

AN ANALYSIS OF FACTORS DETERMINING SELECTION OF STOCKS: AN EMPIRICAL STUDY OF INDIAN RETAIL INVESTORS

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ABSTRACT

In India, investors in stocks. are influenced by financial metrics, psychological biases, market trends, and socio-economic factors. Grasping these helps to explain investors' conduct in the financial jungle of India, as it matures. Metric. Financial data is a major driver of investment choices. For example, retail investors check out a company's financial strength and future prospects by focusing on such key performance indicators as profitability, growth of revenues, and return to equity. They also commonly use measures such as earnings per share and price/earnings ratios, to judge the level of valuation return. Many retail investors are influenced by the herd, following market trends and doing what other people do. Today there are many young "traders" who will take great risks based on advice of unknown origin and lacking any evidence basis. Stock choice is also influenced by demographic factors. Younger investors tend to have it higher and so often favour growth stocks, whereas older people usually prefer stable dividend-paying companies. Higher income and education levels normally are associated with a stronger tendency to invest in shares as a result of greater access to financial information and resources. A sample of 261 was collected from investors with different income slab. The factors that determining selection of stocks are Financial Factors, Behavioral and Psychological Factors, Market and Economic Factors, and External Influences.

Keywords- Stock market, Equity investment, Stock trading, Retail investors.

Introduction

Stocks are chosen by Indian retail investors based on the financial goals that they have, market trends, and economic conditions. Rasekhschaffe & Jones (2019) they rely on fundamental and technical analysis, macroeconomic indicators, as well as behavioral patterns. They lack access to information only available to institutional investors. As a result, they in general rely instead upon publicly accessible knowledge sources like expert opinions and market sentiment.

Stock selection is influenced by corporate fundamentals. The financial statements, profitability ratios, debt level and growth rate of earnings make it difficult for investors to get an accurate picture. In history, dividend Analysis of the status payout ratios determines the potential income from a share. Nti et al. (2020) equity investors generally prefer to invest in companies with higher returns on equity and lower debt-to- which means that those covenants have more room for flexibility but interpreting companies financial statements presents problems for many-- leading them instead to follow brokers forecast and brokerage reports.

Market trends and prospects for industries affect investment choices. Fields that have steady performance, information technology, pharmaceuticals and consumer goods center. Government policies, rules changes and international economic trends determine the attractiveness of an industry. Huang et al. (2023) growth stocks in new areas such as solar energy or electric cars are sought after by some investors, while others target banks and infrastructure projects for steady return. Over the economic cycle, investors will change their preference between defensive stocks. Economic cycles change investor preferences among the different types of stocks.

Stock selection is influenced by macroeconomic factors. Inflation, interest rates and exchange-rate fluctuations affect investment strategies. In case of low interest rates, it can reduce the cost of borrowing making corporate incomes rise even more. Fu et al. (2020) high inflation eats into purchasing power and income, which causes companies to be cautious about investment behavior. Export-oriented enterprises are affected by currency movements that in turn may lead to feelings towards international companies. In addition, government budgets, monetary policy and economic reforms all help shape investors' confidence.

Behavioral biases affect investment decisions. Herd mentality makes people want to go with the crowd even though it may not be rational; market trends drive speculative investments at times like these where they push the limits on fundamental facts. Lettau & Pelger (2020) for example, if Bull markets Confirmation bias drives investors to seek information that confirms their views and dismisses all disconfirming evidence. Loss aversion causes investors to hold onto underperforming stocks longer than necessary, dragging out portfolio adjustments as a result. Overconfidence increases trading frequency, thereby reducing returns because of transaction costs and timeliness errors in execution.

Many small investors turn to technical analysis, especially short-term traders. Chart patterns, moving averages and volume trends can all be used to project future price movements. Support and resistance levels decide when to buy and sell. Raza (2021) several investors who choose to rely on trading signals from brokerage platforms offer algorithm-driven advice. Nevertheless, technical analysis demands experience as well as discipline, making it difficult for novices to achieve stable profits.

