

# Factors Affecting Investment Portfolio of Individual Investors

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**Abstract:** Decisions made by individual investors when it comes to investing in financial instruments is often seemed as random choices because these decisions are affected by many factors. The research is done to identify various such factors that influence the investment decision of an individual investor. In this research, Descriptive research design is used. Judgemental sampling is used to collect data from 16 investors. Percentage factor analysis is performed to analyse the data. The study found that risk, economic conditions, return on investment, past performance of the company, companies balance sheet, Image of the company, volatility of the stock and government policies are the main factors that influence the investment decisions of individual investors.

**Keywords:** Descriptive research design, Indian stock market, Judgemental sampling, Percentage analysis.

## 1. Introduction

Stock market of India is the oldest in Asia with Bombay Stock Exchange established in 1875 by 22 brokers. Since then Indian stock market has grown at exceptional rate with NSE established in 1992 and Indian stock market turnover to record Rs. 8.2 lakh crore level and nearly 1.36 crore derivative contracts to be traded on the National Stock Exchange (NSE) amounting to a F&O turnover of Rs. 5.32 lakh crore in 2014.

The main objective of the study is to find the factors that affect the investment decision of individual investors. This study is divided in four parts. The first part contains the Abstract and introduction of the study introducing the study, second part contains review of literature, third part, hypothesis is defined, research methodology is described and data analysis is done and fourth part, conceptual Framework is form and a conclusion is given. Future scope of the study is to analyse the behavioural factors and other factors (such as macro and micro economic factors etc.) that can affect investment decisions of individual investors.

## 2. Literature Review

Jagongo & Mutswenje, 2014 conducted a study with the objective to find the factors influencing investment decisions at the NSE. The sample size of the study was 50 investors out of which only 42 investors responded. The respondents were the individual investors. Data analysis was done using frequencies, mean scores, standard deviations, percentages, Friedman's test and Factor analysis techniques. Jagongo & Mutswenje, 2014

found that most important factors that affects the investment decisions of individual investors were profit, past performance of firms' stock, price per share, firms position and performance, Investment returns and economic conditions, etc. The study tested the beliefs of the behavioural finance theory on the factors that influence investment decisions under conditions of uncertainty. The study also offered Policy Recommendations and Suggestions for Future Research.

The main objective of the study done by Mohapatra & Samal, 2017 is to determine the various influencing factors of investment decisions of the investors. Using factor analysis, the study found that the major factors which influence investment decisions are organisation efficacy, mediators influence, return of investment, fear of loss, risk factors and income level of the investors. Other than this, the sub factors that are most influencing are Past performance of Company stock, Insider Information, Recommendation of Financial advisors and analyst, Loyalty of Company Product, rumours. The study also identified some least influencing factors.

Chetanbhai Joshi & Batra, 2017 found that factors like Price Earning (P/E) Ratio and Earnings Per Share (EPS) are considered more important as compared to Market share, company's prestige and liquidity. The study also found that investors prefer to invest for long term in stock market rather than short term. The study also concluded that, for investors, major source of investment is electronic media, newspaper and broker and Investors also consider government policy, growth rate of industry, global economic condition and FII flow.

The study done by Kengatharan, 2019 aims to identify various factors that influence the investment decisions of individual investors and discover the connection of these factors to the investors' socio-economic characteristics in the Sri Lankan Stock Market. The study identified eight most influential factors on investment decisions: past performance of the company's stock, company stability, firm's goodwill, firm's reputation in the industry, dividend paid, expected corporate earnings and expected dividend.

Ansari, 2019 conducted a study to find out what is the effect of age on investment patters of investors. The study was conducted with the objective of finding a relation between age of investor and various other factors such as investment avenues, reasons for the investment etc. 500 investor sample

was taken. Chi square and percentage analysis test were used. The study concluded that, age of investor effects investment decisions of investors.

