"INFLUENTIAL FACTORS ON INVESTMENT BEHAVIOUR OF INDIVIDUAL INVESTORS:A REVIEW OF EMPIRICAL EVIDENCES FROM VARIOUS COUNTRIES"

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ABSTRACT

Behavioural finance is an emerging field that combines the understanding of behavioural& cognitive psychology with financial decision making process. The traditional finance theories such as CAPM,EMH& modern portfolio theories presumes that markets are efficient& people make rational decisions to maximise profits. But recent studies on individual investors' behaviour have shown that people do not act in a rational manner, rather several factors influence their investment decisions in the stock market. The decision of investors in the stock market play an important role in defining the market trend, which then influence the country economy.

The present study aims to review various research studies& literature available worldwide on individual investor behaviour & gain knowledge about key factors that influence investment behaviour of individual investors in various countries. The study suggest that understanding the individual investor behaviour is very important for market regulators, Policy makers, Financial planners as well as managers of a firm because how an individual investor respond to market movements would help them in devising appropriate asset allocation strategies for their clients.

***Key words**:* Behavioural finance, investment behaviour, Rationality, Herd behaviour, Heuristics.

Introduction

Globalisation of financial markets has been increasing the investors' community over the past two decades by providing a wide variety of financial instruments& investment options. Studies of different types of investors over the past 20 years shows that equities have done exceedingly well with returns of 15%.Yet whenever we ask investors about their investment performance, the majority say that equity investments are risky& they have lost money in the stock market. They always curse the volatility& blame it for their losses. Even well-educated investors with an above average IQ do not do well on the stock market. It's a paradox that while equity investments have done well, investors have done poorly. The reality is that human beings make decisions not only with their minds but also with their hearts.

In this context, understanding the irrational investor behaviour deserves more important. The present study focuses on identifying various factors which leads to irrational behaviour of individual investors**.**

Objectives of the study:

1. To identify various factors affecting individual investor behaviour as explored by several researches in different countries.

2. To provide an up-to-date & comprehensive review of studies on individual investors' behaviour in the financial markets with specific reference to stock investments.

Methodology:

The study is based on secondary data sources. For the present study, a thorough review of existing empirical literature has been collected from various online databases& search engines such as SSRN& Google scholar were reviewed & various books on Investor behaviour were reviewed.

Review of Literature:

Traditional finance emphasizes theories such as Capital asset pricing model, Efficient Market hypothesis are presumes that markets are efficient & people make rational decisions to maximise profits. Shiller (2002) provided theoretical& empirical evidence to support the fact that CAPM, EMH & other traditional finance theories did a great job in predicting& explaining certain events. However academicians also started to find anomalies & behaviours which these traditional theories could not explain. The 2 popular examples are

1. January effect- An anomaly in the financial market where the price of a security increases in the month of January without fundamental reasons. (Rozeff&Kinney, 1976)

2.The winners curve- Where the winning big in an auction tends to exceeds intrinsic value of the item purchased, mainly due to incomplete information& emotions leading bidders to over estimating the items value.(Thaler1988)

As more& more anomalies were recorded, then scholars began wondering whether the traditional finance theories were incapable of explaining what determine the stock prices. Stock market performance is not simply the result of intelligible characteristics, but the investors' fear& greed, risk aversion etc. which seems to decisively device & dictate the fortune of the market

Behavioural finance

Behavioural finance is a relatively new paradigm of finance, which seeks to supplement the standard theories of finance by introducing behavioural aspects to the investment decision making process. The study of Behavioural finance shows how cognitive & emotional factors affect the investment decision of an investment& particularly how they affect the rationality in decision making. It is the study of why individuals do not always make the decisions as they are expected to make & why the markets do not reliably behave as they are expected to behave. It is not only describe the behaviour of the investors & stock markets, but also studies why they behave so.

