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A Study on Investors Behavior on Stock Selection Decision: Evidence from Odisha

Dr. Raja Ram Majhi[1], Dr. Biswa Mohan Jena[2]

[1]Faculty, Fm University
[2]Faculty, Chse, Odisha

ABSTRACT
One of the important components of Indian financial market is the Stock Selection decision. This paper aims at identifying the factors which influencing the stock selection decision. This study follows a qualitative methodology to investigate small investor's behavior in choosing stocks in odisha. The purpose of this study is to examine the role of various investment behavior factors, socio-economic and demographic factors affecting the investment decision of investors in the market. The researchers collected primary data from various small investors living in odisha.

KEYWORDS: Stock selection decision, Behavior factors, Demographic factors.

INTRODUCTION

Behavioral finance is of interest because it helps to explain why and how markets might be inefficient (Sewell, 2001). The study of the various markets and their movement tells us that there is more than information and rationality at play. The Efficient Market Hypothesis of Fama (1965, 1970 and 1991) is questioned not just once. Selden (1912) depicts the movements of prices on the exchanges are dependent to a very considerable degree on the mental attitude of the investing and trading public. Market participants are people; and people are not always rational. Behavioral finance results from an interdisciplinary convergence of cognitive psychology and financial economics, this indicates market participants are affected by heuristics and psychological biases.

The emergence of the behavioral approach in finance is generally dated back to the 1980s (Schinckus, 2009).The economic origins of Behavioral Finance came on 1950s, when behavioral economics progressively developed until the 1970s. Later this new framework was sustained and reinforced by works of Slovic et al. (1982). The studies developed in the 1970s have not only focused on the results of human decisions but also on the process implying these decisions. Experimental psychology suggests that the most important assumptions of rational choice theory are violated with frequency in real life: the deviations of actual behaviour from the normative model (i.e., rational choice theory) are too widespread to be ignored, too systematic to be dismissed as random error, and too fundamental to be accommodated by relaxing the normative system (Tversky and Kahneman 1988, 1968). This is so, it is suggested, because people do not follow a process of subconsciously multiplying potential gains or losses by their respective probabilities in reaching a decision. Instead, they rely on a limited number of heuristic principles which reduce the complex tasks of assessing probabilities and predicting values to simpler judgmental operations (Tversky and Kahneman, 1974).Kahneman and Tversky (1979) introduced

Prospect theory: An Analysis of Decision under Risk, an important paper that used cognitive psychology to explain various divergences of economic decision making from neo-classical theory.

REVIEW OF LITERATURE

1. **Fama, (1970)** defined an efficient market as one in which security prices fully reflect all available information, and hypothesis states that real world financial markets are efficient. Fama goes on to say that it would be impossible for a trading system based on currently available information to have excess returns consistently. The University of Chicago, home to the EMH, became the world's center of academic finance.
2. **Kahneman and Tversky, (1974)** "Judgment under Uncertainty: Heuristics and Biases", one of their prominent works, was published. They described three heuristics – Representativeness, Availability and Anchoring.
3. **Kahneman and Tversky, (1979)** In their most important work titled "Prospect Theory: An analysis of decision under risk" appeared in Econometrica, which was 'a critique of expected utility theory as a descriptive model of decision making under risk' and the alternative model developed was called Prospect Theory. Kahneman was awarded the Nobel Prize in Economics in 2002, for his work in Prospect Theory.
4. **Abu-Nassar and Rutherford (1996)** argued that the annual corporate reports are the most important source of information to make decision the different groups of investors.
5. **Maditinos et al. (2007)** in his study stated that individual investors, while making investment decision, prefer to think more about the media, newspapers and noise in market, despite this, professional investor would rather concentrate more on technical and fundamental analysis and less on portfolio analysis.
6. **Maheran, Muhammed and Ismail (2008)** investigate the relationship between investment decision making of an investor and their rationality in investing in the Malaysian capital market. The study finds the economic condition and frame of references influence investor decision-making behavior.
7. **Chandra (2008)** explored the impact of behavioral factors and investor's psychology on their decision-making is influenced largely by behavioral factors like greed and fear, Cognitive Dissonance, heuristics, Mental Accounting, and Anchoring.
8. **Mittal M and Vyas R.K (2008)** explored the relationship between various demographic factors and the investment personality exhibited by the investors. Empirical evidence suggested that factors such as income, education and marital status affect an individual's investment decision.
9. **Hoffmann , Shefrin and Pennings (2010)** analyses that in this study of 65,325 sample of clients from 2000 to 2006 from the largest online broker in the Netherlands. It is found that investors who rely on fundamental analysis have higher aspirations and turnover, take more risks, are more overconfident, and outperform investors who rely on technical analysis.
10. **Bhatt and Chauhan (2014)** have given that investors not always act in a rational manner due to the cognitive and psychological errors they have to deal with. The behavioral factors are important in financial markets because they influence the investors who make the financial decisions.
11. **Chaudhary (2014)** indicates that impact of different behavioral finance on investment decision through the financial instrument such as investment options, financial need and dependency, investment awareness sources, experience in the field of investment, annual investment, investment objectives, portfolio maturity and risk taking capacity.

