



**THE INVESTMENT CONFIRMATION: A CONSEQUENCE OF INVESTORS' ATTITUDES TOWARDS RISK**

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**ABSTRACT**

Capital is considered as the life blood of any economy. One of the important sources of capital formation in an economy is the investment made by the domestic people. The investment decisions are governed by the attitudes of people towards risk which is always dynamic in nature and influenced by many factors. Many researchers have conducted researches to find out the determinants of investors' attitudes but rare research has tried to find out the relationship between the investors' attitude towards risk with the investment confirmation relating to any financial product.

**AIMS:** The study aims to find out the determinant of investors' attitudes towards risk. This study also correlates the attitudes towards risk with the investment confirmation.

**STUDY DESIGN:** Descriptive research design is adopted in this study. The relevant literature laid down the logic of relating attitude towards risk with investment confirmation.

**METHODOLOGY:** Mostly the reviews of some empirical studies, review/theoretical research works and case studies are preceding the logical analysis of authors along their past experience to propose a model. The description of determinants of attitude towards risk and its relationship with investment confirmation has provided a logical base for implementation of the model.

**RESULT:** The model reveals that the factors like fundamentals information, demographic factors, life style characteristics of investors, psychological factors and the risk bearing capacity continuously influence the investors' attitude towards risk. It is suggested that a strong & positive attitude

towards risk leads to investment confirmation with more intensity and hence the investors take less time to involve in investment action. On the other hand, if the strength of the attitude is less, then the investment confirmation will be of less intensity, which leads to delayed investment action.

**CONCLUSION:** Judging the investors' investment decision of may not sufficient to market the financial product, rather the planners or strategists should think one step ahead of decision making, and that is 'investment confirmation for a healthy future. The investment confirmation will be clearer, if it can be judged with regard to attitudes towards risk.

