

Studying the impact of Investor sophistication on the attitude towards the restricting factors while investing in secondary equity market: A study in NCR region

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Abstract: *The research aims to study the difficulties and problems experienced by the Indian retail investors while investing in secondary equity market. The problems and difficulties are important to understand as more the difficulties; the investor will gain a negative perception of the market. The study is descriptive in nature and followed the survey analysis through questionnaire. Using SPSS, ANOVA analysis was conducted to identify whether the investor perception about the difficulties encountered differ with the exposure to the market. The study tries to differentiate the nature and extent of the difficulty or problems faced by the Indian retail investor. Investors were segregated on the basis of their investing activity actual or potential. The paper observed that to the extent of investing process difficulties sophistication plays no role but when the actual market conditions are compared, sophistication do play the role.*

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Keywords: *Difficulties investing, Attitude, Behavioral Finance, Equity Market*

"Many of the mistakes investors make come from a lack of any understanding of the innate disadvantages they face." Terrance Odean

I. INTRODUCTION

The behaviour of stock market is highly unpredictable and is too sensitive to even to a minor news announcement. Every participant in the market tries their level best to outperform the market. When we talk of the participants in the stock market they range from FII's, HNI's Hedge Funds, Mutual Funds, Insurance Companies, Government Agencies and finally the retail investors. The retail investor, in front of all the other stock market participants stands at a very small position and occupies a back seat. The "quantum investors" i.e. the large players are highly sophisticated in terms of their quantum of investment, trading techniques availability of analytical techniques and highly sophisticated software. The "quantum investors" possess a team of intelligent and analytical financial advisers working round the clock with the aim of outperforming the market. Retail investor in comparison to the "quantum investors", stands in the stock market with their miniscule amount, less sophistication in terms of analytical techniques and software and paucity of time to track the market (until & unless involved in the profession). All these factors make it difficult for the retail investor to outperform in the stock market. Along with the technical glitches that a retail investor faces; retail investors are also believed to have psychological biases and are often thought of as the proverbial noise traders in the sense of Kyle (1985) or Black (1986).

II. LITERATURE REVIEW

Problems experienced during investing varied across different investor categories. **Yang Ann Shewing (2013)**, studied the factors restricted the Taiwanese retail investors from secondary equity market. Investors' confidence and information gathering ability affected decision making in turn affected by gender and maturity. Investors were more confident in technical analysis but less in trading regulations. Unreliable media and professional sources, low income level and the relative confidence and ability to gather information were main deterrent factors. **Robert Laura (2010)** identified inability of the investors to find the information valuable for analysis during stock selecting, as well unawareness of the information processing techniques. John, in his blog mentioned that average investor feels - that investing is too complex and the entry bar is set too high for average investors to see success. Unaware and less informed investor feels investing to be a gambling activity and mentioned that investing realm that can be difficult, depending on the level of investment knowledge. The author suggested the ways through which the investor can succeed in the stock market. The investor must first learn the trading strategies by educating self and follow the strategy of "learning by doing". **Smith Thomas (2012)**, mentioned Presence of emotion and gut feeling as major deterrent in the process of investing. In few

cases, weakness in mathematical analysis acted as restricting factor. **Garcia-Retamero, RocioGalesic, Mirta (2013)**, identified the acceptability of the advisors among different functional areas of like i.e. health, career and money and observed delegated decision making about their health whereas collaborate or active role in decision making about their career or money. **Van Swol, Lyn M. Sniezek, Janet A. (2005)**, through Experimental study examined five factors that could increase utilization of expert's advice specifically by the judge: judge's trust in the advisor, advisor confidence, advisor accuracy, judge's prior relationship with the advisor, and judge's power to set payment to the advisor. After establishing the regression of all the five factors advisor's confidence was observed to be most significant factor in establishing the relationship. **Bruce Brian (2002)** studied that If the expert analyst has much more to gain from issuing one type of recommendation than another, the opinion will be biased and inaccurate, the reason behind **David Dreman (2002)** career pressures, fear of issuing sell recommendations. Unsound advice avoids investors.

Research Gap: The studies done earlier were focussed on Non Indian Investors; as well the researches did not address the problem or difficulties the stock market investors specifically and collectively encountered. The current research projects light on the perception of existing and potential retail investor regarding the problems actually or perceived to be encountered while making investment in secondary equity market. The study also focused on studying the impact of investor sophistication and the problems and difficulties experienced and perceived.

