A STUDY ON FACTORS INFLUENCING INVESTMENT IN THE SHARE MARKET IN TAMIL NADU

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Abstract
Trade and investment flows in financial services have been growing rapidly with the emergence of new and growing markets in developing and transition economies, with modernization, rapid technological change, use of new financial instruments, and financial and trade liberalization. Investors needs to invest in stock markets and earn return on their idle resources and generate a specified sum of money for a specific goal in life and make a provision for an uncertain future. The exploratory factor analysis reveals that expected returns, risk bearing ability, familiarity and peer group are the factors influencing investment in the share market. The results indicate that there is a significant difference between socio-economic characteristics of the investors and factors influencing investment in the share market. The regression analysis shows that expected returns, risk bearing ability, familiarity and peer group have positive and significant impact on average monthly transaction of investors. Since, expected returns, risk bearing ability, familiarity and peer group are the factors influencing investment in the share market, the investors should consider these factors while they invest in share market. It is suggested to acquire more information about different investment opportunities in share market from various sources and to cut wasteful expenditures for investment purposes.

Key Words: Exploratory Factor Analysis, Investment, Regression, Share Market.

1. Introduction
The financial services sector accounts for a significant share of economic activity in most countries. The sector is recognized for its contribution towards long-term growth and efficiency given its intermediate role in channeling resources to all sectors of the economy. Improved provision of financial services enables greater efficiency in other sectors by expanding the range and enhancing the quality of such services, by lowering costs of funds and by encouraging savings and more efficient use of these savings. Financial services constitute a large and growing sector in almost all economies. Trade and investment flows in financial services have been growing rapidly with the emergence of new and growing markets in developing and transition economies, with modernization, rapid technological change, use of new financial instruments, and financial and trade liberalization.

Stock markets are also expected to play a major role in disciplining company managements. In India, equity market development receives emphasis since the very first phase of liberalization in the early 'eighties. Additional emphasis followed after the liberalization process get deepened and widened in 1991 as development of capital markets is made an integral part of the restructuring strategy. Today, Indian markets conform to international standards both in terms of structure and in terms of operating efficiency (Singh, 1997).

Investors needs to invest in stock markets and earn return on their idle resources and generate a specified sum of money for a specific goal in life and make a provision for an uncertain future. By investing early, the investor allow the investments for more time to grow, whereby the concept of compounding increases the income, by accumulating the principal and the interest or dividend earned on it, year after year.

The most crucial challenge faced by the investors is perhaps in the area of taking investment decisions especially in stock markets. Every investor differs from the others in all aspects due to various internal and external factors. An optimum investment decision plays an active role and is a significant consideration. The individual investors consider their investment needs, goals, objectives and constraints in making investment decisions, but it is not possible to make a successful investment decision at all times. With this back ground, the present research is attempted to study factors influencing investment in the share market in Tamil Nadu.

2. Methodology
The Tamil Nadu state has been purposively selected for the present study. The investors have been selected for the present study by adopting random sampling technique. The data and information have been collected from 1500 investors in Tamil Nadu through pre-tested structured questionnaire and the data and information pertain to the year 2014-2015. In order to study the socio-economic characteristics of the investors, the frequency and percentage analysis have been carried out. In order to identify the factors influencing investment in the share market, the exploratory factor analysis has been employed. In order to examine the difference between socio-economic characteristics of investors and factors influencing investment in the

share market, the ANOVA (Analysis of Variance) has been applied. In order to examine the impact of factors influencing investment in the share market on average monthly transaction of investors, the multiple linear regression has been employed.

3. Results and Discussion
3.1. Socio-Economic Characteristics of the Investors
The socio-economic characteristics of the investors were analyzed and the results are presented in Table-1. The results show that about 63.20 per cent of investors are males, while, the rest of 36.80 per cent of investors are females. It is clear that about 33.60 per cent of investors belong to the age group of 41 – 50 years followed by   the age groups of 31 – 40 years (32.47 per cent), 21 – 30 years (22.40 per cent), 51 – 60 years (7.93 per cent) and more than 60 years (3.60 per cent).

The results indicate that about 38.74 per cent of investors have the educational qualification post graduation followed by graduation (25.33 per cent), professional (19.40 per cent), diploma (9.00 per cent), secondary (4.00 per cent) and higher secondary (3.53 per cent). It is observed that about 45.93 per cent of investors are working in private sector followed by business (27.27 per cent), Government sector (18.67 per cent), agriculture (4.20 per cent) and retired (3.93 per cent).

