International Journal of Research in Social Sciences
Vol. 7 Issue 7, July 2017,
ISSN: 2249-2496 Impact Factor: 7.081
Journal Homepage: http://www.ijmra.us, Email: editorijmie@gmail.com
Double-Blind Peer Reviewed Refereed Open Access International Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A

A STUDY ON GRAPEVINE FACTORS AND INDIVIDUAL BEHAVIOUR: EVIDENCE FROM INDIAN STOCK MARKET

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ABSTRACT:
In this study, an attempt is made to understand and evaluate investor behavior and study on grapevine factors: evidence from Indian stock market. A grapevine factors considering the mainly two variables Rumors and Tips. The primary data have been collected though structured closed ended Questionnaire. The size of sample was calculated on basis of population size, variance of sample and budgetary constraints. A sample size of 1000 was arrived based on the Morgan table of sample size. Out of the 5000 questionnaires forwarded only 1020 questionnaires were retained thus giving a response rate of merely 20%. Out of these 1020 responses only 996 responses were tenable and could be included in the final data analysis. The collected data have been analysed by making the use of Frequency Distribution, Correlation Coefficient and Cross tabulation. Gender is negatively correlated with tips as an influencer to trade daily in a particular stock. 8.3% of males accept the role of tips as a factor influencing daily trading in stock whereas only 4% of females accept the role of tips.

Key words: Behavioural Finance, grapevine factors, Equity Market.

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INTRODUCTION:

Investment benefits both economy and the society. It is an outgrowth of economic development and the maturation of modern capitalism. For the economy as a whole, aggregate investment sanctioned in the current period is a major factor in determining aggregate demand and, hence, the level of employment. In the long term, current investment determines the economy's future productive capacity and, ultimately, a growth in the standard of living. By increasing personal wealth, investing can contribute to higher overall economic growth and prosperity. The process of investing helps to create financial markets where companies can raise capital. This too, contributes to greater economic growth and prosperity. Specific types of investments provide other benefits to society as well.

A relatively new financial sub discipline, behavioral finance, has achieved impressive strides in explaining the behavioral aspects of investment decisions. Behavioral finance investigates choice under uncertainty. Three major elements frame behavioral finance-Prospect Theory, regret aversion and self-control. Each element captures behavioral attributes of individual investors.(Kahneman & A. Tversky, 1979). Research in behavioral finance is relatively new.

Within behavioral finance it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. According to behavioral finance, investor market behavior derives from psychological principles of decision making to explain why people buy or sell stocks. This chapter discuss about the origin, theoretical aspects of the Behavioral Finance and various factors for investing in equity market. It also includes theories of Investors behavior.

LITERATURE REVIEW:

The study of Joyce etal (2010) revealed that the level of education influence general and financial product awareness among youths. Also, males were found to have higher levels of financial awareness compared to females."When discussing client behavior under risky circumstances, it is helpful to distinguish between "risk perception" and "risk tolerance." Both factors contribute to a decision when facing risk, and it is helpful to know whether a client is not acting (or acting) because of (1) misperception of the risk or (2) a reluctance (or eagerness) to make a risky decision. Risk tolerance is a fairly stable construct which is hardly affected by any financial crisis, whereas on other hand risk perception is fairly subjective and changes according to the situation."(SuyamPraba, 2011)classifies the respondent in various risk categories and objectives and pattern of investment in different age groups, education and occupation groups. She reports that respondents whose age group is below 35 years save for wealth creation and are moderate in risk taking attitude and have invested in insurance. "Among the respondents whose age is between 36 and 54 Years save for Children's education and are conservative in risk taking attitude and have invested in insurance and pension/provident. Among the respondents whose Age is above 55 Years save to meet contingency and retirement. They are moderate in risk taking attitude and majority of them have invested in insurance, bank & gold."(Ibid, 7)"As far as effect of education on investment objective, investment vehicle and risk taking is considered that respondents who are graduated save for wealth creation are moderate in risk takers and have invested in insurance Respondents who are Post Graduated savings objective is wealth creation. They are moderate risk takers and some of them have invested in insurance & bank. School Level educated respondents save for retirement and to meet contingency. They are conservative risk takers and have nil knowledge about MF. They have invested in pension/ provident fund. Among the respondents who are Diploma holders save to meet contingency.100% are moderate risk takers and most of them have invested in insurance."(Ibid, 8) Among the respondents whose annual income is below Rs1.00 Lakh save to create wealth and to meet contingency. They are conservative risk takers and have invested in insurance. Among the respondents whose annual income is between Rs 1.00 and 2.00 Lakhs save to create wealth and for contingency management. Among the respondents whose annual income is between Rs 2.01 and 3.00 Lakhs, 45% of their savings objective is to create wealth, 38% are moderate risk takers and 28% are conservative risk takers. Among the respondent whose annual income is above Rupees 3.00 Lakhs, 41% of their savings objective is to create wealth 41% are moderate risk takers and 41% are conservative risk takers." (Ibid, 9)"Investors' major saving objective is wealth maximization, contingency management and Children welfare. Investors reveal that most of them are unlikely to meet their financial goals: be it for their retirement or children's education. This is because they don't have a proper financial plan. Very few respondents plan their savings well in advance every month. Mostly investments are made in a random fashion. Sometimes there would be a goal in mind, but even in those cases there won't be any follow up. In most cases, people don't bother to review their investments periodically and make additional investment if needed to realize their goals.Most of the respondents invest in Insurance, deposited in Bank and invested in MF. The most preferred savings avenue is Bank Deposits among all respondents. Insurance ranks second, mutual fund ranks third preferred investment avenue. The investors' behavior is basically influenced by the external factors like psychological and sociological factors."(Ibid, 9).

