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A Review Paper on Factors Affecting Investor’s Investment Decisions

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ABSTRACT

Making investment decisions can be difficult for investors, especially in today's changing market with its many alternative options. Based on risk tolerance, investment goals, and expected returns, investors select the assets or investment possibilities that best meet their needs. Most investors want to make investments that will provide them with significant returns as rapidly as possible while minimizing the danger of losing their principal. There are a lot of people looking for excellent investment opportunities that will enable them to triple their money in a matter of months or years with little to no risk. In reality, risk and return is inversely related; higher the risk, higher the return. Many investment opportunities are available and several factors affect investment decisions. Therefore, it is crucial to examine the factors affecting investor's thinking, behaviour, and expectations before making an investment decision. This review study focuses on examining the various factors effecting investors' opinions while making investment.

Keywords: Investor’s objective**,** Investor’s behaviors, investor’s perception, investor’s expectations, risk and return

1. Introduction

An "investment" is anything that yields a profit. Investing guarantees long-term financial security for the present and the future. The people may be similar and be equal in every way, yet they have quite different demands when it comes to financial planning and investment. The investment industry is now considerably more active than it was a decade ago. The number of assets available to an individual is dizzying, and the amount of information available to investors is always expanding. The world is full of swiftly occurring events that change the prices of certain assets. A successful financial plan requires setting aside a larger sum of money and investing it wisely over a longer period of time.

The primary objective of investors is to create wealth. There are numerous investment options accessible to the investor including bank deposits, corporate deposits, stocks, bonds, life insurance policies, modest savings plans, and mutual fund products. All of these options produce wealth and compete for the investor's attention. Distinct investing products have different features, including return, risk, safety, and ease. The investor must decide how to

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build his portfolio of financial assets and must consider asset allocation. Investment is thus considered to be not only an interesting game, but it's also incredibly complex and challenging. The investor must match the product's features to his specific needs and financial constraints. Instead of simply one or two financial products, diversified portfolios are preferred. Therefore, making investment decisions is a very challenging task.

Most financial and economic theories hold that people behave rationally and consider all available information when making investment decisions. The qualities of the investment and the investor's individual circumstances are subject to regular change, and uncertainty adds still another level to the complexity of investing. Due to the possibility of significant financial loss and the considerable costs associated with changing or recovering from a bad investment decision, investment decisions taken today are frequently crucial for financial security in later life. Investor psychology, behavioral biases, and emotions cause investors to interpret information incorrectly on a consistent basis. Instead of evaluating the readily available information objectively, investors use mental shortcuts while making decisions. These shortcuts are in turn influenced by various factors affecting investor's investment decisions.

1.1 Statistics of Investment

Although domestic investors are maintaining market sentiment, foreign portfolio investors are withdrawing money. The market is being driven by domestic investors, including retail buyers, HNIs, and domestic institutional buyers. Inflows of FPI were surpassed by domestic investors in year 2021–2022. An intriguing market dynamic has emerged, according to research from Prime Database. According to Prime Database, as of March 31, 2022, the combined share of retail (individuals with investments of up to Rs 2 lakh), high net worth individuals (HNIs), and DIIs in companies listed on the National Stock Exchange (NSE) reached an all-time high of 23.34 percent, far exceeding the share held by foreign institutional investors (FPIs), which was at 20.15 percent. This shows the rise of domestic individual investors and the significant counterbalancing role they have played against foreign investors.

The fact that the number of demat accounts has multiplied over the past two years demonstrates how individual investors are renewing their confidence in the expansion of the Indian economy. As of April 30, 2022, there were 9.28 crore total demat accounts, according to two depositories, NSDL and CDSL. This amount is over three times what was noted in March, 2020. The total number of demat accounts was 2.12 crore, according to CDSL, in March 2020, and it increased to 6.50 crore by April 30, 2022. There is more money from retail investors in the stock market if there are more demat accounts. These statistics clearly indicate that retail investors are increasing day by day in our country and at the same time they have a high tendency to invest.

