Impact of Behavioural Finance on Investors' Attitudes Towards Investment in Secondary Market

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ABSTRACT:
This research explores some of the unanswered important questions about stock markets that can be examined and investigated by an emerging field, behavioural finance. It also explains the factors responsible for the unusual movements in the stock markets, which could not be fully explained by the theories of traditional finance. This study shall examine three important attitudes displayed by the investors. They are: 'Expectations' those investors have about the future performance of the stock market in India; 'Confidence' that investors have regarding their investments; and 'Herd Instincts' so investors tend to herd together. Present study shall also analyze the Investors' preference towards traditional trading and online trading.

Keywords: Behavioural Finance, gross domestic product (GDP).

I. INTRODUCTION

The economic development of a nation is reflected by the progress of the various economic units, broadly classified into corporate sector, government and household sector. While performing their activities, these units are in a surplus /deficit/ balanced budgetary situations. There are areas or people with surplus funds or with a deficit. A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit [2].

The financial system or the financial sector of any country consists of specialized and non-specialized financial institutions, of organized and unorganized financial markets, of financial instruments and services which facilitate transfer of funds. The word 'system', in the term 'financial system', implies a set of complex and closely connected or interlinked institutions, agents, practices, markets, transactions, claims, and liabilities in the economy. The financial system is concerned about money, credit and finance. Money refers to the current medium of exchange or means of payment. Credit or loan is a sum of money to be returned, normally with interest. Finance is monetary resources comprising debt and ownership funds of the state, company or person [4].

Economic growth implies a long-term rise in per capital national output. The basic conditions determining the rate of growth are three- ‘Effort’, ‘Capital’ and ‘Knowledge’. In the post Second World War there has been an upsurge in the desire for economic growth following rapid political and other developments and increasing impatience in the countries of Asia, Africa and South America with their existing economic conditions. The keen desire for development has tended to minimize the significance of factors associated with ‘Efforts’.

As regards ‘Knowledge’ it is suggested that there already exists a vast amount of knowledge in developed countries. This reasoning has led to emphasis being placed on increasing capital formation as the most crucial factor in economic growth of the underdeveloped countries.

The rate of capital formation in the underdeveloped countries has for a long time been hardly adequate to provide even for a rate of growth of national output at par with the rate of population growth. While the developed countries have, with an average rate of population growth of 1.9 percent, been investing 15 % to 18% (gross/net) of their national income, the gross/net rate of investment in underdeveloped countries has been only 6% or 7% in the face of population growth at the rate of 2.9 % per annum [8]. Financial institutions, also called financial intermediaries, provide means and mechanism of transferring command over resources from those who have an excess of income over expenditure to those who can make use of the same for adding to the volume of productive capital. They, on the one hand, create claims in the form of their shares, debentures, deposits, etc., against themselves which they induce the savers to accept in exchange for their savings (claims on society for goods and services in the future). On the other hand, they acquire claims against the investors by investing in their shares and debentures and by granting direct loans to them. It is here that role of financial institutions can be traced. They provide a convenient and effective link between savings and investment. Financial institutions channel the funds mobilized by them to those who require more funds than they have, such as business firms.

Major problem facing a business firm is to approach thousands of small savers for raising desired amount of funds which means diversion from main business activity. On the other hand, those willing to save, say Rs. 25 a month, need a convenient outlet for their savings. Financial institutions provide just such an outlet. These institutions, while themselves raising resources from large number of small savers, make funds available to industrial concerns in relatively bigger lots and thus reduce their burden and botheration involved in raising resources directly from individual savers. This is why financial institutions are regarded as ‘gap fillers’ [24].

The economy of a country functions on the fundamental mechanism of savings and investment of financial capital into economic activities that help in the creation of economic wealth. Economic wealth in turn creates a conductive atmosphere for consumption that creates economic demand for goods and services thereby stimulating production and further investment. Therefore, this continuous economic cycle leads to growth in the economy which is usually measured by the gross domestic product or GDP.

The movement of capital in the economy from the savings pool to the investment pool is performed by two main platforms of institutional intervention- (a) the financial institution and banking framework and (b) the financial market framework. Banks and financial institutions on the one hand and the capital market on the other continue to co-exist and perform their respective functions as it is not possible for each of them to completely substitute the other in taking care of the needs of the economy. However, considering the fact that the capital market has a wider role to play beyond merely being a catalyst for capital creation, a developed and vibrant capital market is the backbone of a healthy economy [25].

As we know that capital markets play a vital role in Indian economy, the growth of capital markets will be helpful in raising the per-capita income of the individuals, decrease the levels of un-employment, and thus reducing the number of people who lie below the poverty line. With the increasing awareness in the people they start investing in capital markets with long-term orientations, which would provide capital inflows to the sectors requiring financial assistance. India has the third largest investor base in the world. India has one of the world's lowest transaction costs based on screen based transactions, paperless trading and a T+2 settlement cycle.

