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# A critical study on investment behaviour of retail investors with special reference to Indian stock market

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**Abstract**
Stock markets play a pivotal role in the global economic landscape. Currently, the stock market is used to assess the economic progress of any nation. The Indian stock market is one of the expanding markets globally. Retail investors, also known as individual investors, are those who allocate their funds towards trading stocks with the goal of maximizing their investment value, rather than opting for lower interest alternatives. The research examines the investing behaviour of individual investors in the stock market to see if three independent factors - Demographic Factors, Awareness, and Perceived Risk Attitude - have any influence on a single dependent variable, investing Behaviour.
The data were collected from 300 retail investors located in selected cities of India. This study used a cross-sectional design. A deductive technique was used, as the research process followed a cyclical pattern that began with the theoretical framework, proceeded to developing research propositions, collecting data based on these expected propositions, and finally drawing conclusions from the gathered data. The researcher has designed a comprehensive questionnaire, based on relevant studies, to systematically collect the ongoing experiences of retail investors.

**Keywords:** Stock market, economic progress, nation, investment value, investors

## 1. Introduction

Investors play a crucial role in the functioning of the capital market. An emerging economy, such as India, requires an increasing influx of funds to be directed into business firms. There has been a rise in the extent of retail investor involvement in the equities market in recent years. Investment refers to the allocation of money for productive endeavors. Investment is often regarded as the foremost catalyst for economic growth and development in a nation. Currently, there exists a plethora of investing instruments. Some assets are easily bought and sold in the market and may be converted into cash quickly, whereas others cannot be easily bought or sold and are not readily convertible into cash. There are instruments that carry a considerable level of danger, while others are almost risk-free. Investors choose investment options based on their individual requirements, tolerance for risk, and anticipated returns. Investment opportunities may be divided into two main categories: economic investment and financial investment. Acquiring a tangible item like a building or equipment is considered an economic investment. Economic investments enhance the overall increase in the capital stock of a community. Financial investments, in contrast, pertain to investments made in financial instruments such as stocks, bonds, insurance policies, and mutual fund units. Financial investments contribute to the accumulation of the country's capital stock. Investment has a crucial role in enhancing productivity and bolstering the competitiveness of an economy over an extended period of time.

### 1.1 The BSE (Bombay Stock Exchange) and NSE (National Stock Exchange)

The majority of trade in the Indian stock market occurs on its two main stock exchanges: the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE). The BSE has existed since 1875. Conversely, the NSE was established in 1992 and started trading in 1994. Nevertheless, both exchanges adhere to identical trading mechanisms, trade hours, settlement processes, and so forth.

The BSE now has over 4,700 listed companies, while its competitor, the NSE, has around 1,200. Among the corporations listed on the BSE, only around 500 firms account for over 90% of its market value. The other companies are comprised of shares that have little liquidity. The NSE provides trading opportunities in various segments, including equities (such as stocks, indices, mutual funds, exchange-traded funds, initial public offerings, and security lending and borrowing scheme), derivatives (including equity derivatives like global indices such as CNX 500, Dow Jones, and FTSE, as well as currency derivatives like interest rate futures, debt, and corporate bonds).

## 2. Literature review

Horvath and Zuckerman (1993) [13] suggested that one‘s biological, demographic and socioeconomic characteristics; together with his/her psychological makeup affects one‘s risk tolerance level.

Schultz (2005) [11] considered this research as lifetime savings as an alternate for children, and model the causes for the turn down in fertility which changes the age compositions and possibly will there by account for savings and growth in Asia. This study anticipated scale of active aggregate relationship which appeared to be insignificant than reported, and responsive to the choice of econometric methods used to describe it. Moreover, studies of savings behaviour at the household level do not find adequate life cycle variations in savings to report for these alleged aggregate relationships.

Komicha (2007) [12] examined to understand and explain farm household economic behaviour with reference to saving, credit and production efficiency under imperfect financial market conditions based on data obtained from farm household survey conducted in two districts of south-eastern Ethiopia from September 2004 to January 2005. Data was analyzed using stochastic frontier analysis and limited dependent variable econometric tools where farm household saving behaviour and its determinants were studied.

Akhter and Sangmi (2015) [13] reveal that stock market is considered as pulse of the economy or it can be rightly said as economic mirror, which reflects the health of the economy. And the investors are considered as backbone of the economy so their participation is utmost important to keep the health of the economy in good condition. Because of the presence of media and easily accessibility of internet it increases the level of awareness about the market participants. Even the new entrants into market can also gather information and taste this investment avenue.

Suzaida Bakar, Amelia Ng Chui Yi (2016) [14], paper investigated about the psychological feelings put impact on the financial decisions of the investors. Through the reflection of Asian, Middle East and western areas studies founded that here is a connection between psychological factors and the investor’s decision-making process in stock market. In this research researcher examined the impact of psychological factors on Investor’s decision-making process with respect to Malaysian stock exchange. On the other side there is a no significant impact of herding behaviour. And psychological factors subject to individual’s gender variable. S.A., conducted a research study based on investor protection in India with reference to Ahmadabad, Vadodara, and Rajkot city. The researcher collected sample of 150 respondents through interview method by preparing structured questionnaire to represent the whole population & the duration of study from April 1992 to March 2005 as equating to 13 years. The findings of the research were mostly as 38.67% population from 31 to 45 age group, 26% from 46 & above, 23.33% belonged to 26 to 30 and only 12% were less than 25 age group considered for the study. As seen in all other study only 8% sample belongs to female ratio. If we analysed Income wisely very less percentage of annual income invested in market as half of the respondents’ lied between 0 to 40% and 41% to 81% & above.

