



INVESTMENT BEHAVIOUR OF SCHOOL TEACHERS IN INDIAN STOCK MARKET – A STUDY ON REVIEW OF LITERATURE

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Abstract

In today's scenario, money plays an important role in one's life. In order to overcome the problems in future one has to invest his or her money. Investment may be defined as sacrifice of certain present value for some uncertain future value. In other words, investment means the purchase of a financial product with an expectation of future returns. Patidar, (2010) defined investment as the funds which are invested as capital or other securities of either public or private sector for earning more money. It is the employment of funds with the aim of earning additional income. The investor plays an important role in the stock market because of their big share of gross savings in the country. The Regulators of the stock market cannot ignore the behaviour of investor. The study attempts to understand the behaviour of investor in stock market, specifically their attitude and perception with respect to the stock market. Generally, Investors' Behaviour regarding any investment is to minimize risk while maximizing the return. There are many investment products which are available for investment to investors in the stock market ranging from bonds to options. These products vary with regard to risk factor involved and the return. Investors choose the investment products which have matching to their risk tolerance. Finally today's investors are fully aware about the stock market. The market movements affect the investment pattern of investors in the stock market.

Key Words: Investors' Investment Behavior, Investment Products, Stock Market.

1. Introduction

The capital market is used as a main vehicle to mobilize funds for the economic growth of the country. It performs crucial functions like the conversion of savings of the households and institutions into investment, creation of financial assets and development of asset-related products. A well functioning securities market is conducive to the sustained economic growth of any country in the world. There exists a direct relationship between the development in the securities market and economic growth of a country. The securities market provides a bridge between ultimate savers and ultimate investors and creates the opportunity to put the savings of the cautious at the disposal of the enterprising, thus promising to raise the total level of investment and growth. It allocates scarce savings to the enterprises and forces them to focus on their performance, which is continuously evaluated through share prices in the market. It thus converts a given stock of investible resources to a large flow of goods and services. The development of the securities market changes the quantum and composition of savings and investment of the households. The availability of yield bearing securities induces people to consume less and invest more in high yielding, divisible and liquid securities. A strong domestic stock market performance forms the basis for the well performing domestic corporate to raise capital in the international markets. The securities market facilitates the internationalization of the economy by linking it with the rest of the world. This linkage happens through the inflow of capital in the form of portfolio investment. Financial markets across the globe are undergoing profound, unprecedented and fast-paced changes. Technology has revolutionized the processes and the information explosion has sparked off remarkable changes in the way the world market has been operating. Change has become an inevitable phenomenon.

Indian Capital market is one of the fastest growing markets in the world. It has grown impressively during the recent years in tune with the global financial markets. The Indian Capital Market comprises of two segments, namely, the Primary and the Secondary market. The fresh issue of securities takes place in primary market and trading among investors takes place in secondary market. The primary market is the major channel through which the savings of the households are mobilized by the companies directly for investment purposes. It is the centre stage of the capital market that really boosts industrial and financial activities by providing long term funds to the corporate and the government. It infuses new securities, adding volume and wider base of securities in the secondary market. The secondary market affords liquidity to the investment in securities and reflects the general health of the economy.

Indian corporates mainly raise funds through capital market. Two types of capital are essentially raised viz., Equity and Debt. Equity forms part of the net worth and the Debt forms part of the outside liability of the firm. The capital raised through equity is superior to that of debt capital for both the firm and the investor. Equity enhances the borrowing power of the firm from banks and financial institutions. If a firm is not able to mobilize sizable amount of equity capital through primary market, it can approach banks to fund long-term investment. From the investor's point of view, it could be noticed that over the long term, the equity investments have out-performed debt and other asset classes across the globe. In India, looking at



the 8 years Compounded Annual Growth Rate (CAGR), equity returns have out-performed debt to the tune of 15.8 percent. The Indian Capital Market has witnessed unprecedented euphoria from the early nineties and it has won critical appreciation from various quarters. There are two types of investors, namely, institutional investors and retail investors (households). Institutional investors are huge investors who operate through Portfolio Managers. Portfolio Managers only shuffle around the holdings in the existing scrips in their basket, based on their subjective evaluation of various scrips but they do not inject the much needed risk capital to upcoming enterprises to undertake new industrial activities. Even Foreign Institutional Investors (FII's) generally bring capital into the country only to acquire shares in the existing highly profitable companies but do not provide risk capital to the corporate world. It is the Retail Investor i.e. the household sector, who is the only source of providing risk capital. The Retail Investor provides this risk capital, either directly by investing in equity market or through collective schemes popularly called as Mutual Funds.

