INDIVIDUAL INVESTMENT BEHAVIOR TOWARDS FINANCIAL MARKET

A Thesis

Submitted

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1 Background of study

Financial markets are more fragile than other markets. The inefficiency and incompleteness of financial markets is particular concern to economists because the smooth operation of these markets is essential for the functioning of most other markets in the economy. Psychological factors play a dominant role in decision making regarding investment in financial market. That’s why there is an immense significance to study all these factors comprehensively to know their impact in today’s scenario. Financial market allows both individual and institutions to invest on different securities. As a result, be it small or big investors, they invest their funds into stock market certainly expecting some gains. Big investors like organizations and institutions often invest huge funds into the market even influencing the functioning of the market sometimes. But there are investors who invest in small amounts. Their individual investment might be small but the group of such individual investors has invested lot in financial market.

Kahneman and Tversky (1979) rigorously studied the concept of behavioral finance and recognized as the father of this hottest concept. They have presented a paper on the critique of expected utility theory which empirically found out that people underweight those outcomes that are just possible in comparison to the outcomes that are obtained with certainty. They have thrown prospect theory in which value is assigned to gain and losses rather than to final assets and probabilities are replaced by decision weights. In 1981, they introduced the concept of framing. They have presented that psychological principles that govern the perception of decision problems and to evaluate the probabilities and outcome produced predicable shift of preference when the same problem is framed in different ways.

Chaudhary (2013) examines the meaning and importance of behavioral finance and its application in investment decisions. He has also discussed some trading approaches for investors in stocks and bonds to assist them in manifesting and controlling their psychological roadblocks.

Sahni, (2012) the majority of the investors expects ideal returns on their investment and depends on elementary analysis of company to make their investment decisions. It will found that risk adverse behavior of investors invokes them to trade in gaining shares initially as compared to loss making shares. Investor's perceptions are greatly influenced by the past performance of stock market.

There are several irrational behaviors shown by investors in the market that cause the variation between the actual and estimated return for the investment. Some of such behaviors are: Heuristic decision process also known as rule of thumb, where investors go for trial and error method for making decision usually in uncertainty, overconfidence of the investors, gambling fallacy; where individual invest irrationally on risky stock expecting the situation to reverse, representativeness; where investor perceives the past event will continue in future, ignoring the market changes, anchoring, where one relied too heavily on single piece of available information and so on. This kind of common irrational behavior shown by investors often causes the investment theory to face unexpected outcome. This research particularly aims to identify the behavioral factors that play a vital role in individual investors' decision-making process based on the Nepalese investors.

2 Statement of problem and research questions

Due to the positive correlation between stock market and economy, the rise of stock market positively affects the development of the economy and vice versa. Thus, the decisions of investors on stock market play an important role in defining the market trend, which then influences the economy. To understand and give some suitable explanation for the investors' decisions, it is important to explore which behavioral factors influencing the decisions of individual investors at Nepalese stock market. The attitude toward investment toward stock market vary from person to person depending on personal characteristics, needs, wants, knowledge, experience, risk tolerance, suggestion and others.

The demographic factors like age, marital status, gender, income level, occupations and qualifications have a major impact on investment decision of investors. Recent literature in empirical finance is surveyed in its relation to underlying behavioral principles which come primarily from psychology, sociology and anthropology, (Shiller, 2003). The behavioral principles are: prospect theory, Regret and cognitive dissonance, anchoring, mental compartments, overconfidence, over and under reaction, representativeness heuristic, the disjunction effect, gambling behavior and speculation, perceived irrelevance of history, magical thinking, quasi-magical thinking, attention anomalies, the availability heuristic, culture and social contagion, and global Culture. Kaleem, Wajid and Hussain (2009), in a study of factors affecting financial advisors perception in portfolio management in Pakistan, found that age, income, language and orientation of education have a significant role in determining the investment style of an investor.

