CHAPTER 2

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Chapter References
2.1 Introduction

Agarwal, D. (2011) gives an insight on mutual fund activity in emerging markets and discussed Indian Mutual Fund Industry pricing mechanism with empirical studies on its valuation. Population selected for research purpose was the fund-manager and fund-investor study revealed that the performance is affected by the saving and investment habits and whereas confidence and loyalty of the fund Manager and rewards affects the performance of the MF industry in India.

Murugaiah, V. (2006) examined the components and sources of investment performance and evaluated the performance of mutual funds based on 113 selected schemes this study revealed that the mutual funds were not able to compensate the investors for the additional risk that they bear after investing in the mutual funds. The study concludes that the influence of market factor was more when funds perform negatively whereas the impact of selectivity skills of fund managers was more than the other factors. It can also be observed from the study that selectivity, expected market risk and market return factors have shown closer correlation with the fund return.

Tavakoli, M. R., Habibi Tanha, F., & Halid, N. (2011) identified the key determinants of choosing stock by small investors. The research revealed 13 effective factors while choosing stock which influence small investors’ decisions while stock selection. These factors are in order of importance involving “financial statements of companies, accounting instruments, past stock price (return), firms’ public information, profitability variables, consult with anybody, financial ratios, past
trading volume of stocks, second-hand information resources, discounted cash-flow tools, government policies, calculation of risk and economic variable.

Barber and Odean, (1999) highlighted two major mistakes which investors make are excessive trading and the tendency to hold on losing stocks while selling winners. According to researcher systematic biases originate in human psychology. The first bias in investor is their overconfidence and the human desire to avoid regret is the second. The behavioral models have been most successful in explaining stock price anomalies related to overreaction, under-reaction, momentum strategies, herding behavior, firm size effect and BV/MV ratio effects.

Barberis, Nicholas and Thaler, H. Richard (2002) discussed about two important blocks of behavior finance limits to arbitrage and psychology, and then present a number of behavioral finance applications: to the aggregate stock market, to the cross-section of average returns, to individual trading behavior, and to corporate finance.

Barberis, N., Shleifer, A., & Vishny, R. (1998) presented a model of investor sentiment, or of how investors form beliefs. The model is based on psychological evidence and produces both under-reaction and overreaction for a wide range of parameter values.

Bennet, E., Selvam, M., & Ebenezer, E. E. S. (2011) analyzed the individual investor’s sentiment and influence of Stock Specific Factors on investors’ sentiment. A sample of 400 Equity Investors in Tamil Nadu, India was chosen for the study. the impact of Psychological Factors, Past price performance, Price earnings and familiarity with
products, Price earnings and familiarity with products, Recommendation of the financial community, Expected events surrounding the stock and Book Value, Who else is buying, Quality of Management, Financial Characteristics and Price cut off rules were tested by using the Bootstrapping method. It was found that the Investor’s expectation of stock prices is likely to be influenced by Expected events surrounding the stock and the book value and financial community.

Bhatta, H.S (2010) Investigated whether the investors are biased while taking decision. The study suggested educating and counseling the investors from time to time about the wisdom required in the stock trading and also about the unethical and tactical practices of brokers.

Bhunia, et.al. (2012) examined the relationship between Indian capital market and gross domestic investment and also observed whether the Indian capital market has the ability to predict investment behaviour in India, using the vector auto regression framework. He concluded that the capital market is the hub of investment and capital formation, and therefore very crucial to the process of economic growth and development, the findings revealed that the Indian capital market is not a good predictor of investment behaviour in India.

Chang, E. C., Cheng, J. W., & Khorana, A. (2000) examined the investment behaviour of investors in different countries with reference to investor’s tendency to exhibit herd behavior. Results shows that no evidence of herding was found from the investor of US and Hongkong partial evidence of herding in Japan. There was a significant evidence of herding in South Korea and Taiwan.
Iqbal & Usmani, (2011) conducted on Karachi stock exchange investors to get the factors influencing the decision making. The stock purchase decision is based upon the wealth maximization. Investors take family and friends recommendations as well as use accounting information but most of the investor’s decision is based upon their own will and are not influenced by any one. Individual investor lacks skills due to which the decision making of investors suffers.

