

# SOCIO-DEMOGRAPHIC PROFILE INFLUENCES ON INVESTOR DECISION MAKING STYLE IN EQUITY MARKET

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## ABSTRACT

This study focuses the investors' socio-economic profile and its influence on the factors affecting investment decision-making style. The primary data was collected from about 525 investors who were selected from all the parts of Chennai city. Convenience sampling method was administered to collect data. The statistical tools such as percentage analysis and chi-square analysis have been utilized to analyze the data by using SPSS package. Chi-square test is used to analyze the relationship between demographic factors such as age, gender, education, family annual savings and the factors influencing investment decision making style. It is found from demographic profile 64.5% of respondents are male investors and 35.5% of them are female investors. Majority of the respondents are in the age group of 31-40 years. It indicates that most of the investors are young adults. It is important to note that 42.1 percent of the respondents' annual family savings is ranging from Rs.1 lakh to less than Rs.2 lakh. It is found that there is no relationship between the emotion and marital status, family annual income and economic analysis. It is also concluded that age do not influence intuitive decision-making style. The research indicates that there is no statistically significant association between the number of children and the frame of reference. This study suggested that economic analysis, financial analysis, economic analysis, emotion, intuition, frame of reference and risk aversion do not influence the styles.

*Key words used: Investor Decision- making style, Socio-demographic profile, Equity market.*

## 1. INTRODUCTION

In the stock market parlance, investment decision refers to making a decision regarding the buy and sell orders. Investment decisions are influenced by the availability of money and flow of information. What to buy and sell depends on the fair value of a share and the extent of over valuation and undervaluation. For making such decision, the common investors may have to depend on fundamentals rather than technical analysis although technical analysis is also important. Besides, even genuine investors have to guard themselves against wrong timing regarding both buy and sell decisions. It is necessary for a common investor to study the Balance sheet, Annual report, other financial statements of the company the half-yearly results of the company and decide on whether to buy that company's share or not. An investor has a number of opportunities to invest. However, the investor needs to take utmost care while investing. Investment decision depends upon the ability and skill of the investors. Every decision made by the investors affects the overall investment performance. Thus, decision making can be considered as crucial for any investment. Due to speedy market changes in the stock market, investment has become progressively more volatile. Investors are challenged not only to operate professionally in the present but are forced to innovate effectively and efficiently for their continuous investment decision making. To face these new challenges, an investor has to think differently as compared to an ordinary person like out of the box thinking required for today's investment environment.

## 2. RESEARCH OBJECTIVES

To ascertain the investors' socio-economic profile and its influence on the factors affecting investment decision making.

## 3. LIMITATIONS OF THE STUDY

- The impact of demographic and behavioural, variables on investment decision making style has been examined.
- Situational factors such as information, risk and time might affect actual behaviour of the investors are considered in this study.
- The study is confined to equity market only.

