



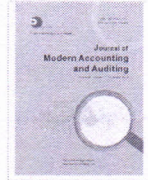
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## Journals



### Journal of Modern Accounting and Auditing

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### About This Journal

The Journal of Modern Accounting and Auditing (Print ISSN 1548-6583, and Online ISSN 1935-9683) is an international, scholarly and peer-reviewed journal (print and online) published monthly by David Publishing Company, USA which was founded in 2001. The journal publishes high quality research papers in finance and economic aspects of accounting and auditing. The scope of the Journal is broad. It includes studies of the functioning of security and exchange markets through to the economics of internal organization and management control. It also includes research papers relating to market microstructure, asset pricing, and corporate financial decision making. A distinctive feature of the Journal is that it recognizes that adverse selection and moral hazard issues are pervasive in financial markets and business organizations, and that accounting (both financial and managerial) plays a part in ameliorating the problems arising from such informational problems. Thus the editors see accounting and finance as being conceptually inter-linked. These linkages are especially apparent in the areas of corporate governance, financial communication, financial performance measurement, and managerial reward and control structures.

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Journal of Modern Accounting and Auditing is a refereed journal. All research articles in this journal undergo rigorous peer review, based on initial editor screening and anonymous refereeing by at least two anonymous referees.

The Journal welcomes both theoretical and empirical contributions, especially theoretical papers that yield novel testable implications and empirical papers that are theoretically well motivated. We would welcome manuscripts on all aspects of accounting and auditing, such as:

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- Auditing Theory and Practice, including Auditing Education, Auditing Industry, CPA Firms, Capital Market, Auditing Engagement and so on.
- Internal control, Corporate Governance, Corporate Performance, Corporate Accountability, Corporate Social Responsibility.
- Other topics on accounting, auditing and finance.

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# Journal of Modern Accounting and Auditing

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## Factors Influencing Retail Investors' Attitude Towards Investing in Equity Stocks: A Study in Tamil Nadu

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Research in behavioral finance is comparatively less in India, when compared to other foreign countries. Globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process. This paper aims at identifying the factors influencing the retail investor's attitude. This paper develops a modified questionnaire. The average value of the five top highly influential factors according to the sample retail investors' were Investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business. Four factors were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks. Stories of successful investors was considered to be the lowest influencing factors among the four, get rich quick philosophy, information available on internet, cost cutting by companies.

*Keywords:* behavioral finance, investors' attitude, influencing factors, globalization

### Introduction

Research in behavioural finance is comparatively less in India, when compared to other foreign countries. Within behavioural finance it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. The behavioral finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. Behavioural finance is defined by Shleifer (1999), "A rapidly growing area that deals with the influence of Psychology on the behavior of financial practitioners". The globalization of financial markets has been increasing the retail investors' community over the past two decades by providing a wide variety of market and investment options. However, it makes much more complex in their investment decisions process.

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The retail 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. Their attitude is influenced by various factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness programme, experience of other successful investors etc.. 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 clients (Hussein & Al-Tamimi, 2006). The various studies have been conducted in other countries but to the best of the researcher's knowledge, the researcher could not find any similar study in Tamil Nadu. Hence this study attempts to find out the factors influencing investors' attitude towards investing in equity stocks.

