



FACTORS AFFECTING THE BEHAVIOUR OF RETAIL INVESTORS IN THE INDIAN STOCK MARKET

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Paper Received On: 12 March 2024

Peer Reviewed On: 28 March 2024

Published On: 01 April 2024

Abstract

Retail investors are individuals who invest their personal funds in the equity market, seeking opportunities for capital growth, dividends, and other financial benefits. The present study aims to understand retail investors' purposes for investing in equities, their information sources, and the factors they consider in their investment decisions. The study finds that most investors prioritize higher growth prospects when investing in equities. They also show interest in both IPOs and the secondary market. Key factors influencing investment decisions include past and predicted instrument performance, as well as financial metrics like revenue and net profit. Higher income correlates with larger investment proportions, and males are more likely to be active investors, while females tend to be passive.

Keywords: *Retail Investors, Equity Market, Capital Market, Investment Behaviour, Investment Attitude*

1. INTRODUCTION

Retail investors in the Indian stock market are influenced by various factors, including economic conditions and personal motivations. Key economic indicators like inflation rates, GDP growth, and employment levels significantly shape investor sentiment. Positive economic news generally boosts confidence and market participation, while negative news can lead to caution and market volatility. Corporate earnings and the performance of major sectors such as IT, banking, and pharmaceuticals also play a crucial role in investment

decisions. The fast-growing and dynamic Indian stock market presents both opportunities and challenges that investors must navigate.

Personal factors and access to information also heavily influence retail investors in India. Psychological aspects like risk tolerance, investment goals, and past experiences affect how individuals invest. The rise of digital trading platforms and readily available financial information online has made it easier for more people to enter the market. Social influences, such as advice from family and friends or trends on social media, also shape investment behaviour. The impact of online communities and financial influencers is notable, as seen in events like the GameStop short squeeze in other markets. Understanding these diverse factors is essential to grasp the behaviour of retail investors in the Indian stock market..

2. REVIEW OF LITERATURE

A paper titled “**The study on perception of investors towards Indian stock market**” aims to know the investor’s buying behaviour of stock in Vadodara. The study reveals that female investors are less prevalent than male investors due to a lack of knowledge and interest in the stock market. The age group of 21 to 30 years shows the highest participation, driven by a passion for the market, adequate knowledge, and a desire for higher income. Students, characterized by their risk-taking ability, tend to invest smaller amounts compared to business professionals and employees who invest larger sums. Equity shares are considered the most profitable investment, but there is also increasing interest in mutual funds and fixed deposits for risk-averse investors. Beginners typically invest 5-10% of their income due to fear of risk, increasing their investment as their market knowledge and analytical skills improve. (Gujrathi & Gouda, 2023)

A paper titled “**A study on the level of stock market investment awareness among young entrepreneurs, with focus on the Mumbai region**” aims to study the level of awareness about stock market investment among young entrepreneurs. The study identifies four key components that influence stock market investment awareness among young entrepreneurs: information sources, investment goals, technological advancements, and professional training. A strong correlation was found between the quality of investment decisions and the number of information sources used, highlighting the importance of accessible information. Investment aims and stock market awareness are positively linked, with technological innovations like digital payments and online trading encouraging participation. Professional

training significantly enhances investment skills and capacities. (**Gowri Shankar & Bhatt, 2022**)

A paper titled “**Study on investors perceptions towards stock market investment**” indicates that a significant portion of respondents are actively investing in the stock market, with a preference for mid-term investments. Although fewer respondents choose stocks compared to other investment options, those who do tend to achieve significant returns. Additionally, the internet is the preferred medium for conducting stock market transactions. (**Rao, Somiyadharia, & Solanki, 2022**)

A paper titled “**A study on the problems faced by investors towards online share trading**” reveals that lack of capital and market knowledge are significant problems faced by investors in online share trading. (**Shiji & S.Jeevitha Priya, 2019**)

A newspaper article titled “**Retail investors driving India’s stock market surge:What has changed over the years?**” states that recently, retail investors have increasingly engaged directly in the stock market, with over 120 million investors registered from 2019 to 2023, and a record 5.4 million added in January 2024 alone. As of February 2024, nearly 161 million investors are registered. The Association of Mutual Funds in India reported a record SIP contribution of Rs 18,838 crore in January 2024, a 36% increase from the previous year. Factors driving this surge include financial inclusion programmes, user-friendly trading apps, relaxed KYC norms, and a higher risk appetite among millennials. These trends suggest that retail investors will continue to play a significant role in the stock market. (**Kakkar, 2024**)

3. OBJECTIVES OF THE STUDY

- 1) To know the purpose of investing in the equity market by retail investors.
- 2) To find out preference of investment between IPOs and secondary markets.
- 3) To know the factors considered by retail investors while investing in the equity market.