## 4. LITERATURE REVIEW

Amir Barnea et al. (2010) found that genetic factors (age, gender, education and wealth) explained about one-third of the variance in stock market participation and asset allocation. Further, the author finds that family environment has an effect on the behaviour of young individuals. Tun-Pin Chong & Ming-Ming Lai (2011) identified that investment decisions of investors could be affected by diverse variables such as advocates recommendations, social relevance and accounting information. Duygu Firat & Sibel Fettahoglu (2011) observed that both economic, as well as political factors influenced investment decision making. Investors were not always rational. They carried their feelings over the decision making in the process of investment. Suleyman Gokhan Gunay & Engin Demirel (2012) found that gender had interaction with five of the financial behaviour factors (overreaction, herding, cognitive bias, irrational thinking and overconfidence). Finally, they found that behavioural finance factors were effective in individuals' investment decisions. Brigitte Funfgeld & Mei Wang (2008) identified five underlying dimensions of financial attitudes and behaviour: anxiety, interests in financial issues, decision styles, need for precautionary savings and spending tendency. Gender, age and education were found to have significant impacts on attitudes and behaviour in everyday finance. Naveed Ahmed et al. (2011) found that the decision making process of the small investors seemed to be influenced by the behavioural factors. Their findings confirmed the prospect theory and regret aversion theory while heuristics also seemed to play their role in decision making a process of the small investors in Lahore. Mohamed Rafiq (2012) observed that investment experience, education, positive attitude and investment knowledge were the most influencing factors of investor's attitude. Furthermore, investment goals, investors' willingness to take risks and attitude towards investment portfolio construction influenced on the investors' attitude. Adem Anbar & Melekeker (2010) found that gender, income and wealth were significantly associated with financial risk tolerance. However, age, marital status and a number of children were not found to be significant determinants of an individual's attitude towards risk. Nik Maheran Nik Muhammad & Nurazleena Ismail (2008) stated that the results from correlation analysis indicated positive and significant correlations among the independent variables such as emotion, intuition, frame of reference, environmental analysis, financial analysis and economic analysis with the dependent variable, investment decision. Myeong-gu Seo & Lisa Feldman Barrett (2007) found that individuals who experienced more intense feelings achieved higher decision-making performance. Moreover, individuals who were better able to identify and distinguish among their current feelings achieved higher decision making performance through their enhanced ability to control the possible biases induced by those feelings. Wong & Lai (2009) found that investment decision of investor influenced by behavioural biases. The author further indicated that representativeness and price anchoring were important factors to decision-making process. However, they were highly risk averse to loss or allowing fear of loss to their investment decision. Lubna Riaz et al. (2012) developed a model to describe the impact of risk propensity, asymmetric information and problem framing on investor's behaviour while making decisions given their risk perceptions. Furthermore, the investor's behaviour depended on how the available information was being presented to them and how much they were prone to taking a risk while making decisions; thus playing a significant role in determining the investment style of an investor.

## 5. RESEARCH METHODOLOGY

This study is designed to know the relationship between socio-demographic profile and investment decision-making style. The study considered seven factors such as environmental analysis, economic analysis, financial analysis, emotion, intuition, a frame of reference and risk- version. Both primary and secondary data were utilized. The data collection instrument was developed after an intensive review of the literature. All the constructs were measured using Likert's five-point scale anchored by strongly disagree (1) to strongly agree (5). The convenient sampling method is used to collect the data from the individual investors in equity shares in Chennai. A sample of 525 investors who were selected from all the parts of Chennai city. The collected data was analyzed using SPSS tools such as percentage and Chi-square analysis. Chi- square test is used to analyze the relationship between demographic factors such as age, gender, education, family annual savings and the factors influencing investment decision-making style.

## RESULTS AND DISCUSSION

### 6.1 Demographic Profile of the Respondents

Table 1 Demographic Profile of the Respondents

|                                      | Demographic Characteristics | Frequency | Percentage |
|--------------------------------------|-----------------------------|-----------|------------|
| <b>Gender</b>                        | Male                        | 262       | 64.5       |
|                                      | Female                      | 144       | 35.5       |
| <b>Age</b>                           | Less than 20 years          | 16        | 3.9        |
|                                      | 21-30 years                 | 104       | 26.4       |
|                                      | 31-40 years                 | 85        | 20.9       |
|                                      | 41-50 years                 | 55        | 13.5       |
|                                      | 51-60 years                 | 88        | 21.7       |
|                                      | More than 61 years          | 55        | 13.5       |
| <b>Marital status</b>                | Unmarried                   | 57        | 14.0       |
|                                      | Married                     | 337       | 83.0       |
|                                      | Divorced                    | 12        | 3.0        |
| <b>Number of Children</b>            | Zero                        | 69        | 17.0       |
|                                      | One                         | 156       | 38.4       |
|                                      | Two                         | 129       | 31.8       |
|                                      | Three                       | 28        | 6.9        |
|                                      | More than Four              | 24        | 5.9        |
| <b>Ownership status of residence</b> | Own                         | 190       | 46.8       |
|                                      | Rental/Leased               | 216       | 53.2       |
| <b>Educational qualification</b>     | Plus2& below                | 6         | 1.5        |
|                                      | Diploma                     | 164       | 40.4       |
|                                      | Graduate                    | 74        | 18.2       |
|                                      | Post Graduate               | 121       | 29.8       |
|                                      | Others                      | 41        | 10.1       |
| <b>Employment Status</b>             | Employed                    | 161       | 39.7       |
|                                      | Unemployed                  | 63        | 15.5       |
|                                      | Self-employed               | 104       | 25.6       |
|                                      | Retired                     | 64        | 15.8       |
|                                      | Professional Practitioners  | 14        | 3.4        |
| <b>Nature of Employment</b>          | Private                     | 187       | 46.1       |
|                                      | Government                  | 128       | 31.5       |