RESEARCH GAP

Based on various review most of the investors following rationally to invest in share market, but some investor also believes in behavioral factors affect the stock selection decision. The research in capital market is comparatively less in India and particular to Odisha, when compared to other developed countries and states. Investment decision differs from individual to individual whether Indian investors are really following classical finance or behavioral finance is a great question. Some believes women's are risk averse and men's are risk takers. But what exactly happens in Indian stock market is yet to see. In this respect, this study aims to investigate the stock selection decision of investors in Odisha.

OBJECTIVES OF THE STUDY

1. To analyze the impact of various behavioral factors of investors in stock market.
2. To analyze the impact of Demographic factors of investors in stock market.

METHODOLOGY

To examine the above objectives, the study has a descriptive research design and based on primary data. Primary data has been gathered using a structured questionnaire, which was presented to individual portfolio investors.

QUESTIONNAIRE SURVEY

The questionnaire survey is the most convenient method for this research owing to the fact that the research was conducted in Odisha. The questionnaire consists of 15 questions out of which 10 were meant to obtain a measure of the investor attitude, while the rest were designed to capture quantitative information.

DATA COLLECTION

The study includes only primary data which were gathered using the questionnaire which were distributed both offline and online to reach out to wider audience. All data were collected through the questionnaire from Investors.

BEHAVIORAL FACTORS WHICH AFFECTS THE DECISION OF INVESTORS IN STOCK MARKET:

1. OVERCONFIDENCE:

Psychologists are of the opinion that overconfidence causes people to overestimate their knowledge, underestimate risks and exaggerate their ability to control events. A common trait among investors is a general overconfidence of their own ability when it comes to picking stocks and to decide when to enter or exit a position. An overconfident investor makes too many trades and takes too much risk. They do not diversify their investment.

2. REPRESENTATIVENESS:

It is the tendency of investors to associate new event with a purpose of knowing the event and through which only they make investment. If a company makes some announcement, the investor will correlate that announcement with the past announcements and makes decision on the basis of that past announcement without considering the fact that past announcement may not represent the present one so far.

3. HERDING:

This is the common mistake where investors tend to follow the investment decisions that taken by the majority. As a result of this investor will not buy or sell a stock even if that decision is supported by technical or fundamental analysis. Investor is pressurized by the influence by the peers. They are more concerned about what others think of their investment decision. As a result of herding behavior, investors lose their own individuality in the decision making process.

4. ANCHORING:

Anchoring is a psychological situation exists when investors give unnecessary importance to statistically random and psychologically determined 'anchors' which leads them to investment decisions that are not essentially 'rational'. After considering the estimation of good price for buying the share the investor will begin such process by using initial value called 'Anchor' and may be by considering the 52 weeks low of the stock then investor adjust such 'Anchor' up and down to reflect their analysis or new information but studies have shown that this adjustment is insufficient.

5. COGNITIVE DISSONANCE:

Cognitive Dissonance can be defined as the mental conflict that people experience when they are presented with evidence that their beliefs or assumptions are wrong. As a result of this conflict, the investor ignores new information that contradicts known beliefs and decision. This behavior of investors leads to reduction in their ability to make rational and fair investments.

