CHAPTER 5

INVESTMENT DECISION VARIABLES

In this chapter, it is proposed to present the investment decision variables which have significant bearing on individual investor behaviour. On a thorough review of relevant literature on the subject, twenty-five decision variables were identified for the purpose of the study. In order to find out whether all or only some of them were important to an investor decision process and also to obtain a parsimonious description of the variables, a multivariate method of analysis called factor analysis was employed. In the following sections, a brief description of the twenty-five variables and the results of factor analysis has been presented. A detailed discussion on the theoretical aspects of factor analysis has been included in chapter 2.

5.1 INVESTMENT DECISION VARIABLES

The following is a brief explanation of the meaning and significance of the different variables which affect the investment decisions of the individual investors.
5.1.1 Expected corporate earnings \((V_i)\)

Earning capacity is the single, most important factor affecting investment decisions. The ultimate objective of investment is the returns from that investment and returns depend on the earnings of the company. Corporate earnings have two dimensions -- the current and the future. Revenues earned in the current year and the previous years constitute 'facts'; whereas expected or estimated future earnings constitute 'prospects'. The following different aspects of the earnings can have their own impact on the investor decisions:

(a) The quantity of the present and the future estimated earnings

(b) The consistency in the earnings

(c) The rate of growth exhibited by the earnings

(d) Comparative earnings of corporations of similar status

(e) Foreign exchange component in the total earnings

In general, companies having consistently high earnings with prospects of growth in the future earnings are preferred by the investors.
5.1.2 Diversified Business Activities \( (V_2) \)

A company may concentrate on a single product -- engaged in manufacturing alone or both manufacturing and distribution. Similarly, some other companies may have diversified activities by producing and selling two or more products or services. The latter are called diversified companies.

The prospects of companies with a single product depend on the ups and downs in the demand and supply for that product. Diversified companies have their 'risk' spread over their different products. When one product is not doing well, some other products may compensate for the decline in revenue. Thus, single activity companies have their eggs in one basket. Diversified companies have divided risk. The current thinking on this aspect is that overall efficiency in diversified companies is lesser due to lack of specialisation. 'Core competancy' is the by-word: companies with varied activities are divesting some of their activities to concentrate on the activity in which they have real expertise or 'core competancy'. The investors may take into account the effect of diversification of a company's activities on its earnings and growth while making the investment decisions.
5.1.3 The influence of the nature of the firm's product and quality of service \((V_3)\)

Companies may deal in different products like consumer goods, industrial goods, capital goods and so on. Each type of product has its own market prospects. Some products are subject to severe competition. This may happen in case of both durable and non-durable products. Some products may have national and international markets. Some others may be restricted to local markets. Some products may be bulky and voluminous, causing transportation difficulties. Some others may be amenable for easy transportation. A particular company may establish reputation for reliable service, paving way for long term growth in demand. Some other companies may have fragile reputation for their service quality. The prospective investors can be influenced in their investment decisions by a firm's products and the quality of its service.

5.1.4 Information from financial statements \((V_4)\)

Public limited companies publish their financial statements periodically. The Profit and Loss account and the Balance sheet of a company can be a 'goldmine' of useful information for investment decisions. The amount of fixed and current assets, long-term and current liabilities, accumulated profits and losses, borrowed and owned funds used in the business, working capital position, the fund flows,
earnings per share and so on can be highly informative. Use of ratio analysis can bring out essential and hidden data. Financial statements of a few consecutive years can provide the trends relating to liquidity, profitability, solvency and stability of a company over the years.

The above information, usually called fundamentals of a company, is the basis for 'Fundamental Analysis' extensively used in the Stock markets. A company's fundamentals are the foundation for forecasting its future performance. Expected and estimated future performance influences the share prices and the investment decisions of prospective investors.

5.1.5 Reputation of the firm \((V_a)\)

Corporations build up reputation on the basis of performance in the past and present. Reputation can be dependent on one or more of the following:

(a) Dominant position in the market achieved over the years. Dominant position is usually due to major market share.

