RESEARCH ARTICLE

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Choice of Investors in Tier 2 Cities of Central India for Investments in Equity

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Abstract

The study scrutinizes stock market preferences among investors. The goal of the study is to pinpoint the variables that affect stock investing decisions and the degree to which these variables impact investment preferences. The results reveal that several variables, such as risk tolerance, investing horizon, market conditions, and other factors affect the preferences of investors in the stock market. The study concludes that investors' preferences are complex and rely on a variety of characteristics that are particular to each person. The findings of this study can aid investors and financial advisors in better comprehending the variables affecting investment choices and in creating more efficient investment strategies.

Key Words: Investor Preferences, long-term growth, Risk tolerance, Stock market

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Introduction:

The stock market is a vibrant and intricate financial environment that provides a wide range of investing opportunities. The primary goal of stock market participation by investors is to increase their money and earn returns on their investments. It provides a venue for investors to trade securities, typically stocks or shares of publicly traded corporations. It gives people the chance to invest their money with the possibility of earning returns through dividends and capital growth. The stock market is the prime component of the financial system because it makes capital allocation easier, fosters economic expansion, and gives investors a chance to amass money through time. (Ranjith et al., 2021)

The stock market also provides a regulated and transparent environment. Listed companies are subject to legal requirements, accounting requirements, and disclosure duties, ensuring investors can access the requisite information to make wise investment decisions. Market activities are supervised by regulatory agencies and stock exchanges, who work to safeguard investors and uphold fairness and integrity. It is noteworthy to remember that there are associated risks and hazards in stock market investing. Variables like Market emotions, geopolitical events, and economic conditions exemplify how volatile and fluctuating stock values can be affected and have influence the decision-making process for stock market investments. To effectively manage and limit these risks, investors must carefully examine their risk tolerance, do extensive research, and diversify their portfolios. Investors can also create efficient investment strategies, create specialised financial products, and foster investor trust, financial institutions, governments, and market participants must have a thorough understanding of investor preferences.

To invest in the stock market, one must allocate money to a variety of securities, including stocks, bonds, and derivatives, with the hope of seeing a profit. Each investor has a particular set of tastes, convictions, and attitudes that influence the investments they make. Numerous elements, such as individual traits, economic conditions, psychological biases, and societal influences, might have an impact on these choices. Therefore, in the field of finance, understanding the fundamental variables that influence investor preferences is crucial.

The ramifications for numerous stakeholders make analysing investor preferences in the stock market important. Understanding investor preferences is essential for financial organisations like banks, brokerage houses, and asset management businesses to create and provide financial products and services that meet the demands of their customers. Financial institutions may increase customer happiness, draw in new business, and keep hold of their current customers by customising their offers to suit investor preferences.

Additionally, governments and regulators have a stake in knowing investor preferences in order to maintain the integrity and stability of financial markets. Policymakers can put in place effective regulations and protections to protect investors from fraudulent practices, market manipulations, and excessive risks by knowing what influences investor decision-making. Additionally, understanding investor preferences can help in the creation of investor education efforts and programmes that aim to increase financial literacy and provide people the power to make wise investment decisions.

This research paper's theoretical approach is based on several financial and behavioral economics fields. The adaptive market hypothesis and prospect theory, among other behavioral finance theories, lay a framework for comprehending how market dynamics and psychological biases affect investor preferences. Researchers applied economic models like utility theory and portfolio theory to examine how risk and return factor into investment choices. To inform the research analysis, the study also considers pertinent academic literature on investor choices, financial decision-making, and market analysis.

The anticipated objectives of this study are insightful knowledge of the primary variables influencing investor choices in the stock market. Financial institutions can leverage this information to create products and services that satisfy the needs of investors, increasing client happiness and loyalty. The research findings can be used by policymakers to create suitable rules that conceiving investor education programmes that aim to boost financial know-how and provide people the power to make wise investment decisions.

Overall, this research will look at how investor preferences are affected by demographic factors. This includes elements like age, gender, earnings, degree of education, and occupation. Understanding the individual requirements and desires of various investor segments can be gained by understanding how these demographic variables and other influential factors affect investing decisions. We shall present the research approach used in this study after the literature evaluation. This will contain a thorough explanation of the methods used to gather the data, the standards used to select the sample, and the tools employed to gauge investor preferences, risk tolerance, and demographic traits.

Finally, we will deal with how the research's findings will affect different stakeholders. We'll look at how financial institutions might apply the findings to create investing services and products that are specifically catered to the needs of the investors. This information can be used by policymakers to create rules and programmes that improve investor protection and market integrity. The research results can also guide individual investors to make better investing selections by making them comprehend their preferences better.

