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IMPACT OF FINANCIAL FACTORS ON STOCK MARKET AND DECISION MAKING OF INDIVIDUAL INVESTORS

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ABSTRACT

Objective: Individuals who are considering decision-making is usually based on age, education, income, investment portfolio, and other demographic factors. The main objective of this paper is to impact of financial factors on stock market and to examine the relationship between investors attitude towards risk and decision-making in unstable market situation.

Methodology: The research uses the literature relevant to decision-making and investors thinking towards sudden change in market. The research is based on the secondary data relating to various types of investments, finance, and economics available on the Internet with websites, previous publications of the various authors, and some other publications as well.

Implications: Investment advisors and finance professionals must incorporate issues in markets as risk factors in order to formulate different types of effective investment strategies for individual investors which help in decision making.

Value: While formulating investment strategies behavioural issues are the newest of the things which must be considered with an objective to create investors confidence in the Stock market. This research paper will help investment advisors and finance professionals judge investors attitude towards risk in a better way, thus leading to better investment decision-making in unstable market.

INTRODUCTION

Financial factors indicate lot of changes in any economy and they decide the success and fortune of investments. Price determination process in any economy is influence by financial factors. The reduction of financial factors affects stock and commodity market significantly causing changes in the prices. Economic growth is depends on the stock market. It provides various avenue to pool large and long term capital through issuing of shares and stocks and other equities for industries in main need of finance to expand their business and clients. So all growth of the economy is a function of how the stock market performs and empirical evidences have already proved the development of the capital market is crucial for economic growth. There is a relationship exists between the stock market development and growth of the economy and stock prices. These relationship are generally believed to be influenced by following fundamental financial factors which includes lending rate, inflation, money supply and exchange rate. Empirical evidences and decisions have shown various changes in stock prices. It also linked with financial behaviour in advanced nations.

FINANCIAL FACTORS

Financial factors such as inflation, savings and investment. It is key indicators of economic performance and financial performance indicators of listed companies are closely monitored by governments, businesses and consumers. Relationship between various financial factors mentioned above is the subject of a great deal of work in the field of stock market and business. Financial factors played a important role in the growth of the Indian economy as well as decision-making.

STOCK EXCHANGE

A exchange could be a sort of exchange that provides services for stock brokers, agents and traders. It provides to interchange stocks, bonds, and different securities. Stock exchanges conjointly give facilities for the difficulty and redemption of securities and different money instruments, and capital events together with the payment of financial gain and dividends. Securities listed on a exchange embody shares issued by firms, unit trusts, derivatives, pooled investment product and bonds. To be able to trade a security on a definite exchange, it should be listed there. Usually, there's a central location a minimum of for record keeping, however trade is more and more less joined to such a physical place, as fashionable markets square measure electronic networks, which supplies those benefits of raised speed and reduced price of transactions. Trade on associate exchange is by members solely. The commerce of stocks and bonds to investors is by definition wiped out the first market and resultant commerce is finished within the secondary marketplace. A exchange is commonly the foremost vital element of a securities market. It provide and demand available markets square measure driven by numerous factors that, as altogether free markets, have an effect on the value of stocks.

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INDIAN STOCK EXCHANGE

Indian stock exchange includes the Bombay Stock Exchange and National Stock Exchange of India. Bombay Stock Exchange, commonly referred to as the BSE, (Bombay share Bazaar) is a stock exchange located on Dalal Street, Mumbai, and Maharashtra, India. It is the 10th largest stock exchange in the world by market capitalization. Established in 1875, BSE Ltd. (formerly known as Bombay Stock Exchange Ltd.), is Asia's first Stock Exchange and one of India's leading exchange groups. The National Stock Exchange (NSE) (Hindi: Rashtriya Share Bazaar) is a stock exchange located in Mumbai, India. It is the 11th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading.

REVIEW OF LITERATURES

Li Jin, 2004, "Capital gain tax overhang and price pressure". To examine the impact of capital gains taxes on equity pricing. The results imply that shares trade at higher prices when individual investors face incremental taxes created by selling appreciated shares before they qualify for long-term treatment.

