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Investors who are professionals are travelling by the same bus or not?

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Abstract

All investors are rational investors, especially professionally educated; hence they ought to follow investment science. Behavioural Finance, as a science has identified many biases. It is obvious that, any professionally educated investors will also have biases. But these two statements are contradictory.

That is why, a study is needed to understand the behaviour of professionally educated investors and evaluate whether they are always rational or they bound by behavioural biases.

A better understanding of behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors in devising appropriate asset allocation strategies for their clients.

Keywords: *Behavioral Finance, Perception, Investment, Biases, Investment decision.*

1. Introduction

"Savings" means the act of refraining from spending one's income on consumption. The part of the income, which is unspent, is called savings. From the economist's perspective people allocate disposable income between consumption and savings and at various levels of income, there will be corresponding level of consumption and savings.

Mikesell and Zinser (1973) [1] have defined saving as the income that is not consumed. According to them, determinants of consumption become indirectly the determinants of savings also. However saving being regarded as the key performance indicator of any economy, knowledge of determinants of saving behaviour in any economy is critically important.

Nobody is ready to lose any extra income. If we will receive one rupee as extra, that is also an income. This is the way to increase our wealth. "Small small savings lead to big investment" So everyone trying to increase their earning from saving through investment. Investment is reward for present scarifies in future. Return from investment is determined by many factors.

Where we invest our money? Whether capital market or money market? When we invest our money? During bearish or bullish phase. Who is our intermediate? Whether commercial bank or money lender or financial institution or stock broker or financial analyst. Which type of investor we are? Risk averse or risk taker. What is expectation of investor? Expecting more income or less income. Before investing our money in any avenue, we have analysis the place we invest, amount we invest, duration taken to earn return from investment, money value etc.

Investment means purchase of financial securities or products with the expectation of positive future returns. It is a reward for waiting for money. Savings of the people are invested in financial assets depending upon the individual attitude.

1.1 Investment Avenues

There are so many numbers of investment avenues available to the investors. Each investment

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[1] Mikesell, R.F. and Zinser, J.E. (1973). The Nature of Savings Function in Developing Countries : A Survey of the Theoretical and Empirical Literature, *Journal of Economic Literature*, March 1973, pp. 1-26.

avenues have its own features merits and demerit and the investor should match these avenues with their investment objectives. Investment avenues combination of risk-return trade-off, time-period, liquidity, safety, tax-saving, marketability, etc

Investment avenues in India.

- Shares (Equity shares, Preference shares)
- Debentures and Bonds.
- Mutual Funds.
- Insurance
- Deposits (Bank deposits and Company deposits)
- Postal savings
- Provident funds
- Public Provident funds.
- Real Estates
- Bullion Investment
- Commodity Derivatives
- Hedge Funds,
- Depository Receipts
- Stock Derivatives

1.2 Behavioural Finance

Behavioral finance is a relatively new field that seeks to combine behavioral and cognitive psychological theory with conventional economics and finance to provide explanations for why people make irrational financial decisions.

Human beings have unique values that may prompt them to make decisions in accordance with their emotions and behaviour and not just on the basis of objective factors.

Behaviour finance explains that individual behaviour based on mood and emotional aspect. This is also influence individual investment decision. These aspects were not explained in traditional finance that Behavioral Finance brings a novel perspective to analyze those areas that traditional finance failed to explain or had difficulty in explaining.

The concept of behavioral finance has to do with taking into consideration a range of psychological variables and how the resulting emotional reactions of these variables can impact both personal and general economic conditions. The concept seeks to explain what occurs when emotional responses are involved in decisions that impact the stock market and the prices of individual stocks, market prices in selected markets, and the allocation of financial resources in both savings and spending habits.

Bondt and Thaler (1985) [1] started what is today known as behavioural finance. They discovered that people systematically overreacting to unexpected and dramatic news events results in substantial weak-form inefficiencies in the stock market. This was both surprising and profound.