III. RESEARCH METHODOLOGY

The research paper aimed at studying the attitude of the respondents towards the problems/ difficulties that a retail investor (perceived or actually experienced) while he/she invested in secondary equity market. Does the investor sophistication impact the actually experienced and perceived difficulties or problems?

The study was descriptive in nature. Questionnaire Survey was conducted to collect the data. The respondents were asked to rank the statements on 5 point Likert scale based on the frequency of encounter with the problems or difficulty. After formation of the questionnaire, the validity of the statements was judged and an internal consistency was calculated from Cronbach alpha, the value of Cronbach alpha was .766. Analysis of the questionnaire i.e. hypothesis was tested using ANOVA analysis. The software used were MS Excel 2010 and SPSS 19.0.

The study identified factors primarily responsible or the difficulties with maximum likelihood that created a feeling of resistance among the retail investor from investing in the stock market. Through literature review and general observation 9 situational factors were identified that created a feeling of resistance among the retail investors. The problems and difficulties were judged on the basis of their frequency of occurrence, or the times the difficulties are encountered by the investors. The difficulties were categorized on the basis of process of investing and the difficulties faced when actual investment is done.

- i. Unable to identify the profitable shares : Process
- ii. Unable to predict the market movement : Process
- iii. Unable to identify the factors responsible for market movement: Process
- iv. Invested earlier but incurred losses.: Actual
- v. Saw others suffering losses: Actual
- vi. Market movement is irrational in nature: Actual
- vii. Not enough time to perform the analysis to select a share: Actual
- viii. Fear of being manipulated by large players: Actual
- ix. The advice from the financial advisor is not dependable.: Process

Research was conducted among the residents of NCR region. The questionnaire was targeted to two different sets of respondents sophisticated and unsophisticated i.e. experienced and inexperienced. The inexperienced respondents were not actually involved in secondary equity market investment while the experienced respondents were the investors actually investing in the secondary equity market. The numbers of respondent were expected to be 650, while the total number of response received were 507 indicating the response rate of 78%. Looking among the two categories the percentage if responses were for student: 52.8 % and Working: 47.2%. Later the two groups were compared by applying ANOVA analysis. The entire work is performed on the SPSS 19.0 version.

IV. HYPOTHESIS

Investor sophistication had no impact towards the perception of difficulties or problems encountered while investing in secondary equity market.

V. RESEARCH RESULTS

On the basis of the ANOVA analysis, the two groups presented mixed view points about the problems or difficulties encountered. While analyzing the results it was identified that the sophisticated and unsophisticated investors expressed no difference about the difficulties while following the investment process like identifying share, identifying market, factors affecting the market movement and reliability of financial advisor. The two groups exhibited difference of opinions when it came to understanding the difficulties when investing actually. The ANOVA table reported the significant as well as insignificant values expressed difference among the groups. The two groups of respondent differed on the basis when it comes to making actual investment. The hypothesis is accepted on the basis of the rule when significant value is less than .05. The significant value of Statements 1, 2, 5, 8 is more than .05 concluding that the mean of the two groups is not different and thus exhibiting no difference in opinion among the respondents. It was observed that the sophisticated and unsophisticated investors indicated no significant difference when asked about difficulty in identification of profitable shares, prediction of market movement, paucity of time Upon conducting the crosstabs analysis, indicated that both the category of investor indicated an average higher frequency towards inability of identification of profitable shares, same was with prediction of market movement, and both the category of respondents indicated paucity of time to be a major deterrent.

For the statements 3,4,6,7 and 9, the significant value came to be less than .05 and thus rejected the Null hypothesis that the two categories did not differ in their opinion.

