

A COMPARATIVE STUDY ON INVESTMENT DECISION

A.AMANI

Master's Of Business
Administration (Finance)
Marri Laxman Reddy
Institute and Management
Dundigal,
Hyderabad,Telangana.

Dr. K. VEERAAIAH

Head of the Department
Marri Laxman Reddy
Institute and Management
Dundigal,
Hyderabad,Telangana.

MS.O.AYEESHA

Department of
Management Studies
Marri Laxman Reddy
Institute and Management
Dundigal,
Hyderabad,Telangana.

ABSTRACT

This article attempts to identify differences in perception for the seven most prominent behavioral biases between two groups of individual investors: (a) experienced and (b) new to the market investors in investment decision-making. Primary data have been collected from the active individual stock market participants from the four states of India, namely, Jharkhand, Bihar and West Bengal. Findings of this study suggest that respondents have a similar perception for availability bias, representativeness and emotional contagion while the other four factors such as herding, informational cascades, anchoring and overconfidence show significant discrimination in investment decision-making between the two groups of investors. Herding is identified as the most discriminatory factor for investor groups.

Keywords -Behavioral finance, stock market, psychological biases, social influence, market, efficiency.

Introduction

Since the 1990s, the inclination of financial researchers and practitioners has been shifted from traditional financial models to the behavioral perspective of stock market participants. Unlike traditional models, behavioral theories advocate that the financial market reacts largely on the influence of investors' psychological process, as well as their social interactions. Most of the studies have documented that the concept of investors' rationality and market efficiency have discernible shortcomings due to the evidence of the anomalies in most of the financial markets. Sometimes markets react to the extreme with relatively little information and sometimes remain stagnant even with a serious warning, and ultimately this vo.actions are the replica of human behavior. Therefore, it is found reasonable to account for investor thoughts, emotions and actions in investment decisions and not the ideology of their rational investment behavior at every point of time.

Traditional finance, based on the hypothesis of an efficient market argues that the participating agents are rational who, first, update their knowledge correctly and, second, make choices that are normatively acceptable. Therefore, securities prices incorporate all the relevant information as it is available to them, and due to this securities prices reflect the intrinsic value at all the time. Unfortunately, after years of efforts, it has become clear that individual trading behaviour is not easily understood in this framework. Bernstein proposed, 'evidence reveals a repeated pattern of irrationality, inconsistency, and incompetence in the way human being arrived at decision and choice when faced with uncertainty'.

Individual's cognitive ability to perceive the information largely depends on the specific sources of information, which, however, plays a vital role in differentiating their opinion and decision-making. Daniel, Hirshleifer, and Subramanyam (1998) stated that investors overreact to private information and under react to the public. The behavioral perspective of individual investors' decision-making is based on the number of cognitive biases which are mainly the results of socio-psychological factors. Moreover, the neuroscience has also been implemented to show the irrationality of investors. Slightest change in the preconceived states can stimulate the individual emotions and cause to change their decision, mostly abruptly, and deviated from well-planned rational choices. Even a casual observation shows that human beings behave, especially in the stock market, vastly different from what economic theories predict.

Literature Review

These days almost everyone is investing in something... despite the fact that it's a savings account at the neighborhood bank or a checking account the earns hobby or the house they offered to stay in.

However, many people are crushed after they being to do not forget the concept of making an investment, let alone the laundry list of choices for funding vehicles. Even even though it could appear the each person and their brothers knows precisely who, what and when to invest in with a view to make killing, please don't be fooled. Majorities of investor normally leap on the cutting-edge funding bandwagon and likely don't recognize as lots about what's obtainable as you think.

The investment option earlier than you're many. Pick the right funding device based totally on the risk profile, circumstance, time to be had etc. if you feel the marketplace volatility is something, which you can live with then purchase shares. If you do not need hazard, the volatility and surely desire some profits, then you definitely should consider constant profits securities. However, take into account that threat and returns are directly proportional to each other. Higher the chance, higher the returns.

TYPES OF INVESTMENT OPTIONS

A short preview of various funding alternatives is given below:

Equities: Investment in stocks of organizations is investing in equities.

Stocks may be delivered/offered from the exchanges (secondary marketplace) or via IPO's – Initial Public Offerings (primary market place). Stocks are the greatest long-term investment options in which the marketplace stability and the resulting threat of losses, if particular sufficient time, are mitigated with the aid of the overall upward energy of the economy. There are two streams of revenue time from this investment.

1.Dividend: It termed as constant bills made outstation's profits.

2.Growth: The charge of the stock appreciate adequate to the increase post by using the employer consequent in capital appreciation.

On a denote, an investment in equities inside India has a return of 25%. Good portfolio control, particular timing may ensure a go back of 40% or extra. Picking the right inventory

at the proper time would guarantee that your capital profits i.e. growth in market fee of inventory possessions, will rise.

