# Behavioural Influence of the Small Individual Investors in Tirunelveli District

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## Abstract

Research in behavioural finance has impact applications. A better understanding of behavioural process and outcomes is important for financial planners because an understanding of how investors generally respond to return should help investment advisors device appropriate allocation, strategies for their small individual investors. An individual investor investing small amounts of various investment avenues as opposed to an institutional investor or foreign investor. It is also called as small individual investor / retail investor. In today world every individual running for money and is considered as a root of happiness. For secure life for bright future people start investing. Still many people not take correct decisions for investing various investment avenues. They are confuse by the excess wealth and at present India provides various investment avenues in market. So this research focus by identifying the most influencing behavioural factors on their in investment decisions at selecting various investment avenues.

**Keywords:** Behavioural finance, Small individual investors, Investment avenues, Behavioural factors, Investment decision.

## Introduction

Behavioural finance is a relatively new paradigm of finance, which seeks to supplement the standard theories of finance by introducing behavioural aspects to the decision making process. Early proponents of behavioural finance are considered by some to be visionaries. This was the first time a psychologist was awarded the Nobel Prize and played a key role in convincing mainstream financial economists that investors can behave irrationally. It attempts to explain and increase the understanding of the reasoning patterns of investor, including the emotional processes involved and the degree to which they influence the decision making process. Essentially, it explain the what, why and how of finance and investing. It endeavours to bridge the gap between neo-classical finance and cognitive psychology. It takes into account the individual investor's decision making formula as well as their behaviour, which, in turn, sheds light on the observed departures from the traditional finance theory. Thus, behavioural finance is the application of scientific research on the psychological, social and emotional contributions to market participants and market price trends.

behavioural finance has made its important on almost every field of life. If behavioural finance means investors allocate money for various investment avenues to make investment decision making at the various purposes the various kinds behavioural factors influencing at the investors and also impact on the investment performance it's called behavioural finance. They are three types of investors available Indian financial market is for: institutional investors, foreign investors and small or individual investors. When compared to the three types of investors in behavioural finance factors if small individual investors highly impact on allocate the money in various investment avenues. Which kind of problems faced by small individual investors it is following below: which kind of investment avenues preferred? If preferred investment avenues which kind of investment decision factors used? Which kind behavioural factors highly impact on the preferred investment avenues? Which behavioural factors is highly impact on the kind of investment avenues? These types of problem cannot be faced by the small individual investors and they are confused by the how to rectify these types of problems. So this studies to concentrate on the small individual investors problems.

## Statement of the Problem

The research about behavioural finance because

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## Significance of the Study
### To the Field of Behavioural Finance

The concept of behavioural finance emerged due to the financial difficulties facing the traditional concepts. The following points are stronger than the traditional theories of behavioural finance to support it. Behavioural finance theories assume that investors make

rational decisions. But most of the studies conducted reveal that the investors do not act in a rational manner. They fill an important gap in understanding the interplay of behavioural finance and investor psychology and detail errors and try to influence the decision-making process. The development of various investment channels, behavioural finance is widely used to study the behaviours that affect investment decisions; this study hopes to confirm the suitability of the investments made by using all sorts of behavioural finance.

## Objectives and Hypothesis of the Study
### Objectives
- To study the demographical profile of the small individual investor in Tirunelveli district.
- To study the preferred more than one investment avenues of the small individual investors.
- To identify and impact level of behavioural factors on the investment decisions and performance of the small individual investors.

### Research Hypothesis
- Ho1 - behavioural variables do not influence by the investment performance of small individual investors.

## Review of Related Literature
The paper by **Anli Suresh (2013),** paper is on understanding behavioural finance through biases and traits of trader vis-à-vis the investor attempts to fill the void and explore the relationship among these factors. The concluding observation is that understanding variance behavioural key biases and traits can help an individual take sound financial decision and in turn make him a better trader / investor.