**KEY WORD:** *Attitudes of investors, risk taking, investment confirmation, determinants of attitude.*

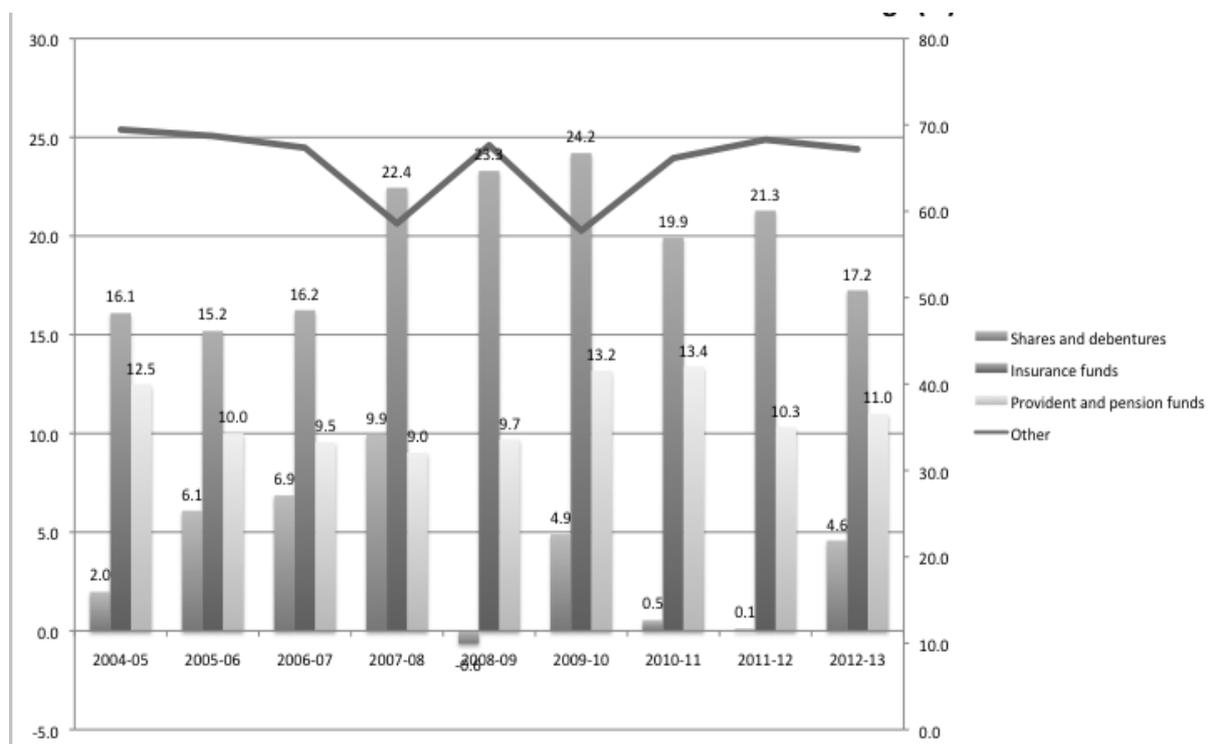
## 1. INTRODUCTION

In this modern era, money plays an important role in one's life. Starting from a small shop keeper to a billionaire wants to increase its wealth and make the money base secure to meet any financial need in future. It is hard earning money earned by every employed or self-employed person that they want to maximize. A trend has been followed just not by the richer people but also by the small income group to absorb knowledge which floats in the market to maximize their hard-earning money which is surplus in nature. Apart from knowledge, the behaviour of the investors plays a significant role in the investment patterns, which are guided by many psychological factors and demographic factors.

There are many factors influencing a human behaviour as the behavioural aspects is affected by fundamentals information, demographic factors, life style characteristics of investors, psychological factors and the risk bearing capacity. The fundamental information includes beta (risk factors), past return, EPS, firm size, age of firm, share price, share turnover and market equity ratio. The demographic factors include investors' gender, age, marital status, education, incomes and occupation etc. Life style characteristic includes personal ability, confidence level and dependency level. Psychological factors like desires, goals, prejudice, biases and emotion guiding the investors' decision. The risk bearing capacity includes parameter of safety, liquidity; capital appreciation and risk return coverage. A strong and positive attitude towards investment is a driving force which makes the investors to make the confirmed decision. A strong attitude towards investment, which is guided by the above said influencing factors, creates values in the mind of the investors which helps the investors to take confirmed decision regarding investment. The relevance of the above said factors can be justified by the below mentioned statistics. It has been seen that major part of the household saving is invested in the secured investment sectors like pension and provident schemes. But due lesser rate of return many investors consider the semi secured areas like the insurance

sector for their investment. The investors having more risk tolerance attitude invest their funds in the securities market, mainly on shares and debenture. The below graph showed the percentage investment of household saving in different sectors varying with their associated risk.

**Figure: 1**



Source: Central Statistical Organization, *National Accounts Statistics*, available at [www.Mospi.nic.in](http://www.Mospi.nic.in)

In consistence with the above mentioned logical explanation, it may be noticed from the above graph that there is gradual increase in the investment in the shares and debentures from 2004-08, although considered as the most risky assets due to rise in the index of stock market. But due to global recession in 2008-09 and the Indian Stock market crash, the investment seems to be in a decreasing trend. However, it was shown a rise trend in 2009-10 but again failed to attract the investor due to reoccurrence of global recession. This shows that many houses hold investor intent to invest in the market securities for more return but are panic by market break down. The investment in semi secured assets like insurance funds are more preferred by the house hold investors. There is around the same percentage of investment in the secured investment and traditional investment like the provident funds and pension funds.

## 2. PROBLEM STATEMENT

A strong capital based economy can withstand to any adverse condition or future prospect with respect to demand and supply mechanism. The demand for the capital can be solved by taxation

system, borrowing from domestic public, foreign borrowing, FDI etc. Domestic direct investment or investment from individual investor plays a crucial role in fulfilling the capital requirement of the economy. The above objectivity is ultimately executed and controlled by human being. The human psychology is complex in nature and it became more complex, if it is the matter of their hard-earning money to be for future perspective. In consistent with this mindset it can be said that most of the psychological factors drive the attitudes of the investors towards risk. So, it is imperative to study the dynamism of the attitudes of investors relating to risk. Now it is a challenge for everyone that whether the knowledge on investors' attitudes towards risk can provide guideline for investment confirmation. In this context, the problem statement refers that, "do the attitudes towards risk affect the investment decision confirmation?"

### 2.1 OBJECTIVES OF THE STUDY

- 1- To study the determinants of attitudes towards risk of an individual investors investing in securities.
- 2- To study the logical relationship between the attitudes towards risk and investment confirmation.