(b) Liberal dividend policy: Some companies follow investor friendly liberal dividend policies. Companies which pay and maintain high dividends over the years usually become the favourites of investors.
(c) Steady growth and expansion: Companies which achieve systematic growth and expansion over a long period convey the feeling of stability and reliability.

(d) Timely decisions: Companies which utilise opportunities through prompt and timely decisions may enjoy high reputation among the investor community.

Investors usually prefer established companies reputed for their sound management and investor friendly policies.

5.1.6 Stock Brokers' Recommendations ($V_6$)

In developing countries like India, very few investors possess sufficient knowledge to analyse the comparative worth of securities of different companies. Majority of the investors depend on the advice of others. Among those, the most important are, the stock brokers. Stock brokers are constantly in touch with the stock exchanges on a daily basis. They are fully aware of fluctuations in the demand for the shares of different companies. They have first hand knowledge of the short-term stock market fluctuations in general. Thus, the stock brokers are in an ideal position to advise their clients and customers regarding their investment decisions. Investors usually place great importance on the advice and recommendations of the stock brokers.
5.1.7 Information in reports and prospectus \((V_7)\)

Reports by experts, feasibility reports by financial institutions, prospectus issued by companies are some of the authentic sources of valid information about a company that can be obtained by investors. Experts in specific fields may give reports about technical feasibility or viability of projects. Financial institutions conduct project appraisals to examine financial viability of projects. Those who are interested in investing in new companies or even new ventures of existing companies get an opportunity to examine such reports at pre-determined times and places. Every new issue of shares or debentures should be through a prospectus. The prospectus specifies all the details about the past performance of the company, estimated future incomes and prospects, risk perception of the directors and so on. Investors can go through these reports and prospectus and form their opinion about an issue or company before deciding whether to invest in it or not.

5.1.8 The Price of share \((V_8)\)

The share of a company has different prices. The face value of the share, the book value of the share, the issue price of a share etc. However, as far as investors are concerned, only two prices are really relevant. When the investors like to buy a share as investment, the price
at which it can be purchased either in the stock exchange or from the company directly if it is a new issue becomes relevant. When investors decide to sell shares previously acquired, the price at which they can be sold in the stock market at that specific time becomes relevant. Share prices are usually linked to the earnings of a company. The earnings per share is multiplied several times to arrive at the market price. The multiplication factor is called price earning (P/E) ratio. Generally investors like to buy shares at low P/E ratio and also ‘growth’ shares which are expected to improve their earnings per share in the future. Shares are sold by investors when the P/E ratio becomes very high to encash the appreciation in the share price.

5.1.9 Past performance of stock \( (V_s) \)

Share prices in the market are subject to different influences. The price movements of a particular share over the past several years are called ‘Past performance of stock’. The share of a particular company may show the following types of past performance:

(a) Systematic, stable growth in the market price year after year

(b) Stable market price with minimum fluctuations in the recent past
(c) Constant and violent fluctuations in the share price in the recent past

(d) Dormant or stagnant position in the past with upward movement shown currently

(e) Slow decline in the price of share over the past few years

In addition to the above, different other characteristics may be observed in the past performance of particular stocks. Investors can use the above information for their decision making. Shares may be purchased or sold on the basis of price fluctuations. In fact, the speculators who are interested in short term gains depend heavily on past performance of stocks.

5.1.10 Expected dividend \((V_{10})\)

'Dividend' is the central objective of all investment activity in shares of corporate enterprises. The long term motive of buying and retaining shares of companies by the investors is to receive dividend. The dividend is the return for investments. Dividend can be cash dividend or bonus dividend in the form of free shares. Dividend is paid out of the profits made by companies as return to the owners. Thus, dividend is associated with successful companies. Dividend expected from companies enormously influences the market price and also demand for
the shares. Shares of companies which usually pay high dividends and have bright future prospects command maximum demand from the investors. Companies which are unable to declare dividend or poor paymasters are usually avoided by investors. Thus, expected dividend affects investment decisions of investors.

