



EXAMINING THE FACTORS INFLUENCING INVESTMENT DECISIONS OF INVESTORS: INSIGHTS FROM A REVIEW OF LITERATURE

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Abstract: This paper examines the factors that shape investment decisions, providing a comprehensive review of existing literature on investor behavior. Central to the review are the influences of financial goals, risk tolerance, and market knowledge on individual investment choices. While traditional finance theory posits rational decision-making, this paper highlights the role of emotions, biases, and heuristics in shaping investment decisions, drawing on insights from behavioral finance research. Additional factors, such as return on investment, financial literacy, social influences, and market conditions, are also found to impact investment behavior. Given the importance of informed decision-making for investors and financial institutions, a nuanced understanding of these factors is crucial for building prosperous economies. This paper acknowledges limitations, including reliance on secondary data, more in-depth analysis, and consideration of regional differences. Future research may explore specific factors using primary data and examine the impact of technological advancements on investment behavior.

Keywords: Investment decision, factors influencing, individual investors.

1. INTRODUCTION:

Investing means giving up something to gain advantages or profits later on. Investments can be made in physical assets such as gold, land, and buildings, or they can be made in financial assets such as stocks, bonds, and deposits. Putting money into various investment alternatives with the hope of multiplying it over time is the primary goal of the investment. Investing involves putting money into choices that could eventually provide more significant returns. The modern population is becoming more and more aware of the accessibility of investment opportunities as a result of the development of the press and business world. Still, they lack the knowledge needed to manage them effectively. The amount of financial and physical assets

available for investment is increasing continuously. Newer types of securities and products are hitting the market that can help investors spend their money profitably by meeting their various risk-return requirements. Holding idle assets is only a wasteful expenditure because inflation would cause them to lose their purchasing power (Chapagain et al., 2022). Investing is a serious subject that can significantly affect an investor's future well-being. Individual investors' investment decisions are influenced by factors such as financial goals, risk tolerance, investment horizon, and market knowledge. Additionally, investing in different asset classes depends on factors impacting the expected returns and risks associated with each investment avenue. When choosing to invest in specific investment options, each investor has a distinct attitude and makes a different choice based on their willingness to take risks and the reason for the investment. The investor must choose how to allocate his assets and assemble his portfolio. Diversified portfolios are favored over just one or two investing options. Consequently, selecting investments is a complicated process.

The efficient market hypothesis is the foundation for traditional finance theory, which holds that investors make logical decisions. Since the future is unpredictable, sensible people constantly look to lower the risk. According to conventional financial theories, an investor's primary goal is to maximize their wealth. On the other hand, there are several situations in which an investor's decision is influenced by emotions and psychology, leading to unpredictable or illogical behavior. Researchers studying behavioral finance have discovered in recent years that investors do not always make decisions based on complete knowledge or with the same level of rationality. Investors are inclined to choose differently when faced with uncertain circumstances for benefits. The way investors analyze information for investment decisions is often influenced by behavioral biases that cause some systematic errors. Age, gender, education, income, marital status, etc may also affect a person's investment decisions. Therefore, studying all the factors influencing investors' investing decisions is crucial. Investors can adjust to market conditions and make investment decisions if they know these factors and demographic characteristics.

2. RESEARCH METHODOLOGY

The study uses secondary data from research papers and online journals to study the factors influencing the investment decisions of individual investors.

3. OBJECTIVES OF STUDY

- To identify the present literature review available on the factors influencing the investment decisions of individual investors.
- To understand more about the potential effects and areas of future research in investing.

4. REVIEW OF LITERATURE

(Kalmegh & Pachaghare, 2023) Reviewed the literature to gain an overview of the behavior of individual investors and the factors influencing their investment decisions. This was accomplished with the use of secondary data sources. A significant finding indicated five major factors: return, financial advisor recommendation, family and friends, current market price, and economic analysis. The most determining

factor when making an individual investment decision was discovered to be return on investment. Customer protection against investment risk was prioritized by financial analysis and recommendations from financial experts. The price at which an investor is currently investing and recommendations from friends and family can also impact.

(Farida et al., 2023) explores the impact of financial literacy, locus of control, and technological advancement on investment behavior among young investors in Purwokerto City, Indonesia. Results show that financial literacy helps avoid and manage losses, while technological advancements provide convenience, real-time transactions, and stock portfolio unification. However, the study finds that internal locus of control does not significantly influence investment decisions.

