A Study of Investor's Behavior- A Critical Review of Literatures

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Abstract

Investment is the employment of funds that have been saved from current consumption with the hope that some benefits in future will be received. "The sacrifice that has to be borne is certain but the return in the future may be uncertain. This attribute of investment indicates therisk factor. The risk is undertaken with a view to reap some return from the investment. A variety of factors influence investors behavior such as returns, safety of principal amount, progressive amount, tax savings along with other factor like family, friends and expert opinion and motives behind savings and last but not least discomforts they face while investing, all directs investor's behavior. The risk and returns involved in each of these investment avenues differ from one to another. The investors are ready to invest after evaluating the main features of investments such as security of principal amount, liquidity, income stability, easy transferability, etc. At the same time the choice among the variety of these factors depends upon the preferences and behavior of individual investor. The present study is based on the comparative analysis of investment patterns and behavior of individual investors. This study is much helpful to the operation of investment behavior. A study of behavior analysis of investor's attitude is an attempt to know the profile of the investor and also the characteristics of the investors, their preference with respect to their investment. This study can facilitate the potential investors to analyze the influence of behavior patterns.

Keywords: *Investor, behavioral aspects, perception, etc.*

❖ Introduction

All the individual investor possesses different mindset when they decide about investing in a particular investment avenue such as stocks, bonds, mutual funds, fixed deposit, real estate, bullion etc. "In each life cycle stage, every individual desires his hard earned money to be invested in most secure and liquid avenue. However, the decision varies for every individual depending upon their risk taking capacity and the purpose for which such investment is to be done. Purpose of investment can be related with saving objective. Each individual investor selects the investment option for certain time period looking at their personal financial goals.

Investment behavior of an individual investor reveals how he/she wants to allocate the surplus financial resources to various instruments for investment available.

Behavioral finance is originated from the work of psychologists Daniel Kahneman and Amos Tversky and economist Robert J. Shiller in the 1970s-1980s. They applied the pervasive, deep-seeded, subconscious biases and heuristics to the way that people make their financial decisions. At about the same time, finance researchers began to propose that the efficient market hypothesis (EMH), a popular theory that the stock market moves in rational, predictable ways, doesn't always hold up under scrutiny. In reality, the markets are full of inefficiencies due to investors' flawed thinking about prices and risk.

In the past decade, behavioral finance has been embraced in the academic and financial communities as a subfield of behavioral economics influenced by economic psychology. Behavioral finance is a relatively new school of thought that deals with the influence of psychology on the behavior of financial practitioners and its subsequent impact on stock markets (Sewell, 2007).Behavioral finance is an evolving arena that combines the understanding of behavioral and cognitive psychology with financial decision making process. Nowadays the financial services sector has turn out to be extremely diversified offering the investor with a widespread variety of investment opportunities. People start investing to secure their life from uncertainties Investors have a wide variety of avenues to park their hard earned money. Choice or selection of investor depends upon the risk and return profile while patterns depend upon the behavior. Three variables that measure the growth of an economy are Income, Savings and Investment. Money saved is of no use if it is not invested in some productive assets or capital goods. After investment in productive areas, it enhances the national product or per capita income and raises the standards of living of the investor. Savings and investments by individuals are important both for personal financial well-being and for economic growth.

❖ Conceptual Framework

Investing in numerous kinds of assets is a challenging activity that attracts people from all walks of life. It is the employment of funds with the aim of earning income or capital

appreciation (Pandian 2001). The investment strategies of one investor are quite different from that of another. The motivation of an investor to invest is complex and depends upon a number of factors. Researchers across different countries have analyzed the behavior of investors and have attempted to enhance our understanding of why people manage investments in different ways. It is believed that decisions of an investor were based on modern portfolio theory and the efficient market hypothesis. However, researchers have proved that most of the investors do not pick their stocks and portfolio based on the three criteria of modern portfolio theory – expected return, standard deviation and correlation. Analysis of their portfolio revealed that they fold few stocks and fail to diversify (Kiran and Rao, 2004). In fact the investor's portfolio practices, preferences, risk perceptions, intentions, pattern of investment, their awareness level, factors affecting their investment behavior and the problems faced by them need to be examined in order to understand their saving and investment behavior.