The BSE India SENSEX is India's first stock market index and is tracked worldwide. It is having an index of 30 stocks representing 12 major sectors. Bombay stock exchange is a stock exchange in Asia with a rich heritage, now spanning three centuries in its 133 years of life. BSE is the first stock exchange in the country which obtained permanent recognition (in 1956) from the Govt. of India under the Securities Contracts (Regulation) Act 1956. BSE prominent role in the development of the Indian Capital Market is being widely recognized. It changed from the open outcry system to screen based order driven trading system in 1995. BSE is now a corporatized under the provisions of the Companies Act 1995. The National Stock Exchange of India (NSE) is also one of the largest and most advanced stock exchanges in the world. NSE is the largest exchange in Stock futures and the seventh largest futures exchange in the world. Its trading facility can be accessed across the country, through over 50000 trading terminals. The central order book with a tight bid-ask spread provides a highly liquid market for the investors. In 1996, NSE launched S&P CNX Nifty which is diversified index of 50 stocks from 25 different economy sectors. NSE started trading stock on the internet from the year 2000. SEBI is the regulatory authority of Indian stock market. The main functions of SEBI are to provide protection to investors and safeguard their rights, to regulate brokers and sub brokers, to prohibit the unfair practices in stock market etc. The investment refers to the commitment of funds at present in anticipation of some positive rate of return in future. There are three types of investors namely conservative investors, moderate and aggressive investors. There are also different avenues available to invest for investor's namely corporate securities, equity shares, preference share, debentures/ bonds/ American Depository Receipts (ADRs)/Global Deposit Receipts (GDRs), mutual funds, etc. The investor can get education about their investment from financial institution, financial markets, media etc. In this paper the researcher tried to review the previous studies of investors' behaviour towards investment in Indian stock market.

2. Significance of the Study

Investment benefits both economy and the society. It is an outgrowth of economic development and the maturation of modern capitalism. For the economy as a whole, aggregate investment sanctioned in the current period is a major factor in determining aggregate demand and, hence, the level of employment. In the long term, current investment determines the economy's future productive capacity and, ultimately, a growth in the standard of living. By increasing personal wealth, investing can contribute to higher overall economic growth and prosperity. The process of investing helps to create financial markets where companies can raise capital. This too, contributes to greater economic growth and prosperity. Specific types of investments provide other benefits to society as well.

3. Objectives of the Study

To review the previous studies in India as well as abroad with a view to identify the research gap in investors' investment behaviour of Indian stock market and persuade the researchers to channelise their endeavour to fill the research gap successfully.

4. Scope of the Study

The developing countries like India face the enormous task of finding sufficient capital in their development efforts. Most of these countries find it difficult to get out of the vicious circle of poverty of low income, low saving, low investment, low employment etc. With high capital output ratio, India needs very high rates of investments to make leap forward in her efforts of attaining high levels of growth. Since the beginning of planning, the emphasis was on investment as the primary instruments of economic growth and increase in national income. In order to have production as per target, investment is considered as a crucial determinant and capital formation have to be supported by appropriate volume of saving. Investment is the sacrifice of certain present value for the uncertain future reward. Investments are always interesting, challenging and rewarding. Generally where there is a high risk, more rate of return is assured. Risk and reward go together.



5. Review of Literature

Foreign Studies

Molodovsky¹(1960) stated that many earlier studies on investor behaviour of U.S. relating to dividends, stock prices and stock ownership. These studies relating to the stock market provided data from the latter part of 19th century. Common stock indices of earnings and dividends and prices were first compiled by the Cowles Commission and then continued by Standard and Poor. He has demonstrated that the overall gain to investors for the 88 years, 1871 – 1959 had averaged about 0.5% p.a in dividend return and 2.5% per annum in price appreciation both taken against annual market prices.