(Rahmah et al., 2023) Examines the factors influencing investment decisions of individual investors using the PRISMA approach. Five main determinants are as financial literacy leads to more accurate investment decisions, while emotional biases significantly influence investment choices. Gender affects confidence levels, with males overestimating success chances and women making fewer substantial investments. Long-term investors (LTO) are willing to dedicate more time to understanding and choosing the best investment option, demonstrating patience in pursuing long-term benefits.

(Hidayat & Hartono, 2022) Examines the factors influencing financial investment choices in the context of undergraduate students. Once they started investing their monthly salary, undergraduate students became the subject of exciting research. Both quantitative study and the structural equation model analysis method are used in this work. The study's conclusions show that financial literacy, financial attitude, regret aversion bias, and herding are some of the characteristics that substantially impact students' financial investing decisions. Due to their imbalanced emotional stability, students' risk tolerance has little bearing on their financial decisions. When making investing decisions, students are typically less cautious because they are focused on the short term and want to see results immediately.

(Chapagain et al., 2022) aims to explore the factors influencing investment decisions in Nepal's financial and non-financial sectors. Using a social survey design, responses were obtained through a structured questionnaire. The research found no significant difference in investment performance between financial and non-finance sector personnel. However, financial industry employees tend to focus more on economic aspects, with higher total investment performance. Factors influencing investment decisions include self-confidence, market information, professional recommendations, portfolio diversification, and high-income interest levels. The study revealed a strong correlation between observable variables and their fundamental constructs. It highlights the positive impact of market, herding, knowledge, and economic factors on investment choices, suggesting regulatory authorities should provide investors with financial and behavioral guidance.

(Mathew & Kumar, 2022) aims to examine individual investors' stock preferences and identify the relevant factors influencing their investment decisions. The study investigates the influence of factors on socio-economic variables in the Indian stock market using independent t-tests, ANOVA, post hoc tests, and ranking

data analysis. Results show that return, risk, and past stock performance are individual investors' primary factors when making investment decisions.

(Sangeetha, 2022) investigates investment patterns and demographic traits in Tiruchirappalli city using analysis methods like percentage analysis, Chi-Square, and cluster analysis. The study suggests that age and education significantly influence investors' investment decisions. Young investors may invest in risky assets, while older investors may avoid such investments. Education also plays a role in investment decisions, as individual investors have different levels of education that can provide optimal returns and avoid risk. Financial advisors should consider these factors when making investment decisions to ensure the best investment outcomes for their clients.

(Mishra et al., 2020) Review previous research paper studies, learn about people's investing habits, comprehend their financial planning, and identify the factors impacting investment decisions. Many don't seek financial advice since they only invest in low-risk, moderately return assets like gold, fixed deposits, and health insurance. They don't take chances. If they choose to speak with a financial advisor, there are several investing options on the market. The degree of financial literacy indicates an individual's awareness of potential investment options. Education gives women self-assurance and the capacity to comprehend the significance of making investment decisions to achieve their financial objectives.

(Panga et al., 2018) seeks to identify the factors influencing investors' decisions about their financial market investments. The exploratory research design is used in this work. To ascertain the reasons behind people's lack of investment in the financial market, a survey of investors was conducted, utilizing structured questionnaires to collect primary data. The researchers identified a small number of characteristics that discourage investors from making financial market investments. People's actions also have an impact on the decision to invest. Investors' decision to participate in the financial market is influenced by five factors: market knowledge, fear of risk, market perception, awareness of time, and availability of other investment avenues. The study found that preventive factors, economic and behavioral factors, significantly influence the decisions to invest in the financial market.

(Com et al., 2018) explores the factors influencing individual investors' financial investment decisions, focusing on behavioral finance. It identifies economic and financial indicators, past experiences, psychological factors, personal and social situations, investment preferences, knowledge levels, and general factors like state policies, economic stability, income levels, and experience. The study identifies minimizing risk of return, risk exposure, and diversification as critical variables in choosing investment instruments. The study prioritizes individual evaluations and considers three subgroups: personal and social situations, basic knowledge levels, and general factors. Understanding these factors is crucial for investors to make informed decisions.

