Journal of Informatics Education and Research
ISSN: 1526-4726
Vol 3 Issue 2 (2023)

A Study of Factors Influencing Individual Investors' Investment Behaviour in Mumbai

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Abstract

The objective of investing is to generate a profit from a transaction. Fixed deposits, insurance plans, corporate bonds, government securities, stock shares, mutual funds, real estate, commodities, chit funds, post office schemes, and gold and silver investments are just a few of the myriad investment alternatives accessible to customers. Based on the factors like, risk appetite, investment diversification, and demographic profiles of the investor, this study seeks to discover differences in investor perspectives toward the factors impacting investment decisions. This study aims to identify and analyze the factors that influence the investment decisions of individual investors in Mumbai City. Understanding the factors that influence their investment decisions is crucial for investors, financial institutions, and policymakers.

The research contributes to the existing literature by providing insights into the specific factors influencing investment decisions in Mumbai city. The findings can assist individual investors in making informed investment choices, financial institutions in designing suitable investment products and services, and policymakers in formulating investor-friendly regulations. Additionally, the study paves the way for further research in understanding investor behaviour and decision-making patterns in different demographic contexts.

Keywords: Investment Decisions, Risk appetite, Demographic Profiles, Investor perspectives

1. Introduction

Mumbai, India's financial capital, has a vibrant investing environment with a wide range of options, making it an interesting place to study the subtleties of how individual investors decide what to invest in. A variety of psychological, economic, and social elements interact to determine the complex phenomena of investment behaviour. Individual investors frequently engage in trading behaviours that diverge from reasonable expectations, according to Barber and Odean (2000), which results in less-than-ideal investing outcomes. According to behavioural economics, which was emphasised by Kahneman and Tversky (1979), investors' risk perception and decision-making processes are influenced by cognitive biases.

The Handbook of Statistics (2021) published by the RBI (RBI) offers insightful information on India's economic statistics that contextualise the investment environment in Mumbai. The BSE (BSE) Equity Market Indices (2021) provide information on market performance by displaying how investors are responding to the state of the economy.

By focusing on the unique elements impacting individual investors' investment behaviour in Mumbai, we hope to advance previous research with this study. We aim to give a thorough examination of how psychological, economic, and social aspects collectively impact investment decisions by integrating ideas from behavioural economics, financial literature, and the distinctive features of Mumbai's financial ecosystem.

2. Review of Literature

Kahneman and Tversky's (1979) prospect theory highlights how investors' risk appetite and portfolio decisions can be affected by cognitive biases, such as loss aversion, which can cause investors to overestimate the likelihood of unfavourable outcomes (Kahneman & Tversky, 1979).

Barber and Odean (2000), according to them, risk perception often diverges from objective risk measures, leading to suboptimal investment choices (Barber & Odean, 2000). This phenomenon is attributed to behavioural biases that influence risk assessment.

Samreen Lodhi (2014) purpose of this study is to determine how an investor's level of familiarity with various investment vehicles and understanding of the relationship between risk and return affects their personal investment (Lodhi, 2012). along with the knowledge of companies performance analysis technique and portfolio management techniques

Anju K.J, Anuradha P.S (2015) Investors have different perspectives when deciding whether to invest in a particular avenue. Through appropriate investment strategies and financial management, investors can increase personal wealth, which will enhance the economic growth. Income, Savings, and Investment are the three factors that measure the growth of an economy (Anju & Anuradha, 2015).

Tandel and Patel (2017) emphasize that investors' risk perception is influenced by factors such as financial literacy and demographic characteristics, further highlighting the multi-dimensional nature of risk assessment.

Sevilay USLU DIVANOGLU Dr. Hasim BAGCI (2018) Investors, acting on the basis of past experiences, by some psychological factors according to the state of perception and shape, individual investors' personal and social situations, investment preferences, and level of knowledge need to be well analysed and assessed on what factors they are influencing when making investment decisions. This study found that the most crucial factor in selecting investment instruments is minimizing the risk of return, risk exposure, and diversification (Uslu Divanoglu & Bagci, n.d.).

Prof. Tejal Shah, Mit Kumar Kikani, Ruchiben Kansagra (2023) The purpose of this study is to ascertain your risk-taking behaviour, help you reach your financial objectives, determine the factors that influence how investors behave when making long-term investments, and gauge your level of investment knowledge. It also focuses on how to analyze investors' attitudes toward risk and investment, and how to look at the variables that affect how they choose to make investments (Shah et al., 23 C.E.).

Research Gap

The realm of investment decision-making by individual investors is extensive and has been subject to numerous studies, yet there are still several research gaps that offer opportunities for further investigation. This study will fill in some gaps regarding how individual investors perceive risk and incorporate risk management into their investment choices. The research will also try to cover the gap in behavioural biases that arise in the investing choices of individual investors. Another important factor that will be covered through research is the correlation between demographic factors and factors influencing the investment decisions of investors.

3. Research Methodology

3.1 Objectives

1. To understand the relationship between risk appetite and investment decisions of individual investors in Mumbai City.

2. To analyse the impact of gender in shaping the investment decisions of individual investors in Mumbai City

3. To analyse the impact of age in facing the challenges towards investment decisions of individual investors in Mumbai City.

3.2 Data Collection

Primary Data: A standardized questionnaire was distributed among Individual Investors between the age group of 21 - 60 years.

Secondary data: The secondary data was gathered from publicly available resources such as articles, research papers and government websites.

3.3 Sampling Method

Sampling Method: The sampling method used was a simple random sampling method as every individual investor has an equal chance of getting selected.

Research Design: A descriptive research design is selected because it would give a thorough and accurate depiction of the numerous elements influencing individual investors' investing decisions'

Sample Size: In total 100 responses were received from western part of Mumbai region.

