IJCRT.ORG ISSN : 2320-2882

INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

Impact Of Social Factors On Individual Investors' Trading Behavior With Special Reference To Coimbatore City

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ABSTRACT

This study investigates the impact of social factors on the trading behavior of individual investors, with a particular focus on Coimbatore City. Traditional economic theories often assume that investors behave rationally based on available information. However, real-world trading behavior frequently deviates from this assumption due to the influence of social, psychological, and emotional factors. This research emphasizes the role of social networks, peer influence, cultural values, and media in shaping individual investment decisions. Social networks, including family, friends, and online communities, play a critical role in decision-making, often leading to herd behavior, where individuals follow the actions of others without conducting independent analysis. Cultural norms also significantly affect attitudes toward risk and investment, with collectivist cultures leaning toward conservative decisions and individualist cultures favoring risk-taking. Media influence, particularly through sensationalized financial news, can lead to overreaction, panic, or irrational exuberance among investors. The study utilizes primary data collected from 120 individual investors through structured questionnaires and applies tools like percentage analysis, Likert scale, and chi-square tests to analyze the findings. It concludes that emotional and social influences frequently overshadow logical reasoning in trading behavior. The research highlights the importance of recognizing these factors to develop more informed investment strategies and minimize behavioral biases. While the study is limited to the Coimbatore district and based on convenience sampling, its insights offer valuable implications for both investors and policymakers aiming to improve financial literacy and decision-making in dynamic market environments.

Keywords: Trading, Behavior, Investors, Factors, Impact

INTRODUCTION

Studying individual trading behavior and its relations with social factors forms the core area within behavioral finance and economic psychology. Traditional models in economics rely very much on purely rational analyses based on information given. But when it comes to real trading, it deviates quite a lot from this pure model of analysis and is significantly affected by numerous factors, ranging from social and psychological to emotions and sentiment. These social factors include a mix of influences ranging from social networks, peer behavior, cultural norms, media, and collective sentiments all of which greatly influence how an individual makes their financial decisions within the marketplace. One of the most basic social factors that have an impact on individual trading behavior is the role of social networks. These networks encompass family, friends, colleagues, and online communities, which could have a large impact on trading decisions for a person. Today, with all the connectivity through social media and online trading forums, where the investor shares news, insights, and opinions in real-time, their influence has also increased. The rapid diffusion of information in these social platforms creates bandwagon effects, where individuals follow the crowd, even if they do not understand the underlying assets or risks.

This is usually the case during market bubbles or speculative trading. FOMO drives people to take actions based on others' moves rather than a proper analysis of the market. Another significant social factor influencing trading decisions is the influence of peer behavior. Humans being social animals, they often tend to follow others, especially in environments where they are uncertain or not very clear about something. This phenomenon is termed herding behavior, and is rampant in the financial markets. These situations cause investors, upon seeing profits achieved and particular actions-such as buy or sell operations-by others, feel they have no choice but follow suit. Here, the person may fear making decisions that disagree with the entire group or a particular segment from which they assume information. A consequence of herd behavior is exaggerated asset prices; bubbles form whenever the value associated with an asset is driven rather more by dynamics in social preferences than its fundamental value. Cultural norms and societal values also have a lot to do with the way trading behaviors are shaped. People in different cultures may view risk, money, and financial decision-making differently. For instance, collectivist and community-oriented cultures tend to encourage more conservative trading or following the opinion of the group rather than making an independent decision. Conversely, people in more individualistic cultures tend to take higher risks or strive for personal achievement, which would result in much more speculative and aggressive trading. Moreover, in societies where people perceive wealth as a symbol of success, one may trade just to attain a certain status or to gain respect from others.

The influence of media and news on trading behavior is significant. The media is a channel for information, but it also molds public opinion, and how people perceive the market is influenced by this. For example, sensationalized financial news or reports on market trends can create a sense of urgency or panic among traders. Positive news may lead to overconfidence and irrational exuberance, while negative news can provoke fear and cause mass sell-offs. The way in which financial events are framed and reported can significantly affect traders' emotions and hence their decision-making processes. This social side of identity also contributes to the aspect of confirmation bias where one looks for information confirming his views instead of evaluating the general situation in the market. The social forces behind individual behavior at the time of trading are rather complex and multiple. From social networks and peer pressure to cultural values, media influence, and social identity, individual trading decisions transcend pure logic and analysis but are shaped by the whole gamut of social dynamics. This knowledge would help understand what social influences lie behind these market movements and also identify the various psychological biases and irrational behaviors driving markets most of the time. The greater the interdependence of global financial markets, the more likely social factors would contribute to trading behavior as investors will need to become more responsive to such forces to better make informed decisions in the marketplace.

