CHAPTER VI

SUMMARY, FINDINGS AND CONCLUSION

In this final chapter, a brief summary of the present research is presented. Subsequently, the major findings emerging from the analysis of data is made. Apart from the conclusion of this study, certain implication for future research is also discussed.

6.1 SUMMARY

Investment decision-making of individual investors can be conceptualized as a complex decision-making behaviour. Investment decisions of investors are influenced by rational or irrational factors which contribute to efficiency or inefficiency of security markets. The inefficiency is generally contributed to behavioural biases of investors. This study on ‘Attitude, Intention and Trading Behaviour of Individual Investors’ has been carried out to explain the underlying factors that affect the investment decision and trading behaviour of individual investors by using basic premises provided by the Theory of Reasoned Action and the Theory of Planned Behaviour.

It has been observed that individual investors indulge in excessive trading (Barber and Odean, 2000)\(^1\) and often to their detriment. Though frequent trading may be profitable for brokerage firms, it is not profitable for most individual investors. The more actively investors trade, the less they earn (Barber and Odean, 2000)\(^1\). Hence, this study is carried out to specifically answer research questions related to factors affecting individual investor’s trading behaviour especially trading frequency and the impact of these factors on attitude, intention, and trading behaviour.
The primary objective is to study the impact of personality, social, cognitive factors, risk tolerance level, and demographic factors on trading behaviour of individual investors. The descriptive method of research is adopted for this study. Primary data is collected using a structured questionnaire. The questionnaire captured the demographic and trading characteristics of the respondents, risk tolerance levels, personality factors, social factors, cognitive factors, attitude, perceived behavioral control, subjective norms and intention of the respondents. The study is carried out among active traders in the city of Coimbatore. Snowball sampling is used to identify the respondents. The sample size consists of 455 respondents. Statistical tools like correlation, multiple regression, path analysis, step-wise logistic regression, chi-square and ANOVA are used for analysis. The findings of the study are presented below.

6.2 FINDINGS

Investors profile indicate that majority of the respondents comprised of male, married, possess post-graduate qualification and engaged in business with an average income of Rs. 6,50,000 p.a. The mean age of respondents is 53.5 years.

With respect to the trading characteristics of the respondents, majority of the respondents traded online at home with average trading experience of 1.91 years. Further, majority of respondents are involved in ‘day trading’ with an average capital investment of Rs.5.75 lakhs. It is noted that majority of the respondents have not undergone a formal training in trading.

6.2.1 Risk Tolerance levels

Majority of the respondents are found to be aggressive risk takers. It is found that males have more risk tolerance when compared to female respondents. Also, respondents
aged above 50 years and are found to be more risk tolerant and aggressive. With regard to
the marital status, it is found that married respondents have high risk tolerance than
unmarried respondents. Further, respondents with high educational qualification are more
risk tolerant. Respondents who are engaged in full time trading are more risk taking in
nature than those who are in the category of business, salaried or professionals. Also,
respondents in high income category have high risk tolerance than respondents in lower
income category. Hence, there exist a significant relationship between demographic factors
and risk tolerance levels.

6.2.2 Attitude towards trading

A significant relationship exists between all the personality factors and attitude
towards trading. This implies that the factors such as self-esteem, emotional experience,
ambitious, self-efficacy, internal orientation, stress management, and active involvement
have a positive effect on the attitude towards trading. Among the personality factors, self-
efficacy has a high positive correlation co-efficient with attitude towards trading followed
by self-esteem, active involvement, and ambitious. Other factors such as ‘emotional
experience’ and ‘stress management’ exhibited low positive correlation and the factor
‘internal orientation’ indicated a very low positive correlation with attitude towards
trading. From multiple regression analysis, it is found that personality factors account for
78.9% of variance in attitude towards trading. Among the personality variables, self-
esteeem, self-efficacy and stress management are found to be the major influencers of
attitude towards trading.

A very high positive relationship is found between social interactions and attitude
towards trading. On the other hand, influence of media over attitude towards trading is
found to be low. Finally, the factor ‘internet’ does not seem to influence the respondents’ attitude towards trading. Further, social factors accounted for 79.8% of variance in attitude towards trading. Among the social factors, social interaction is found to have major impact on attitude towards trading followed by media.

Regarding cognitive factors, it is found that the factors such as self-confidence, herd behavior, self-attribution, excess sensitivity to rumours, over optimism, availability heuristics, illusion of control, and mental accounting have positive relationship with attitude towards trading. However, the positive relationship is insignificant in the case of ‘excess sensitivity to rumours’. Anchoring showed negative insignificant relationship. Multiple Regression results reveal that the cognitive factors account for 75.4% of variance in attitude towards trading. Among the cognitive factors, herd behaviour, over-confidence, and self-attribution are found to have major positive impact on attitude towards trading. Conservatism and familiarity bias are found to have major and significant negative impact on attitude towards trading followed.

The correlation coefficient between risk tolerance level and attitude towards trading is found to be positive and could explain 41.08% of variance in attitude. As the ability to risk tolerance increases, the attitude towards trading tends to be favourable. A significant relationship exists between risk tolerance and attitude towards trading.

It is found that demographic factors such as gender, age, marital status, education, occupation and annual income have significant association with attitude towards trading.

From the multiple regression analysis, it is found that 84.5% of attitude towards trading could be explained by the independent variables risk tolerance, demographic,
personality, social and cognitive factors. Cognitive factors have been found to have a major impact on attitude towards trading followed by personality factors, risk tolerance levels, social factors and demographic factors.

