A STUDY OF BEHAVIOURAL FACTORS EFFECT ON RISK ATTITUDE OF INVESTORS WITH REFERENCE TO EQUITY INVESTORS OF HYDERABAD

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ABSTRACT

The present study is focused on the investors behaviour in the equity markets has been examined with the select behavioural factors. The study mainly emphasized on the investors risk attitude and financial awareness. The study applied the simple random methodology for the determination of the sample size and Hyderabad equity market investors were considered the sample respondents. The study examined the behavioural factors relationship with the financial awareness and the result stated that the market and herding behavioural factors are having the strong relationship and the effect of behavioural factors on the risk attitude has been studied with the help of structure equation model. The statistical model result reveals that the heuristics behaviour effect is observed to be higher and Prospects behaviour is found to be having the lower impact on the risk attitude. This paper is useful to the equity investor's fraternity, Mutual funds AMCs, Portfolio management organizations.

Key Words: Attitude, Behavioural, Heuristics Herding, Investors Prospects and Risk

INTRODUCTION

While India's GDP grew 5.5 times from 414 billion dollars in 2001 to 2917.85 billion dollars in 2018, capital market growth has been bumpy and inadequate. For instance demat accounts are only 1.7 percent of Indians, as opposed to 17.7 in the US, 16.4 percent in Great Britain, and 9.4 percent in China. While the number of Demat accounts has risen in India over recent years, the number of active accounts has not reflected the same pattern. In addition, at the

beginning of this decade the number of active stock markets in India has now. In the five top cities of Mumbai, Delhi, Kolkata, Ahmadabad and Chennai, NSE turnover is still almost 80%. NSE sales remain high in India and nonetheless, more than half of the NSE sales are in Mumbai, representing 55%; while 14.97% in Delhi, which is the second-largest contributor to sales. In that sense, the contribution of a city like Hyderabad would not be difficult to find out. Nevertheless, the city like Hyderabad has the potential to increase its exposure to the Indian capital markets, with India one of the world's highest levels of saving. Nevertheless, thought processes and expectations, obstacles and bottlenecks, i.e. investing in investors' behavior in the region, must be investigated.

The research is exclusively for Hyderabad (India) retail investors. The Depository Participant (DP) accounts and trade accounts are primarily trading companies. Nevertheless, DP accounts are provided by other organisations, such as banks, as well. The analysis is also expanded to include Indian stock market retail investors who do not trade through trading houses, although the retail investors are primarily considered trading through trading houses. Based on the overall conduct of the investors, a risk tolerant rating has been calculated by each investor, grouped in three categories: high-risk applicants, moderate-risk investors and low-risk investors; and proposals are made to expand the investment scope. However, non-investors have also been studied to find out why they are not investing in equity to elongate the effect of retail investment in the Indian stock markets. Although several studies show that the share investment percentage is very low, many people are directly or indirectly influenced by the movement of stock prices. The market shows a long-term downward trend, the retirement fund will also decline. A real question is in anyone's mind: why investments by retail investors in stock markets in India are so small, despite the high rate of bearings with all aspects of economic activities. The risk in such investments is probably due to estimation of the risk with little or no data and the impropriety score of retail investors ' risk tolerance capability. The investment that is deemed' high risk' by an individual investor is considered' low risk' by another investor with its own sensitivity and attitude to risk. The most straightforward role of the researchers was therefore the analysis of investments in their acceptable risk tolerance classification and the design of the most suitable strategies for investments in the stock market.

A shareholder is regarded as the purchaser of shares in expectation of financial returns. Buying shares from an investor for his own personal account is not regarded as retail purchases for a company. Retail investors usually deal in sums that are much smaller than

institutional investors. A retail investor is entitled either to purchase securities directly from the issuing companies, or to purchase securities from existing investors via the Depositories.

