EQUITY MARKET – EMOTIONAL DRIVEN OR NOT

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ABSTRACT
The purpose of this paper is to study the significant impact of emotions on the investment decisions of different investors in Bangalore. The study basically revealed that the intention of investment is influenced by three factors i.e. fear, greed and loyalty. Investor’s behavior is driven by the emotional influence. Thus, in order to better understand the investors decisions, it is very crucial to include emotional component along with other cognitive components. Behavioral finance states that financial specialist's venture choices are impacted by mental elements like inclination, feeling and intellectual inclinations. Among these, feelings powerfully affect financial specialist's speculation conduct. In spite of the fact that mind-sets and feelings are for all intents and purposes viewed as the equivalent, there is slight contrast between them. Mind-set is viewed as less extraordinary, while feelings are increasingly serious. Feelings can hinder settling on judicious monetary choices. It is human instinct that they respond contradictory when they are in an alternate condition of feeling. The point of this paper is to think about various passionate swing factors and its impact on financial specialist's speculation choices. The examination instrument was created and directed at person financial specialists utilizing multistage arbitrary testing method. Discoveries recommend that it is dependent because of feelings, speculators are ordered as positive, negative and nonpartisan. The attributes of various enthusiastic state are likewise examined in this paper. A general finish of this investigation uncovers that financial specialist's feelings end up developed over some undefined time frame on their venture life cycle.

Keywords: investment decision, Bangalore, investor, behavioral finance, feelings

I. INTRODUCTION
One of the methods publicly listed corporations raise cash is by issuing shares to investors. These shares can then be sold and bought through a stock exchange. Investors seek to make a profit from the share market by purchasing shares that will pay a stream of dividends over time or by purchasing shares that will increase in price over time and therefore can be sold for a profit. The decision to buy or sell the share should be based on a rational assessment of factors that can indicate whether the share price will increase in the future or whether a healthy stream of dividends will be paid to shareholders. For example, an investor assessing whether or not to buy shares in a particular company may assess the expectation of future company performance. In particular, investors can be interested in whether sales will increase over time or whether cost will decrease. In other words, will the company become more profitable in the future? Another factor is the dividend payment history of the company. Companies have a track record of paying high dividends will be more likely to pay high dividends in the future (also known as the signaling effect).

Assessing both the risk and reward of the investment, reviewing the past track record of key management. Have the management in previous roles being responsible for positive outcomes or have they been responsible for a period of poor company performance. Assessing how much the company is worth on the stock market. Investors can do this by multiplying the share price with the number of shares issued and also by assessing the opportunity cost, could more money be made by investing in a different option than buying the shares under review. There is a growing body of evidence however that concludes the human emotions regularly influenced stock market buying and selling behavior at the expense of relevant share market investment information. In other words, when the trader is on the cusp of making a buying or selling decision, their investing decision could be ultimately influenced by their emotional reaction rather than their research or rational calculations. Behavioral economists have found emotions such as regret, hope, greed and fear significantly influence individual trading decision. Regret is an emotion associated with the individual wishing that they did perform a past action. It’s been found that traders are less likely to purchase a stock they had previously sold at a loss especially if the stock price is trading at a higher price from the previous selling price. Buying at a higher price than what one is previously sold
a share can remind the trader that they’ve made a mistake in previously selling the shares. Conversely traders are more likely to repurchase a stock that has been previously sold for a profit and is now trading at a price lower than what the trader has sold it for. Hope is associated with the belief that the future will turn out to be positive. It’s been found that when a stock price decreases, traders will sometimes continue to hold on the stock in expectation of a turnaround in price and they become insensitive to evidence that the stock price will continue to decrease. In other words, the trader doesn’t sell because they hope to recoup the losses even when they could redeploy the investment to a more promising opportunity. Trading based upon hope is also a type of optimism bias. Greed is an emotion attached with longings of constructing more wealth, power and status. Greed is a destructive emotion because there is no saturation point and the person will keep on becoming more and greedier. Furthermore, it is a social emotion when those around us become greedy. Despite our best intention, we can be infected with their greed. The greed instinct and the fear of missing out caused investors who have previously followed discipline investment strategies to follow the crowd in buying up popular stocks. When greed infects a number of investors, there can be a pricing bubble which represents a spike in the share price that does not reflect the long-term fundamentals in terms of the investment option. Investors buying a stock that has a bubble often lose money as the long-term fundamentals ensure that the share price returns to a lower level.

