

## **Behavioral Finance with Reference to Student Investors**

*S. Ashwin, Student, Symbiosis College of Arts and Commerce, Pune.*

*E-mail id : ashwinsakthivel93@gmail.com*

*Aishwarya Kalyanshetti, Student, Symbiosis College of Arts and Commerce,*

*Pune. E-mail id : aishwarya.kalyanshetti@gmail.com*

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### **Abstract**

In today's corporate world finance is the life blood of any business where, investment decisions of stakeholders play a vital role in ensuring the financial viability of every business venture. It's the financial awareness of the investors which leads to the formation of certain perceptions which, transforms as conventional behaviors reflecting onto key investment actions and decisions. The objective behind pursuing this research is to understand these behaviors and perceptions of the student investors. An analysis of primary and secondary data elucidates the facts that college students are either aware about stock markets but are restricted towards investing in few financial products or are completely unaware about stock markets and investments. In the due process of this research a sincere effort is undertaken to design a scientific model, "The Funnel Model" which illustrates the current investment scenario and different methodologies which could be put into practice to positively influence the behavioral aspect of the student investors. Funnel model if implemented will enhance the participation of the student investors which will pump in more capital towards various business avenues. Thereby, facilitating greater availability of finance and leading to the attainment of business excellence.

**Key Words :** Behavioral Finance, Student Investors, Stock Markets, Financial Products, Perception, the Funnel Model and Business Excellence.

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### **Introduction**

In today's competitive global economic scenario, the Indian corporate sector is rapidly growing at a faster rate. Indian corporate sector has witnessed an array of evolutionary developments with the introduction of the New Economic Policy (LPG) over the past two decades like, domestic companies integrating with foreign companies, local Indian brands engaging in global exports and leading Indian Corporates getting themselves listed on renowned stock exchanges. There is an urging need for adequate finance for rapidly increasing capital intensive corporate ventures.

Stock exchanges have become an important medium for a modern company's agenda to raise large amounts of capital to finance its diverse business projects. Which, has made modern companies an investor driven corporate body. Today, a company is keenly watched on various parameters based on which the stakeholders make their investment decisions.

The conceptual and technical theories of Economics and Finance explains the complex nature of financial markets and the factors affecting investment decisions made by the financial market's participants. But, despite having a well explained and a set of well structured theories of finance, global financial markets are still not immune to the daunting fear of financial crisis.

In the process of this research it is found that investment decisions are not only influenced by technical analysis based on theories of finance but, are also subsequently influenced by the psychological aspect of the investor towards stock markets. These psychological factors which play a vital role in influencing the decisions made by the investors are often not considered. The study of these psychological factors is known as "The Behavioral Finance".

A simple yet a logical attempt is made in this research to understand these ignored psychological factors of the student investors to enhance their participation in stock markets thereby ensuring a greater availability of finance for the Corporates to achieve Business Excellence.

### **Rationale**

After a careful scrutiny of various aspects affecting the study of behavioral finance it is found that not much of importance is given by the finance experts towards understanding the theories of behavioral finance and applying the same while formulating their financial analysis. Further there seems to be an absence of focus towards enhancing the participation of student investors by influencing their psychology about stock markets through various financial awareness and literacy initiatives undertaken by stock markets and Corporates.

### **Objective**

The objective behind pursuing this research is to get firsthand knowledge about students' awareness and perception towards stock markets and investments. To further understand the root cause of their perceptions which limits their participation in stock markets and transforms into their investment decision by developing a "Funnel Model" which could be effectively used to decode their perception and enhance their participation in stock markets.

### **Meaning, Nature and Scope of the Research**

The term behavioral finance denotes various psychological aspects which is formed due to a set of external factors influencing the investment decision of the stock market participants. Behavioral finance has evolved from the domain of behavioral Economics.

This research is fundamentally focused on the primary data collected through sample survey and telephonic interviews. It has been a student centric one, since this research on Behavioral Finance is with reference to Student Investors.

However, the study of students' perception about participating in stock market and making an investment decision was limited to the geographical boundaries of Maharashtra and the study reveals the perception of Indian Students towards Indian Stock Markets only.

