

INVESTOR BEHAVIOUR IN FINANCIAL MARKETS: TRENDS, INSIGHTS, AND REGIONAL PERSPECTIVES

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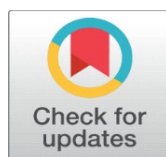
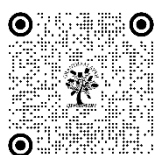
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ABSTRACT

Investor behaviour plays a crucial role in shaping the dynamics of stock market investments, particularly in the context of emerging markets like India. This study examines the investor behaviour in Tirurangadi Municipality, a regional economic hub, by exploring how local investors engage with the stock market. It analyzes the factors driving their decision-making processes and compares these behaviours with global and national trends. Using theoretical frameworks such as Kahneman and Tversky's (1979) prospect theory, and empirical studies on psychological, cultural, and economic influences, the research investigates behavioural patterns like loss aversion, overconfidence, and herding. The findings highlight the distinct socio-economic and cultural factors affecting investment decisions in the region, reflecting broader insights from emerging markets. Additionally, the study explores the role of financial literacy in improving investor satisfaction and market stability. By providing a comprehensive understanding of investor behaviour in this localized context, the paper aims to inform both policymakers and market participants on the potential strategies to enhance investor confidence and promote a stable financial ecosystem.

Keywords: Investor Behaviour, Stock Market Investments, Behavioural Finance, Emerging Markets

1. INTRODUCTION

The behaviour of investors plays a pivotal role in shaping the dynamics of stock market investments. In today's interconnected world, where financial markets transcend geographical boundaries, understanding the intricacies of investor behaviour has become essential for researchers, policymakers, and market participants alike. The decisions

made by investors are influenced by a complex interplay of psychological, cultural, and economic factors, making it a rich area of study within the field of behavioural finance.

Global financial markets, characterized by diversity and complexity, provide a dynamic arena for investors seeking to balance risk and reward. Research on investor behaviour, such as Sun C. (2016), has highlighted the varying patterns and trends that exist across regions, influenced by factors such as risk perception, decision-making processes, and market sentiments. These insights are critical for designing policies and strategies that foster investor confidence and enhance market stability, particularly in times of uncertainty.

In emerging economies like India, investor behaviour takes on unique characteristics shaped by socio-economic conditions, cultural norms, and regulatory environments. India's growing prominence in the global economy makes it a valuable case study for understanding how regional factors influence investment decisions. Studies such as Mahmood I., Ahmad H., and Khan A.Z. (2011) have shown that Indian investors display distinct behavioural traits, impacting market trends and shaping the broader financial ecosystem.

This study focuses on the behaviour of investors in Tirurangadi Municipality, a regional economic hub within India. By examining how local investors engage with stock markets, the study aims to uncover the specific factors driving their decision-making processes and how these align with or deviate from global and national trends. Using a combination of theoretical frameworks such as Kahneman and Tversky's (1979) prospect theory and empirical findings, the research seeks to provide a comprehensive understanding of investor behaviour in this localized context.

2. REVIEW OF LITERATURE

The studies on investment behavior collectively highlight the significant role of psychological, cultural, and educational factors in shaping investor decisions across various markets. Phan and Zhou (2014) identified biases such as overconfidence, herding, and loss aversion, coupled with economic factors like inflation and political instability, as key influences in emerging markets, recommending educational initiatives to mitigate these biases. Similarly, Mahmood, Ahmad, and Khan (2011) found that cultural elements, including religious beliefs and family influence, drive conservative investment preferences in India, emphasizing the need for culturally tailored financial literacy campaigns. Kumar and Bhattacharya (2015) demonstrated a positive correlation between financial literacy and investor satisfaction, advocating for increased financial education to improve decision-making. In Kenya, Jagongo and Mutswenje (2014) revealed that herding, fear, and greed often lead to speculative trading, urging transparency promotion and investor education to address these risks.

Kumar (2013) found that investor satisfaction in India aligns with stock market performance and is influenced by trust in financial advisors and regulators, suggesting improvements in market transparency and advisory services. Liu and Wang (2018) highlighted how FinTech has increased participation among younger investors but often leads to impulsive trading, recommending educational resources to encourage informed decisions. Behavioral biases like overconfidence and home bias were identified by Harlow and Brown (1990) as barriers to diversification in international investments, underscoring the importance of investor education. Barberis and Thaler emphasized that cognitive biases, such as overconfidence and loss aversion, lead to irrational market behaviors, advocating for policies to reduce their impact on market stability. Similarly, Shiller (2000) linked speculative bubbles to herd behavior, media influence, and investor sentiment, recommending a focus on long-term investing and fundamental analysis.