The results reveal that about 29.40 per cent of investors belong to the annual income group of Rs.3,01,000 – Rs.4,00,000 followed by Rs.2,01,000 – Rs.3,00,000 (21.87 per cent), Rs.4,01,000 – Rs.5,00,000 (18.13 per cent), less than Rs.2,00,000 (17.07 per cent) and more than Rs.5,00,000 (13.53 per cent). It is apparent that about 29.67 per cent of investors belong to the average monthly transaction group of less than Rs.25,000 followed by Rs.50,001 – Rs.75,000 (25.07 per cent), Rs.25,001 – Rs.50,000 (22.20 per cent), Rs.75,001 – Rs.1,00,000 (14.00 per cent) and more than Rs.1,00,000 (9.06 per cent).

Table – 1, Socio-Economic Characteristics of the Investors

Socio-Economic Characteristics	Frequency	Percentage
Gender		
Male	948	63.20
Female	552	36.80
Age Group		
21 – 30 years	336	22.40
31 – 40 years	487	32.47
41 – 50 years	504	33.60
51 – 60 years	119	7.93
More than 60 years	54	3.60
Educational Qualification		
Secondary	60	4.00
Higher Secondary	53	3.53
Diploma	135	9.00
Graduation	380	25.33
Post Graduation	581	38.74
Professional	291	19.40
Socio-Economic Characteristics	**Frequency**	**Percentage**
Occupation		
Business	409	27.27
Government Sector	280	18.67
Private Sector	689	45.93
Retired	59	3.93
Agriculture	63	4.20
Annual Income		
Less than Rs.2,00,000	256	17.07
Rs.2,01,000 – Rs.3,00,000	328	21.87
Rs.3,01,000 – Rs.4,00,000	441	29.40
Rs.4,01,000 – Rs.5,00,000	272	18.13
More than Rs.5,00,000	203	13.53
Average Monthly Transaction		
Less than Rs.25,000	445	29.67

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Rs.25,001 – Rs.50,000	333	22.20
Rs.50,001 – Rs.75,000	376	25.07
Rs.75,001 – Rs.1,00,000	210	14.00
More than Rs.1,00,000	136	9.06

3.2. Identification of Factors Influencing Investment in the Share Market

In order to identify the factors influencing investment in the share market, the exploratory factor analysis has been employed. The principal component method of factor analysis has been carried out with Eigen values greater than one through varimax rotation and the results obtained through rotated component matrix are presented in Table-2. The results of Kaiser-Meyer-Olkin (KMO test) measure of sampling adequacy (KMO = 0.892) and Bartlett's test of Sphericity (Chi-square Value = 0.0014; Significance = 0.000) indicates that the factor analysis method is appropriate.

There are four factors which are extracted accounting for a total of 77.65 per cent of variations on 20 variables. The each of the four factors contributes to 28.94 per cent, 19.59 per cent, 16.70 per cent and 12.42 per cent respectively.

Table – 2, Identification of Factors Influencing Investment in the Share Market-Exploratory Factor Analysis

Factor	Item	Rotated Factor Loadings	Eigen Value	% of Variation	Factor Name
I	Get-rich-quick	0.73	2.14	28.94	**Expected Returns**
	Divided policy	0.69			
	Best opportunities for speculation	0.71			
	Expected corporate earnings	0.67			
	Expected stock split / bonus	0.65			
	Credit availability	0.70			
II	The company's reputation	0.63	1.53	19.59	**Risk Bearing Ability**
	Past performance of the company's stock	0.69			
	Rumors	0.64			
	Expected losses in other investments	0.67			
	Low level of risk	0.70			
III	Recent price movement in the company's stock	0.66	1.16	16.70	**Familiarity**
	Insiders' information	0.68			
	Opinions of members of the family	0.65			
	Marketability of the company	0.74			
	Loyalty to the company product	0.63			
IV	Share broker's recommendation	0.70	1.01	12.42	**Peer Group**
	Recommendations of financial advisors	0.66			
	Friends' recommendations	0.63			
	Religious reasons	0.67			
	Cumulative % of Variation	-	-	77.65	**-**
	Cronbach's Alpha	-	-	-	0.89

Extraction Method: Principal Component Analysis
Rotation Method: Varimax with Kaiser Normalization
Rotation converged in 10 iterations

Factor-I: From the results, it is inferred that out of 20 variables, six variables have their high, relatively tightly grouped factor loadings on factor-I.
This factor consists of:
- Get-rich-quick (0.73)
- Divided policy (0.69)
- Best opportunities for speculation (0.71)
- Expected corporate earnings (0.67)

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- Expected stock split / bonus (0.65)
- Credit availability (0.70)

Hence, this factor is named as **"Expected Returns".**

Factor-II: is formed with:
- The company's reputation (0.63)
- Past performance of the company's stock (0.69)
- Rumours (0.64)
- Expected losses in other investments (0.67)
- Low level of risk (0.70)

These variables are named as **"Risk Bearing Ability".**

Factor-III: This factor includes:
- Recent price movement in the company's stock (0.66)
- Insiders' information (0.68)
- Opinions of members of the family (0.65)
- Marketability of the company (0.74)
- Loyalty to the company product (0.63)

These variables are named as **"Familiarity".**

Factor-IV: This factor is formed with:
- Share broker's recommendation (0.70)
- Recommendations of financial advisors (0.66)
- Friends' recommendations (0.63)
- Religious reasons (0.67)

This factor is named as **"Peer Group".**

The Cronbach's Alpha of the scale was 0.89 indicating that each measure demonstrated acceptable internal consistency. It is inferred that expected returns, risk bearing ability, familiarity and peer group are the factors influencing investment in the share market.