❖ RESEARCH

METHODOLOGY

In this study, a thorough review of the existing empirical literature from the year 1974 to 2014 has been conducted. Articles published in various online databases and search engines such as SSRN, NBER, Science Direct, INDIASTAT, ProQuest, JSTOR, OECD library and Google scholar along with relevant books on the topic were reviewed. The studies have been reviewed in terms of vital measures viz, objectives, research methodology, sample and the factors that influence an investor's behavior.

❖ OBJECTIVES

1. To provide an up to date and comprehensive review of empirical studies on investor'sbehavior.

2. To explore the diverse literature available worldwide for understanding the variables that governs an investor's decision to save and invest.

3.

❖ REVIEW OF LITERATURE

Behavioral finance is a comparatively new paradigm of finance, which seeks to improve the standard theories of finance by introducing behavioral aspects to the investment decision making process. The study of behavioral finance shows how cognitive and emotional factors affect the investment decision of an investment and particularly how they affect the rationality indecision making. It is not only describing the behavior of the investors, but also studies why they behave so. Behavioral finance is a new emerging science that studies the irrational behavior of the people. There exist numerous empirical studies on the investor's behavior worldwide.

TABLE 1 –EXISTING EMPIRICAL LITERATURE FOCUSINGON INVESTOR'S BEHAVIOUR

SR. NO.	AUTHOR & YEAR	RESEARCH OBJECTIVE	RESULT OF THE STUDY
1.	**Elankumaran and Ananth (2013)**	To study the behavior of investors towards commodity market in India	Four major factors have greater influence on the behavior of investors, viz., low risk, informational asymmetry, high return and objective knowledge.
2.	**Virani (2013)**	To determine the Relationship between the savings and investments pattern among the school	The major impact on savings is due to the level of income of the school teachers.The main avenues of investment are Bank deposits and the main purpose of
		teachers.	investment is for children education, marriage, and security after retirement
3.	**Hood, Nofsinger and Varma (2014)**	To examine the factors that influences the investment decisions of socially responsible investors.	Social characteristics and personal values had an impact on the stocks owned by Individual investors.

4.	**Jagongo and Mutswenje (2014)**	To establish the factors influencing investment decisions at the Nairobi Stock Exchange.	The most important factors that influence individual investment decisions were: reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the Economy and expected divided by investors.
5.	**Geetha and Vimala (2014)**	To identify the popular perception of individual investors towards selected investment avenues and the predominant factors which influence individual to go for savings in that instrument	There is a remarkable change in the investment avenues due to establishment of different Financial institution, creditable source attractive return, good capital appreciation, and tax concession. From the investors point of view changes in demographic factor such as age, income, education, and occupation have an influence in the Investment avenue preference.
6.	**Raza (2014)**	To review the important developments in the field of behavioral financial and to present how behavior finance is the emerging field in the area of investment Decision making.	The perceptions of the investors do have a strong and significant impact on the financial decision making of the investors thus implying that behavioral finance in fact duly challenges the conventional financial modeling and thus is animportant emerging field of financial decision making that definitely needs to be explored and studied further.

7.	**Charles and Kasilingam (2014)**	To find out whether individual's emotions Determine their investment personality or not.	Investor's emotion based intuitiveness affects their investment personality.
8.	**Sashikala P & Girish G. P (2015)**	To identify the factors which influence and affect retail investor's trading behavior in Indian equity market.	The results of the study suggests that factors like broker's advice, personal analysis, current price of the equity stock, financial analyst's recommendations, inclination towards online trading; investor's confidence in advice given by his/her financial advisor plays a major role in influencing and affecting trading behavior of retail investors.
9.	**Dr. R. Angamuthu (2015)**	Study on the preference towards investing in equity shares as a best form of investments	Receiving Annual Dividend, Profit attained in shorter time were the most important reason for investing • While investor's knowledge about equity market was the second most important factor for investing
10.	**Jeet Singh Mahamaya & Preeti Yadav (2016)**	The study tried to find out the factors that hadmajor influence on the share investment decisions of a sample of 100 investors in	Both male and female investors' concern about considering past dividends paid by companies while investing in equity shares. Those companies which pay higher rate of dividends are considered good for investment purpose; • Male
		Moradabad city of Uttar Pradesh.	investors analyze the financial ratios such P/E ratio, D/P ratio and other liquidity ratios while female investors due to lack of financial literacy are not so convenient with financial ratios. • Male investors

			analyse the current financial position of the company in terms of profitability, liquidity and performance in terms of productivity and innovation while female investors due to lack of financial literacy are not so convenient with financial data. • Both male and female investors accept the recommendations given by trusted and reputed stock brokers or experts while investing in equity shares. • Female investors gives more importance to the advice given by their friends and relatives and on their advice female investors invest in the shares
11.	**Aruna P & Dr.H. Rajashekar (2016)**	To identify the various factors influencing investment decisions of Retail investor. To suggest the policy makers, to come up with lot of innovative investment avenues based on the influencing factors of investment decisions of retail	This paper concludes that the investor's behavior depends on how the available information is being presented to them and how much they are prone to taking risk while making decisions; thus each variable of the factors playing a significant role in determining the investment style of an investor
		investors.	