4. HYPOTHESIS STATEMENTS

H₀ = There is no significant relation between annual income and proportion of income invested in equity markets.

H₀ = There is no significant relation between proportion of income invested in equity market and purpose of investing in equity market as investment avenue.

H₀ = There is no significant relation between age of retail investors and term of investment in equity market (short-term capital gain or long-term capital gain).

H₀ = There is no significant relation between gender of retail investors and status of investment in equity market (active or passive).

5. RESEARCH METHODOLOGY

5.1 Type of Research:

The study employs a descriptive research design that describes the characteristics of retail investors related to their investment in the equity market.

5.2 Study Area:

The research is conducted in Mumbai suburb areas, i.e., Borivali to Bandra.

5.3 Sampling Method

The sampling method followed in the study is a convenient sampling method.

5.4 Target Population and Sample Size:

The target population is salaried individuals. The sample size is 52.

5.5 Type and Source of Data:

The present study is based on primary data, which is collected through a Google Form. Secondary data is collected through research papers and newspaper article.

5.6 Statistical Tools Use:

Tables and graphs are used to organise the data for decision-making. The Chi-square test is used for hypothesis testing.

6. LIMITATIONS

- 1) A sample size of 52 is a limitation; the findings may differ with a larger sample size.
- 2) The study is limited to Mumbai suburban areas, i.e., Borivali to Bandra. Other areas are not considered.

7. DATA ANALYSIS AND FINDINGS OF THE STUDY

7.1 DESCRIPTIVE ANALYSIS OF DEMOGRAPHIC FACTORS

Table 7.1.1 Demographic Factors

Demographic Variables		Count
Gender	Female	25
	Male	27
Age	21-30	28
	31-45	15
	46-60	9
Annual Income	Up to Rs. 2,50,000	27
	Rs. 2,50,001-5,00,000	15
	Rs. 5,00,001-10,00,000	4
	Rs. 10,00,001-15,00,000	6
	Above Rs. 15,00,000	0

Source: Primary Data

7.2 OBJECTIVEISE ANALYSIS

Objective 1: To know the purpose of investing in the equity market by retail investors.

7.2.1 Purpose of investing into equity market

		Frequency	Percent
Valid	Ownership	13	25.0
	Dividend	9	17.3
	Voting Rights	4	7.7
	Higher Growth Prospects	26	50.0
	Total	52	100.0

Source: Primary Data

The above table shows that most of the respondents (50%) said their purpose of investing in the equity market is a higher growth perspective, followed by (25%) ownership.

Objective 2: To find out preference of investment between IPO and secondary market

7.2.2 Preferred investment in equity market – IPO or secondary market

		Frequency	Percent
Valid	IPO	11	21.2
	Secondary Market	11	21.2
	Both	30	57.7
	Total	52	100.0

Source: Primary Data

The above table shows that most of the respondents (57.7%) prefer to invest in both IPOs and secondary markets.

Objective 3: To know the factors considered while investing in the equity market.

7.2.3 Factors considered while investing into equity market

Particulars	Count
Low share price	12
Past & predicted performance of the instrument	24
Taxation benefits	15
Expectation of Share Price to rise due to certain news	14
Revenues, Net Profit, EPS, EBIT and dividend policy	22

Source: Primary Data

The above table shows that most of the retail investors (24) consider past and predicted performance of the instrument while investing in the equity market, followed by (22) revenue, net profit, EPS, EBIT and dividend policy of the company.

8. HYPOTHESIS TESTING

H₀ = There is no significant relation between annual income and proportion of income invested in equity markets.

8.1 Crosstabulation - Annual Income * Proportion of income invested in equity market						
		Proportion of income invested in equity market				Total
		Up to 10%	10%-20%	20%-30%	Above 30%	
Annual Income	Up to Rs. 2,50,000	21	5	0	1	27
	Rs. 2,50,001-5,00,000	6	2	3	4	15
	Rs. 5,00,001-10,00,000	2	2	0	0	4
	Rs. 10,00,001-15,00,000	0	3	3	0	6
Total		29	12	6	5	52

Source: Primary Data

8.2 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	29.064 ^a	9	.001
Likelihood Ratio	31.233	9	.000
Linear-by-Linear Association	7.672	1	.006
N of Valid Cases	52		

a. 13 cells (81.3%) have expected count less than 5. The minimum expected count is .38.