In a bull market, share price of the majority number of shares in the stock market are increasing and this can lay down the psychological foundations for a general feeling of greed where shares are being purchased based on the fear of missing out. On today’s perceived low prices, a reaction by trader’s results in an additional increase in the share prices which further fuel feelings of greed and a fear of missing out. If the cycle of an increasing share price leading to people feeling greedier which leads to an increase in share price continues and there will be a general stock market boom, which often ends when the greed instincts suddenly is replaced by the fear instinct.

Fear is an emotion associated with the detection of a threat or harm. In the case of the stock market there could be fear of losing one’s investment. Many traders invest their hard-earned cash in the stock market with visions of making money and when prices decrease, investor sees a paper loss. The emotion of fear can give the temptation for panic selling where the investor sells at any low price to try to recoup some of their own investment.

Fear like Greed is a socially contagious emotion when a number of investors face an emotional fear, the price of a stock can become much lower than the fundamental long-term price. Long term-oriented investors often make a profit by purchasing stocks being sold in the climate of fear. This is because these long-term investors focus on the share price fundamentals.

II. REVIEW OF LITERATURE

1. In Jayashree Bhattacharjee and Ranjit Singh’s research paper about awareness about equity investment among retail investors, it has given strong evidence about Awareness about equity investment among retail investors growing considerably. It is true that demographic, socio-economic and psychological factors are important determinants of awareness about equity investment. Financial awareness leads to financial well-being. Increased awareness about equity investment leads to the growth of the financial market in general and stock market. Equity awareness enables the investor to make better financial decisions, to appreciate their rights and responsibilities and to understand and manage the risk as an investor. The importance of financial awareness can never be denied. In India there are many institutes spreading the same and has been successful in doing so. It has gain importance because it benefits investors, the financial system and the economy. Equity awareness enables the investor to make better financial decisions, to appreciate their rights and responsibilities and to understand and manage the risk as an investor. Even though after such awareness there are still crowd which are unaware about the equity investment, the policy makers can design the equity awareness campaign considering the different demographic and socio-economic factors. While designing such a campaign, the impact it would have and the importance of equity awareness should be properly illustrated considering their demographic and socio-economic profile in practice so that the actual emotional connect could be analyzed.

2. Investing in the equity market primarily requires a knowledge of its working and the ability to rationally analyze trends and their impact on the market. It is important to understand the risks associated with the instruments and to align the investment portfolio to one’s risk appetite. Often, investors incur losses in the market due to impulsive decisions made in an emotional state of mind. Fear and greed cloud their
judgements resulting either in creation of heavy positions or the sale of shares at lower prices. Darren Duxbury, Newcastle University Business School, attempts to capture the impact of emotions on financial decisions and market behavior in his paper “Behavioral finance: Insights from experiments II: biases, moods and emotions.” The paper compiles the various studies that examine the facts observed in behavioral finance, compares and contrasts their observations and seeks to draw conclusions from the same. The attempt to quantify the abstract moods and emotions of the investors into visible market results is appreciable. The paper is structured on the theme of biases, moods and emotions and the issues impacting financial behavior are broadly divided into under/overreaction, overconfidence, impact of prior outcomes and moods & emotions.

3. The analysis of an issue involves the comparison of the observations of two studies which provides a broad perspective of the issue and a better understanding of its impact. For instance, the paper says, “While Fama (1998) claims under/overreaction cancel out, leaving markets efficient, Bloomfield et al. (2000) note this is true only if under/overreactions are unsystematic, hence they investigate experimentally whether information reliability leads to under/overreaction in systematic ways.”

4. A unique aspect of the paper’s analysis is that it also offers an insight into the definition of the issue addressed. It defines overconfidence as, “The first definition relates to overestimation of ability, performance, chance of success, etc., which they label overestimation. The second definition arises when people believe themselves to be better than others, which they label over placement, and which is commonly referred to as a “better than average” effect (or referential by Acker and Duck, 2008). The third relates to excessive certainty regarding the accuracy of one’s beliefs, which they label over precision, and which is commonly referred to as miscalibration.” It also explains that overconfidence in behavioral finance may either be tested through proxies like gender or measures of overconfidence like the bias score. It is interesting to note that gender serves as a tool to gauge the overconfidence in investing. The paper also contains studies that attempt to debias the investors.

