

*Full Length Research Paper*

# The impact of investors' sentiment on the equity market: Evidence from Indian stock market

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The investors' sentiment can be defined as investors' attitude and opinion towards investing in the Stocks. The aim of this research is to analyse the individual investor's sentiment. This study also analyses the influence of market specific factors on investors' sentiment. The investor's attitude towards investing is influenced by rumours, intuition, herd behaviour among investors and media coverage of the stock. A simple random sample of 375 investors in Tamil Nadu were chosen for the study. These investors were administered a structured schedule, containing pre-validated scales to measure the investor sentiment. Once the constructs were found to be both reliable and valid, the impact of Herd Behaviour, Internet Led Access to Information and Trading, Macro Economic Factors, Risk and Cost Factors, Performance Factors and Confidence Level of Institutional Investors, Best Game in Town Factors were tested by using the Bootstrapping method. The Market Specific Factors had a significant impact on the investors' sentiment in India.

**Key words:** Investors' sentiment, best game, PLS path modeling, market specific factors, herd behaviour.

## INTRODUCTION

The investors' sentiment has been a subject of interest in the finance literature for a number of years. The debate as to the effects and relevance continues unabated. One could broadly define investors' sentiment as the beliefs about future cash flows or discount rates that are not supported by the prevailing fundamentals (Lemmon and Portniaguina, 2006; Baker and Wurgler, 2006).

The study of market or investors' sentiment has its basis in the theories of Noise Trader Models. Kyle (1985) and Black (1986) suggested that, if some traders trade on 'noisy' signals, unrelated to fundamental data, then the

market prices may deviate from intrinsic value. The Noise Trader Sentiment can persist in financial markets. They argue that *changes* in Noise Trader Sentiment must be difficult to predict to avoid arbitrage. The assets that are disproportionately exposed to Noise Trader Risk are both riskier and have to offer an extra return premium (DeLong et al., 1990).

The research in Behavioural Finance is comparatively less in India, when compared to foreign countries. Behavioural Finance is defined by Shleifer (1999) as, "a rapidly growing area that deals with the influence of psychology on the behaviour of financial practitioners". Within Behavioural Finance, it is assumed that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcomes. Behavioural Finance mainly focuses on how investors interpret and act on micro and macro information to make investment decisions. The globalization of financial markets has been increasing the number of retail investors over the past two decades by

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**Abbreviations:** CITC, Corrected item total correlation; AVE, average variance extracted; HB, herd behaviour; ILA, internet led access; MEF, macro-economic factors; RCF, risk and cost factors; PFCII, performance factor and confidence level of institutional investors.

by providing a wide variety of market and investment options. However, it makes the investment decisions process much more complex.

The retail investors generally consider their investment needs, goals, objectives and constraints while making investment decisions. But it is not possible for them to make a successful investment decision at all times. Their attitude is influenced by a variety of factors such as dividend, get rich quickly strategy, stories of successful investors, online trading, investor awareness programme, etc. A better understanding of behavioral processes and outcomes are important for financial planners because an understanding of how investors generally respond to market movements would help them in devising appropriate asset allocation strategies for clients (Hussein et al., 2006).

### Investors rational

According to the traditional market theories, it is not only the markets that do not behave neatly but also the individual decision makers who do not behave in accordance with the tenets of expected utility theory. Allais (1959), who undertook the earliest works on Behavioural Finance, pointed out 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 axioms of the expected utility maximizing model of financial economics.

It is to be noted that investors also show sensitivity to Reference Points. When a certain purchased stocks price falls because of disappointing news, many investors are averse to selling it at a loss. Here the Reference Point is the original cost of purchase. Investors have a tendency to hold on to their losses. But some investors wait in anticipation that the stock price would return to their purchase price before they decide to sell it without rationally evaluating the situation. In other words investors generally 'hate to lose'.

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 intervals because, the investors attitude do change from time to time. Hence this study attempts to find out the Impact of Investors' Sentiment on the Equity Market in India.

