STOCK SELECTION PREFERENCES OF INDIVIDUAL EQUITY INVESTORS IN KERALA

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Abstract

This study searches the stock selection preference of individual equity investors in Kerala. The study put forward many important informations to investment advisors about stock selection preference of equity investors in Kerala. The knowledge about investors' behavior helps capital market regulators to improve the regulatory activities to protect the interest of investors .The study was conducted at various branches of stock brokers in Kerala. The purpose of the study was to identify the important stock attributes which influence the individual investors while taking investment decisions. Five attributes with two levels each are selected for the study, which includes Image of the firm with levels Companies from established groups and Independent companies, News in media with levels Positive and Negative, Expected stock return having levels Expected high long term return and Expected high short term return, Price trend with levels Recently upward and Recently downward and Recommendations with levels Analysts/Existing investors and Neutral. *These attributes have significance on stock selection behavior of individual equity investors in Kerala.* The study would help the companies to understand and target the individual investors according to their preferences.

Keywords - Stock attributes; Investment behavior; Stock selection preference; Kerala .

Introduction

Behavioral finance attains importance in recent times. Studies on individual investment behavior started around 1980s. This study mainly concentrated on investor's psychology while making investment decisions.

Theory which defines behavioral finance is presented by Kahneman D. and A.Tversky, 1979 hold that investor may not appear to be as rational for investment as supposed to be. Behaviorists are of the opinion that most of the investors are not rational while taking decision of investment. Studies reveal that the investment decision of individual equity investors are mostly influenced by their overconfidence, mental accounting, herd behavior, overreaction, anchoring. In understanding investment behavior emotional and cognitive factors were used in behavioral finance.

Shefrin H. 2000 defined behavioral finance as "a rapidly developing area that contracts with the influence of psychology on the behavior of financial professionals. Behavioral finance goes on to relax and even in some cases to abandon the theories of traditional finance like rational behavior, efficient market hypothesis and random walk theory". It does not reject the traditional finance theories, but gives in depth clarification of investor's behavior characteristics. The shortcomings of traditional finance are overcome by behavioral finance relevant to investor's rational action. In order to find their relevance to capital market behavioral finance combines social and psychological factors relating to investors financial modeling and relates them with situational factors. A lot of research is conducted in the field of investment behavior, but a major portion of research was concentrated on psychological aspect of investor behavior. Very little research concentrated on the stock selection behavior of individual equity investors. These study intents to fill this shortcoming by studying the stock selection behavior of individual equity investors in Kerala.

There are several studies conducted in this field in many countries. But a study on this topic need to be conducted periodically because human bahaviour is undergone changes from time to time.Nobody can predict how a person will act in a particular

time. Most of the people take different decision at different occasion on same matter. So this study is relevant for the current scenario.

Objectives of the study

The following were the objectives of the study:-

- To understand the stock selection preferences of individual equity investors in Kerala.

- To understand the most preferred attribute by individual equity investors.

- To understand the least preferred attribute by individual equity investors.

- To understand the factors influencing the individual equity investors while taking investment decisions.

Method

Survey method was used to conduct the study. Five Attributes with two levels each are selected for the study. They are Image of the firm, News in media, Expected stock return, Price trend and Recommendation.

Sample.

The present study was conducted on a sample of 100 indivividual equity investors in Kerala. The sample was drawn using stratified sampling techniques.

Tools used for the study.

Data was collected through a structured Questionnaire. Measure of consumer preference using rating (5-point likert scale). Reliability of the tool was conducted through latest version of SPSS and the value of Cronbach alpha was greater then 6.5 . the value indicates that the test is reliable. The cronbach alpha of all variables including stock return,image of the firm,news in media,price trend and recommendation are 0.77.0.76.0.74.0.75.0.66 respectively.

Procedure.

The tools were administered to all individuals selected for the study; response sheets were collected from the individuals and scored. To find out the preferences given by the individuals to selected attributes the statistical technique Conjoint Analysis with Full profile method,Fractional factorial design,determination of

partworth utilities was used for the study. The objective of Conjoint Analysis is to determine what combination of a limited number of attributes is most influential on respondent choice or decision making.

Result and Discussion

Table 1

Importance Value

Image of the Firm	18.237
News in Media	23.249
Expected stock return	32.790
Price trend	16.908
Recommendation	8.816

From table 1, it was found that among the five attributes selected for the study,the most preferred attribute was expected stock return. Second preferred attribute was News in media.   Third preferred attribute was Image of the firm. Fourth preferred attribute was price trend.And the least preferred attribute was Recommendation.
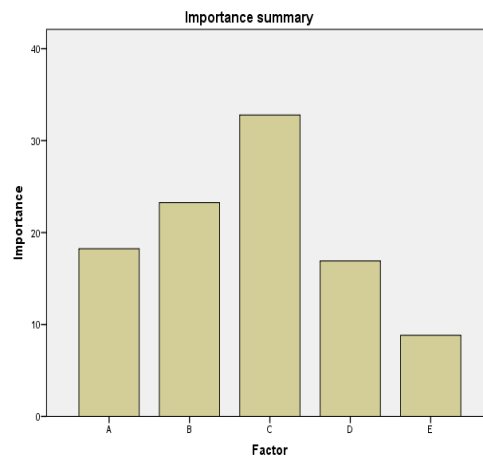
A.Image of the firm.

B.News in media

C. Expected stock retur

D. Price trend

E. Recommendation

Table 2

Partworth Utilities.

Utilities

		Utility Estimate	Std. Error
Imageofthefirm	Companies from established groups	.377	.103
	Independent companies	-.377	.103
Newsinmedia	Positive	.481	.103
	Negative	-.481	.103
Expectedstockreturn	Expected high long term return	.679	.103
	Expected high short term return	-.679	.103
Pricetrend	Recently upward	.350	.103
	Recently downward	-.350	.103
Recommendation	Analysts/Existing investors	.182	.103
	Neutral	-.182	.103
(Constant)		3.460	.103

After the data was analyzed, a Partworth Utility table was obtained. From Table 2 the attribute with the highest utility value has been taken as the most preferred attribute. Here the most preferred attribute is "Expected Stock Return". Among the two levels expected high long term return has got highest utility value. The attribute with the second highest utility value is "News in Media". Among the two levels positive news has got highest utility value. The attribute with the third highest utility value is "Image of the firm". Among the two levels companies from established groups has got highest utility value. The attribute with the fourth highest utility value is "Price trend". Among the two levels recently upward has got highest utility value. The attribute with the fifth highest utility value "Recommendation". Among the two levels recommendations from analysts/exixting investors has got highest utility value.

Managerial Implications

The managerial implications are based on two dimensions: content of communication with the investors and selection of stocks for recommendation. Content of communication: the firm/broking companies should try to take into consideration the communication filtering mechanisms used by individual investors. Selection of stocks for recommendation: the firm/broking companies should attempt

to discriminate stock recommendations based on the weightage given to dimensions like expected stock returns, news in media, image of the firm and price trend.

Conclusion

The objective of this study is to investigate the stock selection behavior of individual equity investor and the influence of various stock attributes on investor behavior The study identifies stock attributes including Image of the firm, News in media, Expected stock return, Price trend, Recommendation having significant on stock selection preference of individual equity investors in Kerala The study provides important information to investment professionals, stock market regulators and companies listed on stock exchanges of Kerala. The findings of this study will be useful to attract investors to stock market and increase their participation in equity market of Kerala

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