FACTORS INFLUENCING THE BEHAVIOUR OF INDIVIDUAL INVESTORS IN INVESTMENT DECISIONS: AN EMPIRICAL ANALYSIS

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ABSTRACT

In 2010, the Indian economy grew substantially, mainly due to fiscal and policy initiatives implemented by the government. The government has diversified individual investors' funds and educated them about financial products to improve people's ability to make rational decisions and optimize their investment portfolios. This study will model individual investor behaviour and investment decisions in Tiruchirappalli District. It examined how behavioural, socio-economic, and financial factors affect investment decisions, financial product preferences, and risk-bearing capacity. Data from individual investors in Tiruchirappalli district was collected using a structured questionnaire. The study analyzed 150 participants. The behavioural factors encompassed individual and collective herding behaviours, while the socio-economic factors encompassed market dynamics, firm characteristics, and social influences. This study emphasizes the positive effect of investment decisions, offering valuable insights for investors and banks to steer them toward numerous financial alternatives.

Keywords: *Investment Decision, Individuals*, *Individual Investors, Behavioural Factors, Socio-Economic Factors, Financial Products.*

INTRODUCTION:

India, a developing nation, is influenced by the growth of per capita both public and private investment, as highlighted by Rahman, Islam, and Banerjee (2016). India's economic growth is influenced by its savings, with the banking system and capital market reserve playing a significant part in channelling these savings to its citizens. India's financial system provides a range of investment options, such as fixed deposits, unit-linked insurance plans, mutual funds, gold, real estate, and stocks in different industries. Equities or shares hold a dominant position in the Indian market owing to their substantial returns and elevated risk levels. Portfolios that are diversified have the advantage of increasing returns and reducing risks, which ultimately results in enhanced acknowledgment and impact within the financial markets, both at a national and global level. Investment entails the allocation of resources, such as effort, time, or money, to attain a return, with the anticipation of future advantages. It encompasses decisions of

classification, integration, quantity, timing, and quality. Investment risks stem from the possibility of fluctuating returns.

Merikas, Vozikis, and Prasad (2004), the main factor that affects the ability of individual investors to maximise their wealth is the decisions they make regarding their consumption and investment choices. Investments can be classified as financial investments, including stocks, debentures, insurance policies, and post office savings certificates. Investments are subject to frequent changes in returns due to factors such as the nature of the investment, the length of time it is held, and fluctuations in the market. Sharma and Kaur (2016) highlight the objective of utilising the money to generate additional wealth. Before examining the factors that impact individual investors' decisions, it is essential to comprehend the attributes of investments.

INDIVIDUAL INVESTORS' BEHAVIOUR

Individual investors buy and sell securities through their personal accounts, employing the principles of prospect theory. They make decisions based on the likelihood of financial gains and losses. Traditional finance theories posit that individual investors are rational actors who assess the value of stocks based on risk and return data. The efficient markets hypothesis (EMH) is an economic theory that posits that all individual investors have equal access to information, which is immediately incorporated into stock prices, thereby eliminating the potential for additional returns.

Nayaki and Prema emphasise the influence of bias on stock market outcomes, contending that irrational elements such as fear, overconfidence, and risk aversion can sway the decisions of individual investors. Burghardt (2010) emphasises the significance of liquidity for those who facilitate the movement of orders. However, Indian individual investors have frequently experienced negative consequences as a result of illicit accounting practices and insider trading. Foreign investors are also subject to common biases, including familiarity bias, which leads them to favour things that they are familiar with and comfortable with. Singla and Hiray (2019) demonstrated that social recognition and a comfortable lifestyle serve as dependable indicators of hedonism. These factors exert a substantial influence on the choices made by investors in the stock market and real estate, while also having an adverse impact on income.

Their individual decisions can significantly influence the financial performance of individual investors, as they are more susceptible to biases. Burghardt (2019) emphasizes the significance of comprehending the influence of these biases on investment choices. Prakash, Nguyen, et. al(2017) highlight the importance of aligning laws and procedures to reduce the risk of financial integration among BRICS equity markets. Various factors, encompassing

economic, psychological, social, and demographic factors, exert an influence on the behaviour of individual investors. Typical behavioural factors encompass herding, excessive reaction, cognitive bias, and excessive confidence. Demographic variables, including gender, age, income, and education, are also crucial for analysis. In their study, examined the wage disparity between genders across different professions, Kaur and Kaur (2016) specifically focusing on the wage gap in both agricultural and non-agricultural sectors.

