CHAPTER- 1

INTRODUCTION

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The investment of fund in stock is remarkable among business operations in that it is almost always based in some degree on recommendation received from others. The greater part of investors is non-professional. Naturally they feel that in choosing their stock they can make profit by professional guidance. Yet there are unusual essential attribute in the very concept of investment advice.

If the reason for the investment of investor is to make money, then in seeking recommendation they are asking others to guide them how to make money. That idea has some element of wisdom. Businessmen seek professional advice on various elements of their business, but they do not expect to be told how to make a profit. Non-business people, rely on others to make investment profits for them, they are assuming a kind of satisfactory outcome for which there is no true counterpart in normal business affairs.

If we take that there are normal and standard income results to be acquire from investing money in stock, then the role of the advisors can be more willingly established. He will use his superior training and knowledge to safe his clients against mistakes and to make sure that they acquire the results to which their money is entitled. It is when the investors demand more than an average return on his money, or when his adviser promise to do effective for him, that the question occur as a result of whether more is being asked or promised than is likely to be provided.

Recommendation on investments may be secured from a different source of society. These include: (1) a relative or friend, presumably knowledgeable in stock; (2) a local
(commercial) banker; (3) a brokerage firm or investment banking house; (4) a financial service and (5) an investment counsellor.

As we know, If the investor rely on the recommendation of others in handling his investment, then either he must limit himself and his advisers rigidly enforced to standard, conservative, and even not using forms of investment, or he must have an unusually familiar and expressing approval knowledge of the person who is going to direct his funds into other channels. But if the normal business or professional relationship exists between investor and his advisers, he can be able to less conventional suggestions only to the extent that he himself has grown in knowledge and experience and has therefore become efficient to pass self-governing judgement on the recommendations of others. He has then passed from the category of defensive or unenterprising investor into that of unduly forceful or enterprising investor.

The Expected utility theory says that the individual investment decision is a trade-off between two kind of consumption which are immediate consumption and deferred consumption. When financial decisions are made then the participants in the market have for a long time relied on the notion of efficient markets and the rationality of the behaviour of the investor. It is seen that the idea of completely rational investors, those who have a tendency to maximize their utility and exhibit total self-control is becoming rare. Investors are assumed to be rational, unbiased and consistent in an efficient market. Such investors make investment decisions without emotion or passion. They make their choices which aim at maximizing their expected utility. Moreover decision makers do not act in the way as explained by the traditional economic model. It has been seen through contemporary research that the investment selection process is more human as compared to analytical.
Behavioural finance is an upcoming science and is considered as a new and developing field of academic study which exploits the irrational behavior of the investors. Behavioural finance assumes that information structure and characteristics of participants in the market, affect individuals’ investment decision as well as market outcomes in a systematic manner. The main emphasis of behavioural finance is on the manner in which investors interpret and act on micro and macro information in order to make decisions related to investment. The definition of Shifler (1999) says that Behavioural finance is a rapidly growing area which deals with the influence of Psychology on the behaviour of financial practitioners.

India has not given its due to research in behavioural finance as compared to other countries around the globe. Although Behavioural finance has greatly gone ahead but it has by no means demeaned the basic work that is been done by proponents of efficient Market hypothesis. Instead, it is meant to examine the significance pf relaxing Unrealistic behavioural assumptions and make it more close to the truth. It does this by adding more individual aspects of decision-making process in financial markets. Certain aspects of financial markets are difficult to understand if these contributions of behavioural finance are not studied. Despite the importance of individuals’ investment decisions, however, we are not much aware about the factors that govern them. The globalization of financial markets has been increasing the retail investors’ community over the last twenty years by providing a wide variety of market and investment options. It is seen that, it makes much more complex in their investment decision process. When making investment decisions, the retail investors consider their investment needs, goals, objectives and constraints. Still it is not possible to be successful in making an investment decision every time. They have to be cautious when watching the condition of the market and respectively change their investment options in accordance to their risk
tolerance level. External factors such as social, political, economic, regulatory, technological, environmental and legal besides the fundamental factors of the company have great role in influencing the market conditions, these have an influence on the values of equity shares (Sugiharto et al, 2007).

Finance research has quite often neglected the decision of the individual investor when financial investment decision are taken, thus creating a gap in the research. There is a necessity to develop behavioural paradigm to delve deep into the determinants of investor behaviour along with their impact on individual investor’s investment decision making process.