STUDY ON INVESTOR PREFERENCE FORFINANCIAL INSTRUMENTS

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ABSTRACT

CITC indicates whether the variable actually belongs to the construct or not. Variables showing scores lower than 0.5 are deleted, unless there is a compelling reason to keep them in the construct. Some items with CITC values over 0.5 can also be removed if the overall reliability of the construct in question improves as a result of the deletion (obtained by checking the _alpha if deleted scores). Reliability of constructs refers to the accuracy with which the constructs repeatedly measure the same phenomenon without much variation. The reliability of each construct in question is examined using Cronbach's alpha (Cronbach, 1951). An alpha score larger than 0.7 is generally acceptable as sufficient accuracy for a construct (Nunnally, 1978). After purifying the constructs one by one, we arrive at the purified scales for the constructs, each of which is sufficiently reliable.

Unidimensionality is a common trait exhibited by all the indicator variables of any given construct (McDonald, 1981; and Hattie, 1985). Unidimensionality is best measured by CFA. A combination of CFA and path analysis is structural equation modeling. This is the best method of measuring the unidimensionality of any construct.

INTRODUCTION

According to the traditional market theories, not only the markets do not behave neatly, but also the individual decision makers do not behave in accordance with the tenets of expected utility theory. **Allais Paradoxes** (1959) undertook the earliest works that neither the markets nor the individual decisional makers behave neatly. **Kahneman and Tversky** (1979), **Machina** (1982) and others have looked at how people make choices under uncertainty. They studied human behaviour traits that violate the axions of theexpected utility maximizing model of financial economics.

It is to be noted that the investors also show sensitivity to reference points. When a certain purchased stock's price falls because of disappointing news, many investors are averse to selling it at a loss. Here thereference point is the original cost of purchase. The investors have a tendency to hold on to their losses.

But some investors wait in anticipation of the stock price would return to their purchase price before they decide to sell it without rationally evaluating the situation. The investors generally _hate to lose'.

The various studies have been conducted in other countries but there is no comprehensive study covering Investors 'Sentiment on Equity in India. Further the study of this nature should be conducted at periodical interval as investors attitude do change from time to time. Hence this study attempts to find out the Impact of Investors 'Sentiment on the Equity Market.

REVIEW OF LITERATURE

Warren, et. al., (1996) attempted to develop lifestyle and demographic profiles of investors based on thevalue and types of investment holding. **Krishnan and Booker** (2002) analyzed the factors influencing thedecisions of investors 'who basically used analysts 'recommendations to arrive at a short-term decision to hold or to sell a stock. **Merikas et. al.,** (2003) analyzed the factors influencing Greek investor behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria combined with diverse other variables. **Glaser, et. al.,** (2009) testedwhetherindividual investor sentiment was related to daily stock returns by using vector auto regressive models and Granger causality tests. According to this study, there exists a mutual influence between sentimentand stock market returns, but only in the very short-run (one and two trading days). The returns have a negative influence on sentiment, while the influence of sentiment on returns is positive for the nexttrading day. The influence of stock market returns on sentiment is stronger than vice versa. **Iihara, Kato and Tokunaga (2001)** document herding behaviour in various investors 'classes on the Tokyo Stock Exchange. The money-flow instruments allow the separation of the measurement of sentiment frommeasurement of asset returns**. Barberis and Shleifer (2001)** argued that herding may take place in subsectors of the equity universe, not simply with respect to the stock market as a whole. It is found that flows into and out of foreign mutual funds is negatively correlated with flows to domestic equity funds. **Elton et al. (1998)** indicates that investor sentiment does not exist even in a market whose environment was expected to be more prone to investors 'sentiment than in other developed markets. **Sachithanantham et al. (2007)** studied the relationship between capital market reforms and amount of money invested by the investors. It was found that the educative reforms and attractive reforms were statistically significant but they had negative influence over money invested by the investors at the Indian Capital Market.

The primary objective of this paper is to collect and analyze data on individual equity investor and identify the Market specific factors that influence investors 'sentiment.

