A STUDY ON THE INVESTMENT DECISION RATIONALITY OF RETAIL EQUITY INVESTORS IN CAPITAL MARKET

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ABSTRACT
Capital market is the one of the vital supporting elements of any country’s economy. The recent years has witnessed several reforms in the Capital market. The trading platform has become electronic, automatic, nation-wide and screen based. Gestures and shouting have yielded place to punching and clicking. On any trading day, more than 10,000 terminals come alive, in 400 towns and cities which means that information is flashed on real time basis. Equal opportunity is provided for all those who are wishing to invest in the capital market. Almost 100 % of the trades are in D-mat form. Thus, investing in capital market is not an intricate one. But it is noticeable that the retail equity investors are facing the problem of losses from investments in capital market. The main reason for the problem faced by retail equity investors is about the investment decisions made by them in various investments in capital market. So it is necessary to study about the investment decisions of investors as their losses in investing in capital market will cause harm to the economy of the country. This paper examines about the investment decision rationality of retail equity investors and about various factors influencing their investment decisions.

Keywords: D-mat; Terminals

INTRODUCTION
Investment is the sacrifice of certain present value for the uncertain future reward. It entails arriving at numerous decisions such as type, mix, amount, timing, grade etc of investment and disinvestment. Further, such decision – making has not only to be continuous but rational too. Broadly speaking, an investment decision is tradeoff between risk and return. All investment choices are made at points of time in accordance with personal investment ends and in contemplation of an uncertain future. Investors in securities will, from time to time, reappraise and re-evaluate their various investment commitments in the light of new information, changed expectations and ends. Investment means a person’s commitment of funds towards his future life. It is an economic activity. It refers to acquisition of assets which generates income. Investment is the employment of funds with the aim of achieving additional income or growth value. The essential quality of investment is that it involves waiting for a reward.

STATEMENT OF THE PROBLEM
Transparent, vibrant and efficient secondary market is necessary to provide avenue for deployment of savings and also to prop up the primary market, to mobilize savings for investments needed for capital
formation and economic growth. It helps the economic system to find the fuel it requires to accelerate
the growth Capital market helps a company to go public through which is the cheapest mode of
finance. It also gives the market participants the opportunity to offload their holdings in the secondary
market.

In the present scenario capital market especially the equity market is showing a positive trend. Long
term and short term investors are present in the market. The source of funds, the leverage, risk taking
ability, behavior and satisfaction varies between investors. The most crucial challenges faced by
Investors are in the area of Investment Decisions. Some investors take investment decision rationally
on the basis of various factors while some will take investment decision irrationally. The study would
help to analyze the investment decision of investors.

REVIEW OF LITERATURE

Finance

Finance can be described as the monetary resources of a company, individual or institution. It is
termed as the life blood of a firm. It also means arranging supply of money or credit at the time it is
wanted. Acquiring and employing fund is financing or financial activity.

Meaning of Investment

Investment involves employment of funds with the aim of achieving additional income or growth in
values. The essential quality of an investment is that it involves waiting for reward. Investment
involves the commitment of resources which have been saved in the hope that benefits will accrue in
future. In the financial sense, investment is the commitment of a person’s funds to derive future
income in the form of interest, dividend, premiums, pension benefits or appreciation in the value for
their capital. In the economic sense, investment means the net addition to the economy’s capital stock
which consist of goods and services that are used in the production of other goods and services.

Investment is parting with one’s fund, to be used by another party, user of fund, for productive
activity. It can mean giving an advance or loan or contributing to the equity (ownership capital) or debt
capital of a corporate or non- corporate business unit. Generalized, investment means conversion of
cash or money into a monetary asset or a claim on future money for a return. This return is for saving
(as abstaining from present consumption), parting with saving or liquidity (to be rewarded for waiting
for a future consumption) and lastly for taking a risk involving the uncertainty about the actual return,
time of waiting and cost of getting back funds, and risk of the variability of the return.

Retail Investor

Retail investors are those who buy and sell securities for their personal account, and not for another
company or organization. Retail investors are also known as an "individual investor" or "small
investor".

Retail investors buy in much smaller quantities than larger institutional investors. A retail investor is
an individual investor possessing shares of a given security. Retail investors can be further divided into
two categories of share ownership.

1. A Beneficial Shareholder is a retail investor who holds shares of their securities in the account
   of a bank or broker, also known as “in Street Name.” The broker is in possession of the
   securities on behalf of the underlying shareholder.