|                              |                           |     |      |
|------------------------------|---------------------------|-----|------|
|                              | Others                    | 91  | 22.4 |
| <b>Family annual income</b>  | < 300000                  | 55  | 13.5 |
|                              | 300001 – 600000           | 143 | 35.2 |
|                              | 600001 – 900000           | 65  | 16.0 |
|                              | 900001 – 1200000          | 73  | 18.0 |
|                              | More than 1200000         | 70  | 17.2 |
| <b>Family annual savings</b> | Less than 100000          | 106 | 26.1 |
|                              | 100001 to 200000          | 171 | 42.1 |
|                              | 200001 to 300000          | 61  | 15.0 |
|                              | 300001 to 400000          | 30  | 7.4  |
|                              | 400001 to 500000          | 26  | 6.4  |
|                              | 500001 to 600000          | 5   | 1.2  |
|                              | 600001 to 700000          | 4   | 1.0  |
|                              | 700001 to 800000          | 3   | .7   |
| <b>Frequency of trading</b>  | Daily basis               | 88  | 21.7 |
|                              | Weekly basis              | 143 | 35.2 |
|                              | Monthly basis             | 52  | 12.8 |
|                              | Quarterly basis           | 69  | 17.0 |
|                              | More than quarterly basis | 54  | 13.3 |
| <b>Experience</b>            | Less than 5 years         | 93  | 22.9 |
|                              | 6-10 years                | 159 | 39.2 |
|                              | 11 - 15 years             | 61  | 15.0 |
|                              | 16-20 years               | 50  | 12.3 |
|                              | 21-25 years               | 32  | 7.9  |
|                              | More than 26 years        | 11  | 2.7  |

Table 6.1 presents the profile of the respondents. The respondents include only those who invest in the stock market. Gender wise, male respondents are higher. 64.5% of respondents are male investors and 35.5% of them are female investors. Majority of the respondents are in the age group of 31-40 years. It indicates that most of the investors are young adults. Married respondents are more than the single respondent. It is important to note that the majority of the respondents (83%) are married. The number of respondents with one child accounts for 38.4 percent of the sample. Majority of respondents have one dependent. Most of the respondents belong to joint family. The respondents residing in rental or leased house are higher. Majority of the respondents are holding diploma and post graduate degree. Employees of private organizations dominate the occupation category. It is important to note that 42.1 percent of the respondents' annual family savings is ranging from Rs.1 lakh to less than Rs.2 lakh. Finally majority of the respondents traded on weekly basis.

## 6.2 Chi- Square Analysis

This section describes the relationship of demographic variables such as education, experience, annual income, age, marital status, number of dependents, number of children and factors influencing investment decision making style of individual investors such as environmental analysis, financial analysis, economic analysis, emotion, intuition, frame of reference and risk aversion using chi-square test.

### 6.2.1 Relationship of the Environmental analysis and Educational qualifications

The investors' education is divided into five groups: the investors with Plus2 qualification, the investors with Diploma, the investors with Graduate qualification, the investors with Post Graduate qualification and the investors with other educational qualification.

