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## **RETAIL INVESTORS' PERCEPTION IN FINANCIAL MARKETS: A LITERATURE REVIEW AND SYNTHESIS**

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### **ABSTRACT**

Investors' perception studies fall into the area of Behavioral Finance. Researchers mostly rely on survey method to generate primary data using structured questionnaires and interviews. Our review finds that most frequently used methodologies are ANOVA, Factor Analysis, Structural Equation Modeling (SEM) and Regression Analysis. Judgmental Sampling, Convenience Sampling and Snowball Sampling are predominantly used in the surveyed studies. We provide a review of over 60 articles and highlight the issues of investor's attitude towards savings, impact of demographic factors on investment decisions, awareness about financial instruments, behavioral biases of individual investors.

**KEY WORDS:** Behavioral Finance, Factor Analysis, Investors' perception, Behavioral Biases  
JEL Classification:G1, G11, G12, G14

### **1. INTRODUCTION:**

Behavioural Finance is considered to be a relatively emerging field. Understanding Individual Investor behavior is critical for policy makers, regulators, market infrastructure institutions (MII). The literature on financial behavior and investors' perception is limited in India. Our study contributes to the literature on

Investors' perception as it summarises the extant studies on this emerging topic. The remainder of this article covers the literature on factors influencing investors' perception which is followed by a summary of over sixty research papers. We conclude the paper with a discussion of major findings.

### **2. SUMMARY OF STUDIES ON INVESTOR PERCEPTION:**

There are extensive studies, reports and books available on Investors' perception of financial markets. We have reviewed some literature pertaining to the topic under study. The relevant literature is reviewed on basis of reputed journals. The detailed review in tabular format is given below.

### **3. OBJECTIVES OF THE STUDY**

**3.1)** To identify the current status of studies on Investors' Perception in Financial Markets

**3.2)** To delineate trends & research gaps in the extant literature on Investor Perception



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#### 4. FINDINGS & CONCLUSIONS

The studies surveyed by the authors revealed the following conclusions regarding Investors’

Perception research in Financial Markets.

- a) Most of the studies focused on Mutual funds, Equities and not considered Derivatives (Futures & Options).
- b) Investor risk tolerance levels and perceptions need to be researched further.
- c) Our survey reveals that majority studies considered by the researchers used Judgemental sampling, convenience sampling and snowball sampling methods.
- d) Factor analysis by principle component method is the predominant methodology used in the studies.
- e) Investors’ perception factors are considered as independent variables and investors’ satisfaction is considered as dependent variable.
- f) Studies also employed structural equation model (SEM) is applied to establish the relationship between Investors’ perception and satisfaction level in financial market investments.

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**Table 1: REVIEW OF STUDIES ON INVESTORS’ PERCEPTION**

| Author(Year of Study)   | Field of study & Geographical area                           | Sampling  | Methodology  | Findings/Conclusions  |
|-------------------------|--|---|--|---|
| Kumar & Kannaiah (2014) | Post office savings - Dharmapuri district in North Tamilnadu | Stratified Quota sampling<br>600 respondents (4 ×                           | Percentage analysis, chi-square test, factor analysis,   | No relationship between investors’ attitude towards savings and age, education  |
|                         |  | 150) – 4 TALUKS   | ANOVA and correlation analysis   | and income of the respondents   |
| Sindhu (2013)           | Mutual funds<br>900 individual investor in Kerala            | Multi stage sampling Kerala<br>-3 Regions (3 × 300 )<br>Convenient sampling | CAGR, percentage, weighted mean, SD, correlation coefficient, CV, Chi-square test, Friedman repeated measures on Rank, Wilcoxon signed rank test, ANOVA, simple and multiple regression analysis | Investment decisions of investors are very much influenced by financial consultants.  |
| Agrawal & Jain (2013)   | MUTUAL FUNDS<br>MATHURA – 300 investors                      | Snowball sampling   | Percentage analysis  | Maximum investors are aware about banks & LIC. More than 80% investors are aware about MFS, Real estate and NSC investment avenues. |
| Vijay Kumar (2015)      | Equity market investments<br>Chennai<br>200 respondents      | CONVENIENCE SAMPLING<br>10 factors loaded with perceptual variables         | Factor analysis, linear multiple regression, one-way ANOVA, SEM  | Age and income do not influence the investor perception. The satisfaction level of  |



|  |  |  |  |  |
|--|--|--|--|--|
|  |  |  |  | investors   is   very   much<br>influenced by their<br>perception. |
|--|--|--|--|--|