3.4 Hypothesis

Hypothesis 01

H1.0: There is no significant relationship between risk appetite and investment decisions.

H1.1: There is a significant relationship between risk appetite and investment decisions.

Hypothesis 02

H2.0: There is no significant relationship between gender and investment decisions.

H2.1: There is a significant relationship between gender and investment decisions.

Hypothesis 03

H3.0: There is no significant relationship between age and challenges faced in investment decision.

H3.1: There is a significant relationship between age and challenges faced in investment decisions.

3.5 Variables

Independent Variable: Risk appetite, Gender, Age

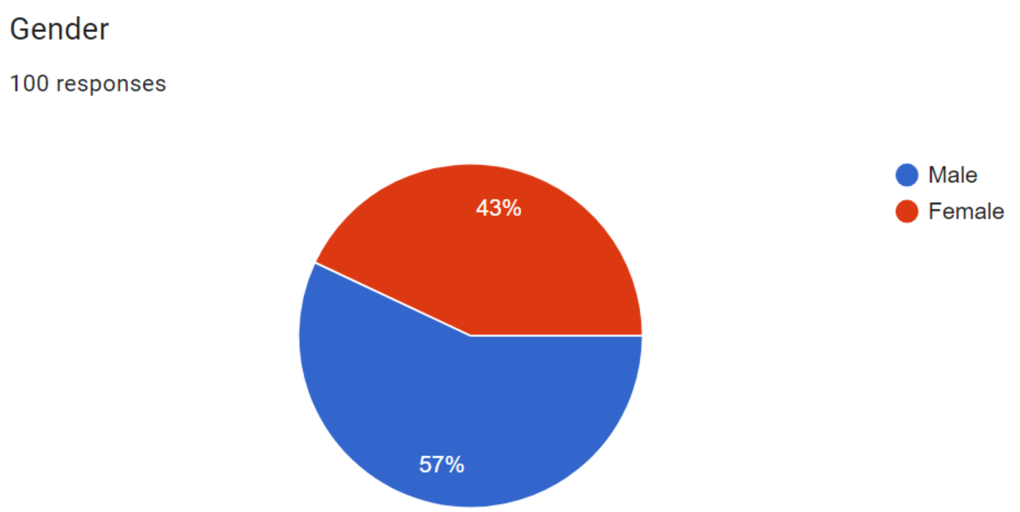
Dependent Variable: Investment Decision

3.6 Significance of Study

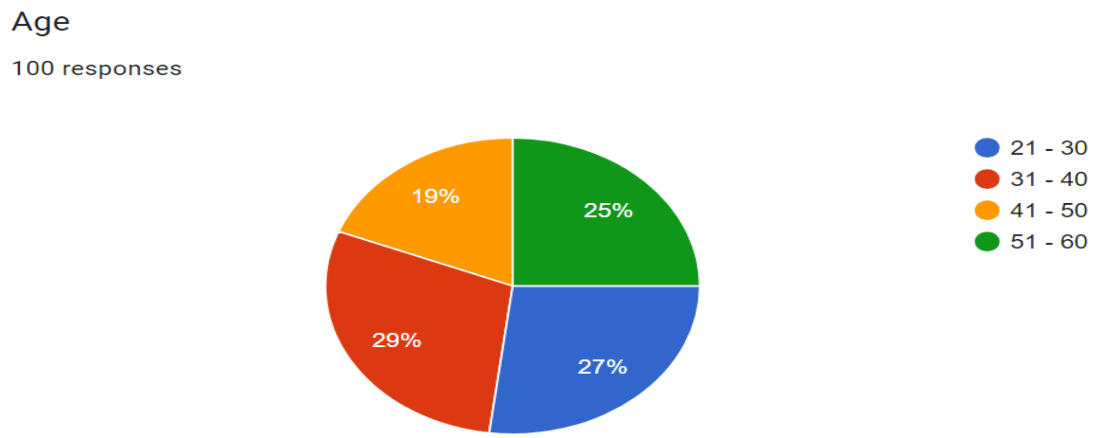
This study will help Individual investors to choose more wisely and rationally and will comprehend the elements that influence their investment selections. The information can help financial advisors and investment experts customize their recommendations and guidance to better suit the preferences, risk tolerance, and objectives of their clients. It might be helpful for investors to design efficient risk management methods if they comprehend how risk perception and risk tolerance affect investing decisions.

The study's conclusions regarding investor behaviour and preferences might offer asset managers useful market intelligence, assisting them in creating investment products that cater to investor needs. The results can be used by people to make more educated choices about wealth management, retirement planning, and reaching their financial objectives. It can assist people in avoiding frequent traps and making more responsible financial decisions by identifying factors that result in poor investment selections. The study's findings, which take into account not only economic issues but also psychological, cognitive, and social influences, can help to advance holistic financial wellness

