

# Determining the Factors Affecting Individual Investor's Behavior in Selected Public and Private Bank Employees of Nilgiris

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## ABSTRACT

*Behavioral finance is precisely non-rational behavior of market investors. Behavioral finance theory shows that investors make investment decisions rationally, by intermittent change from the past and that investment decisions can be taken under the influence of some psychological factors. This study will focus on individuals (investors), one of the economic decision makers. Socio-economic factors, as well as psychological factors, influence the risk that investors perceive in the decision-making process of individual investors. The purpose of this study is to identify that the factor affects individual investors' drivers of financial investment decisions and to consider it in terms of behavioral finance. This study will focus on The Nilgiris public and private banks employees, in the case it has been determined which stimulants are under the influence of predictions, estimates, emotions and personal intuitions, psychological and sociological behaviors of investment decision-making individuals.*

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## 1. Introduction

Behavioral finance in today's world is increasingly gaining a place in the process of decision making. It has the ability to influence investors in relation to their decision making. Investors will be able to make a decision much better about their investment options with a proper understanding of behavioral finance. Very few investors are able to really gauge the performance of a company and evaluate the company's risks and returns to make sound decisions. According to Riley and Chow (1992), most of the investors rely on their instincts and emotional biases while taking decision on trading. This is the reason why it is essential to the various elements which influence an investor to take a certain step. Most economic and financial theories claim that humans act and react rationally. They react to the market sentiments, follow their gut feelings and eventually make a decision. In the initial years of trading, it was identified that a huge gap between the returns expected and the actual returns that were generated. This showed clearly the existence and impact of psychology in the investment decisions. They found that investors took certain emotional factors into consideration while taking a decision and psychologist have tried to understand these factors and help the investors to realize them, which in turn helped them to take a wiser decision and choose the best option amongst the available options.

Investors and individuals are considered to be rational beings trying to increase their personal interests. As for behavioral finance, it emerged as opposed to rational decision-making models and adopted a rational or limited rational approach. In other words, classical finance conception assumes that market players make logical decisions, while behavioral financiers argue that the opposite is true, that markets act on investor psychology and that investors have some psychological concepts such as biases and overconfidence in decision-making stages.

Behavioral finance examines psychological and sociological factors that affect decisions when individuals making investment decisions. It is impossible for the individual investor to act rationally, but it is assumed that there is a continuous rationality in traditional financial understanding. When it comes to behavioral finance, it is expressed that people are in many souls such as sadness and rejoicing, and the level of decision will change according to these moods. It was reported that traditional financiers are rational but behavioral finance is normal. This proves that there are factors that affect people's behavior.

It is known that the degree to which individuals perceive risk in a subjective way affects investment decisions. The degree of risk perception or risk breach varies depending on the individual person, the amount of investment made and the amount of return on investment. In addition, the risk taking levels of individuals are affected by uncertainty and the consequences of the investment decision. It depends on the degree of preference of consumers to carry out and sustain the vital activities of the enterprises. The investment decisions of the consumers providing the continuity of the goods and services producing enterprises are also important for the enterprises providing banking services. The individual investor, who is the basic unit in the investment process, is actually the consumer buying the service. Consumers dedicate a portion of the income they receive as a result of their work in order to meet their needs, the other part makes savings. They direct the economic values and save investment instruments for different purposes. In other words, they want to obtain a satisfactory amount of return from the savings they incur on investment vehicles.

The purpose of this study is to determine the factors that are influenced by individual investors in determining investment decisions and the factors that influence their decisions. In order to realize this aim, the questionnaires were applied to the

personnel working in private and public banks in The Nilgiris. The questionnaire on the individual investor perception of the bank staff includes some behavioral finance based questions

## 2. Literature Review

The framework of studies done in the field of behavioral finance is shaped around cognitive and emotional tendencies. These studies suggest that individuals want to rationally avoid riskier investment decisions, optimize their preferences and diversify portfolios, but do not implement them in practice. Psychological prejudices including heuristics, cognitive biases and emotional factors are shown as the main reasons for this. In other words, investment decisions are based on intuition and feelings rather than being rational.