12.	**Priyanka Zanvar, Dr. Sarang S. Bhola (2016)**	The study was to understand investment pattern among the investors of Pune (India).	The individual investors buying behavior is influenced by various factors such as social, economic, psychological and demographic. Individual investor's investments are backed by benefits and money. Individual investor still prefers to invest in financial products which give risk free returns.
13.	**Mahalakshmi T.N. & Anuradha N (2017)**	Provides insights to the professionals and service providers to substantiate effective investment strategies for the investors.	An individual is also influenced by external factors such as level of engagement and spouse effect, which has not been explored earlier.
14.	**Dr. M.Malathy & Saranya.J (2017)**	To identify the investor's perception towards company, and the major aspects of an investors perception.	The factors that were ranked highly in level of importance, namely, company reputation, return on investment, reputation of the board, past financial performance, dividend policy is all ascertained with the help of the information available in the stock market decision. Return on investment is a very important factor that influences the investment decision. Return is the ultimate aim for an investor. Every investor should be very cautious in market trend or risk while investing. The main factors influencing investments are the return on investment and for the short-

			term profitability.
15.	**Anuradha samal, & K.Das Mohapatra (2017)**	The study has endeavored to find out the major factors influencing investment decisions of the investors in the Odisha province of India.	It was found that the most influencing factors on investment decisions of investors in Indian Capital Market are i. Past performance of company stock, ii. Recommendations of financial advisors and analyst, iii. Expected Stock split/ capital increase/ bonus, iv. Recent price movement in company stock, v. Dividend policy vi. Expected corporate earnings. • Also, the least influencing factors include religions, rumors, loyalty to the company's products/services.

❖ ANALYSIS AND INTERPRETATION

From the review of the empirical literature given in Table 1, researchers have proved that investors are very preposterous in investment decision making. There are various factors identified which influence their decisions to save and invest. They are presented Variables that govern an investor's decision to save and invest.

VARIABLES THAT GOVERN AN INVESTOR'S DECISION TO SAVE AND INVEST

- **Demographic factors:** Age, Gender, Income, Education , Occupation , Experience, Marital Status, Family status, Family earning status, Number of dependents, Upbringing status
- **Market factors**: Price changes, Market information, Over reaction to price changes, Customer preferences
- **Risk bearing capacity**: Considerations of safety, liquidity, capital appreciation, returnand risk coverage.

- **Lifestyle characteristics**: Personal ability, investment experience, confidence level, dependency level of investor.
- **Behavioral factors**: Cognitive factors – Representative heuristics, Availability heuristics,Over confidence effect, Anchoring, Hindsight bias, Gambler's fallacy, Investor optimism. Emotional Factors –Mental accounting, Endowment effect, Loss aversion, Regret aversion Herding factors –Following the habits of other investors (social proof) in buying,selling, choice and trading of investments.
- **Other factors:** Personal financial needs – Portfolio diversification need, Easy availabilityof fund whenever needs , need to minimize the risk and maximize the return

Conclusion:

The purpose behind the development of the research paper was to analyze the literatures available to study & develop and to understand the overall understanding of individual investor's behavior and the factors which affects the investment decision of an individual. Individuals need money to continue their lives or incentive processing. While they put a certain amount of their income aside to meet their needs, they make saving to guarantee their future with the other part. They direct economic costs that they made, saving at financial instruments with different purposes (capital maintenance, having perpetual income generation, providing capital gain). The literature review revealed that they were five major factors namely, Financial advisor suggestion, Return, Family and friends, Current market price and Financial analysis. Return on investment was found as the most dominating factor while taking an investment decision of an individual. Financial analysis and financial advisors suggestion was consumers priority for safeguarding their risk for investment. Current market price and suggestions of friends and family can also influence investor's investment decision. Keeping these different parameters in view, it will be easier for a marketer to design an appropriate investments scheme.

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