Factors Influencing Investment Decisions

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Abstract: **Investment decisions are influenced by a myriad of factors that collectively determine the success of financial growth and stability. One primary factor is market conditions, encompassing interest rates, inflation, and overall economic health, which can sway investor confidence. Risk tolerance is another crucial element, with conservative investors preferring low-risk assets and aggressive investors seeking higher returns through riskier ventures. Financial goals also play a pivotal role; whether it's saving for retirement, funding education, or accumulating wealth, these goals guide the selection of investment vehicles. The time horizon of investments influences asset allocation, with longer-term investments favouring stocks and short-term investments favouring bonds. Diversification reduces risk by classifying investments across various asset classes, while liquidity needs dictate the preference for assets that can be quickly converted to cash. Economic policies, strategies, and outcomes. However, some argue that personal risk tolerance and market conditions should take precedence over these traditional guidelines, as individual circumstances can lead to vastly different financial paths., including tax regulations and government measures, significantly impacting investment returns and risk assessments. Additionally, technological advancements such as fintech and automated trading shape investment strategies. Lastly, behavioural factors like psychological biases and investor sentiment can affect decision-making processes. Understanding these factors is essential for making informed investment decisions that balance risks and rewards to meet financial objectives. Investment decisions are influenced by a myriad of factors that collectively determine the success of financial growth and stability. One primary factor is market conditions, encompassing interest rates, inflation, and overall economic health, which can sway investor confidence. Risk tolerance is another crucial element, with conservative investors preferring low-risk assets and aggressive investors seeking higher returns through riskier ventures.**

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Keywords: **Investment decisions, market conditions, risk tolerance, financial goals,**

INTRODUCTION

India maintains a wide array of financial institutions which are expanding at an accelerated pace. The market sees both ongoing expansion of existing financial services businesses along with new firms establishing operations. The Indian financial sector encompasses commercial banks together with insurance firms and non-banking financial companies alongside cooperatives and pension funds as well as mutual funds and additional small-sized financial institutions. Recently the banking regulatory body established payment banks as new financial-fwtnancial institutions which expanded the operational entities in the sector. Commercial banks dominate Indian financial operations by holding more than 64% of total assets within their system despite all the other financial entities. India has proven its strength through the darkest moments of global financial collapse to become a leading preferred destination for worldwide foreign investments. The investor's confidence keeps rising above standard levels in present times that is improving India's investment climate. Today the Indian economy stands as the 4th biggest market internationally. The remarkable growth rate of India secured its position as the second biggest developing nation even though inflation reduced average purchasing potential. Analysts predict that the Indian economy will keep 60% of its total market presence within the U.S. economy. The economic conditions

face an expected favorable trajectory toward stability at the macro level. All the progress stems from investment according to many scholars. The investment environment in India demands analysis of education along with security services and infrastructure development.

LITERATURE REVIEW

According to Choudhury (2013) investors behave irrationally because their decisions depend on emotional biases along with cognitive traps as well as behavioural patterns like anchoring mechanisms and herd effects in financial market behavior.

Durga Rao and Chalam (2013) define investment as an art that requires investors to balance risks for maximum financial returns. According to these investors their strategies flow from their personal goals and preferences.

According to Bisen and Pandey (2013) investor reactions to market variations depend on their psychological make-up especially when they are sensitive to experiencing losses. The analysis shows that investment choices are deeply personal and highly complex between individuals.

The Indian population shows increasing awareness about equity due to educational initiatives emphasized by Verma (2012) which enhance market knowledge and risk reduction strategies.

Srivastava (2012) displays how Indian investors keep a strong positive outlook on equity despite the 2007 market crash which led them to increase participation in equity investments.

People continue to put their trust in equity as an investment over the long run after the 2007 market crash because the research of Srivastava (2012) demonstrates Indian investors' positive outlook on stock markets.

