

The Study and analysis of Retail Individual Investors behavior with reference to Equity Investment

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Abstract

Investment is always said to be a crucial decision as it is attached with investor's expectations of return and risk. When it comes to equity investment due to volatility and unpredictability more risk is appended. It is always subject of discussion as what are the expectations of retail individual investors out of equity investment. Investors' behavioral outlook varies from individual to individual as it depends on their risk appetite and return expectations. Investor's behavioral outlook is getting amended due to changing perception and behavior towards financial decision making in the current era. It is imperative to study how retail equity investors' adapt themselves to the changed situation and take equity decision. This research paper attempts to study and examine the behavior influence of retail investors in taking equity investment decisions. This research work also tries to study how their expectations are getting change in the era of volatility. For the proposed study primary data will be collected from the retail individual investors by designing structured questionnaire and secondary data will also be collected from websites, journals, research papers and news articles. Research can assist to study and understand the changing expectations of retail individual investors which can escort in promoting more domestic retail investment in equities as well as to formulate organizations dividend policy.

KEYWORDS- Behavior, Equity Investment, Expectations, Retail Individual Investors, Volatility

Introduction-

Investment decisions are associated with individual behavioral viewpoint towards Investment avenues. Investment decisions much depend on the risk appetite and return expectations of individual retail investors as how they perceived the state of affairs. Sometimes people make irrational decisions. **Behavioral** and cognitive psychology presents justification for influence of behavioral factors which leads to irrational financial decisions. Due to volatility and unpredictability Investor's behavioral outlook is getting changed Now a day's. It is essential to know their expectations which direct decisions making in investments .When it comes to equity investment verdict become more vital as it influence the return expectations in terms of capital appreciation and dividend income. Retail Individual Investors expectations and psychology is persuaded by individual's behavioral approach. This can assist to improve existing retail equity investment and understand the aspects which influence individuals. It happens to subject matter of study how retail individual equity investors' adapt themselves to the changed situation and take equity decision. This paper is an attempt to focus and explore the behavior influence of retail individual investors in equity investment.

Objectives of the study are-

- To study and understand retail individual investors' expectations with reference to equity Investment.
- To study and analyze the behavioral persuade of retail investors in equity investment decision.
- To explore the investors' expectations in terms of overall return as capital appreciation and regular income from equity.

To achieve the above said objectives following hypothesis is formulated-

H0: For retail investors the rational Investment decisions does not depend upon opportunity cost involved in comparable investment than individuals market perceptions.

H1: For retail investors the rational Investment decisions much depends upon opportunity cost involved in comparable investment than individuals market perceptions.

H0: Behavioral aspects related to equity investment decisions of retail Investors are not influenced by existing dividend models.

H2: Behavioral aspects related to equity investment decisions of retail Investors are influenced by existing dividend models.

Theoretical Background-

This research work comes under the vicinity of Behavioral finance as focus the behavioral influence of retail individual investors associated with equity decisions.

Behavioral Finance-

Behavioral finance is described as –

“Field of finance which explains the behavioral and cognitive psychological aspects with theory of usual economics to offer clarifications and basis for people behavior as why sometimes individual make irrational financial decisions.

It can be also defined as –

“A Study of behavior based on psychology attempt to comprehend how sentiment and cognitive error influence financial decision making.”

Identified behavioral factors-

Equity investment decisions of retail individual investors are influenced by psychological and behavioral aspects. These factor persuade and decide the risk appetite and return expectations of investors .In reference to analyze behavioral influence the below said factors are identified.

- a) Attitude (Prospect - Loss Aversion, Regret Aversion)
- b) Anchoring /Overconfidence & Availability bias(Heuristic)

- c) Expectations
- d) Experience learning(past loss or gain)
- e) Financial Literacy (availability ,awareness and analysis)
- f) Knowledge base(Market Information - Price changes, market information, past trends, fundamental of underlying Investment, over reaction to price changes or corporate actions)
- g) Influence of decision of other investors(buying and selling choice and Volume- Herding effect)

It can be said that above mentioned factors are crucial as considered directly or indirectly by individuals in financial and investment decision making.

Research Methodology-

- i) **Type of research** - Research aims to understand and study the behavior, attitude and expectations of retail individual investors' for investment in equity which lead to make it also of **descriptive** in nature.
- ii) **Population** - All the Individuals who invest in equity for their own purpose in Mumbai region. In case of retail individual investors it can be assumed that exact population figure cannot be determined so **infinite population** is considered for the same.
- iii) **Sampling Frame** –

A list of all the elements in the population from which the representative sample is drawn

In research work, the Representative sample drawn will be as follows:

- i) **Retail Individual Investor's Sampling Frame** - All the Individuals who invest in equity for their own purpose in Mumbai region of the age group of the 18 to 65.

