# IMPACT OF INVESTOR SENTIMENT ON INVESTMENT DECISION AND STOCK MARKET VOLATILITY

**R RAMAKRISHNA**
Research Scholar,
University college of Commerce and business management,
Kakatiya University, Waranagal
Ramakrishna.ramagiri1@gmail.com

**Prof. P VARALAXMI**
Professor, University college of Commerce and business management,
Kakatiya University, Waranagal.

## ABSTRACT

*The purpose of the study is to describe the factors which influence investor sentiment leads to investment decision-making of individual investors. The major factors that affect investment decision-making considered in this study are herding behaviour, market factors and awareness factors on investor sentiment in the Indian stock market. The study used both descriptive and exploratory approaches to provide a comprehensive analysis of the research study. Data was primarily collected through a survey in the form of a self-administered questionnaire from individual investors. Secondary data was collected from the RBI website, NSE and SEBI website. The validity of the questionnaires was tested with the help of experts and a pilot study conducted on a small group of respondents. Data was collected from individual investors who invested in the stock market.*

*The sample was chosen from major metro cities on probability and non-probability sampling. Thus, the study calls for the need to increase awareness among Indian investors about behavioral finance and its usefulness in investment decision-making. This study also sheds light upon the behavior of Indian individual investors so that policymakers can take appropriate measures to provide the appropriate guidance. Policymakers can conduct awareness campaigns to increase investors' knowledge of the market conditions and to enhance proper investment decision-making among them. It confirms that the investor relies on their sentiment while making investment decisions. Hence, the stakeholders in the stock market should focus on investor sentiment and other psychological aspects of individual investors as well.*

***Keywords:*** *Behavioral finance, Investor sentiment, Investment decision-making, Stock market volatility.*

## 1.0 INTRODUCTION

In today's economy, capital is essential since it must be invested to weather inevitable storms. Putting money into an asset with the expectation of future financial return is what is meant by "investing." Many investors may find it difficult and time-consuming to make sense of the abundance of data at their disposal because they lack the analytical abilities essential to do so. In addition, you need to have a solid grasp of the many investing options out there so that you can make an informed decision. Today, investors may choose from a wide variety of investment options, each with its own set of risks, return expectations, liquidity requirements, and marketability. An investor's investment plan should be tailored to his goals and risk tolerance.

Investing is a complex process that takes into account a number of factors. Because people in different demographic groups may have vastly different perspectives and inclinations, factors like gender, age, income, marital status, and level of education can be decisive when determining whether or not to invest in risky assets. The changing tastes of investors are plain to see in the brightening investing environment.

In the 1980s and 1990s, investors in India shifted their capital from more conventional investment options to newer, riskier ones, such as equity and debt linked 2 schemes. In any economy, the financial markets are the backbone. The growth of the Indian economy is largely attributable to the flourishing of the Indian financial industry. The ability of firms, governments, and financial institutions to raise funds via the capital market is crucial to the economy. Capital formation is the process through which individual and corporate savings are invested to produce other types of wealth.

The stock exchange is a part of the larger capital market where stocks, bonds, and mutual funds may be purchased and sold. It is essential for national economic growth that the stock market be healthy. The stock markets link those who have money stashed away with others who are ready to put their money to work. As a result of the deployment of money to help certain industries enhance their performance, stock values in those sectors have grown significantly.

In addition, the abundance of investment opportunities encourages people to save more and put their money into companies with high liquidity and high potential returns. The internationalisation of economies is aided by the stock market via FPI and FII, or foreign portfolio and institutional investment, respectively. The global financial markets are now experiencing unprecedented levels of speed and magnitude of change. The proliferation of information and the accompanying technical developments have caused profound changes in the organisation and functioning of global marketplaces. The growth of the Indian stock market has been phenomenal.