Cianci A.M, (2008)[2] Investor behaviour is characterised by overexcitement and overreaction in both rising and falling stock market and various factors influences their decision making processes. Investment decisions are also affected by investor psychology. Investors make investment decisions before outcomes are certain. Psychologists have found that as decisions become more difficult and involve higher levels of uncertainty the decisions tend to be more greatly influenced by emotions and feelings

2. Review of Literature

Uttam Jagtap and Ajay Malpani, (2011) look at the perception of the Indian Investors; highlight various psychological, sociological, political and economical factors which affect the investors perception before investing in the Market. This study concluded that performance of company, nature of industry, company's global exposure highly affect investors' decision. Newspapers, television, annual report published by company's itself and internet is highly affect investors' decision but also some investors' also rely on brokers' advice. All factors are highly dependent on each other. Society, politics & economy of a country affects psychology of an investor.

Arup Kumar Sarkar, Dr. Tarak Nath Sahu (2017) aim to find out the factors influencing behaviour of individual investor in stock market. The effect of the demographic factors and perceived risk attitude on investment behaviour in stock market is investigated in the context of the individual investors of West Bengal in India. The study discovered herding dimension of investment behaviour is not so strong in the stock market. On market dimension affect has significant relationship with all the factors

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[1] Bondt,W., F. M. De, & Thaler, R.H. (1987). Further evidence on investor overreaction and stock market seasonality. TheJournal of Finance, 42(3), 557–581. http://dx.doi.org/10.2307/2328371

[2] Cianci, A.M., & Falsetta, D. (2008). Impact of investors' status on their evaluation of positive and negative, and past and future information. Accounting and Finance, 48(5), 719-739.

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such as price changes, over reaction, market information, past trend of stocks, companies' customer preference and fundamentals of underlying stocks. On herding dimension affect has significant relationship with choosing stock type only. On prospects dimension cognition has significant relationship with regret aversion and mental accounting only. On market dimension cognition component of perceived risk attitude has significant relationship with price changes, over reaction and past trend of stocks only. The study concluded that people of ages between 28 years to 37 years invest more in the stock market.

Bennet.E and Selvam. M (2011) has survey the investors' perception of the various factors that influence the equity stock selection decision. The sample size covered 400 retail investors who were spread through ten different investment centers in Tamil Nadu. Totally ten important centers in Tamil Nadu were identified and those centers are Chennai, Coimbatore, Trichy, Madurai, Karaikudi, Kumbakonam, Hosur, Tirunelveli, Erode and Tiruppur. Thus, this study was based on the responses by 375 selected respondents from the retail investors.This study concluded that there is no significant difference in fundamental and market factors, earning factors, decision making factors, industry related factors, corporate governance factors, positioning factors, image building factors, goodwill factors and industry competition factors between their educational qualification, occupation, income status in stock selection decision. But under gender, male and female had significant difference only in positioning factors and marital status, fundamental and market factors, industry related factors and corporate governance factors in stock selection decision.

Anna A. Merikas, Andreas G. Merikas, George S. Vozikis, Dev Prasad (2011) examined the factors that appear to exercise the greatest influence on the individual stock investor. Result of the study as follows: most of the variables that were rated important are classic wealth maximization criteria such as expected corporate earnings, condition of financial statements, or firm status in the industry. Experienced investors rely mostly on wealth maximization criteria and they are self-reliant ignoring inputs of family members, politicians, and co-workers when purchasing stocks. There is highest significance is accounting information next subjective / personal.

Gagan Kukreja (2012) paper title Investors "Perception for Stock Market: Evidences from National Capital Region of India" has concluded that investors has to use best technology to analyze and to invest in share market, he also focused on educating investors regarding share market , tools and techniques and other aspects which will yield high return.

Sania Usmani (2012) inspected the relationships between economic, behavioral, demographic & lifestyle variables but examination of various utility maximization and behavioral variables taken together. The findings suggested that individual's base their stock purchase decisions on wealth-maximization criteria combined with past and present stock performance along with other diverse variables; they do not rely on a single approach. All of these variables relate to the past and present performance of stocks and thus its cumulative impact on the stock market makes a sensible factor. All were important variables except Gut Feeling on Economy.