### 3. METHODOLOGY

Descriptive research design prevails in this study. In this study, characteristics of the mediating variable, attitude towards risk are described with respect to the investment confirmation (one-step ahead of the investment decision). To describe these characteristics, five major factors are considered as determinants of attitude towards risk. The logical relationships between the determinants of attitude towards risk and investment confirmation, which are found from available literature, enable the authors to propose a model (figure-2). Some empirical studies, review/theoretical research works and case studies are reviewed for the above purpose. The proposed model is basically a mediating model, where attitude towards risk is mediating between its determinants and investment confirmation. Thus, the originality of the study is reflected from the concept of 'investment confirmation', suggested to be determined by five major determinants of attitude towards risk, where the 'attitude towards risk' is argued as a mediating variable in the model. Apart from the available literature, some discussions with the small firms who market the financial products like mutual funds and systematic investment plans (SIP) enriched the thought process of authors of this study on the way of proposing the model. Further, the past experience of the 1<sup>st</sup> author as executive in Stock Holding Corporation of India has provided a meaningful contribution to derive the logical base of the proposed model. Referencing has been done by Mendeley Desktops software.

#### 4. LITERATURE REVIEW

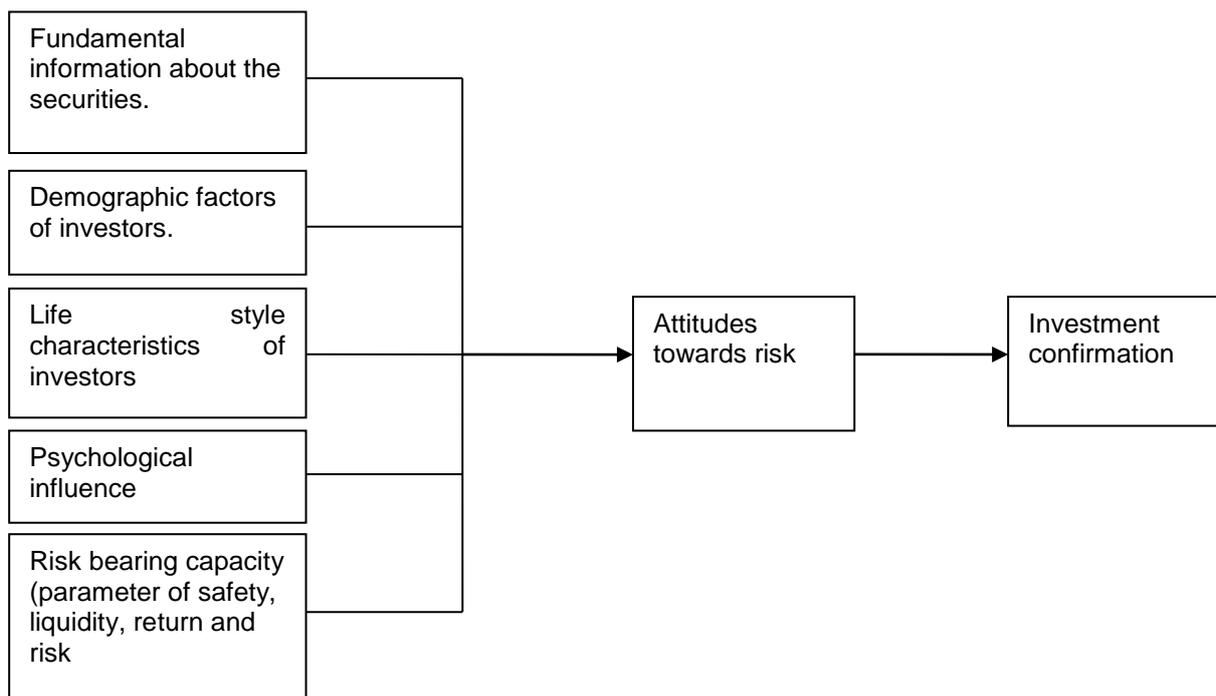
##### 4.1 RESULT AND DISCUSSION

By reviewing the relevant literatures, it may be inferred that attitudes towards risk of an investor always changes with the magnitude change in the influencing factors as they are more dynamic in nature. The higher is the influence, more in the change in attitudes. A positive and strong attitudes leads to high intensity in investment confirmation but a lesser degree of attitude towards risk leads to lesser intensity in investment confirmation as the attitudes are dynamic in nature. The above results logically derived from the below mentioned discussions.