Investors' risk-related choices are influenced by their overconfidence level and their age and gender according to the research conducted by Kabra, Mishra, and Dash (2010). The various demographics of investors show significant differences because of their age and gender.

Rao (2010) reveals the mindset of novice investors who took advantage of recessionary times to achieve knowledge as they faced investment risks.

Viswambharan (2009) recommends a change in direction towards long-term investments because he believes primary markets need better education and guidance to support thoughtful participation.

Chandra (2008) presents behavioral biases mentioned by fear, greed and heuristics which push investors to depart from standard financial principles.

According to Al-Ajmi (2008) demographic factors such as wealth level together with age and gender control individual risk tolerance toward investment opportunities.

According to Pandian and Christopher (2007) urban men engage most in market activities yet educational attainment and media exposure rates determine awareness levels.

According to Dimitrios (2007), private investors depend on market noise along with media news while experienced professionals keep to analysis-based approaches.

Nofsinger and Richard (2002) explained that highly informed investors can still fall prey to anxiety because of which they make seemingly unreasonable decisions.

Risk Tolerance: Investor's willingness to take risks (Kahneman & Tversky, 1979) - Defined by Indian author, Dr. C.K. Prahalad, as "the investor's ability to stomach uncertainty."

Understanding of financial concepts and instruments (Lusardi & Mitchell, 2007) - Dr. R.H. Patil defines it as "the ability to make informed decisions about financial resources."

Familiarity with investment products and strategies (Grinblatt & Keloharju, 2001) - Prof. J. Ramachandran describes it as "the investor's understanding of investment options and risks."

People normally choose to prevent financial losses instead of pursuing potential gains according to Kahneman and Tversky and Dr. Ravi Batra explains this as "the fear of losing money exceeds potential gain."

Influence of information presentation on investment decisions (Tversky & Kahneman, 1981) - Prof. S. Ganesh defines it as "the way information is presented affects investment choices."

Impact of others' opinions on investment decisions (Cialdini, 2009) - Dr. N.R. Narayana Murty describes it as "the influence of family, friends, and colleagues on investment decisions."

Influence of peers' investment decisions (Hong et al., 2004) - Prof. J. Krishnamurti explains it as "the impact of peer group pressure on investment choices."

Cost of borrowing affecting investment decisions (Mishkin, 2007) - Dr. Y.V. Reddy defines it as "the cost of borrowing influencing investment decisions."

Fluctuations in market values affecting investment decisions (French et al., 1987) - Prof. S.A. Dave explains it as "market fluctuations impacting investment choices."

BACKGROUND OF THE STUDY

Personal finance development together with economic expansion rely heavily on proper investment decisions. During recent years the global investment market showed notable changes because of technology growth together with population changes and financial instability. The investment environment in India has expanded dramatically through innovative fintech developments along with new digital tech and broader market accessibility.

Individual investors persist to confront hurdles when it comes to making reliable investment choices even though investment options are expanding. Multiple influencing factors including cognitive biases affect investment decision processes together with emotional components and social expectations and population-based characteristics.

Research in India shows it is essential to grasp the investment choices and decision procedures of individuals. Research from the National Centre for Financial Education (NCFE) shows that 20% of investors possessing basic financial knowledge is the only figure among Indian investors. Retail investors in India follow advice from friends and family members for their investment choices according to Securities and Exchange Board of India (SEBI) research findings.

The lack of financial literacy, coupled with the increasing complexity of investment products, has significant implications for individual investors and the broader economy. Poor investment decisions can result in financial losses, reduced economic growth, and decreased investor confidence.

RESEARCH METHODOLOGY

The research design serves as fundamental research to explain which variables affect youth investment behavior.

This study has gathered its data through primary sources from Indian investors.

Population: Individual investors in India

All investors participating in this research come from the category of individual investors who selected among various investment options and demonstrated market understanding. The interviewees were selected from the geometric areas that the survey administrators could easily access through convenient sampling methods.