## **Hypothesis**

Following are the two hypothesis of this research, **H1 (Hypothesis 1)**

Majority of the student investors feel safe to invest in Indian Stock Markets, foreseeing an upward trend in the market due to a strong optimism towards the newly formed Modi Government.

## **H2 (Hypothesis 2)**

Majority of the student investors do not participate in the stock markets, are unaware about diversified investment options and are restricted towards traditional investment avenues.

## **Methodology**

### **Sample**

The sample size was restricted to hundred students pursuing under-graduate and post-graduate courses in the field of commerce and management (B.Com/B.B.A and M.Com/ M.B.A)

### **Questionnaire**

The questionnaire consisted of a total of ten questions carefully drafted to infer student's awareness and perception about Indian Stock Markets and various investment avenues available.

## **Interpretation (Data Analysis)**

The data analysis is focused towards finding the following three key factors about student investor.

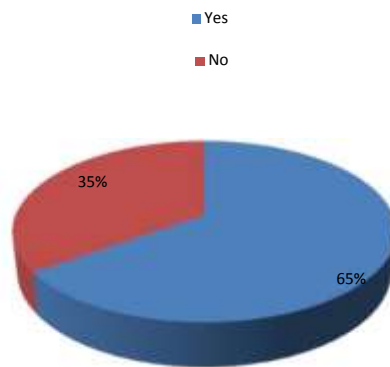
1. Their awareness about Indian Stock Markets.
2. Their Perceptions about investments in Stock Markets.
3. Pattern of their Investment decisions.

A detailed study of the primary data collected revealed the level of awareness and the root cause of their perceptions.

(A)

Pie Chart : 1

**Do  
you  
Feel  
safe  
to  
invest  
in  
stock  
Markets**

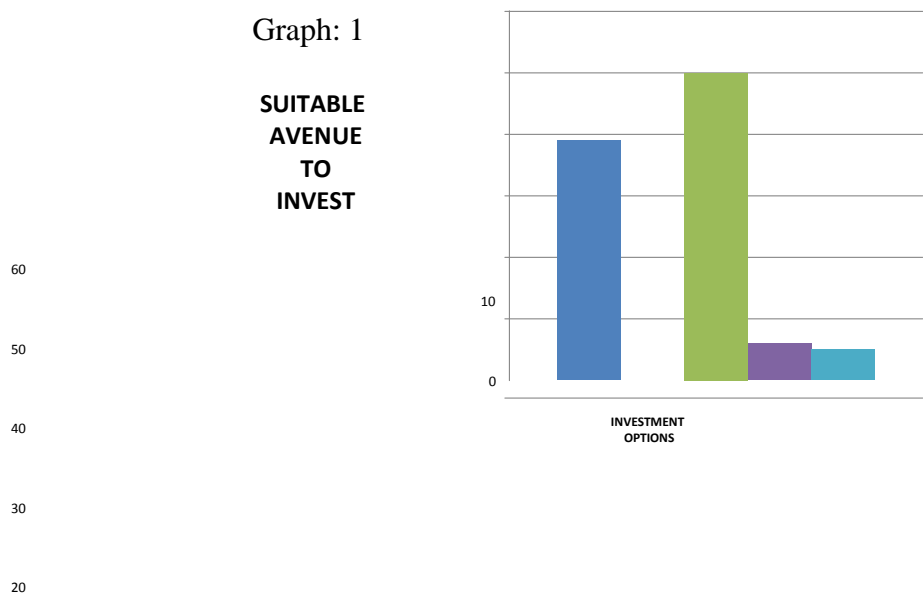


This question was asked in order to understand whether Indian Student Investors had a confident outlook about India Stock Market movements and to further understand whether they feel safe to invest or not. It was found that 65% of the student investor felt Indian stock markets are safe to Invest.

(B)

Graph: 1

**SUITABLE  
AVENUE  
TO  
INVEST**





This question tested students' awareness about diversified Investment avenues as well as tracked their preference of investing in conventional investment options. It is evident from the graph that shares and mutual funds are considered to be the most preferred investment avenues by the students.

50% students prefer to Invest in Shares.