2. A Registered Shareholder is a retail investor who holds shares of their securities directly
   through the issuer or its transfer agent. Many registered shareholders have physical copies of
   their stock certificates.
Capital Market

Capital market may be defined as a market for borrowing and lending long-term capital funds required by business enterprises. Capital market is the market for financial assets that have long or indefinite maturity. Capital market offers an ideal source of external finance. Capital market forms an important part of a country’s financial system too.

Capital market represents all the facilities and the institutional arrangements for borrowing and lending medium-term and long-term funds. Like any financial market, capital market is also composed of those who demand funds (borrowers) and those who supply funds (lenders).

Equity Shares/Securities

Equity shares are commonly referred to common stock ordinary shares. Even though the words shares and stocks are interchangeably used, there is a difference between them. Share capital of a company is divided into number of small units of equal value called shares. The term stock is the aggregate of a member’s fully paid up shares of equal value merged into one fund. It is a set of shares put together in bundle. The “stock” is expressed in terms of money and not as many shares. Stock can be transferred like shares.

Equity shares/capital represents ownership capital and its owner’s ordinary shareholders/equity holders share the reward and risk associated with ownership of corporate enterprises. It is also called ordinary share/capital in contrast with preference to shares, which carries certain preference/prior rights with regard to income and redemption.

Share certificate means a certificate under the common seal of the company specifying the number of shares held by any member. Share certificate provides the prima facie of title of the members to such shares. This gives the shareholder the facility of dealing more easily with his shares in the market. It enables him to sell his shares by showing marketable title.

Features Of Equity Shares

- Ownership evidence: When investors purchase equity shares they will get certificate of ownership as proof of their ownership.
- Voting rights: Equity shares carry a special right for voting, a right to get notice for the annual general meeting etc.
- Residual claim: It is an outstanding claim, as creditors and preference share holders are obliged to be paid ahead of equity shareholders.
- Pre-emptive right: It means the in-built right of shareholder, to keep his fair share of the resources, earnings and power of the corporation. This means the organization offers new shares to its existing shareholders before offering new shares to its existing shareholders before offering it to the open market.
- Tax benefits: Dividend from an Indian company is exempted under the provisions of Income Tax Act.

Equity shares have the following rights according to section 85 (2) of the Companies Act 1956.

1) Right to vote at general body meetings of the company.
2) Right to control the management of the company.
3) Right to claim on the residual after repayment of all the claims in the case of winding up of the company.
4) Right to pre-emption in matter of issue of new capital.
5) Right to receive a copy of the statutory report, copies of annual audited report.
6) Right to apply to the court if there is any discrepancy in the right set aside.

7) Right to apply the central government to call an annual general meeting when a company fails to call such a meeting.

8) Right to share profits in the form of dividend and bonus shares.

9) Right to apply the Company Law Board for calling an extraordinary general meeting.

In the limited company the equity shareholders are liable to pay the company’s debt only to the extent of their share in the paid up capital.

**Investment Decision-An Overview**

In the stock market parlance, investment decision refers to making a decision regarding the buy and sell orders. These decisions are influenced by availability of money and flow of information. What to buy and sell will also depend on the fair value of a share and the extend of overvaluation and undervaluation. For making such decision the common investors may have to depend more upon a study of fundamentals rather than technical, although technical are also important. It is necessary for a common investor to study the Balance sheet and Annual report of the company or analyze the half yearly results of the company and decide on whether to buy that company’s shares or not. This is called fundamental analysis. The decision of what to buy is easier, and if investors are turned to making fundamental analysis, then the decision making becomes scientific and rational.

The fluctuation of the stock prices in stock market is not new for the investors. This movement is forecast on the basis of different models of conventional finance. Almost 40 years one model was supposed to be the best to forecast the asset prices, i.e. EMH (Efficient Market Hypothesis). With this model some other models are there such as CAPM (Capital Assets Pricing Model) and Portfolio Theory Model. Since mid 1980s these models were not enough to explain the anomalies in asset pricing and movements in the stock market so a new approach in finance has been emerged i.e. Behavioural Finance. Behavioural Finance has the basis of psychology, sociology and anthropology to explain these anomalies in the stock market. Behavioural Finance states that investors do not make decisions fully on the basis of rationality. As we all know that in stock market asset pricings are information that is decided through the process of demand and supply, the main element to this demand and supply is investors. So to understand and predict the asset pricing near to the accuracy, we have to understand the psychology of investors while making decisions.