The sample size is 103 people.

Target Audience: - 18 to 35 years

The existing research studies different investment factors yet researchers need to analyze how cognitive elements and emotional aspects as well as social variables intertwine with demographic features. Studies are lacking which examine what determines investment decisions of private investors in India along with their approach to financial choices.

Objectives

1) To study the factors affecting the investment behaviour among investors.
2) To study the degree of correlation between age and investing activity.
3) To recognize the preferred investment avenue among investors.
4) To examine the role of emotional and psychological factors of investment.

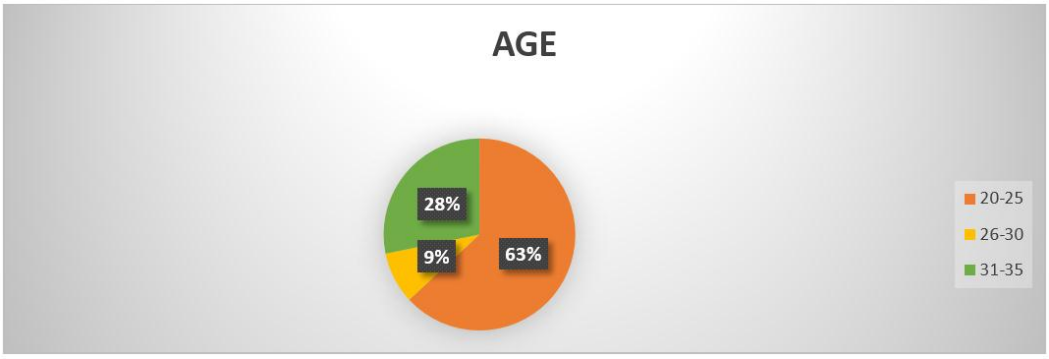
HYPOTHESIS

H0: “There is a positive correlation between age and investing activity.”
H1: “There is a negative correlation between age and investing activity.”
H0: “The preferred investment avenue among young investors is shares”
H2: “The preferred investment avenue among young investors is not shares”
H0: “Investment is dependent of gender”
H3: “Investment is independent of gender”

DATA ANALYSIS (103 responses)

1) What is the age of the respondents?

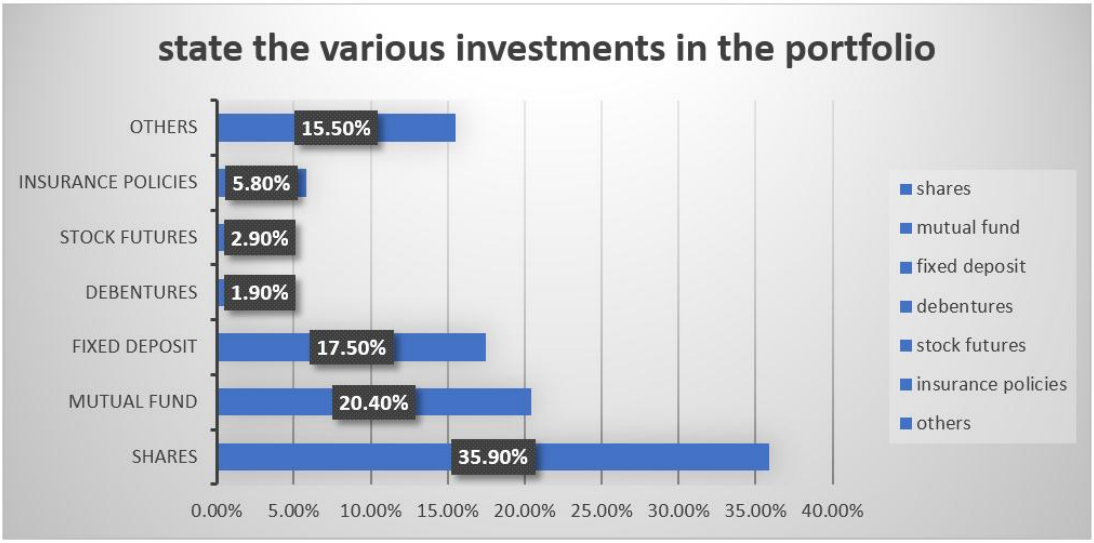
AGE	PEOPLE	PERCENTAGE
20-25	65	63%
26-30	9	9%
31-35	29	28%
TOTAL	103	100%



