

Determinants of Trading Decision: An Experiential Examination

Gunjan Sharma*, Tarika Singh**, Suvijna Awasthi***

Abstract

In the midst of increasing globalization, the past two decades have observed huge inflow of outside capital in the shape of direct and portfolio investment. The increase in capital mobility is due to contact between the different economies across the globe. The growing liberalization in the capital market leads to the growth of various financial products and services. Over the past decade, the Indian capital market has witnessed numerous changes in the direction of developing the capital markets more robust. With the growing Indian economy, the larger inflow of funds has been fetched into the capital markets. The government is continuously working on investor's education in order to increase retail participation in the Indian stock market. The habits of the risk-averse middle class have been changing where these investors started participating in the Indian stock market. It is an explored fact that human beings are irrational and considering this fact becomes imperative to investigate factors that influence the trading decisions.

In this research, 'an attempt has been made to investigate various factors that affect the individual trading decision'. The data has been collected from various stockbroking firms and from clients of those stockbroking firms their opinions were recorded by means of a questionnaire. Data collected through the structured questionnaire, 33 questions were prepared which was given to the 330 respondents on the basis of convenience sampling out of which 220 individuals filled questionnaire, the total of 200 questionnaires was included in the study after eliminating the incomplete questionnaire. Various factors are being explored from the literature and then with the help of factor analysis some of the most influential factors have been explored. Factors like overconfidence, optimism, cognitive bias, herd behavior, advisory effect, and idealism are the factors which influenced the trading decision of the investors the most. Such kind of a study is contributing in the area of behavioral finance as a trading decision is an important aspect while investing in the stock market. And this kind of study would be helping and assisting financial advisors to strategies for their clients in making the right

allocation and also the policy maker and market regulators to come up with better reforms for the Indian stock markets.

Keywords: Investors, Trading Decision, Indian Stock Market, Exploratory Factor Analysis, Descriptive Statistics

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Introduction

Over the past decade, the Indian capital market has witnessed numerous changes in the direction of developing the capital markets more robust. With the growing Indian economy, the larger inflow of funds has been fetched into the capital markets. The Indian stock market has become one of the established markets across the world due to reforms that took place in 1990 by the Indian government. These reforms have made the Indian stock market strong in its fundamentals which made India a lucrative destination for investment. Some of the reforms were like formation of SEBI, screen-based trading system, development of major stock exchanges NSE and BSE, circuit breaker T+2 rolling system, development of credit rating agencies, dematerialization of securities, commodity option trading, single license system, investor protection, growing derivative market, The fast revolution in Indian stock market has increased transparency and trust in its functioning. With the robust stock market, the trading decisions of the investors gained relevance. The government is continuously working on investor's education in order to increase retail participation in the Indian stock market. The habits of the risk-averse middle class are changing where these investors started participating in the Indian stock market (Bhatia, 2018).

* Research Scholar, School of Studies in Management, Jiwaji University, Gwalior, Madhya Pradesh, India.
Email: gunjan.sharma@gla.ac.in

** Associate Professor, Prestige Institute of Management, Gwalior, Madhya Pradesh, India. Email: singh.tarika@gmail.com

*** Professor, School of Studies in Management, Jiwaji University, Gwalior, Jiwaji University, Mahalgaon, Gwalior, Madhya Pradesh, India. Email: suvigya@gmail.com

The Indian stock market is exposed to various fluctuations as the Indian stock market is co-integrated with other Asian stock markets (Sharma & Seth, 2012) consequently the changes that occur in those markets affect our stock market. When the SENSEX goes down it creates a pessimistic environment in the mind of investors. The investor's portfolio is affected and strategies have to be formulated in rebalancing the portfolio (Papantonis, 2016). While making an investment, even a little sum can create an impressive reward over the long haul, particularly on the off chance that is done routinely (Arrow, 1971). However, one had to ensure the amount which is contributed and was to contribute it. There is an uncommon development in the investment area both regarding volume and number of speculators in India over the previous decades because of deregulation of the Indian budgetary segment. The quantity of territorial stock trades in India has expanded. Value revelation through book building process has given a gigantic lift to the underlying open offers and further open offers. The investment situation of Indian money related market wears another look, with a mind-boggling reaction from the Indian financial specialists as well as from outside institutional investor (Aruna & Rajashekar, 2016). With the rising number of stocks in the Indian equity market, the individual investors have gained impetus in an increasing stock market (Wood & Zaichkowsky, 2004). Investors while trading in different financial assets consider various factors which are broadly categorized as the psychological as well as economic factors. It is an explored fact that human beings are irrational and considering this fact, it becomes imperative to investigate factors that influence the trading decision (Sashikala & Girish, 2015).