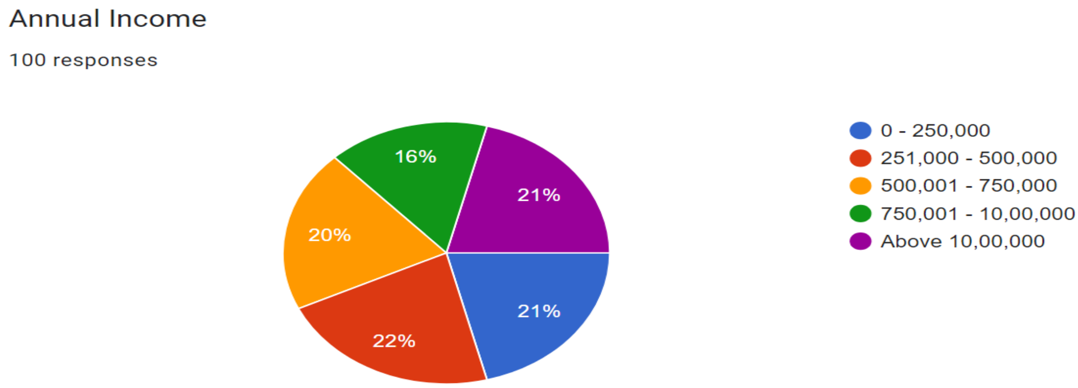
4. Data Analysis and Interpretation



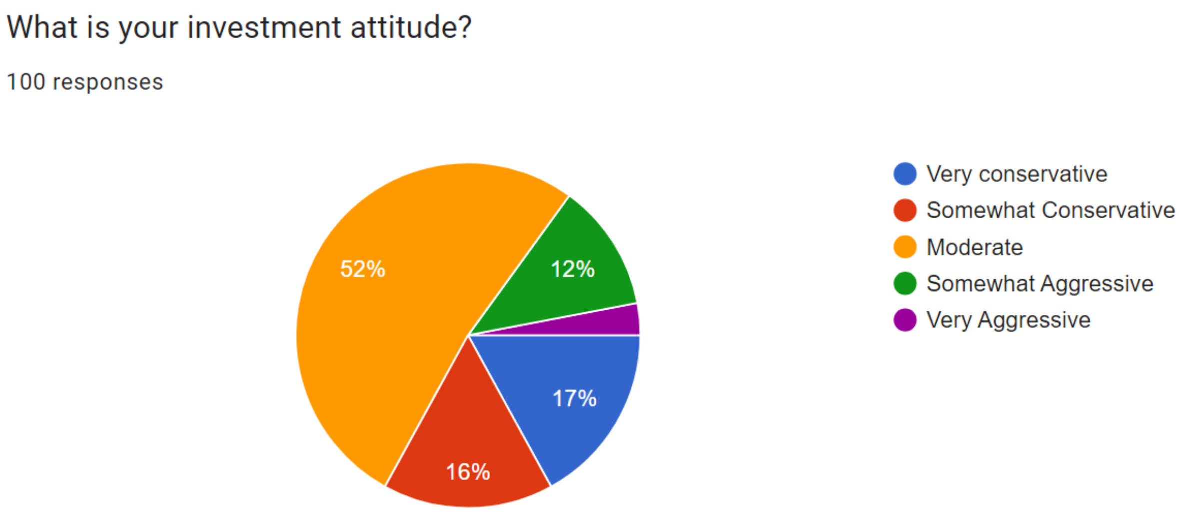
The Following study of the data shows the total population of 100 Responses, where 57% of the gender is male population whereas 43% of the population is female population.



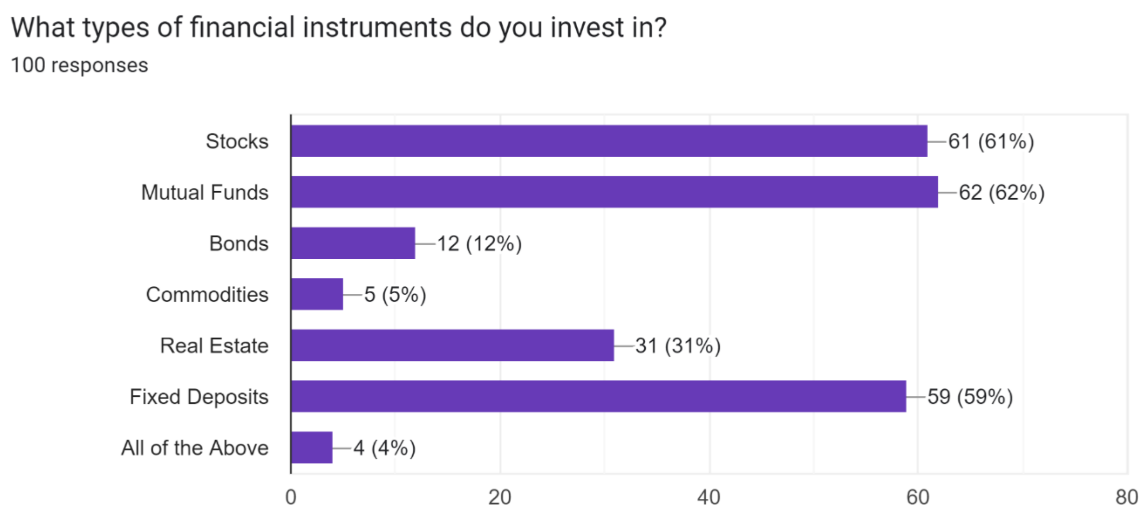
According to the data we have analysed from the provided pie chart, each age group has a sufficient number of responses i.e 27% from the age group 21–30, 29% from the age group 31–40, 19% from the age group 41–50, and 25% from the age group 51–60