### LITERATURE REVIEW

The following are the select earlier research studies conducted in the area of Behavioural Finance. The stocks become overpriced or underpriced during periods of high or low sentiment, which leads to predictable subsequent

returns (Baker and Wurgler, 2006; Lemmon and Portniaguina, 2006; Qiu and Welch, 2006).

Peter (1970) carried out a study to identify those factors which motivate or guide the investment decisions of the retail stock investors. The study identified factors such as income from dividends, rapid growth, purposeful investment as a protective outlet of savings and Professional investment management. Shanmugam (1990) studied a group of 90 investors to examine the factors affecting investment decision. The study focused its analysis on the investment objective and the extent of awareness on factors affecting investment decision. The study found that the Indian investors were high risk takers. The investors possessed adequate knowledge of government regulations, monetary and fiscal policy. Warren et al. (1996) developed lifestyle and demographic profiles of investors based on the value and types of investment holding. Krishnan and Booker (2002) analyzed the factors influencing the decisions 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 investors behaviour on the Athens Stock Exchange. The results indicated that individuals base their stock purchase decision on economic criteria. Glaser et al. (2009) tested whether individual 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 sentiment and stock market returns, but only in the very short-run (one and two trading days). Iihara et al. (2001) documented herding behaviour in various investors' classes on the Tokyo Stock Exchange. The money-flow instruments allowed the separation of the measurement of sentiment from the measurement 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 the flows into and out of foreign mutual funds were negatively correlated with flows to domestic equity funds. Elton et al. (1998) indicated that investor sentiment did not exist even in a market whose environment was expected to be more prone to investors' sentiment than in other developed markets. Sachithanatham et al. (2007) studied the relationship between the 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. Bennet and Selvam (2011) found out that SPERTEL risks had influenced the value of equity shares in the market. The market factors had influenced the stock selection Decision of Retail Investors in India.

Bennet et al. (2011) carried out a study and found that most of the investors expect the stock prices to go up to a degree greater than most of their investments. If the market has gone down, they think it would rebound. If the

market is up, they think it would go further. In either case, they make investment decision on account of the assumption that the stock market would give better returns.

It is to be noted that the literature on investor's sentiment is still in its infancy, and much remains to be discovered and learnt. There is no comprehensive study in Tamil Nadu, India, focussing on market specific factors that influence investors' sentiment. Hence this study, with the primary objective of analysing data on individual equity investors, proposes to identify the market specific factors that influence investors' sentiment.

### **Market factors / variables that influence investors' sentiment**

The market factors (variables) that influence the investors' sentiment are briefly described as follows:

Herd behaviour (HB): "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they only recover their senses slowly, and one by one (Charles, 1841). Herd behaviour (HB) refers to similarity in thinking among individuals. If well informed and experienced investors invest in a particular stock, then the other investors would also follow the same. This behaviour in the stock market among individual investors comprises of perception of easy money among investors, Stories of Successful Investors, Get Rich Quick Philosophy, Greed among investors, Media Focus on the stock market and Performance of Internet Stocks (Vandana, 2001).

Internet led access to information and trading (ILA): It is generally felt that the new generation of investors are techno-savvy, self reliant and buy and sell like professionals. Such investors are hungry for more information and demand information at a higher level than in the past and trade frequently. The internet has facilitated easy, low cost and speedy access to information and trading. It has increased the focus and attention on stocks and thus increased the demand for stocks. This increased demand for stocks boosted the stock market valuations beyond its fundamentals. This factor comprises of responses to the items, namely, On-Line Trading, Information Age, Access to Information, Access to Tools and Technology via the Internet, Ease of executing a trade and Low Cost of executing a trade. Freund and Diana (2001) found that the effect of the Internet on trade has been stronger for poor countries than for rich countries, and that there is little evidence that the Internet has reduced the impact of distance on trade. Brad and Terrance (2001) found that the internet has changed the process of how information is delivered to the investors and the ways in which investors can act on that information. The ILA has lowered both the fixed and marginal costs of producing financial services, thus enabling newer, smaller companies to challenge established providers of these services.