##### 4.2 DETERMINANT OF ATTITUDES TOWARDS RISK AND INVESTMENT CONFIRMATION

Many researchers have addressed the issues of investors' decision making or of investment decision. But till now not much confirmed argument has been made relating to the investment decision and attitude towards risk of investors, which is proposed here as a important base of investment confirmation. The investment confirmation is assumed here as one step ahead of simple decision making regarding any investment. The proposed model (figure-2) refers the factors of attitudes towards risk taking as the underlying determinants of investors' attitude. which help the investors to take confirmed decision in making their investments. So, the proposed consequence of attitudes can be the 'investment confirmation'. How the determinants build-up the investors attitude towards risk and ultimately this type of attitude leads to investment confirmation, is derived from the available literature as follows.

**Figure 2: Proposed model-Relation between Attitudes towards risk and investment confirmation**



### **4.3 FUNDAMENTALS INFORMATION OF SECURITIES AND INVESTORS' ATTITUDE**

As it is well established concept that attitude is the learned predisposition. It develops over the years on the past experiences. The investors' attitude can be build-up by having the fundamental information of the securities like beta (risk factors), past return, EPS, firm size, age of firm, share price, share turnover and market equity ratio, return on equity (ROE), price to earning etc. Rightly Dhingra, Bhargava and Chadda (2017) have mentioned that major factors influencing individual behaviour are market situation, information, high profit and high risk, opinion, investment decision and stock familiarity. How the relevant information on some criteria is important for the investors is found out by another study, which explains that investor should have relevant information about the sector of investment and must have the knowledge about the scripts on which they are investing. Further, the information reflects both the corporate news (Sales volume, EPS, dividend declared, future growth, company profile etc.) and the country news like (taxation, industrial policy, foreign related market etc.) are helpful for the investors (Saravanakum, Gunasekaran, and Aarthy, 2011). Jagongo and Mutswenje (2014) explained that firm's position and performance that reflect the economic condition and return on investment respectively, which ultimately affect the investment decision of the investors. The analytical explanation of the above said literatures refer that the investors' attitude that develop over the time period consistently deal with some sort of certainty while going for investment. It was also found in a study that the herd behaviour, internet led access to information and trading, macro-economic factors, performance factors and confidence Level affect the investment strategy of the investor (Bennet, Selvam, Vivek and Shalin, 2012).

### **4.4 DEMOGRAPHIC FACTORS AND INVESTORS' ATTITUDE**

The attitude of human being towards any aspect is reflected with their age, gender, education or qualification they possess, the type of occupation they have and the place of origin. Parimalakanthi and Kumar (2015) found that education of investors is immensely important for the present-day investors. Demographic factors like age, gender, marital status, qualifications, occupation, annual income and geographic location have an impact on the level of risk that investors can take while making the investment decision. With regard to the above research it was found that men invest more and also bear more risk than women. The individuals within the age group 20-40 invest more and the service class people invest more (Purohit, Satija & Saxena, 2014). It was also proved from the above study that the male possess a positive attitudes towards investment in mutual fund than females. In consistent with the above result Singh (2012) reveals that the investors in the age group of 25-35 invest more and bear more risk. Further, the investors with income level more than Rs 300000/- per annum take more risk in investment, and the occupation plays a vital role. The very

similar result given by Fatima and Shafi (2016) shows that demographic factor which includes gender, age, marital status and occupation affects the investment behaviour of individual investors. Further, with the increase in age and rise in income level, the risk tolerance attitudes also grow. Murugan (2012), found that the income level, the age level has a great impact towards risk tolerance attitudes. Kaur and Kaushik (2015) explained in his study that socioeconomic characteristics such as age, gender, occupation, income and education of investors had an impact on the awareness about mutual funds, which strengthen the investment confirmation.