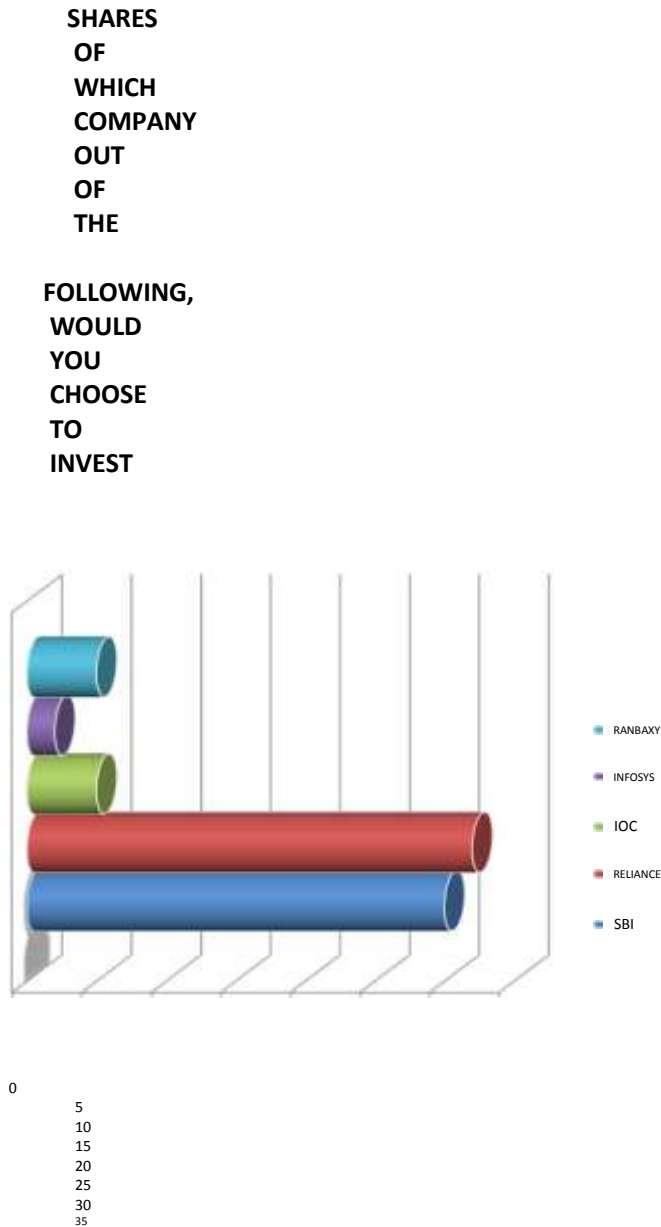
36% students prefer to Invest in Mutual Funds.

Only 8% students prefer to Invest in Futures and Options.

(43)

(C)

Graph: 2

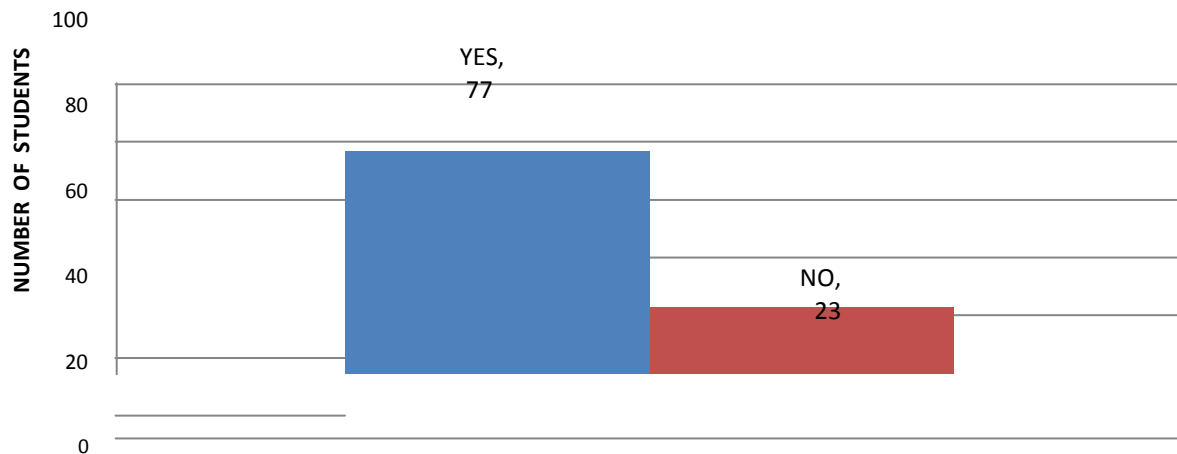


This question was asked in order to judge the students’ analysis before they choose a particular company’s share as their Investment option. The above graph clearly portrays that student’s feel optimistic about reliance than SBI though SBI making more profits. This analysis depicts their psychology towards the shares of different companies.