Factors namely security, risk tolerance, lucrative returns, investment duration, periodic return, share performance, lap term investment future return & invest dynamics influence investors' perception

|                         |   |  |   |   |
|-------------------------|---|--|---|---|
| Purohit (2013)          | INDIAN STOCK MARKET<br><br>200 respondents<br><br>Tamilnadu           | Convenient sampling<br>Non-probability<br><br>sampling | Descriptive research<br><br>- KMO and Bartlett's<br><br>test<br><br>-EFA using PCA,<br>ANOVA for internal<br>validity, Varimax<br><br>extraction,<br>cronbach's alpha | Most of the investors are<br>having awareness about<br>the products being dealt by<br>stock exchanges. Some of<br>the investors are ready to<br>take high risk in the stock<br>market.  |
| Sadi, et.al<br>(2011)   | TEHERAN STOCK MARKET<br><br>200 investors in Teheran                  | Random sampling  | Correlaion,<br>Parametric analysis  | The findingshows that<br>perceptual errors have got<br>a significant correction<br>with investors' personality.<br>There isa reverse<br>correlation between<br>conscientiousness and<br>randomness bias,between<br>openness and availability<br>bias. |
| Hassan, etal.<br>(2013) | INVESTMENT IN ISLAMABAD STOCK EXCHANGE<br><br>300 investors in ISE of | Random sampling  | Survey method<br>confirmatory factor<br>analysis ,EFA   | An instrumnet of thirty<br>four(34), items was<br>completed after applying<br>EFA. The validity of the<br>items used in the scale to  |

|            |                    |                   |                     |  |
|------------|--------------------|-------------------|---------------------|--|
|            | Pakistan           |                   |                     | compute the variables of<br>the study have been tested<br>in Pakistan. |
| HON (2015) | SMALL INVESTORS IN | Snowball sampling | Factor analysis CV, | Identify and analyze the   |



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|                               |  |  |   |   |
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|                               | HONGKONG STOCK MARKET<br><br>1199 respondents via a survey questionnaire           |  | KMO, Bartlett's test, scree plot  | important factors that capture the behavior of small investors in HKSE. Reference group is the most important factor & monitor investments is the second important factor.  |
| Mishra (2015)                 | MUTUAL FUNDS ODISHA<br><br>136 respondents residing in Bhubaneshwar city           | Not stated   | Exploratory factor analysis<br><br>t-test   | There is a difference of perception among the small and large investors with respect to 'return' and 'future' aspects of mutual funds.  |
| Rajagopalan, Guruswamy (2014) | Portfolio decision making retail investors Chennai city 1200 respondents           | Two-stage sampling simple random sample<br><br>sample size = 606 | Non-parametric and chi-square analysis<br>Factor analysis by<br><br>PCA, K-means cluster analysis | Self-consciousness is the most dominating personality trait among the survey respondents and it is influenced by all the proposed variables such as gender, age marital status, discipline, occupation income, time spent for analysis of trades per month etc. |
| Abdullah, Hilu (2015)         | TRADING BEHAVIOR OF INDIVIDUAL INVESTORS UNITED ARAB EMIRATES<br><br>179 investors | Purposive sampling   | Exploratory factor analysis, structural equation modeling   | The study determined three likely independent variables, namely, investors' perception of information asymmetry, market perceptions and over confidence that may predict investor's risk attitude.  |
| Kumar, Pani (2016)            | INDIAN DERIVATIVES MARKET<br><br>200 respondents                                   | Convenience sampling   | Chi-square analysis   | The attitude of investors is changing towards derivatives market in India for the last few years.   |