The macroeconomic factors (MEF): That could influence the investors' attitudes towards investing in India are interest rate, rate of inflation, unemployment rate, strength of Indian economy and the value of other major currencies. Mark and Protopapadakis (2002) found that the stock market returns were significantly correlated with inflation and money growth. The impact of real macroeconomic variables on aggregate equity returns has been difficult to establish. Risk and cost factors (RCF): Investors have identified two factors as most important; the first one is cost cutting at the operations level and the second being techno-logical advancement. Similarly they also identified two aspects of risk that influenced the investor's attitude. First investors believe that higher the risk, higher the return. Secondly, investors view the stability and the able governance of the Government as an important factor influencing their faith in the Stock Market.

Performance factor and confidence level of institutional investors (PFCII): The overall performance of the Indian Economy, Indian Stock Market and the corporate world were identified as the important factors that would influence the Individual Investors to invest in the Stock Market. The overall confidence level of the Institutional Investors was also considered as another factor.

Best game in town (BG): Almost all investors felt that all the investment avenues like Post Office Savings, Life Insurance, Treasury Bills, Chit Funds etc, earn low rates when compared to equity investment. Hence this is one of the reasons for mass participation in stock investing. This makes stock market as the only place attractive enough to invest.

An attempt has been made in this study to examine the market specific factors that influence the investors' sentiment to invest in stock market. All the above six market factors are considered in this study as independent variables.

### **Hypothesis of the study**

Investors' optimism that 'nothing can go wrong attitude' is that they believe the stock prices to rise for the next 12 months and they plan to increase their investment in the Indian Stock Market for the next 12 months also. Hence the following hypothesis was formulated and tested.

Investors' optimism is influenced by herd behaviour of Investors (HB), internet led access to information and trading (ILA), macro-economic factors (MEF), risk and cost factor (RCF), performance factor and confidence level of institutional investors (PFCII) and best game in town (BG).

### **METHODOLOGY OF THE STUDY**

#### **Data collection and instrument administered**

The instrument used for this study consists of six constructs

(independent variables), namely, herd behaviour of investors, internet led access to information and trading, macro-economic factors, risk and cost factor, performance factor and confidence level of institutional investors, best game in town and investors' optimism is taken as a dependent variable (another construct). These seven constructs were already developed and validated by Shiller's (1999) and used by Vandana (2001).

### Sources of data

The research design for the study was descriptive in nature. The Researchers depended heavily on primary data. The required data were collected from the retail investors living in Tamil Nadu through a Structured Interview Schedule. The study was conducted during the period between May and September, 2010.

### Sampling size and procedure

In order to collect the required information from the retail investors, the sampling design was carefully decided and properly chosen for the study. The sample size covered 400 retail investors who were spread through ten different investment centres in Tamil Nadu. The important places where large investors are available were identified as Investment Centres, for this study using Purposive Sampling Method. The ten important places in Tamil Nadu include Chennai, Coimbatore, Trichy, Madurai, Karaikudi, Kumbakonam, Hosur, Tirunelveli, Erode and Tiruppur. From each identified Investment Centre, five approved stock brokers were chosen and eight investors were contacted with the help of brokers. However, on a detailed scrutiny of the filled in Schedules, it was found that 25 of them had given incomplete information and hence the responses could not be used for further analysis. Thus, this study was based on 375 selected respondents of the retail investors.

### Variables used

#### *Dependent variables*

This study consists of the following dependent variables:

1. Stock prices in India will rise in the next 12 months.
- 2 Plan to increase my investment in the Indian Stock Market in the next 12 months.

#### *Independent variables*

The study consists of six market specific factors influencing Investors Sentiment. The in-depth interviews and secondary research identified six multi-item market specific factors that possibly influenced investors' attitude towards investing. In the survey, the sample respondents were asked to rate each item on a one (not important) to seven (very important) point scale indicating the extent to which they thought each of the item is likely to influence the individual investor's attitude towards investing. The idea was to get the relative importance of market factors likely to influence investors' sentiment. This rating was used to list the independent market variables that could impact investors' sentiment. The six multi-item market specific factors are Herd Behaviour of Investors (HB), internet led access to information and trading (ILA), macro-economic factors (MEF), risk and cost factor (RCF), performance factor and confidence level of institutional investors (PFCII) and best game in town (BG).

