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An Analysis of the Variables Influencing Individual Investors' Decisions to Invest in Kolkata City

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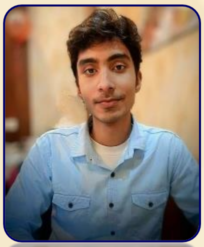

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Abstract

The study explores factors influencing investors' decisions to invest with Primary Data using structured questionnaires. A sample of 100 investors was selected, with retail investors as the dependent variable and risk tolerance, expected returns, market movement, investment knowledge, dividend declaration, speculation, and capital appreciations as the independent variables. Descriptive and Factor Analysis were used for examination purposes. The findings reveal the relationship between the Regress and Regressor variables, which will be useful to AMCs, brokers, financial advisors, potential investors, and academicians.

Keywords: *Capital Market, Investment Decision, Investors' Behaviour, Behavioural Finance.*

1. INTRODUCTION

Industrial and Commercial activities are one of the major sector that can boost economic development. However many researcher scholars have often argued that development of a country is directly connected with the growth of capital market. Therefore, Capital Market in modern economy plays a very important role as it provide Capital to the Commercial Houses by fund raising, from households and other institutions. Almost everyone makes investment, not necessarily in financial assets such as equities and debentures but one also participates in investment platform through their participation in pension plan, life insurance, gold etc. The arbitrament of investor's outlay are normally based on fundamental and scientific analysis astuteness. Demographic profile of an investor also plays a dynamic part in decision making process. The decision process of the investors in making investments is an area of interest by many scholars and academicians and it is a quite a popular researched topic. Investors look for both qualitative and quantitative particulars as it affects returns. In this paper we examine the primary determinants that impacts the process of determining decisions and we also investigate whether age, category of investment, investment platform, and approximate size of investment and source of investment advice influences the investment decision making process.

2. LITERATURE REVIEW

Khorsandi and Taleghani (2014) analyzed the decisions of small investors during intense inflation and recession, using 415 investors as a statistical sample. Results showed uncertainty, risk aversion, and reduced investment in stock markets impacted micro investment decisions.

Deo and Sundar (2015) explore gender differences in investment decision-making and the impact of demographic characteristics on factors, using 250 samples and ANOVA, t-test, and factor analysis.

Lingesiya and Kengatharam (2019) analyzed investment decisions in Sri Lanka's stock market in five Northern Province districts, finding that socio-economic characteristics significantly influence individual investors' decisions.

S. Hemalatha (2019) explore individual investors' attitudes towards factors influencing investment decisions based on demographic profiles, revealing that factors such as gender, occupation, internet usage, and online trading influence decision-making patterns.

P.L Adhikari (2020) analyzed 214 Nepal investors' decision-making processes, and their finding indicates Accounting Information to be the most influential factor, followed by Expected Capital Increase, Firm Status, Non-Stock Attractiveness, and Rumors.

3. RESEARCH OBJECTIVE

The objectives of the study are as follows –

- To ascertain the most important variables that affect investment decision.
- To study the effect of demographic characteristics (Investors' Age) in investing decision.

4. RESEARCH METHODOLOGY

To meet the goals of the study, information is gathered from 100 investors in the Kolkata metropolis using a structured questionnaire. The convenient sampling method was employed to select the participants. . Descriptive and Factor Analysis were used for examination purpose.

5. HYPOTHESIS

H_{01}: There is no discernible variation in the variables influencing investors' outlay arbitrament.

H_{02}: Decisions in respect of the age of the investors do not significantly differ from one another.

H_{11}: There are notable variations in the factors influencing investors' investment choices.

H_{12}: Decisions in respect of the age of the investors, differ significantly.

6. IDENTIFICATION OF FACTORS

To understand the elements that impact investors' investment decisions, 22 statements have been found. Every statement outlines a single intriguing quality. The opinions on investments were gathered using the Likert five-point rating system. Utilizing factor analysis, the number of variables was decreased by identifying shared dimensions that could be obtained between them.

A common factor was used to group the variables that had high correlation and common replies. To determine the aptness of data for Factor Analysis two statistical tests i.e. The Bartlett's test of sphericity and the Kaiser-Meyer-Olkin (KMO) test has been conducted

Homoscedasticity i.e. whether there is equal variance for the multiple samples from the population is tested using Bartlett's test of sphericity and KMO measures of sampling adequacy signifies the percentage of variables' variance that could be attributed to new facets. Higher values typically imply that conducting a factor analysis could be beneficial. The value of the factor analysis is likely to be of little use if it is less than 0.50.

Table 1's KMO value of 0.825 indicates the applicability of factor analysis to the data. Bartlett's test of sphericity shows a chi-square value of 1081.251 and a p- value of 0.000, both of which are significant at a confidence level of greater than 99 percent. This directs that the records are well-suited for conducting factor analysis.

