

Determinants of Investment Decisions in Security Market Instruments

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Abstract--- Investors are individuals possessing portfolios for which they are direct beneficiaries. Investors propose to invest money when they recognize a chance to earn profit. The specific focus is on the determinants that drive investors before taking decisions in security market investment. In addition, the study also attempted to analyze the level of risk associated with return in security market investments. The primary data required for the study were collected using questionnaire from 100 investors of Coimbatore city in Tamil Nadu. To evaluate the factors influencing investments in security market instruments factor analysis as well as cross tabulation was used to study the association between the levels of risk associated with the level of returns in security market investments. Results of factor analysis disclosed that Governance, Image and Performance were the dominant factors that determined the investment decisions of investors before taking investment decisions in security market instruments. The study concluded that it would be of great help to the fund managers and financial planners to develop investment strategies while taking decisions regarding the selection of financial instruments in the securities market.

Keywords--- Investment Decision, Governance, Image and Performance.

I. Introduction

Investment companies channelize excess funds from investors to organizations to ensure capital formation leading to industrial development. Security market quickens the setups of interchange of securities in the secondary market. In a well-organized market, security prices represent the actual fact openly. Investment objectives should be specified in terms of both risk and return. The market, players, prevalence of uncertainty, risk premium, expected returns from the financial instruments are interlinked and interdependent in the security market. If inflation increases the return on security market investment will also increase reducing the market valuation. Individuals consider market trends and depend on experts while taking investment decisions.

II. Review of Literature

Som Nath Paul and Rakesh Kumar Yadar (2019) analysed the role of financial autonomy and personality of individual investors in investment decisions. The study found that financial autonomy and personality influenced the investment decisions of middle class investors with same financial position. Arup Kumar Sarkar and Tarak Nath Sahu (2017) analysed individual investors' behaviour in stock market investments and revealed that knowledge, risk and deciding capability influenced investment decisions. Raghavendra Prasad (2016) studied the investors' attitude towards investment in equity market. The study revealed that the expected returns and the purpose of investment were correlated with age and gender. The researcher concluded that the print media and brokers had a significant role to play in the investor's decision making. Haritha and Rashmi Uchil (2016) analysed the role of sentimental factors and behaviour problems in decision making. The study revealed that behavioural pitfalls and market sentiments such as herd behaviour, macro-economics, risk and cost factors, ambiguity aversion, action trading and familiarity biases affected individual investors' decision making.

Mehmet Islamoglu, et al. (2015) conducted a survey among 277 bank employees in Bartın and identified that income level, past experience, self-esteem and financial stability affected the individual investors' investment decisions. Sindhu and Rajitha Kumar (2014) examined the influence of risk perception of individual investors on their investment decisions. The study revealed that higher investment yields were highly associated with risk. The study concluded that investors were financial conservatives and were aware that diversified portfolios reduced the risk.

Gnani Dharmaraja, et al. (2012) in their study found that accounting and neutral information influenced individual investor behaviour. Ebenezer Bennet, et. al., (2011) identified that risk tolerance, strength of the economy, media, political stability and government policy were the most influencing factors on retail investors. Gaurav Kabra et. al., (2010) found that investors between the age group of 22 and 28 years took more risks and were eager to receive suggestions from experts, whereas female investors invested for tax benefits. Thus, risk-taking capacity was decided by age and gender of the investors. Saif Siddiqui and Shuchita Singh (2009) identified that the psychology of the investor played a vital role in investment decisions. Their findings revealed that investors gave maximum weightage to the security of the principal amount invested and relied on their own analysis for investment.

Statement of the Problem

Investors’ investment decision depends on the fluctuations in price, economic situations and opportunities available. The knowledge of market trends, risk-taking ability and the motive behind buying and selling securities decide investors’ active participation in the security market. Investors hesitate to take high risks and avoid uncertainties in investment decisions. Investors should understand the information and analyse the market while investing. Hence, the present study focuses on determining the factors influencing investment decisions in security market instruments. The study also attempts to find the association between levels of risk and return on investments in various security markets’ instruments.

III. Research Methodology and Research Design

As the population size was very large making it difficult to prepare the sampling frame, convenient sampling technique was adopted. The data of quantitative nature required for the study were collected primarily by distributing structured questionnaires among 100 individual investors in Coimbatore District, Tamil Nadu. The reliability co-efficient Cronbach’s Alpha was calculated to ensure the logical reliability of the questionnaire through a pilot study. The highest alpha score value of 0.962 for the various factors under study ensured the reliability of the questionnaire. Statistical tools like Factor Analysis and Cross Tabulation were used to study the determinants of investment decisions.

IV. Data Analysis and Interpretation

To identify the factors that influence investment in security market 16 items were taken for study and Factor analysis was applied. The KMO test was used to decide whether the data were good.

KMO and Bartlett’s test

Kaiser-Mayer-Olkin Measure of Sampling Adequacy		
Bartlett’s test of sampling adequacy	Chi Square	1250.483
	Sig	.000

The significant value, Bartlett’s test and chi-square test confirm the application of factor analysis.