Yadav, Upadhyaya, and Sharma (2012) discovered that tax variables substantially influence both private consumption and GDP. Gender disparity is a notable demographic factor that affects investment choices. Additional factors encompass stock market liquidity, anticipated losses, portfolio diversification, inflationary impact, tax implications, trading prospects, corporate ethics, public image, economic outlook, board composition, brand reputation, social accountability, and managerial control orientation.

This research study investigates the behaviour of individual investors in Trichy, specifically examining their relationship with the level of risk associated with financial products. The objective is to create a framework that connects the elements that influence individuals' behaviour with their investment decisions. This research aims to analyse the influence of behavioural factors on investment decisions.

REVIEW OF LITERATURE:

The literature review examines the research on behavioural, socio-economic, and financial literacy elements that affect investing decisions. It emphasises the varied findings of studies conducted globally. The paper discusses these elements and their relationship with investing decisions, establishing the foundation for future investigations.

Investment behavioural aspects pertain to how investors perceive and interpret the performance of the capital market and its volatility (Gao and Schmidt, 2005). Hence, investors must take into account the behavioural aspects of decision-making while making investing decisions.

Investors perceive that the process of making investing decisions is significantly impacted by behavioural aspects, as these characteristics aid in comprehending and elucidating emotions (Waweru et al., 2008). Investment decisions are significantly influenced by various factors or biases, including cognitive bias, loss aversion bias, and overconfidence biases. These biases play a fundamental role in behavioural finance (Shah et. al., 2014). The current study examines eight behavioural components: personal characteristics, herding factors, overconfidence, ability bias, mental accounting, loss aversion, regret bias, and endowment bias. Several researchers have shown a favourable correlation between investing decisions and

overconfidence, availability bias, regret bias, and conservatism prejudice (Lim, 2014; Luu, 2014) and Kengatharan and Kengatharan, (2014). Herding behaviour was an exception and did not impact investors' investing decisions. Khan et. al., (2017) argued that behavioural variables have an impact on the decision-making process of individual investors in the field of investing.

The researchers further proposed that reducing overconfidence might result in effective investment behaviours. According to Takeda et.al (2013), financial literacy can cause overconfidence bias, which frequently leads to biased decision-making. Although these decisions were biased, they cannot be classified as irresponsible.

Investment decisions can be influenced by cognitive biases, as demonstrated by studies conducted by Baker and Wurgler (2013), Ben-David et.al. (2013), and Malmendier et.al. (2005). According to Waweru et al. (2008), investing decisions are significantly impacted by behavioural aspects, which contribute to the comprehension of cognitive mistakes and investors' emotions. Ritter (2003) states that investment choice processes are influenced by several cognitive illusions. Investors aim to minimise regret by refraining from selling and purchasing shares that have performed poorly (Fogel & Berry, 2006).

Regret stems from the emotions experienced by individual investors in the individual market. Regret is the emotional distress caused by a sense of remorse and is accountable for the experience of loss. Regret has an impact on the choices made while investing (Shefrin, 2002). Investors opt to divest from shares that have depreciated and are interested in investing in stocks that have appreciated (Shiller, 1997). Hence, regret bias significantly influences investing decisions.

Individual investors can manage their portfolios in a single account with the use of mental accounting (Barberis & Thaler, 2003). Kivetz (1999) states that individual investors employ a collection of cognitive biases to integrate, compute, and monitor financial market activity. According to Anderson et. al. (2005), investors that are well-educated and exhibit active trading behaviour have the potential to make significant profits.

Herding bias contributes to market volatility. The efficacy of the capital market in formulating investment decisions is impacted by the herding behaviour of investors, which is defined by their inclination to emulate the actions of others when purchasing and selling stocks. This behaviour can lead to the formation of theoretical bubbles in the market (Luong & Thu Ha, 2011). Wamae (2013) asserts that herding significantly influences decision-making.

Investment is frequently associated with the assessment of companies' financial standings, which includes metrics such as earnings per share (Easley et.al, 2010). Investors need financial information about companies' finances. The investing decisions of individuals

were impacted by the timeliness of information (Gupta and Negi, 2014). Hanson et al. (2018) suggested that there is a significant correlation between the biases of individual investors and their activity in the market. Furthermore, it was determined that markets were not considered entirely efficient, and the behaviour of individual investors was predominantly influenced by cognitive psychology.

