Introduction

The growth of economy depends on the capital formation which in turn depends on the investment made by individual investor, Financial institutions, Government Agencies, Industries, etc., it is therefore very essential for any country to provide a conducive and productive climate to promote investments by setting up a system which provides all inputs required by an individual for making investments. An individual sacrifices his present consumption to generate savings which in turn are invested in various investment opportunities. It is very essential for any individual to have proper insight of all the relevant issue which can have bearing on his investment decisions. Investment is the sacrifice of certain present value for the uncertain future reward. Every person wants to see the growth of its capital and one ensures that the capital shall grow at the rate which is at least greater than the rate of inflation so, that at the end of any period, he should be available with enough funds to purchase the goods which he sacrificed earlier, i.e. Investment requires sacrifice of present consumption to get return in future.

Investment is an act of placing funds in some opportunity or instrument with expectation that will be preserved or increase in value or generates positive returns. The overall investment process is the mechanism for bringing together suppliers (those who have extra funds) with demanders (those who need funds). Suppliers and demanders are most often brought together through financial institutions, which act as financial intermediaries in the financial market.
It is said that investment activity directly depends upon saving. Saving can be defined as the access of income over expenditure. People may save funds but they may not be investors, For example, an individual who sets aside some money in locker for education of spouse or for marriage purpose is a saver. He cannot be considered an investor whereas an individual who opens a saving Account in bank and deposits some money regularly or as and when he has some spare amount of money for some specific purpose would be called an investor. The distinction between a saver and an investor cannot be made on the basis of the motive of savings. The distinction can be made on the basis of their expectations. The saver who puts his money in a locker or somewhere in his house does not expect excess returns from the savings where as an individual who opens a saving bank account expects a growth of its funds through additional return from the bank. Thus we may conclude that the expectation of return is an essential characteristic of investment. An investor expects to earn additional return on its present money from the mode of investment that could be in the form of physical / financial assets. An investment in shares, Debentures, Mutual funds, ULIPS, or Fixed deposits in bank etc., is a financial asset whereas the purchase of house, gold, land, etc., is an investment in physical asset.

Saving and Investment habit of individual household in any economy plays a vital role in the development of economic activities, The growth of any economy can not be studied without studying the public and private investment activities in the economy, For studying investment activity the behavior of individual investor is an important factor to be studied. An important feature of the financial market is the depth and breadth of public participation in the market. Millions of households and individual investors provide a pool of capital and a diversity of decision-making that creates liquidity in the market and makes it dynamic. Thus, the number of households and individual stock holders are the two most important players in financial market denoting the breadth of stock ownership in the population.
The past few decades have experienced the radical changes in the Indian financial environment, from saving oriented economy to investment oriented economy. Due to the changes made in policies, leading to liberalization and globalization, the financial markets have experienced the product innovation, increased international integration more transparency and coordination. Due to these economic developments the Indian financial markets have found greater participation of individual investor in capital market as well as, in other investment avenues such as mutual funds, pension funds and the other traditional avenues, such as deposits and government securities. A developed securities market enables all individuals, no matter how limited their means, to share the increased wealth provided by competitive private enterprise (Jenkins 1991). This has opened a new vision of studies from simple consumption saving choice, to the study of spending plans and consequently the portfolio composition of individual investor. In India the growth in service sector was very much delayed and the household sector was still not taken care of, although the sector was contributing substantially to the total gross domestic savings.

The Indian financial system has undergone a considerable change in the recent past. It has left the backwaters & entered in the open sea. It has to be competitive as what a free financial system ought to be in the era of globalization. It has to be competitive, market-oriented, cost-effective, modern, & should try to remain a float and struggling to push ahead (Pathak, 2003). The transformation implies that the components of the Indian financial system, that is, the institutions and markets functioning within it have chosen to be well managed and growth-oriented. The system has become modern, having features such as derivatives & commodity market; with all new innovative financial instruments such as deep discount bonds, securitized paper, paperless trading, floating rate bonds etc.
1.1.1 Individual investors

An important feature of the financial markets is the depth and breadth of public participation (i.e. individual investors) in the market. Millions of households and individual investors provide a pool of capital and a diversity of decision making that creates liquidity in markets and makes it dynamic. Thus the number of household and individual stock holders, fix-deposit holders in bank and post-office, Bond holders or investors in different mutual-funds, insurance-linked investment plans is most commonly cited summary statistics denoting the breadth of investors in the population. These statistics are useful tools for understanding the changes that take place in the financial markets and for policy formulation.