5.1.11 Institutional holdings ($V_{11}$)

Securities purchased and held by reputed institutions like Mutual funds, Banks, Term lending institutions, foreign direct investors etc., can be termed as ‘Institutional holdings’. Individual investors rarely possess the information and analytical skills of professional institutions dealing in securities. For example, Unit Trust of India, Industrial Credit and Investment Corporation of India and other financial institutions in India possess inside information relating to the performance and position of majority of industrial establishments due to the blocks of shares held by them. Individual investors who are not well versed in ‘Investment analysis’ may take the purchase and sale of reputed institutions as guidance for their own investment decisions. This is appropriate within certain limitations.
1.12 Risk-return analysis \((V_{12})\)

Investment always involves risk. Risk is inherent in all investments, whether it is real estate, gold, debentures, shares or anything else. Thus it is impossible to find risk-free investments. However, risk must be analysed in the light of expected returns. When analysis is made for investment purposes, the possible return from each investment and the degree of risk involved in such investments must be set out in great detail. This analysis helps the investor perceive the comparative merits of different investment opportunities available. Capital budgeting techniques like net present value combined with sensitivity analysis, probability and so on are extensively used in the area of 'Risk-return analysis'.

5.1.13 Tax concessions/exemptions \((V_{13})\)

Investors are generally interested in maximising their wealth. To achieve the objective, tax implications of each investment and return on investments become very important. Taxable and Tax-free returns on investments are possible. Similarly, investments in certain securities are exempted upto a limit for income tax purpose. Similarly, returns on certain investments are also exempted within certain limitations. Each investor has to compute his own position relating to tax concessions and
exemptions and decide which investments are best suited to him on the basis of such exemptions. Year after year these concessions and exemptions are altered through the Government budget. The investor must ascertain the current position of the particular concession or exemption before taking investment decisions.

5.1.14 Expected stock market performance \( (V_{14}) \)

Stock markets are like tidal waves. Share prices increase and decrease in general, very frequently. Numerous factors affect the market prices of different shares. Economic situation of a company, political developments, depressions and booms in the economy, recession in one or more industries, wars, floods, famines, etc., influence the performance of stock market. Numerous theories are in existence to predict future performance of stock markets. Technical analysis which is based on demand and supply for shares and fundamental analysis, which is based on the performance of companies and industries are the most prominent techniques of stock market analysis. Generally, investors buy shares when stock prices are expected to go up in the future. They sell their existing holdings if it is expected that prices of shares may go down in future. The former is called 'Bull market' and the latter 'Bear market'. Inspite of good performance of particular companies, depressed stock market can push the price of their shares down. Similarly, the prices of
third rate companies also go up when stock markets are booming. Investors have to analyse the expected future trends in stock markets while making their investment decisions.

5.1.15 Past performance of investor's stock portfolio ($V_{15}$)

'Stock portfolio' of an investor comprises of all the securities acquired by him as investments. Generally, a 'portfolio' includes fixed income bearing securities like preference shares and debentures and also equity shares which may bring more dividend but there is no fixed return. Building up a portfolio and portfolio management have become very complicated with the advent of statistical and mathematical techniques.

Portfolio performance is usually judged from the following angles:

(a) Appreciation or depreciation of the portfolio resulting in capital gain or loss

(b) Net return earned from the portfolio

(c) The risk involved in the portfolio

(d) The proportion of Bluechip securities to risky growth shares

The past performance of the portfolio acts as a guide book for investment decisions in the future. Undesirable stocks may have to be
disposed off. Stocks which have reached saturation point should also be sold. Risk-return balance should be maintained. Thus investors can use the past experience in building their portfolio and its performance for future decisions.

5.1.16 Current economic indicators \( (V_{16}) \)

Economic indicators include

(a) Price indices like wholesale price index, retail price index etc.