This study seeks to augment the existing body of knowledge in the area of finance by thoroughly examining investor preferences. The knowledge hence collated has the potential to influence and enhance investor education initiatives, financial product creation, and investment strategy. It is possible to improve the effectiveness and efficiency of the investment ecosystem to the advantage of investors, financial institutions, and policymakers by comprehending the variables that influence investor preferences in the stock market.

Research Questions

- I. What are the various factors that influence an investor's decisions while investing in stock market?

- II. What is the association of various factors of demographics with investor's decisions while investing in stock market?

Research Objectives

- To study the various factors influencing an investor's decisions while investing in stock market.
- To identify the extent of relation between demographic variables and investor's decisions while investing in stock market.

Literature review

Previous studies in finance have examined investor preferences and behavior in the stock market. Financial institutions, politicians, and individual investors all need to understand the elements that influence investor preferences. This review of relevant literature seeks to present a thorough overview of the existing research, emphasizing major themes, ideas, and empirical results that further our knowledge of investor preferences and behavior in the stock market.

Risk Tolerance and Investor Preferences: Investor choices are influenced by income and education level. Higher-earning people might be more willing to take risks and invest more of their money in the stock market (Van Rooij et al., 2007). Whereas, education level has been related to improved financial literacy and a greater propensity to engage in investing activities (Haliassos & Bertaut, 1995; Lusardi & Mitchell, 2007). As people in finance-related fields may have a better comprehension of investing techniques and a higher degree of comfort with stock market involvement, occupation, and professional expertise have also been linked to investor preferences (Grinblatt & Keloharju, 2001).

Market Circumstances and Investor Preferences: Market circumstances' influence on investor preferences has received a lot of attention in academic studies. Market turbulence and economic stability might affect investment decisions, according to studies. Investors may show a preference for safer assets or adopt more cautious investment techniques during uncertain market times (Gennaioli et al., 2013; Statman, 2014). It has been found that investor mood, a gauge of the general optimism or pessimism about the market, influences preferences as well. A preference for riskier investments might result from positive emotion, whereas a desire for safer investments can result from negative sentiment (Baker & Wurgler, 2007; Hong et al., 2018).

Psychological Variables and Investors' Preferences: Numerous studies have been conducted on psychological variables and behavioural biases in connection to investor preferences. For instance, the prospect theory contends that people's preferences are impacted by the likelihood of gains and losses and that they may engage in risk-seeking behaviour when threatened with losses (Kahneman & Tversky, 1979). According to Bikhchandani et al. (1992), investor decision-making exhibits herding behaviour, or the propensity to follow the pack. There are other biases too, which affect investment decisions, including overconfidence, loss aversion, and confirmation bias (Barber & Odean, 2008; Statman, 2014). Understanding these biases can help investors develop more rational investment decisions and can also help investors develop solutions to lessen the influence of these biases.

Cultural Differences in Investor Preferences: Investor preferences have evolved in favour of socially conscious investments, which take environmental, social, and governance (ESG) considerations into account when making investment decisions. Researchers have looked into what drives people to make investments that are sustainable and socially conscious (Renneboog et al., 2008; Hong et al., 2018). Financial institutions have created specialised investment products and included sustainability factors in their offerings in response to investor demand for ESG investing. The emergence of a more sustainable and responsible investment environment is facilitated by an understanding of investor preferences for socially responsible investments.

Gender Differences in Investor Preferences: Gender has been acknowledged as an important factor in shaping investor preferences. According to research, male and female investors exhibit different investment behaviours, levels of risk tolerance, and ways of making decisions (Barber & Odean, 2001; Gneezy et al., 2003). According to studies, women invest more preferentially for the long term and are generally more risk averse than males. Financial institutions and regulators can establish strategies that cater to the requirements and desires of various investor populations by taking into account gender disparities in investor preferences.

Investor Preferences for Dividends and Capital Gains: Dividend and capital gain preferences of investors vary depending on the kinds of returns they are looking for from their assets. While some investors place a higher priority on getting consistent dividend payments, others pay more attention to capital gains from rising stock prices. Studies (Fama & French, 2001; Baker & Powell, 2005) have examined the variables influencing investor preferences for dividends vs capital gains and the implications for investment decisions. Investors can better match their investment strategies with their intended income and return targets by being aware of these preferences.

