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A STUDY ON EVALUATING FACTORS INFLUENCING INVESTMENT DECISION TOWARDS STOCK MARKET

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ABSTRACT

Investors can buy and sell assets on the stock market, which provides capital for businesses and opportunities for individuals to accumulate wealth. The growing interest in accumulating wealth and the availability of investing options are the main drivers of people's increased stock market engagement, which serves as the motivation for this study. This study was conducted to evaluate the factors influencing investment decisions toward the stock market. SEM technique using SMART PLS has been used for the current study. The findings of the study indicated that there is a significant impact of attitude, financial literacy, perceived behavioral control, and subjective norms on behavioral control.

Keywords: *Structural Equation Model, SMART PLS, Financial Literacy, Stock Market*

1. INTRODUCTION

Financial management, sometimes known as the art of wealth management, has long been a pillar of the economic system. Reputable scholars have put up a variety of theories and hypotheses to explain how the financial models operate. People, corporations, and organizations think about finance when it comes to the acquisition and distribution of financial resources, taking into account the risks and rewards involved. Ironically, the terms trading and investing are used interchangeably. While trading is meant for quick and short-term gains, long-term investment allows investors to get the best returns in the form of both cash flows and capital gains.

Stock Market Investments

Investing is already a challenging procedure, and the movements of the stock market make it even more complicated. (Zahera, & Bansal, 2018) Historically, the financial industry has been viewed as a rationally governed field where market participants base their decisions on careful consideration of available data and economic facts. However, behavioral finance challenges conventional wisdom by examining the field of psychology to understand the frequently irrational and affective factors that influence financial decision-making. Understanding the peculiarities of the stock market has been the subject of an increasing amount of research over the past few decades. (Dr., M., Padmavathy. 2024).

Financial Literacy

Individual investors' degree of financial literacy has a big impact on their investment decisions. To some extent, financially astute people can stop irrational behavior (Li and Qamruzzaman, 2022; Mehta et al., 2022). The cognitive understanding of financial concepts and abilities, including personal financial management, borrowing, investing, budgeting, and taxation, is referred to as financial literacy. Lacking the information and abilities necessary to manage one's finances is known as financial illiteracy. Financial literacy lowers the likelihood that an individual would face personal financial hardship by making them better equipped to handle certain financial challenges (Natasya et al., 2022b). A person's degree of financial literacy will determine how well they handle their money because it will give them the knowledge and abilities they need to do so. If they don't, investors won't have a firm foundation upon which to base their decisions and actions about their investments and savings. However, investors may find it easier to take control of their financial circumstances and make wise financial decisions if they have a firm understanding of the principles of money. Additionally, it will help investors achieve financial stability, make wise financial decisions, and manage their money effectively (Qamruzzaman and Jianguo, 2016; Shaik et al., 2022). One must take into account all pertinent facts by the efficient market to make well-informed investing decisions.

Behavioral finance and cognitive biases

Recognizing that cognitive biases commonly influence investors' attitudes and evaluations is a cornerstone of behavioral finance. Cognitive biases that can skew perceptions and create oddities in the market include anchoring bias, loss aversion, and overconfidence. Overestimating one's abilities, depending too much on past information, or being more terrified of losses than of gains can all lead to investors making less-than-ideal decisions.

Emotions and social dynamics in Market Behaviour

Financial decisions can be significantly influenced by emotions. Market bubbles and crashes may be exacerbated by investors making premature judgments due to emotions like fear and greed. Understanding how emotions affect judgment is crucial to understanding the complexities of stock market anomalies. The purpose of this study is to investigate the emotional aspects of investment activity, offering insights into how sentiments like excitement, regret, and anxiety affect market dynamics. Furthermore, a thorough analysis of the social aspects influencing investment decisions is necessary to comprehend the uniqueness of the stock market. An unjustified increase in asset values driven more by momentum than by fundamental criteria may result from investors blindly following the herd without doing a comprehensive investigation. (Dr., M., Padmavathy. 2024).