6. REGRET AVERSION:

Regret Aversion is a psychological error that arises out of excessive focus on feelings of regret at the time of decision making, which turned out to be poor, mainly because the outcomes of the alternative are visibly better for the investor to see. The root cause of this type of error is the tendency that individuals hate to admit their mistakes. Because of such tendency investors may avoid taking decisive actions for the fear that whatever decisions they take will be sub-optimal in Hindsight. Because of unwillingness to admit and rectify mistakes in a timely manner could lead investors into holding onto a losing position for too long. Another downside is that it can stop investors from making an entry into the market when there has been a downtrend showing signs of ending and signals that it is a good time to buy.

7. HINDSIGHT:

Hindsight bias can be defined as the tendency to think that one would have known actual events that were coming before they happened. As a result of hindsight bias investors usually take wrong decision or pretend that the outcome of their decisions was known by them very earlier. If investor have loss on particular stock then too they will pretend as if they knew it earlier that they will loss, as a result of this they don't learn lessons from their wrong decisions and such decisions may be taken again in future also.

DEMOGRAPHIC FACTORS

Table-1: Age

Gender	**70**	**100**	**40**	**100**	**30**	**100**
Age	**70**	**100**	**40**	**100**	**30**	**100**
20-29 years	10	14.28	06	15	04	13.33
30-39 years	20	28.57	11	27.5	09	30
40-49 years	25	35.71	14	35	11	36.67

50-59 years	10	14.28	06	15	04	13.33
60-69 years	05	07.14	03	7.5	02	6.67

Figure-1: Age

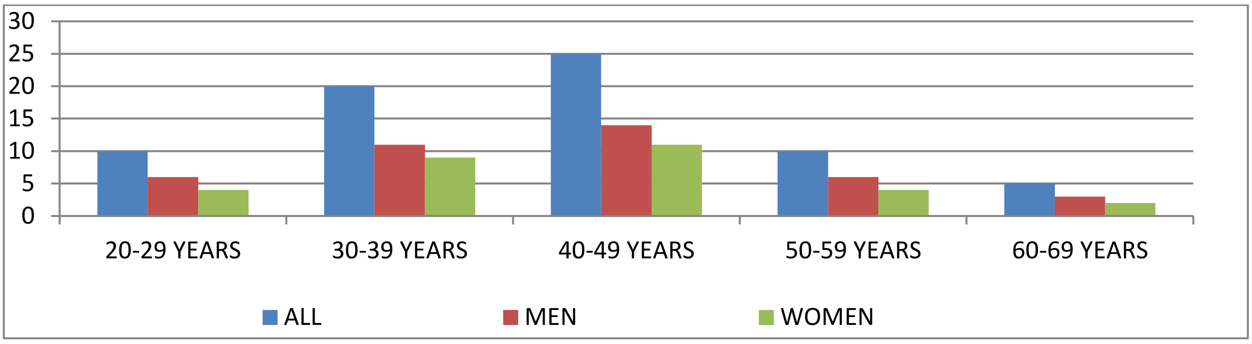

Table-2: Education

Education	**75**	**100**	**49**	**100**	**26**	**100**
High school	05	6.67	03	6.12	02	7.7
Diploma	13	17.33	08	16.32	05	19.23
Degree	30	40	20	40.81	10	38.46
Master Degree	15	20	10	20.40	05	19.23
Ph.D	12	16	08	16.32	04	15.38

