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A Study of Individual Investors' Behavior in Stock Market- With Special Reference to Indian Stock Market

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Abstract: **The Indian stock market is the oldest stock market in Asia. The individual investor plays an important role in the stock market because of the big share of their savings are invested in the country. The investors' decision is always based on risk and return relationship. An individual invests in the stock market at high risk because he/she tends to look at the higher possible return from the investment. The behavioural finance considers attempt to understand how emotions and cognitive errors influence individual investors' behaviour. The study attempts to understand the behaviour of individual investors in Indian stock market, specifically their attitude and perception with respect to the stock market. The objective is also to identify the preferred source of information influencing investment decision and to access the psychology of investors in different market situations. The research is descriptive in nature. The sources of information are both primary & secondary. The sample comprises of 150 equity investors of Bharuch District. There will be the positive relationship between market condition and decision making of investors with respect to Indian stock market.**

Keywords: **Indian stock market, Individual Investors'.**

1. INTRODUCTION

Stock market refers to the market place where investors can buy and sell stocks. The Price at which each buying and selling transaction takes is determined by market forces demand and supply for a particular stock.

In earlier times, buyers and sellers used to assemble at stock exchanges to make a transaction but now with the dawn of IT, most of the operations are done electronically and the stock markets have become almost paperless. A market in which long term capital is raised by industry and commerce, the government and local authorities is called capital market. Indian stock market is the oldest stock market incorporated in 1875. The name of the first share trading association in India was Native Share and Stock Broker Association which later came to be known as Bombay Stock Exchange. The BSE India SENSEX is India's first stock market index and is tracked worldwide. It is an index of 30 stocks representing 12 major sectors. Bombay stock exchange is a stock exchange in Asia with a rich heritage, new spanning three centuries in its 133 years of life.

The National Stock Exchange of India (NSE) is one of the largest and most advanced stock exchanges in the world. NSE is the largest exchange in Single Stock futures and the seventh largest futures exchange in the world. Its trading facility can be accessed across the country, through over 50000 trading terminals. The central order book with a tight bid-ask spread provides a highly liquid market for the investors. In 1996, NSE launched S&P CNX Nifty which is diversified index of 50 stocks from 25 different economy sectors. NSE started trading stock on the internet from the year 2000. SEBI is the regulatory authority of Indian stock market. The main functions of SEBI are to provide protection to investors and safeguard their rights, to regulate brokers and sub brokers, to prohibit the unfair practices in stock market etc.

The field of "Behavioural finance" has evolved that attempts to better understand and explain how emotions and cognitive errors influence investors and the decision-making process.

The investment refers to the commitment of funds at present in anticipate of some positive rate

The history of the stock market shows that most investors' buys stocks in companies or mutual funds for presumably sound reasons but exit their holdings the moment the market turns against them. They sell the securities when they have heard something bad about the stock only from the strangers. They pay the high prices for the stock just because other people whom they don't know are willing to pay such high prices. Dot come bubble was the result of such thinking. In the stock market parlance, this is known as investing with the herd or herding behaviour. Kahneman and Tversky (1979), Shefrin and Statman (1994), Shiller (1995) and Shleifer (2000) 2 are among the leading researchers that have utilized theories of psychology and other social sciences to shed light on the efficiency of financial markets as well as explain many stock market anomalies, bubbles and crashes. Behavioural finance argues that investment choices are not always made on the basis of full rationality.

2. REVIEW OF LITERATURE

Ashis Garg And Kiran Jindal (2014), Studied the Herding Behavior in the emerging stock market, attempt to attend the Presence of herding behavior in the stock market concluded that there is an existence of herding behavior during the crises**. Dr. D. P. Warne (2012),** studied Investment Behavior of individual Investors in the stock Market to understand the attitude and perception of Investors, concluded that market movements affect the investment pattern of investors in the stock market. **Kabra, G., Mishra, P.K. and Dash M.K. (2010)**, studied the factors effecting investment behavior and concluded that investors age and gender are the main factors which decide the risk taking capacity of investors. **Ajmi Jy.A. (2008)** used a questionnaire to know determinants of risk tolerance of individual investors and collected responses from 1500 respondents. He concluded that the men are less risk averse than women, less educated investors are less likely to take risk and age factor is also important in risk tolerance and also investors are more risk tolerance than the less wealthy investors. **Kaneko H. (2004),** focused on investment trusts and debated the behavior of individual investors and found that investment trusts are only the means of managing assets. **Chandra** collected the data from survey to know the factors influencing Indian individual investor behavior in stock market. Using univariate and multivariate analysis and found five major factors that affect the investment behavior of individual investor in stock market namely prudence, and precautions attitude, conservatism, under confidence, informational asymmetry and financial addition . Finally he concluded that these are the major psychological components seem to be influencing individual investor's trading behavior in Indian stock market. **Tamimi, H. A. H.** indentified the factors influencing the UAE investor Behavior. Using questionnaire found six factors were most influencing factors on the UAE investor behavior namely expected corporate earnings, get rich quick, stock marketability past performance of the firm's stock , government holdings and the creation of the organized financial markets.

3. OBJECTIVES OF THE STUDY

The Objective of the research was to:

- To understand the behaviour of individual investors in Indian stock market, specifically their attitude and perception with respect to the stock market.
- To identify the preferred source of information influencing investment decision and to access the psychology of investors in different market situations.
- To categorize the investors' in different criteria on the basis of their psychology like conservative, Opportunistic, speculative.