Significance of the Study

Investors used to lack the skills necessary to evaluate a company's economics, industry, and fundamentals. When making financial judgments, people should ideally combine irrational behavior with technical factors. Despite this, modern investors have a high level of financial literacy and access to sufficient information, which they frequently utilize when making investment decisions. Thus, the impact of behavioral biases and financial literacy offers the required catalyst for starting such a significant empirical investigation. This study evaluates the variables affecting investors' decisions to invest in the stock market.

2. REVIEW OF LITERATURE:

1. **Naveen, & Sureshramana. (2024)** the authors investigated the reason behind people who have savings but choose never to invest in the financial market, the reason that makes them hesitant to become investors from just being savers. There was a visible gap between the lenders and borrowers which hampered the financial markets' ability to move funds freely. It was found that the major influence on the decision to invest came from the scenarios of people purchasing shares to attain financial security. Investing decisions were highly influenced by safeguarding considerations, concerns with market dynamics, and economic facts. It was also found that the savers' decision had a significant relationship with the annual reports of the companies that contained the financial data.
2. **Dr., M., Padmavathy. (2024)** examined how behavioural finance affects stock market variations challenges conventional financial theories, it further aimed to understand how irrationality and emotions affected the decision to invest. It was found that “anchoring, overconfidence, and loss aversion are some of the examples of cognitive biases that impact the investor's decision-making process prompted by market irregularities. It was further seen that the booms and busts of the stock market harmed emotional variables like greed and fear, their irregularities made it even worse by hear behavior.
3. **Weixiang, et al. (2022).** sought to investigate how financial literacy and behavioural biases affect investment choices, with a particular emphasis on the stock market decisions made by individual investors. While cognitive illusions, herd mentality, and the framing effect had detrimental effects, heuristic bias played a crucial role in the formation of behavioural biases in decision-making. When making financial judgements, investors tended to rely more on heuristic biases than on other irrational methods. It was discovered that financial literacy significantly influences stock market investment decisions.
4. **Raut, R. K. (2020).** Aimed to assess the relevance of past performance and financial literacy in the decision-making process of individual investors using the Theory of Planned Behaviour (TPB). It was found the choice to spend was pragmatically influenced by each of the variables, it was further seen that when the decision was influenced by investors' opinion showed a positive indirect relation in past behaviors, although there was no direct influence. TPB was successfully applied and it confirmed that social pressure had a significant effect on the Indian investor's decision to invest, also it was noted that financial knowledge may have mitigated this effect.
5. **Metawa, N., et al. (2019)** examined the investor's demographics “age, gender, education, and experience” in their decision to invest using behavioral factors “sentiment, overconfidence, overreaction, and underreaction, and herd behavior” as mediators in the Egyptian stock market. The findings of the study indicated that investors' emotions, overconfidence, underreaction, and herd behavior all significantly influenced investment decisions. However, age, gender, and educational level had a strong beneficial influence on investment decisions. It was further found that experience did not show any significant

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impact on the decision to invest, although it was seen that seasoned investors tended to overall emotional factors.

6. **Shah, S. Z. A., et al. (2018)** the authors addressed the gap in the literature on less-developed financial markets and defined how heuristics affect the investment attitudes toward the efficiency of the market and the investment decision of the individuals when they trade on the Pakistan Stock Exchange (PSX). It was found in the study that the perception of the individual investors of market efficiency and their decision to invest in the PSX was positively influenced by heuristic biases such as "overconfidence, representativeness, availability, and anchoring."
7. **Zahera, S. A., & Bansal, R. (2018)** investigated investors decision-making to analyze the behavioral finance literature available. It was found that the decision to invest is highly influenced by biases, such as short term underreaction and lone-term overreaction. 17 types of biases were found from the literature review such as "overconfidence, disposition effect, herding, loss aversion, mental accounting, representativeness, conformation, framing, hindsight, anchoring, house money effect, home bias, self-attribution, conservatism, regret aversion, the endowment effect, and regency". It was also observed that financial innovations can lessen these biases if they fail to deliver as it leads to a decline in the confidence of the investors.