REVIEW OF LITERATURE

De La Pena Condado (2014): The research paper seeks to analyse and better understand the willingness of individual investors to invest appropriately in the Spanish stock market (BME) and how their choices made through the information division of Behavioural Finance could influence and assess a client's financial standing within this financial system. In addition, the purpose of this work is to decide if their personal approach is successful in achieving surplus returns from each transaction. The research thus seeks to fill this divide by analysing the factors influencing the actions of individual investors and how they invest in Spain. A critical review is undertaken in the first part of the thesis of concepts and explanations in securities, behavior, financial markets and risk attitudes. Ultimately, the second and final section explains and analyzes the research results from the implementation of primary data.

Abey Francis (2016): The position, value and actions of individual investors are not properly reduced. It is assumed that individual investors ' trading practices rarely influence stock prices. The paper analyzes the factors and the factors affecting investment decisions for individual investor conduct on the Indian stock market. An observational research is carried out to analyze individual investors ' behavior and decision-making styles. In order to find the relative value of different compartmental characteristics of investors, an empirical hierarchy system (AHP) is used.

Rawal, Pratima & Jivan, Kumar & Chowdhury (2018): This article explores the ongoing experiences of Indian Stock market retail investors. Indian stock is widely distributed worldwide. Data from 300 Faridabad district retail investors based in Haryana are gathered. The author took the cross-sectional analysis in this study. The cyclical process started from theoretical framework to the preparation of research proposals and data collection based on the expected proposal for drawing the findings. This was a deductive approach. The research explores the correlation between the demographic profile of retail investors such as age, sex and annual income.

Bharti Wadhwa, AakankshaUppal, Anubha Vashisht, Davinder Kaur (2019): There are many investment options in the current financial system, which are difficult for everyone to agree on. The analysis would investigate the actions of investors and their preference for the

different investments. Primary information was gathered through questionnaires. The main factors behind an investment are security, liquidity, stability of income and appreciation.

OBJECTIVES OF THE STUDY

1. To study the relationship of Behavioural factors with the financial Awareness
2. To examine the effect of behavioural factors on Perceived Risk Attitude

HYPOTHESES OF THE STUDY

H0: There is no relationship of Behavioural factors with the financial Awareness

H0: There is no effect of behavioural factors on Perceived Risk Attitude

SCOPE OF THE STUDY

The present study has been emphasized on the behavioural factors effect on the risk attitude of the Hyderabad equity market investors. The study mainly focused on the financial awareness along with the behavioural factors which plays the key role in adhering of risk in equity markets. The study has considered the following behavioural factors,

- Heuristics

- Prospects

- Herding

- Market

RESEARCH METHODOLOGY

For this analysis, the selected respondents were involved during a study period in investment in Indian Stock Market, regardless of whether they are first time or daily investors, following comparison sampling regarding investors. There are four ways through which retail investment takes place. Those are;

- Individuals invest of their own
- Through controlled accounts (in order to purchase and sell accounts for the owner) and
- Retail brokers (through the management of individual investors)
- Through managed accounts (through the management of accounts).

The following statistical tools were applied in the study

Bi-variate Correlation: The study applied the bi-variate correlation to examine the relationship of select investors' behavioural factors with the financial awareness.

Structural Equation Model: The study has considered the structure equation model – SEM to know the multiple independent variable (investor's behavioural factors) effect on one dependent variable (risk attitude).

TABULATION OF DATA ANALYSIS

Objective – 1: To study the relationship of Behavioural factors with the financial Awareness

The study has considered the three behavioural factors along with the market behaviour relationship examined with the financial awareness of the investors. The study applied the bi-varaite correlation statistical method and framed the following hypothesis.

H0: There is no relationship of Behavioural factors with the financial Awareness

H1: There is a relationship of Behavioural factors with the financial Awareness

Table -1: relationship of Behavioural factors with the financial Awareness

Correlations		Financial Awareness	Heuristics	Prospects	Markets	Herding
Financial Awareness	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	121				
Heuristics	Pearson Correlation	.058	1			
	Sig. (2-tailed)	.031				
	N	121	121			
Prospects	Pearson Correlation	-.074	-.048	1		
	Sig. (2-tailed)	.026	.009			
	N	121	121	121		

Markets	Pearson Correlation	.070	.096	.035	1	
	Sig. (2-tailed)	.046	.024	.009		
	N	121	121	121	121	
Herding	Pearson Correlation	.061	.115	.036	.040	1
	Sig. (2-tailed)	.006	.008	.009	.006	
	N	121	121	121	121	121
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Primary data