Figure-2: Education

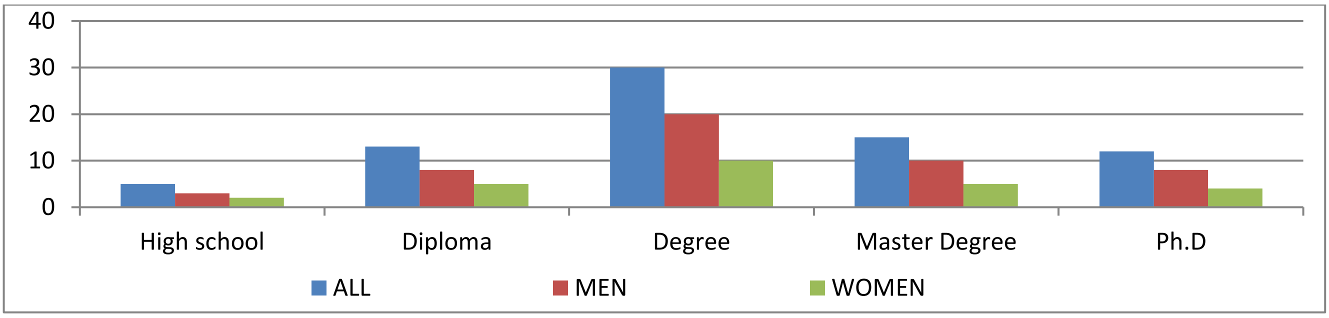

Table-3: Occupation

Occupation	**75**	**100**	**41**	**100**	**34**	**100**
Private	17	22.67	09	21.95	06	23.52
Business	25	33.33	14	34.14	08	32.35
Home maker	05	06.67	03	07.31	11	05.88
Student	15	20	08	19.51	02	20.58
Public	17	17.33	07	17.07	07	17.64

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Figure-3: Occupation

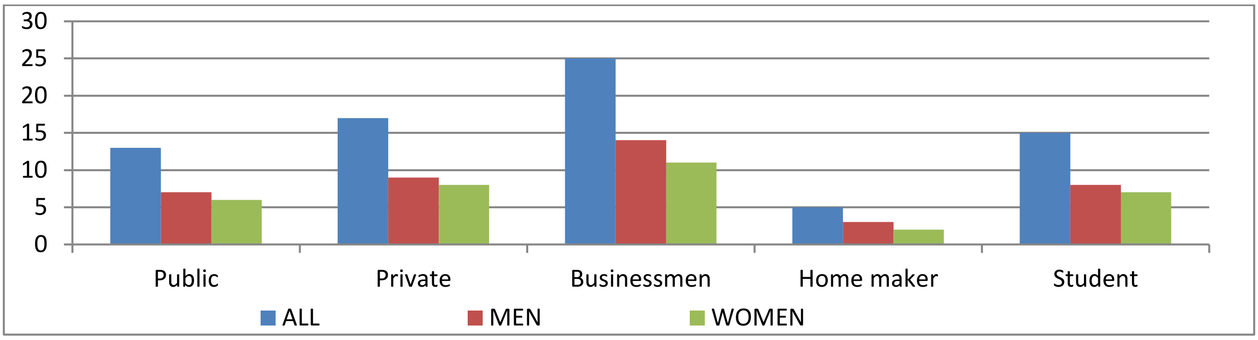

Figure-4: Annual Income

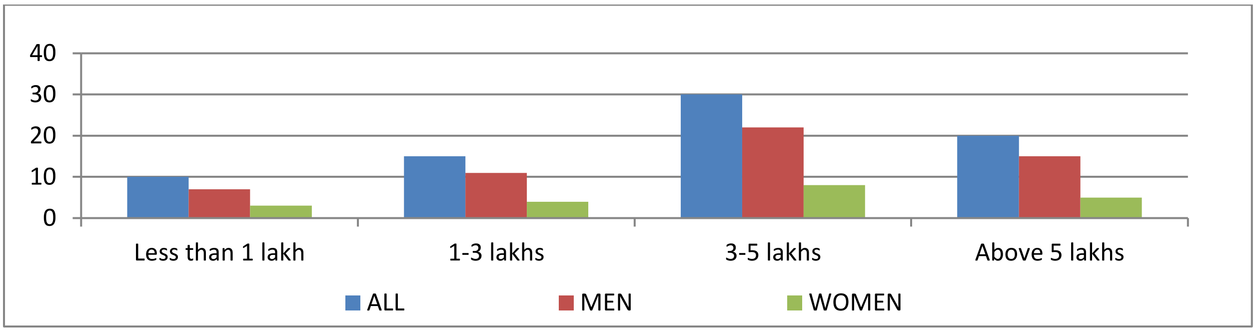

Table-4: Annual income

Annual Income	75	100	55	100	20	100
Less than 1 lakh	10	13.33	07	12.72	03	15
1-3 lakhs	15	20	11	20	04	20
3-5 lakhs	30	40	22	40	08	40
Above 5 lakhs	20	26.67	15	27.27	05	25