(b) Stock exchange indices like the Bombay Sensex, National index and so on

(c) The rate of inflation in the country

(d) The growth rate in the country

(e) The export and import growth rates

(f) The overall savings rate in the country

The economic indicators are like barometers or thermometers of symptoms. Proper interpretation of the economic indicators can lead the investors to proper investment decisions. Economic indicators should reveal tendencies for the prices to increase or decrease based on which buying and selling decisions are taken. When share price index rises unusually, it may be preferable to sell shares to reap the benefit of high prices. When the share price index is low, it may be the right time to buy shares. However, one has to decide what shares have to be purchased.
When exports are growing steadily, investment in export-oriented companies may be advisable. The investors can use the different economic indicators to help in a decision as regards buying and selling of securities of particular companies or companies in general.

5.1.17 Promoters'/Managements' reputation and track record (V₁₁)

The common sense approach of ‘back the achievers’ is widely popular among the investing public. Promoter or Management groups which have floated and successfully nurtured companies will naturally get full backing for their future ventures. For example, in India, any new company floated by Tatas, Birlas or the Ambanis can get overwhelming support. Companies promoted by unknown persons may not get any response. Investors can carefully analyse the track record of particular promoters before subscribing to the shares of new companies. A promoter who has started, improved, stabilised and established one or more companies is always preferred to others who have no record at all or who have an erratic record. Thus, investment in new companies depends on the record and reputation of the promoters.

5.1.18 Competing financial needs of investors (V₁₆)

Every investor may have limited liquid resources at his command. These resources may have to be used for personal financial needs,
domestic needs, business needs and also for investment. Thus the claims by other areas affect the amount, an investor can use for acquiring securities. Similarly, unexpected contingencies like heavy medical expenses, marriages of children, educational expenses of children, etc., may claim big chunks of an investor's funds, thus reducing availability of funds for investments. An investor who has investments in stocks may be forced to sell them for any of the above mentioned contingencies. Here the selling decision is prompted by extraneous factors, other than the merits of the particular stocks sold. Investors in the middle-age group may divert a portion of investible funds for building or acquiring houses, durable goods for comfort and luxury etc. Thus, claims from other quarters of an investor's life, influence his decisions in the area of investment in corporate securities.

5.1.19 Recent price movements of firm's stock ($V_{19}$)

Every investor is guided by the price movement of a firm's stock in the recent past. The price of a company's stock is influenced by three different factors.

(a) Performance of the company in terms of sales and profits is reflected in its earnings per share. A company's share price is
constantly affected by its earnings. Periodical increase and decrease in earning per share push up or down the market price respectively.

(b) Industry's position: General performance of the industry in which the company is a part, also influences the share prices of a firm. When the Iron and Steel industry is undergoing a recession, even shares of Tata Iron and Steel Company and Steel Authority of India Limited are quoted far lower in the market than their normal price.

(c) General economic situation: A firm's share price is also affected by the general economic situation as reflected in the economic indicators.

The net impact of all the above three combinedly governs the price movements of a particular firm's shares. The investors have to judge the stability, direction and trend of such price movements while making investment decisions.

5.1.20 Friend or Co-worker's recommendations (V20)

Man is a social animal. Every human being interacts with others. Investors also are no exception. Investors may discuss and analyse the prospects of different investments with friends and colleagues. Such discussions may clarify their own ideas. Sometimes investors who are not well versed in 'investment analysis' may have confidence in the
knowledge and judgement of a particular friend or co-worker. In such cases, the investor may be guided by the recommendations of such friends or colleagues. In actual practice many average investors take up investment activity due to the advice or guidance of some family friend or colleague. But for them, such persons may never undertake investment activities. In countries like India, where literacy rate is low and 'Equity culture' is in its infancy, investors may be guided by friends and colleagues in their investment decisions.