## 3. Statement of the problem

This analysis on Indian Investors behaviour is an attempt to know the profile and the characteristics of the investors and their preferences with respect to their investments. This study is also trying to unravel the influence of demographic factors like age on risk tolerance level of the investor.

## 4. Research objectives

- To analyze the investment pattern of retail investors in India.
- To study the information search and investment option of rural investors.
- To identify the various investment preferences and.
- To find out investor’s perception on risk and return.

## 5. Limitation of the study

**The major limitations of the study are**

- The study will be confined to selected cities of India only.
- This research study has been designed to depict about the investors vision towards the Stock market with keeping a proper eye on the important aspects.
- The researcher has followed the whole procedure carefully while designing the study. The research topic is so spacious concept as rapidly volatile nature about routine basis.
- People are hesitant to provide complete data and this can be a major limitation.
- The data can be biased due to use of questionnaire.

## 6. Discussion

This research has attempted to study all age categories for analysis.

33 no. of respondents were represented between the age group less than 30 years which constituted 11% of study sample. 66 no. of respondents between the age group 31-40 years constituted 22% of sample population. 83 respondents in between the mid-age 41-50 years which comprised highest 27.67% of sample population .76 respondent’s i.e., 25.33% from the upper middle age and 42 no. or 14% of respondents were belonged from senior citizen category.

**Table 1:** Respondent's Age wise profile

| Age group wise | | | | |
|---|---|---|---|---|
| **Age of the Respondents** | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Less than 30 years | 33 | 11.0 | 11.0 | 11.0 |
| 31-40 years | 66 | 22.0 | 22.0 | 33.0 |
| 41-50 years | 83 | 27.7 | 27.7 | 60.7 |
| 51-60 years | 76 | 25.3 | 25.3 | 86.0 |
| Above 60 years | 42 | 14.0 | 14.0 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |

***Source***: Primary data

**Table 2:** Respondent's Income and Gender wise profile

| Annual Income | | | | |
|---|---|---|---|---|
| **Income of the Respondents (Annually)** | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Less than Rs. 2 Lakh | 15 | 5.0 | 5.0 | 5.0 |
| Rs?- Rs.4 Lakhs | 122 | 40.7 | 40.7 | 45.7 |
| Rs.4- 6 Lakhs | 99 | 33.0 | 33.0 | 78.7 |
| Above Rs.6 Lakhs | 64 | | 21.3 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |
| **Gender** | | | | |
| **Gender of the Respondents** | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Male | 265 | 88.3 | 88.3 | SS.3 |
| Female | 35 | 11.7 | 11.7 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |

***Source***: Primary data

Maximum number of respondents i.e., 57% of retail investors are interested in banks/PPF/LIC schemes instead of other one whereas 20.67% retail investors always interested in real estate which is equating to 171 and 62 number of respondents.

It also can be seen that very less respondents are dealing in mutual fund/share market/bonds i.e., only 19 number of the respondents out of the total sample population are looking for capital market which is constituted to 6.33%. Even more number of retail investors are preferred gold market as a better investment avenue as 28 respondents i.e., 9.33% out of the total respondents and 20 respondents have not marked any option that's why they have been counted in can't' say option. The reason may be interest matter or disclosing of information.

**Table 3:** While investing in the Stock Market, what is your main goal?

| Goal of Trading | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Future planning | 95 | 31.7 | 31.7 | 31.7 |
| Wealth Creation | 23 | 7.7 | 7.7 | 39.3 |
| Extra income for family | 172 | 57.3 | 57.3 | 96.7 |
| Social welfare | 10 | 3.3 | 3.3 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |

***Source***: Primary data

**Table 4:** Respondent's Trading Behaviour

| Investment Avenue | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| Bank LIC PPF Scheme | 171 | 57.0 | 57.0 | 57.0 |
| Mutual hind Share Market | 19 | 6.3 | 6.3 | 63.3 |
| Real estate | 62 | 20.7 | 20.7 | 84.0 |
| Gold | 28 | 9.3 | 9.3 | 93.3 |
| Can't Say | 20 | 6.7 | 6.7 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |
| **What kind of investor do you describe yourself?** | | | | |
| **Kind of Investor** | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Conservative | 76 | 25.3 | 25.3 | 25.3 |
| Balanced | 170 | 56.7 | 56.7 | 82.0 |
| Aggressive | 54 | 18.0 | 18.0 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |
| **What percentage of savings invested in Stock Market (annually)?** | | | | |
| **Percentage of Savings** | **Frequency** | **Percent** | **Valid Percent** | **Cumulative Percent** |
| Less than 10% | 116 | 38.7 | 38.7 | 38.7 |
| Between 10.20% | 117 | 39.0 | 39.0 | 77.7 |
| 20% & above | 67 | 12.3 | 22.3 | 100.0 |
| Total | 300 | 100.0 | 100.0 | |

***Source***: Primary data

## 7. Conclusion

Based on the aforementioned findings, the researcher concluded that individuals primarily above the age of 51 tend to choose the Stock market as an investment option. In contrast, a small number of individuals in the 31-50 age group rely on gambling or luck-based beliefs, while those below the age of 30 mostly perceive the Stock market as a place for gambling and strategic thinking.

The data indicate that there is no correlation between age and investment behavior. Regardless of the behavioral strategy chosen by retail investors, age is not a relevant factor of concern. This data clearly illustrates that the majority of male and female investors have evenly distributed their capital. Subsequently, a small number of respondents expressed a preference for a conservative policy. A small percentage of individuals exhibit aggressive behavior in the market, despite the considerable risk associated with the potential for greater returns. The majority of both males and females, but with a lower gender ratio, have shown a preference for the stock market as a reliable source of income.

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