It needs to mention that government, business, and individuals are three key participants in the investment process, and each may act as a supplier or investor of funds. Depending upon personal investment goals and objectives, individuals may place their savings in saving accounts, buy shares of a listed company, buy debt instruments, buy insurance or purchase various type of property.

1.2 Investment behavior of investor

To gauge the impact of the change and growth of the investments market on individual investor during post liberalization and to analyze the quality of its growth, the study of investment pattern & investor’s behaviour is required. Saving and investment is a disposable income which does not include consumption. Therefore the national saving will comprise of national disposable income, which does not include the national consumption. In an economy where financial markets are developed, the savings of household sector are reflected through the investment in various financial instruments issued by different
intermediaries like banks, financial institutions and the government. In India, other than such savings like financial instrument, a component, of physical savings is also estimated that includes construction cost of living houses. A very peculiar feature in India is the purchase of gold by households in order to meet the future expenses as well as to keep up with social customs. In an economic scenario the savings behavior is reciprocal to the national consumption behavior. Savings in large extents influenced firstly through investment opportunities or investment demand which in turn depends upon the growth prospect and the potential return available on those investments, secondly it depends upon the avenues available in the economy for mobilize savings, in the form of well developed financial system with a variety of institution and markets for different financial instruments and thirdly on the general thirst of the people as a part of national culture. Therefore the well developed and integrated financial system is essential to mobilize the saving into productive investment.

It is therefore important to estimate these statistics to assess the growth of financial market. The securities market in India has grown dramatically in the last 15 years and this has led to the expansion of direct equity ownership in the country. A large number of house-holds have also indirectly owned equity shares and debentures through their participation in mutual funds. During the recent past securities market are highly volatile and due to these reasons some individual investors are more inclined towards traditional Investments like bank & Post office deposits, insurance policies, ELSS & S.I.P. offered by banks and mutual funds.

At the macro level the behavior of individual saving and investments is primarily related to the nation’s marginal propensity to consume, which in turn depends upon the level of income of the investor, secondly it can be considerably influenced by the incentive structure provided by the authorities, fiscal or otherwise. While providing incentives there are two approaches, first the income
oriented approaches and the second one is the price oriented approach. Income oriented approach include changing the monetary and fiscal policy mix by lowering government and private consumption while stimulating investment through lower interest rates. Price oriented approach include rising the rate of return to the investor or saving by lowering the tax rate or raising the reward for investments by offering investments and additional depreciation allowances.

At the micro level, the behavior of individual investor saving and investments is a very complex phenomenon and can only be determined through the study of various factors. Several econometric studies have recently attempted to identify determinants of the Indian saving rate, using a standard life-cycle approach, ordinary least-squares methods were employed to derive the broad results. The complexity of the study of individuals saving behavior can reasonably explained by the emotional and sentimental behavior of individual towards saving and investments. In India the cultural aspect also plays an important role in saving and investment of Indian individual investor. The result of few of the studies which have conducted on Indian households, it was found that GDP growth has had no significant impact on the saving rate. Rising per-capita income, however, was found to have a weak positive effect on household saving. The agricultural sector in India has a lower propensity to save compared to other sector, so that a diminishing share of agriculture in GDP raises the saving rate. The effects of taxation on saving have been weakly negative. A higher real interest rate has apparently increased saving surprisingly.

However, the interest rate has affected physical saving positively but has had no impact on financial saving. Financial deepening (as measured by the broad money to GDP ratio and by the number of bank branches) also has increased the saving rate. Country of other Asian economies, growth in the relative size of the working age population was not found to have a significant impact on saving. However, saving has been negatively related to the traditional saving
instruments like higher interest rates or special tax incentives have failed to raise the household saving rate.