5.1.21 International operations ($V_{21}$)

Some companies may confine their operations to the local or national market. Some other companies may operate in both local and international markets. Companies operating in domestic and international markets have wider scope to expand business and earn greater profits. Because of larger volumes, they can reduce their cost and sell at lower prices, thus creating more demand. The marketing and production risks of companies with international operations are spread over greater geographical area. Any risks or losses due to political developments or disturbances in one country can be compensated by operations in other countries. Thus, companies with international operation, generally called
Multi-National Corporations (M.N.C) may offer better investment opportunity to the investors. The prices of their shares also are not easily influenced by one or two individuals. Investors can carefully analyse the pros and cons of investing in such companies, taking into account the risk involved in such international operations also.

5.1.22 Exchange listing (V_2)

Every year, thousands of companies are incorporated under the Indian companies Act, 1956. There is no legal compulsion that the shares of all the companies must be listed in the stock exchanges. Only those companies which have promised that their shares will be listed in a stock exchange, have to make arrangements for listing their shares. Listed companies provide more liquidity to their shareholders. The market price of the shares of listed companies are published on all the working days in all prominent newspapers. So, shareholders can know the current value of their shares. It is easy to buy and sell shares of listed companies on any working day through share-brokers of the stock exchange. Thus listed companies can mobilise more capital and attract more investors due to the marketability and liquidity provided by the exchange listing. It is preferable for the investors to acquire those shares which are listed in stock exchanges.
5.1.23 Influence of tips and information from Business journals (V23)

There are several Business journals and newspapers published in India which provide general information about business, trade and industry. Some journals also give tips about specific companies. For example, Economic Times, Financial Express newspapers are the dailies which disseminate information on trade and industry. Similarly, Business India is a fortnightly magazine providing business related information.

Journals like Dalal street, Capital markets, Investment week etc., are solely devoted to discussions, information and tips on shares of specific companies. Thus investors have a wide choice in the matter of getting information and tips about shares of specific companies. They should not blindly believe and follow such published tips. Discussion with share-brokers and other experts about such tips may provide a better perspective about such tips.

5.1.24 Attraction for Non-stock investments (V24)

Investors have a wide choice of non-stock investments. They can invest in real estate, either in Land or Buildings. Similarly, they can deposit money in Finance companies or banks. They can buy precious metals like gold, silver or diamonds. Investors in India who are not accustomed to the 'Western equity culture' are generally more attracted
by gold and real estate than stocks and shares. These investments seem to be safe and desirable. However, shares, as an investment are far better in the long run than all other types of investments for the following reasons:

(a) Liquidity: Shares can be sold and bought on any working day in the stock exchange. Thus, money need not be blocked like in real estate or fixed deposits.

(b) Capital appreciation: Market value of good shares constantly increases, thus fetching capital profit to the buyers.

(c) Revenue incomes: All good companies pay dividend to shareholders, giving them a steady income.

(d) Bonus and right issues: Companies may capitalise their reserves by giving free shares for the equity shareholders. They also may issue right shares at sub-market prices to their shareholders.

Thus, intelligent investors generally realise that 'shares' are the best form of investment in the long run.

5.1.25 Political Stability ($V_{25}$)

Political stability in a country generally leads to economic stability. A Government ruling for a long period, say five years, can implement its
economic agenda properly. Similarly, political stability in a nation enables the politicians to devote their attention for the betterment of the citizens. Political instability causes uncertainty and foreign investors may not wish to invest in such a country. Even local investors may not start new projects due to the risk involved. Political instability at international level also may affect other countries. For example, the instability in Russia at political level is adversely affecting the economies of the European countries. It is also because the European banks have lent a lot of money to Russia. Similarly, political instability due to ethnic problem in Sri Lanka and Congo is devastating the economies of those countries. Investors must analyse the economic impact of political developments before making their investment decisions.

The 25 identified variables described above forms the basis for the construction of the questionnaire and the statistical analysis employed in the study.

5.2 RESULTS OF FACTOR ANALYSIS

By applying the Principal components method of factor analysis, nine factors comprising 14 variables which tend to have a bearing on individual investor behaviour have been extracted. In general extraction of
factors depends on the researcher's judgement and intuition, and several rules of thumb are employed (Fitzroy¹). Prominent among these are:

a. Stop extracting factors when the eigen value drops below 1.

b. Stop extracting factors when a given proportion of the total variance is explained.

c. Stop extracting factors when the reproduced correlation matrix (based on the factor loadings) is very similar to the original correlation matrix.