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|                                   | Retail investors from TRICHY city  |                 |  | There has been increasing awareness about derivatives trading among investors in India.   |
| Rashid, Nishat (2009)             | Market structure Dhaka stock exchange Bangladesh 300 retail investors  | Random sampling | Factor analysis descriptive & reliability statistics regression analysis                       | Investment analysis, ease of conducting transaction, information and risk all affect the satisfaction level of stock investors in   |
|                                   |  |                 |  | Bangladesh.   |
| Gupta, Chowdary & Aggarwal (2016) | Indian Commodity Market Brokers in MCX NCR- Delhi 95 Brokers   | Not specified   | Frequency distribution, Diagrammatic presentation, Measure of central tendency Chi-square test | Finding of the survey present a mixed picture. Some respondents characterize Indian market as naive while others indicate caution. Retail investors are having a strong representation in commodity derivatives market. |
| Gandhi (2015)                     | INDIAN STOCK MARKET RETAIL INVESTORS Mumbai, Delhi, Kolkata, Chennai & Ahmadabad   | Random sampling | Chi-square test ANOVA  | Small percentage of household savings in India invested instock market. Most retailinvestors find the stock market activities too complex and difficult to comprehend.  |
| Naresh (2006)                     | Derivative market – Market participants – investors, broken, analysis 120 sample size – Ahmadabad, Bangalore, Chennai & Mumbai | Not stated      | Factor analysis ANOVA chi-square test KMO, Bartlett test rotated component matrix              | Regulatory framework is required to meet the needs of enquiry market integrity, financial integrity and investor protection   |
| Pasha (2013)                      | Indian Derivatives Market  | Not stated      | Percentage analysis  | Examination of Ten myths  |





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|                                   | <p>-Retail investors</p> <p>-Andhra, Rayalaseema, Telangana regions</p> <p>-500 respondents</p>       |   | <p>Barcharts</p>  | <p>about derivatives and their usage.   Financial derivatives   should be considered   part of any investors risk management strategy.</p>  |
| <p>Kukreja (2012)</p>             | <p>INDIAN CAPITAL MARKET, investors</p> <p>NCR – India</p> <p>120 sample size</p>                     | <p>Systematic sampling selected every 5th investor from Angel Broking office in NCR</p> | <p>EFA using PCA, KMO &amp; Bartlett’s test, mediations variables method, Chi-squares test Cronbach’s alpha</p> | <p>Education has significant relation with transparency, tax advantage, past performance of the company.</p> <p>Age has significant role in cash market, F &amp; O.</p>                                 |
| <p>Aren &amp; Aydemir (2015)</p>  | <p>Risky investment intention</p> <p>-Turkey</p> <p>-112 Sample size</p> <p>-University personnel</p> | <p>Convenience sampling</p>   | <p>Hierarchical regression</p>  | <p>Risk aversion had a significant and negative impact on risky investment behavior.   This study provided  no  evidence   of 10cm of control as a factor in predicting risky investment intention.</p> |
| <p>Dorn &amp; Huberman (2005)</p> | <p>Portfolio Decisions</p> <p>-German Retail broker</p>   | <p>Transaction records</p> <p>-Questionnaire data</p>                                   | <p>OLS and Ordered Probit</p>   | <p>Self reported risk aversion is the single most important  determinant   of</p>   |

|                      |                       |  |                    |   |
|----------------------|-----------------------|--|--------------------|---|
|                      | <p>2300 clients</p>   | <p>-Stratified random sampling</p> <p>577 responses – paper</p> <p>768 responses -online</p> | <p>Regressions</p> | <p>both portfolio diversification and turnover. Other things very equal, investors who report being more risk tolerant hold diversified portfolios and trade more aggressive.</p> |
| <p>Nurdin (2007)</p> | <p>FDI Strategies</p> | <p>Disproportionate</p>  |                    |   |



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|                            | -Investors in Nairobi SE<br>42 FDS of 147 in Nairobi   | stratified random<br>sampling descriptive<br>satisfies<br>-Mean scores |  |   |
| Ali (2011)                 | Intention to invest<br>-Individual investors<br>-Victories Australia<br>-341 undergraduate<br>students | Convenience sampling   | Partial least squares<br>(PLS) path modeling<br><br>-Boot strapping<br><br>technique   | Investors are using<br>different metrics to<br>adequately evaluate<br>company's risks and<br>refines and not entirely<br>influenced by emotional<br>factors when deciding to<br>invest in a particular.   |
| PAR &<br>Hakeem (2015)     | Investors Investment<br>Decisions  | Conceptual research<br>model   |  | This study helps to<br>understand the<br>psychological variables<br>(heuristic, prospect and<br>herds) and per conceived<br>risk behavior (Risk<br>perception, Risk attitude<br>and risk propensity)<br>influence individual<br>investors behavior. |
| GOEL (2013)                | Mutual funds<br>-Individual investors<br><br>-10 subcategories<br><br>50 × 10 = 500                    | Stratified random<br>sampling  | -Weighted average<br>score<br><br>factor analysis ,chi-<br><br>square test. Z-test<br><br>likert scale<br><br>Multi-Dimensional<br>scaling technique<br>(MDS), Multi nomial<br>logistic regression | Maximum number of<br>investors invests in growth<br>schemes followed by<br>income, balanced, sector,<br>ELSS, gold ETF and index<br>finds   |
| Parimala Kanthi<br>& Kumar | Investment avenues<br>- Individual investors   | Convenience –<br>sampling  | -Friedman test<br>-Garrett ranking   | Education of investors is<br>immensely important for  |