2. Research Methodology

The present review paper is developed through review of existing literature and some other secondary data sources that are available online.

2.1 Objectives of study

The objectives of this study are:

- To analyze the present literature available regarding factors affecting Investor's decision regarding investment
- To find out the future scope of study in the field of investment.

3. Review of literature

Numerous research studies have been carried out over time to examine the elements and factors influencing investors' behaviour and decisions while making investments. The literature in this review paper has been taken from 20 studies of investors spread across 11 years (from 2012-2022) in various parts of India.

Murithial et al., 2012 made an effort to research the market's available investment choices, investors' investment preferences, and the factors that influence why people choose to invest in particular financial instruments. Proportional analysis on a sample of 100 respondents, the Chi-square test, bar chart, and correlation analysis were used. A large portfolio is not a reliable indicator of a sound investment. They came to the conclusion that Indian investors understand the notion of portfolio allocations as well as risk and return on investment. In India, buying gold and real estate are the two best ways to invest. It has a good return and is well-liked. This demonstrated that Indian investors, despite their high income and education levels, are conservative ones.

Sultana et al., 2012 made an effort to examine and pinpoint the variables impacting Indian individual equity investors' stock selection. For the aim of choosing the sample, various stock brokerage firms were contacted, and a sample of 891 investors—out of a total of 1500—was taken into consideration. Factor analysis approaches were used to research the variables influencing individual equities investors' behaviour. They came to the conclusion that the typical modern investor is an educated, well-groomed person. Following the application of factor analysis, it was discovered that all 40 attributes can be boiled down to the ten factors listed below: individual eccentricity, wealth maximisation, risk minimization, brand perception, social responsibility, financial expectation, accounting information, government & media, economic expectation, and advocate recommendation factors.

Sahi et al., 2013 performed an in-depth examination of investor beliefs and preferences, the goal of their article was to discover individual investors' views and attitudes about financial investment decision making, with a focus on investor biases. For this purpose, 30 exploratory semi structured interviews were undertaken. According to this study, understanding an individual investor's psychology can aid in better understanding how individual investing decisions are made. The technique and analysis of this study added value to it. This article added new understanding about financial product purchasing behaviour by examining the perceptions and opinions of the financial consumer regarding their financial investment biases.

Gender differences in employee investing behaviour were the subject of an investigation by Bhushan et al., 2013. His research study used the survey approach to get data from the respondents. Their findings suggest that there are considerable gender differences in employees' investing preferences for market investments, fixed deposits, and health insurance.

Sureshrajan et al., 2013 looked at how investors felt about various investment and saving options. They took a sample of 300 investors and determined that even though the sample of stratified investors, such as government employees, private employees, business people, and housewives, had different age, different educational levels, different professions but they had same pattern of investment. The primary contribution of the study was to demonstrate that investors' preferences for risk reduction in their investments are based on a sample of people who regularly make investment decisions.

Jothilingam et al., 2013 conducted a literature review on the attitudes of investors toward various investment possibilities. Both primary and secondary data sources were used to create this. The key Finding was that Investors favored less risky investment options including gold, mutual funds, and bank deposits. It was proposed that female investors should be enthusiastic about investing in alternatives to gold, such as mutual funds, securities and cash. This can be a sign that they want to stay out of dangerous circumstances.

Sellappan et al., 2013 attempted to demonstrate the key requirement of women's investment attitudes toward various types of securities. They analyzed that risk-takers were more likely to be young and single. Older and married folks shied away from risk. Married women were more eager to invest than single women. Compared to older women, younger women were more likely to invest in fixed deposits, insurance, mutual funds, and stocks.

Charles et al., 2014 made an attempt to determine whether or not a person's emotions influence their investment personality. A multi-stage sampling strategy was used to gather data from 742 ordinary investors who visited the Indian stock market for that purpose. AMOS, STATA, SPSS, and SEM models were used to quantitatively examine the data that had been gathered. The results of their study revealed that an investor's investment personality may be influenced by their intuitiveness based on emotions.