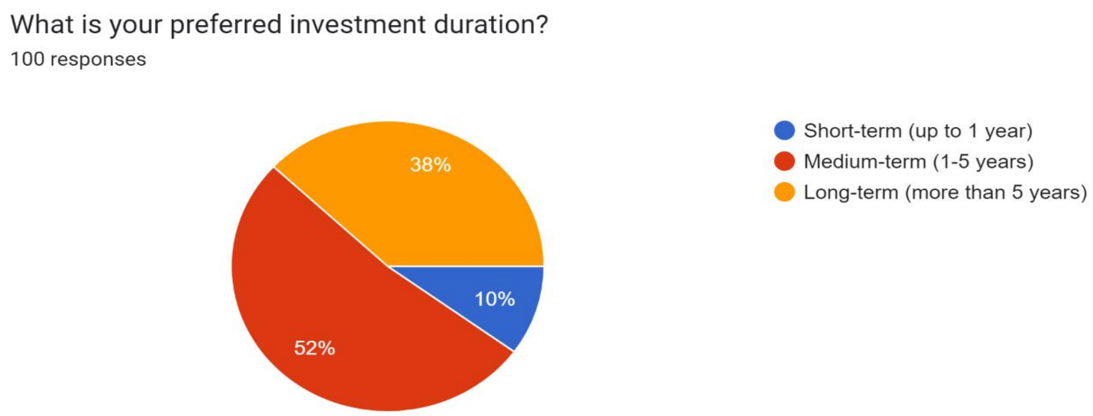
The data analysis from the pie chart shows for the annual income range where we see 21% for the income group 0-250,000; 22% from the income group 251,000 to 500,000; 20% for the income group 500,001 to 750,000; 16% for the income group 750,001 to 10,00,000 and 21% for the income group where income goes above 10,00,000.



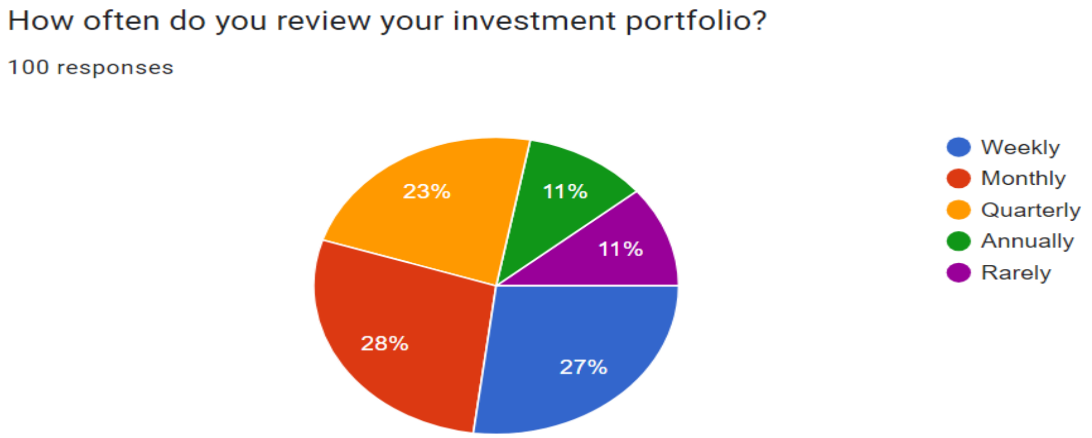
Investment Attitude depends on how the person behaves with its particular investment where we have observed 52% of the responses which we have received are of moderate type; 17% of the responses indicates they are very conservative in nature i.e outlook towards risk is low; 16% of the responses are of somewhat conservative type means they can afford to take minimal risks; 12% of the responses indicates they are somewhat aggressive and only 3% of the responses are very aggressive which indicates they can afford to take risks while doing the particular investment although they need to incur few losses.



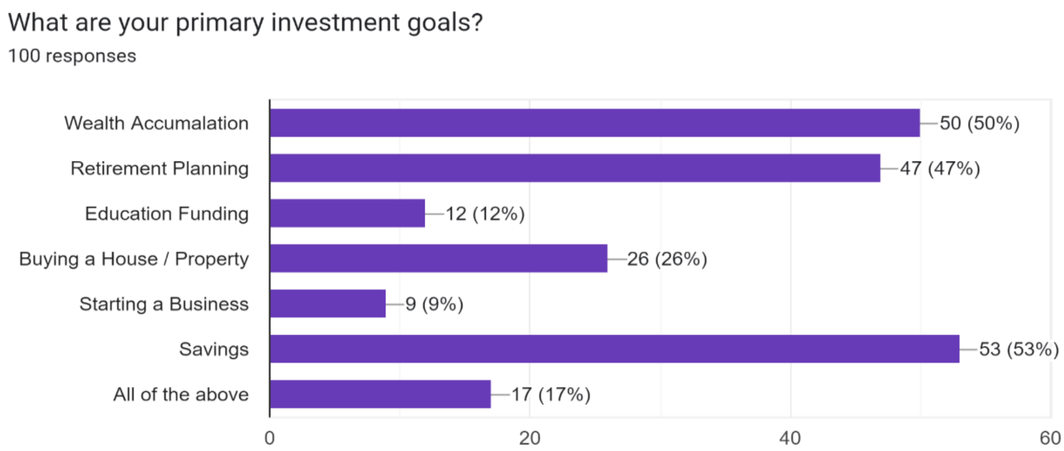
The above diagram indicates 61% of samples invest in stock, 62% of samples invest in mutual funds, 12% invest in bonds, 5% invest in commodities, 31% invest in real estate, 59% invest in fixed deposits. This also shows more than 50% of samples believe in taking the risk i.e higher returns while the rest of the samples are risk-averse people who believe in taking less risk i.e low returns.