Risk appetite is a significant attribute of investing decisions. The risk of individual investors is closely associated with gender and marital status. Male investors sometimes exhibit greater caution when it comes to high-risk ventures compared to their female counterparts. Single investors tend to have a greater propensity for risk-taking in comparison to married investors while making investing decisions. The behaviour of investors in taking risks was impacted by characteristics such as income and degree of education (Kumar and Babu, 2018).

Financial literacy refers to an investor's understanding and use of knowledge to make the best possible financial investment decisions (Hogarth, 2002). In their study, Refera et al. (2016) discovered that half of the participants in their sample had a significant degree of financial literacy. Additionally, they discovered significant disparities among genders, age groups, educational attainment, job types, and income levels.

RESEARCH PROBLEM OF THE STUDY:

In the aforementioned environment, it is crucial to analyse how behavioural and socio-economic aspects influence investing decisions of individual investors.

OBJECTIVES OF THE STUDY:

- To examine the Financial Product Preference of Individual Investors.
- To find out the Investors Investment Objectives of Savings
- Analysis of Behavioural Factors influencing investors Investment Decision

SIGNIFICANCE OF THE STUDY:

This research aims to optimise investment value and assist individual investors in selecting the most suitable investment options. Financial institutions will derive benefits from this by acknowledging the relationship between behavioural and socio-economic factors and investing decisions. The research aims to facilitate the attraction of investors by prioritising key aspects. Moreover, it would enhance the body of scholarly literature by providing insights into the determinants that impact investment choices for academics to comprehend.

RESEARCH METHODOLOGY:

The study used a descriptive research approach to forecast investment decisions by considering behavioural, socio-economic aspects. The study analyzed 150 participants. Data

from individual investors in Tiruchirappalli district was collected using a structured questionnaire. Data is gathered using a standardized questionnaire administered by brokerage business executives and managers. The surveys were completed by individual investors, who received aid from brokerage companies to acquire a roster. The surveys were disseminated by executive management for study. The study employed the Statistical Package for Social Sciences (SPSS).

DATA ANALYSIS AND INTERPRETATION OF THE STUDY:

Table 1 : Socio-Economic factors analysis

Variables	Category	Frequency	Percent	Cumulative Percent
Gender	Male	98	65.3	65.3
	Female	52	34.7	100
	Total	**150**	**100**	
Age	18- 25	5	3.3	3.3
	26-35	45	30	33.3
	36-45	61	40.7	74
	46-60	35	23.3	97.3
	Above 60	4	2.7	100
	Total	**150**	**100**	
Education	Higher Secondary	6	4	4
	Under Graduate	62	41.3	45.3
	Post Graduate	24	16	61.3
	Professionals	58	38.7	100
	Total	**150**	**100**	

Table 2: Information Access for Investment Decisions

	Items	Mean	Std. Deviation	Rank
1	Newspaper	1.89	0.64	6
2	News Channels	2.46	1.34	5
3	Family/Friends/ Colleagues	2.72	1.21	4
4	Internet	3.21	1.26	1
5	Magazines & Periodicals	3.2	1.37	2
6	Advisors/Financial Planners	2.66	1.28	3
Average		**2.69**	**1.18**	

Individual investors obtain investing information from several sources, such as newspapers, television channels, acquaintances, the internet, publications, consultants, and financial planners. The respondents' rating of investment-related information is presented in

Table 2, based on mean and standard deviation. The participants' replies have been evaluated using a survey instrument, with ratings ranging from 1 to 5. On a scale of 1 to 5, where 1 represents significant disagreement and 5 represents strong agreement, The data shown in Table 2 elucidated the relative significance of different sources of information in making investment decisions. The internet is the primary reservoir of investing information for investors, with the greatest mean (3.21) and standard deviation (1.26). The individual investor has two more valuable sources of information: magazines and periodicals and advisors and financial planners, with mean values of 3.2 and 2.66, respectively. The newspaper is not gaining prominence as a significant source of access. Perhaps in this technologically advanced day and age, investors have been inclined to depend more on the Internet as a source of information.