4. RESEARCH METHODOLOGY

Attitude measurement criteria:

Behaviour	**Criteria**
Conservative	They are the people who react conservatively. The investment decision of these people is based on the limited information. They react aggressively on both the sides positively as well negatively by Hearding only a little information about the area in which they have invested.
Speculative	These People are less conservative as they are considering the whole economy while taking the investment decision.
opportunistic	These people are highly Opportunistic as they are considering the global condition while making the investment decision.

5. RESEARCH DESIGN

Descriptive Research:

The research is descriptive in nature. The sources of information are both primary &secondary.

A well-structured questionnaire was prepared and personal interviews were conducted to collect the customer's perception, through this questionnaire.

Sampling Methodology:

The sample size was restricted to only 150, which comprised of mainly peoples from Bharuch district. Sampling Procedure is Non Probability Convenient Sampling. Simple random procedure is used to select the respondents. The respondents who were asked to fill out questionnaires are comprised of professionals, Govt. Employees, Self Employed, brokers, traders etc.

Limitations of the Research:

1. The research is confined to a certain parts of Bharuch and does not necessarily shows a pattern applicable to all of Country.

2. Some respondents were reluctant to divulge personal information which can affect the validity of all responses.

3. In a rapidly changing industry, analysis on one day or in one segment can change very quickly. The environmental changes are vital to be considered in order to assimilate the findings.

6. DATA ANALYSIS & FINDINGS

TABLE 1: Action as an investor when investors hear some positive news About company

Question' object	**Scenario broad lines**	**Potential behavior of the investor**	**Psychological attitude**	**Respondents**
I. CONSERVATISM	II. INVESTOR'S REACTION	Follow the market and buy aggressively	conservatism	8
		Follow the market and buy slowly	No conservatism	64
		Preferred first to understand the market reaction.	No biased	78
Total				150

TABLE 2: Action as an investor when investors hear some Negative news About company

Question' object	**Scenario broad lines**	**Potential behavior of the investor**	**Psychological attitude**	**Respondents**
III. CONSERVATISM	IV. INVESTOR'S REACTION	Follow the market and Sell aggressively	conservatism	11
		Follow the market and Sell slowly	No conservatism	41
		Preferred first to understand the market reaction.	No biased	98
Total				**150**

Table 1 and **Table 2** revels the conservative approach of Investors. In Table 1 out of 150 respondents 8 Investors are fully conservative as they react immediately after herding the Positive news for the company. Same way 11 are conservative in the case when they heard negative news for the company. Majority of the investors are unbiased as they preferred to understand the Market reaction and according to market reaction they will make their investment decision.

TABLE 3: Action as an investor when investors hear some Positive news About Economy

Question' object	**Scenario broad lines**	**Potential behavior of the investor**	**Psychological attitude**	**Respondents**
V. SPECULATION	VI. INVESTOR'S REACTION	Buy aggressively	Highly speculative	0
		Buy slowly	Moderate speculative	45
		Abstain wait the conformation of rumour	Under speculative	60
		Abstain and wait market reaction.	No bias	45
Total				**150**

TABLE 4: Action as an investor when investors hear some Negative news About Economy

Question' object	**Scenario broad lines**	**Potential behaviour of the investor**	**Psychological attitude**	**Respondents**
VII. SPECULATION	VIII. INVESTOR'S REACTION	Sell aggressively	Highly speculative	8
		Sell slowly	Moderate speculative	41
		Abstain wait the conformation of rumour	Under speculative	71
		Abstain and wait market reaction.	No bias	30
Total				**150**

Table 3 and **Table 4** revels the Speculative approach of Investors. In Table 3 No Investor is Highly Speculative as non of the investor React immediately but In Table 4 out of 150 respondents 8 Investors are Highly Speculative as they react immediately after herding the Positive news for the Economy. Majority of the investors are under Speculative as they Abstain wait the conformation of rumour and according to market reaction they will make their investment decision. In Both the Table unbiased Investors are also there as they also wait for the Market reaction.

TABLE 5: Action as an investor when investors hear some Positive Global news

Question' object	**Scenario broad lines**	**Potential behavior of the investor**	**Psychological attitude**	**Respondents**
IX. OPPORTUNISM	X. INVESTOR'S REACTION	Buy immediately	Over Opportunistic	8
		Buy slowly and waiting for the market reaction	Moderate Opportunistic	41
		Buy slowly and waiting for the other news	Under Opportunistic	60
		Abstain and wait market reaction.	No bias	41
Total				**150**

TABLE 6: Action as an investor when investors hear some Negative Global news

Question' object	**Scenario broad lines**	**Potential behaviour of the investor**	**Psychological attitude**	**Respondents**
XI. OPPORTUNISM	XII. INVESTOR'S REACTION	Sell immediately	Over Opportunistic	0
		Sell slowly and waiting for the market reaction	Moderate Opportunistic	34
		Sell slowly and waiting for the other news	Under Opportunistic	52
		Abstain and wait market reaction.	No bias	64
Total				**150**

Table 5 and **Table 6** revels the Opportunistic approach of Investors. In Table 6 No Investor is Over Opportunistic as no investor React immediately but In Table 5 out of 150 respondents 8 Investors are Over Opportunistic as they react immediately after herding the Positive Global news. About the opportunistic approach of the investor when they heard Positive global news Majority of them is under Opportunistic but the number is same for moderate and unbiased. While for the negative global news majority of them are unbiased as they Play wisely and wait for the Market Reaction.

7. CONCLUSION

I find that Majority of the small investors do not consider various financial elements before investing in to stock market. Small investors are not conservative in nature about company events as they are Unbiased, under speculative related domestic events and also under opportunistic about world economic events. The investors are not take decisions immediately but they try to understand the market first and then react.

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