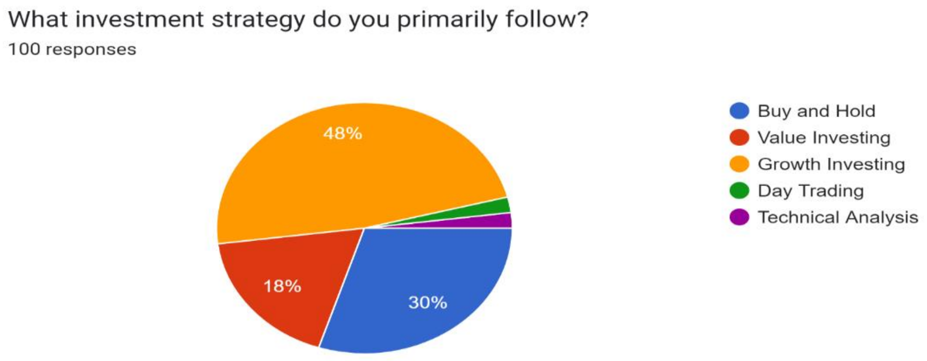
In this data we see that around 52% of the people prefers their investment for Medium Term where they can get more interest for their investment 38% of the people prefer for long term investments where we get more interest for the particular investments and only 10% of the people feel they can increase their investment in less than 1 year.



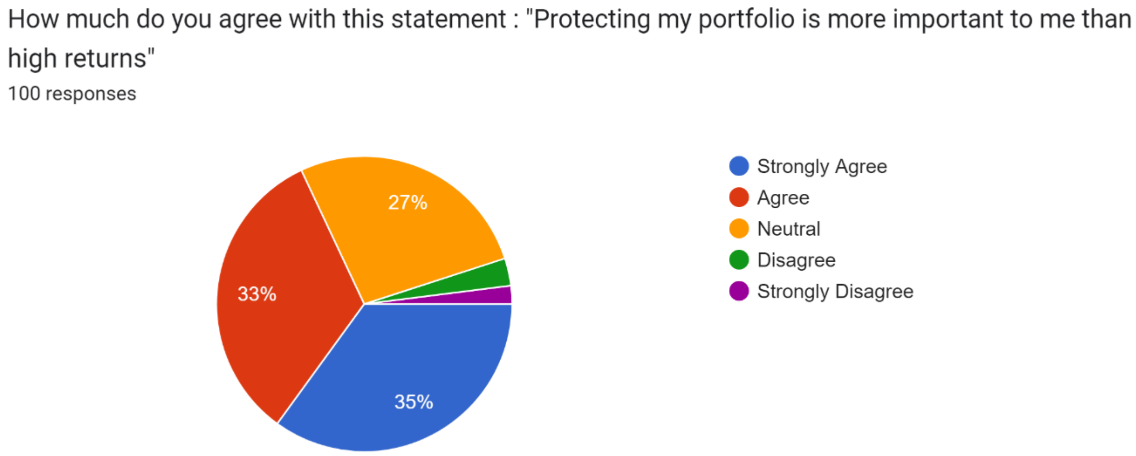
From the given set of response's, we can analyse that 28% of the people review their investment on monthly basis 27% of the people review their investment on weekly basis means at starting day of the week comparing with previous week 23% of the people review their investments on quarterly basis means they review their investments only 4 times in a year. We also observe that each of 11% people review their investments either on an annual mode means year after year or rarely review their investments once done it is done type of people.



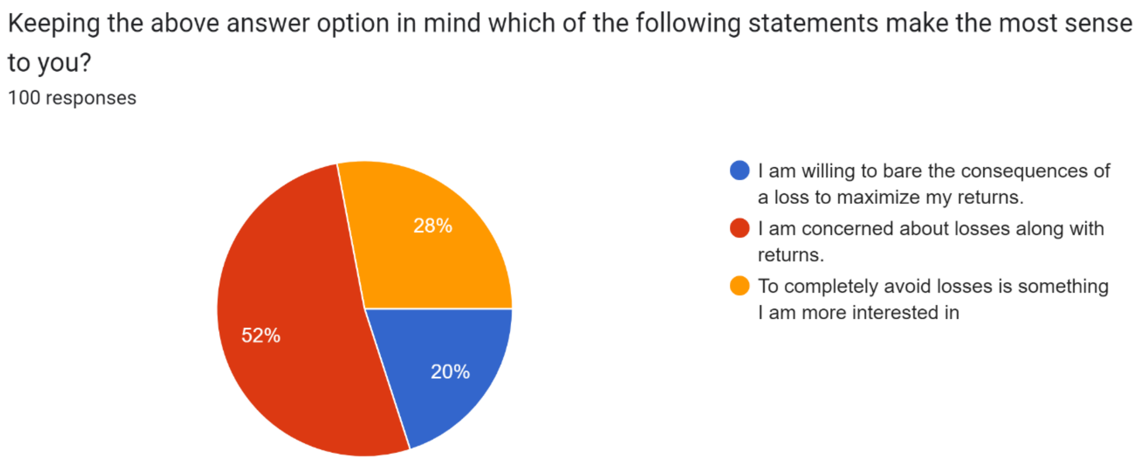
The above diagram indicates 50% of samples primary goal is wealth accumulation, 47% wants to invest for their retirement, 12% invest for their education, 26% invest for buying an asset, 9% invest for their business and 53% primary goal for investment is savings.