INVESTORS INVESTMENT OBJECTIVES OF SAVINGS:

Table 3: Objectives of savings

Sr. No	Items	Mean	Std. Deviation	Rank
1	For Retirement purpose	2.85	1.48	6
2	For tax saving	3.24	1.43	1
3	For paying an insurance premium	3.18	1.36	2
4	For children's education	3.00	1.29	3
5	For buying home	2.91	1.47	4
6	For marriage	2.88	1.43	5
7	For holiday vacations	2.28	1.29	7
Average		**2.91**	**1.39**	

The above survey identifies seven distinct savings goals for individual investors: retirement, tax optimization, insurance premium payments, funding children's education, purchasing a property, financing a wedding, and funding holiday holidays. A mean score of 3.24 and a standard deviation of 1.43 indicate that the majority of investors place a high priority on tax-saving. The insurance premiums have a mean value of 3.18 and a standard deviation of 1.36, placing them in the second position. Nevertheless, a small number of respondents depend significantly on insurance for their holiday vacation journeys.

FINANCIAL PRODUCT PREFERENCE OF INDIVIDUAL INVESTORS:

Table 4: Financial product preference of the respondents

Investment Avenues		Mean	Std. Deviation	Rank
	Bank Fixed Deposits	2.88	0.95	1
	Public Provident Fund	2.87	1.34	2

Low-Risk Investment Avenues	Post Office Savings	2.74	1.09	3
	Government Securities	2.67	1.33	4
	Life Insurance	2.60	1.25	5
Moderate Risk Investment Avenues	Gold/Silver	2.74	1.21	1
	Bonds/Debentures	2.66	1.33	2
	Mutual Funds	2.64	1.01	3
	Real Estate	2.59	1.25	4
High-Risk Investment Avenues	Commodity Market	3.12	1.23	1
	Equity Share Market	2.96	1.3	2
	FOREX Market	2.82	1.16	3
	Chit Fund	2.82	1.27	3

Demographics have a crucial role in shaping financial decisions, particularly when it comes to assessing risk. An analysis was conducted on the financial product preferences of the participants, classifying them into low-risk, moderate-risk, and high-risk investment options. Low-risk investment options encompass Bank Fixed Deposits, Public Provident Funds, Post Office Savings, and Government Securities. Assets with a moderate level of risk encompass Mutual Funds, Real Estate, bonds and debentures, and Gold/Silver. High-risk investing options encompass Equity Share, Commodity Market, FOREX Market, and Chit Funds. These goods are considered to be high-risk investing alternatives.

Table 4 displays the respondents' financial product choice, as determined by the mean and standard deviation. Additionally, the table includes a ranking based on the mean. The replies have been evaluated using a previously mentioned rating system ranging from 1 to 5. Bank fixed deposits have been ranked as the most preferred option among low-risk investment options by the respondents. The average of bank fixed deposits is very high at 2.88, with a standard deviation of 0.95. The respondents' second choice is the public provident fund (PPF), with a mean value of 2.87 and a standard deviation of 1.34. Life insurance is the least preferred choice among respondents in the low-risk investment category. The average value is significantly low, measuring at 2.60, while the standard deviation is 1.25.

Gold and silver were the preferred investment options among respondents seeking moderate risk routes. The mean value of it is 2.74, and the standard deviation is 1.21. Respondents rank Bonds/Debentures and Mutual Funds as their second and third choices. Investors that choose moderate risk investment options often choose real estate. The mean value for real estate investments is 2.59, with a standard deviation of 1.25. Commodity Market and Equity Share Market are the top choices for investors in high-risk investing options. The average value of the Commodity Market is 3.12, while the average value of the Equity Share Market is 2.96. The FOREX market and Chit Fund are equally ranked in terms of investment

opportunities. Both investment products have the same mean value of 2.82, but, their standard deviations differ.

HYPOTHESIS 1: THERE IS NO INFLUENCE OF BEHAVIOURAL BIASES ON INDIVIDUAL INVESTORS' DECISION MAKING.

Considering the objective and hypothesis in consideration following analysis has been made and depicted in the tabular form.