Nagy and Mandiyan (1994) investigated the relationship between retail investor behavior and economic and demographic variables in their research. This review was made by online questionnaire. Surveys were sent via 500 experienced shareholders emails obtained from a trusted and proprietary source and participated in a financial marketing research. Of the 500 surveys, 137 (27.4%) responded in a usable way. Participants were asked to rate 34 variables that had the potential to influence equity investment decisions. These variables address traditional issues such as risk, diversification, as well as current issues such as the importance of firm ethics and firm commitment to the environment. The variables were subjected to factor analysis according to the answers given. As a result, at least seven homogeneous variable groups affecting individual investor behavior have been identified. These groups are neutral information, accounting information, traditional or individual financial needs, social interest, friend recommendation, and individual image / corporate image conflict.

Umesh babu, Sivanandh (2002) examined the factors affecting investors' buying and selling of stocks. In their study, it was determined that the factors that investors were most affected by socio-economic variables when buying stocks. It is stated that socio-economic factors refer to personal and environmental changes. Other results are as follows: share investment was 20% of all investments; the youngest investors were the most investors, the share holding time increased as the income level increased, the elderly investors were quick to remove investments and take no risks, and women were less likely to take risks, education level and risk taking rate increased as income increased

Kaviya venkat (2011) measured the effects of gender on investment decisions. In making this measure, the role of gender on psychological and emotional factors was identified. During the study, 31 individual investors in Stock Exchange Istanbul benefited from the share purchase and sale data they had made between (2007-2009). As a result of the study, it has been revealed that male and female investors behave quite differently while making investment decisions. The most important of these differences are as more frequent transactions were made by men, more consistent transactions were made by men, and there was less diversification of women's portfolios.

Sara and Rouch (2011) examined the demographic and socio-economic factors affecting the risk perception of individual investors engaged in buying and selling transactions in Stock Exchange Istanbul. As a result of the study, it was determined that the risk perception changed according to the demographic and socio-economic factors. The results of this change are as follows: the elderly individuals are riskier than the younger ones and the retirees are more at risk than the workers, the women are less risky than the men, the income-risk relationship is both positive and negative and the level of education is higher than the graduates of high school graduates as they take more risks but the risk taking level of university graduates is lower than those of graduate and doctoral graduates.

## 3. The Factors Affecting the Individual's Investment Decision

An individual investor can be defined as individuals who do not allocate all of their revenues to consumption expenditures and partly invest in the future, and act on their behalf and account at the market. According to another definition, an individual investor is an investor who trades on his own behalf and accounts for a small amount of transactions, and who tries to manage his own funds with little or no professional support. It can be shown that individual investors are generally investors who invest in their own names and accounts, whose transaction amounts are relatively small, and that they are affected by a number of personal, financial and environmental factors in the investment decisions of individual investors.

The fact that the changes in the investor profile, which are effective on the financial markets, is becoming a factor to consider which is increasing every day (Sara and Rouch ,2011, p. 136). As individual investors make investment decisions, it is necessary to analyze and evaluate which factors are influenced by them. Individual investors are under the influence of three main factors, personal, financial and environmental, while making investment decisions.

The first of these factors are personal factors such as having adequate knowledge and time of investors, age, gender, health status, income level, life style, anticipation and psychological status. The second factor is financial factors such as the protection of the existing capital in the hands of the investors, the increase in the value of the capital and the desire to obtain continuous income. Environmental factors, which are the third factor, are considered the social and cultural situation in which investors are involved, reference group, group and family relations.

## 4. Personal Factors

Personality is the characteristic integration of behavior patterns, interests and tendencies, talents and orientations. As personality traits are important from a behavioral point of view, these personality traits also become important in terms of finance in the outcome of the anticipation of the actions taken in investment decisions. Some investors take more risk to get more returns while others choose less risky investments because they are afraid of losing.

The age of individual investors is an important factor. It is possible to assess risk and return and return preferences by looking at the age of the person. Age is one of the most widely used criteria for dividing and classifying investors into financial risk categories. While older investors are generally classified as low investment risk groups, younger investors are classified as high investment risk groups. Investors with high levels of income can readily accept risky investments relative to investors with lower incomes. In other words, as age and income increase, we can say that investors' confidence in themselves and their investments is also increasing.