**Suman and Warne DP (2012),** this study attempts to understand the behaviour of individual investor in stock market, specifically their attitude and perception with respect to the stock market. A survey is conducted to attain the objectives of the paper. Respondents are classified in to different categories on the basis of income, profession, education status, sex and age. Primary data is collected from a sample around 50 investors of Ambala district. Finally the result of the study there are different factors which affect the investment behaviour of individual investors such as their awareness level, duration of investment etc.

The paper by **Tahira R Hassan (2014),** the present study investigates the impacts of gender and age on two of the behavioural biases i.e. over confidence and loss aversion with reference to Pakistan. It is hypothesized that secretly attached for the above objectives were formulated gender and over confidence are not correlated, gender and loss aversion are not correlated, people who are overconfident do not tend to be less loss averse, males do not tend to be more over confident, young people do not tend to be more over confident, females do not tend to be more loss averse and

older people do not tend to be more loss averse. The result in this study gender is a demographic that has a prominent impact on behavioural biases like over confidence and loss aversion. Our research findings supported this theory and provided some new insights into the psychology of Pakistani investors. Hence, they conclude that in Pakistan, men are more over confident whereas women are more loss averse. Older investors are both over confident and majority of them trade excessively here. Also in Pakistan, people who prefer risks are generally observed to be more over confident.

The paper by **Vaibhav Jain (2012),** this research attempts to explain the literature on efficient market hypothesis, its anomalies and also a brief discussion on different trading strategies. In this part, will discuss variance behavioural finance models like over and under reaction, mental compartments, over confidence, disjunction effect, limits to arbitrage in addition to the theories of human behaviour like prospect and expected utility theories. In the initial part of this research, have explained how security prices incorporate all information immediately without giving the chance to the investors to profit from them. They have also discussed the foundation of market efficiency to exist on satisfaction of any of the three conditions that are 'rationality,' 'independent deviation from rationality' and 'arbitrage' (Andrei Shleifer). The result of this study behavioural finance models such as prospect theory, expected utility theory, overconfidence, over and under reaction, mental compartments, disjunction effect and limits to arbitrage are also studied as none of the three conditions given above satisfies in reality and hence explained as anomalies of market efficiency.

## Research Methodology
### Type of Research Design
Existing research, have used two types of research designs that is descriptive research design and experimental research design.

### Type of Survey
The research has used sample survey.

### Sample Design
Sample design of the present study includes the following points:

### Type of Universe
The first step in developing any sample design is to clearly define the set of objects, technically called the universe to the studies. There are two types of universe finite or infinite universe. The present research is based on the finite universe and the number of items is finite.

### Population
There are 32 districts available in Tamilnadu; the districts are divided into four regions: east, west, south and north. The present only concentrate one south

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zone only. The zone includes five districts Dindigul, Madurai, Tuticorin, Kanyakumari and Tirunelveli. The current study deals with the higher level population of Tirunelveli district.

## Sampling Unit
The current study sample units, small individual investors include more than one preferred investment avenues.

## Sample Size Determination
Present research based on the total population in Tirunelveli district has decided to sample size determination. In Tirunelveli district, the total population in 2011 in Tirunelveli district was collected from the manual.

## Formula for Finite Population
$n = Z^2pqN / (N-1) e^2 + Z^2 pq$

$Z = Z$ value e.g. 1.96 for 95% confidence level,
p = population proportion (expressed as decimal) (assumed to be 0.5 (50%) since this would provide the maximum sample size).

$n$ = sample size for finite population.
$n = 1.96^2*0.5(1-0.5)*3072880 / (0.05)^2 (3072880 – 1) + 1.96^2*0.5(1-0.5)$
$n = 2949964.8 / 7682.19 + 0.96$
$n = 2949964.8 / 7683.15$
Sample size determination proportionate method = 384.0004 (approximately 384)
**Sample size = 384**
By only 384 of the total population in Tirunelveli district and the sample size was determined by in the main study.

