

# A Conceptual Study on Investors Attitude towards Stock Market Investment in India

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## ABSTRACT

From being inspired by the persistent lack of interested investors participating in the National Stock Exchange (NSE), there exist a wide spread ignorance about the financial assets and the continuous purchase of stocks with not much information about them by most people in the country. The wide gap between the high net-worth individuals who invest in stocks and the lower average people who continuously make losses in the real investment industry. The study has attempted to several recommendations among which to increase investor's awareness as a means of encouraging regular investors to list on the stock exchange. The regulatory authorities should improve on their performance in order to increase the confidence of the millennial investors. Furthermore they should attempt to host investor's incentives to increase the capacities traded on the exchange with a review of the stock market regulations with a view to make them stronger and more attractive to the regular investors and the beginners.

## 1. Introduction

With the rising trend of acceptance of stock market in general as a place where one can earn worthy returns in fewer periods has given a drive to a common man to be a part of this market. In researchers term an Individual who obligates money to any source of investment with the belief of monetary return is being renowned as an Investor. The main concern of an Individual Investor is typically to have supplementary income with minimum risk. As compete against this risk-taking is continuously prepared to imagine a higher level of risk in the expectations of gathering higher profits than average profits. An individual with the several stages of wants and level of risks being taken is classified in dissimilar groups of Investors. A few groups of Investors are reciprocally exclusive and some are not. The classification which is not mutually exclusive mainly includes gambling, Angel Investors, some equity Investors, Investment Trust, Mutual Funds, Hedge Funds, Sovereign Wealth Fund. With the increasing tread of Investment replacements obtainability in the marketplace the mindfulness and acquaintance level of the Investors have also augmented to many pleats.

An Individual usually passionate to relocate their surplus amount of funds in the Government Securities, Banks, and LICs as they were being accepted as safe approach of the custody of the savings and also to receive a decent yield on the positioned funds. Gradually the situation has taken a shift which primes to the outline of market connected securities with moderate component of risk and other investment openings with flexible level methodology. This gave an opportunity to an individual investor to diverse his/her portfolio to earn a developed rate of return with intended amount of risk. Progressively the shift is being witnessed in the nature of Investor towards their investment array. During the 1980's the clamor of Stock Market maneuvers had become protuberant among the society. With unwillingness entities started gun firing the small segment of their earning into the share buying with a feel of having fast and concentrated return in a short span of time. Over a period it is

being realized that the Stock Market has prepared its footage as an identity of Market which offers maximum return but with rich element of risk in a short span of time.

## 2. Review of Literature

A number of attempts have been made by researchers to identify the types of information that investors need to pick a definite share. These studies have empirically recognized the powerful factors in choosing different stocks by charting the behavior of individual investors.

**Potter (1971)** and **Baker and Haslem (1974)** experiential several profitability variables such as dividends, rapid growth and quick profits beside other variables such as investment for saving purposes and long-term growth were empirically identified as effective factors on the attitudes of individual investors in making investment decisions.

**Peter (1970)** carried out a study to identify those factors which motivate or guide the investment decisions of the small stock investors. The study identified factors such as income from dividends, rapid growth, purposeful investment as a protective outlet of savings and Professional investment management.

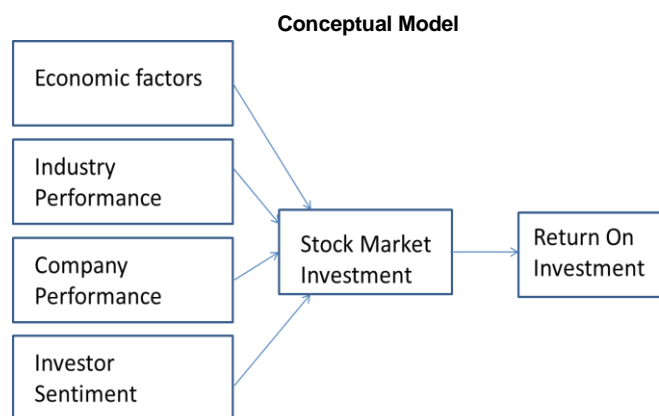
In a study, **Naser et al. (2003)** found that individual investors classify the annual report as the second most important source of information and institutional investor's rank annual reports as the main source of information.