Communalities

	Initial	Extraction
Company Goal	1.000	.923
Operations of Company	1.000	.837
Company Profile	1.000	.876
Management Style	1.000	.802
Corporate governance (Policies and Strategies)	1.000	.818
Details in Prospectus	1.000	.708
Credit Rating	1.000	.635
Market Share / Market Price / Market Capitalization	1.000	.838
Corporate Social Responsibility	1.000	.595
General Financial Performance	1.000	.722
Profit Earning Ratio	1.000	.793
Earnings per Share	1.000	.862
Recommendation from Investors	1.000	.679
Price trends	1.000	.840
Promoters	1.000	.738
Others	1.000	.633

Communality table reveals all 16 items contribute significantly to the factors decided by the factor analysis. All extraction values are more than 0.600 (the least is 0.595=0.600)

Total Variance Explained

Component	Initial Eigen values			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
Company Goal	8.970	56.066	56.066	8.970	56.066	56.066	4.768	29.801	29.801
Operations of Company	1.704	10.648	66.714	1.704	10.648	66.714	4.607	28.796	58.597
Company Profile	1.624	10.149	76.863	1.624	10.149	76.863	2.923	18.266	76.863
Management Style	1.214	7.590	84.453						
Corporate governance (Policies and Strategies)	.950	5.936	90.389						
Details in Prospectus	.508	3.175	93.564						
Credit Rating	.468	2.923	96.486						
Market Share / Market Price / Market Capitalization	.321	2.005	98.491						
Corporate Social Responsibility	.175	1.097	99.588						
General Financial Performance	.043	.269	99.857						
Profit Earning Ratio	.023	.143	100.000						
Earnings per Share	2.328E-15	1.455E-14	100.000						
Recommendation from Investors	5.430E-16	3.394E-15	100.000						
Price trends	3.117E-16	1.948E-15	100.000						
Promoters	-7.556E-16	-4.723E-15	100.000						
Others	-8.612E-16	-5.382E-15	100.000						

The table “Total Variance Explained” says Cumulative Eigen Value of 76.86% is explained by the three factors. The three factors are identified by the Rotated Component Matrix.

Factor analysis was performed on all 16 factors influencing security market investments. Principal Component Analysis was used to convert variables specifying the number of rotations.

Rotated Component Matrix^a

	Component		
	1	2	3
Management Style	.871	.188	.086
Company Profile	.781	.301	.419
Promoters	.780	.298	.200
Others	-.695	.073	.380
General Financial Performance	.692	.371	.325
Company Goal	.660	.597	.362
Market Share / Market Price / Market Capitalization	.597	.573	.391
Credit Rating	.527	.444	.400
Earnings per share	.133	.905	.161
Profit Earning Ratio	.112	.880	-.078
Policies and strategies	.244	.861	.130
Price trends	.519	.713	.249
Operations of Company	.530	.625	.407
Recommendation from investors	.025	.025	.823
Corporate Social Responsibility	.141	.065	.756
Details in prospectus	.313	.360	.693

Component Transformation Matrix

Components	1	2	3
1	.653	.637	.410
2	-.410	-.158	.898
3	-.637	.755	-.158

The Eigen value decides the number of factors to be extracted. The higher the Eigen value the higher the variance obtained by the factor. Three factors have been extracted using Varimax rotation along with Kaiser Normalization to group and reduce the variables. Consolidating the items an appropriate nomenclature was assigned, and the three important factors influencing investment in Security Market were identified as follows:

- Governance
- Image
- Performance

The rotated matrix revealed first factor component as Governance consisting of Management Style, Company Profile, Promoters, General Financial Performance, Company Goal, Market Share / Market Price / Market Capitalization and Credit Rating. The second component factor Image constituted the items Earnings per share, Profit Earning Ratio, Policies and strategies, Price trends and Operations of Company. The third component factor Performance considered Recommendation from investors, Corporate Social Responsibility and Details in prospectus. All the three factors Governance, Image and Performance influence investments in security market.

Note: Factor loading is correlation between item and factor.

Association between Level of Risk and Return on various Security Markets' Investments

In the following analysis the researcher tries to find the association between the level of risk and return on various security markets' investments. Cross tabulation and percentage difference calculation for the level of risk associated with security markets' investment and the level of returns associated with security markets' investments revealed:

Level of Risk and Return Associated with Equity Share Investments

		Returns on Equity Shares			Total
		Moderate	High	Very high	
Risk on Equity Shares	Very high	0	7	7	14
	High	17	5	16	38
	Moderate	33	0	0	33
	Low	15	0	0	15
Total		65	12	23	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	-.647	.038	-8.394	.000 ^c
Ordinal by Ordinal	Spearman Correlation	-.703	.033	-9.781	.000 ^c
Number of Valid Cases		100			

Among the respondents investing in equity shares 33 % were taking moderate risk and moderate return.