Table 1: KMO Value

KMO- Measure of Sampling Adequacy	**0.825**
Bartlett's Test of Sphericity (Approx. Chi-square)	1081.251
Degrees of freedom (d.f)	231
Sig. value (p- value)	0.000

Source: Compiled by the Researcher

Choosing the number of facets to be derived is the next step in the process using the principal component analysis method. Eigen values are greater than unit is used to determine various factors. Using the varimax rotation algorithm and factor analysis, the resulting component matrix is then rotated orthogonally.

Six component factors remain after the 22 variables are eliminated **(Table 2)**. There are some variables in each component factor. Every variable expresses what investors believe about a particular component of the investment variable. The six perceptual factors that have an eigenvalue greater than unity are considered. **Table 2** has these listed. **Table 3** summarizes each factor's factor loading.

Table 2: Perceptual Factors with Percentage of Variance Explained

Factors	Eigen Value	% Variance Explained	% Cumulative Explained
Stability	7.428	33.763	33.763
Macro / Micro Variables	2.598	11.808	45.571
Security Prospect	1.414	6.429	52.000
Future Prospect	1.357	6.168	58.168
Passive Income	1.314	5.974	64.142
Psychological Aspect	1.055	4.795	68.937

Source: Compiled by the Researcher

The primary and most important component is ruled by consideration of Stability. It includes capital protection from inflation, knowledge of investment, capital appreciation, capital preservation and market movement. Of these items capital appreciation is the most influential ones. The second element that affects the decision is Macro / Micro Variables which includes Exchange Rates, Government Policies, Political Scenario and Speculation. Of these government policies is the most important criterion for the investors followed by political scenario, speculation, and exchange rates respectively. Security Prospect comes next. Variables that are loaded heavily on this construct are Risk Tolerance, Expected Returns, Inflation, Time Horizon, and Tax Benefits. In this, all but Tax Benefits rank highly for decision making.

Another major component that influences investing is the future prospect of which industry performance is the most influential one, while, liquidity, natural calamities, and economic outlook stands in the 2nd, 3rd and 4th position. Submissive income constitutes a substantial element in arbitrament making process. Variables that are there in this facet are Dividend Declaration and Market Anomality. The variable with highest loading factor is dividend declaration. The final and last factor influencing the decision criterion is psychological aspect which includes sentiments while investing. These information are all reflected in **Table 3**.

Table 3: Factor loading for all Variables

Factor Identification	Variables	Factor Loading
Stability	Capital Protection from Inflation	0.769
	Knowledge of Investment	0.644
	Capital Appreciation	0.785
	Capital Preservation	0.768
	Market Movement	0.642
Macro / Micro Variables	Exchange Rates	0.689
	Government Policies	0.754
	Political Scenario	0.740
	Speculation	0.721
Security Prospect	Risk Tolerance	0.610
	Expected Returns	0.594
	Inflation	0.672
	Time Horizon	0.620
	Tax Benefits	0.681
Future Prospect	Industry Performance	0.739
	Economic Outlook	0.604
	Liquidity	0.736
	Natural Calamities	0.620
Passive Income	Dividend Declaration	0.793
	Market Anomalies	0.619
Psychological Aspect	Sentiments	0.836

Source: Compiled by the Researcher

This study examined 22 variables, the means and standard deviations of which are listed in **Table 4** for each variable. According to the result presented in the table below 5 most influential variables on investment decision in stock market are those that have mean value above equal to or above 3.83. Identified variables are Expected Return (M=4.0800; SD=1.06059), Knowledge of investment (M=4.0600; SD=1.00323); Capital Appreciation (M= 4.0400; SD= 1.02415): Risk Tolerance (M=3.9300; SD= 1.13933) Economic Outlook (M=3.8300: SD=0.95405). Also, it is notified that there were five least influential factor those having mean less than or equal to 3.0500. Identified variables are Speculation (M=3.0500; SD=1.23399); Natural Calamities (M= 3.1600; SD= 1.10755); Exchange Rates (M=3.2700; SD= 0.94125); Sentiments (M=3.3400; SD=1.06572) and Political Scenario (M=3.4400; SD=1.0667).

Table 4: Descriptive Statistics of Variables

Variables	Mean	Std. Deviation	Analysis N
Risk Tolerance	3.9300	1.13933	100
Expected Return	4.0800	1.06059	100
Dividend Declaration	3.4600	1.02907	100
Market Anomalies	3.5500	0.90314	100
Exchange Rates	3.2700	0.94125	100
Inflation	3.7900	0.99793	100
Government Policies	3.5500	1.12254	100
Political Scenario	3.4400	1.06667	100
Sentiments	3.3400	1.06572	100
Market Movement	3.7600	0.92245	100
Knowledge of Investment	4.0600	1.00323	100
Natural Calamities	3.1600	1.10755	100
Liquidity	3.6500	0.93609	100
Industry Performance	3.7500	0.99874	100
Economic Outlook	3.8300	0.95405	100
Tax Benefits	3.7600	1.10206	100
Time Horizon	3.7100	0.99793	100
Capital Protection from Inflation	3.8200	1.08600	100
Regular Income Generation	3.7800	1.01085	100
Capital Appreciation	4.0400	1.02415	100
Capital Preservation	3.7300	0.95193	100
Speculation	3.0500	1.23399	100

