A Comprehensive Review of the Studies on Investment Decisions by Non-institutional Equity Investors

Mukesh Kumar Jakhar, Research Scholar, Department of Management Studies, Government Engineering College, Ajmer
Dr. R. K. Motwani, Associate Professor, Department of Management Studies, Government Engineering College, Ajmer

ABSTRACT

The paper presents a comprehensive review of theoretical and empirical studies and researches conducted on factors determining investment decision by non-institutional equity investors. This study will be an attempt to find how the non-institutional, who are small, less informed and infrequent investors by nature, consider the different fundamental determinants while making equity investment decisions. Investors have different ideas when they decide about investing in a particular avenue every individual wants his saving to be invested in most secured and liquid way. The paper seeks to present the summary of already done work by different researchers with a view to identify the scope for further study in this area.

Keywords

Equity Investment, Investor Classification, Investment Behaviour, Investment decision, Investment avenues

INTRODUCTION

Investment means the employment of present funds in the hope of receiving future benefits. The essential quality of an investment is that it involves waiting for a reward and diversion of resources from current consumption. Investment in equity, as one of the various available investment avenues, needs a complete study of various factors of a company before investing. The institutional investors are well-informed, aware and financially educated investors and thus, they analyze the various factors which are to be studied before investing in equities but the non-institutional investors, traditionally, with their several limitations, do not appraise the company before investing in shares. However, with rising degree of awareness and availability of relevant information, even non-institutional investors have started apprising the various factors those influence the performance of the company before making investment.

OBJECTIVE OF THE PAPER

This paper is an attempt to explore the different researches already carried out in the relevant area and presents their objectives, methodology and findings with a view to verify an appropriate gap for the proposed research in the area of investment decision process and consideration of various investment determinants by non-institutional investors.

REVIEW OF STUDIES AND RESEARCHES

Andre Carvalhal da Silvaand Christiane Tsai[1](2011) found that insurance companies and pension funds to be the major investors in the capital market due to their enormous size of capital availability for investment and a great future for increased investments in stocks. They found, with regard to Brazil that with the trend of declining interest rates institutional investors greatly turned towards equity in a way to meet the financial accountability of insurance contracts and pension plans. Most of their investments were represented by fixed income assets whose risk, being low, has been very attractive.

Aparna Samudra and Burghate[2] (2012) in their study focused on the middle-class households in Nagpur to find out their investment behaviour. For the purpose of the study, savings and investments were classified by analyzing the amount of money left after consumption and payment of taxes and investment of these savings for different purposes like return on investment, generating wealth, formation of assets, gold etc. The Savings and investment pattern of the middle-class income households in Nagpur was abstracted by the study wherein the bank deposits continued to be the most popular instrument of investment followed by insurance with maximum number of respondents investing in these fixed income bearing option. The largest share of households with savings accounts was found in the oldest age groups.

Malar and Kungumapriya[3] (2012) focused on the investment behavior of rural investors and middle-class investors. The availability of quality financial services in rural areas is considerable for the development of the economy as this will enable large number of rural households to fund the growth of their source of income. The researchers established that individual savings and pattern of investment play critical role in any economy. The growth of the economy is dependent on the growth of the rural market in the country. All of the rural investors consider the risk and return on investment and most of them are also dependent on financial advisors' opinion because of lacking the in-depth knowledge of market. The generalization of the study, however, was subject to its limitations like unwillingness of respondents, lack of literacy of rural investors etc.

The study carried out by Mandeep and Tina Vohra[4] (2012) found that investment strategies adopted by different investors are not common as the market has different type of investors with varied level of knowledge. The motivation behind making investments by an investor is complex in nature and depends upon variety of factors. The diversity of the financial services sector has provided the individual investor with a broad range of opportunities to invest. The individual investor's decision to invest in the market is broadly influenced by the variety of benefits. Investing in various types of equity is an attractive activity that attracts people from all walks of life.