Table-5 Investment decision maker

Gender	75	100	42	100	33	100
Investment decision maker	75	100	42	100	33	100
Friends	19	25.33	11	26.19	08	24.24
Family members	16	21.33	09	21.42	07	21.21
Consultants	29	38.67	16	38.09	13	39.39
Others	11	14.67	06	14.28	05	15.15

Figure-5: Investment decision maker

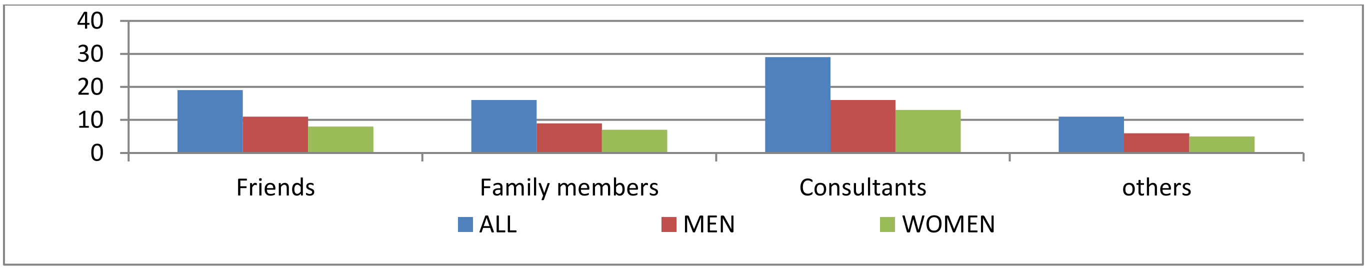

Table-6: Sources of financial information

Sources of information	75	100	46	100	29	100
Financial advisor	32	42.67	20	43.47	12	41.37
News paper	17	22.67	10	21.73	07	24.13
Internet	11	14.67	07	15.21	04	13.79
Television	05	06.67	03	06.52	02	06.89
Friends	10	13.33	06	13.04	04	13.79

Figure-6: Sources of financial information

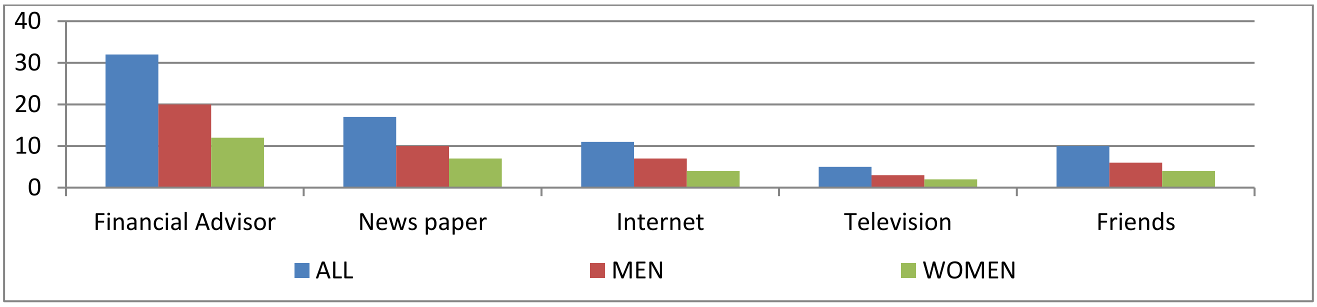

Table-7: Investment activities of the previous twelve months

Past 12 months activities	75	100	43	100	32	100
More investment	10	13.33	6	13.95	4	12.5
Review Status	15	20	9	20.93	6	18.75
Diversification	20	26.67	11	25.58	9	28.12
Consult Advisor	30	40	17	39.53	13	40.62