According to the survey collected, majority of people fall in the category of 20-25 years (63%) as people in this category are more titled towards investing in various investment avenues. Stock market is a risky place even though it offers high return. Hence, it is mostly preferred by young investors who are willing to take risk and do not go for stable and regular returns.

2) State the various investments in the portfolio?

State various investments in the portfolio	People	Percentage
Shares	37	36%
Mutual fund	21	20%
Fixed deposits	19	18%
Debentures	2	2%
Stock futures	3	3%
Insurance policies	6	6%
Others	15	15%
TOTAL	103	100%

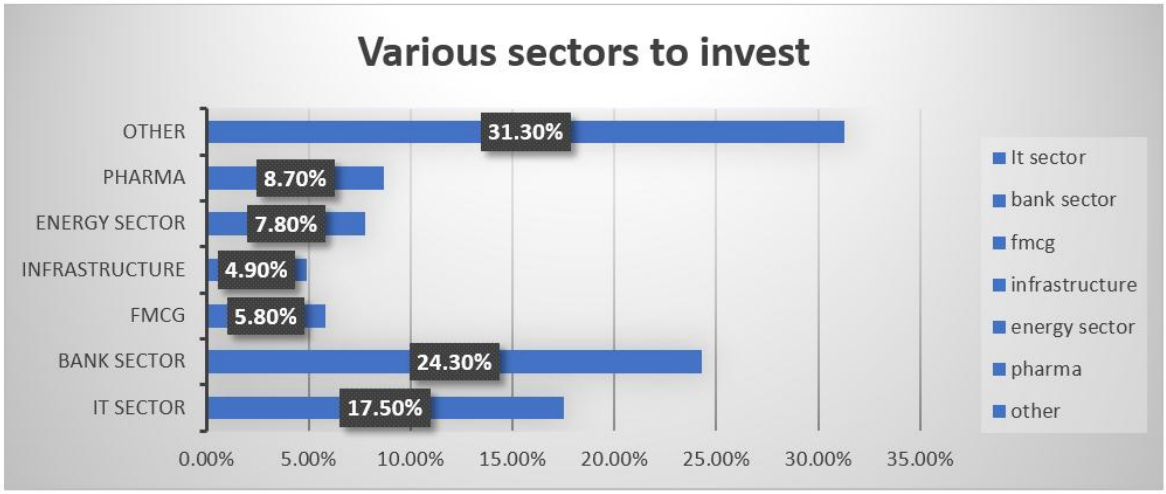


36% of the total investor's population invest in Equity Shares of the company , 20% of the total investor's population invest their funds in Mutual Funds , 18% of the total investor's population invest their funds in Fixed Deposits , 2% of invest in Debentures/ Bonds , 3% young investors prefer investing in stock futures and options , 6% of the total investors prefer investing in insurance policies and the remaining 15% investors prefer investing in various other avenues like gold real estate, etc..

3) Various sectors to invest in?

