A study on attitudinal behaviour of active market participants towards selection of portfolio in Karur, Tamilnadu

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ABSTRACT

The research area is a study on the attitudinal behaviour of the active market participants in the Karur city with special emphasis towards the selection of their portfolio. The term "active market participants" denotes the people who are engaged in trading for a minimum of two times in a month. The active market participants were classified into high self-monitors and low self-monitors. The study covered the attitudinal behavior in the selection of portfolio, perception of the market participants about stocks etc., High self monitoring investors take more time to decide on the investment and trading of stocks. Findings and suggestions certainly would be useful to investors. Various Statistical tools were used for analysis.

Introduction

In any county, financial system plays a crucial role. India is of no exception. India has various financial institutions both specialised and non specialised, organised and unorganised financial markets with wide array of financial instruments. The presence of a well established financial system facilitates transfer and allocation of funds efficiently as well as effectively.

The sustainability of the financial system mainly depends upon the pooling of funds and the best allocation of the funds across the various sectors. The participants in the stock market play a crucial role as they are the fund providers. The active market participants play a vital role because they are the major source of funds.

Selection and construction of portfolio plays a crucial role when an investor decides to invest. By constructing an investment portfolio with a combination of investment avenues, will entitle the investor to diversify his risk and to optimise the

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returns. There are three kinds of investors: an investor who wishes to have more return and least risk, more return with comparatively higher risk and high return with a high risk. Portfolio construction requires knowledge of the different aspects of the various investment avenues with regards to safety and growth of the principal, liquidity, selection of investment, and allocation of funds among the various selected investment avenues.

The security prices are prone to frequent fluctuations. The major reasons that can be attributed are the greed and sentiments of the investors due to their expectations which can neither be quantified nor predicted. There is a behavioral aspect with regards to self-monitoring. Self-monitoring refers to a person's ability to adjust the behavior to the external behavioral factors.

The investment decision of the market participants and thus in turn, their profit is affected by their attitudinal behavior. So this study might be helpful to investors who are prone to irrational behavior like herd behavior, regret or loss avoidance. This study might motivate the active market participants to obtain maximum return by filtering out as many unhealthy behavioral influences as possible.

Objectives

The main focus of the study is to research upon the attitudinal behavior of the active market participants, classified based on self-monitoring scale into high self-monitors and low self-monitors, in Karur with regards to their investment decision and selection of portfolio. To understand the perceptions of active market participants in Karur, about the stock market and their reactions to the market fluctuations. To study the preferences of the active market participants in Karur, towards the selection of stocks. To verify the degree of agreement of the active market participants with the investment advice from various sources in Karur. To check whether the active market participants conform with certain theories of Behavioral Finance. To analyze the risk appetite and the return on investment for active market participants

Theoretical Framework

Aman Srivastava, focuses on analysing the expectations of the investors about the future performance of the stock market in India and to focus on measuring the confidence that the investors have regarding their investments. He has concluded that the investors make their investment decision with definite behavioural factors, and that the article the reality is different from theories. He finally concluded that the individual investors do not believe in the efficiency of the stock market. The research also explored the investing traditions in India. The investors concentrate on the past performance of the stocks

over the other universal stock valuations while selecting their stocks. ***Manish Mittal, (2008)***, This paper classified the Indian investors into different personality types and explored the relationship between various demographic factors and the investment personality exhibited by the investors. The results of this study supported the contention that there are behavioural linkages to the choice of investments. The findings found to be in consistent with the notion that individuals tend to act 'normal' rather than 'rational' when making investment decisions. The results of this study revealed that the Indian investors can be classified into four dominant investment personalities casual, technical, informed and cautious.

Manish Mittal and R K Vyas, (2007), investigates how the investment choice is affected by the demographics of the investors. The insight of how an investment choice gets affected by the demographic variables helps the financial advisors to advise their clients better. The clients, on being advised regarding the investments that suit their profile, will not only rate such an advice high but will also appreciate it. Thus there will be a certain improvement in the mutual trust between the advisor and his client. ***Faten Zoghlami, Hamadi Matoussi, (2009),*** work concluded that Tunisian stock market investors were not over-confident. Majority of the population, 74% were found to be under-confident, very sensitive, defiant and very much hesitant to the reaction and opinion of others. Tunisian investors found to be very sensitive to rumours and suspected them to be private information. From the paper it is evident that 85% of the investors tend to resume and restrict voluntarily their data basis to some specific set of data. The Tunisian investors judged that the market's perception and enthusiasm degree showed towards the stock was sufficient to decide about stock's perspectives. 70% of the investors decided not to persevere but to revise quickly their decisions and anticipations after any mistake so that they can limit their potential losses.