Tab: 1 shows existing literature reviews on Factors influencing individual investor behaviour:

s.no	Author	Research Objective	Sample	Methodology	Title of the paper& Results of the study
1	Warren 1990 (USA)	To segment the investors on the basis of demographic& life style characteristics	152	Multiple discriminant analysis	Using the Demographic& life style analysis to segment individual investor The study segmented the investors on the basis of their investment behaviour i.e. active& passive investors as well as light& heavy investors
2	Nagy& Obenberger 1994	To study the factors influencing the individual investor	300	factor analysis	Factors influencing individual investor behaviour

		behaviour			They developed a questionnaire that included 34 factors such as expected corporate earnings, diversification needs, feelings for firm's products and services, past performance of stocks, past performance of their own portfolio, stock broker recommendations to name a few.
3	Ryan wood, Judith Lynne,Ziachkowsky (Paris)	To identify& characterizes segments of individual investors based on their shared investing attitude&behaviour	90	Cluster segmentation analysis	Attitudes & Trading behaviour of stock market investors: A segmentation approach Results reveals that the 4 major segments of individual investors are Risk tolerance traders, Confident traders, Loss averse young traders, Conservative long term investors
4	Tomola Marshal Obamuyi (Nigeria)	i) Identify and prioritize the factors influencing investment decisions of investors in the Nigerian Capital Market; and (ii) Investigate the effect of socio-economic characteristics of investors on any of the most affecting	297	Independent t- test, Analysis of variance (ANOVA) and post hoc tests	Factors influencing investment decisions in capital market The results indicate that the five most influencing factors on investment decisions of investors in Nigeria are past performance of the company's stock, expected stock split/capital increases/bonus, dividend policy, expected corporate earnings and get-rich-quick.

		factors.			
5	Shahla Amiri, Nooredin Razavizade, Gholam Hosein Vahidi 2011 (Iran)	To study is there an interaction between the five personality traits and demographic factors with behavioural biases in investment decisions in Tehran Stock Exchange in 2011.	215	Structural equation modelling analysis (SEM), through AMOS6 software	The Effect of the Interaction between Demographic Factors and Personality Traits and Financial Behaviour Factors in Terms of Investment Decision Making The results show that the investment biases in individual investigators has relationship with personal characteristics meaningfully and with some of the demographic variables weakly
6	Dimitrios I. Maditinos, Željko Ševic, Nikolaos G. Theriou 2007 (Greece)	to investigate the various methods and techniques used by Greek investors (both professional and individuals) when evaluating potential additions to their investment portfolios	6 groups	Questionnaire& interviews with officials	Investors' behaviour in the Athens Stock Exchange (ASE) The results indicate that Individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis and less on portfolio analysis.
7	Gaurav Kabra Prashant Kumar Manoj Kumar Dash 2010 (India)	Difference in perception of Invetorin the decision of investing on the basis of Age. difference in perce	150	Factor analysis Regression analysis	Factors Influencing Investment Decision of Generations in India: An Econometric Study Investors' age& gender

		ption of Investorin the decision of investing on the basis of Gender			predominantly decides the risk taking capacity of investors
8	Geoffrey Gitau Mwangi, 2011 (Kenya	To determine the effect & extent of behavioural factors influencing the property investment decisions in Kenya	155	Factor analysis	It was found that heuristic factors such as anchoring, representativeness& availability bias has more influence on property investment decisions
9	Rahul Subhash 2011 (Prague	To study whether the behavioural factors have an influence on the decision making process of portfolio investors	119	Discriminant analysis	Role of Behavioural Finance in Portfolio Investment Decisions: Evidence from India Chi-squared tests indicated that both young and experienced investors suffered losses, and thus were equally impacted by the crisis. Results from weighted scoring showed that investors were suffering from almost all the biases studied.
10	Le Phuoc Luong Doan Thi Thu Ha 2011 (China)	To explore the behavioural factors influencing individual investors' decisions at the Ho Chi Minh Stock Exchange	300	Factor analysis, Structural equation model	Behavioural factors influencing individual investors' decision making& performance The result shows that there are five behavioural factors affecting the investment decisions of individual investors such as Herding, Market, Prospect, Overconfidence-gamble's fallacy,