The study done by B, Nair, P, & R, 2015 is to find the factors that influences the investment decisions of retail investors in mutual funds. The study also aims to find their perception and awareness regarding Mutual funds. The study had a sample of 200 investors. The study had used Snowball sampling and Random sampling as sampling procedures. The study found that, major factors influencing the investment decision of retail investors are high return, tax benefits, price and capital of the company.

### 3. Hypothesis

These are the various hypothesis that are tested in this research paper

$H_0$ : Factors identified affects the investment decisions of individual investor.

$H_1$ : Factors identified do not affects the investment decisions of individual investors.

### 4. Research Methodology

Descriptive research design is used to find the factors affecting investment decisions in individual investors. For data collection, a structured questionnaire was devised and data was collected from various investors. The sample size of the study is 16 respondents. Respondents were chosen on basis of judgemental sampling. Percentage factor analysis is used to analyse the primary data collected.

### 5. Data Analysis

Table 1

Age	Percentage	Frequency
15-25	62.5	10
26-35	25	9
36-45	12.5	8
46-55	0	7
56 and above	0	6

Above result shows that most of the respondents (62.5%) lies in the age group of 15-25, second highest response group is 26-35 age group (25%) and least number of responses (12.5%) came from age group 36-45.

Table 2

Sound investment	Percentage	Frequency
Yes	81.25	13
No	18.75	3

The above data shows us that 81.25% people are capable of making sound investment on their own and 18.75% people are not capable of making sound investment on their own.

Table 3

Amount invested	Percentage	Frequency
<10% of income	25	4
10-30% of income	62.5	10
31-50% of income	12.5	2
51 and above	0	0

The above result shows that majority of people (62.5%) tend to invest around 10%-30% of their income in the financial market, some people (25%) tend to invest only less than 10% of their income in financial markets, only few people (12.5%) invest 31%-50% of their income in financial markets and no one invest 51% or above of their income.

Table 4

Decisions influencer	Percentage	Frequency
friend's suggestions	14.815	4
By studying on your own	48.148	13
With the help of Financial Advisor	33.333	9
TV program	0	0

About data show that majority of the people (48.148%) tend to invest by studying up on their own. This means that they are on their own study about various investment options and then invest accordingly. Some people (33.333%) take advice of the financial advisor such as brokers, wealth planners etc., few people (14.815%) take advice from their friends. No one tends to invest on the recommendations of TV programs.

Table 5

Risk	Percentage	Frequency
1	6.25	1
2	0	0
3	50	8
4	43.75	7
5	0	0

The data on this factor shows that 50% people take medium risk, 43.75% people take high risk and 6.25% people take very low risk. This is due the reason that high risk yields high reward that's why people tend to take risk. The differences in risk level is due to the fact that different people have different risk appetite.

Table 6

Effect of economy	Percentage	Frequency
1	0	0
2	0	0
3	25	4
4	31.25	5
5	43.75	7

The above data shows that for 43.75% people economic conditions have a very high effect on investment decision, for 31.25% people economic conditions have a high effect on investment decision, for 25% people economic conditions have medium effect on investment decisions.

Economic conditions are considered important because of the fact that economy dictates market price. If the economy is

good, market will be up and vice versa is also true.

Table 7

ROI	Percentage	Frequency
1	0	0
2	6.25	1
3	31.25	5
4	31.25	5
5	31.25	5

The above data shows that for 31.25% people return on investment very highly affects the investment decision, for 31.25% people return on investment highly affects the investment decision, for 31.25% people return on investment plays a medium role while making investment decision.

Table 8

Investment period	Percentage	Frequency
Daily	12.5	2
Weekly	25	4
Monthly	31.25	5
Quarterly	31.25	5
Annually	0	0

The table above shows that 31.25% people tend to invest quarterly, 31.25% people tend to invest monthly, 25% people tend to invest weekly and 12.5% people tend to invest daily.

Table 9

Past performance	Percentage	Frequency
Yes	100	16
No	0	0

The above data shows that for all the people past performance of the company matters when making investment decisions in that company.