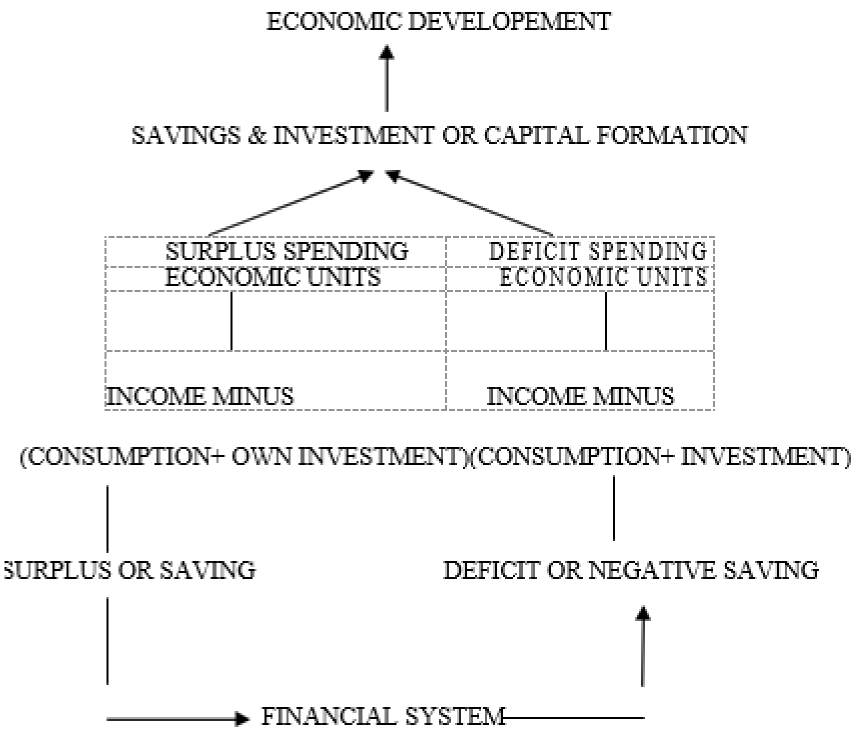

Fig. 1. Relationship between Financial System and Economic Development
Source: Bhole L.M., 2004, 'Financial Institutions and Markets'

II. INVESTMENT VERSUS SPECULATION

While it is difficult to draw the line of distinction between investment and speculation, it is possible to broadly distinguish the characteristics of an investor from those of a speculator as follows [5]:

Table 1. Distinguish between Investor and Speculator on the basis of Characteristics.

Characteristics	**Investor**	**Speculator**
Planning horizon	An investor has a relatively longer holding planning horizon. His period is usually at least one year.	A speculator has a very short planning horizon. His holding may be a few days to a few months.
Risk disposition	An investor is normally not	A speculator is ordinarily

	willing to assume more than moderate risk. Rarely does he knowingly assume high risk.	willing to assume high risk.
Return expectation	An investor usually seeks a modest rate of return which is commensurate with the limited risk assumed by him.	A speculator looks for a high rate of return in exchange for the high risk borne by him.
Basis for decisions	An investorattaches greater significance to fundamental factors and attempts a careful evaluation of the prospects of the firm.	A speculator relies more on hearsay Technic. al charts and market psychology.
Leverage	Typically an investor uses his own funds and eschews borrowed funds.	A speculator normally resorts to borrowings, which can be very substantial, to supplement his personal resources.

Markets exist to facilitate the purchase and sale of goods and services. The financial market exists to facilitate sale and purchase of financial instruments and comprises of two major markets, namely the money market and the capital market. The distinction between capital market and money market is that the former includes banks and other institutions advancing loans for short and medium periods, and the latter comprises institutions which grant long-term loans in different forms and for different purposes.
Capital markets facilitate the buying and selling of securities, such as shares and bonds or debentures. In the capital markets hundred of investors make several deals a day. The screen-based trading makes these deals known to all in the capital markets [19].
It has two mutually supporting and indivisible segments: the primary market and the secondary market. In the primary market companies issue new securities to raise funds, Hence it is also referred to the new issues markets. The secondary market deals with the second-hand securities; viz, securities that have

already been issued by companies that are listed in a stock exchange. Since the securities are listed and traded in the stock exchange, the secondary market is also called the stock market [13].

Capital market is, thus, important for raising funds for capital formation and investments and forms a very vital link for economic development of any country. The capital market provides a means for issuers to raise capital from investors (who have surplus money available from saving for investment). Thus, the savings normally flow from household sector to business or Government sector, which normally invest more than they save. A vibrant and efficient capital market is the most important parameter for evaluating health of any economy.

It is being observed that huge fluctuations are happening in Indian capital market in recent past, but with the help of proper mechanism, which is being observed in India and after examining various risk factors involved in capital markets, we attempt to say that the growth which has been observed in Indian capital market in recent past is a realty, but not a myth.

Till 1994, trading on the stock market in India was based on the open outcry system. With the establishment of the National Stock Exchange in 1994, India entered the era of screen-based trading. Online trading refers to trading through internet. In the Indian context, online trading can be rightly called as a recent phenomenon, and even till day online trading is not much popular among investors for which a list of factors can be blamed. This fact is clearer from the information available that where number of stock exchanges in India has grown from 7 exchanges in 1946 to total 23 stock exchanges till 2005, only two stock exchanges are providing online share trading. There is no denying the fact that internet trading offered investors convenience of trading along with reduced cost.

But Indian investors have not yet fully realized the importance of using technology for stock trading. Over the past two years, the value of all trades executed through internet on NSE has grown from less than Rs.100 Cr. to over Rs. 700 Cr. in June 2005. Online trading is gaining momentum with trading volume growing by 150 % per annum [26].