Meenu Verma, (2008), aimed to investigate the effect of demographics and personality type on investment choice. The results would help the people involved in the Wealth Management process in advising their clients better regarding investments that are most suitable according to their demographics and personality type. The study employed primary data collection from 40 respondents through structured questionnaire. The analysis of how an investment choice gets affected by the demographic variables and personality profile could help the financial advisors to give better suggestions to their clients. The investment preferences seem to be dynamic due to the changes in social, economic and political atmosphere, as well as introduction of new investment avenues. ***Bruno Biais et al, (2004),*** measured the degree of overconfidence in judgment in the form of miscalibration and self-

monitoring of 245 participants and also observed their behaviour in an experimental financial market under asymmetric information. The miscalibrated traders are expected to be especially vulnerable to losses by underestimating the conditional uncertainty about the asset value and the high self-monitors are expected to behave strategically and achieve superior results. Their empirical results showed that miscalibration would reduce and self-monitoring would enhance the trading performance. The effect of the psychological variables is strong for men but it non-existent for women.

***Sandor Czellar, (2003)*,** focuses on to investigate whether the attitude accessibility hypothesis or the alternative self-presentation hypothesis explains better the difference between low and high self-monitors in response latency tasks. The investigation relied on the methodological framework of the Implicit Association Test the basic idea of the method is to compare response latencies between compatible and incompatible combinations of attitude objects. Results indicated that the sample had positive automatically-activated associations about status, prestige brands, expensive products, fame and wealth. At the explicit level, some of these categories were judged positively while others negatively, but no differences were attributable to the participant's self-monitoring level.

***Ramesh Krishnan and Fatima Beena, (2009)*,** aimed in calculating the tendency to conform to behavioural finance concepts. The study also aimed to examine whether cognitive biases 'heuristics' and 'frame dependency' would coalesce to form two major factors. The scale was linked to personality dimension. By using the behavioural finance concepts, the research validated that personality factors do affect individual investors' decisions and that the individual investors acts normal and usual and not always objective and rational. The cognitive biases the heuristics and frame dependency are not independent according to the research work. According to the research, the extraversion scores have a positive relationship, and openness scores have negative relationship with tendency to comply with behavioural finance concepts.

Malena Johnsson, Henrik Lindblom and Peter Platan, (2002)*,** focuses on how private and the institutional investors have changed their investment behaviour with the consequence of the speculative bubble during the period from fall 1998 to March 2000. The various factors for the speculative bubble were also investigated. The research found that the majority of the investors, in spite of the speculative bubble, continued with their investment activities. They were confident that the collapse will be corrected soon and their investments would not be in a risky situation. ***Peter R. Locke and Steven C. Mann, (2000), examined the trades done by the professional traders and the data provided by them proved in support for the existence of a disposition effect. The research found that the majority of the professional traders hold losing trades longer. The research has concluded that the relative aversion to loss realization was highly related to the relative success of the professional trader in future.