**Table 2 Result for Educational qualification and Environmental analysis**

|                           |                | Environmental analysis |           |        |       |
|---------------------------|----------------|------------------------|-----------|--------|-------|
|                           |                | Frequently             | Sometimes | Rarely | Total |
| Educational qualification | Plus 2 & Below | 1                      | 1         | 4      | 6     |
|                           | Diploma        | 85                     | 44        | 36     | 165   |
|                           | Graduate       | 40                     | 15        | 18     | 73    |
|                           | Post Graduate  | 65                     | 29        | 27     | 121   |
|                           | Others         | 18                     | 12        | 11     | 41    |
|                           | <b>Total</b>   | 209                    | 101       | 96     | 406   |

The Table 2 shows that the p-value (0.372) is more than 0.05, illustrating that there is no relationship between the environmental analysis and the educational qualifications of the investors.

### 6.2.2 Relationship of the Economic analysis and the Family annual income

The income level is divided into following groups: the group with the income level of less than Rs.3,00,000; the group with the income level of from Rs.3,00,001 to 6,00,000, the group with the income level of from Rs.6,00,001 to 9,00,000, the group with the income level of from Rs.9,00,001 to 12,00,000 and the group with the income level of higher than 12,00,000.

**Table 3 Result for Family annual income and Economic analysis**

|                      |                       | Environmental analysis |           |        |       |
|----------------------|-----------------------|------------------------|-----------|--------|-------|
|                      |                       | Frequently             | Sometimes | Rarely | Total |
| Family annual income | ≤ 3,00,000            | 30                     | 15        | 11     | 56    |
|                      | 3,00,001 to 6,00,000  | 87                     | 30        | 26     | 143   |
|                      | 6,00,001 to 9,00,000  | 38                     | 15        | 11     | 64    |
|                      | 9,00,001 to 12,00,000 | 35                     | 26        | 12     | 73    |
|                      | ≥12,00,000            | 41                     | 16        | 13     | 70    |
|                      | <b>Total</b>          | 231                    | 102       | 73     | 406   |

The Table 3 shows that the relationship between the family annual income and economic analysis. P-value (0.613) is more than the 0.05. It shows that there is no relationship between family annual income and economic analysis.

### 6.2.3 Relationship between Experience and Financial analysis

The objects are divided into following groups: the group less than five years experience, the group of from 6 to 10 years of experience, the group of from 11 to 15 years of experience, the group of from 16 to 20 years of experience, the group of from 21 to 25 years of experience and the group more than 25 years of experience.

**Table 4 Result for Experience and Financial analysis**

|            |                | Financial analysis |           |        |       |
|------------|----------------|--------------------|-----------|--------|-------|
|            |                | Frequently         | Sometimes | Rarely | Total |
| Experience | ≤ 5 years      | 33                 | 24        | 37     | 94    |
|            | 6 to 10 years  | 70                 | 35        | 53     | 158   |
|            | 11 to 15 years | 25                 | 12        | 24     | 61    |
|            | 16 to 20 years | 19                 | 16        | 15     | 50    |
|            | 21 to 25 years | 11                 | 10        | 11     | 32    |
|            | ≥ 26 years     | 7                  | 3         | 1      | 11    |
|            | <b>Total</b>   | 165                | 100       | 141    | 406   |

The study indicates that there is no difference in financial analysis of the investors with different experience levels because p –value (0.511) is more than 0.05.

#### 6.2.4 Relationship between Marital status and Emotion

The investors belong to three groups via, the group of single investors; the group of married investors; and the group of divorced investors.

**Table 5 Result for Marital status and Emotion**

| Marital status | Financial analysis |           |        |     | Total |
|----------------|--------------------|-----------|--------|-----|-------|
|                | Frequently         | Sometimes | Rarely |     |       |
| Un married     | 30                 | 3         | 23     | 56  |       |
| Married        | 161                | 63        | 114    | 338 |       |
| Divorced       | 7                  | 0         | 5      | 12  |       |
| <b>Total</b>   | 198                | 66        | 142    | 406 |       |

The p-value (0.069) is more than 0.05 illustrating that the there is no relationship between the emotion and marital status of the investors. But as per the theory of Warn buffet, marital status influences emotional decision making.

#### 6.2.5 Relationship between Age and Intuition

In order to investigate the intuition of different investors with different age groups, the investors are divided as detailed below: less than 20 years old; 21 to 30 years; 31 to 40 years; 41to 50 years; 51 to 60 years; 61 years old investors.