The movement of the Nifty 50, the most widely used indicator of the market, is presented in chart 1. The index movement has been responding to changes in the government's economic policies, the increase in FII inflows, etc. However, the year 2006-07 witnessed a favorable movement in the Nifty 50 Index, wherein it registered its all time high of 4224.25 in February 07, 2007. The point-to-point return of Nifty 50 was 12.31% for 2006-07.

Comparing the movement of the Nifty, Sensex and NASDAQ over 2008-09 (all indices rebased for 1 April 2008), as depicted in chart, it is seen that NASDAQ performed better than the Indian indices during most part of the year. The returns on the NASDAQ were negative 33% during 2008-09, while that on Nifty 50 and BSE Sensex were negative 36% and 38% respectively, over the same period. About 09-10, latest happening.

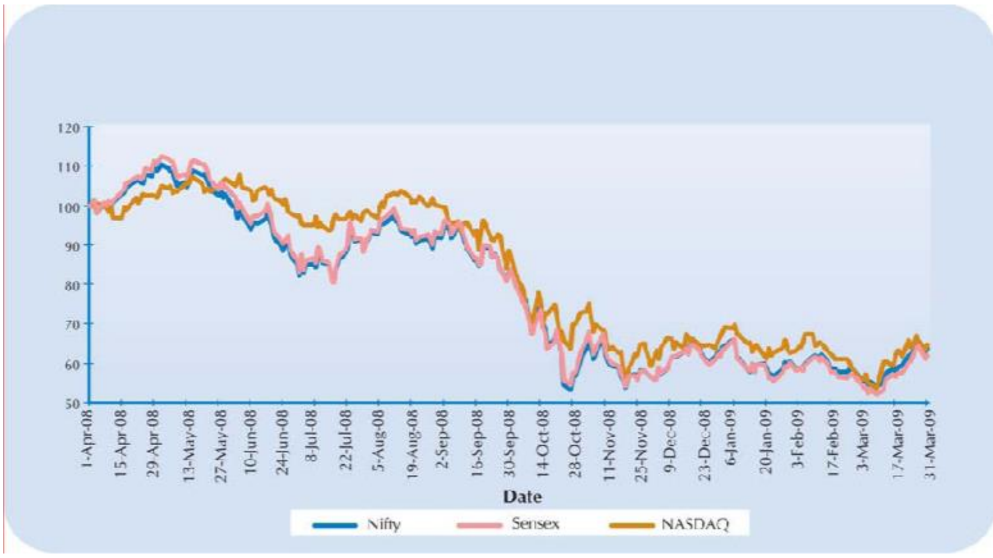

Chart 1. Movement of Nifty 50.

Source: Indian Securities Market- A Review, NSE, Volume X, 2009

An investment is a sacrifice of current money or other resources for future benefits. Numerous avenues of investment are available today. They fall into two broad categories: financial assets and real assets. The important financial assets are equity shares, corporate debentures, government securities, bank deposits, mutual fund shares, insurance policies and derivative instruments. Real assets are represented by tangible assets like residential house, commercial property, agricultural farm, gold, precious stones, and art objects.

Table 2. Savings of Household Sector in Financial Assets (%).

Financial Assets	2004-05	2005-06	2006-07	2007-08P	2008-09 #
Currency	8.5	8.7	10.2	11.4	12.5
Fixed Income Investment	85.4	83.9	80.6	78.2	89.5
Deposits	37.0	47.4	49.10	52.2	58.5
Insurance/Provident & Pension funds	28.9	24.2	28.80	27.9	29.6
Small Savings	19.5	12.3	2.7	-1.9	1.4
Securities market	6.0	7.2	6.9	10.1	-1.9
Mutual Funds	0.4	3.6	5.20	7.7	-1.8
Government Securities	4.9	2.4	0.3	-2.1	-4.5
Other Securities	0.7	1.2	3.70	4.5	4.4
Total	100	100	100	100	100

P-Provisional Figure, # Preliminary Estimate

Source- RBI

According to the RBI data, the household sector accounted for 84.8 % of gross domestic savings in fixed income investment instruments during 2006-07; which has increased in comparison to 83.9% in 2005- (Table 1 & 2). In fiscal 2006-07, the household sector has invested 55.7 % of financial savings in deposits, 24.2 % in insurance/provident funds, 4.9 % in small savings, and 6.5 % in securities market including government securities , units of mutual funds and other securities (out of which the investment in Gilts has been 0.2 %) Thus, the fixed income bearing instruments are the most preferred assets of the household sector.

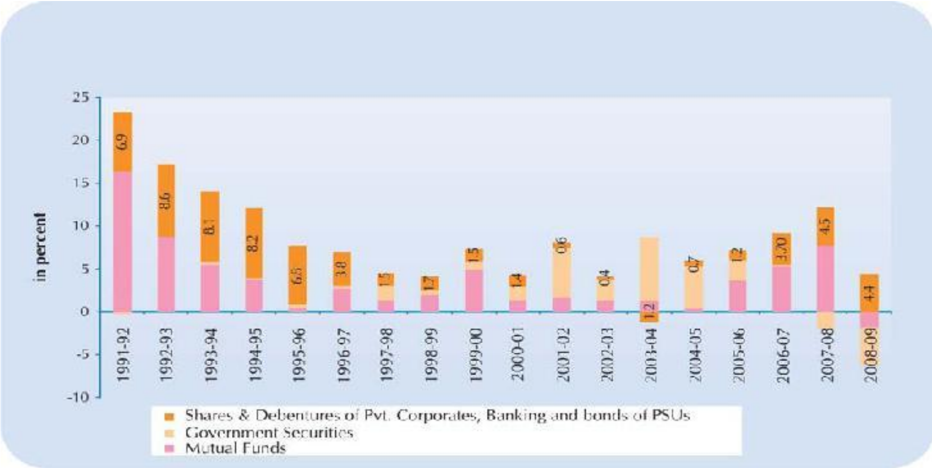

Chart 2. Savings of Household Sector in Financial Assets.

