

Study of Factors Affecting Investment Decision in Stock Market



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Abstract

Indian stock market history is oldest in Asia as in 1875 Bombay Stock Exchange (BSE) was established by 22 brokers. From that time onwards the Indian Stock market has grown in leaps and bounds, and has become a forceful and competent stock market in the international level. At this time, total market turnover of NSE and BSE (major stock exchanges in India) reached at Rs. 8,080,812.54 Crores during the month of October 2016, including cash and F&O segment ("Market Turnover BSE/NSE, Indian Stock Market data, Cash Market, Futures & Options by Moneycontrol.com," 2016). It turns out to be important for the investors to keep themselves up to date and financially literate about the stock market and factors affecting. This paper is an attempt to study about perception of investors about various factors affecting stock market. It also focuses on preferences of investors about various sectors and variables related to investment in stock market. For the study we have applied descriptive research design, used convenience sampling method to select respondents and collected data through structured questionnaire using personal survey method. In this research we found that factors like Price Earning (P/E) Ratio and Earnings Per Share (EPS) are given the top most importance as compared to Market share, company's prestige and liquidity. Likewise, if industrial factors are considered, Government policies and Growth rate of industry are of much more importance. As a part of macroeconomic environment global economic condition and FII flow are crucial for investors while investing in stock market.

Key Word: Perception, Indian Stock Market, Investors, Investment

Introduction

As Stock Exchanges and Primary Market are part of Capital market directly support the growth of Economy. Stock exchange provides liquidity and marketability to investors to deal into share and securities once they issued in primary market. Thus it helps in providing channel between industries and investors, which is crucial for financial market of any country and hence for its economy.

Indian stock market is one of the oldest stock markets in Asia. In 1875 Bombay Stock Exchange (BSE) was established by brokers. Currently most of the trading in the Indian stock market takes place on its two stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). In India out of all the listed firms on the BSE, only about 500 firms constitute more than 90% of its market capitalization; the rest of the crowd consists of highly illiquid shares. Almost all the significant firms of India are listed on both the exchanges. NSE enjoys a dominant share in spot trading, and almost a complete monopoly in derivatives trading. The presence of arbitrageurs keeps the prices on the two stock exchanges within a very tight range. Recently total market turnover of NSE and BSE (major stock exchanges in India) reached at Rs.

8,080,812.54 Crores during the month of October 2016, including cash and F&O segment ("Market Turnover BSE/NSE, Indian Stock Market data, Cash Market, Futures & Options by Moneycontrol.com," 2016). There are many factors or macro and micro economic variables that affect the trading in Indian stock market and different investors take into consideration all factors based on their knowledge and perception. The stock market has an important role in the allocation of resources, both directly as a source of funds and as a determinant of firms' value and borrowing capacity. However, a growing body of empirical evidence has raised some doubts about whether equity markets are efficient in the sense of appropriately reflecting relevant and available information.¹ The large swings in equity prices in several countries during the 1980s provided additional evidence that market valuations were more variable than the earnings prospects of firms. These episodes encouraged proposals for reforms aimed at limiting volatility,^{*} because excess volatility or mispricing could have undesirable real consequences and lead to a misallocation of resources.

Objectives of the study

- To study the factors affecting

Investment Decision in Indian Stock Market.

- To study the investors' preferences while investing in Stock Market
- To study the investment pattern of Indian investors in stock market

Research Methodology

A Descriptive research is used to describe the involvement of individuals of Surat city in investment in Indian stock market and their perception regarding various factors or variables that affect while trading or investing in Indian stock market. For the study primary data is collected through structured questionnaire from 200 responses samples selected based on convenience sampling from the Surat city. Out of which 180 respondents were dealing in stock market. In this paper findings and conclusion are based on only those respondents who trade in stock market i.e. 180 respondents. Secondary data have been collected from newspapers, magazines and various research articles.

Findings and Analysis

While investing in stock market it is important to study the time period for which investors are investing. Following table shows frequency distribution of respondents investors.