It has grown rapidly with the expansion of global financial markets. The Indian stock market is among the world's oldest, having established for trading in 1875. The Bombay Stock Exchange (BSE), formerly known as the Native Share and Stock Broker Association, was the first entity in India to enable the trading of shares. The SENSEX, compiled by BSE India, is the first internationally-tracked stock market index from India. The SENSEX is comprised of the 30 most volatile stocks across 12 distinct sectors. In the early days of the market, investors would gather on the trading floor to make the initial deals. However, the proliferation of scams and a dearth of cutting-edge technology eventually necessitated the introduction of a new and improved market, and this was when the National Stock Exchange (NSE) was born. With more than 50,000 trading terminals and an emphasis on speciality stocks and exchange-traded futures, NSE is now widely considered to be among the most advanced exchanges in the world.

Since the year 2000, when the National Stock Exchange first created the S&P CNX Nifty index of 50 volatile shares representing 25 distinct sectors, investors have been able to trade stocks online. Because of advances in information technology, today's stock markets are almost paperless, with most transactions now taking place online. The primary market and secondary market are the two halves of the financial markets. The primary market is where investors purchase and sell newly issued securities (also known as initial public offerings, or IPOs), whereas the secondary market is where investors exchange already existing equities. The primary market is an important tool for transferring individual savings into corporate investment accounts. It aids economic expansion by redistributing scarce funds to private companies and public agencies. The secondary market's pool of investors grows and market volatility increases as new securities are launched.

Investors may have access to stock market liquidity via the secondary market, which also serves as a barometer of economic activity. Companies often get either stock or debt funding via the capital market.

## 2.0 LITERATURE REVIEW

**Ali, F Et.al.,(2016)** The term "derivative" was used by to describe a kind of financial instrument whose value is derived from that of another asset. For instance, the value of an index option fluctuates with the value of that index at any given moment. Derivatives, on the other hand, may be based on anything from the cost of cotton seeds to the annual precipitation in a particular hill location.

**Abreu Et.al., (2012)** "A derivative instrument is one whose performance is based on or derived from the behaviour of the price of an underlying asset," as defined by the Financial

Industry Regulatory Authority in 2006. No purchase or sale of the underlying asset is required, and most deals are completed in cash.

**Abdi Et.al., (2010)** A futures contract, as described by Investopedia in 2012, is an agreement between two parties to acquire or sell an asset at a future date and price. NSE now offers trading in index futures for the S&P CNX NIFTY and CNX IT as well as stock futures for a limited number of securities and interest rate futures. Cash is used for the settlement of all futures transactions. A forward contract that is traded on an exchange is called a futures contract. There have been several developments in the structure of the futures markets.

**Ackert Et.al., (2006)** are either "call options" or "put options" and are exchanged on an exchange. The owner of a call option has the right, until a certain date, to purchase the underlying asset at a certain price. A put option gives the buyer the right, but not the obligation, to sell the asset at the strike price until the expiration date.

**Ackert Et.al., (2015)** identified three categories of traders operating in the derivatives market. The term "hedger" refers to an investor who is looking to shift the price risk associated with an underlying asset to another party. Hedgers make up the vast majority of the derivatives market's investors. Speculators use leverage in futures and options transactions to place bets on the direction of the underlying asset's price. Speculative activities have a significant risk of both large profits and losses in the future. Arbitrageurs profit on the price difference between identical or similar assets traded on different marketplaces. They will take opposing positions in the two markets to lock in their gains if they see the future price of an asset significantly different from the present price.

**Acquah-sam Et.al.,(2013)** explained why and how financial derivatives are used, as well as a methodology for minimising the risks while retaining the benefits. In order to ensure the safety and security of nonbank dealers who trade in derivatives, the government should make greater efforts to collect vital information regarding the dangers that derivatives pose to the financial system.