**Shanmugam (1990)** studied a group of 90 investors to examine the factors affecting investment decision. The study focused its analysis on the investment objective and the extent of awareness on factors affecting investment decision. The study found that the Indian investors were high risk takers. The investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

**Krishnan and Booker (2002)** analysed the influencing factors on decisions of those investors who use analyst's recommendations to arrive at a short-term decision for holding or selling a definite stock.

**Bennet and Selvam (2011)** found out that SPERTEL risks had influenced the value of equity shares in the market. The market factors had influenced the stock selection decision of small investors in India. Bennet et al. (2011) carried out a study and found that most of the investors expect the stock prices to go up to a degree greater than most of their investments. If the market has gone down, they think it would rebound. If the

market is up, they think it would go further. In either case, they make investment decision on account of the assumption that the stock market would give better returns. The literature on investor's sentiment is still in its infancy, and much remains to be discovered and learnt. There is a few comprehensive studies only in India and particularly in Chennai, focusing on market specific factors that influence investor's sentiment. Hence this study, with the primary objective of analyzing data on investors attitudes and perceptions about investment decisions and to identify the market specific factors that influence investors stock selection decisions.



### **Industry Performance**

Often, the stock price of the businesses in the same industry will travel in tandem with each other. This is because market situations normally disturb the companies in the same industry the same way. But occasionally, the stock price of a company will benefit from a piece of bad broadcast for its competitor if the businesses are opposing for the same market.

### **Company Performance**

Stock markets can be unstable, and the details specific stocks rise and fall can be compound. More often than not, stock prices are pretentious by a number of factors and events, some of which influence stock prices directly and others that do so indirectly. Company stock prices and the stock market in overall can be affected by world events such as war and civil unrest, natural disasters and terrorism. These stimuluses can be direct and indirect, and they often occur in chain reactions. An example of an indirect influence on markets is the declaration of a new military project by a country in response to the outbreak of civil unrest or conflict abroad. This announcement likely would cause the price of the stocks of military equipment and weapons manufacturers to rise due to a probable increase in defense bonds, which in turn can raise the value of frameworks for businesses that supply military equipment parts and technology. It likely would increase the demand for, and price of, natural resources used to make these parts, which would raise the price of stocks signifying actual withdrawal and natural resource processing companies.

### **Investor sentiment**

Investor sentiment or sureness can cause the market to go up or down, which can cause stock prices to rise or fall. The

general track that the stock market grosses can mark the value of a stock:

1. **Bull market** – a robust stock market wherever stock rates are rising and investor confidence is emergent. It's often tied to economic salvage or an economic boom, as well as investor optimism.
2. **Bear market** – a scrawny market where stock prices are sinking and investor self-assurance is waning. It often transpires when an economy is in stagnation and joblessness is extraordinary, with rising prices.

### **Economic factors**

#### 1. Interest rates

The Banks in India can raise or lower interest rates to stabilize or stimulate the Indian economy. This is known as monetary policy. If a company plagiarizes money to increase and improve its business, complex interest rates will mark the cost of its debt. This can decrease company profits and the dividends it pays shareholders. As a result, its share price may drop. And, in period of higher interest rates, investments that pay interest incline to be more striking to investors than frameworks.

#### 2. Economic outlook

If it looks like the economy is going to expand, stock prices might intensify. Investors might buy more stocks thoughtful that they will see upcoming profits and developed stock prices. If the economic outlook is indeterminate, investors might reduce their purchasing or start vending.

#### 3. Inflation

Inflation means higher consumer prices. This often discontinuities sales and cuts profits. Higher controls will also often prime to higher interest rates. For example, the Bank in India may raise interest rates to slow down inflation. These changes will tend to bring down stock prices. Commodities however, may do better with inflation, so their prices may rise.

#### 4. Deflation

Falling prices tend to mean lower profits for businesses and reduced financial activity. Stock prices might go down, and investors might start selling their shares and move to fixed-income investments like bonds. Interest rates might be lowered to encourage people to borrow more. The goal is increased spending and economic activity. The Great Depression (1929-1939) was one of the worst periods of deflation ever.

#### 5. Economic and political shocks

Vicissitudes around the world can disturb both the economy and stock prices. For example, a rise in energy costs can lead to poorer sales, lower returns and lower stock rates. An act of terrorism can also lead to a downturn in economic activity and a fall in stock prices.

#### 6. Changes in economic policy

If a new government comes into power, it may decide to make new policies. Sometimes these changes can be seen as good for business, and sometimes not. They may lead to changes in inflation and interest rates, which in turn may affect stock prices.