RESEARCH METHODOLOGY:

In this study, an attempt is made to understand and evaluate investor behavior and study on grapevine factors: evidence from Indian stock market. A grapevine factors considering the mainly two variables Rumors and Tips.The convenience sampling technique used for selection of sample.The primary data have been collected though structured closed ended Questionnaire. The size of sample was calculated on basis of population size, variance of sample and budgetary constraints. A sample size of 1000 was arrived based on the Morgan table of sample size. Out of the 5000 questionnaires forwarded only 1020 questionnaires were retained thus giving a response rate of merely 20%. Out of these 1020 responses only 996 responses were tenable and could be included in the final data analysis. The collected data have been analysed by making the use of Frequency Distribution, Correlation Coefficient and Cross tabulation.

DATA ANALYSIS AND INTERPRITETION:

The grapevine factors includes factors which seems illogical or irrational for any decision making. But further at the same time it cannot be denied that these factors many a times are movers and shakers of the market and investor decisions may be influenced by them.

Table 1: Frequency Distribution of respondents according to 10e(Rumors)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	975	97.9	97.9	97.9
	Yes	21	2.1	2.1	100.0
	Total	996	100.0	100.0	

Source: Primary Data

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Table 2: Frequency Distribution of respondents according to 10a(Tips)

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	No	900	90.4	90.4	90.4
	Yes	96	9.6	9.6	100.0
	Total	996	100.0	100.0	

Source: Primary Data

From table 1 and 2 it can be observed that 98% and 91% respondents have denied the role of rumors and tips in their investment decision making process thus depicting at least apparently that they are involved in rational decision making process and ignoring the role of irrational omponents in their decision making process.

Table 3: Correlation coefficient for age and various factors influencing trading or investment

Factor	**Correlation Coefficient**	**Significance**
Tips as a influencer to trade	0.078	0.014*

From the above table it can be concluded that among the various factor that influence a trader to trade daily in a particular stock only tips is correlated to age. The correlation coefficient is 0.078 and is significant.

Gender and Factors influencing trading or investment in a particular stock

From the statistics it can be seen that gender is negatively correlated with tips and news as an influencer to trade daily in a particular stock. The cross tabs of both news and tips with gender is as follows.

Table 4: Gender and Tips Cross tabulations

Gender * 10a(Tips) Cross tabulation				
Count				
		10a(Tips)		Total
		No	Yes	
Gender	Male	733	67	800
	Female	188	8	196
Total		921	75	996

From the cross tabs it can be observed that 8.3% of males accept the role of tips as a factor influencing daily trading in stock where as only 4% of females accept the role of tips.

KEY FINDING AND OBSERVATION

The grapevine factors includes factors which seems illogical or irrational for any decision making. But further at the same time it cannot be denied that these factors many a times are movers and shakers of the market and investor decisions may be influenced by them. The first principal component has variance (eigenvalue) 1.02 and accounts for 15% of the total variance. The first two components represent 57% of variation.

It can be observed that amongst the respondents those who perceive market tips as an important inducer or factor to trade daily a slight higher percentage is observed amongst respondents who either work from home or are home makers.Gender is negatively correlated with tips as an influencer to trade daily in a particular stock.8.3% of males accept the role of tips as a factor influencing daily trading in stock whereas only 4% of females accept the role of tips.

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