Libraries play a major role in stock selection. Financial news sites, social platforms like WeChat inform people what the current market situation is while forums or chat It is easy for investors to access information at low or even no cost in a variety of ways; they might listen television analysts, investment blogs, and influencers advise. Huang et al. (2019) however, by relying on sources that are not subject to verification we raise the danger of misinformation Brokerage reports and advisory services provide more structured analysis compared with these methods. But many first-time investors prefer free resources, differences in both market information obtained and the resulting decisions made get as a consequence

Objectives of investment determine the selection of stocks. For instance, long-term investors are interested in enterprises with stable growth. Short-term investors chase horse stocks which have large fluctuations in price. Risk thresholds vary: conservative shs like bellwether stocks while radical ones aim for smaller-cap and midcap opportunities. age, income level and maturities of financial obligations also influence the duration of investments.

Liquidity remains an issue in stock selection. Stocks with large trading volumes are preferred because they are easier to enter and now exit. Illiquid stocks present risks of sudden price changes.

Many retailers select SENSEX and NIFTY 50 stocks as they are widely traded and therefore more stable-- major indices for trading markets presence. They hope for stable trading.

Literature review

When choosing stocks, retail investors in India rely on financial data, stock market performance, and their own strategies. They study company fundamentals in order to evaluate growth prospects and financial stability. Part of this process involves examining the firm's financial statements, ratios of profitability, level of debt, and efficiency measures. For unlike institutional investors, retail investors depend on information that is publicly available, a crowd of analysts and financial websites.

Financial statements—the balance sheet, profit-and-loss account, cash flow statement— enable investors to evaluate companies. The balance sheet shows a company's assets, liabilities, and equity, permitting investors to gauge its financial prospects. A low proportion of debt to equity suggests safe borrowing and potential financial risk reduction. Snášel et al. (2024) the profit-and-loss record displays changes in business revenue, gross margins, and ultimately net earnings. High income growth with widening margins indicates robust operating conditions. Cash flow statements indicate where liquidity lies and if a company is capable of making repayments as they come due. High cash flow from operations points to financial sustainability.

Earnings growth is a factor influencing stock selection. Investors look at earnings per share (EPS) to measure profitability. A rising EPS means an expanding business, which will bring in those wanting capital appreciation. The price-to-earnings (P/E) ratio sets out investor opinion on valuation. A P/E less than those of industry peers suggests growth potential, while one higher may indicate overpricing.

When considering investment decisions, debt levels matter greatly. Firms with high debt levels face much interest obligation, diminishing their profits and financial flexibility. Investors assess interest cover ratios when studying a company's ability to manage debt. A good ratio indicates sound finance; a poor ratio raises doubts about solvency.

Victor et al. (2018) return on equity (ROE) links profitability to the funds shareholders provide. A consistently high ROE indicates capable management and efficient operations. Investors compare ROE between companies in the same industry in order to find businesses that are making higher profits. Extra indicators, such as return on assets (ROA) and return on capital employed (ROCE), give more insight into asset efficiency. Retail investors use these indicators to gauge financial strength, thereby striking a proper balance when picking which stocks to invest in while controlling risk.

Asad et al. (2018) retail investors often make choices based on behavioral biases, leading to strategies that do not always reflect economic logic. Different psychological biases, including herd mentality, overconfidence, loss aversion and confirmation bias, affect investors' perception of risk and choice of stocks.

Herd mentality means investors follow market dispatch without conducting independent study. Many people believe that a widely held stock must have its true value. This makes prices rocket in rising markets and when the reverse of panic selling arrives on a downturn. Many investors catch stocks at their height due to fear of missing out (FOMO) and subsequently suffer losses when

trends reverse. IPOs, in which a company brings shares onto the market for the first time, often spawn herd-type investments as investors rush to buy newly listed shares without considering their longer term potential at all.