ANOVA Table for Statements:

		ANOVA				
Statement		Sum of Squares	Df	Mean Square	F	Sig.
1. It is difficult to identify the profitable shares	Between Groups	.544	1	.544	.497	.481
	Within Groups	552.202	505	1.093		
	Total	552.746	506			
2. It is difficult to predict the market movement	Between Groups	3.131	1	3.131	2.955	.086
	Within Groups	535.200	505	1.060		
	Total	538.331	506			
3. No user friendly software is available for analysis	Between Groups	69.593	1	69.593	62.231	.000
	Within Groups	564.738	505	1.118		
	Total	634.331	506			
4. Unable to identify the factors responsible for market movement	Between Groups	5.767	1	5.767	5.467	.020
	Within Groups	532.777	505	1.055		
	Total	538.544	506			
5. experienced losses from investing in shares	Between Groups	1.109	1	1.109	.810	.369
	Within Groups	691.731	505	1.370		
	Total	692.840	506			
6. Saw other investors suffering losses.	Between Groups	7.158	1	7.158	7.016	.008
	Within Groups	515.233	505	1.020		
	Total	522.391	506			
7. Market movement is irrational in nature	Between Groups	8.451	1	8.451	8.522	.004
	Within Groups	500.838	505	.992		
	Total	509.290	506			
8. Not enough time to perform the analysis to select a share	Between Groups	.399	1	.399	.308	.579
	Within Groups	654.346	505	1.296		
	Total	654.746	506			
9. Fear of being manipulated by large players	Between Groups	15.025	1	15.025	10.963	.001
	Within Groups	692.123	505	1.371		
	Total	707.148	506			
10. The advice from the financial advisor is not dependable	Between Groups	4.527	1	4.527	4.296	.039
	Within Groups	532.171	505	1.054		
	Total	536.698	506			

When the respondents were asked about the unavailability of the analysis software, the cross tab analysis indicated that the unsophisticated investors observed the difficulty more frequently than sophisticated, indicated that unawareness among the non investors. The unsophisticated investors indicated high frequency that they would be not able to identify the factors responsible for market movement.

When the respondents were asked about what are the chances that the after seeing others suffering losses a reason for them to not invest, the sophisticated investors indicated higher frequency (58%) occurrence of the event than the unsophisticated one's. Investors not invested in secondary equity market indicated less likelihood (47%) of people stay away from the market after seeing other suffering losses.

Respondents were asked to share their opinion that how frequently they felt that investors show no interest in the secondary equity market because of the fear on being manipulated by big players, higher percentage (61%) of unsophisticated investors indicated higher frequency, outsider to the market felt that secondary equity market is the place for big investors while the active investors did not felt so and indicated an option that the market is well protected and all the investors could generate profit from the market. Belief in the financial advisor was also tested; the analysis indicated a difference in opinion with higher percentage of unsophisticated investors indicated that the financial advisors are not trust worthy, but the sophisticated investors though not indicated an inclination towards high occurrence but a higher percentage agreed non reliable financial advisor to be an occasional event.

VI. RESEARCH CONTRIBUTION& SUGGESTIONS

The paper contributed by providing insight about the Indian retail investor. The paper exhibited the opinion of the investor in terms of difficulties faced while investing in the stock market. Does the sophisticated (experienced) investor differ in the perception of the difficulties encountered with their unsophisticated (inexperienced) investors? It is the initial work done to identify and rate the difficulties in a composite manner.

Suggestions:

Brokerage Houses must spread awareness among the unsophisticated investors about availability of the analysis software and must build a trust relationship between the investors and financial advisors. The analysis included students also to seek opinion so for making the student's better investor, it is important to make them understand the Behavioral biases and "Market movement is irrational" they would encounter while investing in real time environment. Time management is important as investing in stock market requires quick update and at this juncture mobile apps trading must be encouraged as one of my other paper of "Smart Investing" talks about that the app technology is still not preferred.

Limitation of the study:

1. The study was only confined to the residents of NCR region, so results cannot be generalized.
2. The analysis did not include the analysis based on demographic analysis like gender age and income wise problem identification, it was only restricted to whether the respondent is actually investing in the stock market or not.
3. More difficulties / problems could be identified and studied.

Research Scope:

1. The paper identified the problems which could be studied in other regions also.
2. Effect of the other demographic variables could also be studied on the current research.
3. More details in order to study the sophistication of the investor could also be included like years of investing, proportion of portfolio etc.

Real and actual world are two different territories, the theories learnt during the class room sessions and many conceptions are framed are useful but when an individual gains real world experience. The study identified the difference in the perception of the retail investor when categorized as experienced and inexperienced, the two showed no difference to the extent that they face when following the investment process but differ when it comes to actual market conditions.

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