MATERIAL AND METHOD

Analysis of investor's sentiment

The Dependent Variable construct is purified using the CITC Values. All the indicators have CITC values are larger than 0.5, so no indicators are removed from the analysis. The reliability score of 0.732 indicates good reliability of the construct. The Unidimensionality of the construct is measured using Visual PLS Software. The AVE Value of 0.545. indicates good convergent validity and hence Unidimensionality.

The Risk and Cost factors construct is also purified using the CITC Values. All the indicators have CITC values larger than 0.5, so no indicators are removed from the analysis. The reliability score of 0.841indicates good reliability of the construct. The Unidimensionality of the construct is measured using Visual PLS Software.

The AVE Value of 0.643237 indicates good convergent validity and hence Unidimensionality. **The performance level and confidence level of Institutional Investors** construct is purified using the CITC Values (shown in **Table - 3**). All the indicators have CITC values larger than 0.5, so no indicators are removed from the analysis. The reliability score of 0.769 indicates good reliability of the construct. The Unidimensionality of the construct is measured using Visual PLS Software. The AVE Value of 0.726525 indicates good convergent validity and hence Unidimensionality. **The Best Game in Town factors** construct is purified using the CITC Values (shown in Table 4). All the indicators have CITC values are larger than 0.5, so no indicators are removed from the analysis. The reliability score of 0.821 indicates good reliability of the construct. The Unidimensionality of the construct is measured using Visual PLS Software. The AVE Value of 0.640461 indicates good convergent validity and hence Unidimensionality.

Hypothesis testing

The causal effect of Risk and Cost factor, Performance factor and Confidence Level of Institutional Investors and Best Game in Town Factors on Stock Prices rising for the next twelve months is tested using Visual PLS path modeling software. A rigorous test of the significance of various proposed relations can be tested using the bootstrap function in Visual PLS. PLS path modeling is a nonparametric method, and as such cannot be used for performing a *t*-test. But it is possible to use resampling methods (bootstrap and jack knife) to obtain the significance of the various paths in the model. Bootstrap is more reliable in estimating the significance of paths (Chin, 1995). So, this research has considered and used bootstrap for the purpose of determining causal relations proposed in the model. The hypothesis was

found not to be significant for Risk and Cost Factors (beta = 0.278, t = 5.180) and significant in the case of Performance factors and Confidence Level of Institutional Investors (beta = 0.364, t = 7.260), Best Game in Town Factors (beta = 0.378, t = 7.392)

This proves that Investor's expectation of stock prices rising for the next 12 months is likely to be influenced by both Performance factors & Confidence Level of Institutional Investors and the Best Game in Town factors.

CONCLUSION

Best Game in Town: Almost all investors felt that among all the investment avenues stock investment has considered to be the best avenue. (Alpha = 0.821)

It is to be noted that after data collection, the scales are analyzed to test purification of scales, reliability of scales, unidimensionality of scales and validity of the scales. The purification is done using Corrected Item Total Correlation (CITC), reliability is tested using Cronbach's alpha while validity and unidimensionality are tested using PLS path modeling.

Before any type of factor analysis is done (Exploratory Factor Analysis, EFA or Confirmatory Factor Analysis, CFA), it is essential to purify the measuring instruments of variables that do not correlate to the constructs (Churchill, 1979).

 CITC indicates whether the variable actually belongs to the construct or not. Variables showing scores lower than 0.5 are deleted, unless there is a compelling reason to keep them in the construct. Some items with CITC values over 0.5 can also be removed if the overall reliability of the construct in question improves as a result of the deletion (obtained by checking the _alpha if deleted' scores). Reliability of constructs refers to the accuracy with which the constructs repeatedly measure the same phenomenon without much variation. The reliability of each construct in question is examined using Cronbach's alpha (Cronbach, 1951). An alpha score larger than 0.7 is generally acceptable as sufficient accuracy for a construct (Nunnally, 1978). After purifying the constructs one by one, we arrive at the purified scales for the constructs, each of which is sufficiently reliable.

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