Skala, D. (2008) analyzed a important concept of behavior finance, Overconfidence it has been analyzed with the perspective of financial markets and corporate behavior. Results showed that overconfidence at some extent solves some financial market puzzles. He stated that Overconfidence in the corporate context affect companies internal financial structure and it also

Dreman, D. N., & Lufkin, E. A. (2000) presented evidence that investor under and overreaction exist and he has urge the major influence is due psychological influence and has also concluded that over and under reaction may be part of the same process.

Gleason, K. C., Mathur, I., & Peterson, M. A. (2004) explained investors herd, or make investment decisions on the basis of information provided by the other investor’s trades. He used intraday data to examine the herding behavior for this researcher reviewed extreme market movement using ETFs and the result shows that investors do not herd during periods of extreme market movement using ETFs.

Ajaz, S., & Gupta, S. (2012) investigated preferences of retail investors and investment decisions in various mutual funds schemes. Data was collected from Jammu & Kashmir and Punjab. The result shows that investment returns, perception
of investors, information sources, investors valuation, investors objectives and investments decisions have significance impact on retail investors preferences.

Al-Tamimi, H. A. H. (2006) identified the factors influencing the UAE investor behaviour. He found six factors which influence factors on the UAE investor behaviour. The most influencing factors were expected corporate earnings, get rich quick, past performance of the firm’s stock. Whereas least influencing factors are expected losses in international financial markets, family member opinion, gut feeling on the economy.

Jain, D., & Thakur, P. (2012) presented interesting information which is collected from 100 individual investors from Udaipur city. He revealed the reason behind popularity of equity and Mutual funds as an investment option among individual investors. And his study showed that there was no relation between Age and Investment Strategy opted by Sample Investors.

Jagongo, A. O., & Mutswenje, V. S. (2014) studied the factors influencing investment decisions at the Nairobi Stock Exchange. Structured questionnaire is used for the purpose of research. Tools used to analyze data are frequencies, mean scores, standard deviations, percentages, factor analysis. The factors that influence individual investment decisions found were: reputation of the firm, firm’s status in industry, expected corporate earnings, profit and condition of statement, past performance firms stock, price per share, feeling on the economy and expected divided by investors.
Jains, D., & Dashora, N. (2012) examined the investment pattern of investors to capital market information and their ability to understand the judgment criteria like rationality and irrationality in investment pattern result shows that investors prefer investing in both primary and secondary market instruments. Most of the decision are rational and influenced by the various information available in market.

Kabra, G., Mishra, P. K., & Dash, M. K. (2010) studied the key factors which influence investment behavior and how they impact risk tolerance and decision making process and he concluded that investor’s age and gender are the factors which decides the risk taking capacity of investors.

Kishore Rohit (2002) analyzed the development of behavioural finance and reviewed stock market and property market behavioural literature and identified the major issues in the property market and which can be solved with the help of behavioural models.

Lovric M., Kaymak, U. and Spronk, J. (2008) presented a model in which investment behavior of an individual investors is measured by the iterative process of interaction between the investor snd the investment environment He suggested that model can be used to build stylized representations of individual investors and further studied using the paradigm of agent-based artificial financial markets.

Jambodekar, M. V. (1996) reviewed the awareness of MFs among investors, to identify sources of information which influence the buying decisions and the know the factors which influence the choice of a particular fund. He found that the income schemes and open ended schemes are more preferred schemes than growth
schemes and close ended schemes during the then prevalent market conditions. Investors look for safety of principal, liquidity and capital appreciation in the order of importance. Further, newspapers and magazines are the first source of information through which investors get to know about MFs/Schemes and investor service is a major differentiating factor in the selection of Mutual Fund Schemes.