Various sectors to invest	People	Percentage
It sector	18	17%
Bank sector	25	24%

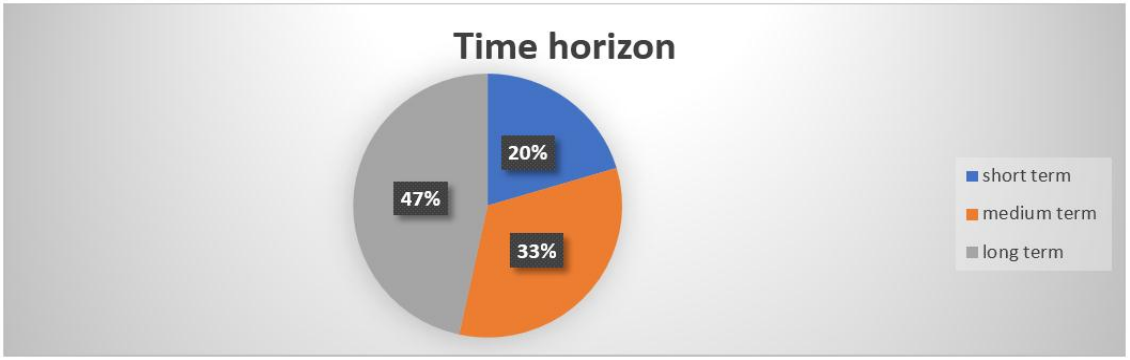
FMCG	6	6%
Infrastructure	5	5%
Energy sector	8	8%
Pharma	9	9%
Other	32	31%
TOTAL	103	100%



From the above survey 17% of the total investor's population prefer investing in IT Sector (information technology) , 24% of the prefer investing in Banking Sector , 6% prefer investing in Fast moving consumer goods 5% investors prefer investing in Infrastructure and Capital goods sector 8% investors prefer investing in Energy sector , 9% of the investors invest in Pharma sector and the remaining 31% investors include the once who invest in other sector like Breweries and Distilleries sector and other such sectors, there are also a few investors who do not invest in stocks.

4) What is the time horizon ?

Time Horizon	People	Percentage
Short term	21	20%
Medium term	34	33%
Long term	48	47%
TOTAL	103	100%

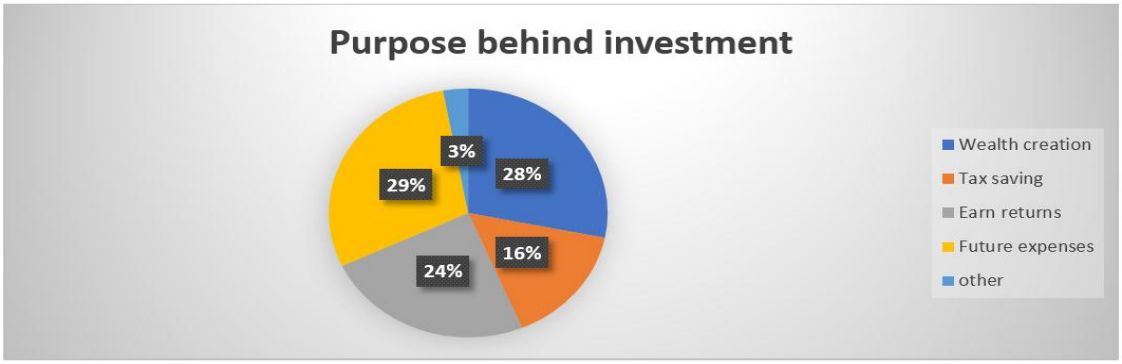


20% of the total investor's population prefer short term (0-1 year) investments , 33% of the investors prefer investing in medium term (1-5 years) investments and the remaining 47% of the investors prefer long term (more than 5 years) investments .

5) Purpose behind investment ?