Motwani R.K.[5] (2013) in his research described fundamental determinants of equity investment among infrequent small-scale investors. Investment in equity needs a complete study of various factors those play an important role in a company. The institutional high net worth investors analyzes the various factors which need to be studied before investing in equities but the small investors traditionally, with their less resources and knowledge, do not appraise the company before investing in shares. This study was an attempt to find how the infrequent small investors consider the different fundamental determinants while making equity investment decision and found that the infrequent small-scale investors do consider some of the fundamental determinants of a company before investments.

Karthikeyan and Ramprasath[6] (2013) described the individual investors' behaviour towards select investments in the study mainly focused on investor classification, investment avenues, investor behaviour and investment decision. An investor has different investment avenues to invest savings. Investors select the investment avenues that give better returns. The investors choose multiple investment avenues. In the study many types of investment avenues were described including post office small savings schemes, bank deposits, company deposits, life insurance, mutual funds, Government bonds, chit funds, shares, debentures, bullion (gold, silver) and real estate. The research concluded that the investors give most importance to the safety factor. Similarly, investment avenues such as bank deposits, life insurance policies and precious metals were preferred by the individual investors.

Lubna Ansari and Sana Moid[7] (2013) in their study explained the factors affecting investment behaviour among young professionals. The paper analyzed investing behaviour of professionals who were in the age of 25 year to 35 years. The study found that the young investors generally take trading in stocks decision based on their self-perceived competence but sometimes with the help of professional advisors too. According to this study a Survey of 200 young investors in the age bracket 25 years to 35 years across Lucknow region was undertaken to collect primary data. The study concluded that the investment is independent of age, income and gender. However, majority of the young investors invest for growth and additional income. The major factor that guides their investment decision was found to be the risk.

Durga Rao and Chalam G V[8] (2013) presented a paper based on role of demographic factors in small investor's savings in stock market. Stock market helps to approach family savings to the corporate sector which in turn supports the development of industrial and service sector. The objectives of the study were to study the demographic factors of the respondents, to identify the investment pattern of small investors based on demographic factors and to make valuable suggestions to the small investors in stock market. The research studied several factors those affect investment decisions such as residence, age, gender, marital status, education, occupation, family size, employed members in the family, family income, type of investor, category of investor, type of market operated and market experience to analyze the role of demographic factors in small investor's savings in stock market.

Durga Rao andChalam[9] (2013) in their study explained the theoretical background of independent variables on investment decision of equity retail investors. They described that investors have various avenues of investment with different features matching their needs and the art of investment is to see that the return is maximized with minimum risk, which is associated with all investments. The responses of the retail equity investors were obtained and analyzed with the help of the four-point scaling technique, average score analysis and Kruskal Wallis H-Test. They concluded understanding the positives and a negatives of the different types of investment avenues are the most important requirement to maximize the return.

Amutha[10] (2014) studied the effect of demographics on investment choice among investors. According to this study investment is not a game but a most important object that can have a major impact on an investor's wealth. The study found that individual investors prefer regular income investments and physical assets. Among the financial assets fixed deposits with government and non-government undertaking, fixed deposits with banks, post office, recurring deposits and life insurance policies were more preferred by the investors. The level of household income being allocated to physical assets remained high. As regards demographics – age, income, occupation, employment status, gender and marital status were found to be independent of the investor's choices over alternative investment avenues. The demographic variables of the investors need to be taken care of by marketers of financial products.

The research of Megha Goyal and Anukratis Sharma[11] (2014) was based on investment behavior of middle income group towards different kind of investment avenues. According to this study Indian economy is one of the rapidly growing economics of the world where more than 50% people belong to middle class and lower class with their annual income up to rupees 10 lacks (according to NCAER's definition). The study considered the middle class population as the key element for economic development of India. They found that growth in economy and thus growth in per capita income of low class and middle class need to be studied with regard to increase in inflation rate.