The above table depicts the Correlation i.e. relationship Between Factors effecting Investor's Behaviour and Financial Awareness. The outcome resulted that Prospects had show negative relationship towards the financial awareness, while other factors such as Markets, Heuristics and Herding had a positive relationship between investor's behaviour and financial awareness. In which Markets (0.70) and Herding (0.61) are highly correlated with financial awareness in terms of investor's behaviour, whereas Heuristics (0.58) had least correlated among other factors. Hence, the study concluded that the probability value seems to be less than 0.05, implies significant relationship between factors effecting investor's behaviour and financial awareness.

**Objective – 2: To examine the effect of behavioural factors on Perceived Risk Attitude**

The study has been emphasized on the behavioural factors impact on the investors perceived risk attitude. The study applied the structure equation model for the examination of the framed objective. The following hypothesis has been framed to test the objective.

H0: There is no effect of behavioural factors on Perceived Risk Attitude

H1: There is an effect of behavioural factors on Perceived Risk Attitude

Figure - 1

Structure Equation Model Path Diagram
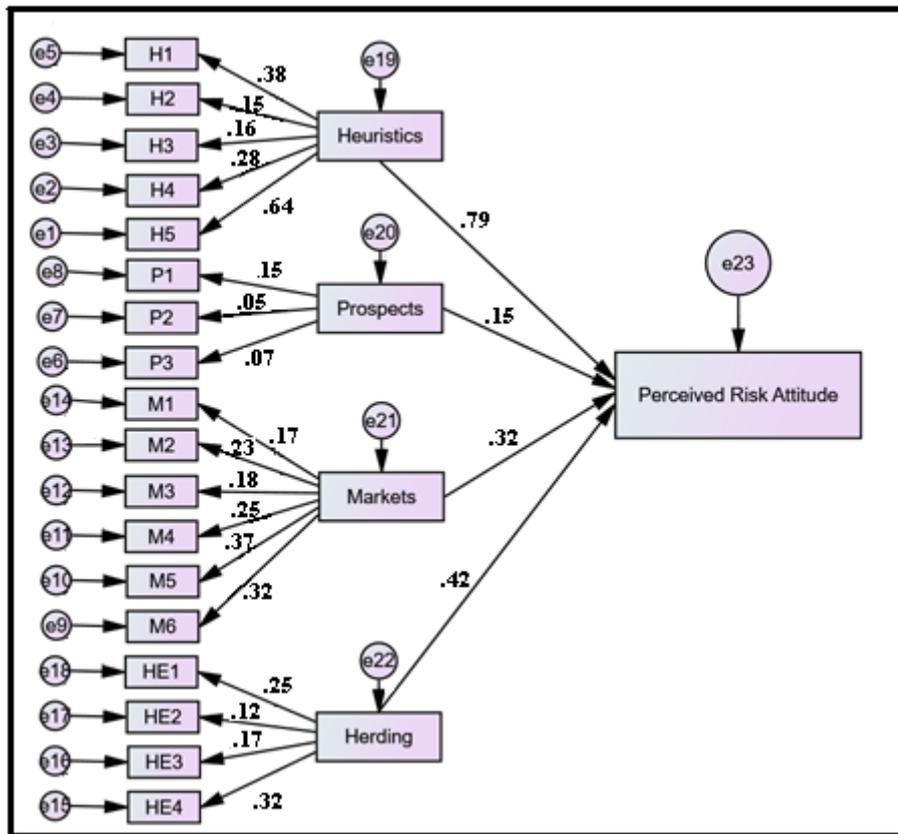
Source: Primary data

Table – 2: Regression Weights: Factors effecting Investors Behaviour

Heuristics – Behaviour			Estimate	S.E.	C.R.	P
Representativeness	<---	Heuristics	.38	.082	2.538	.012
Overconfidence	<---	Heuristics	.15	.086	4.138	***
Anchoring	<---	Heuristics	.16	.084	1.994	.024
Availability Bias	<---	Heuristics	.28	.078	2.159	***
Gamblers Fallacy	<---	Heuristics	.64	.091	3.253	.003
Prospects – Behaviour						
Loss Aversion	<---	Prospects	.15	.082	4.468	***
Regret Aversion	<---	Prospects	.05	.085	4.132	.005