Given the assumption that women's risk perception is higher than that of men in terms of the effect of gender on investment decisions, it is thought that there may be some differences between male and female investors in terms of the level of psychological factors affecting risk perception found that the level of knowledge about financial markets and investments weakened the effect of gender on risk taking, and that women had lower financial risk tolerance than men, partly explained by the level of financial information.

While an individual with a high level of education saves investment decisions by analyzing and analyzing more, an individual with low income might save in more conservative way than those with high incomes. The statutes, powers and beliefs of people in society are largely determined by their level of education. For this reason, education, lifestyle and income level will affect investor behavior.

## 5. Financial Factors

The financial factors that are effective in investing the deposits of individuals in their hands can be listed as cash flow, risk, liquidity, return ratios and investment duration. Savers are constantly refraining from inflation while investing. Because even if inflation causes an increase in the book value of the assets, this increase will not cause the equity price of the entity to increase. On the contrary, it may cause stock prices to fall. Saving holder's value inflation and interest rates in their economic forecasts and for this purpose they direct their investments into investment tools that will protect their savings from alternative investment tools. For example, liquidity reflects the ability of an investment to be turned around at low costs and quickly. When assessed in this sense, it is clear that a more cash asset will be more attractive and therefore the amount demanded will be higher as other things are fixed. Individual investors, in order to increase the value of their investments, direct their investments to areas of higher value or income that exceed the inflation rate. In doing so, they try to choose the most suitable one among alternative investment instruments. An important factor affecting investment objectives is that individual investors are also in constant demand for a certain income. Therefore, the maximum income and assurance factors for individual investors gain weight.

## 6. Environmental Factors

Environmental factors are groups of socio-cultural environment, close environment, family and other environmental impacts that are affected by investors' investments. Individuals' attitudes and thoughts are largely influenced by the cultures they live in. In other words, the

socio-cultural situation of the individual also affects the decision-making process. Because individual investors do not have enough knowledge about investment instruments, they want to get the approval and thought of the decision makers. Naturally, these people are usually family members. Since the owner of the savings also lives in a group or family, the influence of this group or family cannot be ignored in the decisions making. Because individuals feel insecure that they have the wrong idea of making a decision when they are alone in the process of deciding on a topic, they need the approval of the group or the family.

The characteristics of individual investors in terms of risk perception are influential on investment decision-making. The investor describes the risk as losing money or doing something uncomfortable. They perceive negative news about a vehicle; they are not familiar with at a high risk level. Investors think that by investing in popular tools that everyone is interested in, they can reduce the risk. Investors tend to mix up past and future potential risks

## 7. A Study on Individual Investors 'Behavior

The study includes evaluations of the results of a survey on bank employees in order to determine the relationship between the psychological tendencies of individual investors and investment behaviors. In order to examine the preferences and profile of individual investors, the bank employees were asked about personal and social situations of individual investors, investment preferences and information levels and general factors.

## 8. Objectives and Research Methodology

The present study aims to explain the relationship between personal circumstances of individual investors, social statues, investment preferences and knowledge levels and general factors affecting the investment decision and to reveal the individual investor profile of Niligiris district bank employees in this frame. In the context of determining investment preferences of individual investors working with private and public banks in Niligiris, the level of knowledge in finance, the participation ratings of financial markets, the follow-up of investments, the term preferences in financial investments and the general factors affecting the investment decision were examined based on the perceptions of the employees of the bank. Within the scope of the research, a survey form has been prepared to reveal general issues such as how individual investors make investment decisions, how they make decisions and what factors are affected. This questionnaire was carried out in order to reveal the perception of individual investors about the personnel working in public and private banks operating in Niligiris. The survey was carried out by communicating with bank personnel in Niligiris. Descriptive statistics, cross tables and independent sample T-test were used in statistical methods in the analysis of the data obtained by the questionnaire. The study used random sampling method.