(D)

Graph: 3

## POSITIVE TREND IN STOCK MARKET



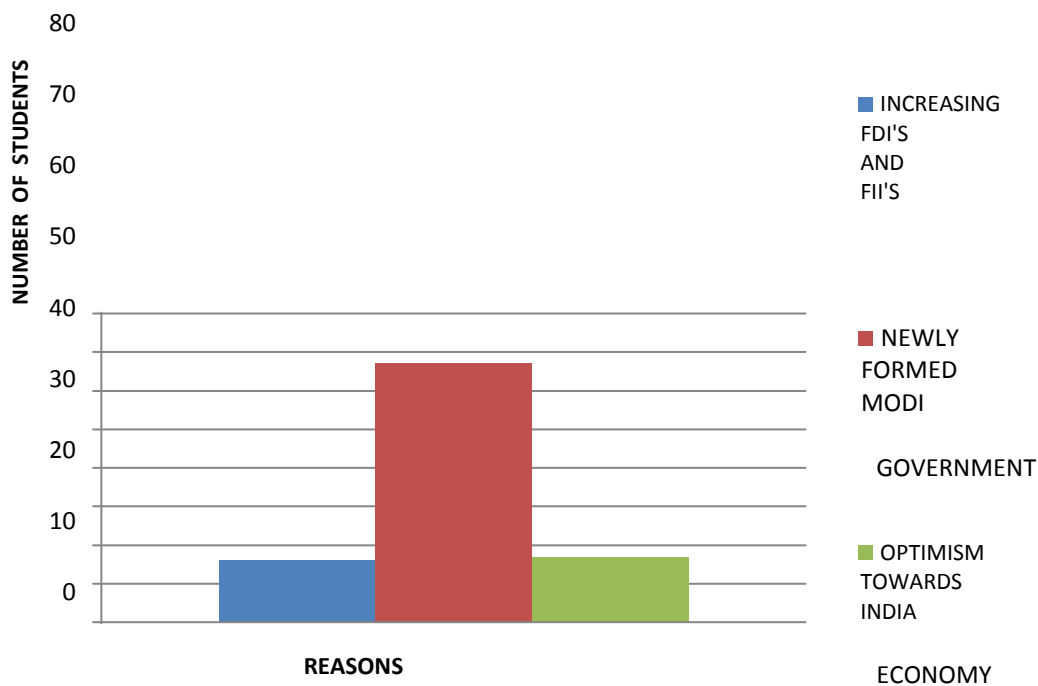
This question was put forward to test student investor's market sentiments. It is inferred from the above graph that 77% of student investors foresee a positive trend in Indian Stock Markets due a variety of reasons like growing optimism twined with a majority government at the centre.

(44)

(E)

Graph: 4

**DRIVING  
FACTOR  
BEHIND  
RECENT  
BOOMING  
IN  
INDIAN  
STOCK  
MARKET**



The driving factor behind Indian Stock Market are assumed to be the newly formed Modi Government by almost 67% of student investors where as only 17% feel optimistic about Indian Economic reforms and the other set of 16% feel it's due to Increasing FDI's and FII's. It initially started when Mr. Narendra Modi was declared the Prime ministerial candidate for the 2014 general elections. Mr. Modi created this wave with his powerful speeches that made a great impact on the youth. In every speech he encouraged the youth to come and vote. This



