviour.

Lihara et al. (2001) documented herding behaviour in various investors' classes on the Tokyo Stock Exchange. The money-flow instruments allowed the separation of the measurement of sentiment from the measurement of asset returns.

Merikas et al. (2004) analyzed the factors influencing Greek investor's behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables.

Data Analysis

Friedman's Test

The **Friedman's test** is a non-parametric statistical test developed by the U.S. economist Milton Friedman. Similar to the parametric repeated measures ANOVA, it is used to detect differences in treatments across multiple test attempts. The procedure involves ranking each row (or *block*) together, then considering the values of ranks by columns.

H_0 : There is no significant difference in the ranks provided by the investors to the five types of Fundamental analysis before the time of investment.

H_1 : There is significant difference in the ranks provided by investors to the five types of Fundamental analysis before the time of investment.

Table 1 Fried Man Test Result

S. No	Type of Fundamental analysis	Rank	Chi-square value	P value
1.	Economic analysis	3.83	12.33	0.009
2.	Industry analysis	3.47		
3.	Foreign Institutional Investment	2.66		
4.	Company analysis	1.84		
5.	Government prospects	2.32		

From the above Table, it is clear that the Company analyses is ranked first with mean rank of 1.84 and mean rank for the economic analysis is least ranked with 3.83. Hence, Company analysis is the most important analysis that carried out by investors before their investment decision on share market.

As the computed p value (.009) is less than the assumed significance value of 0.05, the above null hypothesis is rejected. Hence, there is significant difference in the ranks assigned by the investors in rating the type of fundamental analysis. The mean ranks given by the investors

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for the five different type of fundamental analysis are as follows: Company analysis (1.84), Government prospects (2.32), Foreign Institutional Investment (2.66), Industry analysis (3.47) and Economic analysis (3.83).

Linear Discriminant Analysis

It is a multivariate dependence type of statistical technique used for making classification. Discriminant analysis was used here to classify the investors into two groups namely, those who frequently darts in and out of a stock in less than a year and also less than a day are grouped as Short term investor and others who hold a stock for a long period for more than a year are named as Long term investors. The five independent variables, namely, investor preferring the various types of factors like fundamental analysis, technical analysis, Government prospects, other country Indices and Expert's opinion are considered to be the discriminating variables. Here discriminating analysis is used to demonstrate which independent variables are most important in distinguishing between the above two groups.

Procedure

One will build a Discriminant function and find out,

1. The percentage of investors that it is able to classify correctly.
2. Statistical inference of discriminating function.
3. Which variable is better in discriminating between those who are of Short term and long term investors?

In the input data, code for short term investor is given as 1 and code for long term investor is 2.

Table: 2 Classification of Result

Type of investor		Predicted group membership		Total	
		Short term	Long term		
Original	Count	Short term	191	110	301
		Long term	165	134	299
	%	Short term	63.5	36.5	100.0
		Long term	55.2	44.8	100.0

A. 65.2% of original grouped cases correctly classified.

The classification table indicates that the Discriminant function the present researcher obtained is able to classify approximately 65% of the grouped observations correctly. This table shows the classification accuracy level of the observations.

Table: 3 Wilks' Lambda and Significance of the Model

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig. p-value
1	.769	6.992	5	.039

There are ways of checking the validity of the model. It means how significant the discriminant functions are. This is answered by seeing the Wilks' lambda and probability value

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of the “F” test given in the above table . The value of Wilks’ lambda shall be between 0 and1, and low value is preferred. The value of Wilks’ lambda is less than 1 and the probability value of F test indicates the discrimination between two groups is highly significant. This is because of p value 0.039 is less than 0.05.

Table:4 Standardized Canonical Discriminant Function Coefficients

Variable	Function
	1
Fundamental analysis	.721
Technical analysis	.427
Government prospects	-1.121
Other country indices	-.142
Experts opinion	0.028

There are five independent fundamental analysis, technical analysis, Government prospects, other country Indices and Expert’s opinion to predict which variable is better to group the person based on the kind of investor. This is answered by seeing the standardized coefficients. The output in table shows that fundamental analysis is the best predictor, with the coefficient 0.721, followed by technical analysis, with a coefficient of 0.427, and experts’ opinion with a coefficient 0.028.

Table: 5 Functions at Group Centroids

Type of Investor	Function
	1
Short term	-.113
Long term	.113

Unstandardized canonical discriminant functions evaluated at group means

From the above Table, one can see that the means of canonical variables, give the new means for the transformed group centroids. The new mean for group 1 (SHORT TERM INVESTOR) is -0.114, and the new mean for group2 (LONG TERM INVESTOR) is -0.114. This means that the midpoint of these two is 0. This is clear when one plots the two means on a straight line, and locates their midpoint, as shown below:

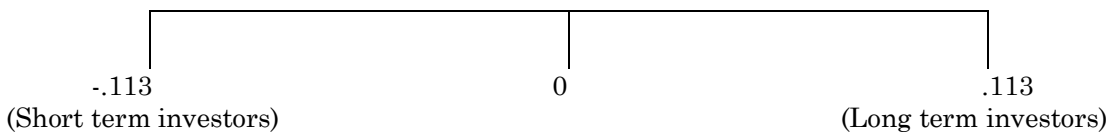


Table: 6 Canonical Discriminant Function Coefficients

	Function
	1
Fundamental analysis	.623
Technical analysis	.312
Government prospects	-0.891
Other country indices	-.083
Experts opinion	0.019
(Constant)	-.015

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Unstandardized coefficients

From the above table, the unstandardized Discriminant function derived is:

$Y = -0.015 + \text{Fundamental analysis (0.623)} + \text{Technical analysis (0.312)} + \text{Experts opinion (0.019)} + \text{government prospects (-0.891)} + \text{other country indices (-0.83)}$

Discriminant analysis can be used for predicting where a new object respondent has to be classified, if the independent variable values are known. By substituting the 'x' values of the new object in the unstandardized Discriminant function, and calculate the value called the unstandardized canonical score. This is the Discriminant score.

Suggestions and Conclusion

The study reveals that Company analysis is the most important analysis that carried out by investors before their investment decision on share market. As the investor give importance to company analysis on pre-investment decision the company must hold a good growth record that satisfies the investors. The government prospect is also a main factor that decides the investor pre-investment behaviour. The suggestions offered in the study would help investors enhance their investment techniques resulting in higher return on investment. The study also offers suggestions correlating type of investor, their investment goal with their pre-investment analysis.

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