## Sampling Technique
### a) Probability Sampling
A method for selecting individuals for each member of the population has an equal chance of being selected to be added to the study.
### b) Sample Frame Work
The researcher has adopted probability structured convenient stratified sampling technique to collect the required data. 11 taluk in Tirunelveli district and 384 proportionate stratified allocation respondents are illustrated in the table below.

Table 1
*Proportionate stratified allocation of respondents in the main study*

| Taluk name in Tirunelveli district | Population Strata and Sample Allocated using Proportionate Sampling | | | | |
| --- | --- | --- | --- | --- | --- |
| | Rural | | Urban | | |
| | Population size (proportion of each stratum) Rural | Number of sample size allotted | Population size (proportion of each stratum) Urban | Number of sample size allotted | Total number of samples |
| Tirunelveli | 145009/3077233*384 | 19 | 497026/3077233*384 | 62 | 81 |
| Sankarankovil | 284530/3077233*384 | 36 | 65614/3077233*384 | 9 | 45 |
| Sivagiri | 72498/3077233*384 | 9 | 121658/3077233*384 | 15 | 24 |
| Nanguneri | 149520/3077233*384 | 18 | 76082/3077233*384 | 10 | 28 |
| Tenkasi | 171306/3077233*384 | 21 | 228640/3077233*384 | 29 | 50 |
| Ambasamudram | 182786/3077233*384 | 22 | 245245/3077233*384 | 31 | 53 |
| Radhapuram | 195626/3077233*384 | 24 | 109026/3077233*384 | 14 | 38 |
| Palayamkottai | 91176/3077233*384 | 11 | 0/3077233*384 | 0 | 11 |
| Veerakeralampudur | 87865/3077233*384 | 11 | 35272/3077233*384 | 4 | 15 |
| Alangulam | 125131/3077233*384 | 16 | 51007/3077233*384 | 6 | 22 |
| Shenkottai | 51557/3077233*384 | 6 | 89859/3077233*384 | 11 | 17 |
| Total | | 193 | | 191 | 384 |

As it can be seen from the above table - 1 stratified sampling has been done in a two-way process in which the population is proportionate into strata (Tirunelveli district in rural and urban). In the group every population element assigned one and only one stratum and no population element was omitted. Next elements were selected from each group based on proportionate stratified sampling, in that the size of sample drawn from each group is proportionate to the relative size of that group in the total population.

## Data Collection Method
The study has been made by using both primary data and secondary data. The primary data collected

through well structured interview schedules were classified and tabulated for analysis in accordance with the outline laid down for the purpose, at the time of developing the research plan. The secondary data were sourced from various international and national level research theses and research articles related to this research work.

**Tools Used for Analysis**
- ❖ Estimation and presentation of frequency distributions
- ❖ Descriptive procedure
- ❖ Factor analysis
- ❖ Multiple linear regressions

**Analysis and Interpretation**
**Hypothesis 1**
Ho1 - behavioural variable does not influence by the investment performance small individual investor's.
Regression analysis: Behavioural factors and investment performance of small individual investors preferred more than one investment avenues

Table 2
*Regression analysis – behavioural variable regression model summary*

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|---|---|---|---|---|---|
| 1 | .195[c] | .038 | .030 | .944 | .687 |

c. Predictors: (constant), i am an ever-tempered person, i dislike the most is bad in terms of its quality, i dislike the most, are not good enough for long term investment

d. Dependent variable: investment performance

The above regression table - 2 summarizes the model performance with relevant analysis. R represents multiple correlations co-efficient with range lies between -1 and +1. Since the R value is .195 it means behavioural variables influences by investment performance of small individual investors preferred more than one investment avenues has a close relationship between ever-tempered person, most bad in terms of quality, not good enough for long term investment and more than behavioural variables. R square represents the co-efficient of determination and ranges between 0 and 1. Since the R square value is 0.038, 38% of the variation in the behavioural variables influences by investment performance of small individual investors preferred more than one investment avenues is explained by with ever-tempered person, most bad in terms of quality, not good enough for long term investment and more than behavioural variables.