## 3.0 History of Stock Exchanges in India

The first organized stock exchange in India was started in 1875 at Bombay and is stated to be the oldest in Asia. In 1894 the Ahmedabad Stock Exchange was started to facilitate dealings in the shares of textile mills. The Calcutta stock exchange was started in 1908 to provide a market for shares of plantations and jute mills. Then the Madras stock exchange was started in 1920. Earlier, there were round 24 exchanges located at Ahmedabad, Vadodara, Bangalore, Bhubaneswar, Kolkata, Kochi, Coimbatore, Delhi, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Ludhiana, Chennai Mangalore, Meerut, Patna, Pune and Rajkot. These Stock Exchanges were being administered by their governing boards and executive chiefs. Policies relating to their regulation and control were laid down by the Ministry of Finance, India. Government also constituted Securities and Exchange Board of India (SEBI) in April 1988 for orderly development and regulation of securities industry and stock exchanges. Currently, there are three stock exchanges namely Bombay Stock Exchange (BSE) of India Ltd, National Stock Exchange of India Ltd and Multi-Commodity Exchange of India Ltd.

## Primary Market

The primary market for securities is the new issue market which brings together the "supply and demand" or "sources and uses" for new capital funds. In this market, the principal source of fund is the domestic saving of individuals and businesses, other suppliers include foreign investors and governments. The principal uses of funds are the long term financing of corporations and other businesses and the long term borrowing of government. Primary issue of the corporate sector leads to capital formation i.e. creation of net fixed assets and incremental changes in inventories. The fund raised in the primary market can be classified as public issue by prospectus, private placement and right issues. The main indicator of the state of the Indian Capital Market is the quantum of new issue floated or raised.

**Secondary Market**

Secondary market is a market in which existing securities are traded. This market is also known as stock market. Stock market is one important constituent of capital market. Stock market is an organized market for the purchase and sale of industrial and financial securities. It is convenient place where trading in securities is conducted in systematic manner i.e. as per certain rules and regulations. In India secondary market consists of recognized stock exchanges operating under rules, by- laws and regulations duly approved by the government. It performs various functions and offers useful services to investors and borrowing companies. It is an investment intermediary and facilitates economic and industrial development of a country. It provides a convenient and secured mechanism or platform for transactions in differentsecurities. Such securities include shares and debentures issued by public companies which are duly listed at the stock exchange and bonds and debentures issued by government, public corporations and municipal bodies.

The purpose of a stock exchange or secondary securities market, like any other organized market is to enable buyers and sellers to effect their transactions more quickly. Stock exchanges are intricately inter-woven in the fabric of a nation‟s economic growth. Without a stock market the savings of the community, the potency of economic progress and productive efficiency would remain underutilized. A well-functioning securities market is conducive to the sustained economic growth of any country in the world. Stock exchanges are indispensable for the smooth and orderly functioning of corporate sector in a free market economy. A stock exchange needs notto be treated as a place for speculation or a gambling den. It should act as a place for asafe and profitable investment, for this, effective control on the working of stock exchange is necessary. This will avoid misuse of the platform for excessive speculation, scams and other undesirable and anti-social activities.

**4.0 RESULTS**

To understand and establish interdependence of various factors leading to equity investment, we have used following non-parametric statistical tool.

• Chi-Square Analysis
• Kruskal – Wallis
• Garrett Ranking

**Table 1 Demographic profile in terms of Gender**

| Gender | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Female | 130 | 34.4 | 34.4 | 34.4 |
| | Male | 250 | 65.6 | 65.6 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 2 Age wise distribution**

| Age | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|

| | | | | | |
|---|---|---|---|---|---|
| Valid | 18-30 yrs | 187 | 49.2 | 49.2 | 49.2 |
| | 31-40 yrs | 127 | 33.4 | 33.4 | 82.6 |
| | 41-50 yrs | 37 | 9.9 | 9.9 | 92.5 |
| | 51 and above yrs | 29 | 7.5 | 7.5 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 3 Profile of respondents in terms of Education Qualification**

| Education Qualification | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Graduate | 75 | 19.6 | 19.6 | 19.6 |
| | Post Graduate | 97 | 25.6 | 25.6 | 45.2 |
| | Professional | 31 | 8.1 | 8.1 | 53.3 |
| | Undergraduate | 177 | 46.7 | 46.7 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 4 Profile of respondents in terms of Level of Income**

| Level of Income | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | Above 1000000 | 22 | 5.7 | 5.7 | 5.7 |
| | Rs 200001-500000 | 98 | 26.1 | 26.1 | 31.8 |
| | Rs 500001-1000000 | 92 | 24.0 | 24.0 | 55.8 |
| | Upto Rs 200000 | 168 | 44.2 | 44.2 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Frequency Table**