					and Anchoring-ability bias
11	Abhijeet Chandra and Ravinder Kumar 2011 (India)	(i) to identify the psychological biases(ii) To confirm the presence of these psychological biases (iii) To examine the extent to which these psychological biases are responsible for individual investment behaviour.	500	Principle component analysis	Determinants of Individual Investor Behaviour: An Orthogonal Linear Transformation Approach The results reveal some psychological axes, such as conservatism, under confidence, prudence, precautious attitude and informational asymmetry which have as influence on investor decision making
12	Dr.S.Jayaraj (Ethiopia) 2012	To identify the factors which determine individual investor investment behaviour. To know whether any psychological biases exist among Indian investors	300	Principle component analysis	The Factor Model for Determining the Individual Investment behaviour in India. The results reveal that the psychological axes conservatism, diligent and discreet, remorse abhorrence fall in line with the earlier research ,but prudence and under confidence are the contrary behaviour axes reported by the multivariate analysis
13	Sohani Islam - 2012 (Bangladesh)	To identify the most influential factors which affect investment decision of individual	400	Factor analysis	Behavioural finance of an inefficient markets It was found that Psychological factor is the most dominating

		investors			influence upon investor's decision making process. Micro economic factor and social factor also have influence on selecting investment securities
14	Elizabeth lucky, Maretha itinzak ,Imam Ghozali 2012 (Indonesia)	To investigate the influence of disposition effect, Cognitive aspects& A/C ing information for investment decisions in the stock market		Quasi experimental study, Randomized Block design	The investor Indonesia Behaviour on stock investment decision making: Disposition effect, Cognition& A/c ing information The results shows that there is a disposition effect before& after treatment of A/C ing information& there is interaction b/w the effects of disposition, cognition level of risk& A/Cing information
15	Dr. Syed Tabassum Dr S Pardhasaradhi 2012 (India)	To analyse and identify the factors influencing the Indian individual equity investors while choosing a stock for investments	891	Factor analysis	An Empirical Analysis of Factors Influencing Indian Individual Equity Investors' Decision Making and Behaviour it was found that the following ten factors Individual Eccentric, Wealth Maximization, Risk Minimization, Brand Perception, Social Responsibility, Financial Expectation, Accounting information, Government & Media, Economic Expectation and Advocate recommendation factors will have an impact on investors

From various existing literature, Academicians& researchers have identified various factors influencing the behaviour of an individual investors. These factors are

1. Behavioural factors:

a) Heuristic factors: These factors explain the way investor thinks& how they organise the information.

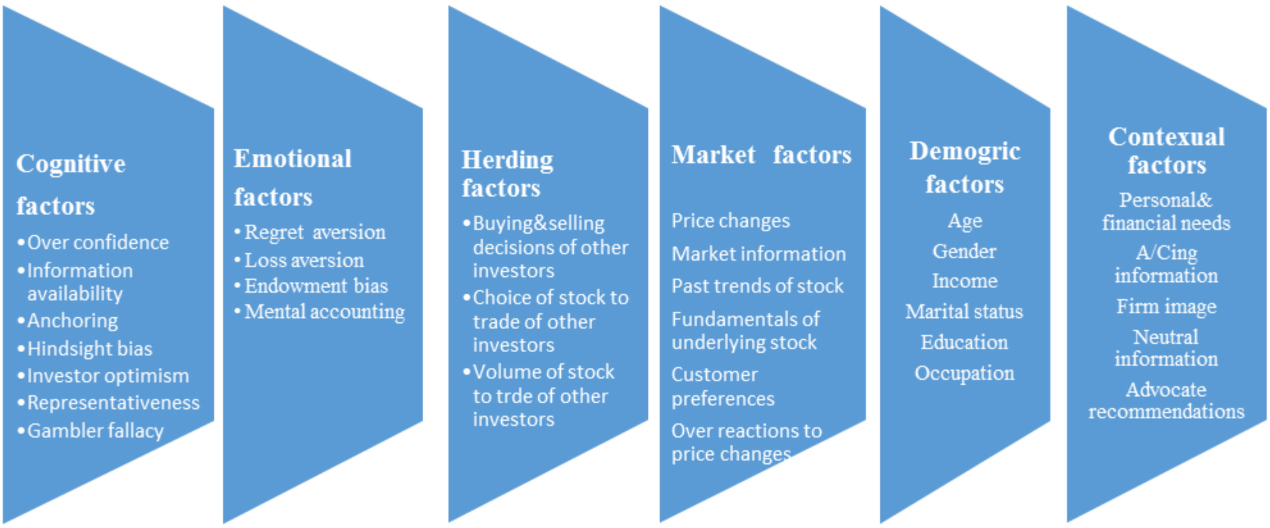
b) Emotional factors: These factors explain the way investors feels about the information.