Sumita Mazumdar[12] (2014) attempted to understand the relationship of knowledge and financial risk toleration with individual investment behavior. The study intended to examine the relationship of individual investment behavior with financial knowledge and investment risk preference. This study highlighted the role of demographic variables such as age, gender, income and education in investor preferences for capital gains to identify investor behavior. Financial service providers need to understand the role of these factors that influence individual investors. This study focused the two factors – knowledge and risk preference and their relationship with investment behavior.

The research paper by KhoaCuongPhan and Jian Zhou[13] (2014) illustrated the scaling behavior of individual investors based on study of the Vietnamese Stock Market. They described four psychological elements that directly influence behavioral intention, namely overconfidence, excessive optimism, herd behavior, and psychology of risk. The study also analyzes the influence of psychological factors on individual's behaviors and how every factor affects their investment behaviors. In this research, a research model to consider psychological factors of individual investors on the stock market is designed to explain the behavioral intention of individual investors during their investment decision-making process. This research mainly aims to identify the relevant factors applying influence on behavioral intention of individual investors.

Jayanthi M. and Poongothai T.[14](2014) revealed that gold is an important avenue of investment in our India apart from many other like deposits in banks, bonds, stock, mutual funds, real estate etc. but. The study found that gold is considered to be more than an asset in Indian culture. This study is based on investor's investment in gold. It includes both investment in physical gold and investment in gold in electronic form. The study also offers suggestions with regard to awareness, intermediaries, convenience, speculation, savings, economic and stability. It further describes the advantages of investment in electronic form as compared to investment in physical gold such as liquidity, transparency in pricing, affordability, safety, tax benefits etc.

The paper of Uma Devi[15] (2014) describes an overview on the investors' perceptions towards Indian Capital Market. Capital market is the backbone of any country's economy. It is one of the most powerful sectors in the financial system, indicating an important contribution to economic development. In the present age long term investors are interested to invest in the capital market rather than invest anywhere. As a part of the process of economic liberalization, the capital market has been assigned an important place in financing the Indian corporate sector. There is a wide range of investment alternative available to an investor in the Indian capital market, like non-marketable financial assets, equity shares, bonds, money market instruments, mutual funds, life insurance, real estate, precious objects etc. The paper presents the perception of investors over these investment avenues.

The research of Mishra[16] (2014) was based on impact of foreign exchange movement on foreign institutional investment in India. Indian financial market is one of the oldest and fastest increasing and one of the good among all the financial markets of the emerging economies. Indian equity market saw huge inflows from foreign institutional investors over the recent years. India, being a capital deficient country needs tremendous foreign investments for the development of the country. However, the easy exit route brings an element of uncertainty in these types of inflows. The research suggest that policy makers should adopt policies that should, on the one hand, attract more foreign institutional investments in India with being more alert, on the other side of the coin. The policy makers should relax the foreign capital policies by bringing built-in support within the system.

The research of Sudheer[17] (2015) was based on impact of socio-economic factors on investors investment culture. With increasing avenues for investments investment culture also evolves. The investors should develop their own investment pattern over a period of time to achieve the desired results of their investments yet the most of the investors are confused with various investment avenues and their risk-returns. Economist and policy makers have observed that socio-economic factors were both intrinsic and as well as extrinsic like age, gender, marital status, educational qualifications, occupation, income level have an impact on investment objectives and investors' investment culture. For increasing investor's investment culture many new schemes have been launched by government for developing the competency and financial literacy of the people.

Mehmet Islamoglu[18] (2015) focused on determination of factors affecting individual investor behavior on bankers. The study investigated the factors that influence individual investor behavior. The main purpose of investors engaged in investment is to both maximize their income and minimize their expenses. Individuals are considered to behave rationally when pursuing their own benefits. The paper provides a better understanding of investment activity, describes background of investment decision-making behavior and the factors influencing investment decisions such as level of income, past investment experiences, expert and other investors' opinion and financial stability.