**Table 6 Result for Age and Intuition**

| Age            | Intuition  |           |        |     | Total |
|----------------|------------|-----------|--------|-----|-------|
|                | Frequently | Sometimes | Rarely |     |       |
| ≤ 20 years     | 12         | 3         | 2      | 17  |       |
| 21 to 30 years | 68         | 25        | 14     | 107 |       |
| 31 to 40 years | 38         | 31        | 16     | 85  |       |
| 41to 50 years  | 30         | 11        | 13     | 54  |       |
| 51 to 60 years | 49         | 20        | 19     | 88  |       |
| ≥61 years      | 30         | 15        | 10     | 55  |       |
| <b>Total</b>   | 227        | 105       | 74     | 406 |       |

The table 6 shows that the p-value (0.245) is more than 0.05. Hence, age does not influence intuition. In line with Huam Hon Tat, (2011) age do not influence intuitive decision making style. According to Judge and Robbins (2006), individuals use intuition to make a decision when the situation is under the high level of uncertainty; the information is limited and the time to take decision short.

#### 6.2.6 Relationship between number of children and the Frame of reference

The Table 7 shows that the degree of association between a number of children and frame of reference. The data indicate that there is no statistically significant association between the number of children and the frame of reference. The P-value is 0.411, which is more than 0.05.

**Table 7 Result for Number of Children and Frame of reference**

| of<br>Number<br>Children | Frame of reference |            |           |        |       |
|--------------------------|--------------------|------------|-----------|--------|-------|
|                          |                    | Frequently | Sometimes | Rarely | Total |
|                          | Zero               | 34         | 15        | 19     | 68    |
|                          | One                | 56         | 46        | 55     | 157   |
|                          | Two                | 52         | 29        | 48     | 129   |
|                          | Three              | 10         | 7         | 11     | 28    |
|                          | ≤ four             | 13         | 3         | 8      | 24    |
|                          | <b>Total</b>       | 165        | 100       | 141    | 406   |

### 6.2.7 Relationship between the Family annual income and the Risk aversion

The income level is divided in-to following groups: the group with the income level of less than Rs.3,00,000; the group with the income level of from Rs.3,00,001 to 6,00,000, the group with the income level of from Rs.6,00,001 to 9,00,000, the group with the income level of from Rs.9,00,001 to 12,00,000 and the group with the income level of higher than 12,00,000.

**Table 8 Result for Family annual income and Risk aversion**

| Family<br>annual<br>income | Risk aversion         |            |           |        |       |
|----------------------------|-----------------------|------------|-----------|--------|-------|
|                            |                       | Frequently | Sometimes | Rarely | Total |
|                            | ≤3,00,000             | 35         | 10        | 11     | 56    |
|                            | 3,00,001 to 6,00,000  | 76         | 28        | 39     | 143   |
|                            | 6,00,001 to 9,00,000  | 31         | 17        | 16     | 64    |
|                            | 9,00,001 to 12,00,000 | 33         | 22        | 18     | 73    |
|                            | ≥12,00,000            | 41         | 15        | 14     | 70    |
|                            | <b>Total</b>          | 216        | 92        | 98     | 406   |

The Table 8 shows that the relationship between the family annual income and risk aversion. The P-value (0.488) is more than the 0.05. It shows that there is no difference in risk aversion across family annual income.

## 7. CONCLUSION

All the factors are found to have equal importance among the investors with different socio-economic and demographic profile. Besides, the factors have varying impacts on different investment decision-making styles of the investors. Both rational and irrational factors are found to have their influence on all the styles. It shows that there is no relationship between the environmental analysis and the educational qualifications of the investors. In addition, there is no relationship between the emotion and marital status, family annual income and economic analysis. It is also concluded that age do not influence intuitive decision making style. The research indicates that there is no statistically significant association between the number of children and the frame of reference. It is suggested that economic analysis, financial analysis, economic analysis, emotion, intuition, frame of reference and risk aversion do not influence the styles.

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