Table 3
*ANOVA – behavioural variables*

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| **1** | **Regression** | 13.409 | 3 | 4.470 | 5.013 | .002[c] |
| | **Residual** | 338.830 | 380 | .892 | | |
| | **Total** | 352.240 | 383 | | | |

a. Predictors: (constant), i am an ever-tempered person, i dislike the most is bad in terms of its quality, i dislike the most, are not good enough for long term investment.

From the ANOVA table - 3 F significant values is significant (significant value is less than 0.05) it means dependent variable "behavioural variables influenced by investment performance of small individual investors preferred more than one investment avenues."

Table 4
*Behavioural variable – co-efficient*

| Model | Unstandardized Co-efficients | | Standardized Co-efficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| 1 | | | | | |
| I am an ever-tempered person | .395 | .118 | .401 | 3.340 | .001** |
| I dislike the most is bad in terms of its quality | .141 | .059 | .143 | 2.390 | .001** |
| I dislike the most, are not good enough for long term investment | .224 | .112 | .232 | 1.999 | .001** |

a. Dependent variable: investment performance
b. ** 5% significant level

The model co-efficient table - 4 reports the co-efficient for ever-tempered person, most bad in terms of quality, not good enough for long term investment and more than behavioural variables along with the significant value. The model co-efficient are used in the construction of regression equation. A low significance value of less than 0.05 for most bad in terms of quality, not good enough for long term investment and more than behavioural variables strongly impact the behavioural factors and influence the investment performance of small individual investors.

The regression equation for the above data: behavioural factors influence by the investment performance = .395 + .141 + 0.224.

The above equation is the calculated conditions for the tested element to achieve behavioural factors influenced by the investment performance of small individual investors preferred more than one investment avenues. From the regression equation we notice that all the factors have impact on the behavioural influences by the investment performance.

**Summary of Findings**
**Findings from Demographical Profile of Small Individual Investors in Tirunelveli District**
- Majority of respondents belongs to the gender group of male (60.90%).
- Majority of the respondents belong to the age group of 26–35 years (32.8%) and lower of the respondents belong to the age group of above 56 (8.1%).
- Majority of the respondents belong to the educational level is school / diploma / ITI and lower proportion of respondents belong to the education level is professional degree.
- Higher proportion of monthly income in 20001–300000 and lower proportion of monthly income in small individual investors belong to the below 20000.

**Findings from Preferred More Than One Investment Avenues**
- Majority of the respondents have preferred in their investment avenues for share market 282 of 384 (73.4), other investment avenues (vehicles, tangible goods, arts) 282 of 384 (73.3%) and most of the small individual investors have not preferred investment avenues in bond (89.5%).

**Factor Analysis**
- KMO measures sampling adequacy and Bartlett's test of sphercity. The KMO value is 0.881, which fall into the range of being great so we should be confined that factors analysis is appropriate for these data.
- The rotated factor matrix for the investor behavioural variables among the overall sample respondents were given in table - 4. The table exhibits the rotated factor loadings for the 76 statements of respondents feeling about the behavioural factors. Hence there were a highly negative loading; some 10 factors were neglected by the factor matrix. It is clear from table that all the 76 statements have been extracted in the 10 factors namely F1, F2, F3, F4, F5, F6, F7, 89, F9, F10.

**Varimax Solutions**
- Factors with higher positive loadings on factor 1 are categorized and termed as **"Representativeness."** The Eigen value for the above factor 1 was 25.472 and the percentage various was 35.516%. It could be concluded that the perception level concerning with factor 1, the investors fully responsible for the investment decision for the results is based upon specific skill knowledge about the investment activities and also expect the positive return in future and they are dislike the greatest risk in investment actives.