For purposes of analysis, in this study, extracting factors has been stopped, when the eigen value drops below one. From the factor matrix, only those factors with high loadings have been considered. The nine factors which have emerged from the analysis account for a variation of more than 65 per cent.

The results of the factor analysis have been presented in Tables 5.1 and 5.2.

Probably the most difficult part of factor analysis is the naming of the factors. In practice, this is influenced by the researcher's judgement,

intuition, understanding of the phenomena involved, etc. But it is done outside the statistical methodology. There is nothing in factor analysis itself to indicate what an appropriate name for a factor is. However, based on intuition, plus an examination of the factor loadings, it is generally possible to assign the name. In this study all the factors have been named by the researcher.
| Table 5.1
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<thead>
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<th>Factor Structure</th>
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<tr>
<td>Expected Corporate Earnings</td>
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<tr>
<td>Expected Dividend</td>
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<tr>
<td>Institutional Holdings</td>
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<tr>
<td>Risk-return Analysis</td>
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<tr>
<td>Tax Concessions/Exemptions</td>
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<tr>
<td>Expected Stock market Performance</td>
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<tr>
<td>Past performance of Investors' Stock Portfolio</td>
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<td>Current Economic Indicators</td>
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<tr>
<td>Promoters/Managements' reputation and track record</td>
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<tr>
<td>Competing financial needs of Investors</td>
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<tr>
<td>Recent price movements of firm's stock</td>
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<tr>
<td>Diversified Business activities</td>
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<td>Friends or co-workers recommendation</td>
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<td>International Operations</td>
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<td>Exchange listing</td>
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<td>Influence of tips and information from Business journals</td>
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<td>Attraction for non-stock investments</td>
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<td>Political Stability</td>
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<td>The influence of the nature of the firm's product and quality of service</td>
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<td>Information from financial statements</td>
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<td>Reputation of the firm</td>
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<td>Stock Brokers recommendations</td>
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<td>Information in Reports &amp; Prospectus</td>
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<tr>
<td>The Price of Share</td>
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<tr>
<td>Past performance of stockmarket</td>
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<td>Percentage of variance explained</td>
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Factor loadings are corrected to two decimal places and multiplied by 100.
**TABLE - 5.2**

FACTOR ANALYTIC STRUCTURE FOR INVESTORS' DECISION VARIABLES

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Factors</th>
<th>Variables</th>
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<tbody>
<tr>
<td>1.</td>
<td>Product Superiority</td>
<td>Stock Broker's Recommendation</td>
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<td></td>
<td></td>
<td>The influence of the nature of firm's Product and quality of service</td>
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<td></td>
<td></td>
<td>661</td>
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<tr>
<td>2.</td>
<td>Relevant Information</td>
<td>Influence of tips and information from Business journals</td>
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<td></td>
<td></td>
<td>Information in Reports and Prospectus</td>
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<td></td>
<td></td>
<td>Current Economic Indicators</td>
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<tr>
<td></td>
<td></td>
<td>726, 674, 605</td>
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<tr>
<td>3.</td>
<td>Stable Political Environment</td>
<td>Political Stability</td>
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<tr>
<td></td>
<td></td>
<td>Competing financial needs of Investors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.754, .713</td>
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<td>4.</td>
<td>Performance of the Company</td>
<td>Recent price movements of firm's stock</td>
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<td></td>
<td></td>
<td>Risk-return analysis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.753, .727</td>
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<tr>
<td>5.</td>
<td>Diversification</td>
<td>Diversified Business activities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>.746</td>
</tr>
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<td>6.</td>
<td>Reputation of the Organisation</td>
<td>Promoters' /Managements' reputation &amp; Track record</td>
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<td></td>
<td></td>
<td>.838</td>
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<td>7.</td>
<td>Share Price</td>
<td>Price of share</td>
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<td></td>
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<td>8.</td>
<td>Geographic Spread</td>
<td>International Operations</td>
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<td></td>
<td></td>
<td>.874</td>
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<tr>
<td>9.</td>
<td>Income from Investments</td>
<td>Expected Dividend</td>
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<tr>
<td></td>
<td></td>
<td>.869</td>
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</tbody>
</table>

Source: Factor matrix (Appendix - B)
In the present study, the most important factor which tend to have a bearing on individual investor's behaviour, is the first factor, as it accounts for 21 per cent of the variance, which is almost, one-third of the total variance.