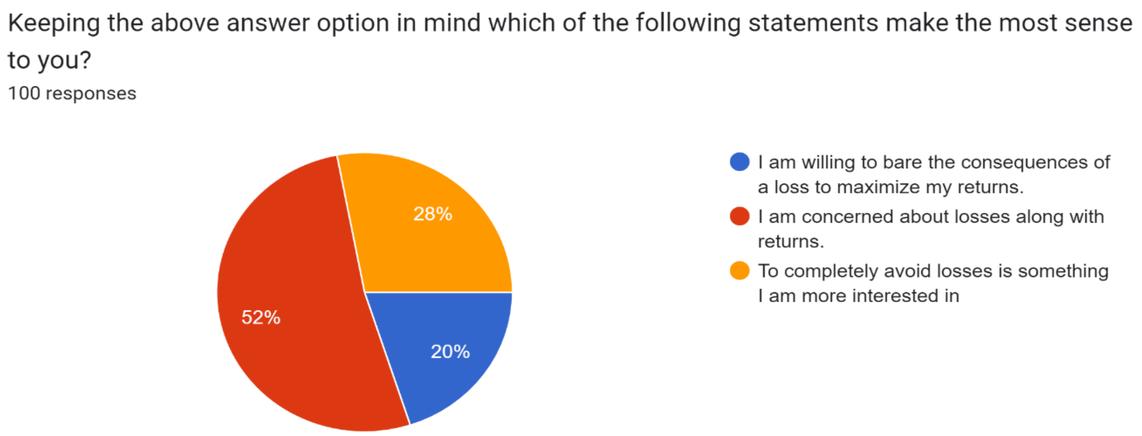
In the given set of response's, we have seen 48% of the people believe their investment is for growth purposes 30% of the people believe that they need to buy the investment and hold it till the maturity time 18% of the people believe that their investment will give them the particular value and each of the 2% people either follow technical analysis for the particular investment and carry on with their intra-day trading investments.



We can also analyse the statement by saying "Protecting my portfolio is more important than high returns" which indicates 35% of the people show that they strongly agree for protecting the portfolio 33% of the people agree that for protecting portfolio is more important than high returns. 27% of the people believe that protecting investments is for neutral purpose and 2.5% each either disagree their portfolio is more important to me than high returns and sometimes they strongly disagree that protecting my portfolio is more important to me than high returns.



With reference to above context, we see that 52% of the people are concerned about their losses along with their returns 28% of the people believe that they completely avoid losses in something they are ready for completely avoid losses in something that they are interested in something and 20% of the people feel that they are willing to bare the consequences of a loss to maximize my returns.



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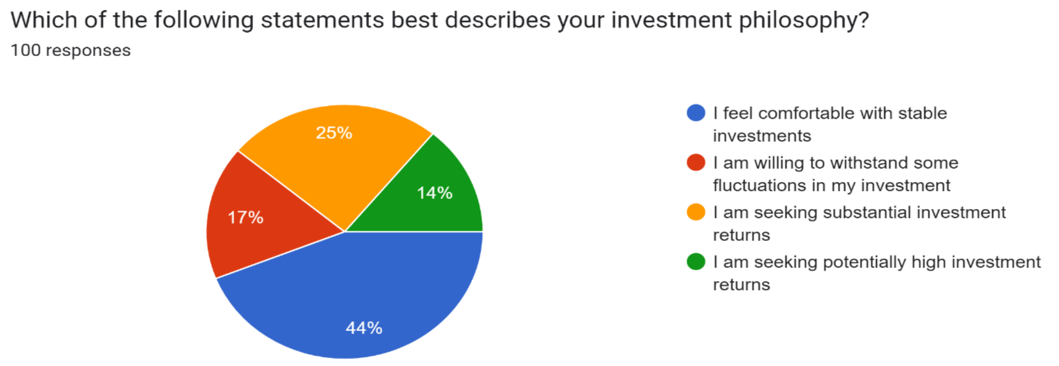
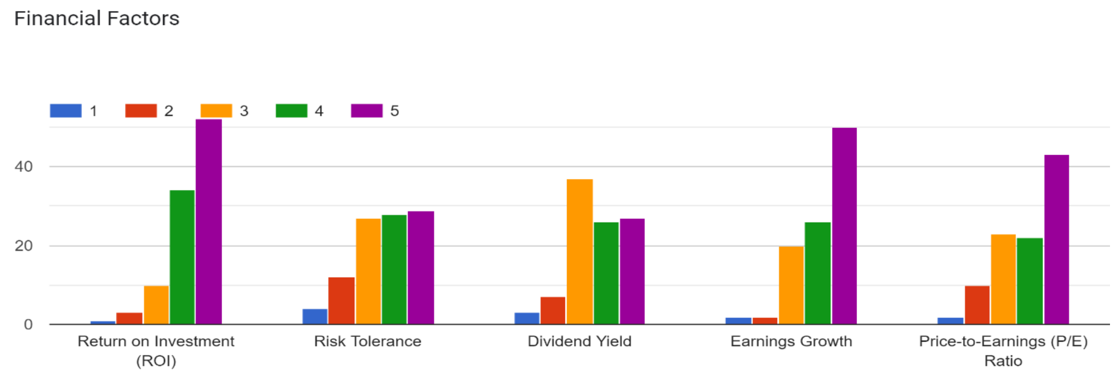
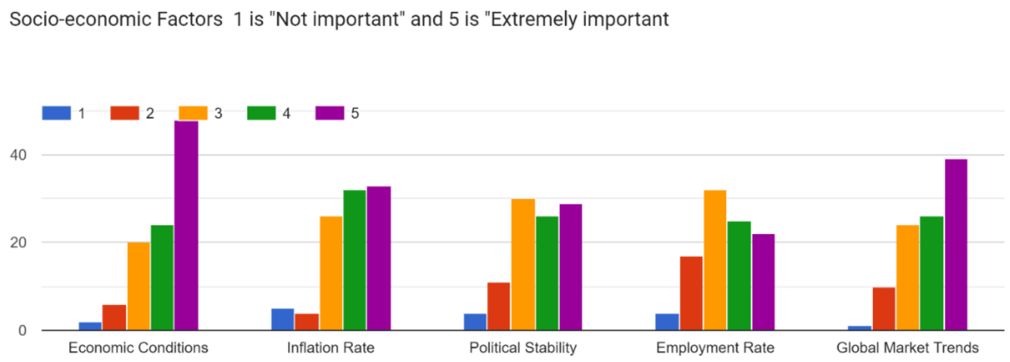