Umamaheswari et al., 2014 identified the elements that had an absolute influence on the choices and priorities of investments made by the target group of investors while also paying close attention to the investment preferences of the salaried class. The primary elements that impact salaried investors were awareness, attitude, anticipation, and satisfaction. This research used random sampling to plan the relationship between the top group and demographic aspects of the salaried middle class that influence investment criteria such as investment awareness, investment attitude, and investment returns.

Parimalakanthi et al., 2015 sought to understand how Coimbatore city residents behaved as individual investors in relation to the various investment opportunities in the Indian financial markets. The safety of the principal amount, liquidity, income stability, and appreciation were the main driving forces behind an investment. The easy sampling method was used to choose 107 clients. Utilizing the Friedman test, Garratt ranking, and factor analysis, the acquired data was evaluated. According to the author, security was also one of the most favoured components in fixed income and investment for safety. The key element in long-term investment was capital approval. The most chosen alternative for investments in liquid assets was additional income.

Singh, 2015 intended to find elements that affect investors when they invest in the stock market, as well as some of the factors that inspire investors to buy shares. The study was empirical in nature, and a convenience sample of 100 individual investors had been taken. Primary and secondary data was used, and data gathered through questionnaires. They concluded that when a person decides to invest, he or she takes into account factors including tax planning, future demands, investment safety, recurring income, etc. The goals of investment have a major impact on investment decisions. The author went on to say that when investing in the market, both men and women are worried about previous dividends. The survey also found that male investors examined financial ratios including the P/E ratio, the D/P ratio, and other liquidity ratios, whereas female investors were less comfortable with financial ratios due to lack of financial knowledge.

Thulasipriya, 2016 investigated the evidence that salaried investors' investing behaviour is influenced by other investors, as well as the investment preferences of salaried investors. The research shows that salaried investors seek both long-term and short-term investments to protect their future financial security. The author concluded that salaried individuals prefer investment alternatives that offer long-term benefits and extraordinarily secure cum gratifying pathways, regardless of their age or annual salary, as well as their work and marital situation.

Rajashekar, 2016 aimed to determine the factors influencing investment decisions of retail investors. Apart from demographic features, an investor's emotional biasness was also thought to be the most important factor affecting investment decisions. The author came to the additional conclusion that the choice to spend differs from person to person, location to location, and security to security, etc.

Sivaramakrishnan et al., 2017 investigated the impact of elements like financial literacy on a consumer's choice of investments, notably in the stock market. In a mixed-methods study, qualitative research came first and was followed by a quantitative survey-based investigation. In-depth interviews with investors and specialists were conducted. 506 retail investors from four Indian cities responded, and their responses were analyzed. The study's findings showed that real stock market investments were predicted by investment intentions (which represented behaviour). Both subjective and objective financial literacy were discovered to have a considerable impact on intentions, but only objective financial literacy appeared to have an impact on behaviour. A second-order construct called "Attitude to Investment Behaviour" was created by combining the three variables "perception of regulator," "risk avoidance," and "burden factor." The intention to invest in the equity markets was negatively impacted by this. Financial security appeared to have a positive association with behaviour but a negative effect on intention.

Singh et al., 2018 made research on risk perception of bank employees as they possess higher level of financial literacy as compared to other persons in the society. He found that the general risk perception of bank personnel was moderate. Fear psychosis, lack of information, and lack of confidence are three elements that influence total risk perception, and these three characteristics have an impact on employees' investing decisions. The research was the first of its sort, making it unique.

Akhtar et al., 2019 explained the investment intention of potential individual investors in a developing nation (in this case, India). A questionnaire-based survey was conducted as part of the study's quantitative and cross-sectional methodology to gather responses from potential individual investors (920 usable responses). The link between the constructs was established using AMOS and SPSS.The study's findings revealed that while financial self-efficacy played a dual role in the interaction between personality traits and investment intention, attitude was partially responsible for mediating the association between financial knowledge and investment intention. On the other hand, subjective norms had a somewhat favourable influence on investment intention.