III. INDIAN HOUSEHOLD INVESTORS SURVEY–2004

The present study attempts to deepen our understanding of the household investors' problems, needs and concerns regarding investment in capital market instruments in particular.

The year 2001 was a particularly turbulent year for the Indian stock market. It was marked by a spectacular market crisis in March 2001 due to blatant market manipulation by a big market operator, Ketan Parekh, a la Harshad Mehta. Soon to

follow was another blow to the market due to a major crisis in the UTI's US-64 Unit Scheme. The year 2002 saw some reduction in the level of volatility and manipulation but considerable increase in the investors' concern about corporate governance.

Such increased concern was due to the winds blowing from the western countries, specially the U.S. The Enron and many other corporate scandals in the U.S. had a worldwide echo which reached Indian shores also. The severity of corporate governance reforms adopted in the U.S. made Indian authorities also to wake up.

More recently in India, the concern about price volatility and manipulation rose suddenly due to the wild gyrations of the Indian share index on May 17, 2004 (which came to be called 'Black Monday'). It was caused by large-scale net selling by FIIs on account of the prevailing political uncertainty at that time. Political stability was soon restored within a few weeks and the market sentiment went on improving appreciably thereafter. Nevertheless, such events surely increase the stock market's riskiness and to some extent dent the investors' general confidence.

An important point to be noted is that the winding up of US-64 scheme meant that a sizable chunk of investors went out of the mutual fund industry. This scheme was the only mutual fund scheme held by many households.

Retail investors have been encountering serious problems with the demat system. This has happened because the SEBI, in a hurry, made demat compulsory without giving due consideration to the realities of our socio-economic situation. The result is that India's demat system has not evolved as a voluntary business service, priced attractively for the mass of investors. It is heavily tilted in favour of speculators and large market participants but against the retail investors. Its effect has been to gradually push out the retail investors from the equity market. The demat system was never promoted by compulsion in the U.S. or U.K. It grew there gradually as investors became familiar with it and found it beneficial and economical to them.

The original objective of introducing the depository system was to eliminate the many irritating problems and costs (like back-and-forth transmission of millions of physical share certificates, bad deliveries, shares lost or stolen in transit, delay in share transfer registration, etc.).

It has undoubtedly solved these problems but, at the same time, the structure of demat charges has played mischief due to being highly biased against small investors. It has hurt them so much that they are tending to quit the equity market. This could not have been the SEBI's intention.

The number of shareholders having a depository account at the end of December 2004 is only a little over 70 lakh, whereas the total share owning individuals in India, as per independent estimates provided by the Society for Capital Market Research and Development and by SEBI-NCAER survey, is around 2crore. A significant percentage of respondents stated that they are unable to understand the demat system or that they find the procedure too complicated. Their problems deserve sympathetic consideration by simplifying the procedures.

The small investors are faced with a serious dilemma. On the one hand, if they demat the holding, they find that long-term holding of shares in demat form is often uneconomical due to annual account maintenance and custody charges. Both these charges have to be paid annually even when the return from holdings is negative or negligible. On the other hand, if they continue to hold paper certificates, they will have difficulty in selling their holding as and when they want because trading arrangements for paper certificates have been dismantled in haste without creating an alternative reasonably economical trading system. Hence, long term small investors are gradually quitting the equity market by becoming mostly sellers when market conditions become bullish, as in 2003 and 2004.

The over-all effect of the demat system has not been to attract a greater number of domestic retail investors into shareowners but the opposite. The demat system has been very attractive to the speculators and frequent traders**.** For this and other reasons, the speculative trading volumes have grown enormously but the percentage of annual households' financial saving flowing into direct shareholding and mutual fund schemes has fallen to a negligible level. What has fundamentally gone wrong with the depository system is that it is designed to cater mainly to frequent traders, speculators and large investors rather than to provide an economical paperless system for long-term holding of securities by the huge number of small investors (Conducted By Society for Capital Market Research & Development).

IV. INDIANS ARE WISE SAVERS BUT POOR INVESTORS

A recent nationwide survey of over 60,000 households by National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life has revealed that people in India do not plan for long-term future and keep away from investing in long-term instruments though they save for long-term goals such as emergencies, education and old age. The book, 'How India Earns, Spends and Saves' launched by Deputy Chairman, Planning Commission, Government of India, Montek Singh Ahluwalia, Feb. 6, which contains the findings of the survey, reveals that this phenomena is not just confined to just poor or middleclass households, but is prevalent in rich households too.

The survey reveals that most Indians prefer keeping 65 percent of their savings in liquid assets like bank or post office deposits and cash at home, while investing 23 percent in physical investments like real estate and gold and only 12 percent in financial instruments. For getting secure return on their earning, 51 percent of Indians put their savings in the banks while 36 percent of households still prefer to keep cash at home. The investment in post offices and other guaranteed return schemes and plans gets minor part of total savings. Only 5 percent of family put their money in post offices, while 2 percent buy insurance policies and 0.5 percent invests in equities. Interestingly, though life insurance is among the most popular financial instruments (about 78 percent of the households are aware of life insurance), yet only 24 percent of households have a life insurance policy. The ownership is 38 percent among urban households but a low 19 percent among rural households.