Figure-7: Investment activities of the previous twelve months

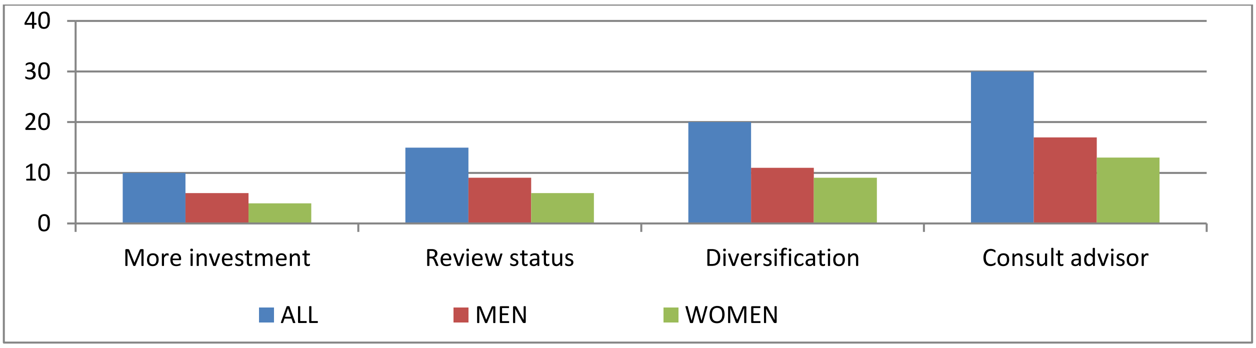

Table-8: Actions taken when investment results were below expectations

Below expectations	**75**	**100**	**41**	**100**	**34**	**100**
Consult Advisor	19	25.33	10	24.39	9	26.47
Diversification	14	18.67	8	19.51	6	17.64
Wait and hold it	26	34.67	14	34.14	12	35.29
Changes policy	16	21.33	9	21.95	7	20.58

Figure-8: Actions taken when investment results were below expectations

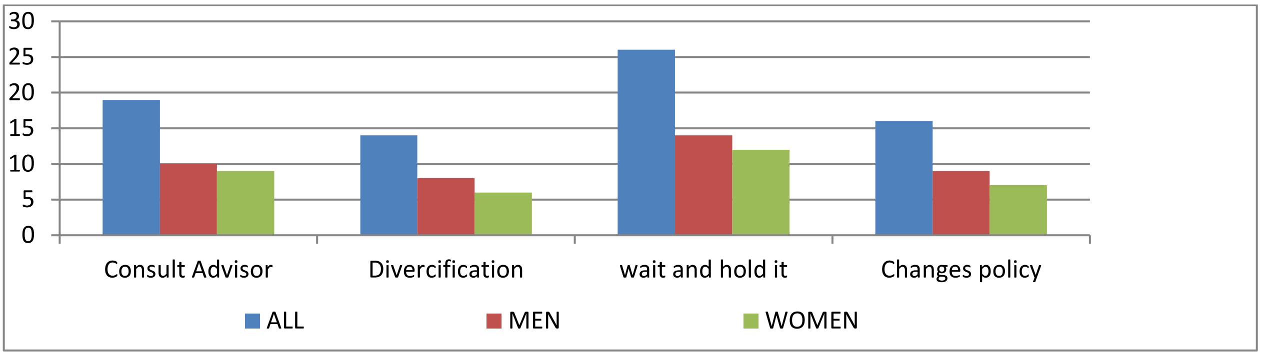

Table-9: Investment Avenue

Investment Avenue	75	100	51	100	24	100
Equity	31	41.33	21	41.17	10	41.67
Gold	07	09.33	05	09.80	02	08.33
Mutual Fund	17	22.66	11	21.56	06	25
Govt. Bonds	13	17.33	09	17.65	04	16.67
Corporate Bonds	07	09.33	05	09.80	02	08.33

