

Factors Influencing Equity Investment Decision

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Abstract: According to the Stephen P. Robbins “decision making is the selection of a preferred course of action from two or more alternatives”. There are >5000 and 1688 scrips listed for trade in Bombay Stock Exchange (wikipedia) and National Stock Exchange (NSE India), respectively under capital market segment and the investors has to take wise decision making in selection of particular scrip. Selection of Equity scrip is mainly influenced by various rational and irrational factors. The objective of the study is to find out the factors which are most influencing and least influencing and find out the significant difference between the male and female investors on rational factors. There are seven principal rational factors considered in this study namely accounting, company, external, industry, technical, advocate and individual factors comprising of 41 attributes. To attain this objective, mean and standard deviation are used for finding the most and least influencing factors and t-test has been used for finding the significant difference. To analyse, the SPSS 18 has been used and from the results it is found that the most influencing factors are promoter’s track record, past experience (success/failure), products/services of best quality, reputation of the company, life cycle of the industry (pioneer, growth, maturity, etc.), knowledge about the share market and affordable share price and the least influencing factors are get rich quick, brokerage firm’s advice, opinion’s of majority of shareholders, spouse/relatives/family members opinion and friends or coworker’s recommendation. From the t-test result, male and female investors differ significantly on company and technical factors and they does not significantly differ on other factors such as accounting, external, industry, advocate and individual factors.

Key words: Equity investment decision, rational factors, gender, industry, pioneer

INTRODUCTION

According the Stephen P. Robbins, “decision making is the selection of a preferred course of action from two or more alternatives”. Decision making is the cognitive process of selection of a course of action among several alternatives-Wikipedia. There are >5000 and 1688 scrips are listed for trade in Bombay Stock Exchange (wikipedia) and National Stock Exchange (NSE India), respectively under capital market segment and the investors has to take wise decision making in selection of a particular scrip. Selection of Equity scrip by equity investors among these are mainly influenced by various rational and irrational factors. If humans are rational and free to make their own decision, they would behave by determining the likelihood of a potential outcome having high positive values. Hence, most of the researchers are interested in studying the various factors influencing the equity investment. The influencing factors differ from place to place and some factors are common irrespective of the places. For this purpose, the researchers want to examine the various factors influencing the equity investment by analysing the similar research carried out by earlier researchers, accordingly the factors have been identified

for the present study. The researchers reviewed the related studies done in India as well as in abroad related to the various factors influencing equity investment decision; a few of which is presented here.

Sultana and Pardhasaradhi (2012) found that five most influencing factors such as recent price movement in a firm’s stock, stock marketability, fluctuations/developments in the stock index, expected corporate earnings and past performance of the firm’s stock and the least influencing factors were family members opinion, firms affiliation to the political party, coverage in the press, attractiveness of non-stock items, statement from the government officials and increase of the firm’s involvement in solving community problems. Lee *et al.* (2011) studied analysis of decision making factors for equity investment by DEMATEL (Decision Making Trial and Evaluation Laboratory) and analytic network process and revealed that profitability was the most important one which is affecting the most followed by growth and trading volume.

Bharathi (2010) study revealed that return on investment, scope for trade and level of competition are significant choice criterion whereas market environment, financial health of the corporate, competition, return and

risk, nature of business, corporate policy and earning quality the other factors which influence the investment decision making. Return on equity, quality of management, return on investment, price to earnings ratio and ratios of the company were the factors influencing according to the study of Bennet *et al.* (2011) and found 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 and income status in stock selection decision but gender had significantly differing in positioning factors and marital status with fundamental and market factors, industry related factors and corporate governance factors differ significantly. According to Joshi *et al.* (2011), the most influencing factors are financial performance of the company, long term performance of stock, sentiment for the stock market, expected results of the company (Cash dividend, bonus share, buyback of shares), reputation of firm, FII movement in stock market, affordability of share price and the less influencing factors are coverage in print media, company's ratio analysis, CSR of the company, share traded in multiple stock exchanges.

Hossain and Nasrin (2012) revealed that Company specific attributes/reputation, net asset value and accounting information were the most important principal factors; trading opportunity, publicity, ownership structure, influence of people and personal financial needs were ranked the least. Findings suggest that extent of importance given to each of the factors excluding ownership structure significantly differs with at least one demographic characteristics of sample respondents. Al-Tamimi (2005) analyzed the UAE financial markets and found that expected corporate earnings, get rich quick, stock marketability, past performance of the firm's stock, government holdings, creation of the organized financial markets were the most influencing factors and the least influencing factors were religious belief and family member's opinion. Bashir *et al.* (2013), results reveal that all the variables were somewhat affecting the decision making behaviour of investor and accounting information category of variables is most influencing which advocate recommendation is the least influencing category.