In this research, an effort has been prepared to investigate various factors that affect the individual trading decision. The data has been collected from various stockbroking firms and from clients of those stockbroking firms their opinions were recorded by means of a questionnaire. Various factors are being explored from the literature and then with the help of factor analysis, some of the most influential factors have been explored. Such kind of a study is contributing in the area of behavioral finance as a trading decision is an important aspect while investing in the stock market. And this kind of study would be helping and assisting financial advisors to strategies for their clients in making the right allocation and also the policy maker and market regulators to come up with better reforms for the Indian stock markets.

Objectives

- To explore factors affecting trading strategies of investors.
- To access the most dominant factors affecting trading strategies of investors.

Literature Review

We use various papers from the field of behavioral finance to explore factors which influence trading behavior and the trading decision of retail investors. The field of behavioral finance answers the riddles of empirical finance (Thaler, 1999). Moreover, behavioral finance is not trying to depict the wrong rational behavior whereas it exhibits the use of psychological decision-making process in the stock market (Olsen, 1998).

Few investors while trading is very much confident about placing their trades. Hence, overconfident investors create a high level of trading in the stock market (Barber & Odean, 2001). Overconfidence by investors generates difficulty in the task and creates unpredictability with this; the investors also commit a systematic mistake while processing information. Investors with overconfidence rated themselves above average investors. When it comes to a higher level of trading activity overconfidence is also assumed to be associated with optimism (Manglik, 2006; Pech & Milan, 2009; Heger & Papageorge, 2013). It has been also investigated that investors with overconfidence create high trading volume and this overconfidence also create an illusion of control (Odean 1998). The psychological base on a different aspect of overconfidence elucidates no particular description of overconfidence (Glaser & Weber, 2007; Moore & Healy, 2008). Exploring the consequence of overconfidence on the trading activity a study conducted on German investors found that the investors believe that only above average level of overconfidence is optimistically related to trading volume (Dorn & Huberman, 2005). Overconfident investors also generate more income as compare to other investors (Kyle & Wang, 1997). The confidence level of investors also varies gender-wise. Studies in the past state males are extra certain than females as women have to face numerous communal challenges (Pulford & Colman, 1997). Griffin and Tversky (1992) in their study mainly focus on overconfidence, which sometimes results in profits in a typical situation like estimating the future

with less predictability for tasks which lacks immediate feedback. If the investor does not have adequate knowledge about the stock market then investing in stocks is a typical task for the investor.

Literature related to psychology and health acknowledged that individuals are frequently prone to optimism. When there is overconfidence there is optimism as the investors always think that when trade with overconfidence they are optimistic about getting good returns. Investors are always optimistic while trading and this optimism may sometimes lead to losses where they lose their hard earned money (Sarwar & Afaf, 2016). In a study by (Patel, 2012) he quoted the word financial optimism which is defined as a future financial situation of an individual and its connection with perilous portfolio choice. Few studies also state that individuals could be optimistic in relative as well as absolute terms. When optimism is relative it is comparative optimism where individuals experience more affirmative events and fewer unconstructive events in contrast to their group (Harris & Middleton, 1994). When the investors behave optimistically the investors invest more in the market (Heaton & Odean, 2002). Excessive optimism also leads to misjudging the changes that occur in some situations (Kahneman & Riepi, 1998). Extra optimism also affects the financial expectations of investors in terms of return.

With the feeling of being optimistic in making the investment the investors also have the feeling of fear of loss. Investors do not want to suffer loss and tried to maximize their returns (Kabra, Prashant, & Dash, 2010). In a few studies, it has been also observed that investors act illogically because they are scared of fatalities in the future (Benartzi & Thaler, 2002). The investors discuss their investment decision with friends, relatives and some of them also follow their advice. In behavioral finance, this behavior of investors is known as herd behavior. In cognitive psychology, herding is one of the relevant concepts that affect the trading decision of investors. The behavior of imitating others in capital markets is called herding (Javaira & Hassan, 2015). According to (Banerjee, 1992) herding is defined as the behavior of doing what everyone else is doing even if some other relevant information suggests them to take some other decision. The herding behavior of the investors also been categorized as rational and irrational (Devenow & Welch, 1996). The rational herd behavior is explained as one which is based on accessibility to information or

enticement issue which may deform the decision making of an investor. Moreover, the investors who are irrational they follow other behavior blindly and ignore rationality.