Table no: 5

Model	Independent variable	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	VIF	F-value (sig.)
		B	Std. Error	Beta				
	(Constant)	-0.238	0.120		-1.993	0.047		
1	Herding	0.439	0.038	0.413	11.603	0.000	1.863	
2	Overconfidence	0.361	0.042	0.335	8.605	0.000	2.238	
3	Anchoring	0.054	0.039	0.052	1.387	0.166	2.097	**163.659**
4	Loss aversion	0.175	0.036	0.149	4.854	0.000	1.385	**(0.000)**
5	Regret aversion	0.154	0.036	0.152	4.291	0.000	1.863	
6	Mental Accounting	-0.130	0.033	-0.135	-3.915	0.000	1.757	

Additional details about dependent and independent variable are given below,

Dependent Variable: Investment Decision

Predictors: Behavioural Factors (Herding, Overconfidence, Anchoring, Loss aversion, Regret aversion, Mental framing)

Regression Equation formation for

Y = c + b1*X1 + b2*X2 + b3*X3 + b4*X4 + b5*X5 + b6*X6 + e Where,

Y = Investment Decision

C = -0.238 (slope)

b1 = .439 (Beta-1)

X1 = Herding

b2 = .361 (Beta-2)

X2 = Overconfidence

b3 = .054 (Beta-3)

X3 = Anchoring b4 = .175 (Beta-4)

X4 = Loss aversion b5 = .154 (Beta-5)

X5 = Regret aversion

b6 = -0.130 (Beta-6)

X6 = Mental Framing

e = error

Therefore, the following equation will be drawn from the below table no.5

Investment Decision = -0.238 + 0.439*herding + 0.361*overconfidence + .054*anchoring + 0.175*loss aversion + .154*regret aversion + (- 0.130)*mental framing + e

The above equation shows that the value of the intercept c is -0.238, this value represents that if the values of all the forecasters are zero then the influence on the investment decision would be 0.238. The value of b1 0.439 indicating that 1% change in herding bias, will contribute to a 43.9% change in investors‘ decision-making by holding regular predictors. The value of b2 0.361 indicates that a 1% change in overconfidence bias, will contribute to a 36.1% change in investors‘ decision-making by holding regular forecasters. The value of b3 0.054 indicating that a 1% change in anchoring bias, will contribute to a 5.4% change in investors‘ decision-making by holding regular predictors. The value of b4 0.175 indicates that a 1% change in loss aversion bias, will contribute to a 17.5% change in investors‘ decision-making by holding regular forecasters. The value of b5 0.154 indicating that 1% change in regret bias, will contribute to a 15.4% change in investors‘ decision-making by holding regular predictors. The value of b6 -0.130 indicates that a 1% change in mental framing bias, will contribute to a 13% change in investors‘ decision-making by holding regular forecasters.

Analysis of Variance (ANOVA) shows that F = 163.650 (.000), p <0.05, model is significant. Therefore, the null hypothesis has been rejected. The results show that the size of the behavioral factors (herding, overconfidence, anchoring, loss aversion, regret, and mental framing) have a very positive influence on the investment decision.

Table no: 5.1 Model of Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.815[a]	0.664	0.66	0.52112	1.897

a. Predictors: (Constant), Mental Accounting, Loss Aversion, Herding Factor, Regret Aversion, Anchoring Bias, Overconfidence

b. Dependent Variable: Investment Decision

All the magnitude of the behavioural factors has emerged as investment decision predictions explain together (R2 = .664) 66.4% of the total variance in the investment decision.

Durbin-Watson statistics are used for diagnostics, automatic synchronization of data. A value close to 2 indicates that no automatic connection is present in the data. In this model, Durbin-Watson is found to be 1.897, which can be interpreted that autocorrelation is valid.

FINDINGS OF THE STUDY:

The study examines the correlation between the investment behaviour of individual investors and their investment decisions, with a specific focus on behavioural factors and socio-economic aspects in positively.

CONCLUSION

The objective of this study is to assist investors in optimizing their investment value by taking into account behavioural and socioeconomic characteristics. It highlights the significance of literacy in shaping investing decisions. This study may be advantageous for banks and financial institutions since it enables them to appeal to investors who prioritize important variables. The report proposes that governments and authorities enhance financial literacy to foster national development and stimulate economic progress.

The present study is subject to constraints since it solely relies on data gathered exclusively from the Tiruchirappalli district. Consequently, the findings may not be applicable to a broader population. Nevertheless, this district serves as a representative sample of Tamil Nadu, India and the findings may be relevant to other comparable emerging economies. The use of the cross-sectional survey approach in this study has the potential to examine other variables that influence investment decisions and facilitate the identification of disparities. Subsequent investigations may also examine disparities in the investment patterns of individual investors residing in rural and urban areas.

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