**Table 5 Responses for relying on intuition**

**Dependency on the following for Accurate Investment [Intuition]**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | High | 65 | 17.2 | 17.2 | 17.2 |
| | Low | 68 | 17.9 | 17.9 | 35.1 |
| | Moderate | 159 | 42.0 | 42.0 | 77.1 |
| | Very High | 19 | 4.8 | 4.8 | 81.9 |
| | Very Low/ No | 69 | 18.1 | 18.1 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 6 Responses for relying on news channels**

**Dependency on the following for Accurate Investment [News Channels]**

| | Frequency | Percent | Valid | Cumulative |
|---|---|---|---|---|

| | | | | Percent | Percent |
|---|---|---|---|---|---|
| | High | 106 | 28.0 | 28.0 | 28.0 |
| | Low | 69 | 18.3 | 18.3 | 46.3 |
| | Moderate | 123 | 32.4 | 32.4 | 78.7 |
| Valid | Very High | 45 | 11.6 | 11.6 | 90.3 |
| | Very Low/ No | 37 | 9.7 | 9.7 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 7 Responses for relying on Experience**

**Dependency on the following for Accurate Investment [Experience]**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | High | 114 | 30.2 | 30.2 | 30.2 |
| | Low | 33 | 8.6 | 8.6 | 38.8 |
| Valid | Moderate | 129 | 33.8 | 33.8 | 72.6 |
| | Very High | 104 | 27.4 | 27.4 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 8 Responses for relying on technical analysis**

**Dependency on the following for Accurate Investment [Technical Analysis]**

| | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|
| High | 130 | 34.1 | 34.1 | 34.1 |
| Low | 38 | 10.0 | 10.0 | 44.1 |
| Moderate | 101 | 26.7 | 26.7 | 70.8 |
| Valid | | | | |
| Very High | 84 | 22.1 | 22.1 | 92.9 |
| Very Low/ No | 27 | 7.1 | 7.1 | 100.0 |
| Total | 380 | 100.0 | 100.0 | |

**Table 9 Responses for investing due to Safety of funds**

**Reasons for investing in the Share Market [Safety of Funds ]**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| | High | 95 | 25.0 | 25.0 | 25.0 |
| | Low | 68 | 18.0 | 18.0 | 43.0 |
| | Moderate | 145 | 38.2 | 38.2 | 81.2 |
| Valid | Very High | 43 | 11.0 | 11.0 | 92.2 |
| | Very Low/ No | 29 | 7.8 | 7.8 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

**Table 10 Responses for investing for buying other Assets**

**Reasons for investing in the Share Market [Buying Other Assets]**

| | | Frequency | Percent | Valid Percent | Cumulative Percent |
|---|---|---|---|---|---|
| Valid | High | 80 | 21.0 | 21.0 | 21.0 |
| | Low | 78 | 20.6 | 20.6 | 41.6 |
| | Moderate | 140 | 36.9 | 36.9 | 78.5 |
| | Very High | 37 | 9.7 | 9.7 | 88.2 |
| | Very Low/ No | 45 | 11.8 | 11.8 | 100.0 |
| | Total | 380 | 100.0 | 100.0 | |