Hamid Bahmanpour²(2002) in his article titled “National Savings and Investment Behaviour in Iranian Economy” identified the determinants of savings and investments which are drawn from the life cycle model of consumption in which individuals maximize the present value of their life time utility, with a budget constraint related to whole life income. The variables such as population, income growth, interest rate inflation and tax rates have affected the savings.

Merilkas et al.,³(2003) adopted a modified questionnaire to analyze factors influencing Greek investor behaviour on the Athens Stock Exchange. The results indicate that individuals base their stock purchase decisions on economic criteria combined with other diverse variables. Their results reveal that most of the variables that were rated important are “expected corporate earnings”, “condition of financial statements”, or “firm status in the industry”. It is generally expected that these factors would be high on the list of criteria considered in choosing stock investments, especially given the fact that the survey was completed by experienced investors who survived even though they have been hit hard by the “bubble burst” of the Greek stock exchange that was initialized at the end of 1999. Secondly, apart from the wealth criterion, surprisingly more than half of the respondents consider no other factor important indicating that investors truly employ diverse decision criteria when choosing stocks. Third, it appears that despite the big blow to investors from the 1999 Greek stock market collapse, speculative factors like “get rich quick”, “recent price movements in the firm’s stocks”, and “affordable share price” influence significantly only 1/3 of the respondents. Finally, environmental criteria like “coverage in the press”, “statements from politicians and government officials”, “ease of obtaining borrowed funds” and “political party affiliation” on which the pre-1999 bubble thrived, are either totally unimportant to most experienced stock investors and only a very small percentage of them considers them significant investment decision criteria.

Hussein⁴(2006) reports the factors influencing the UAE investor behaviour on the Dubai Financial Market and Abu Dhabi Securities Market. The questionnaire included thirty-four items that belong to five categories, namely self-image/firm-image coincidence, accounting information, neutral information, advocate recommendation and personal financial needs. More than 50% of total respondents consider that six factors were most influencing factors on investment behaviour. The most influencing factor by order of importance are : “expected corporate earnings”, “get rich quick”, “stock marketability”, “past performance of the firm’s stock”, “government holdings” and “the creation of the organized financial markets” (i.e. Dubai Financial Market and Abu Dhabi Securities Markets). Five factors were found to be the least influencing factors, where less than 10% of total respondents consider these factors as the least affecting factors on their behaviour. The least influencing factor , by order of importance are : “expected losses in other local investments”, “minimizing risk”, “expected losses in international financial markets”, “family member opinions” and “gut feeling on the economy”. The most influencing group, by order of importance are: accounting information, self-image/ firm-image coincidence, neutral information, advocate recommendation and personal financial needs. Two factors namely religious reasons and the family member opinions unexpectedly had the least influence on the behaviour of the UAE investor.

Hoffmann Arvid⁵(2007) in his study on Social Dimensions of Investor Behaviour stated that traditional finance theories assume that investors only evaluate risk and expected returns when making investment decision. The respondents of Hoffmann’s online investment survey indicate that besides financial needs, they also strive to satisfy more socially oriented needs through investing. These investors like to identify themselves with other investors and enjoy participating in investment-related conversations. Moreover, these investors consider investing to be a nice free time activity. Hoffmann also investigates the effects of striving to satisfy these different needs on the decision-making behaviour of these investors. It is found that investors for whom socially oriented needs are important and also attribute more value to the opinion of others about their investment decisions and also request more information from those others before making their own decisions.

Natalie Y. Oh, Jerry T. Parwada and Terry S. Walter⁶(2008) investigate the trading behaviour and performance of online equity investors in comparison to non-online equity investors in Korea. While online trading has become more prevalent in financial markets, the role of online investors and their impact on prices has attracted little empirical scrutiny. They studied the trading activity of foreign investors, local institutions and individual traders between 2001 and 2005 and compare their performance based on whether or not trading is performed online. Their main finding is that in aggregate, online investors



perform poorly in comparison to non-online investors. Between investor-types, foreigners show the best returns, followed by local institutions. Individual investors provide liquidity to other investor-types, particularly when trading online. On balance, the main implication of their findings is that the disadvantage suffered by individual investors is mainly explained by their online trades.