Time Period	Frequency	%
Less than 1 Year	18	10
1-2 Years	32	17.8
2-5 Years	29	16.1
More than 5 years	101	56.1
Total	180	100

Investment in stock market gives better return in long run. From the above data we can say that most of investors i.e. 90% are genuine investors and they invest for more than one year. Only 10% respondents are speculators and deals for less than a year.

Sources of Information

Sources of Information	Frequency	Percent
Business news on TV	109	60.6
Internet	73	40.6
Stock Broker	60	33.3
Newspaper	50	27.8
Financial Consultants	39	21.7
Magazines	31	17.2
Mobile App	31	17.2

Friends and relatives	22	12.2
Advertisements	12	6.7

Above results shows that most of respondents (60.6%) are depending on electronic media for their information regarding investment in stock market. Other major source of information are internet (40.6%), stock brokers (33.3%) and news paper (27.8%) used by investors.

Factors affecting Investment Decision in Stock Market

To collect the responses for various factors compiled on the basis of literature review, we have measured following factors on 5 point scale. Where 1 is for the high preference and 5 is low preference. Then after, their total score for each factor is calculated on the basis of respondents. Following table shows individual score of each factor. Low score represents high priority for the consideration of factors while investing.

Factors affecting Investment Decision	Score
Government Policy related to Industry	400
Industrial Growth Rate	423
P/E Ratio	470
EPS	470
Company's prestige	471
Global Economic conditions	475
FII	475
GDP	522
Market share of the company	562
Industrial Life Cycle	564
Volatility in Industry	581
Liquidity level of Company	589
Monetary policy	611
Level of Competition in Industry	613
Inflation rate	664
Fiscal policy	725

From the above score of individual factors we can say that government policy and industrial growth are most important external factors for investors while investing in any of security in stock market. At the same time P/E ratio EPS and Company's overall image are most important factors related to company. For global level condition FII and Global economic condition are crucial factors for investors. With all these rational factors few of investors also believe that fortune of investor also

play important role while investing in stock market.

Luck (Fortune) also is an important factor in stock market investment

	Frequency	Percent
Strongly Disagree	28	15.6
Disagree	27	15.0
Neutral	44	24.4
Agree	40	22.8
Strongly Agree	41	22.2
Total	180	100

From the above table we can say that 45% of respondents are agree with involvement of fortune factor for getting better result in investment in stock market. At the same time 30.6% respondents are not agree with fortune factor affecting investment in stock market.

Preference for Various Sectors for Investment

While considering different factors while investing in stock market government policy and industrial grow are very important factors found. Hence it is also important to study which industries/sectors are preferred by investors while investing in stock market.

Sectors	Score
Automobiles	1236
IT	1173
FMCG	1159
Pharmaceutical	1158
Banking	1110
Telecommunication	1063
Cement	1016
Real estate	1008
Heavy engineering	958
Steel	932
Construction	908
Sugar	907
Textile	892
Mining	855
Non ferrous metals	828
White goods	797

In study about preference for investment in various industries we found that Automobile, IT,

FMCG, Pharmaceutical and Banking sectors are most favorable sectors for investment while investing in stock market. Investors have moderate preference for infrastructure related industries like Cement, Telecommunication, Heavy Engineering, Steel and Construction. At the same time investors have least preference towards White goods (electrical goods), Non ferrous metal, Sugar and Textile industries.

Conclusion

In this study we found that investors prefer to invest for long term in stock market than short term investment. Their major source of investment is electronic media (television and internet), news paper and broker through who they used to transact. Investors used to consider financial performance of the company through P/E Ratio and EPS with company's prestige for selecting company while investing. They consider government policy for the industry and growth rate of industry while selecting industry and consider global economic condition and FII flow while investing in stock market. Few of the investors are also of the opinion that luck (fortune) factor also affect their performance in stock market. At the end we also found that investors have also preferences for various industry while investing in stock market. They prefer Automobile, IT, FMCG, Pharmaceutical and Banking sectors more compare to other sectors.

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