Kappal et al., 2020 analyzed investment behaviour of women entrepreneurs only. The study concluded that women take less risk and have more focused strategies. Women entrepreneurs tend to see investing as a long-term opportunity. When it comes to business, they are willing to take risks, but not when it comes to investing. Two factors contributing to this low-risk behaviour are lack of adequate time to research investments and lack of knowledge about a wide range of items. They found that consumers are more willing to take financial risks if they devote the time to learn about the intricacies of investing instruments. According to the interviews, female entrepreneurs frequently imitate their parents' investment habits.

Raut, 2020 initiated to understand how prior behaviour and financial literacy affect individual investors' investment decisions. His study looked at the applicability of the planned behaviour theory in this situation. The study used a self-administered questionnaire, convenience sampling, and a snowball sampling method to gather information from individual investors in each of India's four different states. AMOS 20.0 was used to analyse the collected data using two-step structural equation modelling (SEM). Results showed that each predicted predictor had a substantial impact. The investor's purpose was not significantly impacted by past behaviour directly, but it was significantly impacted indirectly through investor attitude. Multiple squared correlation (R2) results revealed that the final model could account for 36% of the variation in investors' intention to invest in stocks, indicating a successful application of the TPB model with the addition of external factors. In addition, it was discovered that Indian investors were heavily impacted by social pressure, which may be reduced through financial literacy.

Sachdeva et al., 2021 reported that Investor Cognitive Psychology (ICP), Market Information (MI), and Stock Characteristics (SC) were the most significant elements influencing herding behaviour, while Socio-Economic Factors (SEF) were shown to be the least significant. They pointed out that Investor psychological mindset, Market Information along with stock features were the most essential elements driving herding behaviour, whereas social class factors were least important component while making investment decisions.

Cecily, 2022 made research that the most popular option among investors is a bank deposit, which they actually believe is the most safe and easy way of investment. This indicates that safety is the major factor influencing the decision of investors. The city of Chennai was chosen for this study because of its distinct and distinctive historical significance. The investors are less aware that investing in mutual funds has a number of benefits, including adaptability, diversification, liquidity, profitability, high-quality collateral, and tax advantages. Alterations in demographic variables like age, income, education, and occupation have an impact on the preferred investment avenue. According to certain studies, the attitude toward risk is more strongly influenced by variables including marital status, the number of dependents, wealth, and income.

4. Practical Implications, Limitations and Scope for future research

This study has reviewed limited research studies. More cross-sectional and longitudinal investigations can be conducted in the future. At the same time, most of the studies have considered only internal factors related to perception of investors while taking investment decisions. That indicates that external factors influencing investment decisions can also be taken exclusively for studies. The studies have also been conducted on external factors but the review indicates that internal factors have been studied more. Study can be also done on one specific option of investment also like mutual funds, derivatives, bank deposits etc. Future research may be done to forecast investor behaviour based on the variables affecting their choice of investments. As a result, it may be possible to construct ad hoc connections between the variables impacting the different types of investment decisions. Future research may compare the influencing elements based on different demographic, psychographic, and geographic traits of investors across India.

The main drawback of this study is that, while many external factors, such as fund factors, costs associated, fund categories, fund maturity, firm size of AMC, economic growth of the country, and jurisdiction status of the country, are also accountable for affecting investor investment decisions, they were largely ignored in most of the studies that concerned investors. Another limitation of this study is that review has been done of only 20 studies spread across twelve years (from 2012-2022) in various parts of India and rest of the time period has been ignored.

In Nutshell, we can say that majority of the investors are still worried about changes in share prices. By providing investors with appropriate knowledge, we may urge them to diversify their investment portfolios by encouraging them to lose their preconceptions, alter their attitude and change their behaviour. Financial advisors may also use the characteristics and factors that affect investment behaviour to motivate the investors.

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