The survey, which covered 342 towns and almost 2,000 villages across 250 districts and 2,255 wards, suggests that Indian households have a strong saving habit. While income level is an important factor in influencing the saving patterns of households, variations in savings behavior are equally decided by education level and occupation, said Dr. Rajesh Shukla, principal author of the report and Senior Fellow at NCAER.

According to the study, 83 percent of the households surveyed saved for emergency, while children's education (81 percent) was the other key priority. While only 69 percent households saved for old-age financial security, 63 percent households said they kept aside money to meet future expenses like marriage, births and other social ceremonies.

The study also notes that nearly 47 percent households saved to buy or build a house and a similar percentage saved to improve or enlarge their business. Only 22 percent households saved to buy consumer durable and 18 percent for meeting expenses towards gifts, donation or pilgrimage. The survey findings confirm the wide disparity between urban and rural people. On an average, the urban Indian earns 85 percent higher than his or her rural counterpart, spends 71 percent more and saves nearly double - Rs.26, 762 compared with Rs.11, 613- every year.

According to the survey, a person's occupation, education, age, location and landholding directly influence his or her income. Households with graduates earn 3.5 times more than those with illiterate ones, and incomes nearly double between the ages of 25 and 66. While salaried class households, which constitute only 18 percent of the total households in the country "accounted for greatest proportion of savings" and are the cream of urban India, agriculturists with land are the richest in rural areas. Wage laborers are the poorest anywhere, comprising 62 percent of the lowest-income households.

"The highest savings (in terms of per household) are in the 56-65 age group where savings are Rs.21, 196 per household, or 25 percent of the annual income," the study notes. The two main factors responsible for higher savings with growing age according to the survey are motivation to save and the need to meet old-age requirements.

The survey also suggests a direct link between the education and savings by pointing out that households headed by graduates had highest level of savings in both absolute terms and as a percentage of income. The survey notes that households managed by persons in 56-65 age group, kept bulk (57 percent) of their savings in liquid assets, though they also invested the surplus funds in shares and debentures.

Interestingly, the survey reveals that the households headed by persons in the age group of 26-35 years, paid more insurance premium than their senior counterparts. Households headed by graduates spent more on buying insurance around 10.2 percent, while merely 3.5 percent preferred investing in shares or debentures, the survey says.

"Indians prefer to save money in 'in-house savings' rather than 'in banks or investment.' They save money for emergency and any miss happening," the study notes. The reason behind this is because unlike in the western and developed countries, which have the system of social security that prevents the

poor households from starvation and ill-social society by giving social protection and economic support, "there is no social security in the country (India) for the citizens of the nation," the study explained.
The sample size included 63,016 households, equally divided between rural and urban areas.
"The habit of savings is good, but the way of savings is not good enough as only a meager part of total savings come under the government account that is not enough to conduct various plans properly," said Ahluwalia, commenting on the survey results.
The survey also reveals that 96 percent of the households cannot survive beyond a year on their current savings in case of loss of income due to some eventuality such as death or disability of the chief earner. However, a majority of those surveyed expressed confidence in their financial well-being. Lack of awareness of their financial preparedness for income loss predicated their ignorance of the more viable channels for long-term investment. (Survey by Surojit Chatterjee).

V. JUSTIFICATION OF THE STUDY

Investments are defined as "the tradeoff of the present consumption for a higher level of future consumption". Those who give up immediate possession of savings (defer current consumption) in the expectation of receiving a greater amount in future are called investors. Whenever a person is investing, he is exchanging the present cash outflow with a future cash inflow. While present is certain, future is uncertain. This means that while the cash outflow is certain, the future cash inflow is uncertain, and if the future cash inflow is not certain the investor is exposed to risk.
Risk taking involves the selection of options that might result in negative outcomes. All investments involve risk. Various forms of investment are available to an investor. Whether it's retiring early, saving for children education or paying off a loan, everyone has dreams they can achieve by investing their savings. Deciding where to invest depends on the investors' attitude towards risk and their investment horizon.
Depending on the risk profile of an investor, i.e. age profile and expected returns, proportion of each category of the total investment would vary. For instance, the risk appetite of a 25 old person would be higher when compared to a 40-year-old working executive. For the former, the equity component is likely to be on the higher side and for the later, the real estate, fixed deposits and cash component would be proportionately higher. Investment in India has traditionally meant property, gold and bank deposits. The more risk-taking investors choose equity trading. The post 1991 era has witnessed some vibrant changes in the Indian business environment. The number of initial public offerings (IPOs) coming in, rising market capitalization, and emergence of domestic mutual funds witnessed the changing outlook of the Indian investment environment. Over the period, these developments also changed the perception of retail investors towards stock market investment.
This resulted in a mounting number of retail investors in Indian stock markets over the last few years, but a recent study on the shareholding pattern of the 30 firms has revealed that promoters and institutional investors hold large chunks of shares in a majority of the Sensex companies, leaving only a minuscule share for small investors. In 23 of the 30 Sensex companies, shareholding of retail investors is less than 15 percent of the total shareholding. The highest retail presence is in Cipla, where small investors account for 24 percent shareholding. Cipla is followed by engineering firm Larsen & Toubro (23%) and Tata Steel (21.49%) (Ahmedabad Mirror 21st April 2008).
This study makes an attempt to analyze the investors' attitude towards secondary market equity investments and their preference for online trading over traditional trading of securities through brokers.