|                                  |  |   |  |   |
|----------------------------------|--|---|--|---|
| (2015)                           | -Coimbatore city<br><br>-107 customers                             |   | -Factor analysis   | present day investors. The majority   ofthe investors prefer to invest in saving account followed by gold and silver, FD account and the like |
| Awan & Arshad (2012)             | Mutual funds<br><br>-Retail investors                              | Not specified   | AHP and factor analysis ,one way                         | Investor age group and cities have different impact   |
|                                  | -PAKISTAN<br><br>-5 major cities<br><br>-150 sample                |   | ANOVA ,chi-square test, multi-nomial logistic regression | on find selection schemes but income, education level and occupation has no effect  |
| Thamotharan & Prathakaran (2016) | Indian Derivatives MCT<br><br>-Retail investors<br><br>-402 sample | PROBABILITY<br><br>Sampling method<br><br>-Lottery system | Structural equation modeling (SEM)                       | This study revealed that investing activity is depending   on  market   |



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|                                 |  |  |   |  |
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|                                 | -16 districts of TN  |  |   | behavior, index return and market volatility. H can be in funded that majority of investors consider above mentioned factors for investing in Derivation Mkt.  |
| Raza, etal (2015)               | Trading internationally<br>-Tourism cities of Pakistan<br>-105 employees | NA   | Correlation, regression ,ANOVA                                | Investors' perceptions fluctuate significantly during the crisis, with risk tolerance   and risk perception   being   can volatile than return expectations  |
| Suresha & Chandra sekhar (2016) | Corporate Annovaents<br>-211 informed<br>-Investors<br>-Bangalore        | Convenience Sampling   | Correlation, ANOVA, regression ,Chi-square, percentage tables | Perception towards wealth effect of turns, stock spht, perception towards risk association of wealth effect of corporate action have positive impact on awareness about corporate auctions   |
| Sharma (2015)                   | ELSS MUTUAL FUNDS<br>50 research papers                                  | Research degage based on secondary data from research paper partials like EBSCO, PROQUEST GOOGLESCHOLAR. | -Developed a model  | The reviser of research paper revealsthat, in the India scenting most of the attempts have ben made only to describe MF performance on the basis of Risk & retion.<br><br>There are gaps in the knowledge domain regarding investor's perception, Gastaner satisfaction. |
| Saranya & Karthikeyan (2015)    | Post office savings schemes  | Stratified sampling<br>Multistage sampling   | -Mean scores, frequencies percentage                          | Investors of PO schemes likes the India post to stand firm by competing their  |



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|  | -Coimbatore<br><br>-1068 investors  |  | -Factor analysis                                       | rivalries such as LIC, MFs,<br><br>Bank schemes   |
| Kavitha (2015)                         | Stock market<br><br>-125 respondents  | Convenience sampling   | Descriptive statistics<br>correlation                  | There is a significant<br>relationship between the<br>investors' attitudes and<br>stock market investments.   |
|  |   |  |  | There is a significant<br>relationship between the<br>local investors perception<br>of stock market regarding<br>and their intention to<br>@NSE   |
| Muthuswamy<br>Rathi devi<br><br>(2015) | Risk perception &<br>Information senior<br>behavior<br><br>-Coimbatore        | -Investors residing in<br>Coimbatore<br><br>-Trading in COSE for<br>at least 1year | -Correction<br><br>-MANOVA<br><br>-Multiple regression | Investment decision may<br>influenced by the variables<br>of advice seeking behavior<br>and investment decision<br>making   |
| Joseph &<br>Joseph (2015)              | Mutual funds<br><br>-Retail investors<br><br>-Kerala<br><br>472 questionnaire | Multi stage<br><br>Random sampling   | Factor analysis one<br>way ANOVA                       | Investors' perception is<br>dependent on the demo<br>graphic profile and the<br>investors' age and amal<br>says has duet impact as the<br>choice of investment.<br><br>The study suggests that<br>mostly the small investors<br>have positive approach<br>towards investing in MFS. |
| Kulkarni &<br>Yadav (2014)             | ELSS<br><br>-Salaried Employees   | Conveyance sampling  | Pie-diagram,<br>percentage analysis                    | Majority prefers safety as<br>important parameters along<br>with income tax benefit.<br>ELSS is presently<br>observed as high risk  |