### Reliability test

Tables 1 to 7 shows the value of reliability (Alpha) test for market factor. As stated earlier, each market specific factor has variables. While arriving at the alpha value for each factor, all 26 variables were considered. The reliability value of each market factor was ascertained (herd behaviour (HB), alpha = 0.831; Internet led access to information and trading (ILA), alpha = 0.769; The macro-economic factors (MEF), alpha= 0.821; Risk and cost factor (RCF), alpha = 0.841; Performance factor and confidence level of institutional investors (PFCII), alpha = 0.769 and best game in town (BG), alpha = 0.821). The reliability of each construct in question was examined using Cronbach's alpha (Cronbach, 1951). An alpha score larger than 0.5 is generally acceptable as sufficient accuracy for a construct (Nunnally, 1978). Hence, all the constructs are considered to be very good as the alpha value of each construct was more than 0.5.

It is to be noted that after the data collection, the scales were analyzed to test the purification of scales, reliability of scales, unidimensionality of scales and validity of the scales. The purification was done using corrected item total correlation (CITC), reliability was tested using Cronbach's alpha while validity and unidimensionality were tested using PLS path modeling. Before any type of factor analysis was done (exploratory factor analysis, EFA or confirmatory factor analysis, CFA), it was essential to purify the measuring instruments of variables that did not correlate to the constructs (Churchill, 1979). The purification is carried out by inspecting the CITC values of each variable with respect to the construct to which it belongs. CITC indicates whether the variable actually belongs to the construct or not. The variables showing scores lower than 0.5 were deleted, unless there was a compelling reason to keep them in the construct. Reliability of constructs refers to the accuracy with which the constructs repeatedly measure the same phenomenon without much variation.

## THE RESULTS OF STRUCTURAL EQUATION MODEL

In this study, researchers employed structural equation modeling to test the unidimensionality of the constructs. There are two approaches to structural equation modeling, the covariance methods and PLS path modeling. Covariance methods make rigid assumptions about the distribution of variables (multivariate normality) and the sample size (at least 200). Another criterion is the degrees of freedom, which means that each construct should have at least three indicators for it to be identified. These three indicators do not make any assumptions about the distribution of the data, and the sample size needed for model validation and testing is much smaller. The convergent validity of each construct is checked by examining the average variance extracted' (AVE) values. Constructs, which have AVE values greater than 0.5, are said to have convergent validity or unidimensionality. In some cases, values up to 0.4 are also considered if they are central to the model (Chin, 1995, 1998; Chin and Newsted, 1999; Chin et al., 2003). The discriminant validity of constructs is ascertained by comparing the AVE scores of the two constructs, with the square of the correlation between the two constructs. If both the AVE values are larger than the square of the correlation, the constructs can be considered to show discriminant validity (Fornell and Larcker, 1981).

**Table 1.** Corrected Item, total correlation for dependent variables.

Variable	Corrected Item-total correlation 1
Stock prices in India will rise in the next 12 months	0.832
I will stay invested in the Indian Stock Market even during Crisis	0.716
I plan to increase my investment in the Indian Stock market in the next 12 months	0.762
Cronbach's alpha	0.732

Source: Calculated from primary data using SPSS 16.

**Table 2.** Corrected Item- total correlation for herd behaviour of Investors.

Variable	Corrected Item-total correlation 1
Stories of successful Investors	0.714
Perception of easy money among Investors	0.648
Get rich quick Philosophy	0.724
Greed among Investors	0.665
Media focus on Stock Market	0.769
Performance of Internet Stocks	0.676
Cronbach's alpha	0.831

Source: Calculated from primary data using SPSS 16.

**Table 3.** Corrected Item, total correlation for internet led access to information and trading.

Variable	Corrected Item-total correlation 1
On-line trading	0.789
Information age, access to information	0.679
Access to tools and technology via the internet	0.869
Ease of executing a trade	0.638
Low cost of executing a trade	0.760
Cronbach's alpha	0.769

Source: Calculated from primary data using SPSS 16.