It is also important to know the various factors which are responsible for the investment decisions under uncertainty. Whether it is broker's advice or watching the expert opinions on television or previous return of the company or the recommendations of friend / relatives or self analysis, all these factors have impact on the investors.

Apart from the factors affecting the investment decisions, we can easily find that the investors behave irrationally in the stock markets. For example- As the positive information of excess subscriptions of an IPO comes, more investors enter the bandwagon. When prices of the stocks start soaring, everyone is thinking of the same thing: I am going to sell on listing and book the profits. Are financial markets so predictable?

It is hard to believe that people in the financial market, even though they can be very skilled, could always process information accurately without letting human nature to affect their behavior. The traditional finance theorems and concepts failed to predict the market behavior.

A new area of financial research, Behavioral Finance is receiving a lot of attention from individual and institutional investors. Behavioral finance draws inputs from the field of psychology and finance in an attempt to understand and explain irrational stock market and investor behavior.

At the end of March 2010 a total number of 363 members were permitted to allow investor's web based access to NSE's trading system. The members of the exchange in turn had registered 51,43,705 for web based access as on March 31, 2010. On the capital market segment, the trading volume of Rs. 9,21,380 crore during the year 2009-10 constituting 11.13 of total trading volume was routed and executed through the internet.

The following table 3 shows the growth of internet trading for the fiscal years 2006-07, 2007-08,2008-09 and 2009-10).

Table 3. Growth of Internet Trading.

Year	Enabled Members*	Registered Clients*	Internet Trading Volume (Rs. crore)	% of total Trading volume
2006-07	242	22,79098	3,37,554	17.35
2007-08	305	4405,134	668,399	18.82
2008-09	349	5,627,789	692,789	25.17
2009-10	363	5,143,705	921,380	11.13

Source: NSE-Fact Book 2010

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Chart 3. Growth of Internet Trading: NSE-Fact Book 2010.

VI. RESEARCH OBJECTIVES

For conducting this research following objectives were set:

To evaluate investors' attitude towards stock market operations in cash and derivative segments.

To analyze the investors' preference towards traditional trading and online trading in cash and derivative segments.

To study the problems (both actually faced and anticipated) of investors.

To suggest appropriate strategies to investors for taking right investment decisions in stock market.

VII. HYPOTHESES

The following Null Hypotheses were set up for the present study:

1. Retail Investors' are not aware about functioning of capital markets.
2. Retail Investors do not prefer online trading.
3. Investors with speculative attitude are not influenced by technical factors.
4. Heuristic driven biases have no relationship with speculative attitude among investors.
5. Investors' level of awareness has no association with heuristic driven biases.
6. Heuristic driven biases do not influence speculative attitude as much as technical analysis do.

VIII. RESEARCH METHODOLOGY

Research is an organized and systematic way of finding answers to questions. Redmen and Mory define research as a "systematized effort to gain new knowledge" (L.V. Redmen and A.V.H. Mory, The Romance of Research, 1923, p10). It is a careful and systematic study in the field of sknowledge, undertaken to establish facts of principles (Grinnel, 1997).

Applied research aims at finding a solution for an immediate problem facing a society or an industrial / business organization, whereas fundamental research is mainly concerned with generalizations and with the formulation of a theory [15].

The aim of this study was to find out factors affecting investors' attitude towards secondary market equity investments, hence applied research was carried out as it was designed to apply its findings to a particular situation. Questions might be designed to gather either qualitative or quantitative data. By their very nature, quantitative questions are more exact than qualitative. For example, the word "easy" and "difficult" can mean radically different things to different people. So, the approach used was quantitative and based on collecting, interpreting, summarizing and analyzing numerical data.**75**

Positivist paradigm is the philosophy on which the current study was based and the overall methodology used was deductive. Within deductive methodology there are various types of methods like descriptive survey and analytical survey. "Descriptive survey is concerned with identifying and counting the frequency of a specific population, either at one point in time or at various times for comparison" (Bell, 1997). The descriptive research approach was considered best for the current research because this study intended to accomplish the aims by using descriptive statistics.

The descriptive research approach gives a variety of methods and the one that was considered suitable for this study was the survey method. Survey method was chosen because of the need to get details from a large number of respondents and as it is not limited to seven or eight respondents as in the case of focus groups. The research instruments used for the study were questionnaires.

Statistics is indispensable in research work. Most of the advancement in knowledge has taken place because of experiments conducted with the help of statistical methods. In fact, there is hardly any research work today that can find complete without statistical data and statistical methods.

Depending upon the source, statistical data are classified under two categories-

1. Primary data
2. Secondary data

The Primary data are those which are collected afresh and for the first time, and thus happen to be original in character. The secondary data, on the other hand, are those which have already been collected by someone else and which have already been passed through the statistical process.
In this research study, both the primary and secondary data was used to get adequate information for the achievement of the research objectives. Many methods and procedures have been developed to help in acquiring data. The basic methods and tools for data collection for research include observation, questionnaire, interview and projective technique [14].