Cho-Min Lin, Yen-Hsien Lee and Chien-Liang Chiu ⁷(2009) investigate the impact of the expected and unexpected trading behaviour of foreign investors on return volatilities during structural change periods and the jump intensity model pinpoints crucial events that have influenced the stock market. The empirical results find that there has been a stabilizing effect of foreign investment on Taiwan's stock market as restrictions on foreign trading have been gradually relaxed, as opposed to there being a complete relaxation of the restrictions imposed on Qualified Foreign Institutional Investors (QFIIs).

James S. Doran, David R. Peterson, Colby Wright ⁸(2010) identified finance professors' opinions on the efficiency of the stock markets in the United States and assess whether their views on efficiency influence their investing behaviour. Employing a survey distributed to over 4,000 professors, they obtained four main results. First, most professors believe the market is weak to semi-strong efficient. Second, twice as many professors passively invest than actively invest. Third, their respondents' perceptions regarding market efficiency are almost entirely unrelated to their trading behaviour. Fourth, the investment objectives of professors are, instead, largely driven by the same behavioural factor as for amateur investors namely one's confidence in his own abilities to beat the market, independent of his opinion of market efficiency.

Martin T. Bohl, Christiane Goodfellow and Jędrzej Białkowski ⁹(2010) examined individual investors' trading behaviour by testing the presence of Monday and January anomalies on the Polish futures market, where individuals are the predominant trader type. Both anomalies are well established in the literature, and they are at least partially attributed to individual investors' trading activities. They conduct an intraday analysis of trading volume, open interest, returns, and return volatility on the futures market in Poland and find the contribution of individuals to market anomalies to be grossly overstated. Hence, individual investors' trading on the Polish futures market surpasses the prediction by the majority of investigations for mature stock markets.

Mart Grinblatt and Matti Keloharju, ¹⁰(2011), in their study entitled, "The Investment Behaviour and Performance of Various Investor Types: Study of Finland's Unique Data set", analysed the extent to which past returns determine the propensity to buy and sell. The study revealed that foreign investors tend to be momentum investors, buying past winning stocks and selling past losers. Domestic investors, particularly households contradicted the same. This difference in Investor behaviour was consistent in regular intervals. The portfolios of foreign investors outperformed the portfolios of households, even after controlling the behaviour difference.

Indian Studies

Radha.V ¹¹(1995) in her study titled "A Study of Investment Behaviour of Investors of Corporate Securities" has examined the investment plan of corporate security investors in Tamil Nadu. The analysis revealed that the largest segment of the sample was constituted by young generation investors. They were generally better educated and male investors were reported to have dominated the investment scene. Salaried group investors were reported to have dominated the share ownership position. Most of the investors intended to divert a part of the savings safely in fixed income securities, so that they could make use of the balance in speculative activities. While probing the pre-investment behaviour and investment objectives, it was found that investors formed certain primary objectives and gave importance to them while making investment plans. Capital appreciation was considered to be most important objective. The success of the investment decision depends upon the successful performance of industry. Hence all information relating to the industry was helpful for making investment decisions.

Sujit Sikidar and Amrit Pal Singh ¹²(1996) carried out a survey with an objective to understand the behavioural aspects of the investors of the North Eastern region towards equity and mutual funds investment portfolio. The survey revealed that the salaried and self employed formed the major investors in mutual fund primarily due to tax concessions. UTI and SBI schemes were popular in that part of the country and then other funds had not proved to be a big hit during the time when survey was done.

R. P. Hooda ¹³(1998) analysed investor's behaviour in stock market. It is found that majority of investors follow the mixed approach, safe reasonable return combined with speculative benefits. Preference shares are the least preferred among different security alternatives accounting for extremely low proportion of investment. Occupation wise, agriculturists prefer to invest more with the banks. Those engaged in services hold the highest share of their investment in fixed deposits with



government undertakings. Professionals having no fixed deposits with government undertakings. It is found that good track record as to profitability and dividend payment is the most important factor, which greatly affects the investment decision making process by the investors.