The variables which have high loadings in Factor 1 are

(i) Stock broker's recommendation

(ii) The influence of the nature of the firm's product and quality of Service

It may be noted that firms dealing with superior products and backed by good pre-sales and post-sales service with prompt stock broker's recommendation and eventually entice the investor. Thus, this factor is named as "Product Superiority".

Factor 2 comprises of three variables, namely,

(i) Influence of tips and information from Business journals

(ii) Information in Reports and Prospectus

(iii) Current Economic Indicators

Investors today are highly knowledgeable and would like to be thoroughly informed through journals, reports and economic indicators and so on. After all, one must bear in mind, that it is investment decision
and not speculation and gambling. Therefore, this factor has been named as “Relevant Information”.

Factor 3 includes,

(i) Political stability

(ii) Competing financial needs of investors

It is a matter of common knowledge that political stability has a direct impact on the Stock Exchange Index, whatever, be the competing financial needs of investors, if there exists a stable political environment, the investors would be willing to make their investments. This factor has been named as “Stable Political Environment”.

Factor 4 comprises

(i) Risk-return analysis

(ii) Recent price movements of firm’s stock

When an investor parts with his money, he definitely needs fair returns and he is sure to consider what are the returns for risking his investments. An indirect way to study the firm’s performance is by studying the price movement of the firm’s stock. If there has been a steady and upward trend in stock prices, it is among other things indicative of good performance, demand for shares and so on. Therefore, this factor has been named as “Performance of the Company”.

In Factor 5 only one variable, namely, Diversified business activities, has high loadings. From this, it is clear that investors prefer firms with diversified activities. A general observation is that horizontal growth is the order of the day. Firms that put all their eggs in one basket are not desired. Factor 5 has been named as "Diversification".

Only one variable, namely, Promoters/managements' reputation and track record forms Factor 6. Well reputed Promoters/Managements have a definite edge over new managements. Investors have greater faith in managements who have a proven and successful track record. This factor has been labeled "Reputation of the Organisation".

Factor 7 has high loadings for the variable 'Price of share'. When it comes to buying anything generally, price has a strong influence. Similarly, when an investor has to part with his money, he will take into account the market price of the share and the share price trends too. This Factor 7 has been named "Share Price".

International Operation is the variable which has a high loading in Factor 8. This factor places emphasis on having operations in various countries. The recent trends indicate that multi-national organisations are a force to be reckoned with. When a company has international operations, its volume of business is correspondingly large, markets are wide and consequently well reputed. Thus investors seem to place
greater importance to organisations which have notable geographic spread than to the organisations which confine their activities to one country or locality. Thus this factor has been named as "Geographic Spread".

The last factor that has emerged from the analysis is Factor 9. It comprises of one variable, namely, expected dividend. When investors part with their money, they would naturally like to know the expected/projected dividend. Therefore, this factor has been named as "income from Investments".

5.3 CONCLUSION

From the results and discussion of the factor analysis, it may be concluded that of the twenty-five variables identified for the study, only fourteen variables (bearing high loadings in the nine factors) that have emerged tend to have a bearing on individual investor behaviour.

The results of the factor analysis may be condensed in capsule form by stating that an individual investor is guided by superiority of the product of a company, the extent of diversification and the geographic spread of the company, backed by a thorough knowledge of company's performance (gained from various sources), stable political environment, relevant information, reputation of the organisation, share price and expected earnings from the investments.