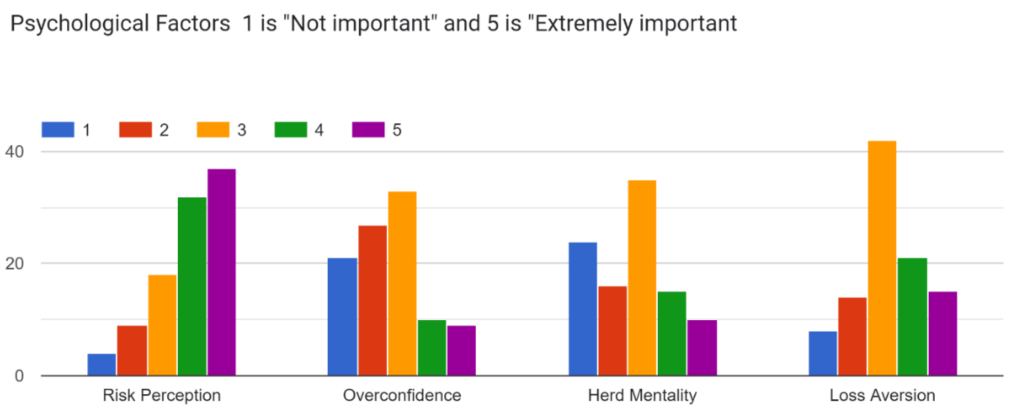
We can also check to describe the investment policy with the questionnaire we see that 44% of the people believe that they feel comfortable with stable investments 25% of the people feel they are seeking substantial investment returns with respect to investment philosophy 17% of the people feel that they are willing to withstand some fluctuations in my investment and 14% of the people feel they are ready to take high investment returns



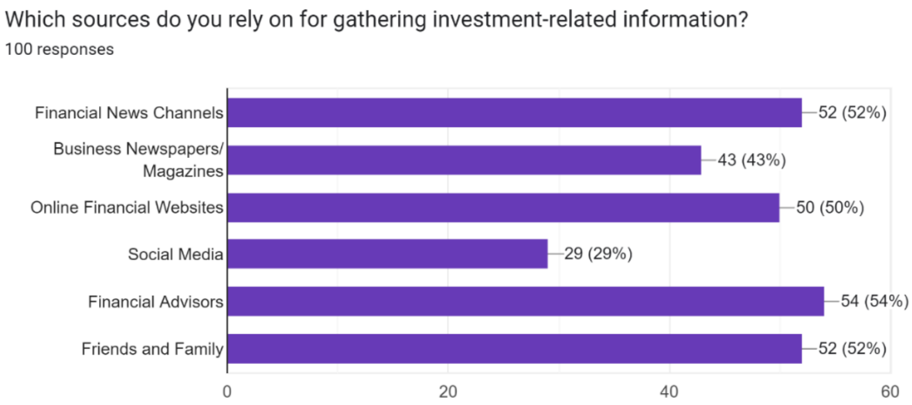
The above diagram shows financial factors that influence investment decisions of investors. 52 samples has rated ‘5’ to return on investment because it aids in comprehension of the profit or loss of investment has generated, 29 samples have also rated ‘5’ to risk tolerance because it shows a risk-taking attitude on the part of an investor, regardless of their financial situation, 37 samples has rated ‘3’ to dividend yield and it shows that investors wanted to invest for passive income, 50 samples has rated ‘5’ to earnings growth because they believe that when they eventually sell their shares in the future, they will benefit from capital gains. and 43 samples has rated ‘5’ to price-to-earnings ratio because it help investors to project earnings.



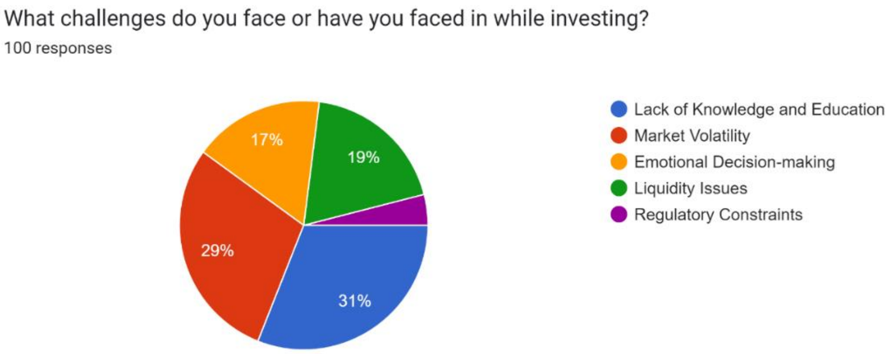
The above diagram shows socio-economic factors that influence investment decisions of investors. 48 samples has rated ‘5’ i.e given more importance to economic condition, 33 samples have also rated ‘5’ i.e considered inflation rate as extremely important before investment, 30 samples has rated ‘3’ to political stability because instable political envoirnment can hurt investment, 32 samples has rated ‘3’ to employment rate and 39 samples has rated ‘5’ to global market trends because investment gets impacted by government, international transactions, speculation/expectation, and supply and demand.



The above diagram shows psychological factors that influence investment decisions of investors. 37 samples has rated ‘5’ to risk perception because he individual investors think differently about their investment and make decisions differently, 33 samples have also rated ‘3’ to overconfidence as they can correctly foresee market fluctuations, which motivates them to focus their investments in a small number of risky assets as opposed to diversifying their portfolio, 35 samples has rated ‘3’ to herd mentality because people believe they have heard something good but have not done their own research, 42 samples has rated ‘3’ to loss aversion because People are much more interested in avoiding losses than they are in making gains.