Merilkas & Prasad (2003).The study will conducted to analyze factors influencing Greek investor behavior on the Athens Stock Exchange. The results indicate that individuals' base their stock purchase decisions on economic criteria combined with other diverse variables. They do not rely on a single integrated approach, but rather on many categories of factors. The results also revealed that there is a certain degree of correlation between the factors that behavioral finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual behavior of active investors in the Athens Stock Exchange (ASE) influencing by the overall trends prevailing at the time of the survey in the ASE.

Specifically, the study seek to find out how the individual investors make their investment decisions i.e. what factors do they take into consideration as they go about investing; Find out whether the investors are familiar with the best investment practices that are ascribed to in the traditional standard finance; The study also sought to find out the results of the individuals' investment decisions. Whether they proved to be profitable or not as emerged from the financial evaluation of the companies their investment activities were centered on.

The study will focused on the factors influencing individual investor's decision making behavior in stock market. The study will deal with the following issues:

- What are the major factors affecting individual investors investment decision making behavior?
- What is the relationship between social interactions on investor's decision making?
- Does information affect the decision of investor?
- What is the relationship between psychological factors on investment decision?
- Does a regulatory policy affect the decision of investors?

- What is the relationship between firms image on investment decision?

3. Objectives of the study

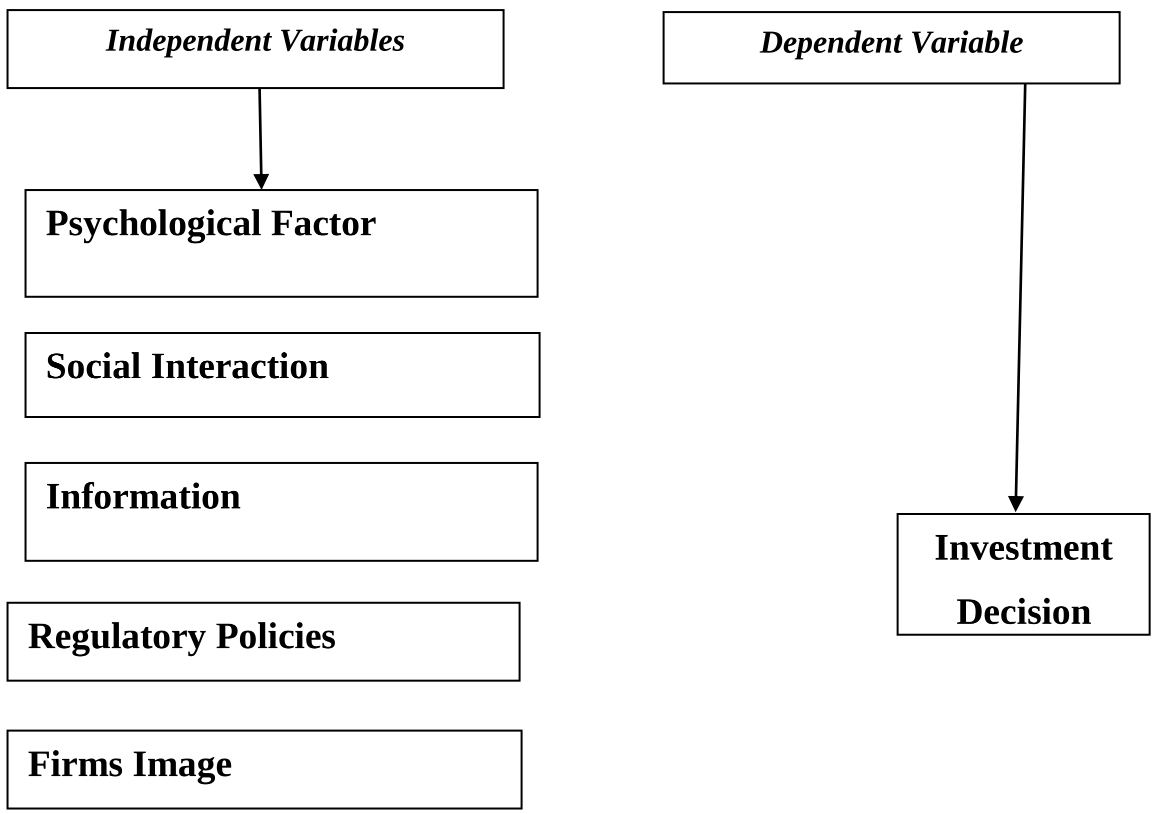
The main objective of the study will be to examine the factors influencing individual investors' investment decision making behavior.