5. The paper says that while prior gains make an investor more risk taking, he becomes more risk averse following prior losses. Interestingly, the theory of utility maximization assumes that individuals derive utility from final state wealth and are indifferent as to how they arrive at this terminal wealth. But clearly, individuals do let their decisions be guided by prior outcomes, showing that they indeed are emotion driven. In discussion about moods and emotions, the paper seems to suggest that bad-mood traders are more accurate and conservative in their decisions whereas good-mood traders were slow and inaccurate in the decision making. The comprehensiveness of the paper may be observed from the fact that it chooses to study even the incidental factors influencing the issue. For instance, it sets out to understand the causes of change in the moods of the investor by citing: “…emotionally charged media coverage of such events increases investor fear and anxiety, which in turn negatively affects stock prices.”

In conclusion, it is only right to say that emotions do impact an investor decision and they are an important part of his perspective on the market. While it may be necessary to learn from past outcomes, issues of overconfidence or just a bad mood are better avoided. The paper observes the nuances of behavioral finance and seeks to throw light on the conclusions of various experimental studies.

III. RESEARCH DESIGN

The present study is a descriptive study conducted in order to analyses and interpret the collected data. The investors who are actually into the investment business are from Bangalore. The questionnaire was prepared targeting the investment class of the population and expected to collect a minimum of three hundred and eighty-four responses since the sample size is really large. The questionnaire was basically circulated through Email. Previous research pointed out the disparity in the effectiveness of loyalty strategies in distinct service sectors. We have chosen these sectors because they vary on several facets, and it was important to investigate if the impact of emotions on customer loyalty was same in divergent sectors. First, these sectors differ in terms of the level of service provided. Second, they are viewed as two different kinds of services (relational vs transactional). Third, the switching costs are typically higher in banking sector, while in supermarkets sector the switching costs are relatively low. Lastly, these sectors also differ in terms of service heterogeneity. This procedure resulted in the collection of 510 responses out of which approximately 400 were useable questionnaires responses.
OBJECTIVES

1. To find out if the equity market is emotional driven
2. To find out by what percentage of the equity market is driven by emotions?

SOURCES OF DATA

The data was collected through primary source by circulating the questionnaire amongst the investor group of the population targeted at Bangalore. The questionnaire was circulated through email and WhatsApp.

HYPOTHESIS

We have used Alternative hypothesis in our study to identify the investment behavior of the investors in the stock market. It was measured using three positive items (joy, enthusiasm and happiness) and five negative items (anger, regret, disappointed, sadness and irritation). The model and hypotheses were tested using regression analysis. A natural log transformation was performed on the dependent variable (loyalty intentions) to estimate the normal distribution of the disturbances and effective impact on the investment decision.

DATA ANALYSIS TOOL

We have basically used the method of questionnaire data collection in order to conduct the study. In our study we have used SPSS and pie chart in order to interpret the data and draw up the necessary conclusions. It helped us in understanding the behavioral impact on the investment decisions of the investor group of the target population.

EXPECTED OUTCOME

We expect to find out if the equity market is emotional driven, what percentage of the equity market is driven by emotions and if gender has an impact on investments that are emotionally driven.

LIMITATIONS

The limitation we faced as students was that it took time to find people who were eligible to fill out the questionnaire. We needed a large number of respondents. Another limitation is that these responses represent investment habit of people from Bangalore. Since the population of Bangalore is 1.23 crores, we have 384 responses. Other limitations are the ones that come along with choosing a questionnaire method of data collection.