The investors trading decision habitually gets moved away from logic and reason. In the field of behavioral finance, it has been explored those investors decisions are accompanied with certain behavioral biases. Biases refer to a digression from a custom or preference towards a particular judgment (Wolman, 1973). The prospect theory of behavioral finance explains that the investor's decision making is based on the probable gain or losses (Tversky & Kahneman, 1974). The investor's decision making is limited to due to cognitive biases which affect their judgment. This bias is the blueprint of the human brain and is an instrument that the brain uses to take a decision by processing information. Apart from cognitive bias, there are other kinds of biases like representativeness bias, anchoring bias, regret aversion bias, cognitive dissonance bias, mental accounting bias, and hindsight bias. Investors have the tendency to sell winning stocks and hold the losing stock this kind of effect is known as the disposition effect (Shefrin & Statman, 1985). Moreover, the investors trading decision is influenced by a bias which is known as home bias where the investors chose to hold domestic currency in comparison to foreign securities.

Research Methodology

The present study focused on North India and cities included are Mathura, Agra and Aligarh. A planned questionnaire was developed and sent to 330 respondents as per convenience sampling. The responses have been collected from January to March 2018. The total of 200 questionnaires was included in the study after eliminating the incomplete questionnaire. The data is being collected from the retail investors. Based on preceding research in associated areas, a questionnaire was partially adopted of (Sarwar & Afaf, 2016) and (Aruna & Rajashekar, 2016) to measure the most influential factors that affect the trading decisions of the individual investors on the basis of 33 elements. Descriptive statistics and factor analysis are the statistical tools applied in this research.

The questionnaire is divided into two parts. The first part includes demographic and socioeconomic variables that are to say Age, Gender, Employment status, and Educational level and occupation. The second part includes 33 elements which show the impact of these factors on the selection decision of retail investors. We

are using a five-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree) to mark their responses. The Questionnaire is primarily distributed among the retail investors. Some of the questionnaires were sent through emails, some are manually distributed to the respondents of the Mathura, Agra region.

Data Analysis and Results

Profile of the Respondent

The Questionnaire was developed wherein the first part of it demographic and socioeconomic information was being asked to fill.

About 48.5% of the respondents are male and 51.5% are females. With respect to age, 4.5% respondent is in the age group of <20 years, 83% in age group of 21–30 year, 10.5% in age group of 31–40 year and 2% in age group of 41–50 years. With respect to educational qualification, 3% are undergraduates, 20% of Graduates and 75% are postgraduates and 2% are post-doctorate. When it comes to occupation, 11% are having a business, 29% are private employees, 2.5% are government employees and 57.5% belong to another profession. About 66% having monthly income below Rs 50,000, 6% with income bracket of 100,000–300,000, 17% with income group of 500,000–10,00,000 and 11% were above 300,000 monthly income.

Reliability

Reliability test tells the accuracy of data. The value of Cronbach alpha in our study is 0.903. Cronbach alpha is the test of consistency and is the most accepted estimate to gauge the internal consistency of scale. Cronbach alpha for the 33 items that make up the scale is 0.90 which is higher than 0.5. However, it also shows a high level of internal consistency with respect to the specific sample.

Descriptive Statistics

Descriptive statistics are usually the best methods for collecting information. It is used to summarize the data in the ways that are useful and conclude some meaning. For the purpose of analysis of (Table 1) mean score of all the 33 factors are considered. Mean and standard deviation of these variables are shown in Table 1. Mean or Average is calculated by finding a sum of all the variables and dividing it by the total number of variables. By this, the above table shows that investment in growing stock has the highest mean of 3.67, followed by the investment in stock as an attractive channel with a mean of 3.64; the next factor is followed by the factor where investment is done when the stock is bearish i.e. 3.54. The factor which has the lowest mean value is the fluctuation in the stock market is not a concern which is 2.92 and the knowledge about the stock market with a mean value of 3.00.