STATEMENT OF THE PROBLEM

Since the external influence often brings in a level of feeling, irrationality, or herding in the decisions of individuals themselves, the direction or variance in the market is often said to be driven by impulses. Recognizing this mechanism is crucial to developing enhanced trading strategies, and it is only through this approach that one may stop risks in financial markets.

SCOPE OF THE STUDY

Within this work, the focus is on the analysis of the impact of different social influences (e.g., social media, peer effect, market mood, group dynamics) on the decision of individual traders. It will investigate the impact of these external pressures on risk-taking, on decision-making, and on market dynamics. The research will be directed towards single traders in various financial markets by the investigation of behavior and providing recommendations on how to raise trading strategies and decrease emotional biases.

OBJECTIVES

- To study how social demographic factors shape attitudes toward trading among individuals.
- To identify the factors that influence their investment decisions.
- To improve the saving and investment behavior of an Individuals.

RESEARCH METHODOLOGY

The research methodology is the overall plan for finishing a research project. It involves all the procedures on data collection and analysis together with the theoretical framework guiding the study. The defined research methodology is thus essential to the completion of the research process, making it rigorous, reliable, and valid.

Research Design

- **Sampling Size:** 120 respondents
- **Sampling Technique:** Convenience Sampling Technique
- **Statistical Tools used:** Percentage Analysis, Likert scale analysis, Chi Square Test, Frequency Table
- **Primary Data:** Collected 120 respondents through the questionnaire
- **Secondary Data:** Journals, books and websites

LIMITATIONS

- The study is limited to Coimbatore district, and therefore the study cannot be extended to other areas.
- The sample size is limited to 120 respondents.
- The study is purely based on the opinion of the Trading Persons.

REVIEW OF LITERATURE

Dr. R. Shanmugham, K. Ramya (2012), Individual investors' trading behavior has received much attention in recent times because of the emergence of behavioral finance in capital markets. The study uses the Theory of Reasoned Action (TRA) and the Theory of Planned Behavior (TPB) to understand investor behavior, especially in terms of social interaction, media, and the Internet. The findings indicate that social groups and media have a positive influence on the attitudes of investors toward trading, with social interaction being the most influential factor. The intention to trade was linked to perceived behavioral control and the attitude of gain.

Dimitrios Kourtidisa, Zeljko Sevia, Prodromos Chatzoglou (2011), This study aims to segment investors (individuals and professionals) based on their psychological biases and personality traits, and examine how these factors influence their investment behavior. Four key factors over confidence, risk tolerance, self-monitoring, and social influence are explored. A cluster analysis of 345 Greek investors revealed three segments: high-profile, moderate-profile investors, and low-profile investors. The results reveal that higher investor profiles lead to better stock trading performance.

Dr.M.Kalimuthu, Manorabin J (2020), The savings habits and investments awareness by the people vary from person to person and even with same person during two periods due to differ in motives. There are many motives for savings and their investments. However, capital appreciation, regular income, tax planning, diversification and minimization of risks, health and education of family members, performance of ceremonial activities like marriage, birth and death, purchase of fixed and current assets, construction of houses, etc, are some important motives behind savings and investments in people.

Dr.M.Kalimuthu, S.Vibharashmi (2023), This study tries to analyze the employee's awareness level in relation with demographic factors and various other factors influence before investing. This study is based on both primary data and secondary data. The primary data is collected through framing a structured questionnaire by Convenient Sampling Techniques from 120 salaried employees of both private and government sector in Coimbatore city, which cannot reflect the opinion of the whole population. Statistical Tools: Percentage Analysis, Rank Analysis, and Likert Scale Analysis have been adopted to find the results for the data collected. The study also reveals most of the employees prefer Gold, Bank deposits, Real Estate and etc., as the investment option, there is lack of awareness about other Insurance, Post Office Saving Schemes offered by the Central Government. From this study, it is concluded that people invest in various investment schemes by allocating certain amount from their income or savings to meet up the future needs without taking high level of risk.

Dr.M.Kalimuthu, Mr.S.Krishnakumar (2024), The study on the financial behaviour of account holders at Coimbatore city, post offices offers important new information about how people in the area save and invest. The study is to comprehend account holders' preferences, routines, and decision-making processes when using post office services for their financial needs. It will be carried out using surveys and data analysis. A component of the research centre on the account kinds that people, including savings accounts, fixed deposits, recurring deposits, and other investment choices provided by post offices. Researchers can determine the popularity and perceived benefits of each option among account holders.

