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Impact of Investors' Behavioural activities on the Indian Stock Market and Implications on Securities Selection Decisions: an Empirical Analysis

K.Rajendra Prasad*

Abstract:

Investment is commitment of present funds for future profits or benefits. Investment in stock market is a risky task so the investor try to find best strategy which will help them gaining from this stock market securities. Due to more fluctuations and even single day movement of prices, demand , rumours this market has a lot of risk involved. This study is undertaken to understand the present scenario of stock market in India while considering selected securities as samples. This study summarizes the views of common stock investors of selected different securities regarding their interest in this market, frequency of investment, risk profile, preferences for various investment opportunities, etc. Besides, it also compiles the result of a hypothesis test regarding the risk consideration amongst different age groups while selection of various investment avenues. Many of the investors are investing in stock market from their savings because of risky securities.

Keywords: Investment, Stock Market, Securities, Risk

* Asst.Professor, Dept of MBA, Santhiram Engg. College, Nandyal-518501, Andhra Pradesh

Introduction:

Over the last few years, Investing is a method of purchasing financial assets in order to gain profit in the form of reasonably predictable income (dividends, interest, or capital gain) and capital appreciation over the long term. Through under such strategies, flyby investors have been prevented from raising funds, but the problem for the investors to identify where to invest, why to invest and how to invest. There is no single strategy followed by investors in stock market. Everyone has different risk-return profile and hence uses best suitable plan for investment. Some investors believe on calculations while others believe on graphical predictions.

Objectives of the study:

- To identify the perception of investor for stock market in different securities like share, bonds, debentures etc.
- To understand the risk structure of common investors.
- To understand the investment strategy or policy of common investors in the stock market.
- To know the sources for the investment to the common investors.
- To find out the reasons for non-investment in securities market and also response to equity public issues

Significance of the study:

This study is undertaken to understand present scenario of Indian stock market. It will help in studying the behaviour of common investors of selected securities and identify their strategies for investment in the stock market. This study can further be extended for overall Indian stock market for better in-depth understanding.

Literature Review:

Chen (2007) summarizes empirical findings of anomalies in market pricing and a brief overview of the Efficient Markets Hypothesis. One of the most controversial results of EMH is that efficient markets do not allow investors to earn above-average returns without accepting above-average risks, except through luck. The stock market indirectly guides investment by transferring of the information.

Chattopadhyay & Behera in their study explain the forepart of this century has been the financial liberalization of equity markets across the world. It is generally believed that due to liberalization policy and the consequent development of Indian stock markets, the latter might have integrated with the developed markets. They concluded that Indian stock market is not influenced by other markets. Of course, some short-term sentiment in the world market does have impact but this is short-lived.

Gupta (2003) studied to examine the impact of environmental rating of large pulp and find that the market generally penalizes environmentally un-friendly behaviour in that announcement of weak environmental performance by firms leads to negative abnormal returns of up to 43 percent. Singh (2009) captured the price movement of the shares immediately after listing in the secondary market and the long term return and short term return offered by Initial public offerings and their relationship to the subscription pattern.

Joshipura (2009) presented and tested to measure price and liquidity effects of stock split as found in the Indian stock market & concluded that price effect associated with stock split is significant on and around announcement and effective day of stock split with significant positive abnormal return of 1.08% and 1.66% found on announcement and effective day respectively.

Chittedi (2009) in his paper intends to analyze the growth path of sensex, the quantum of contribution of FIIs and the volatility of sensex. They identified the factors that could derail rally like rising interest rates, high inflation fuelled by firm global crude oil prices, slow down in economy and in corporate earnings, fluctuations in currency markets, sluggish pace of economic reforms, political instability, and others.

Dalvadi (2009) sheds light on the correlation between growths in profit shown in interim reporting with the share market. The main objective of the study is to find out the fluctuating price of selected companies during pre and post interim reporting and examine whether investors purchase or sell the shares on the bases on interim reporting data or not.

Waldmann & Shelifer (1990) analyzes of rational speculation usually presume that it dampens fluctuations caused by "noise" traders. This is not necessarily the case if noise traders follow positive feedback strategies- buy when prices rise and sell when prices fall. They explained why the market is likely to overreact to news.

Iqbal & Mallikarjunappa (2009) studied on semi-strong form of efficient market hypothesis in Indian stock market yielded mixed results. The main objective was conducted to test whether the semi-strong form of efficient market hypothesis holds in the Indian stock market.

Heakal (1997) in his study found that market efficiency survives the challenge from the literature on long-term return anomalies. Consistent with the market efficiency hypothesis that the anomalies are chance results, apparent overreaction to information is about as common as under reaction, and post event continuation of pre-event abnormal returns is about as frequent as post reversal.

Gurunathan (2007) analyzed that securities market development is expressing the economic development of the country. In this paper an attempt has been made to study the investors' requirements in the Securities Market in India.

Research Methodology:

- **Research design**: The present study is a descriptive and analytical study both. The present scenario is summarized as well as the relationship amongst various factors of investment is analysed.
- **Data Collection:** Primary data has been collected with the help of questionnaire. Secondary data was collected from Newspaper, magazine, journals, and websites.
- **Data Analysis-** To analyze the data and to derive results from it percentage method is used. This method is easy to use and taken as a suitable method to compare, keeping in view the objective of the study.
- **Sample Size-** Used the total sample of 300 respondents, there were engaged in stock market activities. The convenience sampling method will be using for collection of necessary data.