This research was conducted in order to measure the perceptions of individual investors who work in banks in Niligiris and communicate with individual investors. In addition, discrimination of individual investor perceptions of private and

public bank employees is another important factor that makes this research important. This study is thought to contribute to the literature.

**9. Research Hypotheses**

The research has a main hypothesis

**H1:** According to the perceptions of the bank employees, the average of the sub- dimensions of the factors affecting the individual investment decision differs according to the sector (Private-Public) in which the bank operates.

**H1a:** According to the perceptions of bank employees, the average of the personal and social situation of investors differs according to the sector in which the bank operates.

**H1b:** According to the perceptions of bank employees, the average of the investment preferences and knowledge of investors differs according to the sector in which the bank operates

**H1c:** According to the perceptions of bank employees, the average of the general factors which affect the investment decisions of investors differs according to the sector in which the bank operates.

**10. Discussion and result**

There are 177 bank employees who participated in this study. Demographic characteristics of these personnel are shown in table1.

**Table1: Demographic features**

Sex	Male	117	66.1
	female	60	33.9
Age	21-30	67	37.9
	31-40	93	52.5
	41-50	16	9
	51-60	1	0.6
Marital status	Married	126	71.2
	Single	50	28.2
Educational status	High school	12	6.8
	Associate degree	45	25.4
	Undergraduate	103	58.2
	Postgraduate	17	9.6
Job experience	0-5yrs	62	35
	6-10yrs	62	35
	11-15yrs	33	18.6
	16-20yrs	14	7.9
	21+	6	3.4
Working bank	Private	108	61
	Government	69	39
Investment control frequency	Every day	27	15.3
	Every few days	24	13.6
	Once a week	28	15.8
	Once in a month	32	18.1
	Every few months	13	7.3
	Unspecified time	53	29.9

As presented shown in table1 in the most influential factor in investment choice is the rate of return with 42%. The most noticeable factor for investors after the rate of return is the risk level with 27.7%. The factor that is least important for investors and has little effect when making choice is the awareness factor. The investors' preferences are based on the risk and return rate of investors, but the result is that investors do not care about their awareness. Table 3 shows which sources of information investors use when making investment preferences.

**Table 2: Investment information sources**

Sources type	frequency	percentage
Analysis and report	41	23.2
Newspapers and magazines	19	10.7
Economy programs	42	23.7
Company report	24	13.6
Friend suggestion	23	13
Individual evaluation	80	45.2
Taken tips	15	8.5
Forum sites	15	8.5

According to the investors' information sources shown in the investors predominantly come out with their own knowledge, skills and evaluations (45.2%) followed by economic programs (23.7%) and analysis and reports (23.2%). It is seen that the least preferred source of information for investors is the forum sites and the picks taken at 8.5%. It indicates that investors are most confident when collecting information in order to invest preference and do not trust the information obtained from the information on forum sites. Factors affecting the choice of investment instrument and the sources of information used vary according to public and private banks. This differentiation has been analyzed through cross tabulation.

**Table 3 :- Factor affecting investment decision in public and private banks**

Factors	Private banks	Public banks
Return rates	53	22
Risk level	31	18
Diversification	19	11
Habits	14	10
Ease to access	14	14
Awareness	6	15

As shown in Table 3, it is the factor rate of return which has the most effect on investment choice in terms of private banks and the least influential factor is the awareness, while in public banks the most influential factor is the rate of return and the least influential factor is the habits. In both public and private banks, the risk level seems to be important at the second level in influencing the investment choice. It was determined that factors affecting investment decisions differ from public banks and private banks and that each factor does not have the same effect on each bank.

**Table 4 :- Diversity of information sources in public banks and private banks**

Information source	Private banks	Public banks
Analysis and report	28	13
Newspapers and magazines	14	5
Economy programs	26	16
Company report	15	9
Friend suggestion	16	7
Individual evaluation	44	36
Taken tips	8	7
Forum sites	10	5

Table 4 shows the information sources in the banks, which vary according to the sector in which the bank operates. The most used information sources in private banks are the

individual evaluations while the least benefited information sources are the received tips. Public banks also benefited the most from individual evaluations, but at least newspapers, magazines and forum sites were used. It is indicated that the information sources used in this Table vary according to the public and private banks and the number of people who use each information source in each bank has been changed.

