CHAPTER-3

LITERATURE REVIEW

Section 3.1- Literature Review
A literature review is a critical and in depth evaluation of previous research. It is a summary and synopsis of a particular area of research, allowing anybody reading the research to establish why one is pursuing this particular research program. A good literature review expands upon the reasons behind selecting a particular research question. The present literature review is just not a collection of names and literature of others but is a rational consolidation of research work of others to establish a relevant and positive relation between current literature review and current research problem.

3.1.1 Literature review

1. **Glaser, et. al.,(2009)** titled “Individual Investor Sentiment and Stock Returns-What Do We Learn from Warrant Traders?” – tested whether individual investor sentiment was related to daily stock returns by using vector auto regressive models and Granger causality tests. They find out that there exists a mutual influence on sentiment. While the influence of sentiment on returns is positive for the next trading day. The influence of stock market returns on sentiment is stronger than vice versa. From the above review, it is clear that there are some differences among the retail investors in considering SPERTEL for valuing the share price of a company.

3. Chang et al. (2008) examine the joint effect of an investor’s current stock position (paper gain or paper loss) and the type of analyst forecasts (favourable or unfavourable) on the investor’s use of analyst forecasts in relative to their use of management forecasts. They argue that investors’ decisions to use analyst forecasts or management forecasts depend on their expectations of the motives of the analyst and management. Since analysts have motives to issue favourable forecasts.

4. Totok Sugiharto, et. al.,(2007) titled “A Survey of Investors’ Current perception sand valuation Approaches at Jakarta Stock Exchange (JSX) in Indonesia. The paper also proffers some initial interpretation and analysis of their perceptions of the most important metrics used in valuation and their observation on social, political, economic, regulatory, technological, environmental and legal (SPERTEL) factors that influence the fundamental factors (EM metric) and values of equity shares(EV) of LQ45 firms quoted at JSX.

5. Manish Mittal and Vyas R.K.(2007) titled “Demographics and Investment Choice Among Indian Investors” published in ICFAI Journal of Behavioural Finance- have investigated how investment choices have been affected by the demographics of the investors. Such knowledge would be highly useful to the financial advisors as it would help them advise their demographic profile. The salaried class people preferred to invest their money in equities and mutual funds while business classes have shown an inclination to invest their money in debenture/bonds and real estate/bullions.
6. Sachithanantham et al. (2007) studied the relationship between capital market reforms and amount of money invested by the investors. It was found that the educative reforms and attractive reforms were statistically significant but they had negative influence over money invested by the investors at the Indian Capital Market.

7. Kannadhasan. M (2006) titled “Risk appetite and Attitudes of Retail Investors with special Reference to capital market” published in the management Accountant-examined the factors that influence the retail investors decision in investing. The decision of the retail investors are based on their various dependent variables viz, Gender, Age, marital Status, educational level, income level, awareness, preference and risk bearing capacity.

8. Hussein A Hassan (2006) titled “Factors influencing Individual Investor Behaviour: An empirical study of the UAE Financial Markets “published in The Business Review, Cambridge- identified the factors influencing the UAE investor behaviour. The most influencing factors were expected corporate earnings, get rich quick, past performance of the firm’s stock. On the other hand few factors were found to be least influencing like expected losses in international financial markets family member opinion, get feeling on the economy.

9. Oberlechner and Hocking (2004) examined the information sources, news, and rumours in the foreign exchange market and derived an exciting result
that the information pace is rated high, on a scale of importance, as compared to trustworthiness of the source, and the precision of information.

10. Merikaset. al., (2003) titled “Economic factors and Individual Investor Behaviour: the Case of the Greek Stock Exchange” published in the Journal of Applied Business Research- analysed the factors influencing Greek investor behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables. The authors did not rely on a single integrated approach, but rather on many categories of factors. The results also revealed that there is a certain degree of correlation between the factors that behavioural finance theory and previous empirical evidence identify as the influencing factors for the average equity investor, and the individual of behaviour of advice investors in the Athens Stock Exchange (ASE) influencing by the overall trends prevailing at the time of the survey in the ASE.

11. Malmendier and Shanthikumar (2003) titled “Are small investors Naïve?” published in Stanford University Working Paper- tried to answer the question: Are small investors naïve? They found that large investors generate abnormal volumes of buyer initiated trades after a positive recommendation only if the analyst is unaffiliated. Small traders exert abnormal buy pressure after all positive recommendations, including those of affiliated analysts. Using the NYSE Traders and Quotations Database, they found that large traders adjust their trading response downward.
12. **Krishnan and Booker** (2002) Investors’ Use of Analysts’ Recommendations, published in Behaviour Research in Accounting, analyzed the factors influencing the decisions of investor who basically used analysts’ recommendations to arrive at a short-term decision to hold or to sell a stock. The results indicate that a strong form of the analyst summary recommendation report, *i.e.* one with additional information supporting the analysts’ position further, reduces the disposition error for gains and also reduces the disposition error for losses as well.


14. **Barberis and Shleifer** (2001) argued that herding may take place in subsectors of the equity universe, not simply with respect to the stock market as a whole. It is found that flows into and out of foreign mutual funds is negatively correlated with flows to domestic equity funds.

