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A STUDY ON FACTORS AFFECTING INVESTORS BEHAVIOR TOWARDS STOCK MARKET

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Abstract: Investor behavior plays a crucial role in stock market dynamics, influencing trading patterns, market volatility, and asset pricing. This study examines the key psychological, economic, and social factors affecting investor decision-making in the stock market. Using a combination of survey data and empirical analysis, the research explores how cognitive biases (such as overconfidence, herd mentality, and loss aversion), financial literacy, market information, and macroeconomic conditions shape investment choices. The findings reveal that emotional biases and social influences significantly impact trading behaviour, often leading to suboptimal decisions. Additionally, the study highlights the role of demographic factors—such as age, income, and experience—in determining risk tolerance and investment strategies. By identifying these behavioal drivers, this research provides valuable insights for financial advisors, policymakers, and market regulators seeking to enhance investor education and market stability. The study contributes to behavioral finance literature by bridging the gap between theoretical models and real-world investment behaviour.

Keywords: Investment Decision Making, Stock Market, Risk Perception, Behavioral Finance, Market Volatility.

I. INTRODUCTION

The stock market plays a pivotal role in economic growth by facilitating capital formation and wealth creation. However, market participation and investment decisions are significantly influenced by investor behavior, which often deviates from traditional finance theories that assume perfect rationality. Behavioral finance has emerged as a critical field of study, recognizing that psychological, emotional, and social factors frequently drive investment decisions, sometimes leading to irrational market outcomes.

Investor behavior in stock markets is shaped by a complex interplay of cognitive biases, emotional responses, and socio-economic factors. Research has shown that phenomena such as herd mentality, overconfidence, loss aversion, and anchoring significantly impact investment choices and market dynamics. These behavioral tendencies often result in excessive volatility, asset mispricing, and suboptimal portfolio performance. Understanding these behavioral drivers is essential for individual investors seeking to make informed decisions, financial advisors aiming to guide clients effectively, and policymakers working to ensure market stability.

The research builds upon established behavioral finance theories while incorporating contemporary market observations. By analyzing survey data and market trends, the study aims to identify patterns in investor decision-making processes and their consequences for market efficiency. The findings will contribute to the growing body of behavioral finance literature while offering practical insights for market participants.

STATEMENT OF THE PROBLEM

The stock market plays a pivotal role in economic growth by facilitating capital formation and wealth creation. However, its efficiency largely depends on rational investor behavior, which is often influenced by psychological, emotional, and socio-economic factors rather than purely objective analysis. Despite extensive research in financial markets, there remains a significant gap in understanding how various behavioral factors collectively shape investment decisions, particularly in diverse market conditions. This study seeks to investigate the multifaceted factors affecting investor behavior in stock markets, addressing critical issues that impact both individual investors and market stability.

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One of the primary issues this study addresses is the prevalence of cognitive biases among investors. Overconfidence, for instance, leads investors to overestimate their knowledge and predictive abilities, resulting in excessive risk-taking and under-diversification. Similarly, loss aversion—the tendency to prefer avoiding losses over acquiring equivalent gains—often causes investors to hold onto losing stocks too long or sell winning stocks too soon, a behavior known as the disposition effect. Anchoring, where investors rely too heavily on initial information (e.g., purchase price), further distorts decision-making. These biases are not merely theoretical constructs; they have real-world implications, contributing to market volatility and mispricing of assets. Understanding the extent to which these biases influence investment behavior is crucial for developing strategies to mitigate their negative effects.

This study seeks to examine the key behavioral, psychological, and socio-demographic factors influencing investment decisions, addressing critical gaps in understanding how cognitive biases, emotional triggers, and social influences shape market participation. By analyzing these dynamics, the research aims to provide insights that can enhance investor education, improve financial advisory strategies, and inform regulatory policies to promote market stability. The findings will contribute to behavioral finance literature while offering practical solutions to mitigate irrational decision-making and foster more informed, disciplined investing practices.

OBJECTIVES

- To study the investors behaviour towards stock market.
- To study the investors preferences while investing in stock market.
- To understand the awareness level of investors on stock market.
- To analyse the factors influencing the investment behaviour of individual investors.