The Independent Sample T-test was used to test the baseline and sub hypotheses of the study. Levene's test was first applied to determine the variance between the groups. According to the Levene's test results, the variance between the groups of "personal-social situations and investment preferences and knowledge levels" is homogenized from the sub-dimensions. Since the "general factors" were not homogeneous among the groups, the second sample was used as the Independent Sample T- test results.

**Table 5 :- Independent sample T-Test  
Levene's test for equity of variances  
T-Test for equality of means**

		F	p	t	df	P(2-tailed)
Personal and social	Equal variance assumed	48	.48	1.18	175	.23
	Not assumed			1.23	164.858	.21
Basic education level	Equal variance assumed	216	.14	-3.34	175	.001
	Not assumed			-3.25	133.071	.001
General factor	Equal variance assumed	4.38	.03	.08	175	.93
	Not assumed			.08	174.99	.93

H1b hypothesis is accepted because the significance value is  $.001 \leq .05$ . The sub-dimensions of the scale used to determine the profile of the individual investor correspond to a value of - 3.34 of the variable "investment preference information levels". This means that according to the perceptions of bank employees, investors' investment

preferences and the average level of knowledge differ according to the sector in which the bank operates. H1a and H1c hypotheses were rejected because there was no statistically significant difference between the "personal and social situations" and "general factors" variables in the subscales used.

**Group statistic**

	Working bank	n	M	SD
Personal and social situations	Public banks	108	3.73	51
	Private banks	69	3.64	42
Basic knowledge level	Public banks	108	3.29	51
	Private banks	69	3.57	57
General factor	Public banks	108	3.99	67
	Private banks	69	3.98	43

The sub-dimensions of personal and social situations and general factor variables do not differ according to the sector in which the bank operates. This is evidenced by the fact that the averages of both private and public banks are close to each other. However, investment preferences and information level averages are higher in public banks (3.57) than in private banks (3.29). For this reason, the statistical differences between investment preferences and knowledge levels are different in public and private banks.

**11. Conclusion**

Individual investors are individuals operating in the financial markets. Individual investors need to be well analyzed and assessed on what factors they are influencing when making investment decisions. The movements of individual investors are sometimes caused by fluctuations in financial markets that are not meaningful. In the behavioral finance perspective, investors are not only influenced by economic and financial indicators while making their decisions. Investors, acting on the basis of past experiences, are influenced by some psychological factors according to the state of perception and shape. Individual investors' personal and social situations, investment preferences and level of knowledge and general

factors (state policies, economic stability, income levels & experience) affect investment decisions.

The results of this study revealed that minimizing the risk of return, risk exposure and diversification is the most important variable in choosing investment instruments and that individual sources of information gathered during these elections come with individual evaluations, analyzes and reports and economic programs. It has been determined that the rate of return and the level of risk of these factors are the most important factors in both banking sectors in terms of public and private banks and in terms of the sources of information gathered. It was also found that individual evaluations have the first priority level. In addition, the scale used in this study was tested for reliability and proved to be highly reliable with a rating of 77%. Factors considered to affect the investment decision in this study are three subgroups: personal and social situations, basic knowledge levels and general factors. As a result of the independent sample t-test, it was determined that these factors did not differ between the groups. As a result of the analysis, it

was determined that investment preferences and knowledge levels of investors differ in private banks and public banks but that the general factors affecting investors' personal and social situations and investment decisions do not differ when considering sectors of banks.

Further research can be conducted by expanding the number of surveys and increasing the number of cities. When the number of working provinces is increased and the factors affecting the investment preferences on a regional basis are compared, the investment portfolio can be reviewed with this result. Moreover, this study can be done among the banks in the world to compare the investment preferences between the countries and the factors affecting these preferences. Thus, the investment profile of all the countries in the world can be revealed.

Finally, it is proposed that all the potential investors in the world should be made online to cover the universal dimension of the work rather than banks.

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