IV. DATA ANALYSIS AND INTERPRETATION

Composite reliability for each construct was above 0.50 (Bagozzi et al., 1998). According to Hair et al. (2011) measurement model possesses convergent validity if CR > AVE and AVE > 0.50 and it possesses discriminant validity if MSV > ASV and AVE > ASV and square root of AVE is greater than inter-factor correlations. Tables I and IV show that both in supermarket data and in bank data all values comfortably surpass the reliability and validity standards.
A hierarchical moderated analysis was run to test the hypotheses. The moderated regression analysis seeks to determine the change in R² that results during a hierarchical test of three regression equations. In the first regression, the dependent variable loyalty intention is regressed on the equity drivers as the independent variable. This is followed by a second regression of loyalty intentions with both the independent variable equity drivers and moderator variable emotions. In the third regression, an interaction term obtained by multiplying the independent variable with the moderator variable is also entered. To minimize the risk of multicollinearity resulting from the correlation, these variables have had their data mean centered. In case of the investors behavior the data resulted in increase in R² value from 0.724 to 0.751 shows that there is a statistically a significant direct moderation effect of positive emotions and an improved R² from 0.730 to 0.754 also provides evidence of statistically significant direct moderation effect of negative emotions (F¼185.248, po0.001). Partial support for H6a was available. Positive emotions enhance the positive effect of value equity ( β¼0.771, po0.001) and brand equity ( β¼−0.679, po0.05) on loyalty intentions. Opposite to our stipulated relationship, it was found out that after moderation of positive emotions, brand equity has a significant negative influence on loyalty intentions ( β¼−0.679, po0.05). H6b was also partially confirmed as negative emotions diminish the positive effect of value equity ( β¼−0.360, po0.001) and relationship equity ( β¼−0.164, po0.05) on loyalty intentions. Contrary to our hypothesized relationship, it was found out that negative emotions enhance the positive effect of brand equity on loyalty intentions ( β¼−0.482, po0.001).
This study observed the direct effects of emotions (positive and negative) and customer loyalty drivers on loyalty intentions as well as the moderating effects of emotions on the relationship between customer loyalty drivers and loyalty intentions in the two Pakistani service sectors. Overall, this study found that positive emotions, positively influenced loyalty intentions, while negative emotions negatively influenced loyalty intentions, as expected. This finding suggests that customers’ positive and negative emotions are vital and critical elements for determining loyalty intentions in addition to the conventional loyalty drivers.

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<th>LOYALTY INTENSIONS</th>
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<tr>
<td>R2</td>
<td>0.678</td>
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<tr>
<td>ADJ R2</td>
<td>0.676</td>
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<tr>
<td>F</td>
<td>283.543***</td>
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<tr>
<td>Total value equity</td>
<td>0.489***</td>
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<tr>
<td>Total brand Equity</td>
<td>0.206***</td>
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<tr>
<td>Total loyalty equity</td>
<td>0.225***</td>
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<tr>
<td>Positive emotions</td>
<td>0.295***</td>
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<td>Positive total value equity</td>
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<td>Brand value equity</td>
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<td>Loyalty value equity</td>
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The second step of the analysis tested the direct effect of customer loyalty drivers on loyalty intentions. This step showed that all three customer loyalty drivers had a significant positive effect on loyalty intentions, as predicted in the literature (Vogel et al., 2008). This study also revealed that the effect of customer loyalty drivers on loyalty intentions can differ depending on customer emotions. Therefore, in the third step of the analysis, moderating effect was examined. In the supermarket sector, the interaction terms between customer equity drivers (value, brand and relationship) and positive emotions were significant. The results revealed that the positive emotions play a moderating role in the relationship between customer loyalty drivers and loyalty intentions. Furthermore, the standardized coefficients of the interaction terms between value equity, relationship equity were positive, whereas there was a negative standardized coefficient of the interaction term between brand equity and positive emotions. This finding indicated that positive emotions increase the positive effect of value equity and relationship equity on loyalty intentions, whereas decrease the positive effect of brand equity on loyalty intentions. On the other hand, the interaction terms between customer equity drivers (value, brand and relationship) and