FINDINGS

Percentage Analysis

- Majority 60% of the respondents are age group between 18 to 24 Years.
- Majority 58% of the respondents belong to the Female.
- Majority 59% of the respondents belong to the Under Graduate.
- Majority 65% of the respondents belong to the Un Married.
- Majority 68% of the respondents belong to the Nuclear Family.
- Majority 45% of the respondents belong to the Students.
- Majority 51% of the respondents belong to the 4 members in the family.
- Majority 29% of the respondents belongs monthly income are ₹ 20,001 - ₹ 30,000.
- Majority 39% of the respondents belong to the 2 members in the family.
- Majority 33% of the respondents belongs Total Family Income (Annually) are ₹3,00,001 - ₹4,00,000.
- Majority 37% of the respondents belong to the 4 members.
- Majority 30 % of the respondents belong to the 30%.
- Majority 72% of the respondents belong to the Online Trading.
- Majority 31 % of the respondents belong to the 30%.
- Majority 34 % of the respondents belong to the By Friends.
- Majority 44 % of the respondents belong to the Home.
- Majority 31% of the respondents belong to the Monthly.
- Majority 31% of the respondents belong to the Monthly.
- Majority 31% of the respondents belong to the Lack of Financial discipline.
- Majority 35% of the respondents belong to the Mutual Funds.
- Majority 33% of the respondents belong to the to save for retirement.
- Majority 33% of the respondents belong to the Saving for Education.

Likert Scale

- Likert Scale value 4 is higher than the middle value (3), so the respondents are Agree with the influence of investments.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Neutral with the social investments.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Agree with the impact stock of prices.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Neutral with the herd mentality.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Neutral with the simplified investments decisions.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Neutral with the stock market risk.
- Likert Scale value 3 is equal than the middle value (3), so the respondents are Neutral with the stock market opinions.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Neutral with the positive or negative impact.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Frequently with the network for investment advice.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Frequently with the investments with network.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Frequently with the financial influencers.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Occasionally with the online investment forums or discussion groups.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Occasionally with the social media to monitor the performance of your investments.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Very important with the investment alignment with friends and family.
- Likert Scale value 4 is higher than the middle value (3), so the respondents are Very important with the misinformation in investment discussion.
- Likert Scale value 4 is higher than the middle value (3), so the respondents Very important with the social media influence investment risk.
- Likert Scale value 3 is equal to than the middle value (3), so the respondents are Moderately important with the staying informed on investment trends.
- Likert Scale value 3 is equal to the middle value (3), so the respondents are Moderately important with the investment based on social media discussions.

Chi – Square Test

- The different jobs affect trading interest and job type. The Chi-square test gives a p-value of 0.831 there is no significant relationship.
- The education qualification and education influence trading. The chi-square test the p 0.007 there is a significant relationship.
- The family income and affects trading habits. The chi-square test p = 0.126 shows that there is no significant relationship.

Frequencies

- The Half of the respondents say their job affects their trading interest. Some learn finance from work (17%), while others struggle with time restrictions (14%).
- The table shows that 50% of respondents felt education influenced their trading, while 19% said it didn't. Many (31%) credited education for sparking interest or improving trading confidence.

- Income affects trading decisions higher income leads to more investment, while lower income makes traders more cautious.

SUGGESTION

Based on the findings, here are some recommendations for Individual Investors' Trading Behavior:

- To instill financial literacy in the younger population of traders, mainly in the age group of 18-24 years, workshops and educational programs on investment strategy formulation and risk management are proposed.
- Encouraging traders to vet social media and online communities for real-time market analysis, some tools offered educate them on how to filter reliable information to avoid herd behavior and misinformation.
- AI-driven or expert-assisted financial advisory available to assist individual traders in their buying decisions, thereby reducing emotional or impulsive trading.
- Promote a culture of behavioral change whereby traders are encouraged to abandon short-term speculative trading in favor of more stable and long-term approaches to investment, while at the same time, putting more weight on the power of compounding and portfolio diversification.
- Enhance trading platforms with streamlined analytical tools, interactive tutorials, market prediction models, and generate more user tools to enable learners to make informed decisions.

CONCLUSION

The socio-demographic factors have influenced individual attitudes towards trading and the factors for investment decisions. Further attempts have been made to present measures for improving saving behavior and investment practices. It has been reported that features like age, gender, education, and income are critical characteristics affecting trading preferences and investment strategies. Financial decisions are shaped by emotional and social aspects just as much, or even more, than financial literacy, risk appetite, herd mentality, social media influence, and peer network effects. Regarding financial and economic effects, the inquiry now reveals discipline and awareness as significant barriers to depression.

Improper levels of financial behavior could require strategies to enhance individual financial behavior through education, creating awareness about long-term investments, and personalized advisory services. These issues will indeed make an individual capable of making better financial choices, leading to better investment yields and overall improved financial well-being.

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