16. Shefrin and Statman (1995) investigate the relationship between representativeness and variables such as book to market equity, beta, and size, and find that investors rely on representative heuristics in forming expectations because they tend to regard good stocks as the stocks of large companies.

17. Hirst et al. (1995) examine how three factors, the source of an analyst report (an analyst with or without an investment-banking relationship with the target company), the report's conclusion (favourable or unfavourable), and the strength of the arguments supporting the conclusion (strong or weak), jointly influence investors use of the analyst report to make stock performance judgments. They find that when given a favourable analyst report, investors attribute the reason of the report more to the analyst’s incentives if the analyst has an investment-banking relationship with the target firm (i.e., IB analyst) than if he/she does not. However, investors do not incorporate these attribution differences into their stock performance judgments in that they still judge the stock of the target firm to have high potential and ignore the argument strength regardless of whether the favourable report comes from an IB analyst.

18. Nagy, R.A and Obenberger, r.w (1994) titled “Factors influencing Investor Behaviour” published in Financial Analysts Journal-tested whether there is a significant difference between the retail investors selects demographic characteristics (viz., age, gender, marital status, education, occupation, domicile and annual income) and consideration of SPERTEL risk on Value of Equity Shares.
19. **Shanmugam (1990)** titled “A Study on Investors’ Awareness of Investment” studied a group of 90 investors to examine the factors affecting investment decision. The study focused its analysis on the investment objective and the extent of awareness on factors affecting investment decision. The study found that the investors are high risk takers. Investors possessed adequate knowledge of government regulations, monetary and fiscal policy.

20. **Shiller and Pound (1989)** surveyed individual investors and observed that most of the investors are attracted towards some particular stock as a result of interpersonal communication.

21. **Petter Roger Eiving (1970)** carried out a study to identify those factors which motivate (or) Guide the investment decisions of the common stock investors. The study identified the factors (i) Income from dividends (ii) rapid growth (iii) purposeful investment as a protective outlet of savings (iv) Professional Investment management.

**3.1.2 Research Gap:**

A research gap is the difference between what is existed and what is required or what should be done. Research gap is critical to determine the need and necessity of conducting a research. Generally a research gap can be an extension or challenge of the existing variables, theories or assumptions etc. It is an identification of opportunities that are yet to be explored in research study. In order to arrive to a relevant research gap we have-

**3.1.2.1 Existing research studies:** In current research, after going through the various research works of different authors and researchers it has been found that numerous
studies are available on various aspects of individual investor behaviour and economic
and investment decision making, the main issues reported in the above studies can be
summarized as follows:

a) There is no support for the overreaction hypothesis.

b) Investor over-reaction to a long series of bad news could produce predictable
mispricing of stock.

c) Classical wealth-maximization criteria are important to investors.

d) The recommendations of Brokerage houses, individual stock Brokers, family
members and co-workers go largely unheeded.

e) Investors exhibit a strong demand for information about product safety and
quality, and about the company’s environmental activities.

f) There exist strong forms of the analyst summary recommendation report, *i.e.* one
with additional information supporting the analysts’ position further, reduces the
disposition error for gains and also reduces the disposition error for losses.

g) Individual investors are influenced by a number of psychological factors while
making investment decisions.

h) The behaviour of individual investors caused by underlying sentiments has a
significant relationship with the movements in stock prices and hence, with the
stock returns.

i) Net trading by individual investors is a powerful predictor of future prices and
returns that is not subsumed by either past returns or past volume.
3.1.2.2 Required research study: The existing research studies are lacking the following aspects of individual investor behaviour and economic and investment decision making as-

a) Most of the studies are carried out in developed economies context. Little evidence has been available from emerging economies. This aspect particularly makes the present research study more relevant in Indian context. Studying Indian individual investors trading behaviour would seem an interesting proposition for both the market stakeholders and the regulators and policy makers.

b) No research has been done on influence of Brokers.

c) No research has been done on the attitudes of the investors considering their age and income specifically.

d) No research has been carried out regarding involvement of Broker in investment decision of individual investors

So, above mentioned are the points which propelled the researcher to carry out a research based on such issues and to bridge the gap between the existing problems and future solutions to them. All these issues are relevant enough to initiate an empirical study on individual investor behaviour in an entirely Indian context. Considering these motivations, the researchers attempt to provide evidence for irrational financial behaviour of individual investors.

3.1.3 Research Future:

The stock market is the key indicator of growth and development of the country. Indian stock market has developed in terms of number of stock exchanges and other intermediaries, the number of listed stocks, market capitalization, trading volumes, turnover of the stock exchanges, investor population and price indices. Stock market
volatility has been a major cause of concern for policy makers, investors and academia throughout the world, especially for the last two decades. Rapid financial innovations, regulatory and non-regulatory reforms, SEBI interventions, globalization of Indian capital market, new classes of investors, etc. have all shown a great impact on the behavior of share prices in India.

The future of this research is this that this research had tried to address those issues which have not been explored or touched. Thus with the help of present study it has been tried to come forward with some meaningful suggestions regarding involvement of Broker in investment decision of individual investors.