**OBJECTIVES**

1. To investigate whether the investment decisions in Capital market made by investors are rational or not.

2. To discover various factors influencing the investment decision while making decisions.

3. To make suggestions and recommendations based on the findings of the study.

**HYPOTHESIS**

H₀: The investment decisions in stock market made by investors are not rational.

H₀: There is no significant relationship between amount of investment and factors influencing on investment decision.

**RESEARCH METHODOLOGY**

Research methodology provides various steps that can be adopted by the researcher in studying his research problem. Primary and secondary data are used for this study. Primary data were collected from retail equity investors. For this purpose a structured, closed ended questionnaire was used as a tool for data collection. Secondary data are collected from various books, journals, newspapers, websites and other published sources.
Sampling Technique

For the purpose of the study convenience sampling technique was adopted for the sample selection. It is also known as judgment sampling technique. Under this technique the selection of the sample entirely depends upon the discretion of the investigator.

Sample Area

The Kottayam district of the state of Kerala is decided as the sample area of the study.

Sample Size

There are large number retail equity investors in this area. Census study is not possible as the population is large. As a result sample study is used and Primary data were collected from 70 respondents.

Techniques of Analysis

The primary data were analyzed by using statistical tool like graphs and percentages. The hypotheses were tested by using Chi square.

DATA ANALYSIS AND INTERPRETATION

Table 1. Age wise classification of the respondents

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-30</td>
<td>22</td>
<td>31.4</td>
</tr>
<tr>
<td>31-40</td>
<td>25</td>
<td>35.7</td>
</tr>
<tr>
<td>41-50</td>
<td>11</td>
<td>15.7</td>
</tr>
<tr>
<td>51-60</td>
<td>4</td>
<td>5.7</td>
</tr>
<tr>
<td>61-70</td>
<td>7</td>
<td>10.0</td>
</tr>
<tr>
<td>71-80</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 35.7% of the respondents belong to the age group 31-40, 31.4% belong to the age group 20-30, 15.7% belong to the age group 41-50, 10% belong to the age group 61-70, 5.7% belong to the age group 51-60 and remaining 1.4% belong to the age group 71-80.

Table 2. Sex wise classification of respondents

<table>
<thead>
<tr>
<th>Sex</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>51</td>
<td>72.9</td>
</tr>
<tr>
<td>Female</td>
<td>19</td>
<td>27.1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 73% of the respondents are male and 27% of the respondents are female.

Table 3. Education level of respondents

<table>
<thead>
<tr>
<th>Education</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher secondary</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td>Degree</td>
<td>40</td>
<td>57.1</td>
</tr>
<tr>
<td>Post Graduate</td>
<td>27</td>
<td>38.6</td>
</tr>
<tr>
<td>Others</td>
<td>1</td>
<td>1.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 57% of the respondents have Degree level education qualification, 39% of the respondents have Post graduate level education classification, 3% of the
respondents have Higher secondary level education classification and remaining 1% have other educational qualification

Table 4. Half yearly income of the respondents

<table>
<thead>
<tr>
<th>Income</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Below 1 lakh</td>
<td>10</td>
<td>14.3</td>
</tr>
<tr>
<td>1 lakh- 2 lakh</td>
<td>17</td>
<td>24.3</td>
</tr>
<tr>
<td>2 lakh- 5 lakh</td>
<td>41</td>
<td>58.6</td>
</tr>
<tr>
<td>Above 5 lakh</td>
<td>2</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 59% of the respondents have income between 2 lakh – 5 lakh, 24% of the respondents have income between 1 lakh – 2 lakh, 14% of the respondents have income below 1 lakh and remaining 3% of the respondents have income above 5 lakh.

Table 5. Type of investment of in Capital market

<table>
<thead>
<tr>
<th>Type</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Day trading</td>
<td>19</td>
<td>27.1</td>
</tr>
<tr>
<td>Medium term</td>
<td>29</td>
<td>41.4</td>
</tr>
<tr>
<td>Long term</td>
<td>22</td>
<td>31.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 42% of the respondents are doing medium term investment in Capital market, 31% of the respondents are doing long term investment in Capital market and remaining 27% of respondents are doing day trading.

Table 6. Percentage of income invested in the Capital market

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 - 5</td>
<td>22</td>
<td>31.4</td>
</tr>
<tr>
<td>6 -10</td>
<td>37</td>
<td>52.9</td>
</tr>
<tr>
<td>11 - 15</td>
<td>8</td>
<td>11.4</td>
</tr>
<tr>
<td>Above 15</td>
<td>3</td>
<td>4.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 53% of the respondents invest 6 -10 % of income in Capital market, 31% of the respondents invests 0 – 5% of income in Capital market, 12% of the respondents invest 11 -15% of income in Capital market and remaining 4% of the respondents invest more than 15% of the income in Capital market.