Table 1: Item Statistics

| S. No. | | Mean | Std. Deviation | N |
|--------|---|------|----------------|----|
| 1. | My past profitable investments were mainly due to my specific investment skills | 3.28 | 0.916 | 39 |
| 2. | I feel confident to evaluate securities prices in my investment portfolio myself | 3.18 | 1.023 | 39 |
| 3. | I have complete knowledge of stock exchange | 3 | 1.1 | 39 |
| 4. | I believe that the stock exchange is an attractive investment channel | 3.64 | 1.088 | 39 |
| 5. | Relative to others, my ability to predict future Prices is better | 3.31 | 0.922 | 39 |
| 6. | Irrespective of the movements in stock Index, I Continue to invest in the stock market | 3.03 | 1.088 | 39 |
| 7. | I invest in the stocks which I think to be the best according to my own experience | 3.51 | 1.048 | 39 |
| 8. | I believe that information from friends has high reliability | 2.92 | 0.929 | 39 |
| 9. | I believe that information from relatives has high reliability | 3.03 | 0.932 | 39 |
| 10. | I believe that information from colleagues has high reliability | 3.08 | 0.87 | 39 |
| 11. | Whenever the stock market is bearish I will make an investment with a belief that market will turn around shortly | 3.54 | 0.854 | 39 |
| 12. | I am usually able to anticipate the movements in market returns | 3.26 | 0.938 | 39 |
| 13. | I easily adapt when things go wrong financially | 3.18 | 0.97 | 39 |
| 14. | If Index decreases its value by 5%, I believe that it will quickly recover in the next few days | 3.23 | 0.986 | 39 |
| 15. | I expect my investments to perform better than the stock market | 3.46 | 0.854 | 39 |

| S. No. | | Mean | Std. Deviation | N |
|--------|--|------|----------------|----|
| 16. | I am an experienced investor | 2.77 | 1.111 | 39 |
| 17. | My volume of investment also depends on other's opinion (broker, financial consultant) | 3.49 | 1.048 | 39 |
| 18. | I invest in stocks in which I can get the profit as soon as possible | 3.56 | 0.94 | 39 |
| 19. | I take recommendations of analysts, market researchers, and stockbrokers | 3.38 | 1.138 | 39 |
| 20. | When faced with a major financial decision, I am more concerned about the possible losses and gains | 3.51 | 0.756 | 39 |
| 21. | I usually react quickly to the changes in the opinion of my financial consultant | 3.28 | 0.972 | 39 |
| 22. | I am prepared to take a risk with my financial decisions | 3.62 | 0.847 | 39 |
| 23. | Fluctuations in the stock market DO NOT concern me | 2.92 | 1.061 | 39 |
| 24. | The constant media reporting of stock market fluctuations does NOT bother me | 2.69 | 1.03 | 39 |
| 25. | I consider myself as a high-risk taker | 3.36 | 0.932 | 39 |
| 26. | I become more careful in investing after a prior loss | 3.41 | 1.093 | 39 |
| 27. | I will invest in stocks about which I think will definitely grow in future | 3.67 | 1.108 | 39 |
| 28. | I think that stocks will give me the expected return | 3.49 | 1.073 | 39 |
| 29. | I am prepared to take greater risks (possibility of initial losses) in order to earn greater future returns | 3.59 | 1.229 | 39 |
| 30. | I feel more comfortable taking risks (possibility of initial losses) when my investments are performing well | 3.64 | 1.063 | 39 |
| 31. | I consider myself as moderate risk taker | 3.41 | 0.85 | 39 |
| 32. | I will sell my investments in case of a terrorist attack/political unrest that cause the market to crash | 3.1 | 0.852 | 39 |
| 33. | I think I am risk averse most of the time while making an investment in stocks | 3.18 | 0.823 | 39 |

Factor Analysis

This research is to observe the trading decision of investors and exploring factors that affect the trading decision of investors. Exploratory factor analysis is a statistical tool that performs a multivariate analysis and helps a researcher to explore variable and form construct. Exploratory factor analysis is a dimension reduction method through which the variables are reduced to a limited number of factors. Constructs are formed by identifying underlying variables that explain a correlation pattern among observed variables. According to factor analysis, these constructs then explains the variances that occur independent variable in conclusion the exploratory analysis identifies construct on the basis of total variance independent variable they explain. Basically, these constructs are nothing but a combination of variables from the questionnaire. Further, the naming of these constructs is fully subjected to the researcher's perspective.

KMO and Bartlett's Test

KMO-Bartlett compute of Sampling sufficiency is an index used to check the suitability of the factor analysis. The smallest required KMO is 0.5. The table below shows

that the index for this the value of KMO comes out to be 0.731 the accepted is 0.5, therefore, it indicates adequacy of sample size for applying the factor analysis. This means the principal component analysis is appropriate for this data.