Qureshi and Hunjra (2012) result demonstrate that firm-level corporate governance plays important role in investment decision making and it was found that even equity fund managers of institutions were also found to be risk averse. Obamuyi (2013) done studied the Nigerian investors and found the most influencing factors as past performance of the company's stock, expected stock

split/capital increases/bonus, dividend policy, expected corporate earnings and get-rich-quick and the least influencing factors as religions, rumours, loyalty to the company's products/services, opinions of members of the family and expected losses in other investments. The research also found that socio-economic characteristics of investors significantly influenced the investment decision of investors in Nigeria.

Objective of the study:

- To find the most influencing factors and least influencing factors affecting the equity investment decision
- To find whether any principal rational factors differ significantly between male and female investors

For attaining these objectives, the following hypothesis has been set:

- H₁₀: Accounting factors do not significantly differ between male and female investors
- H₂₀: Company Factors do not significantly differ between male and female investors
- H₃₀: External factors do not significantly differ between male and female investors
- H₄₀: Industry factors do not significantly differ between male and female investors
- H₅₀: Technical factors do not significantly differ between male and female investors
- H₆₀: Advocate factors do not significantly differ between male and female investors
- H₇₀: Individual factors do not significantly differ between male and female investors

MATERIALS AND METHODS

The research design used for the study is descriptive. Pilot study has been conducted in Chennai City (one of four metropolitan cities in India) with a single sample consists of 50 respondents and data has been collected from equity investors who attend the awareness programs conducted by the Madras Stock Exchange and Tamil Nadu Investors' Association based on convenience sampling. January 2014 month was the period for collection of primary data for the pilot study. The instrument for data collection was questionnaire method. The questionnaire was developed on the basis of reviewing various studies conducted by varying authors. In the first section of the questionnaire demographic factors gender, age, income, occupation, etc. and in the second section the 41 variables categorized under 7 principal factors namely accounting factors, company

factors, external factors, industry factors, technical factors, advocate factors and individual factors with five point scaling as highly important to not at all important. To test the hypothesis, percentage analysis has been used for finding the percentage of male and female of the respondent in the survey; mean and standard deviation has been used for finding the most influencing and least influencing factors. Two independent sample t-test has been used to check whether principal factors significantly differ between male and female investors, by using SPSS 18 and interpreted the results thereof.

RESULTS AND DISCUSSION

Data analysis and interpretation

Percentage analysis: Percentage analysis has been used for the demographic variable gender to find out the percentage of male and female of the respondent. From Table 1, it is clear that 76% of the respondents are male and 24% were female which reveals that most of the respondents are male.

Descriptive statistics: Descriptive statistics has been used to identify the most influencing variable and the least influencing variable. About 41 attributes taken for the study are presented in the form of higher mean value to lower mean value in Table 2 and it is found that the first five most influencing factors are promoter's track record (mean 4.20) being the one, second past experience (success/failure) (mean 4.10) and products/services of best quality (mean 4.10), third reputation of the company (mean 4.08), life cycle of the industry (pioneer, growth, maturity, etc.) (4.04), knowledge about the share market (mean 4.02) and affordable share price (mean 4.02) are fifth influencing factors.

Last five least influencing factors are get rich quick (mean 3.04) as fifth, fourth is Brokerage firm's advice (mean 2.78), opinion's of majority of shareholders (2.68) as third, second is spouse/relatives/family members opinion (mean 2.58) and friends or coworker's recommendation (mean 2.54) being the first least influencing factor for affecting equity investment decision.