**Table 4.** Corrected Item- total correlation for macro economic factors.

Variable	Corrected item-total correlation
Interest rate	0.778
Unemployment rate	0.683
Rate of inflation	0.892
Strength of Indian Economy and VS other major currencies	0.891
Cronbach's alpha	0.821

### Construct level correlation analysis of model

In order to test the proposed hypotheses, this study employed a construct level correlation analysis as an initial verification. Visual PLS was used to compute the construct scores. The construct level correlation analysis in variables has been presented in Table 8. Table 8 shows that, there exists a positive correlation between

the HB and IO ( $r=0.639$ ), ILA and IO ( $r=0.681$ ), MEF and IO ( $r=0.707$ ), RSF and IO ( $r=0.578$ ), PFCII and IO ( $r=0.598$ ) and BG and IO ( $r=0.603$ ). The correlation coefficient between HB and IO, ILA and IO, MEF and IO, RSF and IO, PFCII and IO and BG were positively significant at 0.01% level.

Though, the bivariate correlations were significant between the constructs, it was still needed to assess the

**Table 5.** Corrected item- total correlation for risk and cost factors.

Variable	Corrected item-total correlation
Political Stability	0.714
Investors' tolerance for risk	0.724
Technological advancement at Company Level	0.819
Cost cutting at the operations level	0.769
Cronbach's alpha	0.841

Source: Calculated from primary data using SPSS 16.

**Table 6.** Corrected Item- total correlation for performance factors and confidence level of institutional investors.

Variable	Corrected item-total correlation
Confidence level of institutional investors	0.714
Strength of Indian economy versus major economies	0.648
Performance of the Indian stock market	0.724
Confidence level of institutional investors	0.665
Cronbach's alpha	0.769

Source: Calculated from primary data using SPSS 16.

**Table 7.** Corrected Item- total correlation for best game in town.

Variable	Corrected item-total correlation
Can't depend on Provident Fund / Gratuity/ Post office savings etc.	0.778
Low rate of return in government bonds	0.683
Target savings rate	0.892
Cronbach's alpha	0.821

**Table 8.** Construct level correlation analysis of model.

Hypothesis	Independent variable	Dependent variable	Pearson correlation	Sig. (2 Tailed)
H <sub>1</sub>	HB	Investor optimism (IO)	0.639	0.000**
H <sub>2</sub>	ILA		0.681	0.000**
H <sub>3</sub>	MEF		0.707	0.000**
H <sub>4</sub>	RSF		0.578	0.000**
H <sub>5</sub>	PFCII		0.598	0.000**
H <sub>6</sub>	BG		0.603	0.000**

\*\* , Correlation is significant at 0.01 level. Source: Calculated from primary data using SPSS 16.

path coefficients in the structural model as a casual effect. Path coefficients in PLS are standardised regression coefficients (Staples et al., 1998). In order to ensure that the path coefficients are statistically significant, this study used a Bootstrap and Jack-Knife re-sampling procedures to estimate standard errors for calculating t-values using Visual PLS. The results were examined at 5% significance level and the t-statistic value at 0.05 level was 1.96. If the t-statistic value is greater

than 1.96, the path is significant (Efron, 1979; Efron and Gong, 1983).

### Testing of hypothesis

The Bootstrap summary was used to test the relationship between the independent (market specific factors) and dependent variables (IO). The results of Bootstrap

**Table 9.** Boot strap summary for stock specific factors and investor optimism.

Hypothesis	Entire sample estimate	Mean of sub samples	Standard error	T-Statistic	R square value	Result
H <sub>1</sub>	-0.0560	-0.0678	0.0507	-1.1037	0.552	Insignificant
H <sub>2</sub>	0.2320	0.2242	0.0702	3.3064		Significant
H <sub>3</sub>	0.3520	0.3429	0.0789	4.4633		Significant
H <sub>4</sub>	-0.0550	-0.0617	0.0471	-1.1686		Insignificant
H <sub>5</sub>	0.1570	0.1445	0.0545	2.8810		Significant
H <sub>6</sub>	0.1960	0.1954	0.0516	3.7963		Significant

Source: Calculated from primary data using VISUAL PLS.

summary for market specific factors and investor optimism are given in Table 9. The hypotheses, one to six concern the relationships between HB, ILA, MEF, RSF, PFCII, BG and the outcome variable of IO. These hypotheses were tested using PLS-PM procedure in Visual PLS Software.