A. Sampling Method

"Sampling is one of the major tools of marketing research, which is concerned with collecting, analyzing, and interpreting market data. It involves the study, in considerable detail, of relatively small numbers of informants taken from a larger group"[1]. Sampling is simply the process of learning about the population on the basis of a sample drawn from it. Thus, in the sampling technique instead of every unit of the universe only a part of the universe is studied and the conclusions are drawn on that basis for the entire universe (Research Methodology, ICFAI April 2004).
Jain
The process of sampling involves 4 stages:

- Defining the population
- Identify a suitable sampling frame based on the research objectives
- Decide on a suitable sample size
- Select the most appropriate sampling technique and obtain the sample.

The various methods of sampling can be grouped under two broad heads –
Probability Sampling (Random Sampling)
Non-Probability Sampling (Non-random Sampling)
Probability methods are those in which every item in the universe has a known chance, or probability, of being chosen for the sample. This implies that the selection of sample items is independent of the person making the study. Non-Probability sampling methods are those which do not provide every item in the universe with a known chance of being included in the sample [15]. The current study shall be using non-probability sampling. With in non-probability sampling, convenience sampling would be used. In convenience sampling, members of the population are chosen based on their relative ease of access.

B. Sample Size

The size of the sample depends on the type of information required from the survey, and the cost involved. This means calculating before hand the degree of accuracy required in the results of the survey. Some attributes may be more critical than others, and the degree of precision over these should be known. Careful thought should be given to time-constraint. Cost and accuracy are closely linked with the time taken to complete the survey, and to some extent there is bound to be conflict. Considering all these factors, the sample size included was 494.

C. Scale

The study used a variety of questions to find out complete information about the topic under research. The questionnaire for the study was drawn from a study conducted by Dr. Harsh Purohit (2002) on the theme 'Investors Attitude towards Stock Market Investment with special reference to Bhopal and Jaipur Cities'. The study was the first of its kind after Nobel Prize award in behavioral finance to Prof. Kahnemen and experimental economist Vernon Smith is seen by many as a vindication of the field of the behavior finance.

Apart from dichotomous and multiple-choice questions, the questionnaire also included statements which the respondents were required to rate on the basis of different scales like the Likert scale and rating scale.

D. Secondary data collection

Initially it had been assumed that the secondary data would be readily available. The secondary data was collected from the journals, books, magazines, published reports and web portals. Secondary data on the history of stock market was collected from official websites of Bombay stock exchange (www.bseindia.com) and National Stock Exchange (www.nse-india.com). Business magazines and some newspapers like 'The Times of India', 'The Economic Times', and 'The Financial Express' were used for the update of current trends in the stock market.

These days many companies are trying to increase their client-investors in Indore and Ujjain cities so the brochures and pamphlets are easily available and used to understand the online trading concept, intraday trading and procedure for share trading through brokers.

Many books, journals related to behavior finance, News channels like 'CNBC' & 'Awaaz' were followed to know the various share market terminology, Sensex calculation, investment in mutual funds and derivatives. Some reports like RBI bulletin, SEBI guidelines regarding share market investments, CMIE reports, norms for stock exchanges in Indian budget etc. were also used as a secondary data. The collection of data from secondary sources was not just limited to the initial stages but continued while primary research was in proress.

E. Primary data collection

Primary information was collected by the administration of structured questionnaires to find out investors attitude towards share market investments. Present study was also an attempt conducted to find out the trend of online trading in Indian stocks. For conducting this study, first step was to collect random sample.

As this study was mainly based on primary data, so for conducting it investors' responses were collected through pre-determined set of questions in the form of well designed questionnaire. The questionnaire had multiple-choice questions. Considering all the factors and constraints, the sample size chosen for the current study was 494. The data was collected from retail investors' which were categorized on the basis of income levels, gender, age, and awareness level. In the second stage total sample was further bifurcated in two categories-First category included those investors who deal in internet trading (Net Traders) and second category included those investors who purchase/sell securities only through brokers (Traditional traders).

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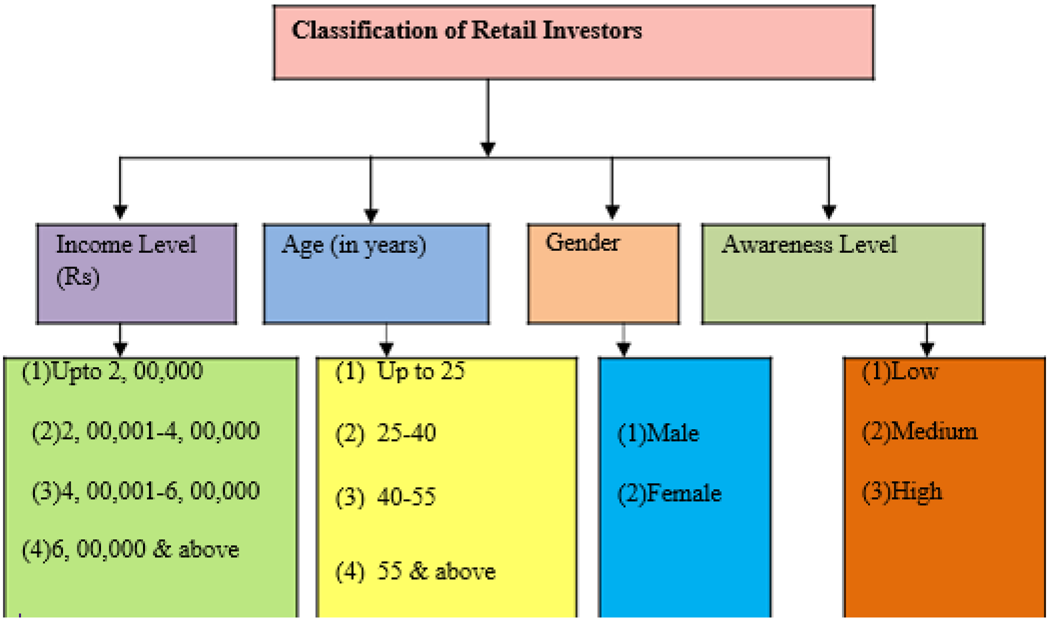

Chart 4. Classification of retail investors' on the basis of socio economic status for the current research.