Level of Risk and Return Associated with Preference Share Investments

		Return on Preference Shares					Total
		Very low	Low	Moderate	High	Very high	
Risk on Preference Shares	Very high	12	0	0	0	0	12
	High	0	0	8	0	0	8
	Moderate	7	8	43	0	7	65
	Low	0	0	8	7	0	15
Total		19	8	59	7	7	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	.326	.068	3.417	.001 ^c
Ordinal by Ordinal	Spearman Correlation	.423	.085	4.621	.000 ^c
Number of Valid Cases		100			

In the case of level of risk associated with preference shares investment and the level of returns associated with preference shares in security market investments 43% of the respondents are of the opinion that moderate risk yields moderate returns.

Level of Risk and Return Associated with Debenture Investments

		Return on Debentures					Total
		Very low	Low	Moderate	High	Very high	
Risk on Debentures	Very high	19	8	0	0	0	27
	High	0	0	9	0	16	25
	Moderate	0	0	8	7	0	15
	Low	0	7	26	0	0	33
Total		19	15	43	7	16	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	.306	.082	3.180	.002 ^c
Ordinal by Ordinal	Spearman Correlation	.381	.112	4.084	.000 ^c
Number of Valid Cases		100			

The level of risk associated and the level of returns associated with debentures investments revealed the opinion of low risk with moderate returns among 26 % of the respondents.

Level of Risk and Return Associated with Bond Investments

		Return on Debentures				Total
		Very low	Low	Moderate	Very high	
Risk on Bonds	Very high	12	0	9	0	21
	High	0	0	9	16	25
	Moderate	0	0	22	0	22
	Low	0	7	16	0	23
	Very Low	0	0	9	0	9
Total		12	7	65	16	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	.067	.098	.663	.509 ^c
Ordinal by Ordinal	Spearman Correlation	.050	.122	.495	.622 ^c
Number of Valid Cases		100			

Regarding the level of risk and the level of returns associated with bond investments 22% of the respondents are of the opinion that moderate risk gives moderate returns.

Level of Risk and Return Associated with Mutual Fund Investments

		Return on Mutual Fund				Total
		Very low	Moderate	High	Very high	
Risk on Mutual Fund	Very high	15	0	7	0	22
	High	0	9	9	16	34
	Moderate	0	0	7	0	7
	Low	0	28	9	0	37
Total		15	37	32	16	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	.195	.096	1.968	.052 ^c
Ordinal by Ordinal	Spearman Correlation	.055	.123	.547	.586 ^c
Number of Valid Cases		100			

In the case of mutual funds, the level of risk and the level of returns associated with investments, 28 % of the respondents are of the opinion that low risk will give moderate returns.

Level of Risk and Return Associated with Derivative Investments

		Return on Derivatives					Total
		Very low	Low	Moderate	High	Very high	
Risk on Derivatives	Very high	12	0	0	0	0	12
	High	0	0	9	0	16	25
	Moderate	0	18	8	7	0	33
	Low	0	8	8	7	0	23
	Very Low	7	0	0	0	0	7
Total		19	26	25	14	16	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	-.103	.122	-1.025	.308 ^c
Ordinal by Ordinal	Spearman Correlation	-.097	.131	-.963	.338 ^c
Number of Valid Cases		100			

It is very much clear from the given cross table that the level of risk associated with investment in derivatives and the level of returns associated with derivatives investments, 18 % of the respondents are of the opinion that moderate risk will give low returns.

Level of Risk and Return Associated with investments in Other Security Market Instruments

		Return on investments in other security market instruments		Total
		Very high	Moderate	
Risk on investments in other security market instruments	Very high	67	10	77
	High	8	0	8
	Low	8	7	15
Total		83	17	100

Symmetric Measures

		Value	Asymp. Std. Error ^a	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	.632	.094	8.077	.000 ^c
Ordinal by Ordinal	Spearman Correlation	.550	.087	6.517	.000 ^c
Number of Valid Cases		100			

The level of risk associated with other securities market investment and the level of returns associated with other security market investments, 67% of the respondents are of the opinion that very high risk will give very high returns.

V. Conclusion

The nature, quality and quantity of information influence the decision of investors, and have their effects on the security market. Company goal, operations of company, company profile, management style, policies and strategies, details in prospectus, credit rating, market share/market price/ market capitalization, corporate social responsibility, general financial performance, profit earnings ratio, earnings per share, recommendation from investors, price trends and promoters are the factors considered by investors before investing in security market instruments. Cross tabulation analysis revealed the association between the level of risk associated with security market instruments and the level of returns. The expected return has an impact on the risk-taking attitude. The study would be of great help to the fund managers and financial planners to develop investment strategies and take decisions regarding the selection of financial instruments in the securities market.

VI. Suggestions

The corporates should develop various securities with less market risk, and the credibility of the institution should be concisely clarified to the investors. Most of the investors sensed that they lacked expertise to ease the market risk, and they also said that they followed the ideas given by the financial experts and tips given in the newspaper to reduce their risks. So, institutions must educate the investors on their institution investors in a positive way.

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