H<sub>1</sub>: Investors' optimism is influenced by herd behaviour (HB).

The path linking HB to the extent of usage of IO was not found to be significant and it was also negatively related at 0.05 level (Beta = -0.0560, t = -1.1037). This indicates that HB did not influence the extent of usage of IO in Investors' Sentiment.

H<sub>2</sub>: Investors' optimism is influenced by internet led access to information and trading (ILA).

According to the Table 9, the path linking ILA to the extent of usage of IO was positively significant at 0.05 level (Beta = 0.3520, t = 3.3064). This result reveals that internet led access to information and trading did influence the investor optimism.

H<sub>3</sub>: Investors' optimism is influenced by macro-economic factors (MEF)

The path linking MEF to the extent of usage of IO was found to be positively significant at 0.05 level (Beta = 0.2320, t = 4.4633). This indicates that MEF highly influenced the investor optimism.

H<sub>4</sub>: Investors' optimism is influenced by risk and cost factors (RCF).

As given in Table 9, the path linking RCF to the extent of usage of IO was not significant and it is also negatively related at 0.05 level (Beta = -0.0550, t = -1.1686). This indicates that RCF does not influence the extent of usage of IO in investors' sentiment.

H<sub>5</sub>: Investors' optimism is influenced by performance factor and confidence level of institutional investors (PFCII).

The path linking PFCII to the extent of usage of IO was found to be positively significant at 0.05 level (Beta = 0.1570, t = 2.8810). This result reveals that IO was influenced by PFCII.

H<sub>6</sub>: Investors' optimism is influenced by best game in town (BG).

It is found that the path linking BG to the extent of usage of IO was positively significant at 0.05 level (Beta = 0.1960, t = 3.7963). This indicates that IO was highly influenced by BG. The validation of model is given in Figure 1. From Figure 1, out of six market specific factors, four factors, namely, internet led access to information and trading (ILA), macro-economic factors, performance factor and confidence level of institutional investors (PFCII) and best game in town registered positive and significant relationship with the dependent variable of IO. But, the other two factors, namely, herd behaviour of investors and risk and cost factors, recorded inverse relationship with the dependent variable of IO.

## DISCUSSION

As stated earlier, herd behaviour (HB) refers to the similarity in thinking among individuals. If well informed and experienced investors invest in a particular stock, then the other investors would also follow the same. This has already been established by Vandana (2001) in her study. But the findings of our study vary from Vandana's findings. The present study found that HB did not influence the extent of usage of Investors' optimism towards investors' sentiment. This could possibly be due to the knowledge level of the investors. The reason for the contrary conclusion is that now a days, the new generation investors use fundamental analysis and technical analysis before they invest in stock market.

Internet led access to information and trading (ILA): The new generation investors buy and sell stocks like professionals. The internet has facilitated easy, low cost and speedy access to information and trading. The findings of this study are in line with the findings of Freund and Diana (2001), and Brad and Terrance (2001).