Fisher and Statman (2003) and Bikhchandani and Sharma (2001) both explored the consequences of behavioral biases, finding that anchoring, herding, and loss aversion lead to suboptimal asset allocation and market volatility, while advocating for independent analysis and the incorporation of behavioral insights into financial advice. Odean (1998) identified the disposition effect, where investors hold onto losing stocks, as detrimental to portfolio performance, recommending predetermined exit strategies. Grinblatt and Keloharju (2000) found that retail investors underperform institutional investors due to biases like overconfidence and herding, highlighting the need for disciplined, diversified strategies. Barber and Odean (2001) observed that male investors trade more frequently due to overconfidence, resulting in lower returns than women, suggesting gender-specific approaches to investment education.

Chandra (2016) highlighted loss aversion and anchoring as significant biases in India, recommending financial literacy programs to address these issues. Lee and Swaminathan (2000) linked price momentum in stock markets to psychological factors like herding and sentiment, advocating for a focus on fundamentals. Fama (1970) proposed that while markets are generally efficient, psychological factors can lead to occasional inefficiencies, especially during bubbles. Srinivasan and Kumar (2017) emphasized the impact of investor sentiment on stock market volatility in India,

advocating for measures to stabilize sentiment during uncertain times. Shefrin (2000) underscored the role of emotions like fear and greed in driving irrational behavior, suggesting emotional regulation techniques for investors. Finally, Oehler and Wendt (2011) identified loss aversion and availability bias as key influences on asset allocation, recommending rational investment education to mitigate these biases. Together, these studies underline the necessity of targeted interventions, including financial literacy, education on emotional regulation, and policies to address behavioral biases, to enhance investment decision-making and market stability.

3. STATEMENT OF THE PROBLEM

Investor behaviour in the stock market is influenced by a multitude of factors, including economic conditions, psychological biases, market trends, and regulatory policies. These factors not only shape individual investment decisions but also impact broader market dynamics such as asset pricing, market efficiency, and financial stability. Despite extensive research, understanding the complexities of investor behaviour remains a challenge, particularly in the context of rapidly changing market environments, technological advancements, and evolving socio-economic conditions.

A key gap in existing literature lies in the limited exploration of localized and specific contexts where these dynamics unfold. As financial markets continue to globalize and integrate, understanding investor satisfaction, decision-making processes, and investment patterns becomes increasingly critical for market participants and policymakers seeking to optimize strategies and improve market efficiency.

This study addresses this gap by exploring three critical aspects of investor behaviour:

1. The satisfaction level of investors in the stock market.
2. The factors influencing investment decisions.
3. The investment patterns, preferences, and perceptions of investors.

By analyzing these dimensions, the study aims to provide actionable insights into the determinants and implications of investor behaviour, offering valuable perspectives for improving decision-making processes and fostering sustainable growth in the stock market.

OBJECTIVES OF THE STUDY

The primary objectives of this study are as follows:

1. To identify and analyze the factors influencing investment decisions in the stock market.
2. To assess the satisfaction levels of investors while engaging in stock market investments.
3. To evaluate the investment patterns, preferences, and perceptions of investors in the stock market.

4. RESEARCH METHODOLOGY

Research methodology is a scientific approach designed to address a specific research problem. It guides the entire research process, ensuring that data is gathered systematically and analyzed to derive meaningful conclusions. In this study, a descriptive research design is employed to understand the marketing problems associated with stock market investments. This design is chosen because it allows for the collection of detailed data and provides a clear picture of investor behaviour towards stock market investments, without altering the environment or influencing the participants' responses.

The study uses snowball sampling to collect data from a sample of 120 respondents who are locally available. This method involves initial participants referring others to join the study, making it particularly useful in reaching hard-to-identify populations. Data is gathered primarily through primary sources using a Google Forms questionnaire, ensuring efficiency and accessibility. By focusing on the investors in Tirurangadi Municipality, the study aims to examine local investment behaviours and provide insights into their responses to stock market investment, offering valuable information on investor preferences and market dynamics.

5. FINDINGS AND DISCUSSION

Table 1. Demographic variables of respondents

Demographic Variables	Variables	Number of Respondents	Percentage (%)
Gender	Male	48	40%

	Age	Female	44	36.67%
		Other	0	0%
		Total	120	100%
		Below 25	43	35.83%
		25-35	44	36.67%
		35-45	30	25%
		Above 45	3	2.50%
		Total	120	100%
	Occupation	Student	47	39.17%
		Salaried	35	29.17%
		Business	19	15.83%
		Professional	10	8.33%
		Retired	6	5%
		Total	120	100%
	Salary	Below 25000	55	45.83%
		25000-50000	36	30%
		50000- 100000	21	17.50%
		Above 100000	8	6.67%
		Total	120	100%

Table 2. Result of chi-square test in salary of respondents and satisfaction in stock market investment

Test	Value	Df	Asymptotic Significance (2-sided)
Pearson Chi-Square	112.447a	9	0
Likelihood Ratio	72.364	9	0
Linear-by-Linear Association	39.221	1	0
N of Valid Cases	120		

a. 11 cells (68.8%) have expected count less than 5. The minimum expected count is .27.