Bonds: It is a hard and fast profits (debt) tool issued for a length of a couple of 12 months with the reason of elevating capital. The critical or state authorities, groups and comparable institutions promote bonds. A bond is typically a promise to repay the main along with fixed price of hobby on a particular time, referred toward as the adulthood date. Other fixed profits contraptions include financial institution deposits, debentures, choice stocks etc.

The average fee of return on bond and securities in India has been round 12-15% p.A.

Mutual Fund: These are open and close-ended funds operated with the aid of an investment organization, which raises cash from the public and invests in a collection of property, in accordance with a stated set of objectives. It is a substitute for individuals who are unable to make investments immediately in equities or debt due to resource, time or understanding constraints. Benefits consist of diversification and professional cash management. Shares are issued and redeemed on demand, based totally at the funs net asset value, which is determined at the cease of each buying and selling session.

ABOUT EQUITY INVESTMENT

Stocks are reserves that constitute ownership or equality in a employer. while you purchase stocks, you've got an ownership gain. However enterprise are entitled to a part the business enterprise's earnings and belongings. Stock buyers call shareholders or stockholders make cash while stock increases in cost or while the enterprise the issued the inventory can pay dividends, or a portion of its profits, to its shareholders.

Some agencies are privately held, which funds the share are to be had to a constrained range of people, inclusive of the agency's founders, its employees, and buyers who fund its development. Other companies are publicly traded, because of this their stocks are available to any investor who wants to shop for them.

Types Of Stocks

With heaps of various stocks buying and selling on U.S. And global securities markets, there are stocks to suit each investor and to complement each portfolio.

For instance, some shares stress growth, even as others offer earnings. Some shares flourished during growth time, while others may help insulate your portfolio's cost in opposition to turbulent or depressed markets. Some shares are pricey, at the same time as others are comparatively cheaper. And some stocks are inherently volatile, even as others have a tendency to be greater strong in value.

Growth & Income

Some shares are taken into consideration increase investments, whilst others are taken into consideration price investments. From an making an investment perspective, the exceptional evidence of increase is an increasing rate over time. Stocks of organizations that reinvest their income rather than paying them out as dividends are often taken into consideration capability boom investments. So are stocks of young, speedy expanding companies. Value shares, in

evaluation, are the shares of corporations that problems, have been beneath appearing their ability, or are out of style with traders. As result, their charges tend to be decrease than appears justified, though they will nevertheless be paying dividends. Investors who seek out price stocks anticipate them to stage a comeback.

P/E ratio

A famous indicator of a stock's increase ability is its fee-to-profits ratio, or P/E – or multiple – will let you gauge the rate of a stock on the subject of its income. For instance, a inventory with a P/E of 20 is buying and selling at a charge 20 times better than its earnings.

A short P/E be able to live signal that a organization is a bad investment danger and that its income are down. But it may additionally indicate that the marketplace undervalues a company due to the fact its stock charge doesn't replicate its earnings capability. Similarly, a stock with a high P/E may stay up to investor expectancies of continuing boom, or it can be overvalued.

Investor call

People buy a inventory after they agree with it's a terrific funding, using the stock charge up. But if people assume a enterprise's outlook is terrible and either don't invest or sell stocks they already own, the inventory rate will fall. In effect, investor expectancies determine the fee of a stock.

For instance, if plenty of investors buy inventory A, its price can be determined up. The stock become more expensive due to the reality the demand is more. If a variety of investor promote inventory A, its price will fall. Similarly the inventory cost fall, the buyers sell it off, using the payment down.

OBJECTIVE OF THE STUDY

The number one goal of the project is to form an analysis of assorted investment decisions.

The purpose is to match

e the returns given through numerous funding decisions. To cater the diverse wishes of investor, these alternatives are also in comparison at the concept of varied parameters like safety, liquidity, danger, entry/exit barriers, etc.

To inspect the significance of capital budgeting in comparing the undertaking for venture finance.

To check the approach of capital budgeting for selection –making.

To measure this price of rupee invested.

To apprehend an item wise examine of the company economic overall performance of the company.

To make suggestion if any for enhancing the monetary position if the company.

RESEARCH METHODOLOGY

Equities, Bonds, Gold, Mutual Funds and life guarantee had been identified as main varieties of investment selection.

The primary information for the task regarding funding and numerous funding DECISIONS were accumulated via interactions had with the workers inside the enterprise i.e. HDFC.

The secondary data for the task regarding investment and numerous funding DECISIONS had been collected from websites, textbooks and magazines.

Primary technique: This method includes the data gathered from the non-public interaction with authorized contributors of HDFC Ltd.