Table 7. Influence of others in the investment decision of respondents

<table>
<thead>
<tr>
<th>Influence</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>yes</td>
<td>11</td>
<td>15.7</td>
</tr>
<tr>
<td>No</td>
<td>59</td>
<td>84.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>70</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Inference: It is clear from the table that 59% of the respondents investment decision is not influenced by others and remaining 11% of the respondents investment decision is influenced by others.

TESTING OF HYPOTHESIS

Here statistics used is chi square test:

Chi square test is a statistical test, which test the significance of difference between observed frequencies and the corresponding theoretical frequencies of a distribution, without any assumption
about the distribution of the population. It is a non-parametric test. It is the difference between a set of observed frequencies and a set of corresponding expected frequencies. Here chi square test is done using SPSS.

**Hypothesis- 1**

**H₀**: The investment decisions in stock market made by investors are not rational.

**H₁**: The investment decisions in stock market made by investors are rational.

**Table showing investment decision rationality and factors influencing**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>23.848</td>
<td>14</td>
<td>.048</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>20.444</td>
<td>14</td>
<td>.117</td>
</tr>
<tr>
<td>Linear-by-Linear Assoc.</td>
<td>1.049</td>
<td>1</td>
<td>.306</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As per the rule, if the chi square value is less than 0.05, we reject the null hypothesis, otherwise accept. Here the chi square value (0.048) is less than 0.05, and therefore null hypothesis is rejected. The result is to accept alternative hypothesis i.e. “The investment decisions in stock market made by investors are rational”.

**Hypothesis -2**

**H₀**: There is no significant relationship between amount of investment and factors influencing on investment decision.

**H₁**: There is significant relationship between amount of investment and factors influencing on investment decision.

**Table showing amount of investment and factors influencing investment decision**

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>df</th>
<th>Asymp. Sig. (2-sided)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Chi-Square</td>
<td>70.699</td>
<td>42</td>
<td>.004</td>
</tr>
<tr>
<td>Likelihood Ratio</td>
<td>50.738</td>
<td>42</td>
<td>.167</td>
</tr>
<tr>
<td>Linear-by-Linear Assoc.</td>
<td>.032</td>
<td>1</td>
<td>.859</td>
</tr>
<tr>
<td>N of Valid Cases</td>
<td>70</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

As per the rule, if the calculated value is less than 0.05 reject the null hypothesis, otherwise accept. Here the calculated value (0.004) is less than 0.05, therefore null hypothesis is rejected. The result is to accept alternative hypothesis i.e. “There is significant relationship between amount of investment and factors influencing on investment decision”.

**FINDINGS**

1. Majority of the respondents belong to the age group 31-40.
2. Majority of the respondents are males.
3. Majority of the respondents have Degree level educational qualification.
4. Majority of the respondents have half yearly income between 2 – 3 lakh.
5. Most of the respondents are doing medium term investment Capital market.
6. Majority of the investors utilize about 6-10% of their annual income for investment.
7. Majority of the respondent’s investment decision is not influenced by the opinion of others.
8. The investment decisions in stock market made by investors are rational.
9. Factors influencing investment decision also affects the amount of investment.
SUGGESTIONS

1. It is clear from the study that majority of the investors in capital market is rational in investment decision even though certain percentage of investors are irrational towards investment. This attitude should be shifted with further study and analysis on investment decision.

2. The well – educated people refrain from making investments in the capital market. If they are made more active, more learned investments could be brought about in the capital market.

3. Do not purchase low-priced, low quality stocks.

4. Do not put all money in same stocks or sectors. Invest in variety of stocks or in different sectors.

5. As the women also earn very high especially in cities, steps to improve the awareness about capital market among women should be given more importance. Presently their participation is meagre.

CONCLUSION

This study has helped to understand about the investment decision rationality of retail equity investors in Capital market. The result of the study reveals that the investors takes investment decision rationally. They evaluate various factors such as fundamental analysis, technical analysis, news, return, risk, past experience etc. before taking an investment decision in capital market.

The result of the study also reveals that the amount of investment in capital market is greatly influenced by the various factors such as risk, return, news, past experience, fundamental analysis etc. In nutshell I conclude that investors are behaving rationally while making investment decisions.

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