6.2.3 Intention towards trading

A strong positive correlation exists between attitude and intention towards trading. Further, perceived behavioral control is found to have a moderately positive correlation with intention towards trading. Contrary to the above, subjective norms are found to be negatively related with intention towards trading. It is also found that 85.2% of the variation in intention towards trading could be accounted for the independent variables such as attitude, perceived behavioural control, and subjective norms.

6.2.4 Trading Behaviour

It is found that the correlation coefficient between trading behaviour and intention towards trading is highly positive. Also, a strong positive relationship exists between risk tolerance and trading behaviour which depicts that as the risk tolerance increases in an individual, his trading frequency also increases. Aggressive investors are found to trade more frequently.

There is significant difference in the trading behaviour of the respondents based on demographic factors.

From the multiple regression analysis, it is found that 60.8% of trading behaviour could be impacted by demographic factors, intention and risk tolerance. Further, intention towards trading is found to have higher impact on trading behaviour.
6.2.5 Direct and Indirect effects of the variables relating to attitude, intention and trading Behaviour: Results of Path Analysis

Regarding the direct effect of the exogeneous variables on the endogeneous variables, cognitive factors and personality factors have the major impact on attitude towards trading; attitude is found to be the dominant factor on intention towards trading and intention exerts greater influence on trading behaviour of individual investors.

In case of indirect effects of the exogeneous variables on the endogeneous variables, there is no indirect effect on attitude by other variables. But intention has major indirect effects from cognitive factors and personality factors. Similarly, trading behavior has major indirect effects from cognitive factors.

The total effect of the exogeneous variables on the endogeneous variables is given below as structured equations.

\[
\text{Attitude} = 0.126 \text{ (risk Tolerance)} + 0.104 \text{ (Demographic Factors)} + 0.471 \text{ (Cognitive Factors)} - 0.119 \text{ (Social factors)} + 0.446 \text{ (Personality Factors)}
\]

\[
\text{Intention} = 0.095 \text{ (Risk Tolerance)} + 0.078 \text{ (Demographic Factors)} + 0.092 \text{ (Subjective Norms)} + 0.371 \text{ (PBC)} + 0.356 \text{ (Cognitive factors)} - 0.090 \text{ (social factors)} + 0.337 \text{ (personality factors)} + 0.757 \text{ (attitude)}
\]

\[
\text{Trading behavior} = 0.257 \text{ (Risk Tolerance)} + 0.229 \text{ (Demographic Factors)} + 0.046 \text{ (Subjective Norms)} + 0.186 \text{ (PBC)} + 0.179 \text{ (Cognitive factors)} - 0.045 \text{ (social factors)} + 0.169 \text{ (personality factors)} + 0.380 \text{ (Attitude)} + 0.503 \text{ (Intention)}
\]
6.2.6 Predictors of Attitude towards Trading and Trading Behaviour

Using step-wise logistics regression, it is found that three personality factors namely stress management, ambitious, emotional experience could predict attitude towards trading. Also, social interactions and media are found to predict the attitude towards trading. Among cognitive factors, overconfidence, and self-attribution could predict attitude towards trading as they have a higher impact on attitude towards trading. Considering the demographic factors, employment, annual income, and education are found to predict attitude towards trading. Further, trading experience and participation in formal course could predict attitude towards trading.

Regarding trading behaviour, it is found that four demographic variables namely gender, marital status, age, and education are found to predict trading behaviour. Also, participation in formal course, capital invested, mode of trading, trading place, and trading type could predict trading behaviour of individual investors.

6.3 CONCLUSION

The study on ‘Attitude, Intention and Trading Behaviour of Individual Investors’ has proposed a conceptual framework that incorporates the factors influencing trading behaviour, the Theory of Reasoned Action and the Theory of Planned Behaviour. The findings of the study have shown that such a conceptual framework is able to explain the path from personality, social, cognitive, demographic, and risk tolerance factors to attitude, intention and finally trading behaviour of individual investors.

This study has focused on the factors influencing trading behaviour especially trading frequency of individual investors. The study has led to the construction of a model that explains the trading behaviour of individual investors. The results of this study
show that individual investors are prone to various behavioural biases and hence, make irrational decisions. Practically, the findings of this study offer implications for financial consultants, policy makers and individual investors to adopt best trading practices.

6.4 IMPLICATIONS FOR FUTURE RESEARCH

Firstly, the sample is limited to Coimbatore city only. Taking into consideration, the vast population and differences among the people of India, this is a smaller sample. Therefore, future studies should focus on larger samples and probably across the country which may reveal a better picture on individuals’ trading behaviour.

Secondly, this study has been carried out among individual investors only. Future researches might study trading behaviour of various types of investors like institutions, mutual fund managers etc and their impact on financial markets. Also the interaction between different types of investors and their influence in trading decisions could be researched.

Thirdly, the study has been carried out with select variables identified by the researcher. However, there may be other factors which may have significant influence on investors trading behaviour. Some examples include present economic conditions, financial literacy level, and the different investment objectives. Therefore, future research may include these suggested variables in order to increase the robustness of the findings.

Fourthly, longitudinal research studies can be carried out to study individual investors’ trading behaviour. Studies pertaining to individual investors’ behavioural changes over market ups (bull) and market downs (bear) could be studied.

Fifthly, this study did not focus on the economic aspects that influence the trading behaviour of individual investors. Hence, researchers might examine both the rational
and irrational factors affecting trading decisions. Sixthly, cross country studies on trading behaviour of different types of investors could be carried out.

Lastly, future research studies could include more detailed characteristics such as the trading volume and profit or loss made inorder to study trading behaviour of investors which is not carried out in this study.

References