Size of Sample-

A sample is defined as a subset of the population. The sample must be able to represent the population.

Retail individual investor's sample size – For the research work data from 60 respondents are collected by filling questionnaire.

- i) **Types of Sampling Technique-**
- ii) For retail individual investors **non probability sampling** will be used as population is infinite or undefined. In non probability sampling, **Purposive sampling** will be used for the collection of primary data of retail individual investors.

Sources of data Collection-

Primary data-

For the proposed research work primary data will be collected from the following Sources:

- i) The structured Questionnaire for Retail Individual Investors
- ii) The Questionnaire and Unstructured interviews and discussions of Finance Managers of organizations selected in the sample

Sources of Secondary data-

For the proposed research work Secondary data will be collected from the following Sources:

- i) Websites of organizations, web links relevant to proposed research work and National Stock Exchange website
- ii) Books and research journals relevant to research work
- iii) New articles
- iv) Available literature

For questionnaire reliability and validity test is done.

Reliability –

The term reliability in research refers to the consistency of a research study or measuring test.

Reliability Test for research work Questionnaire–

For the reliability test of the proposed research work questionnaires, Internal Consistency reliability method is applied. For Internal reliability test cronbach’s alpha is calculated for the questionnaire of the retail individual Investors. For the retail individual Investors questionnaire value of cronbach’s alpha are as below-

| Table: Reliability Statistics | |
|--------------------------------------|-------------------|
| Cronbach's Alpha | N of Items |
| 0.72 | 27 |

The value of Cronbach’s Alpha calculated is **0.72**. Cronbach’s alpha value more than 0.70 is acceptable so it can be concluded that data collected in questionnaire is reliable. In the below said table detail of calculation of Cronbach’s alpha of each question is shown.

| Particulars | Scale Mean if Item Deleted | Scale Variance if Item Deleted | Corrected Item-Total Correlation | Cronbach's Alpha if Item Deleted |
|--------------------|-----------------------------------|---------------------------------------|---|---|
| Q-1 | 86.32 | 52.22 | 0.14 | 0.71 |

| | | | | |
|------|-------|-------|-------|------|
| Q-2 | 86.97 | 53.15 | 0.03 | 0.72 |
| Q-3 | 88.3 | 54.32 | -0.04 | 0.72 |
| Q-4 | 87.23 | 52.35 | 0.1 | 0.72 |
| Q-5 | 87.87 | 53.37 | 0.06 | 0.72 |
| Q-6 | 87.5 | 54.42 | -0.06 | 0.73 |
| Q-7 | 86.23 | 54.72 | -0.1 | 0.72 |
| Q-8 | 88.4 | 51.43 | 0.19 | 0.71 |
| Q-9 | 87.42 | 53.47 | 0.01 | 0.73 |
| Q-10 | 87.03 | 47.56 | 0.44 | 0.69 |
| Q-11 | 86.95 | 49.23 | 0.29 | 0.7 |
| Q-12 | 87.35 | 47.86 | 0.42 | 0.69 |
| Q-13 | 86.5 | 55.14 | -0.13 | 0.73 |
| Q-14 | 87.32 | 51.98 | 0.11 | 0.72 |
| Q-15 | 87.15 | 51.99 | 0.1 | 0.72 |
| Q-16 | 86.63 | 54.54 | -0.08 | 0.73 |
| Q-17 | 86.73 | 47.93 | 0.43 | 0.69 |
| Q-18 | 86.98 | 49.1 | 0.47 | 0.69 |
| Q-19 | 87.3 | 50.28 | 0.45 | 0.7 |
| Q-20 | 87.02 | 47.3 | 0.41 | 0.69 |
| Q-21 | 87.57 | 51.2 | 0.29 | 0.71 |
| Q-22 | 87.38 | 52.75 | 0.11 | 0.72 |
| Q-23 | 86.92 | 47.54 | 0.68 | 0.68 |
| Q-24 | 86.53 | 45.68 | 0.8 | 0.67 |
| Q-25 | 87.25 | 47.61 | 0.46 | 0.69 |
| Q-26 | 86.83 | 46.75 | 0.54 | 0.68 |
| Q-27 | 86.88 | 49.33 | 0.59 | 0.69 |

Validity of Questionnaire-

Validity is the extent to which a test measures what it is supposed to measure. The question of validity is raised in the context of the three points made above, the form of the test, the purpose of the test and the population for whom it is intended.

Face Validity-

Basically face validity refers to the degree to which a test appears to measure what it purports to measure. Essentially, researchers are simply taking the validity of the test at face value by looking at whether a test appears to measure the target variable.