INTERPRETATION: The above table shows the results of a Chi-Square test analyzing the relationship between the salary of respondents and their satisfaction with stock market investments. The p-values from all the tests are .000, which are well below the significance threshold (typically 0.05), the evidence strongly suggests rejecting the null hypothesis. Thus, there is a significant difference between the salary of respondents and their satisfaction with stock market investment

Table 3 .Factors influencing in investment policy

Factor	Always	Frequently	Occasionally	Rare	Neutral	Total
Reputation of the firm	75	32	10	0	3	120
Firm status	37	65	15	2	2	120
Expected co-operate earnings	24	50	37	3	5	120
Past performance	32	66	13	0	8	120
Price per share	45	39	26	5	5	120
Investment rate	34	58	16	3	8	120
Availability of finance	45	41	19	3	11	120
Confidence	29	55	23	2	11	120

The factors influencing investment policy emphasize the importance of a firm's reputation and status, as these are considered crucial for making sound investment decisions. Companies with a strong reputation and high status are more likely to attract investment. Past performance and expected earnings also play key roles, as they reflect a firm's financial stability and potential for growth. Price per share and investment rate are important in assessing the value and risk associated with investments. The availability of finance ensures firms can capitalize on growth opportunities, while

confidence in a firm's leadership and market position, though less central, still impacts investment decisions. Overall, investment policies are shaped by a combination of financial metrics, firm reputation, and broader market confidence.

Table 4. Opinion of investors

Statement	HS	S	N	D	HD	TOTAL	MEAN	SD
I prefer long term investment over short term gains	52	41	24	3	0	120	4.18	3.74
I perceive the stock market as too volatile for reliable investment	10	74	34	2	0	120	3.77	3.29
I prefer real estate investment over stock market investment	31	47	28	10	4	120	3.74	3.37
I am interested in investing in technology and innovation sectors	29	54	28	6	3	120	3.82	3.42
Liquidity is a crucial factor in my investment decision	32	44	24	12	8	120	3.68	3.35

The study reveals that 77.5% of respondents prefer long-term investments over short-term gains, indicating a strong focus on stability and risk aversion. Concerns about stock market volatility are evident, with 70% perceiving it as too unpredictable for reliable investment, deterring active participation. Real estate is a preferred choice for 65%, reflecting a conservative approach favoring tangible and safer assets. Meanwhile, 69.17% show interest in technology and innovation sectors, highlighting a growing inclination toward modern, high-growth opportunities. Liquidity is crucial for 63.34%, emphasizing the need for flexibility and ease of access to funds in investment decisions. These findings underscore a cautious yet optimistic investment outlook among respondents.

TESTING OF HYPOTHESIS

Hypothesis-1

H0: There is no significant difference between age and preference in stock market investment.

H1: There is a significant difference between age and preference in stock market investment.

Table 5. Result of one way anova in age and preference in stock market investment

Source	Sum of Squares	df	Mean Square	F	Sig
Between Groups	15.557	2	5.186	0.826	0.484
Within Groups	439.468	117	6.278		
Total	455.025	119			

Based on the ANOVA results, it fails to reject the null hypothesis, which suggests that there is no significant difference between the groups under study.

6. CONCLUSION

This study examined investor behaviour in the context of Tirurangadi Municipality, focusing on factors such as demographic variables, satisfaction with stock market investments, and influences on investment policies. The findings reveal significant patterns in investor behaviour influenced by socio-economic and cultural factors, with a notable emphasis on salary and its relationship with satisfaction in stock market investments. The Chi-Square test results strongly suggest a significant link between salary and satisfaction, indicating that higher earnings correlate with greater investment satisfaction.

Moreover, factors such as the reputation of the firm, past performance, and the availability of finance were identified as key drivers in shaping investment policies. These elements underscore the importance of trust and financial stability when making investment decisions. The results also highlight that, while confidence in market leadership plays a role, financial metrics remain more central in policy decisions.

Regarding investor opinions, a majority of respondents expressed concerns about the volatility of the stock market, with many showing a preference for long-term investments over short-term gains. This sentiment suggests that caution prevails in the face of market uncertainty. Additionally, respondents demonstrated a clear preference for real estate investments over stocks, with a keen interest in sectors such as technology and innovation.

The hypothesis testing revealed no significant difference between age and preference for stock market investment, suggesting that age may not be a decisive factor in shaping investment choices within the study's demographic.

Overall, this study highlights the complexity of investor behaviour, shaped by various psychological, cultural, and economic factors. These insights can guide policymakers, financial institutions, and investors themselves in making more informed decisions that enhance market stability and foster investor confidence.

CONFLICT OF INTERESTS

None.

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