Model :

The "Engel-Kollat-Blackwell Model" (EKB) was created in 1968 by three marketing researchers: Engel, Kollat, and Blackwell. The model, which was created as a framework for comprehending consumer behaviour, is now well-known in the study of consumer behaviour. (Engel et al, 1968)

The four groups of components in the EKB model have largely remained the same :

- Information-processing
- Decision-making processes
- Social effects
- Consumer characteristics

Research Methodology

Table 1: Methodology Compendium

	Parameter	Brief Note
1	Type of Research	Descriptive cross-sectional design
2	Data collection method	Primary and Secondary (Mixed method)
3	Data Collection Time	February and June 2023
4	Research Instrument	Survey Questionnaire for Hypothesis testing, Pilot study for validation of the Questionnaire
5	Survey Administration	Google Form
6	Instrument Validity Testing	Cronbach's Alpha
7	Sampling Type	Convenience sampling and snowball
8	Sample Size	427
9	Analysis	Reliability Test, Descriptive statistics
10	Hypothesis Testing	Chi Square
11	Software Tools	SPSS Version 23

Demographic details:

The research questionnaire was distributed online. The respondents were mainly from the cities of Indore, Bhopal, Ujjain, Gwalior, and Jabalpur of Madhya Pradesh. The age profile of the respondents 65% of respondents majorly represented between 18 to 30. The statistics show that 38% of respondents were graduates. Female respondents account for 35% and male respondents account to 65% of the total respondents. Maximum respondents were self-employed i.e. 42%, followed by Service class with 38%, as revealed by the occupation profile. The data also shows that the maximum respondents i.e. 55% have income group of less than 8 lakhs.

Quantitative Analysis

Reliability Analysis:
This analysis is only beneficial in situations where a Likert scale is being used, like we covered in class. Reliability analysis was performed on each variable that uses the Likert scale. The Cronbach's alpha value was estimated to be 0.868 which shows a reasonable level of internal consistency, by the basic guidelines for assessing alpha for dichotomous questions (Gliem & Gliem, 2003).

Findings from the questionnaire:

Online mode of broking is most widely (69.4%) used whereas offline is not much in use now. (30. 6%). Most people only prefer to invest in direct equity/stocks (63.6%) followed by mutual funds (21.8%) which are gaining awareness at a high pace.

Other major findings include:

- Inflation and economic indicators are influencing for people up to 55.5%
- Industry trends are influencing the decisions for about 62.7%.
- Market sentiments influence 58.2% of people.
- Competition between companies is not an influence for 50% of people.
- Experience is 63.7% influencing people.
- Risk tolerance being 56.3% influencing for people.

Table 2: Test Results

Hypothesis Statement			
Hypothesis	Statement	Value	Inference
H1	There is no significant association between age and experience	0.000	Rejected
H2	There is no significant association between income group & risk tolerance	0.000	Rejected
H3	There is no significant association between profession of investors & risk	0.710	Not Rejected
H4	There is no significant association between investor age and l ong-term growth	0.170	Not Rejected
H5	There is no significant association between the share market & education of investor	0.281	Not Rejected
H6	There is no significant association between investor occupation & wealth creation ideas	0.091	Not Rejected

Conclusion:

It can be said that although there has been a noticeable rise in stock market understanding among Indians in recent years, there is still room for growth. Factors that influence how people are seen include past experience and risk tolerance while investing in stocks. The study also discovered that two demographic factors, including age and occupation, have an impact on people's perceptions of the stock market. Due to their extended investment horizons and maybe higher risk tolerance, younger investors may be more inclined to have a positive outlook on the stock market and invest in it. However, due to their shorter investment horizons and lower risk tolerance, elderly investors may be extra cautious and less likely to make investments in the stock market. Investors in specific industries, such as finance or business, may have a greater understanding of the stock market and a higher propensity to invest in it. To help investors better comprehend the stock market and its possible dangers and benefits, there is a need for enhanced financial literacy education. Initiatives that offer fundamental information on stock market investment and risk-reduction techniques may fall under this category.

The need of using a personalised approach while investing in the stock market is another significant conclusion of the study's findings. Investors' attitudes towards the stock market and investing choices can be influenced by a variety of factors, including past experiences, risk tolerance, age, and career. By considering these elements, financial advisors and educators can better adapt their guidance and resources to individual investors, assisting them in making decisions regarding stock market investments that are in line with their unique preferences and objectives.

Key findings:

- Investors' stock market risk tolerance was greatly influenced by their income category.
- Online broking methods were more popular than offline methods.
- The majority of investors favored direct equities or stocks over mutual funds as their way of investment.
- Outside variables like inflation, economic indicators, market mood, and industry trends influenced investment decisions.
- Previous experience and risk tolerance were found to be important considerations when making investing decisions.
- Age and prior stock market experience did not significantly differ from one another.

Recommendation:

It is advised that investors approach stock market investment cautiously and wisely in light of the study's conclusions. Investors should first and foremost be aware of their level of risk tolerance and adjust their investment strategy accordingly. The importance of diversification cannot be overstated because it can reduce vulnerability to market swings. Before making any investing selections, investors should also do extensive research to weed out any personal prejudices that can skew their judgement. It may be advantageous to seek professional financial guidance, especially for people who are novice to investing. Investors who abide by these suggestions may improve their chances of making money on the stock market while minimizing risk.

Limitations:

- The sample size is insufficient and the geographic scope is limited.
- Because convenience sampling is used, the sample's age and occupation diversity is less diversified.

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