The aspects effecting individual behavior on investing decisions: Empirical evidence from Pakistan’s equity markets

Muhammad Ishfaq and Noshaba Anjum
Riphah International University, Faisalabad, Pakistan.

ABSTRACT
This research study is an attempt to examine the impact of Neutral Information, Classic, Accounting Information, Firm-Image Coincidence, Advocate Recommendation and Personal Financial Needs on individual investors’ decision making through the empirical research from Pakistan equity market. The objective of this study is that how an investor makes his decisions and what are the main factors that influence on the investor’s decision making. Quantitative research was conducted to determine the relationship between desired explanatory and response variables and also to check the reliability of questionnaire by Cronbach's alpha. Regression analysis is used to check the intensity between variables. For this purpose, SPSS 20 is used. Result shows that there is a strong positive correlation between variables as \( r=0.858 \) and also value of R-Square (0.81) indicates that 81% independent variables effecting the investors decision. At the end it is recommended to the investors that they should invest freely in the stock market but the investment they make should not be made by making a proper feasibility plan and they should gain all the information about the factors that can influence their investment decisions.

© 2014 Elixir All rights reserved.

Introduction
The investment in the stock market is a complex and important process for an ordinary person. Whenever a person or an investor want to take a decision about how, where and why to invest in the stock market, there are two main factors that can affect his decisions (Kim & Nogsinger, 2008). These two factors can be said as personal factors and technical factors. The personal factors include an investor’s age, income status, education, risk bearing ability and investment portfolio. The technical factors include the accounting information and economic condition of a stock market.

Though considerable amount of researchers have been examined motivation from economic perspectives or studied relationships between economic, behavioral, demographic & lifestyle variables but examination of various utility maximization and behavioral variables taken together provides a complete understanding of the investment decision process.

Nowadays a study is being used to take better decisions about the investment in the stock market. This study is called behavioral finance. Behavioral finance show how investors translate and grasp the information to take investment decisions. It is a rapidly increasing field which emphasize on the behavior of financial practitioner’s psychology (George & Prasad, 2004). So financial behavior and financial position of an investor influence the share prices of an enterprise as Kim and Nogsinger (2008) explored that Financial behavior paradigm reveals how the investors behave and how their behavior might affect the financial markets.

It is assumed that the characteristics information structure and the market participants systematically influence individuals’ investment decisions as well as market outcomes. The understanding of behavioral process for investors is essential for planning financial investments.
behavior of an investor in Equity Market namely as Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange. We can explore the behavior of individual investors comparatively between three stock exchanges and also find out those factors which plays a key role while taking investment decisions.

Problem Statement
Sometimes an investor faces a lot of problems while taking decision. We are finely considering those factors which are putting maximum and least effect while taking investment decisions.

Objectives of the Study
1) To find out factors which effect the decisions of an investor.
2) To find out relative importance of decision variables for individual investors making stock purchase decisions.

Research Questions
What are the different factors influencing individual investor behavior

Significance of study
Various factors influence the decision of investors, variation in share prices occur due to different factors. Local investors such as investment professionals, planners and companies’ analysis the variation in shares. The understanding of behavioral process for investors is essential for planning financial investments since it will help them to use their strategies with their clients. Individual investor did not take risk while buying and selling shares. Various behavioral and economic motivations affect their buying decisions Investors work like rational agents who want to increase their wealth and minimize risk by taking the accurate decisions at an accurate time.

Literature Review
The decision making process is a cognitive factor that is higher mental process in which the emphasis is on thinking, feeling, reasoning and problem solving things and also on weighing the outcomes and alternatives before arriving at a final decision. Every decision-making process produces a absolute choice. The result can be an action or an opinion of choice. Investment decisions made today often are critical for financial security in later life, due to the potential for large financial loss and the high costs of revising or recovering from a wrongful investment decision. Most of the equity investors do not have the sufficient knowledge of basic economic concepts required to make investment decisions. Thus, there is a need to conduct research on factors, other than knowledge, that could influence investment decisions (Lusardi & Mitchell, 2006)


Hussein (2006) reported the factors influencing the UAE investor behavior on the Dhbi Securities Market and Abu. Dubai Financial Market The questionnaire included thirty-four items that belong to five categories, namely self-image/firm-image coincidence, accounting information, neutral information, advocate recommendation and personal financial needs. More than 50% of total respondents reported that six factors were most influencing factors on investment behavior. The most influencing factor by order of importance are “expected corporate earnings”, “get rich quick”, “stock marketability”, “past performance of the firm’s stock”, “government holdings”, “the creation of the organized financial markets” (i.e. Abu Dhabi Securities Markets and Dubai Financial Market). Five factors were found to be the least influencing factors, where less than 10% of total respondents consider these factors as the least affecting factors on their behavior. The least influencing factor , by order of importance are : “expected losses in other local investments”, “minimizing risk”, “expected losses in international financial markets”, “family member opinions” and “gut feeling on the economy”. The most influencing group, by order of importance are: accounting information, self-image/ firm-image coincidence, neutral information, advocate recommendation and personal financial needs. Two factors namely religious reasons and the family member opinions unexpectedly had the least influence on the behavior of the UAE investor.