Purpose behind Investment	People	Percentage

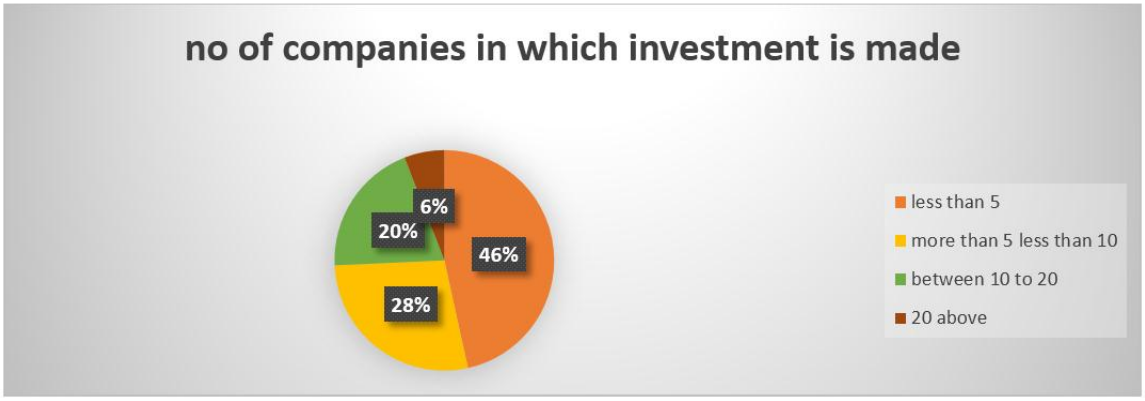
Wealth creation	29	28%
Tax saving	16	16%
Earn returns	25	24%
Future expenses	30	29%
Other	3	3%
TOTAL	103	100%



28% prefer to invest for wealth creation, 16% of the investors, invest to get tax benefits, 24% investors purpose behind investment is to earn returns and the remaining 29% invest to maintain future expenses. Therefore, majorly young investors, invest for future expenses as their main motive.

6) No of companies to which investment is made ?

No of companies in which investment is made	People	Percentage
Less than 5	47	46%
5-10	29	28%
10-20	21	20%
20 above	6	6%
TOTAL	103	100%

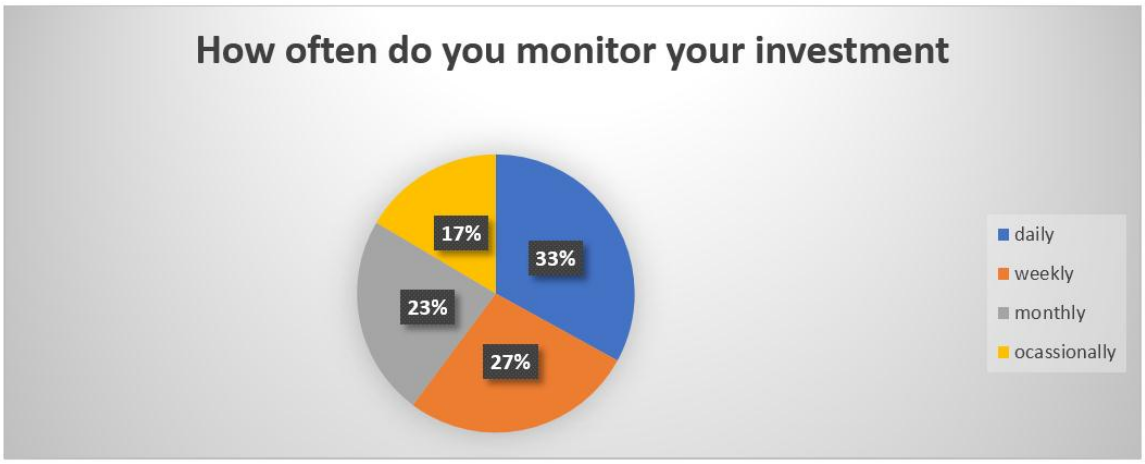


46% of the investor's, invest in less than 5 companies, 28% of the total investor's population invest in 5 to 10 companies, 20% of the investor's, invest in 10 to 20 companies and the remaining 6% of the investor, invests in more than 20 companies. Majority youth investors invests their fund in less than 5 companies.

7) How often do you monitor your investment ?

How often do you monitor your investment	People	Percentage
Daily	34	33%
Weekly	28	27%
Monthly	24	23%

Occasionally	18	17%
TOTAL	103	100%



33% investor's population monitor their investments on daily basis of 27% the investors monitor their investment on weekly basis, 27% investors monitor their investment on monthly basis and 17% of the investors monitor their investment occasionally.