The above diagram shows the sources that investors rely for their investment related information. 52% rely on financial news channels because It offers updates on business performance, the state of the economy, and broad financial market movements. Based on the most recent market news and events, it enables investors to make wise judgements. 43% rely on business newspaper as it provides update on economic condition of country and business. 50% samples rely on online financial websites and 29% relay on social media as it provides real time update on their investment and also analysis from industry experts. 54% rely on financial advisors because manage their finances and create a retirement plan and 52% rely on friends and family.



In this question we have seen 31% of the people faced the challenges where we have people have lack of knowledge and education 29% of the people have a fear of market volatility, we have also observe that 19% of the people faced with liquidity issues which indicates whether there money will be safe or not; we also see that 17% of the people face the issue of emotional dilemma where the money will be looted from their family members and 4% of the people fear from regulatory measures.

Hypothesis Testing

Crosstabulation of "Protecting my portfolio is more important to me than high returns" with Keeping the above answer option in mind which of the following statements make the most sense to you?

		Keeping the above answer option in mind which of the following statements make the most sense to you			Total
		I am concerned about losses along with returns.	I am willing to bare the consequences of a loss to maximize my returns.	To completely avoid losses is something I am more interested in	
"Protecting my portfolio is more important to me than high returns"	Agree	20	7	6	33
	Disagree	1	1	1	3
	Neutral	16	7	4	27
	Strongly Agree	15	3	17	35
	Strongly Disagree	0	2	0	2
Total		52	20	28	100

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	20.691[a]	8	.008
Likelihood Ratio	19.253	8	.014
N of Valid Cases	100		

a. 6 cells (40.0%) have expected count less than 5. The minimum expected count is .40.

For Above Null Hypothesis, Chi Square Test was applied. The Chi-Square Value is 20.691 and P value is 0.008 which is less than 0.05. Therefore, Null Hypothesis is rejected i.e there is a relationship between risk appetite and investment decisions of individual investors.

Out of 100 samples, it is observed that more 50% are concerned about the losses along with the returns i.e they do consider the amount risk taken against the investment done. Another 20% of the samples are open to high risk because they think that high risk yields great returns. Another 28% of the samples are risk averse risk because they believe in low risk yields low returns

Crosstabulation of Gender with Investment attitude

		What is your investment attitude?					Total
		Moderate	Somewhat Aggressive	Somewhat Conservative	Very Aggressive	Very conservative	
Gender	Female	22	3	9	0	9	43
	Male	30	9	7	3	8	57
Total		52	12	16	3	17	100

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	5.691[a]	4	.223
Likelihood Ratio	6.877	4	.143
N of Valid Cases	100		

a. 2 cells (20.0%) have expected count less than 5. The minimum expected count is 1.29.

For Above Null Hypothesis, Chi Square Test was applied. The Chi-Square Value is 5.691 and P value is 0.223 which is more than 0.05. Therefore, Null Hypothesis is accepted i.e there is no relationship between gender and investment decisions of individual investors. Both the genders were having same investment attitude

Crosstabulation of Age with Challenges faced while investing

Count

		What challenges do you face or have you faced in while investing?					Total
		Emotional Decision-making	Lack of Knowledge and Education	Liquidity Issues	Market Volatility	Regulatory Constraints	
Age	21 - 30	4	9	5	8	1	27
	31 - 40	9	6	5	7	2	29
	41 - 50	1	8	2	7	1	19
	51 - 60	3	8	7	7	0	25
Total		17	31	19	29	4	100

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.325[a]	12	.501
Likelihood Ratio	12.206	12	.429
N of Valid Cases	100		

a. 10 cells (50.0%) have expected count less than 5. The minimum expected count is .76.

For Above Null Hypothesis, Chi Square Test was applied. The Chi-Square Value is 11.325 and P value is 0.501 which is more than 0.05. Therefore, Null Hypothesis is accepted i.e there is no relationship between age and challenges faced in investment decision by individual investors. All samples between the ages of 21 and 60 face comparable difficulties, such as making decisions out of emotion rather than reason, a lack of knowledge and education, problems with liquidity, market volatility, and regulatory restrictions

5. Conclusion

In conclusion, earlier investment decisions are regarded as following standard financial methods, in which investors make choices based on logic rather than emotion. In Mumbai, recommendations from friends or references are taken into account before experience, risk, benefit, etc. In Mumbai, investment decisions are not taken as seriously as they should be. Investment decisions need to be carefully planned for long-term investments rather than being made impulsively. Mumbai's individual investors' investment behaviour is a complex phenomenon that is influenced by a variety of elements, including psychological, economic, social, cultural, and regulatory aspects. For forecasting and analysing investor behaviour in this dynamic financial hub, it is crucial to comprehend these components and how they interact. It's crucial to remember that individual tastes and environmental factors might differ greatly, resulting in a wide range of investing techniques and outcomes.

6. Suggestions

- The investors should specify both short- and long-term financial goals, such as increasing wealth or purchasing a home, paying for education, planning for retirement.
- Before making financial selections, investors should be aware of their risk tolerance. While some investors are willing to take on more risk in exchange for potentially better rewards, others favor lower-risk solutions. The asset allocation approach will be determined by risk tolerance.
- The portfolio of investments should be diversified over a variety of asset classes, including stocks, bonds, real estate, and possibly alternative investments. By distributing the risk, this helps to minimize it.
- Investors should make an effort to refrain from basing investment choices on feelings like fear or greed. Maintain your investing plan during times of market turbulence and refrain from making snap decisions.
- Stocks, mutual funds, fixed deposits, real estate, and more are among the investing possibilities available in Mumbai. Choose options that fit your objectives after researching each one.
- Before you make any substantial investments, make sure you have an emergency fund with three to six months' worth of living expenses saved up in a liquid and accessible account.

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