3. OBJECTIVES OF THE STUDY:

1. To evaluate the factors influencing investment decisions toward the stock market
2. To analyze the role of financial literacy on investment decisions towards the stock market.

Hypothesis

HO_1: There is a significant impact of attitude on behavioral control

HO_2: There is a significant impact of financial literacy on behavioral control

HO_3: There is a significant impact of perceived behavioral control on behavioral control

HO_4: There is a significant impact of subjective norms on behavioral control.

4. RESEARCH METHODOLOGY:

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Aspect	Details
Sample Size	200 Individual Investors (Minimum necessary sample size: 188)
Effect Size	0.3
Statistical Power	0.9
Number of Latent Variables	5
Number of Observable Variables	25
Probability Level	0.05
Sampling Method	Non-random purposive sampling
Data Gathering Methods	Primary and secondary data
Analytical Method	Structural Equation Model (SEM)
Analytical Tool	SMART PLS

Data Analysis and Interpretation:

Table No: 1 Reliability and validity

Path	Cronbach's Alpha	Composite Reliability	Average Variance Extracted (AVE)
Attitude	**0.907**	**0.906**	**0.618**
Behavioural Control	**0.863**	**0.863**	**0.611**
Financial Literacy	**0.884**	**0.884**	**0.606**
Perceived Behavioural Control	**0.900**	**0.900**	**0.645**
Subjective Norms	**0.923**	**0.923**	**0.705**
As all the values are as per the recommended criteria of Hair et al 2013, we can conclude that there exist an adequate reliability and convergent validity.			

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Table No: 2 discriminan

Path	A	BC	FL	PBC	SN
Attitude (A)	0.786				
Behavioural Control (BC)	0.728	0.782			
Financial Literacy (FL)	0.724	0.770	0.778		
Perceived Behavioural Control (PCB)	0.773	0.751	0.733	0.803	
Subjective Norms (SN)	0.742	0.719	0.753	0.765	0.840
As per the fornell larcker criteria, it can be concluded that the constructs are distinct and there exist and adequate Discriminant validity.					