Technical analysis-based retail investors analyze price movement, past trends, and trading signals to determine stock buy and sell decisions. Technical analysis, on the other hand, does not delve into a company's financial well-being; rather, it studies stock price trends and market behaviour to make forecasts of what will happen next. Investors that take this approach believe that historical price actions and volume data can discern future price direction.

PH & Uchil (2020) powerful tools in technical analysis is chart patterns, that assist investors in spotting potential buy or sell signals. Typical patterns include head and shoulders, double tops and bottoms, and flags and pennants. These patterns suggest market sentiment, allowing traders to expect breakout, reversal, and continuation trends. Candlestick charts, commonly utilized by retail investors, offer more information than a simple close price over a time period, highlighting emotions of buyers and sellers and signs of future price action. A commonly used method is called moving averages, which smooth out price fluctuations and makes it easier to spot trends. The simple moving average (SMA) computes the average price over a defined period of time, like 50 days or 200 days, which helps investors determine long-term trends. The exponential moving average (EMA) assigns more weight to recent prices, so it can be helpful for short-term trading signals. When a short-term moving average crosses above a long-term moving average, it creates a golden cross, a bullish sign. In contrast, its crossing below is known as a death cross, or bearish trend.

Kaur & Dharni (2023) trading signals, which are created by technical indicators, give investors guidance on when to buy or sell a trade. The relative strength index (RSI) gauges the speed and change of price movements to find overbought or oversold conditions. When a stock has a 14-day RSI above the level of 70, it is considered overbought, potentially indicating a correction is coming, while the level below 30 reinforces an oversold condition, which usually leads to an uptrend. Other indicators, including moving average convergence divergence (MACD) and Bollinger Bands, offer additional confirmation of trends and volatility.

Retail Investors Engage in Technical Analysis to Help Time Their Stock Market Moves But, the right skill set, commitment, and knowledge on various indicators will give you success. Because no single method is infallible, traders usually use several tools and mitigate risk in order to make better decisions.

Retail investors follow market trends and sector outlook to screen stocks high growth potential. Sectoral performance, macroeconomic conditions, government policies and global developments influence their decisions. As a result, investors are allocating more into stocks in sectors that exhibit continuing demand and technological progress, strong fundamentals, and are dynamically repositioning their portfolios in response to market cycles and changes in policy.

Zhang et al. (2018) policies such as Make in India and Production-Linked Incentive (PLI) schemes encourage the manufacturing sector, attracting investment in automobile, electronics, and renewable energy stocks. Likewise, tax incentives and subsidies promote investment in the infrastructure and real estate companies.

Economic trends and conditions in the global market also drive selection. Sector performance is affected by inflation, interest rates, GDP growth, and currency fluctuations. Low-interest-rate environment helps industries dependent on debt funds like real estate, capital goods. On the other hand, increasing inflation can lower discretionary spending by consumers, hitting retail and automobile sectors. Investor sentiment towards certain industries is also influenced by global supply chain disruptions, geopolitical events, and commodity price fluctuations.

Wang et al. (2024) Retail investors react to shifting market dynamics with sector rotation, favouring space with strong growth potential and government support. They try to maximise returns while managing risks associated with both economic and policy cycles by making sense of market trends and sector outlook.

Objective

To study the factors determining selection of stocks by Retail Investors.

Methodology

A sample of 261 participants were collected from retail investors with different income slabs. The method of sampling was “Random sampling” for collection of data and examination was done by “Explanatory Factor Analysis” for results.

Findings

The table demonstrates demographic details, it shows that 60.92% are Male, 39.08% are female. Looking at the age, 33.33% are between 25 to 30 years of age, 40.23% are between 30 to 35 years of age, and 26.44% are above 35 years of age. With regards to Income level, 34.86% are Less than 5 lacs, 29.12% are 5 to 10 lacs, and 36.02% are More than 10 lacs.