Significance of the Study

This study holds substantial importance for multiple stakeholders in the financial ecosystem by providing critical insights into the behavioral factors influencing stock market participation. For individual investors, the research offers valuable self-awareness about common psychological traps like overconfidence and herd mentality, enabling more rational decision-making and improved portfolio management. Financial advisors and wealth managers can utilize these findings to develop customized client education programs that address specific behavioral biases, ultimately leading to better financial outcomes. The study carries particular relevance for market regulators and policymakers by identifying behavioral patterns that contribute to market instability, thereby informing the development of more effective investor protection measures and financial literacy initiatives. Academic researchers will benefit from the empirical evidence that bridges theoretical behavioral finance concepts with real-world investment practices, particularly in the context of evolving digital trading platforms and social media influences. For financial institutions and brokerage firms, the findings can guide the design of more user-friendly investment platforms that mitigate behavioral risks while promoting long-term wealth creation. The research also contributes to the growing body of knowledge in emerging markets where investor behavior studies remain limited, offering cross-cultural comparisons of investment psychology. By examining the interplay between demographic factors and investment decisions, the study provides actionable insights for targeted financial education programs catering to different age groups, income levels, and educational backgrounds. In an era of increasing retail investor participation and market volatility, this research serves as a timely examination of the human elements driving market movements, with practical applications for creating more resilient investors and stable financial markets. Ultimately, the study's comprehensive approach to understanding behavioral influences can lead to more informed investment strategies, reduced susceptibility to market manipulation, and improved financial well-being for participants across the investment spectrum.

II. LITERATURE REVIEW

Ravishankar B. and Mahesh Rajgopal (2009) have described several stages of financial crises in US and also observed that the BSE Sensex has continued to bleed more out of panic and psychological reasons than for others. In last few weeks (3-4) BSE Sensex fell by almost 15%. It is also due to shortage and dries up of capital from FII and FDI.

Bhalla V.K. (2011) has described in his book that the extent of stock price volatility is also influenced by the extent of integration between the domestic and international capital markets as well as the regulatory framework governing the stock market. In India, two most important factors which had significant bearing on the behaviour of stock prices during the 'nineties were net investment by FII and trend in the international stock exchange, especially NASDAQ.

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Joshi (2013) in his study found major factors responsible for up-down movement in Indian stock market. He found that factors like Flow of Foreign Institutional Investors, Political Stability, Growth of Gross Domestic Product, Inflation, Liquidity and different interest rate and Global level factors are major factors responsible to create movement in Indian stock market.

Perera(2016) examined the influence of investor's gender attitudes on investor behaviour in colombo stock exchange. The outcome of the study revealed that individuals's gender differences significantly influenced on cognitive factors, emotional factors and herding factors. Also study found that there was a strong correlation among the investor's demographic factors, market factors, risk bearing capacity, lifestyle characteristics and behaviour.

Khanam (2017) carried out a study with randomly selected 300 investors of Dhaka Stock Exchange to evaluate the impact of demographic factors on the decisions of investors during dividend declaration. Findings of the study illustrated that relationship between demographic factors (age, educational level, occupation, experience and income level of investors) and investment decision of the investors.

III. RESEARCH METHODOLOGY

Research Design

A research design is considered as the framework or plan for a study that guides as well as helps the data collection and analysis of data. The research design is intended to provide an appropriate framework for a study.

Descriptive research is carried out in this. Descriptive research is a study designed to depict the participants in an accurate way. More simply put, descriptive research is all about describing people who take part in the study.

Sampling Method

Convenience sampling method is used in this. Convenience sampling is a type of non-profitability sampling that involves the sample being drawn from that part of the population that is close to hand.

Sampling Size

A sample size of 81 investors has been taken in this study.

Data collection Method

Primary data was Collected directly from the investors with the help of questionnaire.

Secondary data are the data which already exists. The secondary data were also collected from published records, journals and websites for this study.

Data Analysis Tools

Tools used for analysis are simple percentage analysis, bar chart, pie chart, Chi square test in SPSS tool, Anova in SPSS tool.

IV. RESEARCH QUESTIONS

1. Did you complete any course relevant to trading on the stock exchange?
2. How often do you monitor your investments?
3. You believe that your skills and knowledge of stock market can help you to outperform the market
4. The return rate of your recent stock investment meets your expectation.