Table 2: KMO and Bartlett's Test

| | | |
|--|--------------------|----------|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .731 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 2656.981 |
| | df | 528 |
| | Sig. | .000 |

Total Variance Explained

This output gives total variance explained. This table gives the total variance contributed by each component. The subsequent item shows all the factors extractable from the study along with their eigenvalue, the percent of variance attributable to each factor, and the cumulative variance of the factor and the previous factor. Take in the first factor accounts for 21.154 of the variance, the second 9.417, and third 6.686, fourth 5.362, fifth 4.895, sixth 4.586, seventh 4.184, all the remaining factors are not significant.

Table 3: Total Variance Explained

| Component | Initial Eigenvalues | | | Extraction Sums of Squared Loadings | | | Rotation Sums of Squared Loadings | | |
|-----------|---------------------|---------------|--------------|-------------------------------------|---------------|--------------|-----------------------------------|---------------|--------------|
| | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % | Total | % of Variance | Cumulative % |
| 1 | 6.981 | 21.154 | 21.154 | 6.981 | 21.154 | 21.154 | 4.354 | 13.194 | 13.194 |
| 2 | 3.108 | 9.417 | 30.571 | 3.108 | 9.417 | 30.571 | 2.750 | 8.334 | 21.528 |
| 3 | 2.206 | 6.686 | 37.258 | 2.206 | 6.686 | 37.258 | 2.537 | 7.688 | 29.216 |
| 4 | 1.769 | 5.362 | 42.620 | 1.769 | 5.362 | 42.620 | 2.512 | 7.612 | 36.828 |
| 5 | 1.615 | 4.895 | 47.515 | 1.615 | 4.895 | 47.515 | 2.406 | 7.291 | 44.118 |
| 6 | 1.513 | 4.586 | 52.100 | 1.513 | 4.586 | 52.100 | 2.135 | 6.469 | 50.588 |
| 7 | 1.381 | 4.184 | 56.284 | 1.381 | 4.184 | 56.284 | 1.880 | 5.697 | 56.284 |
| 8 | 1.172 | 3.553 | 59.837 | | | | | | |
| 9 | 1.101 | 3.337 | 63.174 | | | | | | |
| 10 | 1.042 | 3.159 | 66.333 | | | | | | |
| 11 | .967 | 2.930 | 69.262 | | | | | | |
| 12 | .913 | 2.768 | 72.030 | | | | | | |
| 13 | .847 | 2.566 | 74.597 | | | | | | |
| 14 | .775 | 2.347 | 76.944 | | | | | | |
| 15 | .727 | 2.202 | 79.146 | | | | | | |
| 16 | .715 | 2.166 | 81.312 | | | | | | |
| 17 | .642 | 1.946 | 83.258 | | | | | | |
| 18 | .600 | 1.818 | 85.076 | | | | | | |
| 19 | .569 | 1.726 | 86.802 | | | | | | |
| 20 | .515 | 1.561 | 88.362 | | | | | | |
| 21 | .485 | 1.469 | 89.832 | | | | | | |
| 22 | .455 | 1.379 | 91.210 | | | | | | |
| 23 | .410 | 1.242 | 92.453 | | | | | | |
| 24 | .387 | 1.172 | 93.625 | | | | | | |
| 25 | .335 | 1.016 | 94.641 | | | | | | |
| 26 | .305 | .923 | 95.564 | | | | | | |
| 27 | .279 | .845 | 96.409 | | | | | | |
| 28 | .255 | .773 | 97.183 | | | | | | |
| 29 | .226 | .684 | 97.866 | | | | | | |
| 30 | .222 | .671 | 98.538 | | | | | | |
| 31 | .174 | .528 | 99.065 | | | | | | |
| 32 | .167 | .507 | 99.572 | | | | | | |
| 33 | .141 | .428 | 100.000 | | | | | | |

Extraction Method: Principal Component Analysis.

Rotated Component Matrix

The factors that have component ranged above 0.5 are grouped together and the same has been done for factors of each component. Among the given factors the component that has the highest loading is the most dominant component. The blueprint of rotation is to

decrease the number of factors on which the variables beneath examination have lofty loadings. This matrix makes the understanding of the analysis easier without making changes. Coming across the table above, 7 factors were identified; explaining the factors affecting the trading strategies of the retail investor. The first factor composed of 8 elements of cognitive bias, second factor composed

of 3 elements of Herd behavior, third factor composed of 5 elements named as optimism, fourth factor composed of 4 elements of advisory effect, fifth factor composed of 2 elements of risk tolerance level, sixth factor composed of 3 elements of overconfidence, seventh factor composed of 3 elements of idealism.