Kadiyala and Rau,¹⁴(2004). **Chandra (2011)** collected the data from survey to know the factors influencing Indian individual investor behaviour in stock market. Using univariate and multivariate analysis and found five major factors that affect the investment behaviour of individual investor in stock market namely prudence and precautions attitude, conservatism, under confidence, informational asymmetry and financial addition. Finally, he concluded that these are the major psychological components seem to be influencing individual investor's trading behaviour in Indian stock market.

C.S.Shylajan and Sushma Marathe¹⁵(2006) in their research article "A study of attitudes and trading behaviour of stock market investors", identify the major factors responsible for determining the attitudes and trading behaviour of stock market investors'. Based on their shared investing attitude and behaviour, the stock market investors' are classified into two categories i.e. aggressive investors' and non aggressive investors'.

According to Tripathi¹⁶(2008) Investors use both fundamental as well as technical analysis while investing in Indian stock market. They strongly agree that various company fundamentals significantly influence stock prices in India. The most worthy investment strategies in Indian stock market are buying stocks for which some good news is expected, buying stocks which are expected to announce bonus issue, momentum strategy, size strategy and following investment behaviour of FIIs. The widely used investment strategies in Indian equity market are size based strategies, momentum strategies, following FIIs investment behaviour, buying stocks on the basis of 30 days moving average and buying stocks on the basis of the relative strength index. It was also noticed that there is a substantial change in investment strategies used by active investors in Indian stock market over the past five years. In a nutshell, there has been a shift from purely technical analysis based strategies to both fundamental and technical analysis. Moreover the investment horizon of investors has also reduced due to higher volatility. **Sudalaimuthu and Kumar**¹⁷(2008) conducted a survey on investors behaviour in Tamil Nadu state. They found that 40.8 per cent of respondents preferred to invest in private sector mutual funds and 62.4 per cent of the respondents opined that open-ended schemes are better choice of investment. It was also interesting to note that 85.6 per cent of respondents are aware of the 'risk' involved in mutual fund investment. The demographic factors such as age, gender, occupation, income and percentage of savings of the respondents have shown direct impact on the 'fund selection behaviour' of investors.

Ananthapadmanabha Achar¹⁸(2012) conducted a Study on Saving and Investment Behaviour of Teachers - An empirical study. In the ultimate analysis individual characteristics of teachers such as age, gender, marital status, and lifestyle determined the savings and investment behaviour of teaching community in the study region. In a more or less similar manner, their family characteristics such as monthly family income, stage of family life cycle, and upbringing status emerged as determinants of their savings and investment behaviour.

Sabat Kumar Digal and Suman Chakraborty¹⁹(2012) in their article titled "A Study of Saving and Investment Behaviour of Individual Households – An Empirical Evidence From Orissa" makes an attempts to analyse the investment pattern, saving objective and preferences of individual investor's for various investment options available in India. The study used a structured questionnaire with 200 potential investors as respondents from the state of Orissa (India) were asked for their reactions to some specific situations using parametric and non-parametric statistical methods. The result shows that, objective to saving is significantly influenced by demographic factors such as age, occupation and the income level of investors. The study exhibits the saving habit of retail investors across the different income levels. Savings is a habit specially embodied into women. It was found that female investors tend to save more in a disciplined way than the male investors. It was observed that women are risk averse indeed but save more than the male counterparts as the income level rises. From the research point of view, such a study will help in developing and expanding knowledge in this field of personal finance and investment.

6. Conclusion

The present study endeavoured to give a look on investment behaviour of school teachers in Indian stock market. Indian stock market is considered to be highly volatile, sensitive and reactive to unanticipated shocks and news and it takes no time to impact the market activities. However at the same time, Indian stock market is resilient and recovers soon after shocks. There are many investment products which are available for investment to investors in the stock market ranging from bonds to options. These products vary with regard to risk factor involved and the return. Investors choose the investment products



which have matching to their risk tolerance. Finally today's investors' are fully aware about the stock market. The market movements affect the investment pattern of investors in the stock market.

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