Findings of the study:

1.1 Sector/industry preference for investment

Choice	percentage
Telecom	10%
Software	40%
Banking	20%
Others	30%

- Software industry stocks are preferred by the investors followed by other sectors stocks as like cement, Automobiles, power etc. Besides, 20% of the investors preferred for investing in banking sector.

1.2 Reason for investment in the stock market

Causes	Percentage (%)
Liquidity	30%
Returns	50%
Tax benefits	20%

- As a normal response 50% of the respondents prefer higher returns from stock market as the major criteria for choosing this market as an investment opportunity. 30% of them prefer it due to its liquidity option and 20% for tax benefits.

1.3 Sources for Investment in the stock market

Sources	Percentage (%)
Savings	30%
Friends	10%
Relatives	5%
Banks	35%
Others	20%

- Banks and savings are the major source for investment in the stock market. Besides, friends , relatives and others etc. also source for the investment

1.4 Frequency of trading in market

Options	Percentage (%)
Regularly (daily basis)	**40%**
Once in a month	**25%**
Occasionally	**35%**

- The frequency of trading is high in case of regular basis, investors prefers occasional or once in a month trading is low level when compare to daily basis.

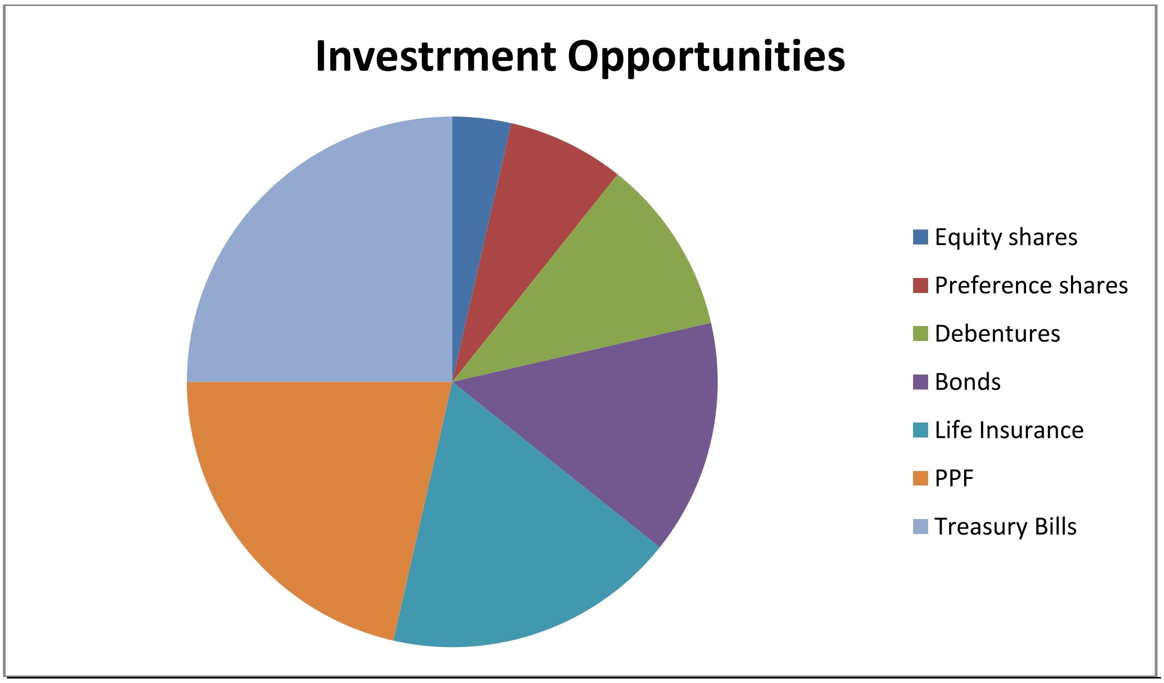
Risk Profile:

The risk profile of investors is difficult to estimate because it is depends on the industries. When the market is on the rise, even the most risk-aversive investors start buying stock. A sharp correction leads to panic selling, even by risk takers. Equity is considered to highest risky by the respondents, followed debentures; the least risky instrument is treasury bills as answered by the respondents.

Table 1 shows a complete ranking by investors.

Table 1: Investment Opportunity Rank – Risk based (High to Low)

Investment opportunity	Rank
Equity shares	1
Preference shares	2
Debentures	3
Bonds	4
Life Insurance	5
PPF	6
Treasury Bills	7



Conclusion:

The study concludes that due to high risk the investors generally do not prefer stock market as an investment opportunity. If they put their savings or money into this market they expect a better return also. Most of the investors belong to business and service class and prefer to invest through indirect route i.e. mutual funds. Banking and software industry are most preferred sectors for investors while many of them do not have any preferences specifically service class. Savings, banks, others and become the major pulling force for investors of stock market.

The study of risk profile concludes that this market is lucrative but at the same time investors remain cautious while investing. Most of the investors put very small fraction of their savings into this stock market.

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