Mittal M and Vyas R.K (2007) investigated the relationship between various demographic factors and the investment choices by the investors. Result shows that the factors such as income, education and marital status affect an individual’s investment decision. And he has classified investors in India on the basis of their investment pattern into four dominant investment personalities namely casual, technical, informed and cautious.

Patidar (2010) revealed investment pattern of investors on the basis of age group and income. He observed people from the age group below 35 years are speculator, they actively participate in share market, people from the age group above 55 hesitate to take risk and are not interested in share market. He also found that people from the income group below Rs. 20000 actively participate in investment they investment major amount of income in stock market

Petter Roger Eiving (1970) carried out a study to identify factors which motivate the investment decisions of the investors and the identified factors are (i) Income from dividends (ii) Rapid growth (iii) Purposeful investment as a protective outlet of savings (iv) Professional investment management.
Radhika S. et.al (2012) identified valuable input regarding the investor’s pattern, their preference and priorities which help the organization in designing financial products for the various segments of investors and reasons for investment in mutual fund depends upon the risk return trade off.

Ranganathan (2006) examined the fund selection behaviour of individual investors towards Mutual funds, in the city of Mumbai. He found Mutual fund in India has a large untouched market. This market potential can be judged by investor behaviour by identifying their expectation, express investor’s own situation and risk preference and then apply them on investment strategy

Rastogi Nikhil, Chaturvedula and Bang (2009) studied about the momentum and overreaction phenomena in the Indian Capital markets. The effect of size has also been taken into account by sorting the sample by market capitalization and dividing it into low cap, mid cap and high cap categories

Ratner Mitchell (1994) investigated the behavior and characteristics of the investors in Madrid Stock Exchange. The findings do not support weak form efficiency among the General, Bank, Construction, Investment, Metal-working, and Chemical Indexes. Results of the Utility, Food, and Communications Index tests are not consistent.

Ricciardi Victor and Helen K. Simon (2000), overviewed general principles of behavioral finance overconfidence, cognitive dissonance, regret theory, and prospect theory.
Ritter R Jay (2003), provided with introduction of behavior finance and he concluded that there are two building blocks of behavioral finance are cognitive psychology (how people think) and the limits to arbitrage (when markets will be inefficient).

Rıza Demire, Ali M. Kutan (2005), examined the herd behaviour in Chinese markets for both individual firm and sector-level data. He distinguished between the Shanghai and Shenzhen stock exchanges at the sector-level. Results showed that herd formation does not exist in Chinese markets.

Saranga ranjan (2012) in his research tried to develop and understand the individual investors behavior, he investigated the importance of the different personal needs investors satisfy by investing and determined the level of investment related knowledge and experience which investor possess. Indicated investors motivated to invest and get knowledge to invest in capital market with the help of and share brokers. The behaviour and attitude to invest changed through referring magazines, journals, televisions and expert opinion and market research report.

Shaikh Rehman Arifur et.al (2011) assessed the behaviour of retail investors in Belgaum district of Karnataka state and it reveals that knowledge level significantly leverages the returns on the investments and there is a negative correlation between the occupation of retail investor and the level of risk. This has been identified on the basis of cross analysis by applying Correlation analysis.

Shefrin Hersh (2010) provided a structured approach to behavioral finance in respect to underlying psychological concepts, formal framework, testable hypotheses, and empirical findings. A key theme of this monograph is that the future of finance will
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combine realistic assumptions from behavioral finance and rigorous analysis from neoclassical finance.

Shiller, R.J. (1998) suggested that descriptions of overreaction and under-reaction are not likely to be good psychological foundations upon which to organize a general theory of economic behavior. Cognitive biases inadequately identify the behavioral motivations causing price anomalies.

Shylajan, C. S., & Marathe, S. (2006). Identified the factors responsible for determining the attitudes and trading behavior of investors on the basis of their investing attitude and behaviour, He classified investors into two categories i.e. aggressive investors and conservative investors.