#### **4.5 LIFE STYLE CHARACTERISTICS OF INVESTORS AND INVESTORS' ATTITUDE**

The life style and personality traits are the deeply built character inside human beings, which affect the attitude of any persons towards the situation which come up front. Life style characteristic includes personal ability, confidence level and dependency level. It also refers the fashion conscious, self-confidence and leadership factor which affect the investment decision making process. Chandra (2008) refers that behavioural factors like greed and fear, cognitive dissonance, heuristics, mental accounting, and anchoring must be taken into account as risk factors while making investment decisions. Panjali and Kasilingam (2015) found that the lifestyle characteristics like perfect planning, innovativeness, task oriented, fashion Conscious, self-confidence, leadership, and well-being, inner directed and risk taking affects the activities, interest and opinion of the investors towards investment. Shanmughama and Ramyab (2012) rightly explained that social factors like the social interaction and media influence the trading frequency and trading behaviour of individual investor. This social interaction and media are the part of life style characteristics of the investor. Ferreira, Freitas, Nunes, and Giovannini (2014) have also found that the perceived environmental security and the perceived operational competence of individual investors affect the investment behaviour and affect the risk-taking ability.

#### **4.6 PSYCHOLOGICAL INFLUENCE AND INVESTORS' ATTITUDE**

The psychological factors like the emotions, values, instinct, prejudice, desires of an individual also affect the attitudes towards decision making pattern. It drives the thoughts of investors and influence their attitude towards risk associated with the investment. The loss aversion thinking, believing the crowd to be right, thought stating investment as gamble affects the sentiment of investor leads to defining of its attitudes about investment. Personal beliefs include social and religiously expressive characteristic that determines the attitudes towards risk. The Psychological factors include desires, goals, prejudice, biases and emotion guiding the investors' decision. It also includes driven biases like herd Instinct, important heuristics, self-serving bias, anchoring, loss aversion, calendar effect, gambler's fallacy, market psychology, market sentiment, media effect,

rational behaviour and media effect. Thimmarayappa and Sukanya (2015) found that most of the investors commit mistakes as they don't aware about the diversification but also follow the crowd and historical information. It was also found that investment decision is influenced in a large proportion by psychological and emotional factors are called Behavioural finance. Supporting the above discussion, the study by Jayaraman, Vasanti, and Ramaratnam, (2014) reveals that the psychological factors like desires, goals, prejudice, biases, sentiment and emotion drive the investment behaviour. In consistence with the above literature that to change the thinking of investor, it was suggested by Bezzina and Grima (2011) that controlling the psychological factors like greed and risk propensity factors, the decision-making process while investment can be affected.

#### **4.7 RISK BEARING CAPACITY AND INVESTORS' ATTITUDE**

Apart from psychological factors and demographic factors the risk tolerance level and risk bearing capacity of the investors affect the investor perception and its attitudes towards risk and investment. The financial risk tolerance and the risk taking behaviour of the investors affect its attitudes towards risk and investment. The risk bearing capacity includes parameter of safety, liquidity; capital appreciation and risk return coverage. Understanding the financial risk behaviour of an individual would be useful for service providers and policy makers who are interested in financial products. Corter and Chen (2005) explained that the persons experienced in the field of investment take more risk. Further found that the persons with more risk tolerance level makes more confirm decision related to investment. (Vohra and Kaur 2012) also found that knowledge about the expectation, attitudes towards risk, personal circumstances affect the investors' behaviour and attitudes which enhance the risk tolerance level relating to the investment. Empirical study conducted by Khan (2017) supported the above discussion by stating that the financial risk tolerance attitudes was developed and enhanced through the level of knowledge acquired by the investors in the field of investment and finance and helps in investment confirmation. It was also found out that the gender factor is also affect the risk bearing capacity as it was found that male who are single and separated are more risk bearing personnel than female investors. It was seen that the risk bearing capacity is also influenced by the demographic and psychographic variables which affect attitudes of investor towards risk in making the investment decision (Kiran and Rao 2005). Supporting the above arguments, it was found by Riaz and Hunjra (2015) in her research in Pakistan, that the risk perceptions and risk propensity are the most important determinants of risk related behaviour which have a great impact on the risk taking ability leading to confirmation of decision regarding investments.