(Kaur et al., 2018) identifies various factors influencing investor decision-making behavior, including demographic, economic, social, psychological, and organizational aspects. The most common factors include age, gender, education, advisors' marketing skills, guidance, high-interest rates, financial system awareness,

social interactions, media, portfolio perceptions, risk attitudes, marital status, monthly family income, family life cycle stage, past stock performance, expected stock splits/capital increases, corporate earnings, safety, liquidity, flexibility, tax saving, service quality, transparency, investment experience, and investor overconfidence. These factors contribute to a comprehensive understanding of investor behavior.

(Monika & Agarwal, 2017) tried to identify the factors influencing individual investors' various investment plans and preferences. According to the study, investors are becoming more knowledgeable about the risks involved in different investing avenues. Due to their tendency toward conservatism, investors place their money in low-risk investments such as post-office savings, small savings accounts, bank deposits, etc. According to this study, life insurance is the most favored investment option among various factors. It offers life protection, tax benefits, and future planning advantages.

(Syal & Walia, 2017) investigates the factors influencing women investors in Punjab when making investment decisions. The study utilized personal interviews for primary data collection and employed Descriptive Statistics and factor analysis techniques for statistical analysis. Four significant factors influenced investment decisions: hedging, judgment, confidence, and influence. Hedging involves risk-taking and a large-duration investment, allowing more time for evaluation. Decision involves thinking in various aspects and taking action, while confidence refers to an investor's ability to make decisions and face consequences. Influence refers to the impact of these factors on the investor's decision-making process.

(Sarwar & Afaf, 2016) attempted to comprehend and ascertain how psychological and economic aspects affected the decisions made by individual investors. Convenient sampling was employed to collect primary data from stock exchange investors using a questionnaire to accomplish this goal. Factor analysis was used to identify the main contributing elements of psychological and economic factors. Its major psychological component contributed 61.671% of the variance, while its economic factor contributed 56.697%. Results indicate a strong correlation between psychological and economic factors and the decision-making process of individual investors. Regression analysis suggests that psychological factors influence decision-making behavior more than economic factors.

5. ANALYSIS AND INTERPRETATION

This research paper delves into the factors influencing the investment decisions of individual investors, drawing on secondary data from research papers and online journals. The study reveals various factors that can be classified into several categories, including financial, personal, social, market-related, and environmental factors. Financial factors include return, risk, past performance, and tax savings. These factors play a significant role in shaping investment decisions as investors seek to maximize returns while minimizing risk. Personal factors include financial literacy, age, gender, confidence, emotional biases, regret aversion bias, and investor overconfidence. These factors are crucial in understanding an individual's investment behavior, as they highlight the investor's knowledge, experience, and psychological makeup. Social factors, such as financial advisor recommendations, family and friends, and social interactions, also play a pivotal role in investment decisions. These factors can significantly influence an individual's investment choices, as they

often rely on the advice and experiences of people within their social circles. Market-related factors, including current market price, market information, and economic analysis, provide essential data for investment decision-making. These factors enable investors to assess the overall market conditions and make informed decisions based on the available information. Lastly, Environmental factors like technological advancements, financial market knowledge, market perception, and time awareness influence investment decision-making processes. Technological advancements have made it easier for individuals to access financial information and make investments, while financial market knowledge and environment shape an investor's understanding and perception of the market.

In conclusion, this research paper highlights the importance of considering various factors when making investment decisions. Understanding these factors enables investors to make informed decisions and create a diversified portfolio that aligns with their financial goals, risk tolerance, and investment horizon. Furthermore, financial advisors and institutions can use this information to better serve their clients by considering these factors when providing investment advice and recommendations.

6. LIMITATIONS AND FUTURE SCOPE

The limitations of this research paper include the reliance on secondary data from research papers and online journals, which may not provide the most up-to-date or comprehensive information. The research focuses on a wide range of factors, which may not allow for an in-depth analysis of each factor. Furthermore, the study does not consider regional or cultural differences that may impact investment decisions.

In terms of future scope, further research using primary data, such as surveys or interviews, could provide more detailed insights into the factors influencing individual investors' investment decisions. Future research could focus on particular aspects, such as financial literacy or emotional biases, to gain a more in-depth understanding of their impact on investment decisions. Longitudinal studies could examine how investment decisions change over time and how different factors impact these decisions in the long term. Additionally, the study could consider the impact of recent technological advancements, such as artificial intelligence and machine learning, on investment decision-making.

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