<table>
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<tr>
<th>LOYALTY INTENSIONS</th>
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<th>Regression Equation (2)</th>
<th>Regression Equation (3)</th>
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<tbody>
<tr>
<td>R2</td>
<td>0.678</td>
<td>0.730</td>
<td>0.751</td>
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<tr>
<td>ADJ R2</td>
<td>0.676</td>
<td>0.728</td>
<td>0.746</td>
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<tr>
<td>F</td>
<td>283.543***</td>
<td>272.865***</td>
<td>172.211***</td>
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<tr>
<td>Total value equity</td>
<td>0.489***</td>
<td>0.352***</td>
<td>-0.117</td>
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<tr>
<td>Total brand Equity</td>
<td>0.206***</td>
<td>0.159***</td>
<td>0.561***</td>
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<tr>
<td>Total loyalty equity</td>
<td>0.225***</td>
<td>0.139**</td>
<td>-0.057</td>
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<tr>
<td>Negative emotions</td>
<td>0.332***</td>
<td>0.148**</td>
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<tr>
<td>Positive total value equity</td>
<td></td>
<td>0.771***</td>
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<tr>
<td>Brand value equity</td>
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<td>-0.679**</td>
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<td>Loyalty value equity</td>
<td></td>
<td>0.353**</td>
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Negative emotions were also significant, indicating the moderating role in the relationship between customer loyalty drivers and loyalty intentions. The standardized coefficients of the interaction terms between value equity, relationship equity and negative emotions were negative, whereas there was a positive standardized coefficient of the interaction term between brand equity and negative emotions. This finding indicated that negative emotions decrease the positive effect of value equity and relationship equity on loyalty intentions, whereas increase the positive effect of brand equity on loyalty intentions.

The standardized coefficients of the interaction between value equity, relationship equity and positive emotions were negative, indicating that negative emotions decrease the positive effect of these loyalty drivers on loyalty intentions. Furthermore, amongst the investor group it indicates that positive emotions decrease the effect of brand equity on loyalty intentions, while negative emotions increase the effect of brand equity on loyalty intentions, which is opposite to the proposed relation. The possible explanation could be that, in eastern cultures, brand consumption does not only fulfill material needs, but also satisfies social needs, the desire for favorable social self, to earn respect from others and to maintain, save and increase face (Ting-Toomey and Kurogi, 1998; Liao and Wang, 2009).

And also, eastern consumers might choose branded products because of their high uncertainty avoidance, due to a large number of counterfeit products (Fan and Xiao, 1998). Therefore, for the investing group of the population especially in Bangalore consumers might prefer to buy branded stocks, and need to engage in detailed thinking and information processing. Thus, negative emotions will increase the effect of brand equity, while positive emotions will decrease the effect of brand equity on loyalty intentions.

V. FINDINGS AND SUGGESTION

This study has focused on emotional factors and its influence on investor’s investment decisions. Certain psychological factors like mood, heuristics and investment personality are excluded in this study. How these factors contribute the development of individual’s emotions is the promising area of future research related to this study. Consumer behavior is driven by emotions in the stock market. Thus, in order to better predict customer loyalty intentions, the emotional component is crucial and should be included along with other cognitive components.

Since customers’ emotional responses throughout service delivery are strongly linked to loyalty, therefore supermarkets and bank service managers need to make sure that the customers experience with their services as pleasurable as possible and for this purpose, customer service employee need to be trained in order to better understand the customers’ emotional responses during the course of service delivery process.

VI. CONCLUSION

Every investment decision has both positive as well as negative impact. It basically depends on how the investors make decision about the investment will result in success or failure. This study identified the various emotional swings often crossed by the investors on making investments in the equity market. How these emotional swings influence individual’s investment decisions is taken as the primary aim of this study. Around 510 samples were chosen to carry out this study. Findings of this study reveal that investors can be classified based on the influence of emotions are positive, negative and neutral emotional states. There are a greater number of neutral emotional state investors. Further, this study has found that lack of cognition, inexperience’s, impulsiveness determines individual’s emotional instability. Further, this study is also useful to investment analysts, broking firm, and investment managers to create awareness among their clients on successful investments in equity market. At the same time, fund managers can use this study to design a suitable product to meet their clients’ needs. An overall conclusion of this study explores that emotion-based heuristics is a best tool for quick and fast decisions, if it is properly used. Besides individual’s emotions become matured over a period of time on their investment cycles. In order to overcome the problem of unsuccessful investment decisions, individuals should use their emotions in a productive way to optimize their investment return. In conclusion, it is only right to say that emotions do impact an investor decision and they are an important part of his perspective on the market. While it may be necessary to learn from past outcomes, issues of overconfidence or just a bad mood are better avoided.
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