LIMITATIONS OF THE STUDY

The analysis of the present study has been carried out based on the information collected through questionnaire. The responds from the respondents may not be accurate.

The study is an opinion survey; caution may have to be exercised while extending the result to other areas.

Due to time constrict only 81 numbers of respondents were considered.

The result fully depends on the information given by the respondents which may be based.

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DATA ANALYSIS

Percentage analysis

TABLE 1: Respondents education level on the stock exchange

Any Course done on stock exchange	**No of respondents**	**Percentage**
No	6.966	8.60%
Yes	73.791	91.10%
Total	81	100%

Source: Primary data

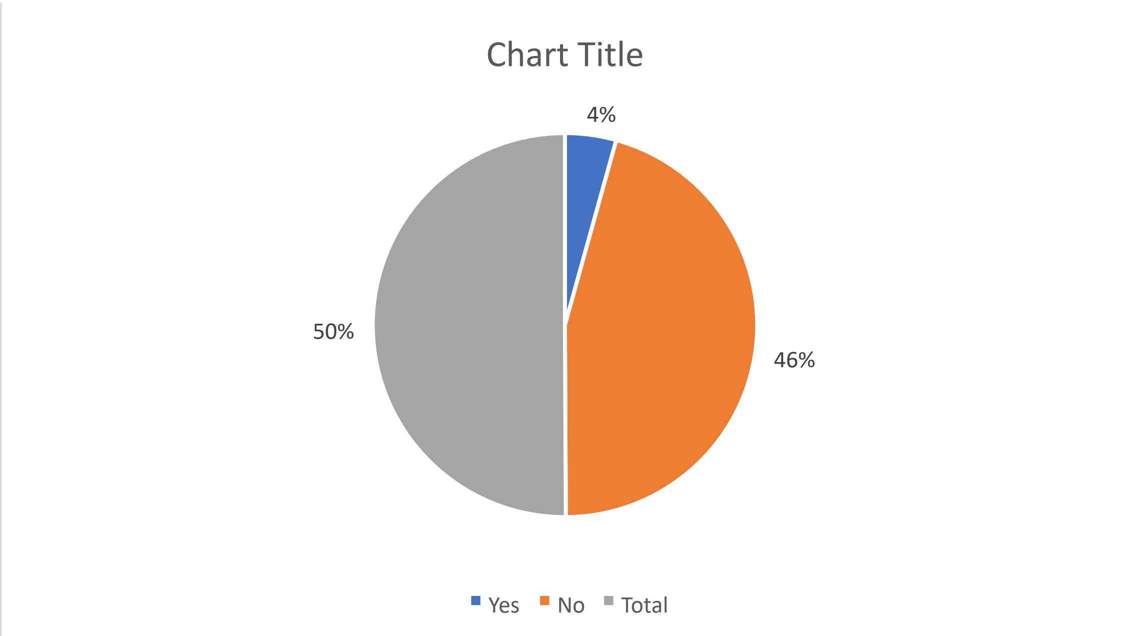

CHART 1: Respondents education level on the stock exchange

Interpretation
From the above table it is interpreted that the number of respondents who have done any course related to stock exchange is 1% and who have not done any course related to stock exchange is 99%.

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TABLE 2: Respondents monitoring status of their Investment

No of Particulars	No of respondents	Percentage
Daily	11.826	14.60%
Weekly	17.82	22%
Monthly	14.823	18.30%
Occasionally	36.531	45.10%
Total	81	100%