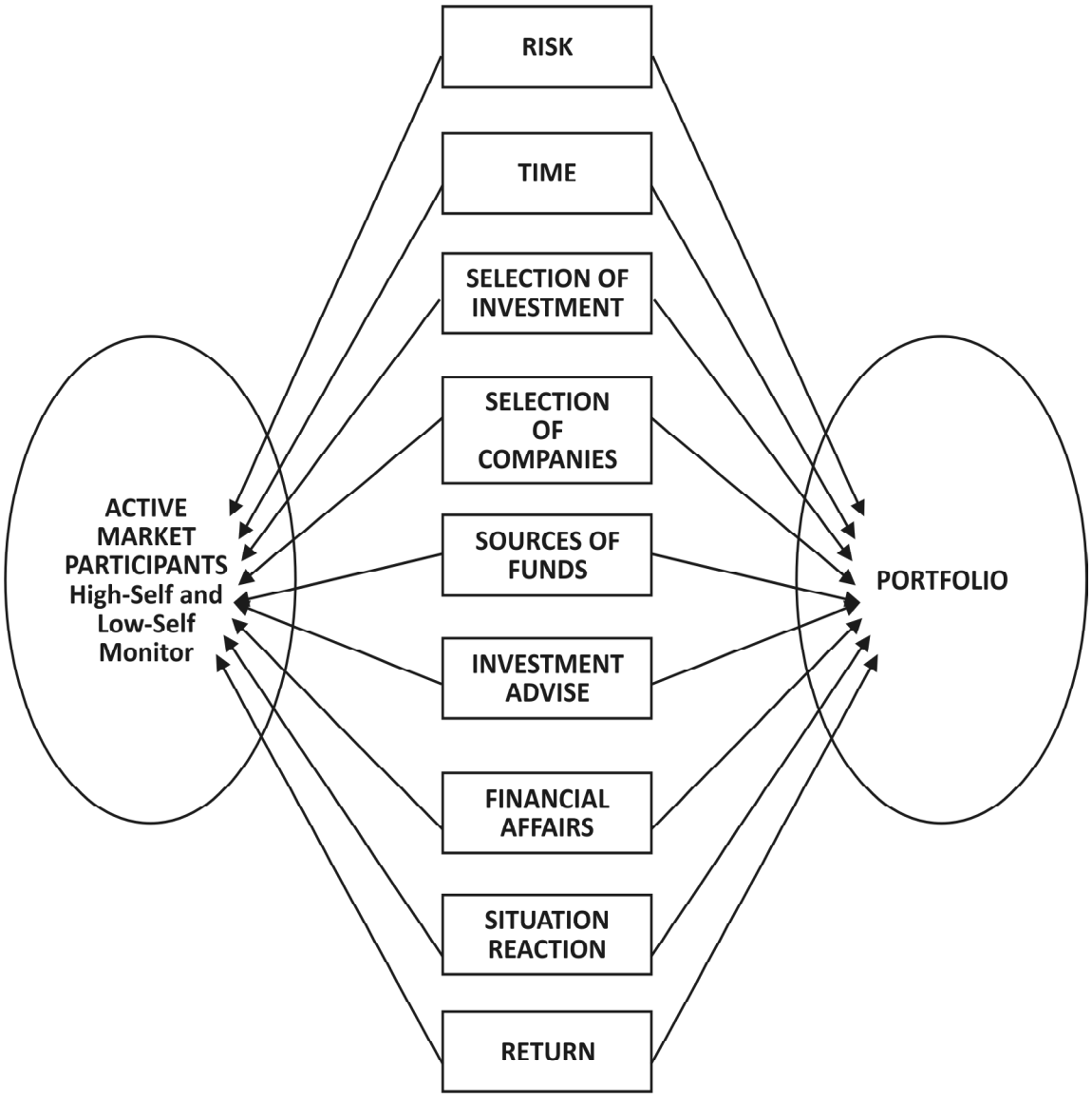

Fig. 1 : Active Market Participants(AMP) & Portfolio Model

Research Methodology

This is a descriptive study on the attitudinal behaviour of the active market participants of the stock market, with more emphasis on self-monitoring attitude of the respondent..This study is aimed at bringing out the different variables that influence the behaviour of active market participants and how the self-monitoring level influences the investment decision. The primary data was collected for this survey by administering structured questionnaire to the respondents. The questionnaires were taken to the respondents all over Karur in person. Purposive Sampling was adopted. 50 respondents were chosen who trade at least twice in a month.

