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A Study Of Investors' Behaviour Towards Equity Market In Gujarat Region – Literature Review and Study Variables

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ABSTRACT

Purpose: *This paper aims to defining and understanding different variables from review studies dealing with financial behaviour towards equity market. Also here we develop a theoretical model to direct our research. We cover here personality traits, the attitude bias and other variables in our study.*

Design/methodology/approach: *In this study we understand various variables to study investors' behaviour. This study we develop a model to direct the research. The keywords such "personality traits", "the investors' attitude bias", "financial knowledge", "financial confidence", "financial satisfaction", "financial self-efficacy" and "investment behaviour" were considered in the search of the literature.*

Findings: *Based on the prior researches it found that there isa relationship between the different variable like, demographic factors, the personality traits, the investors' attitude bias, financial knowledge, financial confidence, financial satisfaction, financial self-efficacy and the investors' behaviour. All the mentioned variables have impact on investors' decision. For that we have developed a theoretical model to direct the research.*

Practical implications: *The insights would assist the investors to frame rational strategy to mitigate the risk to remain active in the equity market and offer guidance to the financial service providers and the policymakers to increase the retail investor base.*

Originality/Value: *This study is beyond the classic review not just by criticism of investors' personality traits and the attitude bias and other variables on Investors' behaviour. However, it showcases the future prospects of research in the area of investors' behaviour.*

Key words: *Behaviour finance, personality traits, attitude bias, financial knowledge, financial confidence, financial satisfaction, financial self-efficacy, behaviour*

Introduction

The growth of the country's industrial and service industries are both affected by the stock market. The strength and sustainability of the stock market is a key factor that affects economic growth for a long time. It contributes to the booming economy by encouraging individuals to put their money in equities. A change in stock price may have a significant emotional impact on investors and businesses alike.According to Klarman (1998), the stock market exemplifies how people respond, leading to extreme reactions in both directions. The stock market continued to play a large role as a conduit for corporations' long-term capital destinations after the financial reform process was implemented in the early 1990s, which led to substantial economic progress in India. Institutional and ordinary investors were drawn to the asset class because to its liquidity and potential for financial growth. Despite the stock market boom, few individual investors would be able to profit from it. This is especially true when it comes to local and international institutional investors. The disenchantment of individual investors is seen in the 2% stock market participation rate in India. A fundamental principle of traditional financial theories such as Efficient Market Hypotheses (EMH) and Random Walk Theory (RWT) is the assumption that investors behave rationally in order to maximize their profits. However, these theories were said to be unrealistic and to have crumbled under scrutiny since they did not take stock market reality into account. Extreme volatility and price overreactions are examples of outliers that cannot be explained by even the most fundamental assumptions of EMH theory. Malkiel (1973) argues that the notion of people rationally making financial decisions based on all the market data available is idealistic.

Integrating concepts from cognitive psychology and conventional economics, behavioural finance seeks to explain why people may make irrational decisions about their financial resources. This goes against the grain of traditional economics, which holds that individuals should not let their emotions influence their money decisions. Financial market bias and irrationality are the focus of behavioural finance, an area that draws on cognitive psychology concepts. It turns out that a retail investor's choice is affected by decision-making context specific factors. Notwithstanding its limitations, behavioral finance may give policymakers and financial advising service providers with useful insights on retail investors' views towards equity investment.

Statement of the problem

Massive investment from both local and international sources was enticed by the advent of the Liberalization, Privatization, Globalization (LPG) period and the ensuing financial reforms in India, which were launched in the 90s with the objective of making the economy more market oriented. The stock market's potential as a means of maximizing wealth was enhanced as a result of the reforms' effects. But in reality, regardless of market circumstances, individual investors risk losing their savings.

