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

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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.

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.

The financial markets get or absorbed the rapid effect of contemporary variables such as local or international operations, environmental conditions and the firm's ethical values (Grinblatt, 2000). Not only contemporary variables there are also other temporary variable which pushes back to investor while taking decision. Hoffmann et al.(2006) found that financial crises temporarily decrease individual investors return expectations and risk tolerance and enhance their risk awareness.

In this study, variables can be grouped into six summary factors that will capture major investor consideration namely Neutral Information, Classic, Accounting Information, Self-Image/Firm-Image Coincidence, Advocate Recommendation and Personal Financial Needs.

Variables can be explain in such a way like Classical Wealth Maximization, accounting information of the firm in which the investor wants to invest, the coincidence of the firm's image that can attract an investor, the neutral information regarding the firm or company in which the investor is going to invest, the recommendations of the advocate who is hired to give advice and suggestions and the personal financial needs of the investor.

Individual investors often unsuccessful to update their behavior to match their experiences and are comparatively unaware of their return performance (Glaser & Weber, 2007). No doubt, investment in the stock exchanges is always full of risk but people invest there because this investment brings them greater return. Moreover Lease et al. (1974) determined that behavior factors include demographic characteristics, investment strategy patterns, information sources, quality holdings and perceptions of the individual investor.

Few researches have been done in Pakistan regarding the behavior of an investor. This study is an attempt to know the

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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 of 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.

Practically, this study will be worthwhile for Business Administration students. They can keep observe that how various factor influence on share prices and also come to know that being a potential investors, which steps need to be taken and how to develop and put interest in their future regarding investment decisions.

This study is an attempt to give conceptual and technical view about the behavior of individual investors and also elaborate factors which may effect on their behavior. This study will throw light on those factors which are most important and motivate them to purchase the share and also which factors having least effect on buying and selling of shares. In Pakistan, Economical, political and behavioral changes effecting the buying and selling decision so purpose of this study is to find out those factors which effect the decisions of an investor.

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)

There are numerous researches in behavioral finance covering the issue of dynamic relationship between individual investment behavior, trading volume, Firm Status , fluctuation in stock prices and volatility and returns, Exchange Listing, Reputation of Firm, Annual Report . Major studies included Stultz (1999) , Grinblatt and Keloparju (2000) Change and Seasholes (2005), Barber et al (2005) Goetzmann and Kumar (2008) , Barber, B.M., T. Odeo and Zhu (2009), Assessing individual behavior through questionnaire survey is a well adopted approach in behavioral sciences reseearch, Lusardi, A & Mitchell, OS (2006), 'Financial Literacy and Planning: Implications for Retirement Wellbeing', Pension Research Working Paper, Pension Research Council, A large number of researchers adopted this approach to study the importance of cognitive and other factors on individual investor behavior.

Hussein (2006) reported the factors influencing the UAE investor behavior on the Dhabi 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 Schlarbaum (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 effectivness 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.

HA: 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.

HA: 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.

HA: 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.

HA: There is relationship Between Neutral information and Investor's decision making.

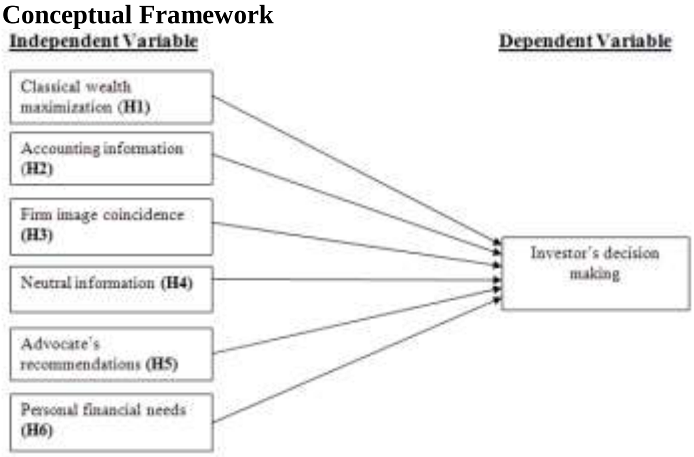
5) H0: There is no relationship Between Advocate's recommendations and Investor's decision making.

HA: 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.

HA: 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 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.

Table 1

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items
.756	.747

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.858[a]	.818	.815	.9728

a. Predictors: (Constant), Personal Financial Needs, Advocate Recommendation,
Firm-Image Coincidence, Accounting Information, Neutral Information, Classical Wealth Maximization

Table 3

Coefficients[a]						
		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.435	.118		3.671	.000
	Classical Wealth Maximization	-1.199	.155	-1.384	-7.724	.000
	Accounting Information	.334	.041	.468	8.232	.000
	Firm image considertion	-.044	.048	-.041	-.919	.359
	Neutral Information	1.503	.120	1.672	12.556	.000
	Advocate Recommendations	-.205	.051	-.237	-3.995	.000
	Personal Financial Needs	.517	.051	.697	10.195	.000

Dependent Variable: Individual Investment Decisions

Result indicate that there is strong relationship between Neutral Information, Classic, Accounting Information, Advocate Recommendation and Personal Financial Needs, Firm-Image Coincidence with individual investment decisions.

Discussion

Researcher check the reliably of questionnaire items by Cron'sback 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 Table3 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=0.435-1.199 X

Where, Y=Investors decision making

X= Classical wealth maximization

Furthermore, Table indicates that all variables have strong relationship with investors decision making except Firm image consideration as it sig value (0.359) is above than 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 X1+0.334 X2-0.044 X3 +1.503 X4-0.205 X5+0.517 X6

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.

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