### **Review of Literature**

In this paper a comprehensive literature review about behavioural finance has been carried out. Petter (1970) carried out a study to identify those factors which motivate or guide the investment decisions of the common stock investors. The study identified the factors: (1) income from dividends; (2) rapid growth; (3) purposeful investment as a protective outlet of savings; (4) professional investment management. Warren, Stevens and Mesonky (1996) attempted to develop lifestyle and demographic profiles of investors based on the value and types of investment holding. Krishnan and Booker (2002) analyzed the factors influencing the decisions of investor who basically used analysts' recommendations to arrive at a short-term decision to hold or to sell a stock. A. A. Merikas, A. G. Merikas, Vozikis, and Prasad (2000) analyzed the factors influencing Greek investor behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables. Hussein and Al-Tamimi (2006) identified the factors influencing the UAE investor behaviour. Six factors were found the most influencing factors on the UAE investor behaviour. The most influencing factors were expected corporate earnings, get rich quick, past performance of the firms stock. On the other hand few factors were found to be least influencing like expected losses in international financial markets, family member opinion, gut feeling on the economy. Kannadhasan (2006) examined the factors that influence the retail investors' decision in investing. The decision of the retail investors are based on their various dependent variables viz., gender, age, marital status, educational level, income level, awareness, preference and risk bearing capacity. Glaser, Schmitz, and Weber (2009) tested whether individual investor sentiment was related to daily stock returns by using vector auto regressive models and Granger causality tests. They found out that there exists a mutual influence between sentiment and stock market returns, but only in the very short-run (one and two trading days). The returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is stronger than vice versa.

From the above review, it is clear that there are some differences among the retail investors on the factors that influence investor's attitude towards investing in equity stocks.

### **Methodology**

#### **Objective of the Study**

To identify the various factors that influence the retail investors' attitude towards investing in equity stock markets.

### Sources of Data

The research design for the study is descriptive in nature. The researcher depended heavily on primary data. The required data were collected from the retail investors living in Tamil Nadu. The study was conducted during the period between July and October 2010 through a structured questionnaire.

### Sampling Size and Procedure

The sample size covered 200 retail investors who were spread through ten different places in Tamil Nadu. The important places where large investors are available are identified for this study using purposive sampling method. In order to collect information from the retail investors, the sampling design has been carefully decided and properly chosen for the study. Totally ten important places in Tamil Nadu were identified (Chennai, Coimbatore, Trichy, Madurai, Karaikudi, Kumbakonam, Hosur, Tirunelveli, Erode and Tiruppur). From each identified places two approved stock brokers were chosen and ten investors were contacted with the help of brokers. However, on a detailed scrutiny of the filled in questionnaires, it was found that 12 of them had given incomplete information and hence the responses could not be used for further analysis. Thus, this study is based on 188 selected respondents from the retail investors.

### Variables

Participants were asked to evaluate the importance of 26 variables, identified from the literature and personal interviews as potentially influencing the value of equity shares, by making seven choices for every one of the 26 variables: "strongly agree" for the variables which had a strong influence on the factors considered to be influencing equity shares and "strongly disagree" for the variables that does not have much influence on the factors considered to be influencing equity shares.

### Statistical Tools

The data collected have been analyzed through descriptive statistics and factor analysis.

## Results and Discussions

Factor analysis: Kaiser-Meyer-Olkin measure of sampling adequacy is employed to examine the appropriateness of the data for factor analysis. High values (between 0.5 and 1) indicate that the factor analysis is appropriate. Further, Bartlett's test of sphericity is a test statistics used to examine the hypothesis that the variables are uncorrelated in the population. From Table 1, it is clear that the data used for the study is conducive for performance factor analysis. It is also evident from Table 1 that the variables are significantly related to the population.

Table 1  
*KMO and Bartlett's Test*

Variable	Kaiser-Meyer-Olkin measure of sampling adequacy	Bartlett's test of sphericity			Result
		Approx. Chi-Square	df	Sig.	
Factors influencing investors' attitude	0.725	2.159	325	0.000	Significant

Table 2 presents the results of factor analysis of the sample data as well as the suggested label for each factor. Factor loading for each item exceeded the minimum threshold level of 0.40 (Kim & Mueller, 1978; Noursis, 1985).