#### **4.8 ATTITUDES OF INVESTOR TOWARDS RISK AND INVESTMENT CONFIRMATION**

Risk is an inherent feature of all investment decisions as there is always a difference of actual and expected return from the financial investment. The risk perception and attitudes towards risk influence the investment decision and hence lead to a particular level of investment confirmation. The attitude towards risk is the way in which an investor behaves towards the risk of financial asset based on their involvement and experience. The attitudes towards risk, which is built by risk perception, may be rational or irrational about chances of occurrence of risk. The investor evaluates the risk and return of an investment decision and this behaviour is affected by the attitudes towards risk and strengthen the intensity of making the investment confirmation. Madhumarathi (1998) found that out three classes of investor based on attitudes towards risk are, risk seekers, risk bearers and risk avoiders. The risk perception influences the conformity to investment decision. It was studied and found that the investors' perception of risk and their attitudes towards risk influence the decision confirmation of investment. In this conjecture, Sindhu KP & Kumar R. (2014) found that the investment decision of investors depends highly (about 95%) upon the risk perception. Thus, more the risk-taking ability leads higher intensity of investment decision, ultimately referred as investment confirmation in the current study. It can also be interpreted as the investment confirmation with varying level corresponds to different degrees of risk taking abilities of the investors, which is reflected in the proposed model.

#### **5. SUMMARY FINDINGS**

Attitude of human being is such an crucial psychological factor that it needs a deeper sense of clarification and logical relationships to be understood with respect the todays modern world, especially in financial considerations, because the changes in demography, business, psychological environemnt of the investors', and flow of information that may bring change in the attitudes towards risk. So, the current study is proposing a model, where the investors' attitude is logically related to the investment confirmation. Here the investors' attitude is especially studied relating the risk.

The attitudes of investors towards risk associated with investment plays an important role in investment confirmation. It is an established fact by various researches that the attitude differs across individuals. If that individual is an investor, then it is very imperative to be studied along some important determinants as proposed in the model. The determining factors building the attitudes of investors' towards risk for investment in securities are the fundamentals information of security relating to risk and return associated to it, demographic factors like age, income, gender, life style characteristics of investors like self-confidence and leadership character, psychological factors like

the desires, life goals, prejudice, biases and emotion and the risk bearing capacity of investors like financial risk tolerance and risk tolerance attitudes in general of a individual.

The above model reveals that the factors like fundamentals information, demographic factors, life style characteristics of investors, psychological factors and the risk bearing capacity continuously influence the investors' attitude towards risk. It is suggested that a strong & positive attitude towards risk leads to investment confirmation with more intensity and hence the investors take less time to involve in investment action. Further, the investors will be less likely to be biased. On the other hand, if the strength of the attitude is less, then the investment confirmation will be of less intensity, which leads to delayed investment action and there are more chances of being biased.

## 6. CONCLUSION

Investments signify the employment of funds with the aim of achieving future benefits for both organization d individual. It plays an important role in economic growth. The study revealed factors primarily influencing the investment confirmation of investors. While selecting any investment avenue, the investors are rational by measuring the cost and benefits from it as the investor perceive some level of risk always. The fundamental factors such as securities like beta (risk factors), past return, EPS, firm size, age of firm, share price, share turnover and market equity ratio, return on equity (ROE) and price to earning affect the selection of investment. Apart from the fundamental factors, the investment of the investors is always influenced by psychological factors like behaviour, sentiments, personality traits, risk taking abilities and the demographic factors like age, sex, income and education. Thus, to understand the rational behaviour and attitude of investors in the investment decisions, a mediated model has been developed to test the impact of different fundamental variables on risk behaviour aspects that ultimately leads to the investment decisions making process. This study investigated various determinants affecting the attitude towards risk in the decision-making process, where the decision process reached the investment confirmation. Investment confirmation with more intensity, take less time in investment action. This is the ultimate step required by the firms rather than only the decision-making process of individual investors.

## 7. LIMITATION OF THE STUDY & FUTURE RESEARCH AVENUES

This study is based up on review of published research works, surveys, and case studies. Hence, future researchers can prove or challenge it empirically. The proposed model is addressing limited number of determinants of attitude towards risk, which have the relevant dimensions according to available literature. So, further studies can be made by taking more number of factors that are capable of determining the attitude towards risk. Till now also investment confirmation is a little

learned fact among the researchers. Thus, further studies can be made to find out a more relevant base for investment confirmation rather than attitude towards risk.

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