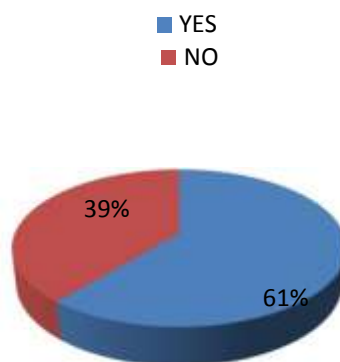
general elections marked approximately twelve crore first time voters. It is after a very long time that, a single party had a clear win with majority. It was projected that the Sensex would reach its all-time high after Mr. Modi took over as the PM. Since there was a clear mandate, it became very easy for the government to take faster decisions on policies to promote growth, which helped in building the investors' confidence. Narendra Modi had already proved himself in Gujarat, which led to higher expectations from the newly formed government and foreign investors. Formation of the Modi government at the centre with a majority gave a new outlook to the Indian stock markets. He also promised to have less government and more governance which would lead to transparency in the working of the government and would reduce corruption. Sensex for the first time had surpassed the 25000 mark.

(45)

(F)

Pie Chart: 2

**PosiQve  
trend  
in  
the  
Indian  
Stock  
Markets**

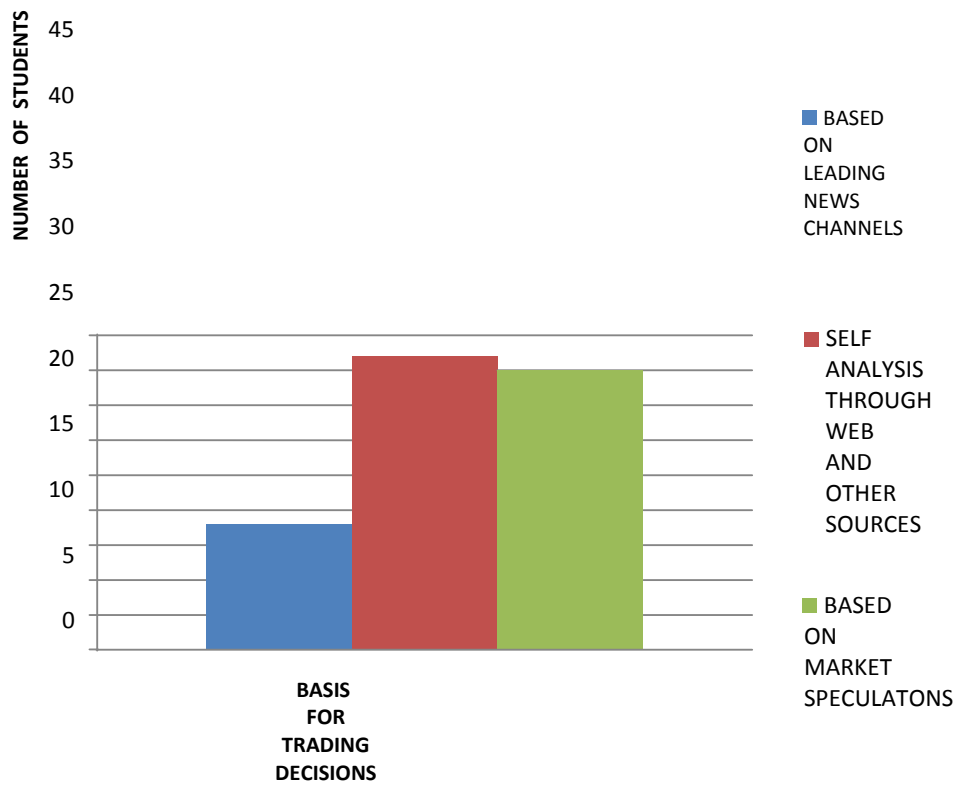


It is inferred that 61% of the student investors foresee a positive trend, while 39% of them foresee a negative trend.

(G)

Graph: 5

**BASIS  
FOR  
TRADING  
DECISIONS**



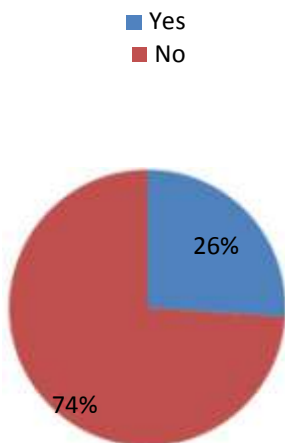
It's obvious from the above graph that majority of Student investors take their investment decisions through self analysis using web and other sources i.e. 42%. A very minimal amount of students i.e. just 18% of student investors relied on leading news channels for taking a decision.