### 1.3 Reforms in Indian economy

The Indian economy has already gone through the reform process, and a considerable shift of individual saving from defined return on investments to variable return on investment has been registered. The study on the changing pattern of household sector investment will help the policy maker and the financial institution to explore and experiment with the structure of present financial system, in order to serve the requirements of the household sector in a more meaningful manner.

### 1.4 Change in the Pattern of saving and investments of individual (household Sector) in India

During the post Independence period of India the development pattern was designed through strong centralized planning, government owned basic and key industries, excessive regulations and the strict control over the private enterprise, trade protection through the tariff and non tariff barriers in addition to selective approach towards the foreign capital. The economic reforms were set-in motion, when control on industries was reduced through the Industrial policies in the year 1985. The economic reforms program received a big boost when a new industrial policy was announced in the national parliament on 24th July, 1991, resulted in the significant growth rate. These structural changes brought into the economy, also led the significant changes to the household income level and the saving pattern as well.
India has emerged as a technologically strong, industrially diversified and service sector oriented economy from the traditional agricultural economy. Unlike of other countries, the share of major instruments for long term saving, in India, namely pension and life insurance were stagnated for more than last 30 years, due to the certain fundamental weaknesses, one of them was that the market was dominated by public sector like Unit Trust of India (UTI), Life Insurance corporation of India (LIC) and employees provident fund Organization (EPFO). The three financial institutional investing companies accounted for about one third of financial savings. Another reason for becoming the national saving stagnant was that these financial institutional allocation of portfolios which were heavily regulated, resulted in very low returns and with lack of flexibility to react to market developments, consequently failing in to attract the investors at a time when more locative option were emerged in the creation of a transparent and competitive field for mutual funds (Securities and Exchange Board of India, SEBI 1996). These funds include the relaxation of investments restriction in the money market as well as in the debt instrument. They included listing of open ended funds and the possibilities for mutual funds to launch pension schemes also.

Individual investment in financial market in general and savings in the form of financial assets in particular exhibited remarkable growth since late eighties. The growth of household savings during the decade of eighties has been facilitated by a simultaneous increase in physical as well as financial assets. Financial saving of households during the first half of the nineties registered the remarkable growth. There are enough evidences of compositional changes in the financial assets. Financial savings of households during the first half of the nineties registered the remarkable growth. There are enough evidences of compositional changes in the financial savings of the households.
At the time when the higher domestic savings are desired, to finance a better growth rate, the policies aimed only to mobilization of savings and were not to expand the investments; this might not, necessarily the best instrument to achieve the required target. As discussed by (Bhagwati) in 1993, “in a country like India, this has been observed that the growth has less suffered from a low saving rate than, that, from inefficient investment”. However the Indian saving rate has been, relatively higher and has continuously been rising over the past 30 years, the efficiency in investments was remained very low because of the dominant role of public sector in the economy. After liberalization and globalization due to the entry of privet players in all sector of financial market, competition was increased and due to the regulatory control of the government the Indian households were able to get the required investments product from the market. However if the level of saving and investment in a economy is to be sustained and effectively used for productive processes, financial market stability, transparency and depth is very much required.

A research into individual investors and their behavior has received a lot of consideration during the past, and is increasingly in the focus of interest of many scientists, being not confined only to economists. However, the particular way of looking at individual investor has been subjected to a great paradigmatic shift with the inclusion of psychology, both its findings and its methodology, into financial studies too. Despite many ongoing debates, this has slowly led to the establishment of behavioral economics and behavioral finance as widely recognized sub disciplines.

“Behavioral finance, as a part of behavioral economics, is that branch of finance that, with the help of theories from other behavioral sciences, particularly psychology and sociology, tries to discover and explain phenomena inconsistent with the paradigm of the expected utility of wealth and narrowly defined rational behavior. Behavioral economics is mostly experimental, using research methods
An economic man adheres to the axioms of rational choice theory. Over the past decades psychologists and behavioral scientists have documented robust and systematic violations of principles of Expected utility theory, Bayesian learning, and rational expectations - questioning their validity as a descriptive theory of decision making (DeBondt, 1998). Furthermore, Simon (1991), to whom the term "bounded rationality" is usually attributed, has emphasized "the limits upon the ability of human beings to adapt optimally, or even satisfactorily, to complex environments."