The regulatory structure put in place by the SEBI (Security Exchange Board of India) to deter fraudulent activities and provide efficient clearing via rolling settlement has not inspired regular investors to become involved because of the decline in investment. Conventional financial theories are based on efficient market theory, which states that investors make rational financial choices after considering all relevant information. Also, it takes the market's entire openness and transparency for granted, assuming there is no information asymmetry. Capital market volatility cannot be explained by efficient market theories, which assume investors act rationally. It is crucial to address the declining retail investor base because domestic savings have the potential to fulfill capital market demand and stop capital flight. One possible solution to the problem of manufactured volatility is for domestic ordinary investors to get more involved. But studies reveal that ordinary people's cognitive and emotional biases lead them to make foolish financial decisions. Instead than relying on traditional theories of rationality, behavioral finance incorporates psychological factors such as attitude bias and personality traits.Researchers in the field of finance began to make more extensive use of the personality characteristic theory as an application. The extent to which a person's personality influences their actions has been the subject of several studies that have used personality traits as the independent variable. Fallacies in decision-making are addressed via investor attitude bias analysis and the Big Five personality characteristic components.

Many investors in Gujarat, India, lack the financial literacy to make independent judgments and comprehend market fluctuations; this is where the research will be carried out.

So, in an effort to better understand the actions of retail investors in Gujarat, India, this behavioural finance research titled "A Study of Investors' Behaviour Towards Equity Market in Gujarat Region" would take these factors into account. With this information, investors would be better able to plan for the future while still participating in the stock market, and financial service providers and policymakers would have a better idea of how to attract more retail investors.

Objectives

The goals of the paper are as follows:

1. To compile a literature evaluation based on the theoretical idea of investors' attitude bias and personality attributes
2. to compile a literature study on the topic of how demographic variables, personality characteristics, attitude bias, and investment behavior are related.

Methodology

This study combines research work available on electronic and manual resources conducted by psychologists, behavioural scientists, and researchers in the area if behavioural finance.

The keywords such “personality traits”, “the investors’ attitude bias”, “financial knowledge”, “financial confidence”, “financial satisfaction”, “financial self-efficacy” and “investment behaviour” were considered in the search of the literature.

Literature review

Basic literatures reviewed

Researcher	Year	Research Topic	Journal	Tools and Technique	Finding
Cliff Mayfield, Grady Perdue & Kevin Wooten	2008	"Investment management and personality type"	Financial Services Review	SEM	In contrast to more neurotic or risk-averse people, extraverts are more inclined to seek out short-term investments. In the long term, risk-averse people don't put money into investments. If you want to invest for the long haul, you need to be open to new experiences, but if you want to invest for the short term, you should close your eyes.
Davey, Joseph, George & Christeen	2011	"Personality and Finance: The Effects of Personality on Financial Attitudes and Behaviour,"	International Journal of Interdisciplinary Social Sciences	Survey	A person's level of conscientiousness and their sense of control over their own life have a significant impact on their financial attitude and behaviors. The "big five" personality traits—extroversion, agreeableness, openness, and neuroticism—were also shown to have a role in shaping regular saving habits.
Lodi-Smith Jennifer & Brent Roberts	2007	“Social Investment and Personality: A Meta-Analysis of the Relationship of Personality Traits to Investment in Work, Family, Religion and Volunteerism”	Personality and Social Psychology Review	Meta – analytic technique and Cross-sectional Patterns	Agreeableness, conscientiousness, and emotional stability are positively correlated with the degree to which one invests in social roles throughout various areas.