The research findings were tabulated and illustrated with the help of bar diagrams, pie charts and other graphical representation tools. The hypotheses were tested using the one-tailed Z test. For a smooth and accurate analysis of the data, MS-Excel was also used.

IX. LIST OF CHAPTERS

The research project has been presented in the conventional form as laid down by the University with separate pages for the following - cover sheet, title, acknowledgements, abstract, contents, list of tables and figures.

The current chapter of the research is introductory in nature which introduces the areas under research, the reasons for choosing the particular area of research, the research aims, method of sampling, data collection, data analysis, and overall research.

The second chapter highlights the factors affecting investors’ attitude towards secondary market equity investments. Further, already known details about investors’ behaviour that leading authors have published in the print and online media have been discussed.

The various methods and approaches used for carrying out the research form a major part of the third chapter entitled Research Methodology. This chapter also justifies the reasons for adoption or rejection of different research methods in detail.

The fourth chapter presents the processed data using tables and charts. The hypotheses are tested in this chapter using statistical methods. A summary of findings is also included in the chapter.

Conclusion and Recommendations is the last chapter of the research study. It also includes a discussion about the whole study and the proposed future work. It comprises a detailed analysis based on the findings of the research study, and the implications that the recorded theory had on the present study.

Apart from the above-mentioned sections, the research study also includes a reference list at the end of each chapter and a full-fledged bibliography at the end of the research study. Sample questionnaires and certain useful appendix are also included at the end.

X. BUSINESS/MANAGEMENT IMPLICATIONS OF THE STUDY

It is the law of gravity. The fall is always sharper than rise. The benchmark Sensex that took 7 months to come down from 15130 (July 2008) to its all-time low peak of 9724 (Feb 2009,) marks has grown up again to same level (18237) in 12 months (Jul 2010).

Fear of an economic slowdown, inflation, high commodity prices, reduced capital inflows, selling by foreign institutional investors (FIIs), higher interest cost and global recessionary expectations has a major impact on the stock market.

It’s a fact that only few investors create immense wealth from a stock market and also manage to keep it for decades. These investors take the right decisions and for doing this one needs experience. But experience comes from bad decisions too. Investors who create wealth from equity markets and keep it for decades, at times for generations, do not panic when a market falls.

They learn from their mistakes and capitalize their investments during the next rise. With struggle becoming intense and areas of achieving better earnings becoming dilute, it is highly necessary for individuals to search for newer and better ways of improving their return.

Managing money is a difficult skill for most people, but it’s one of the most important skills to have. The current study could help to understand investors’ level of satisfaction with their current investment patterns and the psychology that works behind equity market investment decisions. As Warren Buffett, the most successful investor, writes, “To invest successfully over a lifetime does not require a stratospheric IQ, unusual business insights, or inside information. What’s needed is a sound intellectual framework for making a decision and the ability to keep emotions from corroding that framework.”

The elaborate literature review, testing of model etc. done in academic researches like the present one could help in giving key information to retail investors and decision makers. Such academic researches are cost effective and cover extra areas that are normally not covered in commercial research. This study suggests appropriate strategies to investors for taking right investment decision in stock market and dwells on the basic guidelines for investment decisions.

This research explores some of the unanswered important questions about stock markets that can be examined and investigated by an emerging field, behavioral finance. It also explains the factors responsible for the unusual movements in the stock markets, which could not be fully explained by the theories of traditional finance. This study shall examine three important attitudes displayed by the investors. They are: ‘Expectations’ those investors

have about the future performance of the stock market in India; ‘Confidence’ that investors have regarding their investments; and ‘Herd Instincts’ so investors tend to herd together. Present study shall also analyze the Investors’ preference towards traditional trading and online trading.

XI. DELIMITATIONS

1. The study area of this research is confined to Indore and Ujjain cities only and may not give similar results when generalised to other regions. Investors included here are only literate males & females and not housewives.
2. People have many reasons to invest their money in different investment alternatives. It should be noted that social, cultural, economic, political, demographic factors may strikingly differentiate the behavior of investors when investing in stock market.
3. The current research only covers factors affecting investors’ attitude towards secondary market equity investment in particular and primary market & risk free securities in general, thus results may not be general and applicable to investors’ attitude towards primary market investment.
4. The study is limited to retail investors classified on the basis of income levels, gender, awareness level and age only. Since the study was of financial nature, the information about online trading preference, investment in secondary market, problems faced by the investors etc. are based on the data provided by the respondents. The reliability and the precision of the findings are thus based on the information that was made available by them. The investors may not follow what they have stated in their responses. Thus, the degree of reliability cannot be taken to be always correct.
5. One more limitation is that convenient sampling technique is used and the sample size is too small to come to any conclusion.

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