Participant's Details

Variables	Participants	Percentage
Gender		
Male	159	60.92%
Female	102	39.08%
Total	261	100
Ages in years		
25 to 30	87	33.33%
30 to 35	105	40.23%
Above 35	69	26.44%

Total	261	100
Income Level		
Less than 5 lacs	91	34.86%
5 to 10 lacs	76	29.12%
More than 10 lacs	94	36.02%
Total	261	100

“Factor Analysis”**“KMO and Bartlett's Test”**

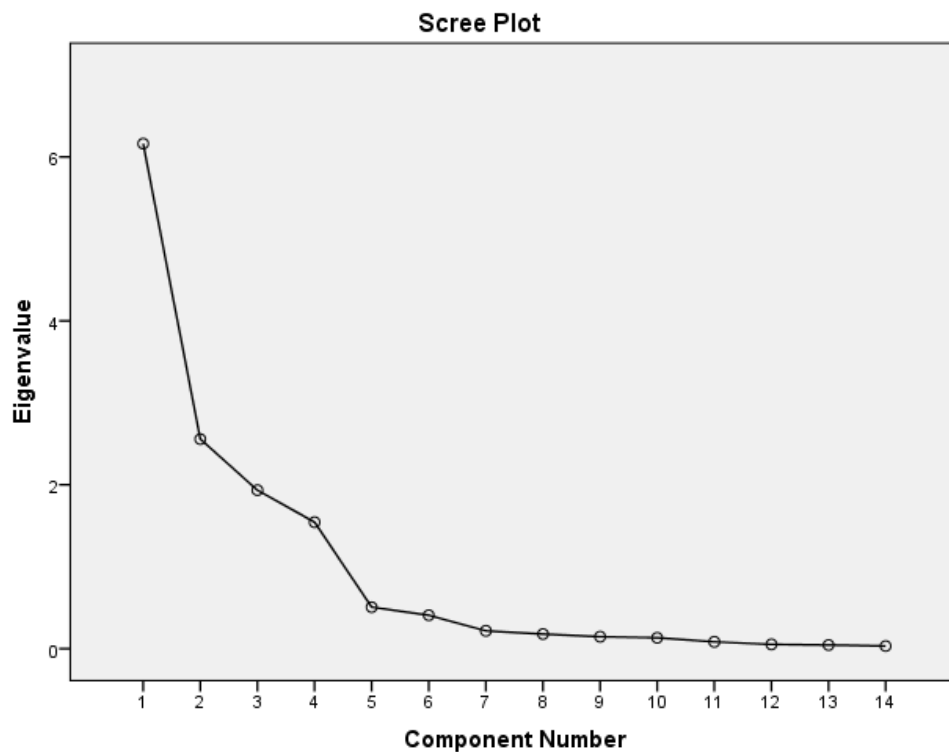
“Kaiser-Meyer-Olkin Measure of Sampling Adequacy”		.780
“Bartlett's Test of Sphericity”	“Approx. Chi-Square”	4300.205
	df	91
	Significance	.000

“KMO and Bartlett's Test”, value of KMO is .780

“Total Variance Explained”

“Component”	“Initial Eigenvalues”			“Rotation Sums of Squared Loadings”		
	“Total”	“% Of Variance”	“Cumulative %”	“Total”	“% Of Variance”	“Cumulative %”
1.	6.163	44.018	44.018	3.776	26.973	26.973
2.	2.557	18.267	62.286	3.603	25.738	52.711
3.	1.934	13.816	76.102	2.523	18.022	70.733
4.	1.543	11.023	87.125	2.295	16.392	87.125
5.	.507	3.619	90.744			
6.	.408	2.916	93.660			
7.	.217	1.553	95.213			
8.	.179	1.276	96.489			
9.	.146	1.041	97.530			
10.	.133	.952	98.481			
11.	.083	.596	99.077			
12.	.052	.374	99.452			
13.	.045	.321	99.772			
14.	.032	.228	100.000			

The four factors contribute towards explaining total 87.182% of variance. Variance that is explained by Financial Factors is 26.973, Behavioural and Psychological Factors is 25.738%, Market and Economic Factors is 18.022%, and External Influences is 16.392%.