Table 2

*Results of Factor Analysis Factors Influencing Retail Investors' Attitude Towards Investing in Equity Stocks*

Factor 1	
Item	Loading
Cost cutting by companies	0.782
Technological advancements at company level	0.738
Investors' tolerance for risk	0.814
Mergers and acquisitions in the corporate sector	0.689
Performance of Internet stocks	0.520
Variance explained (%)	11.838
Eigen Value	7.587
Cronbach's Alpha	0.824
Factor 2	
Item	Loading
Satisfactions with the investments in equity stocks	0.655
Availability of corporate research	0.589
Government policies towards business	0.596
Rate of inflation	
Variance explained (%)	10.824
Eigen Value	2.384
Cronbach's Alpha	0.733
Factor 3	
Item	Loading
Performance of the Indian Stock Market	0.562
Confidence level of institutional investors	0.775
Greed among investors	0.656
Strength of the financial sector	0.607
Media focus on the stock market	0.586
Variance explained (%)	9.793
Eigen Value	2.017
Cronbach's Alpha	0.814
Factor 4	
Item	Loading
Strength of Indian economy vs. other countries	0.537
Access to information	0.776
Access to tools and technology	0.675
Low cost of executing trade	0.599
Variance explained (%)	9.598
Eigen Value	1.685
Cronbach's Alpha	0.780
Factor 5	
Item	Loading
Stories of successful investor	0.806
"Get rich quickly" philosophy	0.806
Price to earning ratio	0.620
Variance explained (%)	8.941
Eigen Value	1.400
Cronbach's Alpha	0.759
Factor 6	
Item	Loading
Online trading	0.740
Political Stability	0.714
Variance explained (%)	8.368
Eigen Value	1.185
Cronbach's Alpha	0.560

(to be continued)

Factor 7	
Item	
Information available on the internet	0.679
Perception of easy money among investors	0.729
Variance explained (%)	6.462
Eigen Value	1.112
Cronbach's Alpha	0.759

Note: Total variance of factors influencing retail investors towards investing in equity market explained by two factors = 70.743.

Table 3 shows the mean value and the standard deviation of each statement that could possibly influence the attitude of the retail investors investing in equity stocks. The average value of the five top highly influential factors according to the sample retail investors' were investors' tolerance for risk with a mean value of 5.53 (SD 1.201), strength of the Indian economy with a mean value of 5.49 (SD 1.217), media focus on the stock market with a mean value of 5.46 (SD 1.443), political stability with the same mean value of 5.46 (SD 1.313) and finally government policy towards business with a mean level at fifth position of 5.43 (SD 1.167).

Table 3  
Descriptive Statistics

Statements	Mean	Std. deviation
My satisfaction with the investments	5.33	1.303
Dividend	5.27	1.509
Availability of corporate research	5.19	1.321
Government policy towards business	5.43	1.167
Rate of inflation	5.38	1.168
Stories of successful investors	4.85	1.610
Get rich quick philosophy	4.94	1.731
Price to earnings ratio	5.31	1.320
Information available on the internet	4.95	1.353
Perception of easy money among investors	5.15	1.424
Strength of the Indian economy	5.49	1.217
Access to information	5.38	1.258
Access to tools and technology	5.42	1.331
Low cost of executing a trade	5.25	1.399
Performance of the Indian stock market	5.36	1.167
Confidence level of institution investors	5.38	1.393
Greed among investors	5.23	1.572
Strength of the financial sector	5.41	1.524
Media focus on the stock market	5.46	1.443
Online trading	5.29	1.241
Cost cutting by companies	4.99	1.403
Technological advancements at company level	5.29	1.237
Investors' tolerance for risk	5.53	1.201
Mergers and acquisitions in the corporate sector	5.29	1.520
Performance of Internet stocks	5.39	1.435
Political stability	5.46	1.313

The sample retail investors also felt that the following four factors were given lowest priority or which had low influence on the attitude of the retail investors investing in equity stocks. Stories of successful investors was considered to be the lowest influencing factors among the four with a average mean value of 4.85 (SD

1.610), get rich quick philosophy with a mean value of 4.94 (SD 1.731), information available on internet had a mean value of 4.94 (SD 1.353), cost cutting by companies had a mean value of 4.99 (SD 1.403).

### Conclusion

Out of the total 26 variables, it is found out that five factors had very high influence over the retail investor's attitude towards investing in equity stocks. They are namely investors' tolerance for risk, strength of the Indian economy, media focus on the stock market, political stability and finally government policy towards business. Hence this study is concluded that the factors had very high influence over the retail investor's attitude towards investing in equity stocks.

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