3.3.Socio-Economic Characteristics of The Investors and Factors Influencing Investment in the Share Market
In order to examine the difference between socio-economic characteristics of the investors and factors influencing investment in the share market, the ANOVA (Analysis of Variance) has been applied and the results are presented inTable-3.

Table – 3, Difference Between Socio-Economic Characteristics of The Investors and Factors Influencing Investment in the Share Market

Particulars	F-Value	Sig.
Gender and Factors Influencing Investment in the Share Market	6.792[**]	.009
Age Group and Factors Influencing Investment in the Share Market	7.600[**]	.000
Educational Qualification Factors Influencing Investment in the Share Market	12.725[**]	.000
Occupation and Factors Influencing Investment in the Share Market	8.436[**]	.000
Annual Income and Factors Influencing Investment in the Share Market	8.989[**]	.000
Average Monthly Transaction and Factors Influencing Investment in the Share Market	16.495[**]	.000

Note: [**] Significance at one per cent level.

The results show that the F-values are significant at one per cent level indicating that there is a significant difference between socio-economic characteristics of the investors and factors influencing investment in the share market. Hence, the null hypothesis of there is no significant difference between socio-economic characteristics of the investors and factors influencing investment in the share market is rejected.

3.4. Impact of Factors Influencing Investment in the Share Market on Average Monthly Transaction of Investors

In order to examine the impact of factors influencing investment in the share market on average monthly transaction of investors, the multiple linear regressions has been applied and the results are presented in Table-4. The factors influencing investment in the share market derived from exploratory factor analysis are considered as independent variables and the average monthly transaction of investors is considered as dependent variable.

The results show that the coefficient of multiple determinations (R^2) is 0.63 and adjusted R^2 is 0.61 indicating the regression model is good fit. It is inferred that about 61.00 per cent of the variation in dependent variable (Average Monthly Transaction) is explained by the independent variables (Factors Influencing Investment in the Share Market). The F-value of 12.419 is statistically significant at one per cent level indicating that the model is significant.

Table - 4, Impact of Factors Influencing Investment in the Share Market on Average Monthly Transaction of Investors

Factors Influencing Investment in the Share Market	Regression Co-efficients	t-value	Sig.
Intercept	2.252**	16.992	.000
Expected Returns (X_1)	.338**	7.599	.000
Risk Bearing Ability (X_2)	.211**	6.980	.000
Familiarity (X_3)	.177**	5.213	.000
Peer Group (X_4)	.128**	6.460	.000
R^2	0.63	-	-
Adjusted R^2	0.61	-	-
F	12.419	-	.000
N	1500	-	-

Note: ** Significance at one per cent level.

The results indicate that expected returns, risk bearing ability, familiarity and peer group have positive and significant impact on average monthly transaction of investors at one per cent level. Hence, the null hypothesis of there is no significant impact of factors influencing investment in the share market on average monthly transaction of investors is rejected.

4. Conclusion

The foregoing analysis shows that majority of the investors are males and most of the investors belong to the age group of 41 – 50 years. Majority of the investors have the educational qualification of post graduation and most of the investors are working in private sector. Majority of the investors belong to the annual income group of Rs.3,01,000 – Rs.4,00,000 and most of the investors belong to the average monthly transaction group of less than Rs.25,000.

The exploratory factor analysis reveals that expected returns, risk bearing ability, familiarity and peer group are the factors influencing investment in the share market. The results indicate that there is a significant difference between socio-economic characteristics of the investors and factors influencing investment in the share market.

The regression analysis shows that expected returns, risk bearing ability, familiarity and peer group have positive and significant impact on average monthly transaction of investors.

Since, expected returns, risk bearing ability, familiarity and peer group are the factors influencing investment in the share market, the investors should consider these factors while they invest in share market.

The investors need to analyze the investment factors carefully using the business knowledge and familiarity before making an investment decision in share market. In order to improve the investment habits of investors, it is suggested to acquire more information about different investment opportunities in share market from various sources and to cut wasteful expenditures for investment purposes.

It is suggested that the investors should change investment strategy if the share market is highly volatile based on their risk bearing ability and expected returns and it is also important that investors should keep up-to-date on investment information.

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