Mittal and Vyas	2008	"Personality Type and Investment Choice: An Empirical Study"	The Icfai University Journal of Behavioral Finance	Cluster Analsis	The four main personality types of investors were found to be technical, cautious, knowledgeable, and casual. Investments with a moderate risk-reward profile were popular among the educated investors. While casual investors favored high-risk investments with big returns, technical and careful investors were more interested in low-risk investments.
Pompain, Michael, M & Longo John, M	2004	"A New Paradigm for Practical Application of Behavioural Finance: Creating Investment Programs based on Personality Type and Gender to Produce Better Investment Outcomes"	The Journal of Wealth Management', Euro money Trading Limited, London	Myers-Briggs Type Indicator personality test and a behavioural finance bias questionnaire	According to the findings, there are a lot of behavioural financial biases that are more common in certain personality types and genders. The results also point to a plethora of practical uses. A gender-and personality-based investing program may help level the playing field when it comes to unconscious prejudices.
Bashir, T., Azam N., Butt A.A., Javed A. &Tanvir A	2013	Are Behavioral Biases Influenced by Demographic Characteristics & Personality Traits? Evidence from Pakistan.	European Scientific Journal	Correlation and Linear regression model	The following cognitive biases were identified as influencing investor decision-making: confirmation bias, illusion of control, overconfidence, and excessive optimism. No changes were made to investor decision making due to status quo, loss aversion, or mental accounting biases.

Variables and literatures reviewed

Variable	**Author**	**Sample**	**Theory**
Personality Traits	(Pankajam, n.d.) 2017 (Ramya K &Kalpana M, n.d.) 2017 (AtifSattar et al., 2020) (Gupta &Dua, n.d.) (Gakhar, 2019) (Chen, 2013) (Fell, 1998) (Ahmad &Maochun, 2019) (Arias et al., 2010)	795	Behavioural investor types and General Behavioural finance theory Theory of reasoned action and Theory of planned behaviour MBTI personality score Big five personality types
Investor Attitude Bias	(Pankajam, n.d.) 2017 (Ramya K &Kalpana M, n.d.) 2017 (Aldahan et al., 2019) (Ahmad &Maochun, 2019) (Pahlevi&Oktaviani, 2018) (NurAini&Lutfi, 2019) (Gill et al., 2018) (Sonawane et al., 2021) (Pahwa&Maheshwari, 2020)	795 40	Behavioural investor types and General Behavioural finance theory Theory of reasoned action and Theory of planned behaviour General Behaviour finance theory

	(Gakhar, 2019) (Madaan& Singh, 2019) (Cherono et al., 2019) (Sonawane et al., 2021) (Prosad et al., 2015)		Prospect theory and bootstrapping model
Financial Knowledge	(Robb &Woodyard, 2011) (Arifin et al., 2017) (Rai et al., 2019)	1488 400	General Behavioural finance theory TPB and Behavioural finance theory
Financial Satisfaction	(Robb &Woodyard, 2011)	1488	General Behavioural finance theory
Financial Confidence	(Robb &Woodyard, 2011) (Arifin et al., 2017)	1488 400	General Behavioural finance theory Theory of Planned Behaviour and General Behavioural finance theory
Financial Self efficacy	(Patel &Vasudev, 2017) (Sabri et al., 2020)	100	General Behavioural finance theory
Feelings and emotions	(AtifSattar et al., 2020) (Arias et al., 2010) (Agrawal & Singh, n.d.)		

Findings

Looking beyond basic and technical analysis for the variables that impact decision-making requires a comprehensive literature research on the stock market, attitude biases, personality characteristics, and investor behavior. Previously, market anomalies could not be adequately explained by theories like efficient market hypotheses (EMH), random walk theory (RWT), and models like CAPM.

Researchers in the field of behavioral economics have shown that investors' mental states significantly impact their choices when it comes to purchasing stocks. Indian retail investors, especially those living in urban areas with low levels of financial education and market knowledge, have been the subjects of a small number of research on psychologically-based behavioural finance in the stock market. Finding out how attitude bias and personality factors affect the investing decisions made by town-based retail investors is the next step.

Conclusion

Behavioral finance moves away from the conventional rationality theory and instead takes into account psychological aspects like attitude bias and personality characteristics.

Past studies have shown a correlation between investors' demographics, personality characteristics, attitude bias, financial knowledge, confidence, contentment, and self-efficacy, as well as their financial actions.

All the mentioned variables have impact on investors' decision.

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