Singh Preethi (1986) disclosed the basic rules for selecting the company to invest in. She opined that understanding and measuring return and risk is fundamental to the investment process. According to her, most investors are 'risk averse'. To have a higher return the investor has to face greater risks. She concludes that risk is fundamental to the process of investment. Every investor should have an understanding of the various pitfalls of investments. The investor should carefully analyse the financial statements with special reference to solvency, profitability, EPS, and efficiency of the company.

Singhal, A., & Bahure, V. (2009) explained the returns in stock market can be attributed to fundamental factors and non fundamental factors. The effect of fundamental factors like P-E ratio, dividends, news about a merger etc. can be explained using current theories in economics. However, there are some non-
fundamental factors whose effect on the stock market is difficult to be explained. Some of these non-fundamental factors that have an anomalous effect on the stock market are the size effect, the January effect, mid-day swoon and the weekend effect.

Anushan S. C. (2011) examined the habits, practices and behaviours in capital market by women investors of Virudhunagar District. Sample chosen for the study is 441 women investors of Virudhunagar District.

Subrahmanyam, A. (2008) reviewed behavioural finance literature. He reviewed the literature in three parts, namely, (i) empirical and theoretical analyses of patterns in the cross-section of average stock returns, (ii) studies on trading activity, and (iii) research in corporate finance. The papers reviewed here allow us to learn more about these specific implications.

Sudip Gupta in his research article “Irrational Minds and Corporate Decision Making” This article looks at how decision making in an uncertain world is influenced by the “biases” of individual investors, which can lead to stock mispricing. Rational corporate managers exploit this by timing their financial and investment decisions. Sometimes the managers are also affected by such ‘irrational’ biases which lead to ‘hubris’.

Sundara & Jansirani, (2012) concluded that small investor’s depends on the advice of leading companies. They found that investors react different during bullish and bearish market conditions. It shows their lack of confidence in their knowledge to decide. He recommended to increase level of awareness and to boost confidence of
rural population by educating them about investment schemes they concluded that investors behave rationally when capital market information arrived.

Sultana. S.T. (2010) studied that the retail investor prefers to invest in those financial products which give risk free returns which shows that Indian investors even if they are of high income, well educated, salaried, independent are conservative investors. He suggested to design new products which are risk free.

Szyska Adam (2008) analyzed how investors’ psychology changes the vision of financial markets and also discussed the various implications towards the new era of finance for capital market practitioners-investors, corporate policy makers and concluded with some thoughts on the future development of the capital market theory.

Tahseen, A. A., & Narayana, S. (2012) observed consumer attitudes from three perspectives: consumer attitudes towards the product (mutual fund), organization (finance companies) and external stimulus. The financial sector particularly the mutual funds in Oman market have shown limited potential to attract consumers. Data was collected from experts in the finance sector from a 200 consumers. He recommended after studying introducing new mutual funds schemes which has significant implications on capital markets in Oman.

Tripathi Vanita (2008) examined the perceptions, preferences and various investment strategies in Indian stock market which are adopted by investors while taking investment decision. Result reveals that the investors use both fundamental as well as technical analysis while investing in Indian stock market.
Varadharajan P., Vikkraman P. (2012), analyzed behaviour of the market participants towards selection portfolio in Indian capital Market with the help of psychological variable. He found factors like price earnings ratio, interest coverage ratio, ROI, dividend, industry sector, size of the company, media coverage stock, brand name, quality management, past price performance, risk appetite, and investment advice from analyst, research report, broker, influence the investment decision of investor.

Vijaya, E. (2014) studied the factors which influence the retail investor's behaviour in Indian stock market. Factor analysis and Cronbach's Alpha was used to find out the determinants of individual investment behavior. The results shows that there are five behavioural factors influencing the investment decisions of individual investors in Indian stock market are Overconfidence, Anchoring, Loss Aversion, Herding and Market factors. Where Overconfidence has high impact and other variables of other factors have moderate impact on retail investors’ investment decision in Indian stock market.

Vishnoi, S., & Gangil, R. (2015) focused on decision making process of investors while choosing investment to meet their level of risk. Result showed that investors display risk-seeking behavior and avoid selling stocks when faced with loss and investors display risk aversion behavior with the objective of steady income and short term they avoid to invest after incurring loss.