Data Analysis and Interpretation-

Data is collected from 60 retail individual investors in Mumbai region. Data analysis is done using SPSS. Chi Square test is done for hypothesis testing and analysis .For all the 27 Questions chi Square is tested .Outcome of which are shown below in table No-1 to No:27 table .In the last table actual calculated value of Chi Square is shown. -

Table/ Q-1

| | Observed N | Expected N | Residual |
|---|------------|------------|----------|
| 2 | 1 | 15 | -14 |
| 3 | 9 | 15 | -6 |
| 4 | 29 | 15 | 14 |
| 5 | 21 | 15 | 6 |

Total 60

Table/ Q-2

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 13 | 20 | -7 |
| 3 | 3 | 20 | -17 |
| 4 | 44 | 20 | 24 |
| Total | 60 | | |

Table/ Q-3

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 3 | 20 | -17 |
| 2 | 43 | 20 | 23 |
| 3 | 14 | 20 | -6 |
| Total | 60 | | |

Table/Q-4

| | Observed N | Expected N | Residual |
|---|------------|------------|----------|
| 1 | 1 | 15 | -14 |
| 2 | 11 | 15 | -4 |
| 3 | 20 | 15 | 5 |
| 4 | 28 | 15 | 13 |

Total 60

Table/Q-5

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 4 | 20 | -16 |
| 2 | 15 | 20 | -5 |
| 3 | 41 | 20 | 21 |
| Total | 60 | | |

Table/Q-6

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 16 | 20 | -4 |
| 3 | 29 | 20 | 9 |
| 4 | 15 | 20 | -5 |
| Total | 60 | | |

Table/ Q-7

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 4 | 45 | 30 | 15 |
| 5 | 15 | 30 | -15 |
| Total | 60 | | |

Table/Q-8

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 12 | 15 | -3 |
| 2 | 36 | 15 | 21 |
| 3 | 7 | 15 | -8 |
| 4 | 5 | 15 | -10 |
| Total | 60 | | |

Table/ Q-9

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 15 | 15 | 0 |
| 3 | 30 | 15 | 15 |
| 4 | 11 | 15 | -4 |
| 5 | 4 | 15 | -11 |
| Total | 60 | | |

Table/Q-10

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 13 | 15 | -2 |
| 3 | 13 | 15 | -2 |
| 4 | 28 | 15 | 13 |
| 5 | 6 | 15 | -9 |
| Total | 60 | | |

Table: Q-11

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 7 | 15 | -8 |
| 3 | 29 | 15 | 14 |
| 4 | 9 | 15 | -6 |
| 5 | 15 | 15 | 0 |
| Total | 60 | | |

Table Q-12

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 1 | 15 | -14 |
| 2 | 20 | 15 | 5 |
| 3 | 9 | 15 | -6 |
| 4 | 30 | 15 | 15 |
| Total | 60 | | |

Table: Q-13

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 3 | 15 | 20 | -5 |
| 4 | 31 | 20 | 11 |
| 5 | 14 | 20 | -6 |
| Total | 60 | | |

Table: Q-14

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 1 | 12 | -11 |
| 2 | 13 | 12 | 1 |
| 3 | 25 | 12 | 13 |
| 4 | 17 | 12 | 5 |
| 5 | 4 | 12 | -8 |
| Total | 60 | | |

Table: Q-15

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 1 | 12 | -11 |
| 2 | 11 | 12 | -1 |
| 3 | 20 | 12 | 8 |
| 4 | 23 | 12 | 11 |
| 5 | 5 | 12 | -7 |
| Total | 60 | | |

Table: Q-16

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 7 | 15 | -8 |
| 3 | 6 | 15 | -9 |
| 4 | 36 | 15 | 21 |
| 5 | 11 | 15 | -4 |
| Total | 60 | | |

Table: Q-17

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 6 | 15 | -9 |
| 3 | 16 | 15 | 1 |
| 4 | 25 | 15 | 10 |
| 5 | 13 | 15 | -2 |
| Total | 60 | | |

Table/ Q-18

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 7 | 20 | -13 |
| 3 | 16 | 20 | -4 |
| 4 | 37 | 20 | 17 |
| Total | 60 | | |

Table/ Q-19

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 5 | 20 | -15 |
| 3 | 39 | 20 | 19 |
| 4 | 16 | 20 | -4 |
| Total | 60 | | |

Table:/Q-20

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 1 | 12 | -11 |
| 2 | 14 | 12 | 2 |
| 3 | 8 | 12 | -4 |
| 4 | 30 | 12 | 18 |
| 5 | 7 | 12 | -5 |
| Total | 60 | | |

Table:/Q-21

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 15 | 20 | -5 |
| 3 | 35 | 20 | 15 |
| 4 | 10 | 20 | -10 |
| Total | 60 | | |

Table: /Q-22

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 11 | 20 | -9 |
| 3 | 32 | 20 | 12 |
| 4 | 17 | 20 | -3 |
| Total | 60 | | |