## 5.0 CONCLUSION

The major conclusions drawn from the study are as follows

1. The Indian stock market has become more vibrant and has undergone radicalchanges. It has streamlined itself to be on par with international standards.
2. The procedures for investing in stocks has become lucid and easily understandable by the lay man. The digitalisation of the exchange as well as electronic mode of transfer of securities has proved to be a boon in attractingmore investors.
3. The stock market since becoming an organised market has not only contributed to the development of the country's financial system but has also been an employment generator creating jobs in exchanges, depositories as well as through profiles like brokers, financial advisors etc.
4. Stock market also facilitates in stimulating income generation for investors and capital formation for companies.
5. The SEBI with a view to encourage more investors about investing in shareshas been conducting various educative programmes on investing. It has also brought about transparency and has made norms which are stringent enoughto not repeat the past scams.
6. To empower the general public especially the youth SEBI has startedprogrammes and courses not only related to the share market but also on instruments like derivatives and commodities.
7. The SEBI emphasises on transparency and thus uploads updated information on its portals which can be accessed by anyone at their convenience. This information includes delisting a particular company, government circulars concerning the exchanges etc. Its portal also contains toll free helpline numbers for answering general queries of investors. Not just telephonic facility, but queries can also be mailed.
8. The exchanges not only have an investor grievance cell but also a plethora of books, articles and journals dedicated exclusively to investors dealing inthe stock market.
9. Over the years the grievances filed by investors against companies and firms had shown a consistent rise which meant that investors were conscious anddid not want to be victimized. But on the contrary, there was a reduction in the number of pending grievances which meant that most of them had beenaddressed.
10. Telangana northern regions (Karimnagar, sircilla, kamareddy, adilabad) is developing to be the financial base and a large part of the population is inclined to finance, although they come from distinct backgrounds, the tendency to save and

invest prevails across all income groups.

## REFERENCES


1. *Ali, F Et.al.,(2016). "Influence of experiences on memories, satisfaction and behavioral intentions: A study of creative tourism". Journal of Travel and Tourism Marketing, 33(1), 85-100.*
2. *Abreu Et.al., (2012). "Information, overconfidence and trading: Do the sources of information matter" J. of Economic Psychology, 33(4), pp.868-881.*
3. *Abdi Et.al., (2010). Principal component analysis. Wiley interdisciplinary reviews: computational statistics, 2(4), 433-459.*
4. *Ackert Et.al., (2006). "An experimental examination of the house money effect in a multi-period setting." Exp. Econ., 9(1), 5–16.*
5. *Ackert Et.al., (2015). "Investor sentiment and price limit rules." J. Behav. Exp. Financ., 5, 15–26.*
6. *Acquah-sam Et.al.,(2013). "Knowledge and Participation in Capital Market Activities: The Ghanaian Experience." Int. J. Sci. Res. Educ., 6(June), 189–203.*
7. *Asteriou Et.al., (2006). Testing for the existence of the 'January effect'in transition economies. Applied Financial Economics Letters, 2(6), 375-381.*
8. *Ahmed, S. (2008). Aggregate economic variables and stock markets in India. Int. Research J. of Financ and Economics, (14), 141-164.*
9. *Ahmed Et.al.,. (2007). Macroeconomic factors and Bangladesh stock market: impact analysis through co integration approach. International Review of Business Research Papers, 3(5), 21-35.*
10. *Akbar Et.al., (2012). The relationship of stock prices and macroeconomic variables revisited: Evidence from Karachi stock exchange. African Journal of Business Management, 6(4), 1315-1322.*
11. *Akhtar Et.al., (2018). The impact of social influence on the relationship between personality traits and perceived investment performance of individual investors. International Journal of Managerial Finance.*
12. *Al-Tamimi. (2006). "Factors Influencing Individual Investor Behaviour : An Empirical study of the UAE Financial Markets , The Business Review , Cambridge , Vol . 5 , No . 2 , 225-232 ,." 5(2), 225–232.*
13. *Antweiler Et.al., (2004). Is all that talk just noise? The information content of internet stock message boards. The Journal of finance, 59(3), 1259-1294.*
14. *Aregbeyen, Et.al.,(2011). Factors influencing investors decisions in shares of quoted companies in Nigeria. The Social Sciences, 6(3), 205-212.*
15. *Aspara, Et.al., (2014). "The Interrelationship of Stock Ownership and Customer Relationship Volume." (May), 313–313.*