The Self-Monitoring Scale

The self-monitoring scale was developed by Mark Snyder in 1974. Self-monitoring is the ability and desire which will entitle a person to regulate one's public expressiveness to fit the needs of the situation. The self-monitoring scale has a series of questions with two options, true and false. The respondents will fill in and the median of all the respondents will be arrived at. If the score of a person is more than the median, then the person is categorized as high self-monitor and if the score is less than the median, then the person is categorized as low-self monitor. ***(Source: Bruno Biais, Denis Hilton and Karine Mazurier, (2004), "Judgemental overconfidence, self-monitoring and trading performance in an experimental financial market")***

Analysis and Interpretations

Table 1.1 Level of Self Monitors among different groups

Age	High Self Monitor		Low Self Monitor	
	Frequency	Percent	Frequency	Percent
20 - 30	6	30	5	16.7
30 - 40	4	20	5	16.7
40 - 50	3	15	10	33.3
Above 50	7	35	10	33.3
Total	**20**	**100**	**30**	**100**

Weeks to make Investment or Trading Decision				
Less than 1 week	5	25	14	46.7
1 - 2 Weeks	8	40	10	33.3
2 - 4 Weeks	5	25	3	10
More than 4 weeks	2	10	3	10
Total	**20**	**100**	**30**	**100**
Sources of Funds				
Savings/ Personal	17	85	27	90
Loans	2	10	1	3.3
Pledging	1	5	2	6.7
Total	20	100	30	100
Risk Appetite				
High	2	10	2	6.7
Medium	14	70	19	63.3
Low	4	20	5	16.7
No Risk	0	0	4	13.3
Total	**20**	**100**	**30**	**100**
Percentage of Return				
Less than 10%	5	25	6	20
10% - 15%	8	40	9	30
15% - 20%	3	15	10	33.3
20% - 25%	1	5	2	6.7
More than 25%	3	15	3	10
Total	**20**	**100**	**30**	**100**

As shown in the table, there are 33.3% low self-monitors in the age group 40 – 50 years, than the15% of the high self-monitors. In all other age groups, both high self and low self-monitors are almost equal in percentage.

The above table clearly shows that 46.7% of the low self-monitors take less than one week to make a trading or investing decision whereas 40% of the high self-monitors take 1 – 2 weeks time to come to make a decision.

The table shows that almost everyone, both low self-monitors and high self-monitors use their own savings as their source of funds to invest in the stock market.

Most of the people, including both low self-monitors and high self-monitors want to take medium risk only. Though there are few people who want to take high and low risks, there is no high self-monitor who wants to have a riskless, safe investment whereas there are 13.3% low self-monitors who want to have riskless investment.

Low self-monitors have equal amount of people in groups 10%-15% (30%) and 15%-20% (33.3%). 40% of the high self-monitors have their return in the 10%-15% group. Other groups contain almost equal percentage of people in both high self-monitor and low-self monitor.

Self-monitor's investment analysis :

Table 2.1 Self-monitor vs. Theories related to invested stocks

Null Hypothesis (H_0): There is no significant association between self-monitor of the active market participant and the statements related to stocks in which investments are made.

Alternate Hypothesis (H_1): There is significant association between self-monitor of the active market participant and the statements related to stocks in which investments are made

Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Stmt. about performance of companies	0.853	1	0.853	0.408	0.526
Stmt. about risk in the stocks of companies	1.203	1	1.203	0.628	0.432
Stmt. about selection of stocks with experience	0.03	1	0.03	0.029	0.865
Stmt. about socially responsible investing	1.613	1	1.613	1.947	0.169
Stmt. about preference of stocks	2.083	1	2.083	1.353	0.251
Stmt. about proportionality of risk and return	1.613	1	1.613	1.216	0.276

As the significant value is more than the allowed 5% for all the statements, it is clear that there is no significant association between self-monitor of the active market participant and the statements related to stocks in which investments are made.

Table 2.2 Self-monitor vs. Theories about respondents' reactions

Null Hypothesis (H_0): There is no significant association between self-monitor of the active market participant and the statements about reactions of the active market participant.

Alternate Hypothesis (H_1): There is significant association between self-monitor of the active market participant and the statements about reactions of the active market participant.

Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Prospect Stmt.	.003	1	.003	.002	.968
Regret Stmt.	.403	1	.403	.233	.632
Anchor Stmt.	1.333	1	1.333	.899	.348
Herd Behaviour	3.413	1	3.413	2.992	.090

As the significant value is more than the allowed 5% for all the statements, it is clear that there is no significant association between self-monitor of the active market participant and the statements about reactions of the active market participant.

Table 2.3 Self-monitor vs. Inv. advice from various people

Null Hypothesis (H_0) : There is no significant association between self-monitor of the active market participants and investment advices from various people.