Nagy and Obenberger (1994) examined factors influencing investor behavior. They suggested that classical wealth maximization criteria are vital for investors, even though investors employ diverse criteria when selecting stocks. Contemporary issues such as local or international operations, environmental path record and the firm’s ethical posture appear to be given only quick consideration. The recommendations of individual stockbrokers, family brokerage houses, members and co-workers go largely unheeded..

Lewellen, Lease and Schlurbaum (1977) determine that age, sex, income and education affectinvestor preferences for capital gains, dividend yield and overall return.

Epstein (1994) examined the demand for social information by individual investors. The results indicate the usefulness of annual reports to corporate shareholders. The result also indicates a strong demand for information about product safety and quality and about company’s environmental activities. Further the majority of the stock holders surveyed wanted information about corporate ethics, employee relations and community involvement.

Hodge (2003) concluded investors’ understanding of earnings quality, auditor independence, and the effectiveness of audited financial information. He argued that lower perceptions of earnings quality are a linked with greater reliance on a firm’s audited financial statements and fundamental analysis of those statements when making investment decisions.
Research Hypothesis

1) H0: There is no relationship Between Classical Wealth maximization and Investor’s decision making.

H1: There is relationship Between Classical Wealth maximization and Investor’s decision making.

2) H0: There is no relationship Between Accounting information and Investor’s decision making.

H1: There is relationship Between Accounting information and Investor’s decision making.

3) H0: There is no relationship Between Firm image coincidence and Investor’s decision making.

H1: There is relationship Between Firm image coincidence and Investor’s decision making.

4) H0: There is no relationship Between Neutral information and Investor’s decision making.

H1: There is relationship Between Neutral information and Investor’s decision making.

5) H0: There is no relationship Between Advocate’s recommendations and Investor’s decision making.

H1: There is relationship Between Advocate’s recommendations and Investor’s decision making.

6) H0: There is no relationship Between Personal financial needs and Investor’s decision making.

H1: There is relationship Between Personal financial needs and Investor’s decision making.

Conceptual Framework

Research Methodology

Participants

The present study included a sample of 200 participants. The investor belongs to Karachi Stock Exchange, Lahore Stock Exchange and Islamabad Stock Exchange and different socioeconomic status and different educational levels.

Methodology

This study is an attempt to find out the factors that influence the behavior of an investor. Primary data is collected by the questionnaire and it is distributed to 200 individual investors. Response rate was 80%.

Research Instrument

Axay Patel developed a questionnaire that includes 36 questions. This questionnaire is used for data collection. Moreover, Researcher also checks the reliability of the data. For this purpose, pilot study is conducted and questionnaire is distributed to different investor’s individuals.

Data Analysis:

The respondents were the individual investors. Regression analysis is used to check the intensity between independent and dependent variables by using SPSS 20. Convenience based sampling is a technique that is used.

Results

In the presence study, the aspects effecting individual behavior on investing decisions are studied. These factors are Neutral Information, Classic, Accounting Information, Self-Image/Firm-Image Coincidence, Advocate Recommendation and Personal Financial Needs. These are analyzed by the Regression to check the intensity between independent and dependent variables by using SPSS 20.

Discussion

Researcher check the reliability of questionnaire items by Cronbach Alpha as its value 0.756. It indicates that instrument is reliable for data collection.

Results in Table 2 shows that there is a strong positive correlation between variables as (r=0.858) and also value of R-Square (0.81) indicates that 81% independent variables effecting the investors decision.

As in Table 3 indicate that sig value is less than 0.05 so we accept the hypothesis that shows that there is relationship between Classical wealth maximization and investors decision making and the value of unstandarized coefficient is -1.199 so the regression equation is:

\[ Y = 0.435 - 1.199X \]

Where, \( Y = \) Investors decision making

\( X = \) Classical wealth maximization

Discussion

The regression analysis shows that there is a strong positive relationship between Classical wealth maximization and investors decision making. The significant coefficient is -1.199, indicating that an increase in Classical wealth maximization leads to a decrease in investors' decision making.
Furthermore, Table indicates that all variables have a strong relationship with investors decision making except Firm image consideration as its sig value (0.359) is above 0.05 so it means that there is no relationship between Firm image consideration and investor’s decision making and now the regression equation is:

\[ Y = 0.435 - 1.199 X_1 + 0.334 X_2 - 0.044 X_3 + 1.503 X_4 - 0.205 X_5 + 0.517 X_6 \]

**Conclusion:**

This present study is an attempt to check the changes in investor’s decision making that how an investor make his decisions and what are the main factors that influence on the investor’s decision making. These factors can alter the investor’s decision completely and the investment made by him could be a successful one if he can learn to use or tackle these factors. At the end it is recommended to the investors that they should invest freely in the stock market but the investment they make should not be made by making a proper feasibility plan and they should gain all the information about the factors that can influence their investment decisions.

**References**


Barber, Brad M., Yi-Tsung Lee, Yu-Jane Liu, and Terrance Odeon (2005) who loses from trade? Evidence from Taiwan, University of California, Davis working paper.