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- Factors with higher positive loadings on factor 2 are categorized and termed as **"Anchoring."** The Eigen value for the above factor 2 was 6.798 and the percentage various was 8.945. It could be concluded that the perception level concerning with factor 2, investors if believe that the good performance will continue because investors rely on past performance do some research in the past performance investment activities. We are predictive skill for investment decision making in feel angry most dislike the bad financial soundness so the investors have positive feeling about the investment.
- Factors with higher positive loadings on factor 3 are categorized and termed as **"External Information."** The Eigen value for the above factor 3 was 5.176 and the percentage various was 6.811. It could be concluded that the perception level concerning with factor 3, above external information support to the investors preferred more than one investment avenues.
- Factors with higher positive loadings on factor 4 are categorized and termed as **"Gamblers Fallacy."** The Eigen value for the above factor 4 was 3.760 and the percentage various was 4.948. It could be concluded that the perception level concerning with factor 4, investors able to adopt a new investment avenues mind is frequently selected if often it difficult to select the investment for other person view point and also prefer to invest in investment avenues from different investment avenues so can diversify the risk.
- The factors with higher positive loadings on factor 5 are categorized and termed as **"Loss Aversion."** The Eigen value for the above factor 5 was 3.239 and the percentage various was 4.948. It could be concluded that the perception level concerning with factor 5, investors like the good terms of financial soundness and more of concerned about a large loss investment tent to treat each element of many investment profit on separately.
- The factors with higher positive loadings on factor 6 are categorized and termed as **"Regret Aversion."** The Eigen value for the above factor 6 was 6.798 and the percentage various was 8.945. It could be concluded that the perception level concerning with factor 6, investors has dislike the good enough of long term financial soundness, history of boor earnings, ready to explode and tempered.
- The factors with higher positive loadings on factor 7 are categorized and termed as **"Mental Accounting."** The Eigen value for the above factor 7 was 2.407 and the percentage various was 3.167. It could be concluded that the perception level concerning with factor 7,

investors study about the market fundamental analysis if which investment as higher stable income as compared to others investment avenues so investors have properly demonstrated by the particular investment cash flow.
- The factors with higher positive loadings on factor 8 are categorized and termed as **"Over Confidence."** The Eigen value for the above factor 8 was 2.248 and the percentage various was 2.958. It could be concluded that the perception level concerning with factor 8, investors confident about ability to do better than other picking investment avenues and not increase my poor investment performance.
- The factors with higher positive loadings on factor 9 are categorized and termed as **"Herding."** The Eigen value for the above factor 9 was 6.798 and the percentage variance was 8.945. It could be concluded that the perception level concerning with factor 9, investors feel more sorrow about holding losing amount to log than about selecting winning start soon.
- The factors with higher positive loadings on factor 10 are categorized and termed as **"Self-Confidence."** The Eigen value for the above factor 10 was 1.790 and the percentage variance was 2.355. It could be concluded that the perception level concerning with factor 10, is that investors if believe that the skill and knowledge of the investments is support to the actively involved in investment activities feel nervous the loss have in invested in selected investment.

## Suggestions

The findings of this study, based on the recommendations of small individual investors who preferred more than one investment products are offered as well as investment service provider. The study's findings are based on small individual investors in the stock market, mutual funds, life insurance, such as investments in the more money brokers based on the recommendation of the low experience of the investment carried out and representativeness, anchoring, external information, over confidence, gambler's fallacy, loss aversion, regret aversion, Mendel accounting, herding, emotional self-intelligence behavioural factors such as the investment of more than one small individual investors to invest in the most heavily impacted.

## Conclusions

Behavioural finance is a field of finance that proposes psychology-based theories to explain stock market anomalies. Within behavioural finance, it is assumed that the information structure and the characteristics of market participants systematically influence individual's investment decisions as well as

market outcomes. Behavioural factors influencing to prefer more than one investment avenues in small individual investors is a significant topic within the behavioural finance literature is the notion of behavioural factors influencing pertaining to novice small individual investors. There are a substantial number of behavioural factors that influence an investors preferred more than one investment avenues. The present study has been ever-growing body of research that has attempted to delineate behavioural factors influence by preferred more than one investment avenues. Behavioural factors influence is not only a theoretical issue but also forms the basis for behavioural finance theories.

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