"It has been applied extensively to theoretical models and empirical studies of financial securities prices, generating considerable controversy as well as fundamental insights into the price-discovery process" (Lo, 2007). Meir Statman, describe that "accepting market efficiency in the sense of beating the markets," however, rejecting the definition in the sense of rationality, by which "rational prices reflect only utilitarian characteristics, such as risk, not value-expressive characteristics, such as sentiment" (Statman, 1999).

In the evolutionary model individual market participants adapt to changing environment by using heuristics. Lo (2005) believes that if we were able to measure changes in investor population, changes in investor preferences, and changes in the investment environment, it might be possible to build actively managed portfolios that better suit an investor's needs.

Kahneman and Tversky (1979) with their Prospect theory of robust-ness and pervasiveness of this cognitive-psychological research have bolstered its impact on the economic theory, as well as the finance (whose Modern portfolio theory is also based on the assumption of rational agents). Individual investors - who use heuristics, depend on framing of the problem, and are prone to biases, which in
turn may lead to various anomalies at the market level - are subjects of research in the area of behavioral finance Thaler (1987)\textsuperscript{xi}.

Behavioral finance builds itself upon two blocks: limits to arbitrage and psychology. Behavioral finance funds and its applications on various levels of financial markets: on the aggregate market level, on the cross-section of average returns, on individual investor behavior, and on corporate finance (Barberis and Thaler, 2003)\textsuperscript{xiii}.

One of the earlier comprehensive studies of individual investors who manage their own equity portfolios, De Bondt (1998) identified four classes of anomalies on the level of individual investor behavior: Firstly, investors are prone to biases in the perception of asset price movements. In his 1987-1992 study, De Bondt conducted a mail survey among 125 investors affiliated with the American Association of Individual Investors (AAII), where he documented an extrapolation bias, that is, 'the expected continuation of past price changes.' Quite the opposite, in his 1991 study, by interpreting Livingston surveys data, he concluded that economic experts are contrarians in their predictions. Furthermore, investors predict too narrow confidence intervals in the subjective probability distributions of prices (Tversky and Kahneman, 1974)\textsuperscript{xiii}. Secondly, the perception of asset's value is largely dependent on popular models (Shiller, 1990)\textsuperscript{xiv}, that is socially shared tips from peers, financial advisors, news in the media (and nowadays, especially, on Internet portals, forums, and news groups).

DeBondt and Thaler (1985)\textsuperscript{xxv} found evidence that when managing risk and return, many investors do not diversify their portfolios. This may be due to false beliefs that the risk is defined at the level of an individual asset rather than the portfolio level, and that it can be avoided by hedging techniques, decision delay, or delegation of authority (DeBondt, 1998). Additionally, in their portfolios investors hold surprisingly large amounts of fixed-income securities (bonds),
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despite the empirical fact that stocks outperform them on the long run. Benartzi and Thaler (1995)\textsuperscript{xvi} have differed an explanation to this famous "equity premium puzzle" (Mehra and Prescott, 1985)\textsuperscript{xvii}, by investors' myopic loss aversion - a combination of high sensitivity to losses, and frequent monitoring of one's wealth.

Finally, although investor/traders are often pre committed to certain rules and techniques, even professional ones seem to fail to maintain discipline and consistency (Slovic, 1972)\textsuperscript{xviii}. Investing/Trading practices are highly influenced by two strong reference points - performance of the market index, and the price at which the asset was purchased (Shefril, 2000\textsuperscript{xix}; Goldberg and von Nitzsch, 2001\textsuperscript{xx}; Barberis and Thaler, 2003\textsuperscript{xxi}; Camerer et al., 2004\textsuperscript{xxii}; Altman, 2006\textsuperscript{xxiii}; Peterson, 2007\textsuperscript{xxiv}).
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