Heuristics – Behaviour			Estimate	S.E.	C.R.	P
Mental Accounting	<---	Prospects	.07	.086	2.248	.005
Market – Behaviour						
Price changes	<---	Markets	.17	.092	2.101	.003
Over Reaction	<---	Markets	.23	.094	5.088	.030
Market Information	<---	Markets	.18	.093	3.612	.041
Past Trend of Stocks	<---	Markets	.25	.104	2.261	.004
Companies' Customer Preference	<---	Markets	.37	.080	2.689	.001
Fundamentals of underlying stocks	<---	Markets	.32	.083	2.844	.025
Herding – Behaviour						
Buying and selling	<---	Herding	.25	.084	2.413	***
Choosing Stock Type	<---	Herding	.12	.092	2.827	.008
Stock Volume	<---	Herding	.17	.083	3.056	.021
Speed of Herding	<---	Herding	.32	.090	4.127	***

Source: Primary data

Heuristics - Behaviour

Effect of select factors on investors Heuristics behaviour has been examined with the structure equation model and the p values of observed to be significant. The regression weights depicted that the Factor "Gamblers Fallacy" (0.64) effect is observed to be higher on the investors Heuristics behaviour. The Overconfidence (0.15) effect is found to be lower on the Heuristics Behaviour.

Prospects – Behaviour

The study has been focused on the effect of select factor on the investors Prospects behaviour examined with the help of SEM and result stated that the p values are found to be significant. The regression weights stated that the factor – Loss Aversion (0.15) effect is observed to be higher on the Prospect behaviour. It has been found that the Regret Aversion (0.05) least influence has been observed.

Market – Behaviour

The study has been focused on the effect of select factor on the investors Market behaviour examined with the help of SEM and result stated that the p values are found to be significant.

The regression weights stated that the factor – Companies' Customer Preference (0.37) effect is observed to be higher on the market behaviour. It has been found that the Price Changes (0.17) least influence has been observed.

Herding - Behaviour:

The study has been focused on the effect of select factor on the investors Herding behaviour examined with the help of SEM and result stated that the p values are found to be significant. The regression weights stated that the factor – Speed of Herding (0.32) effect is observed to be higher on the Herding behaviour. It has been found that the Choosing Stock Type (0.12) least influence has been observed on the herding behaviour.

Table – 3: Impact of behavioural factors on Perceived Risk Attitude

			Estimate	S.E.	C.R.	P
Heuristics	<---	Perceived Risk Attitude	.79	.086	2.354	.006
Prospects	<---	Perceived Risk Attitude	.15	.091	3.547	.004
Markets	<---	Perceived Risk Attitude	.32	.090	2.358	.021
Herding	<---	Perceived Risk Attitude	.42	.093	2.667	.005

Source: Primary data

The above table represents the effect of select behavioural factors on Perceived Risk Attitude examined with the help of SEM and result stated that the p values are found to be significant. The regression weights stated that the factor – Heuristics Behaviour (0.79) effect is observed to be higher on the Perceived Risk Attitude. It has been found that the Prospects (0.15) least influence has been observed on the Perceived Risk Attitude.

CONCLUSION OF THE STUDY

The present study has been emphasized on the investors' behavioural factors impact on the equity market investment risk attitude. The study has considered the Hyderabad equity investors as the sample respondents with the help of simple random methodology. The study mainly focused on the relationship of behavioural factors with the financial awareness and the result reveals that the herding behaviour and market are observed to be having strong relationship with the financial awareness. The effect of the behavioural factors on the risk attitude of the investors has been examined with the SEM and the result stated that the

heuristics behaviour effect is found to be higher and Prospects behaviour is having the least effect on the risk attitude. Hence, there is a need to do further research in this area by considering the risk factors impact on the investment decision of the investors, so that the optimum investment decision can be taken by the investors in the equity markets.

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