Dr. G. indhumathi, Dr. m. Selvam, 2006, "Impact of mergers on stock return in Indian stock exchange with reference to BSE". To examine the reaction of share prices of acquiring and target companies in BSE to the announcement of the merger. It says, the liberalization policy witnessed an unprecedented number of mergers and acquisitions in India. After the merger between Asahi India glasses Ltd-float glasses India, the acquiring company received negative abnormal returns.

Indika Karunanayake & Abbas, 2009, "Financial crises and stock market volatility transmission evidence from Australia, Singapore, the UK, and the US". To examine the interdependence of return and co- volatility across four highly integrated international stock markets due to the financial crisis. There was no significant impact on returns arising from 1998 and 2008 global financial crises within these four markets. Nonetheless, the recent crisis in 2008 increased the stock return volatilities across all of the four markets.

Dr. Gaurav Agrawal & Aniruddh Kumar Srivastav, 2010, "A study of exchange rate movement and stock market volatility". To analyses the relationship between nifty returns and Indian rupee-us dollar exchange rates. It finds that nifty returns as well as exchange rates were non-normally distributed. The correlation between nifty returns and exchange rates was found to be negative.

Nidal Rashid Sabri, 2012, "Roots of stock market volatility and crises: A synthesis and suggested solutions". To explore the causes and interpretations of stock market crises and high price volatility. The study found that the causes and interpredations of stock market crises reside in various models including: overreaction model, the adverse impact of related laws, increasing linkage model, transmission of volatility model, etc.

NEED OF THE STUDY

The Stock market is an important component of the economic system of a country. The stock market plays a pivotal role in the development of the industry and commerce of the area that eventually affects the economic system of the country to a great extent. The Stock market is viewed as a very important component of the financial sector of any economic system. Furthermore it plays a vital role in the mobilization of capital in many of the emerging economies. There are many factors which affect the stock market behaviour rapidly. The variation due to the different factors reflects its impact on the economy also. It is said that if one wants to discover the economic structure of the country, he/she should read out the behaviour of the securities markets. So, in the above context, there is a need to conduct present research to investigate the relationship between stock exchanges and financial factors which influence decision making in corporate finance.

OBJECTIVES OF THE STUDY

The study will be conducted with a view of the following objectives:-

- To identify and analyse the financial factors in selected stock markets.
- To investigate the relationship among corporate financial decision making and its impact in stock markets.
- To analyse the impact of financial factors on selected stock markets.
- To recommend an action plan for sound investment decisions in international scenario.

DATA COLLECTION FOR RESEARCH

Sampling Technique for attaining different objectives Bombay Stock Exchange (BSE), National Stock Exchange (NSE) as per their benchmarks Sensex, Nifty respectively will be taken into consideration because these stock exchanges are the largest stock exchange in the India by both market capitalization and trade value.

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For the purpose of the study secondary data will be taken into consideration.

Secondary Data: Secondary data will be collected from reports and researches published in journals, web sites periodicals, magazines, newspapers, Annual Financial Reports, and other reports of selected companies.

RESEARCH HYPOTHESES

H01: There is no significant relationship among corporate financial decision making and its impact on stock markets.

H02: There is no impact of financial factors on selected stock markets.

SUMMARY AND CONCLUSION

The research found that unlike the classical finance theory suggests, individual investors do not always act rationally while making investment decisions. Individual investors suffer from several psychological and emotional biases. These biases play an integral role in an investor's decision-making. Heuristics such as representativeness, overconfidence, and anchoring, regret aversion, anchoring, and mental accounting (drawn from the Prospect theory), cognitive dissonance, and greed and fear all influence investor's perception of risk and subsequently his decision making. The findings of the research are that investors display risk-seeking behaviour and avoid selling stocks when faced with loss. They segregate their investments into separate mental accounts created to meet a specific investment objective. Their decisions of asset allocation to their portfolios are to great extent affected by greed and fear. There is suggestive evidence that these emotional and behavioural factors need to be incorporated in the investment strategies formulated for individual investors. Investors while taking investment decisions must consider these biases as risk factor associated with their investment portfolios.

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