Alternate Hypothesis (H_1) : There is significant association between self-monitor of the active market participants and investment advices from various people.

Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Investment advice from Friends	.563	1	.563	.372	.545
Investment advice from Family	1.613	1	1.613	1.325	.255
Investment advice from Professional advisor	.213	1	.213	.109	.743
Investment advice from Magazine/Journal	.403	1	.403	.299	.587
Investment advice from News/Media	.480	1	.480	.333	.567
Investment advice from Internet	2.253	1	2.253	1.876	.177
Investment advice from Employer	1.613	1	1.613	.966	.331

As the significant value is more than the allowed 5% for all the statements, it is clear that there is no significant association between self-monitor of the active market participant and the statements about reactions of the active market participant.

Table 2.4 Self-monitor vs. Stmts. about the risk involved

Null Hypothesis (H_0) : There is no significant association between self-monitor of the active market participants and statements about the risk involved.

Alternate Hypothesis (H_1) : There is significant association between self-monitor of the active market participants and statements about the risk involved.

Dependent Variable	Type III Sum of Squares	df	Mean Square	F	Sig.
Stmt. about type of investment based on risk involved	.750	1	.750	.440	.510
Stmt. about investment in stocks	.213	1	.213	.168	.684
Stmt. about investment by borrowing	.653	1	.653	.342	.561
Stmt. about safe investment	.013	1	.013	.012	.913
Stmt. about greater risk for better financial position	.213	1	.213	.139	.711
Stmt. about the extent of risk, the investor is ready to take	1.920	1	1.920	1.002	.322

As the significant value is more than the allowed 5% for all the statements, it is clear that there is no significant association between self-monitor of the active market participant and statements about the risk involved.

Findings

- It is found that nearly 60% of the respondents are low-self monitors. This shows that the considerable percentile of the respondents decide about investment through intuition and values than looking for market news, market condition.
- It is found that most of the high self-monitors and the low self-monitors take only medium risk. But there is no high self-monitor who wants a riskless safe investment. That is high self-monitors are ready to take risk but a significant portion of the low self-monitors don't want to take risk.
- High self-monitors who respond according to the situation; mainly take 1 to 2 weeks for making any investment or trading decision whereas low self-monitors who react according to their inner value take less than 1 week to come to investment or trading decisions.
- Majority of the respondents agreed that the pain of losing money is greater than the joy of gaining money. Thus the behavior of majority of the respondents proves the prospect theory.
- Majority of the respondents agreed that they will regret for making wrong decisions. Thus the behavior of majority of the respondents proves the regret theory.
- Majority of the respondents did not agree that they will hang on to losing investments till it reaches the purchase price. Thus the behavior of majority of the respondents does not agree with the anchor theory.
- Majority of the respondents disagreed that they will make decisions based on group behavior. Hence majority of the respondents do not agree with the herd behavior.
- Low self-monitors get appropriate returns based on the number of weeks they spend to take investment or trading decision.
- In general there is a significant relationship between risk and return that is the return is proportionate to the risk taken by the individual.

Based on the experience that low self-monitors have in investing, they are ready to take greater financial risks to improve their financial situation.

The pain of losing money is greater than the joy of gaining through investments for all the respondents which includes both low self-monitors and high self-monitors.

Conclusion

This study analyzed the consequences of a psychological variable called self-monitoring for behaviour in stock market and it was found that

majority of the active market participants are low self-monitors. Irrespective of the self-monitor scale of the individual, majority of them take only medium risk and significant percentage of low self-monitors want riskless safe investment. It was also found that low self-monitor take less time to make a investment or trading decision compared to high self-monitors but on the average, low self-monitors have yielded more returns than high self-monitors. Experience in investment in stocks and the duration to make an investment decision also played an important role in the selection of stocks. The agreement to various theories of behavioural finance varied with the self-monitoring attitude of the investor. The study will be helpful to the active market participants to understand how their behavioural attitude influences their decision based on factors like time taken to make trading decision, investment advices from various people, risk appetite etc. Thus the research work will help them to gain awareness about the pitfalls of investor psychology and caution them against thelikely errors which will facilitate them to make right decision

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