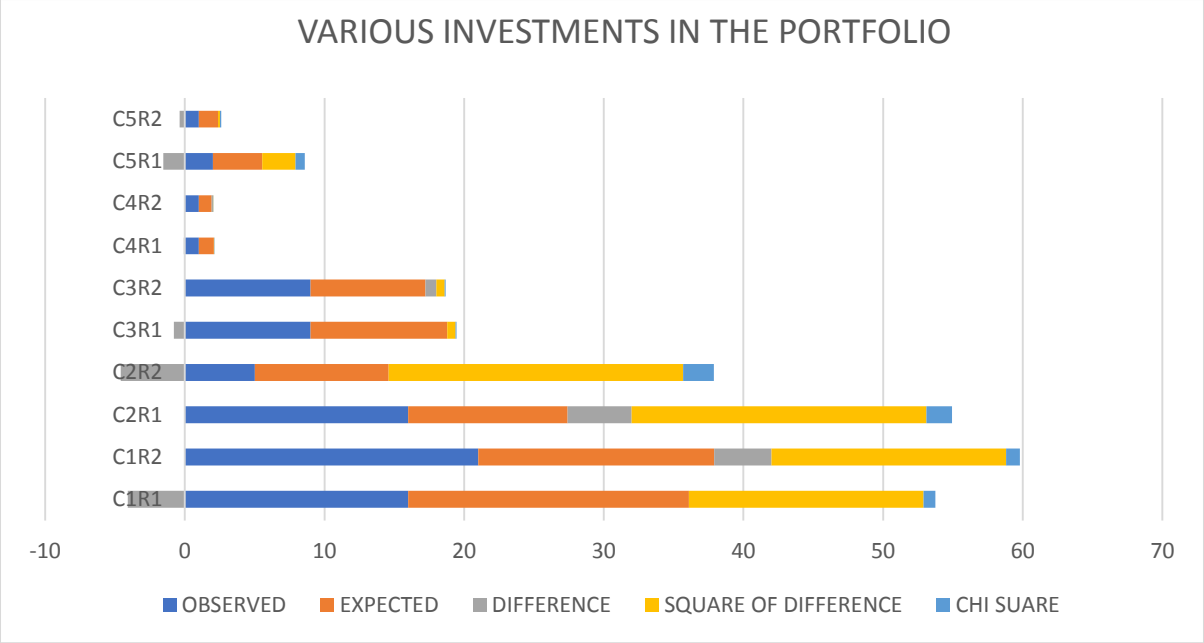
HYPOTHESIS

VARIOUS INVESTMENTS IN THE PORTFOLIO

- STOCK
- MUTUAL FUND
- FIXED DEPOSIT
- DEBENTURES
- STOCK FUTURES

PARTICULARS	Shares(c1)	Mutual Fund C2	Fixed Deposit C3	Debenture C4	Stock Future C5	TOTAL
Female R1	16	16	9	1	2	44
Male R2	21	5	9	1	1	37
TOTAL	37	21	18	2	3	81

ELEMENTS	OBSERVED	EXPECTED	DIFFERENCE	SQUARE OF DIFFERENCE	CHI SUARE
C1R1	16	20.0987654	-4.09876543	16.79987807	0.835866169
C1R2	21	16.9012346	4.098765432	16.79987807	0.994003012
C2R1	16	11.4074074	4.592592593	21.09190672	1.848965849
C2R2	5	9.59259259	-4.59259259	21.09190672	2.198770199
C3R1	9	9.77777778	-0.77777778	0.604938272	0.061868687
C3R2	9	8.22222222	0.777777778	0.604938272	0.073573574
C4R1	1	1.08641975	-0.08641975	0.007468374	0.006874299
C4R2	1	0.91358025	0.086419753	0.007468374	0.008174842
C5R1	2	3.54320988	-1.54320988	2.381496723	0.672129737
C5R2	1	1.37037037	-0.37037037	0.137174211	0.1001001
					6.800326467