The research of SuzaidaBakar and Amelia Ng Chui Yi[19] (2015) was based on the impact of psychological factors on investors' decision making. The traditional finance has always concluded that investors are rational in their decision making process in the stock market about risk return compromise and maximizing advantage. However, behavioral finance studies acknowledge that human beings do not behave as reasonably as economists suppose and their decisions at times are affected by their psychological feelings. They concluded that the psychological factors impact on investors' decision-making. The overconfidence has a positive considerable impact on investors' decision making.

ArumughaKaniA.[20] (2016) described the theoretical background of middle income person's investment pattern. They observed Investment and investment patterns as one of the major problems of the middle-income families. The risk and returns applicable from each of these investment patterns differ from one pattern to another. Investor's behavior is influenced by many factors during decision-making for investment like demographic profile etc. The study examined the capacity of investors to bear risk, management between expenses and savings and other factors which influence their investment decisions. The investors invest in long term and less risky product, more interested to earn the good return on their investments. The study found that the investors are aware about the factors affecting the short term as well as long term investment plans and they do take advice from the different experts.

The research paper by Priyanka Zanvar and Sarang S. Bhola[21] (2016) illustrated the investment pattern of individual investors in Pune city. This study aimed to understand the behavior of individual investor in the financial market. The objective of the study was to understand investment pattern among the investors of Pune. The study found that there is important difference between safely investment and risk less investment avenues. One way ANOVA was used to analyze the collected data. It was found that the most valuable investment options are insurance and bank deposits and the factors affecting investment decisions substantially were high returns, tax benefit and safety. The individual investor plays a considerable role in the financial market because of their big share of gross savings in India.

Raju and Anita Patra[22] (2016) analyzed, in their study, investors attitude towards investment in equity stocks with reference to Visakhapatnam. Savings are invested in assets depending on investor's knowledge of different investment options, risk taking ability and demand of return. Investments is an important part of the economy of any developing country, The research study aimed to test the investors' consideration on selected twenty two factors before making any investment decision and found that the majority of the investors in Visakhapatnam took into consideration all the twenty two factors before selecting the stocks to investment.

The research of Patil[23] (2016) was based on the determinants of investment decisions. Small and medium sector is the backbone of Indian economy. They described the determinants of investment decisions by venture capital firms such as India's MSME sectors attractiveness, investment decision, and venture management after investment and interplay of various external factors. Venture Capital firms are investing for making money out of their investments. The study concluded that investors look for managerial control in the venture where they are going to invest as their investment are at risk in early and growth stages of investment.

Shalini R and Kiran Hiremath[24] focused on the study of the investors' perception towards investment alternatives. The study described a positive relationship between perceived preference and perceived satisfaction of financial instruments among individual investors. Individual investors face lot of problems due to incomplete knowledge, lack of investment skills, non-availability of information rural orientation etc. The research found that most of the respondents prefer bank and post office deposits over other financial instruments. This study presented the perception of investor about instruments with the help of perceptual mapping and found a strong relationship between perceived preference and perceived satisfaction of financial instruments among retail investors.

CONCLUSION

The review of literature focuses a gap for the proposed research which not only offers well-structured theoretical approach to the non-institutional equity investor's behavior but also their investing pattern. The savings and investment pattern of the non-institutional investors depend on their awareness with regard to financial market and available services. Traditionally, the bank deposits were considered to be the best preferred investment option of the non-institutional investors. Mutual funds, later, got attention and became a route to capital market for non-institutional investors. With the drastic changes in the level of knowledge and availability of required information, non institutional investors have started considering investments in equity. The knowledge of the financial market and risk preference are two compulsory factors to the non-institutional investors. This tendency increases with every increase in availability of correct information at right time and in understandable manner. The study of above researches pave a way to conduct a fresh study to identify the behavioural pattern of non institutional equity investors as this segment of the total investors is set to play a crucial role in all economies across the globe.

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