Table 10

Balance sheet	Percentage	Frequency
Yes	81.25	13
No	18.75	3

The above table shows that 81.25% people consider balance sheet information such as PE ratio, EPS ratio before making investment decision and only for 18.75% people, balance sheet do not matter.

Table 11

Financial goals	Percentage	Frequency
To earn some extra income	68.75	11
To earn enough to buy something	0	0
To earn for retirement	12.5	2
To satisfy my daily needs	18.75	3

The above table shows 68.75% people invest to earn some extra income, 18.75% people invest to satisfy their daily needs, and only 12.5% people invest to earn something for their retirement.

Table 12

Image	Percentage	Frequency
Yes	81.25	13
No	18.75	3

The table shows that for 81.25% people companies image matters while making investment decision and only for 18.75% People companies' image do not matter while making investment decision.

Table 13

Volatility	Percentage	Frequency
Highly Stable	11.765	4
Stable	32.353	11
Medium	29.412	10
Volatile	23.529	8
Highly Volatile	2.941	1

The above data shows that 32.353% of times people choose stable investment, 29.412% of times people choose medium investment, 23.529% of times people choose volatile investment, 11.765% of times people choose highly stable investment and 2.941% of times people choose highly volatile investment.

Table 14

Government policies	Percentage	Frequency
1	0	0
2	12.5	2
3	12.5	2
4	50	8
5	25	4

The above data shows that for 50% of people government policies highly affects the investment decision, for 25% people government policies very highly affects investment decision, for 12.5% people government policies have medium effect on investment decision and for 12.5% people government policies have a low effect on investment decision.

## 6. Conceptual Framework

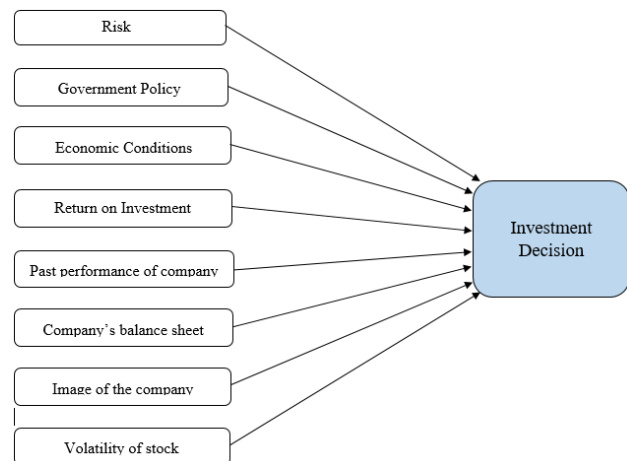


Fig. 15. Conceptual framework

### 7. Conclusion

The objective of the study is to find the factors that affect the investment decision of individual investors. Descriptive research design is used to find the factors affecting investment decisions in individual investors. Percentage factor analysis was used to analyze the collected data. The study found that risk, economic conditions, return on investment, past performance of the company, companies balance sheet, Image of the company, volatility of the stock and government policies are the main factors that influence the investment decisions of individual investors. Hence the null hypothesis is accepted i.e. all the factors identified affects the investment decision of individual investors.

The study also discovered that most investors are capable of making sound investments on their own initiative, on the other hand there are some investors who are not able to do so. It was also found that most investors tend to invest 10-30% of their income. The study also disclosed that investors mostly invest on a monthly and quarterly basis. Studying on own and taking advice of financial advisor are two major techniques investors use for making investments. It was also found that investors mostly invest to have some extra income for expense.

The study will provide investors an insight in various fields of how investors invests their money. It will provide investors with various factors that affects investment decision. Through

this study, investor can make more informed decision for investing which is in-line with other investors mindset and can use this information to make more profitable investments.

Future scope of the study is to analyze the behavioral factors such as gender and awareness etc., and other factors such as macro and micro economic factors etc. that can affect investment decisions of individual investors.

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