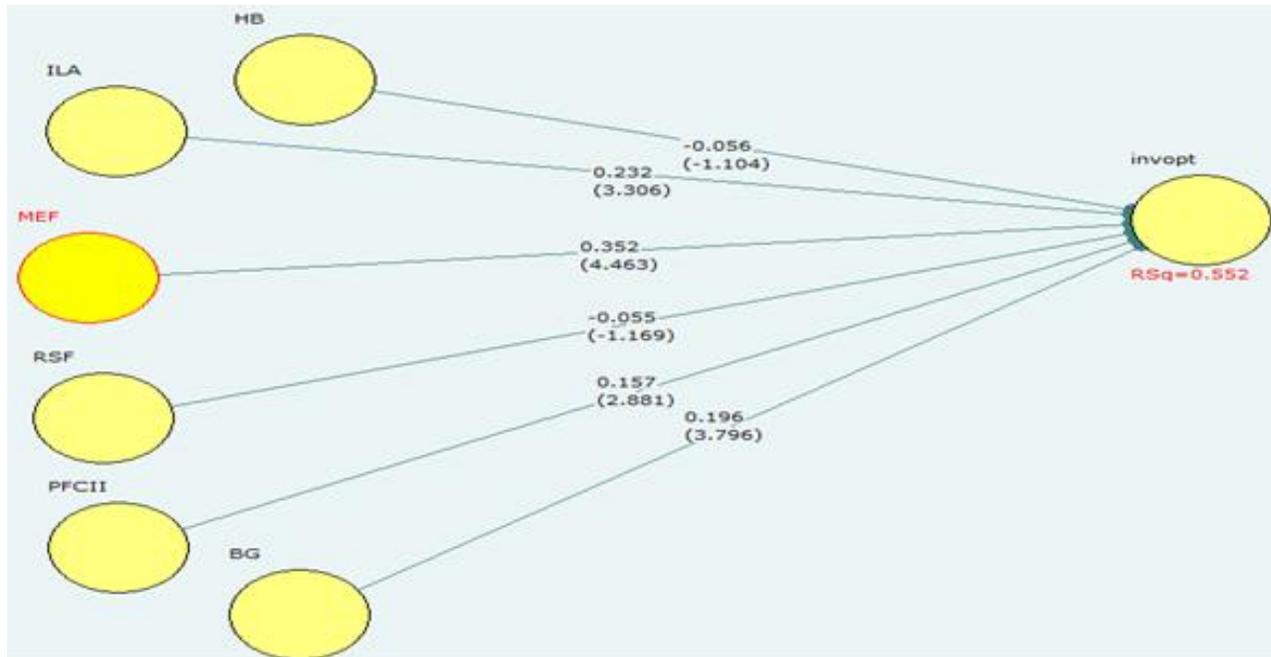


Figure 1. Validation of model.

According to our study, variables under macro-economic factors (MEF) namely, interest rate, rate of inflation and strength of Indian economy influenced investors' attitude towards investing in India. This finding is in line with the study of Vandana (2001) and Mark and Protopapadakis (2002).

It is found in our study that risk and cost factors did not influence the investors' optimism. In our study, the investor optimism is influenced by performance factor and confidence level of institutional investors (PFCII).

In the same way, IO is influenced by the belief that there is no alternative investment option other than the stock market. The stock market is considered as the best game in Town. This finding coincides with the earlier study conducted by Vandana (2001).

## Conclusion

The investors feel that the stock prices in India will rise for the next 12 months. The second aspect of investors' optimism is the expectation that the points dropped by 3% in Bombay Stock Exchange / National Stock Exchange will be followed by a quick recovery. Besides, the investors are again optimistic about Indian Stock market's ability to bounce back and view easy access to tools and technology via the internet and the low cost of trading as a contributory factor. As witnessed in the stock market in the past few years, individual investors looked for buying opportunities each time a favourite stock fell. Since the cost of trading is low, the investors would buy each time the price dipped. This ensured that any minor

dips are unsustainable for these stocks. The factors influencing investors' expectation of stock prices rising for the next 12 months are the low rate of inflation, interest rate, unemployment rate and price of fuel.

The investor optimism or 'nothing can go wrong attitude' is reflected in the belief that there is no alternative investment option other than the stock market and the stock market is the best game in town. It is also found from the interactions with selected investors that Provident Fund and Gratuity would not be able to cover the investor's old age / retirement life. Therefore to manage the retirement / old age, the investors know that they would need to save and invest in stock market. Out of various vehicles to invest, the investors find the Indian stock market to be very attractive. The low returns offered by Post Office, Government Bonds etc. make them relatively unattractive and persuade them to invest in stocks.

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