Table 4: Principle Component Analysis

| | Component | | | | | | |
|---|-----------|------|------|------|-----|------|------|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 26. I become more careful in investing after a prior loss | 0.76 | | | | | | |
| 28. I think that stocks will give me the expected return | 0.69 | | | | | | |
| 19. I take recommendations of analysts, market researchers, and stock brokers | 0.66 | | | | | | |
| 27. I will invest in stocks about which I think will definitely grow in future | 0.62 | | | | | | |
| 29. I am prepared to take greater risks (possibility of initial losses) in order to earn greater future returns. | 0.61 | | | | | | |
| 20. When faced with a major financial decision, I am more concerned about the possible losses and gains | 0.57 | | | | | | |
| 22. I am prepared to take a risk with my financial decisions | 0.51 | | | | | | |
| 15. I expect my investments to perform better than the stock market | 0.5 | | | | | | |
| 9. I believe that information from relatives has high reliability | | 0.76 | | | | | |
| 8. I believe that information from friends has high reliability | | 0.74 | | | | | |
| 10. I believe that information from colleagues has high reliability | | 0.73 | | | | | |
| 5. Relative to others, my ability to predict future Prices is better | | | 0.65 | | | | |
| 25. I consider myself as a high-risk taker | | | 0.6 | | | | |
| 6. Irrespective of the movements in stock Index, I Continue to invest in the stock market | | | 0.54 | | | | |
| 30. I feel more comfortable taking risks (possibility of initial losses) when my investments are performing well | | | 0.53 | | | | |
| 33. I think I am risk averse most of the time while making an investment in stocks | | | 0.51 | | | | |
| 17. My volume of investment also depends on other’s opinion (broker, financial consultant) | | | | 0.68 | | | |
| 12. I am usually able to anticipate the movements in market returns | | | | 0.66 | | | |
| 18. I invest in stocks in which I can get the profit as soon as possible | | | | 0.57 | | | |
| 14. If the Index decreases its value by 5%, I believe that it will quickly recover in the next few days | | | | 0.52 | | | |
| 23. Fluctuations in the stock market DO NOT concern me | | | | | 0.8 | | |
| 24. The constant media reporting of stock market fluctuations does NOT bother me | | | | | 0.6 | | |
| 32. I will sell my investments in case of a terrorist attack/political unrest that cause the market to crash | | | | | | 0.87 | |
| 1. My past profitable investments were mainly due to my specific investment skills | | | | | | 0.56 | |
| 11. Whenever the stock market is bearish I will make an investment with a belief that market will turn around shortly | | | | | | 0.51 | |
| 3. I have complete knowledge of stock exchange | | | | | | | 0.69 |
| 13. I easily adapt when things go wrong financially | | | | | | | 0.51 |
| 16. I am an experienced investor. | | | | | | | 0.5 |

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

Discussion, Limitation & Further Scope

In this study, we examine the factors which affect the trading decision of the retail investors. After applying exploratory factor analysis few factors were identified, named cognitive bias, Herd behavior, optimism, advisory effect, risk tolerance level, overconfidence, and idealism. Identification of these factors helps in understanding the irrational behavior of the investors while taking a decision. Moreover, how various categories of investors take their decision that can also be explored by the identification of these factors. Identification of these factors should not only be the way to consider as a means of generating instant returns but also necessary to understand the decision making the process of investors. The cognitive helps in understanding the mental ability of an investor, identification of this bias helps the investors to avoid errors in the process of asset allocation and taking a trading decision. The herding behavior of the investors helps the financial companies in identifying the trend of the investor and their investment pattern. It also explains the reasons for irrationality in the behavior of the investors. The optimism behavior of the investors injects more capital flows in the stock market. The identification of the drivers of the optimism helps in forecasting the estimated returns on the investment. The other factors like advisory effect, tolerance level, and overconfidence help in the assessment of various dimensions of the trading decision taken by the retail investors. Such kind of a study is contributing in the area of behavioral finance as a trading decision is an important aspect while investing in the stock market. And this kind of study would be helping and assisting financial advisors to strategies for their clients in making the right allocation and also the policy maker and market regulators to come up with better reforms for the Indian stock markets. However, the research faced certain limitations in the terms of sample size which is not adequate enough because of the paucity of time. Moreover, the confirmatory factor analysis can be applied to identify the most dominant factors.

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