Scree Plot

“Rotated Component Matrix”

S. No.	Statements	Factor Loading	Factor Reliability
	Financial Factors		.952
1.	Company fundamentals like revenue growth, profitability, debt level, & cash flow	.952	
2.	Valuation metrics like Price-to-earning (P/E) ratio, dividend yield, Price-to-Book (P/B) ratio	.896	
3.	Regular dividend paying stock attracts investors focusing on income	.861	
4.	Stocks with higher trading volume are preferred by investors for easy entry and exit	.858	
	Behavioral and Psychological Factors		.952
1.	Risk tolerance level of investor who prefer safe, blue-chip stocks, or high-risk, high-return	.952	

2.	Herd mentality where investors follow market, social media, news & peer recommendations	.912	
3.	Fear of losses makes investors vigilant in choosing unpredictable stocks	.895	
4.	Overconfidence of investors impact their ability to pick persuasive stocks, leading to excessive trading	.886	
	Market and Economic Factors		.880
1.	Interest rates, inflation, GDP, and unemployment rates impact market performance	.917	
2.	Bullish markets boost risk-taking, while bearish markets make investors alert	.865	
3.	Investors focus on sectors with strong growth potential like technology or healthcare	.823	
	External Influences		.831
1.	Tax policies, monetary policy, and corporate regulations impact investor decisions	.935	
2.	Political instability, trade tensions, and global crises create market volatility	.926	
3.	Many retail investors rely on expert stock ratings, research reports, and financial news	.621	

Factors of the study and its related variables

Financial Factors is the first factor of the study, the variables it includes are Company fundamentals like revenue growth, profitability, debt level, & cash flow, Valuation metrics like Price-to-earning (P/E) ratio, dividend yield, Price-to-Book (P/B) ratio, Regular dividend paying stock attracts investors focusing on income, and Stocks with higher trading volume are preferred by investors for easy entry and exit. Behavioral and Psychological Factors is the second factor, its variables are Risk tolerance level of investor who prefer safe, blue-chip stocks, or high-risk, high-return, Herd mentality where investors follow market, social media, news & peer recommendations, Fear of losses makes investors vigilant in choosing unpredictable stocks, and Overconfidence of investors impact their ability to pick persuasive stocks, leading to excessive trading. Third factor of the study is Market and Economic Factors, it includes variables like Interest rates, inflation, GDP, and unemployment rates impact market performance, Bullish markets boost risk-taking, while bearish markets make investors alert, and Investors focus on sectors with strong growth potential like technology or healthcare. Fourth and last factor is External Influences, its variables are Tax policies, monetary policy, and corporate regulations impact investor decisions, Political instability, trade tensions, and global crises create market volatility, and many retail investors rely on expert stock ratings, research reports, and financial news.

“Reliability Statistics”

“Cronbach's Alpha”	“Number of Items”
.892	14

Total reliability of 14 items that includes variables for factors determining selection of stocks by Retail Investors is 0.892.

Conclusion

Social factors have played an increased role, ranging from peer recommendations to financial influencers. With the emergence of social media, herd behavior is stronger than ever; many investors follow a trend, instead of doing an analysis (on their own).

Investment preferences are influenced by demographics, including age, income and education levels. Younger investors tend to be into high-growth stocks and older investors seek stability. Higher-income and higher-educated investors have preferred access to financial tools and information, informing their stock decisions. Investors will need to understand all these factors to make sound investment decisions. Therefore, by combining basic and technical analysis with proactively addressing mental system errors, retail investors in India can strengthen stock selection programs, and are more likely to make good stocks while they remain. The factors that determining selection of stocks are Financial Factors, Behavioral and Psychological Factors, Market and Economic Factors, and External Influences.

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