Source: Primary Data

To test the above hypothesis, a chi-square test is applied. The result shows that the p-value is 0.001, which is less than 0.05, therefore, the null hypothesis is rejected, i.e., **there is a significant relation between annual income and proportion of income invested in the equity market.** So, it can be concluded that as retail investors' annual incomes rise, they tend to allocate a larger portion of their income to the equity market.

H₀ = There is no significant relation between proportion of income invested in equity market and purpose of investing in equity market as investment avenue.

8.3 Crosstabulation - Purpose to choose an equity instrument for investment * Proportion of income invested in equity market							
			Proportion of income invested in equity market				Total
			Up to 10%	10%-20%	20%-30%	Above 30%	
Purpose to choose an equity instrument for investment	Ownership		8	2	3	0	13
	Dividend		6	1	1	1	9
	Voting Rights		2	2	0	0	4
	Higher Growth Prospects		13	7	2	4	26
Total			29	12	6	5	52

Source: Primary Data

8.4 Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	7.615 ^a	9	.573
Likelihood Ratio	9.119	9	.426
Linear-by-Linear Association	.693	1	.405
N of Valid Cases	52		

a. 12 cells (75.0%) have expected count less than 5. The minimum expected count is .38.

Source: Primary Data

To test above hypothesis, a chi-square test is applied. The result shows that the p-value is 0.573, which is more than 0.05, therefore, the null hypothesis is accepted, i.e., **there is no significant relation between the proportion of income invested in the equity market and the purpose of investing in the equity market as an investment avenue.** So, it can be concluded that the proportion of income invested in the equity market does not affect the purpose of investing in the equity market. Most retail investors, regardless of their investment purpose, tend to invest up to 10% of their income in equity markets.

H₀ = There is no significant relation between age of retail investors and term of investment in equity market.

8.5 Crosstabulation - Age * Term of investment in equity market				
		Term of investment in equity market		Total
		Short-term Capital Gain	Long-term Capital Gain	
Age (in yrs)	21-30	6	22	28
	31-45	3	12	15
	46-60	2	7	9
Total		11	41	52

Source: Primary Data

8.6 Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.019 ^a	2	.990
Likelihood Ratio	.019	2	.990
Linear-by-Linear Association	.000	1	.993
N of Valid Cases	52		

a. 2 cells (33.3%) have expected count less than 5. The minimum expected count is 1.90.

Source: Primary Data

To test the above hypothesis, a chi-square test is applied. The result shows that the p-value is 0.990, which is more than 0.05; therefore, the null hypothesis is accepted, i.e., **there is no significant relation between the age of retail investors and the term of investment in the equity market**. So, it can be concluded that the age of retail investors does not significantly influence whether they prefer short-term or long-term capital gains. **The majority of retail investors in each age group prefer long-term investments over short-term investments.**

H₀ = There is no significant relation between gender of retail investors and status of investment in equity market

8.7 Crosstabulation - Gender * Status of investment in equity market

		Status of investment in equity market		Total
		Active Investor	Passive Investor	
Gender	Male	20	7	27
	Female	10	15	25
Total		30	22	52

Source: Primary Data

8.8 Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	6.175 ^a	1	.013		
Continuity Correction ^b	4.858	1	.028		
Likelihood Ratio	6.298	1	.012		
Fisher's Exact Test				.024	.013
Linear-by-Linear Association	6.056	1	.014		
N of Valid Cases	52				

a. 0 cells (0.0%) have expected count less than 5. The minimum expected count is 10.58.

b. Computed only for a 2x2 table

Source: Primary Data

To test the above hypothesis, a chi-square test is applied. The result shows that the p-value is 0.013, which is less than 0.05; therefore, the null hypothesis is rejected, i.e., **there is a significant relation between the gender of retail investors and the status of investment in the equity market**. Thus, it can be concluded that men tend to be active investors, while women are more likely to be passive investors in the equity market.

9. CONCLUSION

The study's findings reveal that a significant proportion of investors (50%) prioritise higher growth prospects as their main motivation for investing in equities. When considering market preferences, 57.7% of respondents are interested in investing in both IPOs and the secondary

markets. The most critical factors influencing investment decisions are the past and predicted performance of instruments, as well as financial metrics like revenue and net profit, EPS, EBIT, and dividend policy of the company.

Statistical analysis indicates a significant relationship between annual income and the proportion of income invested in equity, showing that higher income correlates with greater investment proportions invested in equity. There is also a significant correlation found between gender and investment status, with males more likely to be active investors and females more likely to be passive.

Conversely, no significant relationship is found between the proportion of income invested in the stock market and the purpose of investing (ownership, dividend, voting rights, and higher growth prospects). Also, there is no relation found between age of retail investors and investment term (short-term capital gain and long-term capital gain).

10. REFERENCES

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