#### 7. The value of the country's dollar

Many businesses sell products to buyers in other countries. If the country's dollar rises, their customers will have to spend more to buy their countries goods. This can drive dejected sales, which in turn can lead to lesser stock prices. When the price of the Country's dollar falls, it makes it inexpensive for others to buy our products. This can make stock prices raise.

### 3. Stock market growth and the relative return on investment

India officially launched economic reforms in 1978. However, it is since the 1990s that the government has adopted extensive market-based reform policies. To restructure the state-owned sector has long been a prickly problem for the government. The emergence and following development of the stock market in India is mainly correlated to the state-owned enterprises (SOEs) reform. SOEs account for over 90% of all Indian listed firms. With its mounting significance in the SOE reform, the stock market has advanced extraordinarily in terms of the number of firms listed, total market capitalization, and total exchange volume. Nonetheless, the stock market has become a progressively important financing foundation for listed firms. For instance, in the year 2000, the total amount of funds raised on the stock market accounted for 5% of total fixed investment and 12% of the total increase in bank loans. One of the main reasons new investors lose money is because they chase after unrealistic rates of return on their investments, whether they are buying stocks, bonds, mutual funds, real estate or some other asset class.

Share prices soared as people put money into shares rather than just hold onto cash. The reason was that shares offered an opportunity to invest in firms with capital and assets. This was a way to secure some real value. An unanticipated rapid rise in inflation would probably cause a fall in stock markets. A rise in inflation would probably lead to a greater chance of interest rises. This will reduce growth and profitability. Also, higher inflation may encourage investors to move into more inflation proof investments like gold. Also there are other factors that influence the relative return on investment, which are as follows:

#### **The ideal asset mix**

The asset mix of an investment portfolio determines its overall return. There is a risk-return tradeoff with every asset -- the higher the risk, the higher the volatility and return potential. For example, stocks are generally riskier and more volatile than bonds, but the rates of return on stocks have exceeded those of bonds over the long term. An investment portfolio fully invested in stocks is likely to suffer in a down economy and during periods of high market volatility. On the other hand, a conservative portfolio invested mainly in high-quality bonds is likely to obligate poorer, although more expected and steady returns.

#### **Identifying fundamentals**

The strategic and working fundamentals of the fundamental dealings affect investment returns. Strategy includes locating a company to take advantage of openings and answering efficiently to competitive pressures. Operational execution include handling costs, escalating into new markets and repeatedly modernizing to stay ahead of the competition. Businesses that consistently meet sales and profit expectations generally see their stock prices outdo market averages. Contrariwise, companies that mislay market share and slip earnings potentials almost always underperform the market.

#### **The general economy**

Macroeconomic circumstances disturb investment rates of return. A growing economy means that more people have jobs, which means they spend extra. For businesses, this principals to increase in sales, profits and investments in new employees and gear. But, swift economic growth can principal to advanced interest rates. This brands credit more expensive, thus inhibiting consumer spending and business investments. Economic stoppages lead to low employment, which generally means lower profits and stock prices. The resulting faintness in the stock markets could advance bond values as investors move funds to the relative safety of bonds.

#### **Other considerations**

Fiscal policy, regulations and political stability also distress investment rates of return. Large fiscal deficits reduce government flexibility and may result in higher borrowing costs for businesses. A laborious regulatory approval process cans basket business investments in the supply and energy sectors. Political steadiness creates investor and business self-assurance because there is more distinguishability into possible investment returns. Investors usually incline to sidestep countries that change governments recurrently or have civil strife.

#### 4. Conclusion

The study clearly specifies that there is a significant relationship between the investors' attitudes and stock market reserves. The added optimistic boldness enhancement strategies are introduced, the additional it is calm for resident investors to invest in the stock market. It is being general and noticeable phenomena that investment configuration and its degree also consider the age, knowledge level and source of income. An investor while investing witnesses how much he or she earns from the individual sources, measures the investment replacements available in stock market. Different age levels have different requirements and responsibilities. Owing to these

factors the levels of investment get diverse as per the age of the investor. Further the accessibility of income and availability of investment substitutes also plays a substantial role in defining the behavior of investor towards the investment. Further, there is a significant relationship between the local investor's perception of stock market regulations and their intention to participate at NSE. To have more resident investors joining on the NSE, efforts must be absorbed towards tougher parameters and creation of more awareness. Every investor should be very watchful in market movement or risk while investing. The main aspects persuading investments are the return on investment and for the short-term profitability

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