INTERPRETATION:

- We support the chi-square statistic with a value of 6.800 and the difference between the observed counts and the expected counts.
- The above statistic suggests that you can interpret this by following steps: Set your significance level (0.05 or 0.01); Compute the degrees of freedom used in the test.
- The continued freedom for a chi-square test with a contingency table can be computed as: (the number of rows - 1) (the number of columns - 1); From the chi-square distribution model, determine the critical value that corresponds to your chosen significance level and degrees of freedom;
- Compare the value obtained for chi-square with the critical value. If your chi-square statistic from this sample is larger than the critical value, reject the null hypothesis. Otherwise, fail to reject the null hypothesis.

FINDINGS

The data interpretation section demonstrates significant findings regarding investment practices of individuals.

The high number of investors who fall between 20-25 years old shows that youth-based behaviour's drive investment choices.

The gender distribution of investors displays a nearly balanced split between males and females demonstrating active participation from both sexes.

Postgraduate investors form the majority among investors which signifies education plays a vital role in enabling educated investors to make better investment choices.

Students along with professionals constitute the majority of investors who favor equity shares, mutual funds and fixed deposits as their top choices for investment.

External investors opt to put their funds into banks and IT sectors because they have faith in these industrial segments.

Investors usually select long timelines to build wealth with goals toward future financial expenses.

Several investors choose to monitor their investments either once a day or once per week.

People obtain investment information by using websites and brokers alongside each other.

The primary source that people rely on for making investments comes from their personal savings.

The process of making investment decisions relies on anticipated growth possibilities and financial returns supported by multiple economic determinants that significantly affect investment choices.

Most investors handle their financial investments while substantial numbers view dangerous speculative investments as a chance to generate substantial returns.

The majority of investor decisions related to investments are taken with above-average or high levels of confidence leading them to choose diverse asset classes aimed at preventing loss.

CONCLUSION

In the study we observed:

- Majority investors are of 20-25 (63%) as people in this category are more titled towards investing in various investment avenues. The remaining 9% fall in the category of 26-30 years of age. Stock market is a risky place even though it offers high return. Hence, it is mostly preferred by young investors who are willing to take risk and do not go for stable and regular returns.
- Investors consist of 43% male participants but 56% female participants among the total investor group. The proportion of male investors stands similar to female investors in the investor population.

According to the study investment decisions of individuals result from multiple factors instead of one

specific influence. Every person differs from all others because they possess distinct characteristics stemming from both background and demographic aspects such as age and social standing as well as education level and race and gender. This exactly applies to investors too. The main difficulty investors face is their investment decision because they base choices on rational thinking but follow instinctual emotional preferences when selecting investments. Multiple research studies reveal no single variable controls investment choice because such decisions display varying characteristics between individuals specifically based on their circumstances and asset types they hold. Investors exhibit behavioral changes depending on information representation and their willingness to take risks when making investment choices so all these elements separately influence investment decision patterns.

It is concluded from the study that the investors are monitoring their investments on a daily basis. The prime most important objective of the sample investors is future expenses . The investors are making their investments on a long term basis. The sample investors are considering liquidity as the important factor before making their investments. The frontrunner for the investors to make their investment is website . The respondents had chosen shares as their first preference. The second place is occupied by mutual funds and fixed deposit followed by insurance policies. The fourth fifth & sixth places are occupied by stock futures and options, debentures/ bonds & other investments such as gold, real estate, etc respectively.

Majority of the respondents have invested in less than 5 companies, their main source of information is based usage and reliability is website, investment related website, than on the brokers and analyst . Majority of the investors use their own savings as the source of investment. Mostly the investor's investment decision is dependent upon future growth and the returns they will get on the investment.

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