Secondary method: The secondary information collection method includes:

Then the averages of returns over a length of 5 years are taken into consideration for the purpose of contrast of funding alternatives. Then, essential appraisal is formed on sure parameters like returns, safety, liquidity, etc. Giving weight age to the diverse sort of wishes of the investors then multiplying an equivalent with the values assigned does this.

HYPOTHESIS:

1. There'll not be a big relationship between the academic heritage and therefore the Sources of economic records of the investors.
2. There'll not be a massive dating between the educational heritage and therefore the funding know-how of the traders.
- three. There'll not be a massive dating between the educational historical past and therefore the options of investment avenues of the buyers.

THEORETICAL CONCEPT:

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DATA ANALYSES AND INTERPRETATION

PERFORMANCE ANALYSIS OF RETURNS

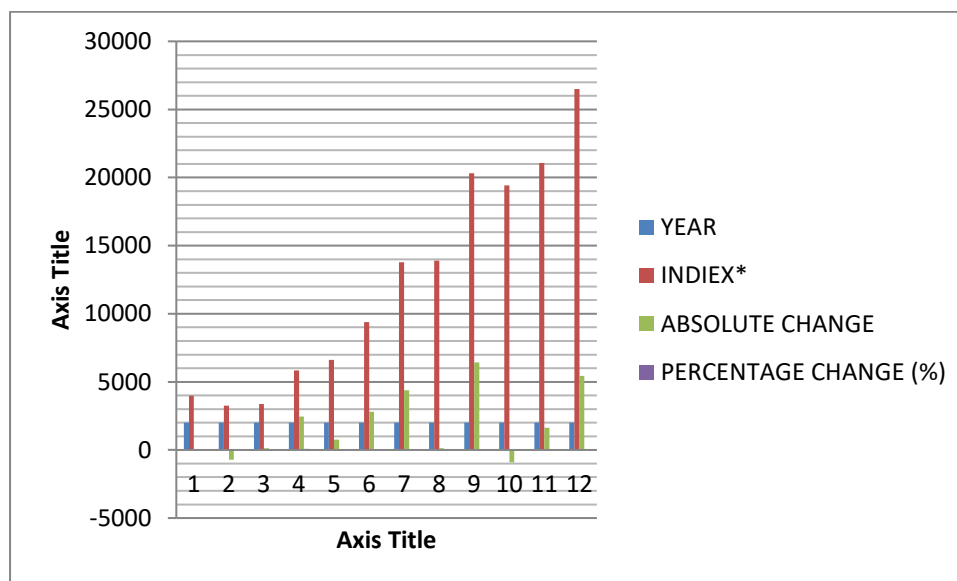
Equity returns at a glance

If we have a look at equity returns of the past 14 living like this:

SENSEX

YEAR	INDIEX*	ABSOLUTE CHANGE	PERCENTAGE CHANGE (%)
2008	3972	0	0
2009	3262	-712	-19.88
2010	3377	137	3.52
2011	5838	2461	72.88
2012	6602	764	15.10

2013	9397	2795	42.34
2014	15786	4389	46.70
2015	15910	142	0.88
2016	20323	6417	31.57
2017	19426.71	-896.29	-33.01
2018	21264	1837.29	10.42
2019	26510.21	5444.21	02.58



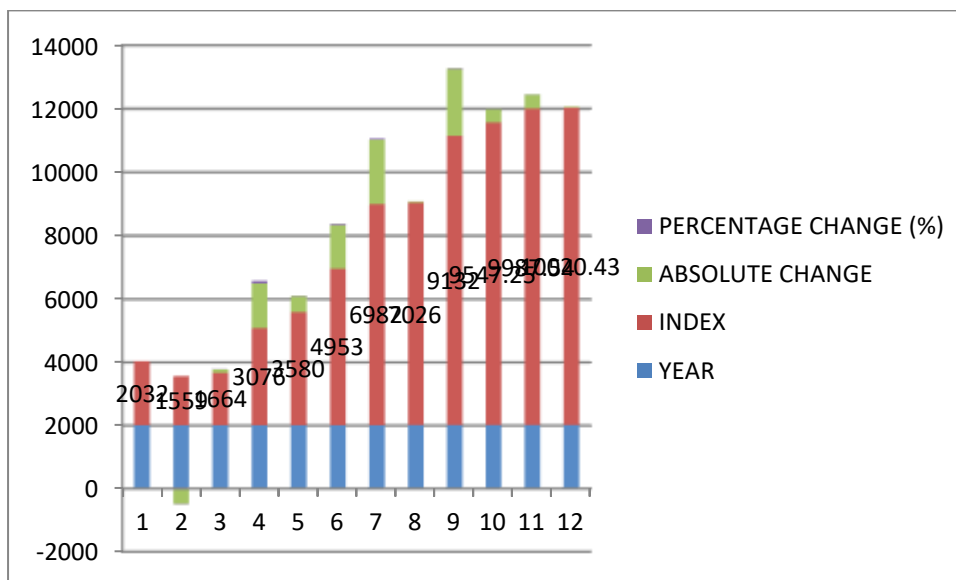
Interpretation:

The growth of the equity market in India has been phenomenal in the present decade. Right from early nineties, the stock market witnessed heightened activity in terms of a variety of bull and bear run. Inside the late nineties, the Indian market witnessed huge sectors. More recently, real estate caught the fancy of the investors. BSE SENSEX has captured all these happenings in the most judicious manner. One can identify the booms and busts of the Indian equity market through BSE SENSEX. As the oldest index in the country, it provides the time series data over a fairly long period of time (from 2008 onwards). Small wonder, the BSE SENSEX has become one of the most prominent brands in the country.

BSE120

YEAR	INDEX	ABSOLUTE CHANGE	PERCENTAGE CHANGE (%)
2008	2032	0	0
2009	1759	-477	-23.38
2010	1864	127	6.88
2011	3096	1614	84.74
2012	3580	508	18.46

2013	4953	1573	38.32
2014	6982	2029	40.96
2015	7026	44	0.65
2016	9152	2126	23.08
2017	9547.25	417.25	4.34
2018	9987.54	440.29	4.61
2019	12020.43	32.46	0.0325



Interpretation:

BSE also calculates a dollar-linked version of BSE-120 and historical values of this index are available since its inception.

Equities of company planned on top of BSE Ltd. scraps balanced on the previous day of the month previous to appraisal date, stock objected by the observation branch of the swap and individuals that are trade under allowed group

The store must contain a list least 14 years at BSE. An omission might be settled to a time period, The average free-float market capitalization of a recently planned corporation ranks in the top 120 of all company planned at BSE.

FINDINGS

- 1) The dividend consists of a few informational content.
- 2) The dividend pay out ratio has an impact on the firm.
- 3) The dividend according to share extended normally.
- 4) Here is a variation in earning according to share
- 5) The Return in line with proportion has been multiplied gradually.

SUGGESTIONS

1. When you purchase a proportion of stock, you take a percentage of ownership in a corporation. Collectively, the employer is owned by all the shareholders, and each share represents a declare on assets and profits.
2. The most not unusual ways to divide the market are by employer size (measured via marketplace capitalization), sector, and kinds of growth patterns. Investors may additionally talk about large-cap vs. Small-cap shares, energy vs. generation shares, or boom vs. value stocks, for example.
3. Over the fast time period, the behavior of the market is primarily based on enthusiasm, fear, rumors and news. Over the lengthy term, though, it is mainly business enterprise earnings that decide whether or not a inventory's rate will go up, down or sideways.
4. A precise inventory may match up even if the market is going down, whilst a stinker can cross down even when the marketplace is booming.
5. Stock charges are primarily based on projections of future profits. A strong track report bodes well, however even the first-rate agencies can slip.
6. Because a stock's value relies upon on income, a \$120 inventory can be reasonably-priced if the agency's earnings possibilities are excessive enough, even as a \$2 stock may be steeply-priced if earnings capacity is dim.
7. To find a sense of whether a inventory is over- or undervalued, investors examine its charge to revenue, profits, coins flow, and other fundamental criteria. Comparing a organization's overall performance expectations to those of its industry is likewise common -
- corporations operating in slow-growth industries are judged otherwise than the ones whose sectors are extra robust.

CONCLUSION

There are several investments to pick out from these encompass equities, debt, real estate and gold. Each magnificence of property has its peculiarities. At any instant, some of the ones belongings will offer right returns, whilst others can be losers. Most buyers in search of great investments try difficult to discover a unmarried asset. Some search for the next Infosys, other buys actual estate or gold. Many of them deposit their savings inside the Public Provident Fund (PPF) or post workplace deposits, others plump for debt mutual funds. Very few buy across all asset training or diversify within an asset elegance. Therefore it has been widely said that "Don't placed all your eggs in a single basket". The concept is to create a portfolio that includes more than one investments so that you can reduce risk.

Bonds continue to offer affordable returns but it is not leads inside the comparative rankings. Right now equity looks the best bet, with real state coming in second. The question is how long will this last? If it's far a short-term phenomenon, going thru the hassle of switching over from debt might not be well worth it. If it's a long-time period situation, assets ought to be moved into equity and actual estate. This can be long-time period situation. The returns from

the market may be right as long as profitability increases. Since the financial system is just moving into healing mode, that could maintain real for numerous years. Real estate values, especially in suburban regions or small towns could improve further. The development in avenue networks will push up the value of far-flung development. There is likewise some try to amend tenancy laws and lift city ceilings, which have stunted the real estate market.

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