Figure No: 1 SEM model

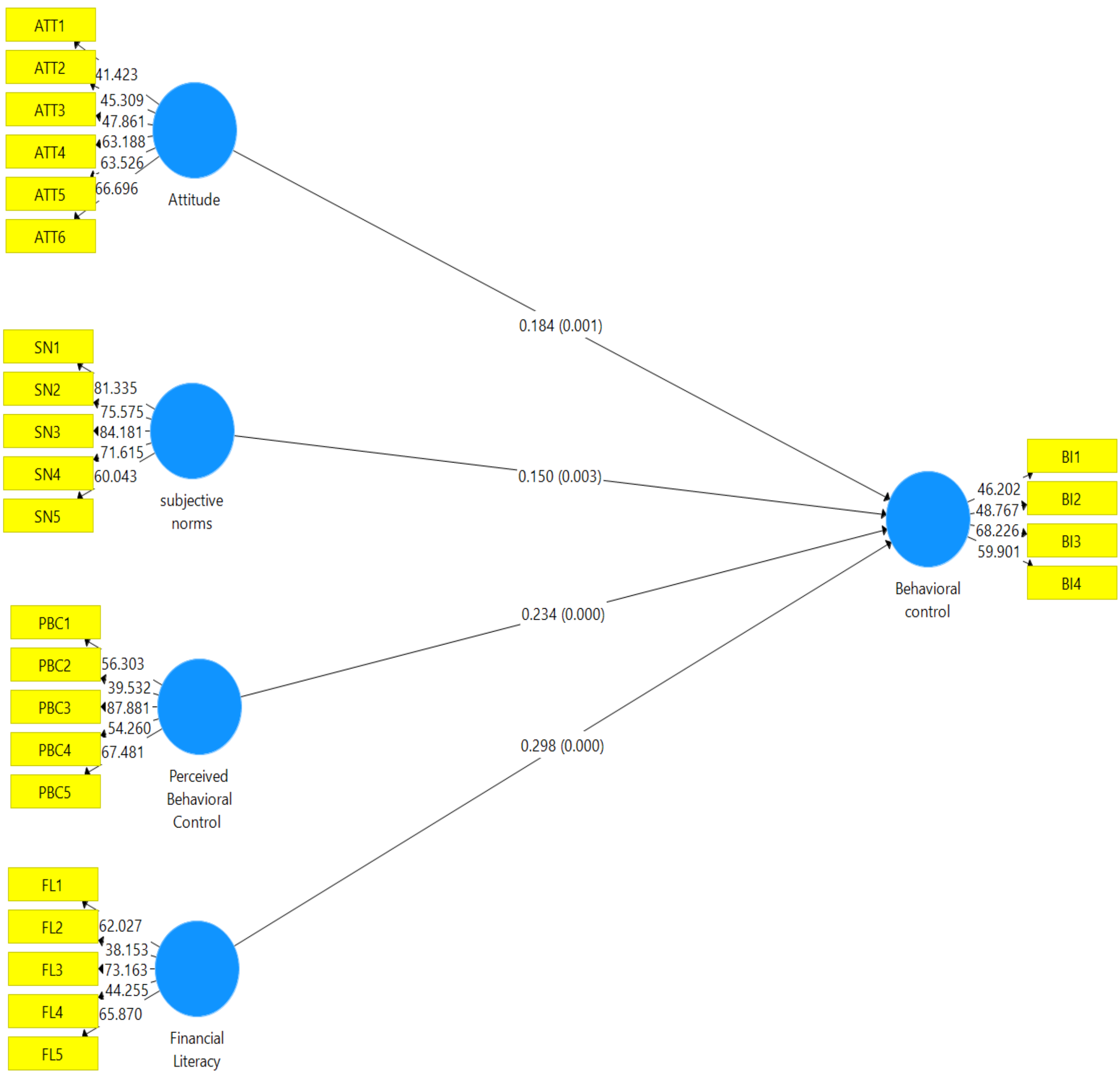

Table No: 3 Hypothesis testing

Path	Beta Coefficient	T-statistics	P-value
Attitude → Behavioural Control	0.184	3.473	0.001
Financial Literacy → Behavioural Control	0.298	5.907	0.000
Perceived Behavioural Control → Behavioural Control	0.234	3.700	0.000
Subjective Norms → Behavioural Control	0.150	2.994	0.000
P (value) < level of significance 5% thus Ho is rejected and H1 is accepted in all the cases indicating a significant impact of attitude, financial literacy, perceived behavioral control, and subjective norms on behavioral control.			

5. CONCLUSION:

The study emphasises how important attitude, financial literacy, perceived behavioural control, and subjective standards are when making investing decisions, especially when it comes to the stock market. It demonstrates that an investor's mindset towards investing significantly influences how they make decisions, with a more upbeat outlook resulting in more aggressive and knowledgeable investment decisions. As a critical component, financial literacy gives investors the information they need to evaluate risks, comprehend market patterns, and steer clear of behavioural biases, all of which lead to more logical investment choices. Because people who have confidence in their ability to make wise decisions are more inclined to take charge of their assets, even in the face of market uncertainty, the idea of perceived behavioural control is also crucial. Furthermore, subjective norms—like the influence of peers, family, or financial advisors have a big impact on investment behaviour by either promoting or discouraging investment activity. The results imply that a mix of these elements—financial literacy, optimistic outlooks, self-assurance in judgement, and a socially encouraging atmosphere can result in better and more informed investment choices. The study's overall findings highlight the importance of financial education in enhancing literacy and decision-making skills, as well as the value of creating environments that boost self-esteem and positive social influences, all of which can maximise stock market investment results.

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