The specific objectives of the study are:

- To examine the effect of information on investors decision making behavior.
- To find out the relationship between psychological factors on investment decision.
- To find out the impact of regulatory policies on investment decision.
- To find out the relationship between firms image on investment decision.
- To examine whether the beginners and experienced investors have same factors affecting investment decision.

4. Conceptual framework

The investment is the postponement of current spending for the future purpose with the expectation of gain. The gain is the compensation for the investor's sacrifice.



5. Significance of study

The findings of any well planned and effectively executed research may directly or indirectly contribute to various individual, institutions and stakeholders. The study will provides an overall view of the factors influencing the individual investors' decision making behavior while making investment decision in securities.

The study will tries to explore the effect of psychological, social interaction, Information, Regulatory Policies and finally Firms Image on building individual investors decision making behavior in stock market. Further it explores the overall behavioral factors of investors in making investment decision through the perception building factors. Since, this report will show there is significant effect of rules and regulation on investment decision making this report mainly benefits investors by the help of regulatory bodies to makes good plans and policies to support the stock market and to bring the stability in NEPSE and to run the stock market efficiently by providing the required information to all the investors at once and reaching to large number of investors.

It principally contributes to investors; Individual and Institutions, the shareholder's bank and the companies. The finding of this study will be used by the stakeholders to know about the factors that are responsible for influencing the investment decision and can make the effective investment decisions. New investors can also get an idea about the factors that should be considered and analyzed before making an investment in the stock market. So, new investor can minimize the risk associated with the investment and maximize the investment return by making the right investment decision.

Finally, this study will helpful for individual investors by identifying their major influencing factors in their investment decision which would have effect on their financial planning. Likewise, it may also be useful for institutional investors while making their investment strategies, plans and policies.

6. Limitations of study

i. The behaviors of the participants vary depending on market condition and collecting information might get affected.
ii. The analysis will focuses in the investors about their knowledge, perception and behavior on different financial instrument and their investment decision.

(belief, value, attitude, perception and some other psychological factors will used in this study)

iii. The study will be conduct over individual investors of Kathmandu Valley (we use convenience sampling). So, it cannot be generalized for the entire market participant in the stock market.

iv. The study will confined to Kathmandu Valley only, the findings cannot be generalized.

7. Literature review

Khanam (2017) examined the association between demographic characteristics of general investors such as age, education level, occupation, experience and income level and the stock market investment amount. Survey techniques were applied on a sample size of 300 general investors selected from Dhaka Stock Exchange and the average amount of investment per year has been determined from the structured questionnaire. The frequency table will used to demonstrate how many investors made this particular investment. To identify whether there is any interaction between two demographical characteristics on the yearly average investment amount of the investors two-way ANOVA test will employed. Results indicate that selected demographic characteristics make difference in the average amount of investment in different types of shares. The paper explores for the first time the link between demographic characteristics and investment amount of general investors. The study concluded that the different demographic factors' interaction has a positive effect on yearly average investment amount of general investors.

Kimeu, Anyango and Rotich (2016) conducted a study on Behavioral Factors Influencing Investment Decisions among Individual Investors in Nairobi Securities Exchange. Investment decision making is influenced by either modern or traditional finance. In traditional finance the investor has to determine the intrinsic value of a security to establish whether it's overvalued, correctly or undervalued. The tradition of traditional finance demands use of mathematical formulae which some investors may have limited knowledge. In the modern finance theory commonly denoted as behavioral finance applies psychological knowledge to evaluate the investment decision at investors' disposal. The study sought to examine the behavioral factors influencing individual's investment decision in Nairobi Securities Exchange. Specifically, the research sought to examine the relationship between prospect factors, heuristic factors, herding factors, rationality and investment decision. The research was guided by prospect, herding, heuristic and Expected Utility theories of behavioral finance. The results of the study shows that investment decisions in the Nairobi Securities Exchange are positively influenced by behavioral factors including prospect, herding, heuristic and rationality.