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|                         |   |                                |  | investment tool.  |
| Hamid.etal<br>(2013)    | Risk<br><br>-Malaysia<br><br>-162 investors from 8<br>Stock Broking Companies                                   | -NA-                           | Multiple regression<br><br>Factor analysis                             | Risk propensity was found to be positively correlated to risk taking behavior where as risk percentage was negatively related to risk taking behavior.<br><br>Risk perception partially mediates the effect of propensity to take risk. |
| Riaz & Hunjra<br>(2015) | Investment decision<br><br>-200 investors of<br>Islamabad Stock<br>Exchange                                     | Probability Random<br>sampling | Structural equation<br>modeling<br><br>Conformation factor<br>analysis | Investors' behavior depends on how the available information is being presented to them and how much they are prone to taking risk while making decisions.  |
| KHAN (2014)             | Investment performance<br><br>-150 investors of Karachi<br>Stock Exchange                                       | NA                             | Mediator &<br>Moderator variables                                      | Risk perception is mediating the process while financial literacy has moderation role in the study. Results indicate that both framing and hereby effects have a positive   |
|                         |   |                                |  | significant relationship with per cared invest act performance  |
| Nuruzzaman<br>(2013)    | Futures market<br><br>-Retail investor<br><br>411 respondents<br><br>-Delhi, Noida, Guragaon,<br>Agra & Aligarh | -NA-                           | Chi-square test  | Retail investors are prone to self-attribution bias which causes a tendency among them to make wrong decisions. It is also find that most of the retail investor's trade in futures   |



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|                     |   |                           |   | is mostly for speculative purpose.   |
| Dasharathlal (2011) | Derivatives market<br>-Gujarat<br>-Major cities<br>-HNI investors<br>80 major brokerages<br>150 sample size | Judgmental sampling       | Frequency distribution, cross tabulation, mean, SD<br>factor analysis<br>ANOVA  | Factor analysis is used to find out factors important from pant of view of Hal investors. In this research cluster analysis is used to classify respondents into 3 clusters. |
| Srividhya (2012)    | Equity shares<br>-Retail investors Chennai city<br>-507 sample  | -NA-                      | Measures of central tendency dispersion<br>Parametric t-test<br>One-way ANOVA<br>Factor analysis<br>K-mean cluster analysis<br>Multiple discriminant analysis<br>Non-parametric chi-square analysis | The study concludes that strategies must be employed to encourage women investors. Awareness programs have to be conducted.  |
| Luong & Ha (2011)   | Investors<br>Decision making<br>-Ho Chi Minh SE<br>-Individual investors<br>300 Questionnaires              | Stratified random samples | Descriptive statistics<br>Factor analysis<br>Cronbach's alpha<br>Structural equation modeling (SEM)   | Changes of stock price, Market information and past trends ofstocks are the variables of market that influence the individuals investment decreasing at HOSE                 |
| Gakhar (2016)       | Derivatives market<br>-522 questionnaires   | -NA-                      | SEM<br>ANOVA  | Awareness about financial market experience is derivatives trading workplace activity and return expectation are   |



|                     |  |      |                                   |   |
|---------------------|--|------|-----------------------------------|---|
|                     |  |      |                                   | significantly associated with Derivatives Awareness level (DAL) of respondents.   |
| Manrai (2015)       | Derivatives market   | -NA- | Factor analysis                   | The behavior of retail investors' is changing towards F&O market in India for the last few years. Identified a model respective the factors affective the investor behavior in derivatives market |
|                     | -Investors<br><br>-North India<br><br>1000 respondents                 |      |                                   |   |
| Khurana, etal. (NA) | Derivative market<br><br>Investors<br><br>INDORE<br><br>50 respondents | -NA- | Percentage analysis<br><br>Z-Test | Derivatives market is dominated by male investor with age group 31-40. Derivations are use as Hedging tool and trend of spot market affects F&O trading.  |