Table 3 specifies the ranking of principal factors based on the mean value. Accounting factors are ranked first with mean value of 3.86 whereas advocate factors have been ranked seventh with mean value of 2.645. From this Table 3, it can be inferred that respondents consider accounting factors such as previous dividend paid, past performance off firm's stock, financial statements of the company, affordable share price and expected corporate earnings as important scaling and advocate factors such as Brokerage firm's advice, spouse/relatives/family

Table 1: Frequency distribution and percentage of gender of the respondent

Genders	Frequencies	Percentage	Cumulative (%)
Valid			
Male	38	76	76
Female	12	24	100
Total	50	100	-

Table 2: Descriptive statistics of the various factors affecting equity investment

Factors	Mean	SD
Promoter's track record	4.20	1.010
Past experience (success/failure)	4.10	1.035
Products/services of best quality	4.10	1.035
Reputation of the company	4.08	0.922
Life cycle of the industry (Pioneer, Growth, Maturity, etc.)	4.04	0.989
Knowledge about the share market	4.02	1.078
Affordable share price	4.02	0.915
Growth rate of industry	3.98	1.059
Financial statements of the company	3.94	1.077
Past performance of firm's stock	3.94	0.956
Stock market conditions (market crash/bubble/swing)	3.88	1.154
Return of the industry	3.86	0.926
Business cycle (boom, recession, etc.)	3.86	1.229
Government Policies/monetary policies	3.80	1.195
Diversified nature of business	3.78	1.130
Diversification needs	3.76	1.021
Expected corporate earnings	3.76	1.170
Political stability	3.74	1.175
Willingness to take risk for high returns	3.70	1.249
Charts/graphs	3.68	1.377
Previous dividend paid	3.64	1.102
Competitive situation	3.64	1.102
Price patterns (trend)	3.58	1.372
Rate of inflation	3.56	1.198
Price index of industry	3.50	1.111
Company's operations at international level	3.48	1.147
Technological change	3.48	1.216
Stop loss/gain	3.46	1.417
Announcement about bonus share and stock split	3.44	1.296
Supply and demand of stock	3.32	1.449
Simple Moving Average (SMA)	3.32	1.531
Relative Strength Index (RSI)	3.24	1.437
Attractiveness of non-stock investment	3.18	1.190
Rate of interest	3.16	1.184
Transaction volume	3.08	1.291
Corporate social activities	3.06	1.300
Get rich quick	3.04	1.456
Brokerage firm's advice	2.78	1.461
Opinion's of majority of shareholders	2.68	1.377
Spouse/relatives/family members opinion	2.58	1.386
Friends or coworker's recommendation	2.54	1.129

Table 3: Descriptive statistics and ranking of principal factors

Principal factors	Descriptive statistics			
	N	Mean	SD	Rank
Accounting	50	3.8600	0.65059	I
Company	50	3.7343	0.68846	III
External	50	3.6667	0.83842	IV
Industry	50	3.7500	0.77463	II
Technical	50	3.3829	1.13864	VI
Advocate	50	2.6450	1.09741	VII
Individual	50	3.6333	0.76049	V

members opinion, friends or coworker's recommendation and opinion's of majority of shareholders ranked seventh comes under the scaling of somewhat important.

Table 4: Independent sample t-test

Equity investment decision factors	Mean value		t-value	Sig.
	Male	Female		
Accounting factors	3.8368	3.9333	-0.444	0.304
Company factors	3.6992	3.8452	-0.636	0.014**
External factors	3.6316	3.7778	-0.523	0.114
Industry factors	3.7807	3.6528	0.495	0.865
Technical factors	3.2218	3.8929	-1.821	0.008*
Advocate factors	2.3750	3.5000	-3.416	0.172
Individual factors	3.5832	3.7917	0.825	0.054**

*, **, *** Significant at 1, 5 and 10%

Independent sample t-test: To study the mean difference between independent variables, independent sample t-test has been used and results are shown in Table 4 from this table it can be inferred that some factors are significantly differ, they are technical factors significant at 1% level with sig. value 0.008, Company factors significant at 5% level with sig. value 0.014 and Individual factors significant at 10% level with Sig. value 0.054. Accounting factors, external factors, industry factors and advocate factors does not differ significantly between male and female respondents.

CONCLUSION

Decision making becomes the regular routine process of equity investors. Investors collect the information disseminated from various stock exchanges, brokerage firms and other media's, analyse them and take final decision to buy, sell or to hold. Success on the investment made is based on the decision taken by the investors'. Investment factors affecting equity investment were given to the respondent in the form of questionnaire and collected from 50 investors in Chennai City consisting of male and female investors to find whether equity investments differ by gender. This study results in identifying the most influencing and least influencing factors and results in the principal factors do not significantly differ between male and female respondent. Based on the analysis made accounting factors are ranked first and advocate factors are ranked last (seventh). Technical factors, company factors and individual factors

differ significantly between male and female investors where as accounting factors, external factors, industry factors and advocate factors does not significant between male and female investors.

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