Abhijeet Chandra (2009) analyzed the impact of competence of individual investors on their trading behavior in the stock market. The study used a competence model to assess the competence effect on trading frequency of individual investors. The study exposed that investors with high level of competence tend to trade more frequently. While some factors affect individuals' perception towards external issues, some affect their belief in themselves, which in turn, influences their confidence and belief in their own judgment and decision making.

Abhijit Dutta (2000) observes that the individual investors have high confidence in themselves and are not guided by the market discounted asymmetric information.

J.Aapara and H.Tikkanen (2008) & Massa and Simonov, (2006) studied on behaviors of individual investors has shown that their trading decisions are often psychologically biased. Despite having evaluated the financial position of a company, many individual investors are still subject to certain emotional elements such as attitudes and brand familiarity.

Annaert J., Ceuster, D., Marc, J.K., and Hyfte, W.V., (2005) , indicate the impact of information asymmetric problem on investor behaviour, this is another subject in behavioural finance field. Most of these researches pay close attention to behavioural finance, especially in financial products choices and behaviour of individual investor.

Barber and Odean (2001) Most people believe they are more skilful or knowledgeable than they really are.

James J. Choi, et.al. (2007) says investors expect that investments in which they experienced past success will be successful in the future, whether or not such a belief is logically justified. They also stated that return chasing and variance avoidance diminish with age.

Shanmugasundaram and Balakrishnan (2011), they conducted research to analyse the factors influencing the behaviour of investors in capital market. They concluded that demographic factors influence the investors' investment decisions.

Al-Ajmi (2009) revealed that financial reporting should provide useful information for the potential investors, creditors and other users in making rational investment. Also, more evidence indicated that investors pay attention to several factors in choosing shares. These factors are involving historical profits, expectation of a higher price of the stock, increase in the distribution of cash dividends, newspaper and rumors from the market.

3. Importance of the study

The investors consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times.

According to the research literature and the cited gap, most of the recent studies have extended investment behavior for individual, institutional and small investors' level but extending of a behavior pattern for occupationally professionals have been ignored until now.

The Indian economy is growing significantly and has various investment options. Even in developing countries like India the importance and role of service sector has been rapidly increasing in recent years. Today the financial services sector has become highly diversified, offering the investor with a wide range of investment avenues. Financial markets have experienced many changes during the last two decades. Technological advances in computers and telecommunications, along with the globalization of banking and commerce, have led to deregulation, and this has increased competition throughout the world. The result is a much more efficient, internationally linked market, but one that is far more complex than existed a few years ago. While these developments have been largely positive, they have also created problems for policy makers.

With proper investment strategies and financial planning, investor can increase personal wealth which will contribute to higher economic growth. Prior to developing strategies for gaining the acceptance of new ideas and action programs, it is essential for policy makers to understand the existing attitudes of people.

From the discussion with the professionals and experts who are interested in investment, the researcher believes that the awareness level and involvement among professionals towards capital market investment is less. So this study is important to bring out the unused money or savings which can be utilised from the hands of professionals to increase capital formation that in turn will lead to economic development of our country.

The research is intended to assist corporate professional, brokers, policy makers, educationalists, government and all others who would like to understand further about professionally educated investors behaviour, perception and influencing factors in Indian capital market.

For companies, identifying the most influencing factors on their investors' behavior would affect their future policies and strategies would affect their future financial plans. For government, identifying the most influencing factors on investors' behavior would affect the required legislations and the additional procedures needed in order to satisfy investors' desires and also to give more support to market efficiency.

This research can help to guide portfolio allocation decisions, both by helping us to understand the kinds of errors that investors tend to make in managing their portfolios, and also by allowing us to understand better how to locate profit opportunities for investment managers. Beyond this, understanding the psychological foundation of human behavior in financial markets facilitates the formulation of macroeconomic policy and the devising of new financial institutions.