c) Herd behaviour: Herding is the tendency of investors' behaviour to follow the others' actions.

2. Contextual factors: These factors are suggested by the professionals& contextual sources which include stock brokers, financial consultants& investment advisors.

Along with these, there are certain **market factors& demographic factors** such as age, gender, income, education& experience etc. were explored from the existing literature

Table 2 shows the Factors effecting the investment behaviour of Individual investors:



Analysis:

From the review of above studies, it can be understood that individual investors do not act rationally while making investment decisions. There are various factors identified from the existing literature which have an influence on their investment decisions. These factors are

Behavioural factors such as Cognitive factors& Emotional factors, Herd behaviour, Contextual factors, Market factors& Demographic factors. Warren(1990) , Shahla Amiri, Nooredin Razavizade, Gholam Hosein Vahidi (2011),Kabra, Prashant kumar, Manoj kumar dash(2011) have explored various demographic factors such as age,gender,income,education& experience influence the individual investor behaviour.

Nagy& Obenberger(1994), Tomola Marshal Obamuyi (Nigeria), Dr. Syed Tabassum, Dr S Pardhasaradhi(2012) have identified 34 Contextual factors grouped in to 5 categories such as personal& Financial needs, A/C ing information, Neutral information, Firm image& Advocate recommendations have an influence on individual investor behaviour. Dimitrios I. Maditinos, Željko Ševic, Nikolaos G. Theriou (2007) had conclude that Individual investors rely more on newspapers/media and noise in the market when making their investment decisions, while professional investors rely more on fundamental and technical analysis and less on portfolio analysis.

Geoffrey Gitau Mwangi, (2011) was found that heuristic factors such as anchoring, representativeness& availability bias has more influence on property investment decisions. Le Phuoc Luong Doan Thi Thu Ha 2011 had conclude that there are five behavioural factors affecting the investment decisions of individual investors such as Herding, Market, Prospect, Overconfidence-gamble's fallacy, and Anchoring-ability bias. Abhijeet Chandra and Ravinder Kumar (2011) from their research found that there some psychological axes, such as conservatism, under confidence, prudence, precautious attitude and informational asymmetry which have an influence on investor decision making . Sohani Islam (2012) had found that Psychological factor is the most dominating influence upon investor's decision making process& micro economic factor and social factor also have influence on selecting investment securities.

Recommendations:

On the basis of the above analysis, the following recommendations can be made:

1. to the Investors:

- To make constant attempt to increase their awareness on behavioural finance which help to achieve better self-understanding of the extent & manner to which they gets influenced by various behavioural factors while making investment decisions.
- There should be periodic review on various behavioural biases thus give themselves a better chance to make improved financial decisions in the stock market.

2. to the Policy makers:

- There is a need for financial literary programmes in order to make people understand their financial needs at different stages of life& the investment options available to them
- The Govt has to take several measure to stable the stock market.

3. to the Researchers

- Research needs to be carried out on specific segments of investors such as Wealthy investors, Expatriate investors, Women investors etc.

Conclusion

Due to extreme volatility in the stock markets, understanding the individual investor behaviour is very important because the decisions of investors in the stock market play an important role in defining the market trend, which then influence the country economy. It is also very important for market regulators, Policy makers, Financial planners as well as managers of a firm because how an individual investor respond to market movements would help them in devising appropriate asset allocation strategies for their clients.

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