Figure-9: Investment Avenue

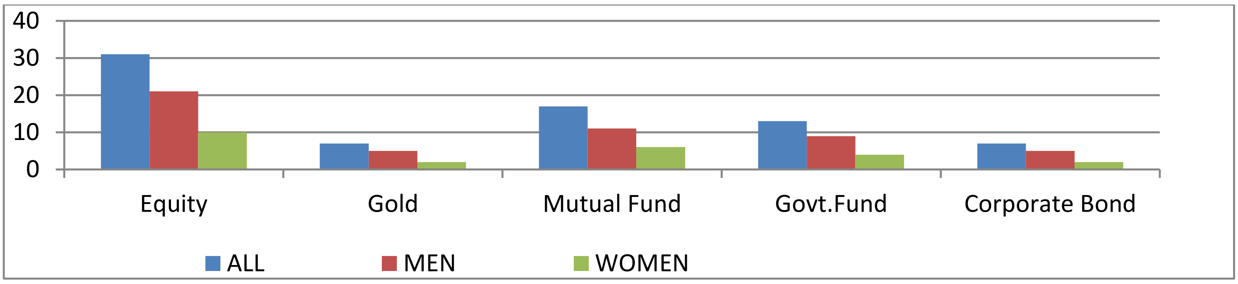

Table-10: Risk taking

Risk Taking	75	100	54	100	21	100
No Risk	11	14.67	08	14.81	03	14.28
Below average risk	10	13.33	07	12.96	03	14.28
Average risk	31	41.33	22	40.74	09	42.85
Above average risk	23	30.67	17	31.48	06	28.57

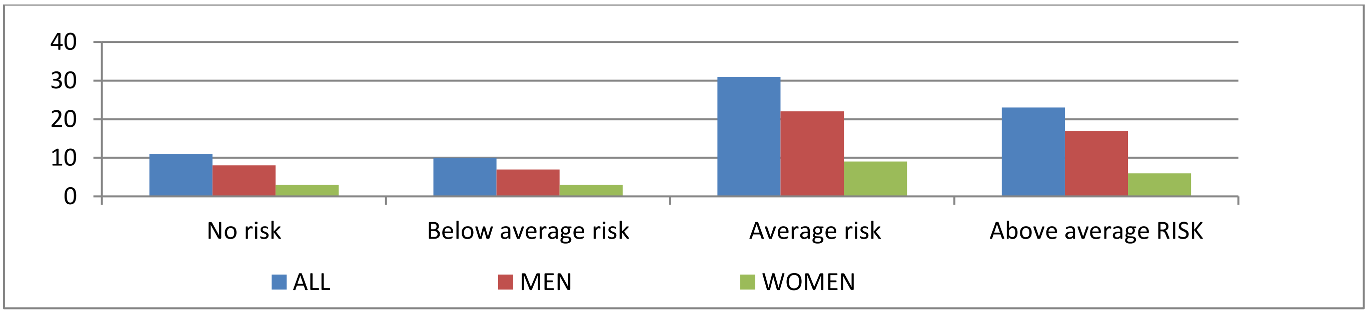

Figure-10: Risk taking

FINDINGS

From this analysis we have found such as:

- Investor consults with financial advisor before making investment decision.
- Investor getting financial information form financial advisor.
- Investors Previous 12 months investment activities are consults with financial advisor.
- Investors are taking average risk in this area.
- Investors taking action on economic condition before making investment decision.
- When return becomes below expectation, investors are wait and hold the share for some period.
- Investor's priority of stock is that equity and mutual fund.
- Most of the investors age is that 40-49 years.
- From this study investors from Bhubaneswar are very awareness about financial market.
- Most of the investor's educational qualification is bachelor degree.
- Most of the investor's profession is that businessmen.

CONCLUSION

The study on investor's stock selection process has been undertaken with the objective, to analyze the investment behavior of peoples in Odisha. Analysis of the study was undertaken with the help of survey conducted. After analysis and interpretation of data it is concluded that investors are medium aware about stock market, mutual fund, equity and debentures. Indian stock market is considered to be highly volatile, sensitive and reactive to unanticipated shocks and news and it takes no time to impact the market activities. However at the same time, Indian markets also recover soon after shocks. The role and importance of individual investors and their trading behavior in Indian stock market is also very crucial. From this study in Odisha investors are really following the behavior factors which influence the stock prices.

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