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. The professional investment, which deals with retail client, may incorporate important factors when addressing individual investor concerns. Besides, companies can make their future policies and strategies by focusing on these factors which attract investors and influence them to invest.

A better understanding of behavioral processes and outcomes is important for financial planners because an understanding of how investors generally respond to market movements should help investment advisors in devising appropriate asset allocation strategies for their clients.

4 Statement of the Problem

Investor behaviour often deviates from logic and reason. Emotional processes, mental mistakes, and individual personality traits complicate investment decisions. Investment decisions in equities are sometimes rational where the investors take decisions analyzing the information in the market. Some investors take irrational decisions where they ignore certain information that is available. Irrational decisions may also be due to the investor's limited capacity to process the information available. Investors also take decisions matching the risk absorption level, based on their past experience, objective of investment. Stock market is said to be peculiar though there are different methods and tools to analyze before taking decisions. Investment decisions are still found to be complicated as there are various factors to be considered to choose equity or a stock to invest in or trade into. These socioeconomic, demographic, and attitudinal factors act as key drivers for investment decisions.

The purpose of the study is to find out why different class of people route the savings to different avenues of investment and to see whether any distinctive pattern is prevailing among any specified group and its influence in capital formation. Studies carried out earlier have focussed on perceptions, preferences and behaviour of small and household investors, macro-level aspects like ownership pattern in the capital market, occupation wise investment strategy. There are only a few studies covering the issue of investor perception and behaviour at the micro/regional level.

5. Findings of the study

The researcher wanted to know whether the investors who are professionals' investment pattern / perception is similar with ordinary retail investors or they are following different pattern.

If the policymakers or companies want to frame apt policy for investors who are professionals to attract more investment from the above said group, they should know about the following factors.

- ❖ What are the investment avenues available in the market and which is the preferable investment avenue like bonds, debentures, equity shares, preference shares, depository receipts and hedge funds for investors who are professionals
- ❖ If the investor who is a professional prefers less risk, they prefer to invest in bonds.
- ❖ If the investor has more than 5 to 10 years of experience, they are investing a lot of money/ enough money as a hobby of the individual, their investment activity is not only for earning money, they are challenging for their knowledge and experience before they gather and done.
- ❖ They are not expecting more return when compared with other retail investors. They know the market and have good knowledge about investment terms and market movements.
- ❖ They are following Annual Report and Stock Market Report as a more influencing accounting information factor.
- ❖ Demonization is one of the major influencing factors for the investors who are professionals.
- ❖ Newspaper, journals and magazines, new channels, company announcement are the preferable source of information before invest.
- ❖ Budget announcement, changes in Economy, Government schemes, growth rate of GDP, GST, RBI Policies, Taxation quotas and tariff are the more influencing macro factors
- ❖ Condition of financial statement, Affordable share price, Attitude towards brand, Brand familiarity, Current economic indicators, expected corporate earnings, recent price movements of firm's stock, reputation of the firm are the more influencing factor towards company.
- ❖ Confidence level, Urge to acquire wealth these two factors are more influencing psychological factors.

- ❖ Economic profit, earning per shares, recent price movement of firm's stock are the highly influencing factors company liquidity position, dividend distribution history, price earnings ratio, return continuation and return on equity are influencing factors in financial health indicators.

- ❖ Audit report and stock market are the highly influencing factors

6. Conclusion

In South Tamil Nadu, investors who are professionals are less aware about investment avenues. They have enough money but hesitate to invest in capital market. This is the opportunity for the policy makers who are working with policies, can create a new policies for each investors who are professionals like doctors, engineers etc. For example: For doctors, they are close to Pharma and banking sectors. Then the companies can focus more on these two sectors and guide the investors to invest.

For engineers: if he is a civil engineer, the investors focus more on infrastructure, steel, capital goods sectors.

Hence, the researcher concludes that the Investors, who are Professionals, are not travelling by the same bus. The companies can frame according to the investors domain. Hence the policy makers can utilise this opportunity and enhance the investment which are unused in the hands of investors and develop our nation.

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