Adhikari and Phuyal (2016) this research is based on political unrests and fluctuations of the stock market in Nepal. Researcher attempts to fill this research deficit by performing a threefold analysis on the influence of politics on Nepali share market. First, Researchers perform a survey on stock market investors and brokers for identifying probable factors that account the volatility of stock market. Majority of the investors and brokers think political unrest in the most influential determinant of stock market volatility. Second, we perform multivariate analysis on a quarterly dataset over one decade to test whether disturbances in stock index could be explained by a set of economic variables. The results show such a relation could not be described a linear model suggesting there are other factors other than the economic variables that is missing from the model; the missing variable may be a properly quantified variable representing political instability. Guided by this possibility, in the third step, they historically trace the relation between political instability and stock market volatility. The historical analysis shows a clear relation between political and stock market upheavals.

Akbar (2016) conducted a study to identify the factors that affect the investment decision making of investors in Islamabad Stock Exchange. The study used adapted questionnaire to gather the primary data from 253 individual investors of Islamabad stock exchange. The findings of the study revealed positive significant relationship between advocate recommendations, neutral information, self-image/firm image coincidence and individual investor investment decision making. The study did not find any evidence on relationship between accounting information, classical wealth maximization and personal financial needs. It can say that most of investors in Pakistan are not making rational decisions on the basis of accounting information and most of times their decisions depend on the recommendations of stock brokers, co-works, friends and family. It is suggested that higher authorizes should focus on this issue because stock markets can be easily manipulated if investors rely on other recommendations while making investment decisions.

Jagongo and Mutswenje (2014) another research on Nairobi Stock Exchange found out that the most important factors that influence individual investment decisions were; reputation of the firm, firm's status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the economy and expected dividend by investors. The study will conducted on the 42 investors out of 50 investors that constituted the sample size. To collect data researcher used a structured questionnaire that will personally administered to the respondents. The respondents were the individual investor. In this study, data was analyzed using frequencies, mean scores, standard deviations, percentages, Friedman's test and factor analysis techniques. The findings from this research would provide an understanding of the various decisions to be made by investors based on the prevailing factors and the eventual outcomes for each decision and would identify the most influencing factors on the investors' behavior.

Ali and Tariq (2013) Investor behavior is central concept in behavioral finance which analyzes the influence of various factors on individual equity investor decision making. Therefore, this paper examined the influence of economic, and behavioral, factors in shaping the investment behavior of individual equity investors in Pakistan. The factors included classical wealth maximization, accounting information, self-image/firm-image coincidence, neutral information, advocate recommendation and personal financial needs. The study found strong influence of self-image/firm-image coincidence, neutral information, and advocate recommendation on individual equity investor decision making, whereas no influences of factors like classical wealth maximization, accounting information and personal financial needs were found on individual equity investor's decision making in the context of Pakistan.

Aduda, Odera and Onwonga (2012) Behavioral finance investigates the cognitive factors and emotional issues that impact the decision-making process of individuals, groups, and organizations. A research done at Nairobi Stock Exchange, Kenya puts light on the basic behavioral finance including: overconfidence, cognitive dissonance, regret theory, and prospect theory. The paper seeks to identity such behaviors from individual investors as they set out to make their investment decisions. This study used overconfidence, cognitive dissonance, regret theory and prospect theory. Specifically, the study seek to find out how the individual investors make their investment decisions i.e. what factors do they take into consideration as they go about investing; Find out whether the investors are familiar with the best investment practices that are ascribed to in the traditional standard finance. The study also seeks to find out the results of the individuals' investment decisions. It will found out that there were varied behaviors and financial performance of individual investors in Kenya. Some investors exhibited rational behavior in making their investment decisions. This can be seen in investors who decided to go for stocks from companies with good financial performance and dominant niche the stocks market. On the contrary, there were investors who were poised to realize negative results due to irrationality and herding behavior.