(46)

(H)

Pie Chart: 3

### DEMAT A/c



It is evident from the above pie chart that majority of the student i.e. 74% of them do not possess a DEMAT A/c which means a major chunk of students do not participate in Stock Market

### Observations from Data Analysis

Parameters	Observations
1. Market Perceptions	<ul style="list-style-type: none"> <li>• 65% feel safe to invest in Indian Stock Markets.</li> <li>• 67% feel Modi Government to be the Driving Factor behind up trend markets.</li> </ul>
2. Financial Awareness	<ul style="list-style-type: none"> <li>• Only 39% aware.</li> </ul>
3. Participation in stock Market	<ul style="list-style-type: none"> <li>• Only 26% participate in Stock Markets</li> </ul>
4. Investment Avenues	<ul style="list-style-type: none"> <li>• 89% of student investors invest only in Shares and Mutual Funds.</li> </ul>

### Proof of Hypothesis

#### H1 (Hypothesis 1)

Majority of the student investors feel safe to invest in Indian Stock Markets, foreseeing an upward trend in the market due to a strong optimism towards the newly formed Modi Government.

#### Observations :

H1 is hence proved, it is clear from the data analysis that a major group of student feel safe to invest and are optimistic about stock market.

(47)

**H2 (Hypothesis 2)**

Majority of the student investors do not participate in the stock markets, are unaware about diversified investment options and are restricted towards traditional investment avenues.

**Observations :**

H2 is proved and it is evident from the data observation table that maximum number of students are not aware about varied investment options and do not participate in stock markets.

**Suggestions*****Problem Identified :***

*There is a combination of unawareness and minimal amount of participation from the student investors' community.*

***Solution :***

*The following "Funnel Model" could be effectively put into use to address the prevailing problem in the student investors' community*

**OUTCOME**

***Enhanced Healthy student participation in stock market.***

***Infusion of more capital in stock market.***

***Greater availability of finance leading to attainment of business excellence.***

**The Funnel Model****Introduction**

The funnel model could be effectively put into use by educational institutions by joining hands with corporate bodies. The model is further bifurcated into following three parts.

**Part 1 – National Investment Drive**

An array of guest lectures, seminars and workshops could be organized and carried out in the length and breadth of the country as a national investment drive program jointly conducted by government of India, ministry of finance, educational institutions and Corporates to bring about a clarity about investments. This could act as a force to filter various psychological barriers among student investors.

**Part 2- Financial Literacy Programs**

A compulsory financial literacy cell could be setup across various colleges in India through

which students from diverse courses could be taught about personal finance and investments. This would inculcate an initiative to participate in stock markets among students.

### **Part 3- Mock Stock Labs**

Educational institutions could setup mock stock labs on campus, which could be used as a stock simulator among students by putting them into real time complex stock market scenarios. Institution can further ask their students to mandatorily open a bank and DEMAT account to encourage students' participation in investment and trading activities.

### **Conclusion**

In the due course of this research it is found out that the Indian Student Community are still isolated from taking an active part in the investing and financing activities due to certain psychological barriers towards stock markets reflecting onto their financial and investing behaviors. India being a country with rich demographic dividend mainly comprising of students, the present scenario is not appreciable. As a solution to the existing problem, if the three key components of the Financial Funnel are implemented then, the same isolated student community backed with earning capacity could be made to actively participate as investors in Indian Stock Markets. By doing so, Indian Corporates will have access towards a larger amount of domestic capital to finance its diverse business ventures which are productive to the economy, thus lowering the dependence on foreign capital twined with achieving business excellence in the long run.

### **References**

The following sources were put into use to effectively carry out the research.

#### **Book References:**

- Redesigning The Stock Market – A Fractal Approach by Pravir Malik.
- Technical Analysis of Stock trend by Robert D. Edwards and John Magee.

#### **Web References:**

- Cfpubs.org

The above website was used to understand global market movements through CFA investors report 2013. Which, elucidates the investors opinions around the globe.

- Investopedia.com

This was used to understand the fundamental finance terms and concepts which was put in use in due course of this research.

- Behaviouralfinance.net

This website was referred to understand selected theories of Behavioral Finance.