Table/ Q-23

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 6 | 20 | -14 |
| 3 | 14 | 20 | -6 |
| 4 | 40 | 20 | 20 |
| Total | 60 | | |

Table/Q-24

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 6 | 20 | -14 |
| 4 | 45 | 20 | 25 |
| 5 | 9 | 20 | -11 |
| Total | 60 | | |

Table/ Q-25

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 1 | 6 | 15 | -9 |
| 3 | 29 | 15 | 14 |
| 4 | 24 | 15 | 9 |
| 5 | 1 | 15 | -14 |
| Total | 60 | | |

Table/Q-26

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 10 | 15 | -5 |
| 3 | 8 | 15 | -7 |
| 4 | 35 | 15 | 20 |
| 5 | 7 | 15 | -8 |
| Total | 60 | | |

Table/Q-27

| | Observed N | Expected N | Residual |
|-------|------------|------------|----------|
| 2 | 2 | 20 | -18 |
| 3 | 20 | 20 | 0 |
| 4 | 38 | 20 | 18 |
| Total | 60 | | |

TableNo-28 Calculated value of Chi Square

| Particulars | Q-1 | Q-2 | Q-3 | Q-4 | Q-5 | Q-6 | Q-7 | Q-8 | Q-9 |
|-------------|-------|------|------|-------|------|-------|-----|-------|-------|
| Chi-Square | 30.93 | 45.7 | 42.7 | 27.07 | 36.1 | 6.1 | 15 | 40.93 | 24.13 |
| df | 3 | 2 | 2 | 3 | 2 | 2 | 1 | 3 | 3 |
| Asymp. Sig. | 0 | 0 | 0 | 0 | 0 | 0.047 | 0 | 0 | 0 |

| Particulars | Q-10 | Q-11 | Q-12 | Q-13 | Q-14 | Q-15 | Q-16 | Q-17 | Q-18 |
|-------------|-------|-------|-------|-------|-------|-------|-------|-------|------|
| Chi-Square | 17.2 | 19.73 | 32.13 | 9.1 | 31.67 | 29.67 | 40.13 | 12.4 | 23.7 |
| df | 3 | 3 | 3 | 2 | 4 | 4 | 3 | 3 | 2 |
| Asymp. Sig. | 0.001 | 0 | 0 | 0.011 | 0 | 0 | 0 | 0.006 | 0 |

| Particulars | Q-19 | Q-20 | Q-21 | Q-22 | Q-23 | Q-24 | Q-25 | Q-26 | Q-27 |
|-------------|------|-------|------|-------|------|------|-------|-------|------|
| Chi-Square | 30.1 | 40.83 | 17.5 | 11.7 | 47.1 | 31.6 | 36.93 | 35.87 | 32.4 |
| df | 2 | 4 | 2 | 2 | 2 | 2 | 3 | 3 | 2 |
| Asymp. Sig. | 0 | 0 | 0 | 0.003 | 0 | 0 | 0 | 0 | 0 |

- For First alternative hypothesis -From the data mentioned in above table it can be stated that p value is less than 0.05 as calculated value of chi square is more of table value of Chi Square at 5 % level of significance for Question no13 to Question no-27 .So it can be concluded null hypothesis should be rejected and alternative hypothesis (H1) should be selected.
- For Second alternative hypothesis- P value is also less than 0.05 for Question no1to Question no-12 .So In this case it can be stated that null hypothesis should be rejected and alternative hypothesis (H2) should be selected.

Major Findings & Observations-

- It can be stated from data analysis that rational Investment decisions much depends upon opportunity cost and return involved in comparable investment than individuals market perceptions. Investors compare the return with the opportunity cost involved before investing in equity.
- Dividend amount is considered in taking equity investment decision. So it can be said that it is one of the important factor to promote equity investment.
- Investor’s expectations of dividend are different in diverse economic condition.
- Investors specifically expect more dividends in the period of slack or slowdown as to compensate with time value of money or holding period return.

- It can be said from the data analysis that respondents stated they can hold and wait for recovery in the particular share price if loss is compensated by paying more dividend.
- It can be stated from data analysis that Investors responded that they received more capital appreciation in equity in boom period.
- Investors expect consistent and stable dividend from company as according to them it reflects the financial resources availability and soundness of the company.
- It can be said from data analysis investors expect good amount of dividend irrespective of organization's category (growth, decline & indifferent firm).
- Respondents stated that on the basis of financial performance, future movement of the share price can be predicated and market favorable and unfavorable positions can be known.

Scope of the Study-

This research work assist in knowing in expectations of retail individual investors with in Mumbai region. Research can help in promoting more domestic retail investment in equity as expectations known can be targeted by organizations. This research can be further extended to different locations in India and for other various factors also.

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