Source: Compiled by the Researcher

Based on **Table 5**, Security Prospect (Mean=3.854, SD=0.0627) is the most influencing factor that have an effect on investing and the variables included are Risk tolerance, expected returns, inflation, time horizon and tax benefits. Macro/Micro Variables (Mean=2.752, SD=0.1217) is the least influential factor, it comprises of the variables Exchange Rates, Government Policies, Political Scenarios and Speculation. Stability (Mean=3.07, SD=0.4389) consists of Capital Protection from Inflation, knowledge of Investment, Capital appreciation, Capital Preservation and Market Movement.

Future Prospect (Mean=2.878, SD=0.4517) consists of Industry Performance, Economic Outlook, Liquidity and Natural Calamities. Passive Income (Mean=3.505, SD=0.5613) consists of Dividend Declaration, Market Anomalies. Psychological Aspects (Mean= 3.34, SD= 1.0657) consists of Sentiments.

Table 5: Descriptive Statistics of Factors

Factors	Mean	Standard Deviation
Stability	3.07	0.438902006
Macro / Micro Variables	2.752	0.12173451
Security Prospect	3.854	0.062783512
Future Prospect	2.878	0.451755999
Passive Income	3.505	0.561323628
Psychological Aspect	3.34	1.06572

Source: Compiled by the Researcher

Table 6 indicates that the factors Exchange Rates (p=0.006), Natural Calamities (p=0.009), Liquidity (p=0.031), Capital Protection from Inflation (p=0.031), Capital Appreciation (p=0.039) and Speculation (p=0.005) have p< 0.05 which indicates that these factors have no significant differences in influencing the investment decisions of different age groups. However the rest of the factors have p> 0.05; hence it indicates that these factors have significant difference in influencing investment decisions for different age groups.

Table 6: Age and Factors Influencing Investment Decision

Variables	Sum of Squares	d.f.	Mean Square	F. Ratio	Sig.
Risk Tolerance	0.926	2	0.463	0.367	0.694
Expected Return	0.703	2	0.351	0.303	0.739
Dividend Declaration	0.212	2	0.106	0.100	0.905
Market Anomalies	0.094	2	0.047	0.062	0.940
Exchange Rates	**8.246**	**2**	**4.123**	**5.492**	**0.006**
Inflation	1.101	2	0.551	0.556	0.576
Government Policies	5.549	2	2.775	2.328	0.103
Political Scenario	5.442	2	2.721	2.558	0.083
Sentiments	2.889	2	1.444	1.296	0.279
Market Movement	1.501	2	0.750	0.897	0.411
Knowledge of Investment	5.093	2	2.546	2.557	0.083
Natural Calamities	**11.2333**	**2**	**5.616**	**4.994**	**0.009**
Liquidity	**5.771**	**2**	**2.885**	**3.617**	**0.031**
Industry Performance	2.549	2	1.275	1.300	0.278
Economic Outlook	0.376	2	0.188	0.201	0.818
Tax Benefits	0.431	2	0.216	0.172	0.842
Time Horizon	1.070	2	0.535	0.539	0.585
Capital Protection from Inflation	**8.163**	**2**	**4.082**	**3.618**	**0.031**
Regular Income Generation	0.396	2	0.198	0.188	0.829
Capital Appreciation	**6.860**	**2**	**3.430**	**3.351**	**0.039**
Capital Preservation	3.446	2	1.723	1.926	0.152
Speculation	**15.159**	**2**	**7.579**	**5.734**	**0.005**

Source: Compiled by the Researcher

CONCLUSION

Certain identified factors are responsible for influencing investor's decisions. In this paper stability, macro/micro variables, security aspects, future aspects, passive income, and psychological aspects has been taken as the most important principal factors. These factors are significantly influenced by investors' age in the capital market of India.

To make environment of investment welcoming and alluring to investors, policymakers can thus identify the elements that appeal to various age groups and investor segments, enabling it to reach a larger audience. Policymakers can use the study's findings to support a more favorable investment climate.

LIMITATION OF THE STUDY

The study has certain shortcomings. The study's conclusions might not apply to the entire population because it is sample-based and limited to the city of Kolkata. It's possible that some articulation errors occurred during the study, despite every effort to comprehend the interests and viewpoints of the respondents. Certain recent developments in the stock market may be unknown to some respondents.

Some respondents expressed reluctance to divulge personal information. Furthermore, the responses provided by the respondents may contain some bias. As a result, the conclusion might not apply to other cities as the study was limited to Central Kolkata.

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