8. Methodology

This chapter will consist of explanation of methodology adopted for the study. It will basically deals with the research design and plans initially, further it briefs about the sample size determination, and instruments that will use to collect the data, sources and method of data collection and finally the details about the data analysis tools and techniques will presented.

8.1 Research design

The research will follows the descriptive research design and analytical research design to describe the basic features of the data in a research. The descriptive research designs selected for the study to learn the profile of the respondents, presentation and description of the data collection, and to describe the characteristics of the investors. Descriptive research design is accepted design to be used because it is non-experimental in that it deals with the relationships existed between non-manipulated variables. The collected information will presented and analyzed using SPSS. The study will cover a wide range of factual questions about investment, perceptions and intentions, investors own characteristics and preferred investment avenues. The research used the quantitative approach where the questionnaire will administered to the respondents to find the facts regarding individual investors decision making behaviors.

8.2 Population and sample

Sampling design is the blue print of the data collection and dissemination of data for the research. Since, the study is about the behavioral factors affecting the decision of individual investors; the population for the study comprises all the individual investors of Nepal working in different fields. The census of the population is not desirable for this nature of study that is why a sample for the population has been selected. The sample size for this study will include 125 respondents. Those respondents will from different categories such as government employees, private job holders, service providers, retired and students.

In order to collect required information from the individual investors, the sampling design has carefully and properly chosen for the study. Convenient sampling has adopted for the study as population is considered as 1,837,000 as per the data of Central Depository System (CDSC- 25august 2020) for the individual investors. Thus, to fill up the questions 3 broker houses will visited i.e. 41, 45 and 36.Broker house will chose for convenient and that broker house with good turnover the day before questionnaire will distributed.

8.3 Sources of data

The study will conduct through the primary survey. The data will collect through the structured questionnaire from the various individual investors and different journals and internet.

8.4 Data collection and processing procedure

The study will conduct through the primary survey. The data will collected through the structured questionnaire from the various individual investors in Kathmandu.

A survey will carry out to collect opinion of investors from questionnaire. All the questions included in the survey set will close ended i.e., it restricts the respondents within the given alternatives. The questionnaire will self-administer in nature where following method is used as per the situation. Questionnaire will print and will give to the investors of Kathmandu valley. For filling up the questions 3 broker houses were visited i.e. 36, 41 and 45.

8.5 Data analysis tools and techniques

The data will analyze through the Statistical Package for Social Science (SPSS) software package and Microsoft Excel. SPSS is analytical and scientific software helps to organize the data, determine significant relationships and identify differences, similarities with and between different categories of respondents. For this research purpose, descriptive statistics, reliability analysis, regression, correlation test will performed in order to accomplish the objective of the study.

The structured questionnaire has been designed to conduct the survey. The questionnaire consists of single response and Likert scale questionnaire. Statistical tools will used for data analysis. Both qualitative and quantitative data analysis method is used with significance level set to 0.05. The following statistical tool is utilized for data analysis.

- Cronbach's alpha for reliability statistics
- Frequency and descriptive analysis.
- Inferential analysis (Pearson’s coefficient of correlation, multiple regression analysis).

9. Chapter plan

This study will be divided into five chapters:

Chapter I: Introduction

This is the introductory chapter, which has covered background of the study, significance of the study, objectives of the study, research question, hypothesis of the study and limitation of the study etc.

Chapter II: Review of literature

This includes the review of the previous research work made in respect of mobile banking. It includes conceptual review of impact of mobile banking tools on customer satisfaction and theoretical framework will developed. For this purpose, various books, journals and periodicals as well as internet were used.

Chapter III: Research methodology

This chapter describes the research methodology like research designed, data collection and procedures, period covered, nature and sources of data, statistical tools used and research variable.

Chapter IV: Data Analysis and Discussion

This represents the presentation and analysis of data collected through various sources. These data have been interpreted and analyzed with the help of statistical tools and techniques.

Chapter V: Conclusion and Implications

This chapter comprises the conclusion of entire thesis. It describes major findings of the thesis and provides some suggestions and recommendation based on the analysis of the study. It also offers several avenues for future research.

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