Source: Primary data

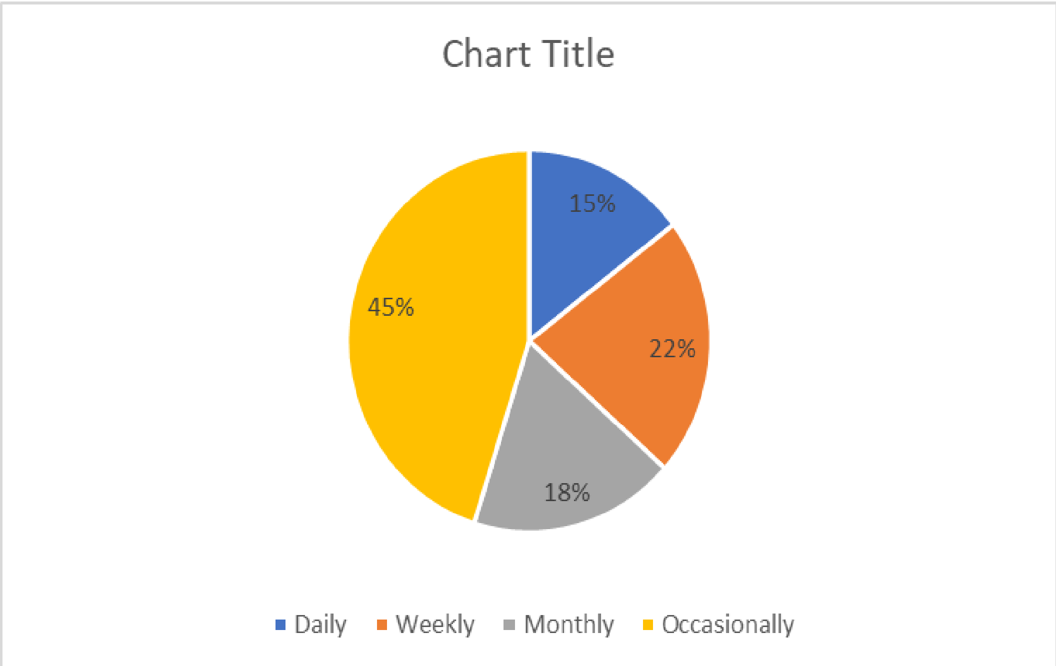

CHART 2: Respondents monitoring status of their investment

Interpretation

From the above table it is interpreted that the number of respondents monitor their investment daily is 15%, Weekly is 22%, Monthly is 18%, occasionally is 45%.

Chi-square

Table showing the association between educational qualification and opinion on their investment performance.

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Chi-Square Tests			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	23.093[a]	25	.572
Likelihood Ratio	18.110	25	.838
N of Valid Cases	79		

a. 30 cells (83.3%) have expected count less than 5. The minimum expected count is .01.

Source: Primary data.

Interpretation:

Since p value is higher than 0.05 , we accept the alternate hypothesis and reject the null hypothesis. Therefore, there is an association between educational qualification and opinion on their investment performance.

ANOVA

Table showing the association between how often the investors monitor their investment and how other investors decisions of buying and selling stocks have impact on their investment decisions.

ANOVA					
How often do you monitor your investment ?					
	Sum of Squares	Df	Mean Square	F	Sig.
Between Groups	1.243	4	.311	.325	.860
Within Groups	70.656	74	.955		
Total	71.899	78			

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Source: Primary data.

Interpretation

Significance level 0.860, which is above 0.05 therefore, there is no statistically significant relationship between how often the investors monitor their investment and how other investors decisions of buying and selling stocks have impact on their investment decisions.

FINDINGS

- It is found that majority (99%) of the respondents who have not done any course related to stock exchange.
- It is found that majority (45%) of the respondents occasionally monitor their investment.
- It is found that stock marketability, stock price, tax effect on profit and financial statement condition are the factors that mostly affect the investors behaviour towards stock market.
- It is found that majority of respondents have strongly agreed with some of their past experience in stock market that is, selling shares in stock market with fluctuations in values, treating each element of their investment portfolio separately, After a prior gain, they are more risk seeking than usual, they use trend analysis of some representative stocks to make investment decisions for all stocks that they invest.

SUGGESTION

➢ This study examined the factors that appear to exercise the greatest influence on the individual stock investor, and included not only the factors investigated by previous studies and derived from prevailing behavioural finance theories.

➢ The researcher recommends that the investors need to analysis the investment factors carefully using the reasonable business knowledge before making an investment decision.

➢ The investors should also be able to interpret the market and economic indicators since they influence the performance of the share on the market.

➢ They should evaluate all the variables in the environment instead of considering only one variable.

V. CONCLUSION

❖ The study was conducted on the 79 investors that constituted the sample size. To collect data the researcher used a structured questionnaire that was personally administered to the respondents. The respondents were the individual investors.

❖ In this study, data was analyzed using frequencies, mean scores, percentages, Chi-square and One Way Anova Techniques.

❖ In this study we found that investors prefer to invest for long term in stock market than short term investment.

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