Wang. J. Y. (2012) collected from Taiwan samples and constructs indicators representing the investment behaviour of individual and institutional investors to analyze the short-term and long-term share price performances of IPOs. The results showed that active purchasing by individual investors has positive influence on IPO
share prices. The investment behaviour of individual investors explains why IPOs have positive returns in the early days of issue, but negative long-term returns.

Warne, D.P. (2012), studied the behaviour of retail investor in stock market, he studied factors which affect different investors (in term of age group, education, income etc.) specifically their attitude and perception with respect to the stock market. He surveyed and found that the annual income and the annual saving are given importance because the level of income decides the level of saving, and other factors which affect the investment behaviour of individual investors such as their awareness level, duration of investment etc. He found that due to lack of information and expertise investment decision is affected.
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2.2 Note Worthy Contribution in the field of proposed work

After reviewing number of articles it was found that these are the remarkable contribution in the field.


- Chandra (2008), explored impact of behavioural factors and investor’s psychology on their decision-making, and examined the relationship between investor’s attitude towards risk and behavioural decision-making. Data collected for research was secondary. Research reveals individual investors do not always make rational investment decisions and explains the influence of investment decision by various behavioural factors like greed and fear, Cognitive Dissonance, heuristics, Mental Accounting, and Anchoring and considered these factors while making investment decisions.

- Cuong, P. K., & Jian, Z. (2014). Studied the Theory of planned behavior (TPB) for exploring factors influencing individuals’ investment behavioral intention in the Vietnamese stock market. Evidences shows four psychological factors (overconfidence, excessive optimism, psychology of risk and herd behavior) have significant impact on the individuals’ attitude towards investment.
Kengatharan, L., & Kengatharan, N. (2014). Studied four behavioral factors which affect the investment decisions of individual investors at the Colombo Stock Exchange and the variable used for the research are Herding, Heuristics, Prospect and Market. Results revealed Most of the variables from all factors have moderate impacts whereas anchoring variable from heuristic factor has high influence and choice of stock variable from herding factor has low influence on investment decision.

Kimani, V. W. (2011). Concluded that there are five behavioural factors namely Herding, Market, Prospect, Overconfidence-gamble’s fallacy, and Anchoring-availability bias. Those highly impact the investment decisions of individual investors at the Nairobi securities exchange.

Luong et.al (2011), studied impacts of behavioral factors on the investment decisions and performance of individuals at the Ho Chi Minh Stock Exchange 6-point measurements scale was used to test the consistency and reliability by Factor Analysis and Cronbach’s Alpha. Results revealed that only three factors namely prospect heuristic nad herding have impact on investment performance.

Prosad, J. M. (2014). Investigated the impact of four behavioral biases in the Indian equity market namely optimism, herd behavior, overconfidence and the disposition effect, study reveals that herd behavior persists only in a bull phase and due to more herding dispersion results in negative effect where as overconfidence and the disposition effect increase the market and individual security transaction volume respectively.
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- Subhash Rahul (2010), investigated the rationality of average individual investor participants in the Indian Stock Market. For study nine behavioural biases are identified: Overconfidence, Representativeness, Herding, Anchoring, Cognitive Dissonance, Regret Aversion, Gamblers’ Fallacy, Mental Accounting and Hindsight Bias. An effect of behavioural biases on the investors’ decision of portfolio investors in Kerala was analyzed. Likert Scale is used and SPSS is used to calculate Discriminant Analysis, Weighted Scoring, and Chi-squared Tests which were employed to analyze the data. Results shows that behavioral biases played a significant role in the losses suffered during the crisis (2007-2009) by both the young and experienced investors.

- Ul Hassan, E., Shahzeb, F., Shaheen, M., Abbas, Q., & Hameed, Z. (2013). Studied the impact of three behavioural variables: heuristic, fear and anger on investment decision making. CFA is used to determine the validity of these variables. Result shows that all items of affect heuristic, anger, fear and investment decision making are valid.
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