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RESEARCH ARTICLE

"FACTORS INFLUENCING INVESTORS' DECISION-MAKING IN EQUITY MARKETS: A BEHAVIORAL ANALYSIS"

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Equity investment, decision-making, behavioral finance, SEM, investor perce ption.JEL Classification: G02 Behaviora l Finance: Underlying Principles;G11 Po rtfolio Choice; Investment Decisions; G4 1 – Role and Effects of Psychological, Emotional, Social, and Cognitive Factors on Decision Making

Abstract

Purpose:This study investigates the behavioral factors shaping equity investment decisions, focusing on seven perceptual dimensions: future prospects, trade dynamics, essential marketing, financial health, risk tolerance, psychological biases, and social media influence. Objective:The primary objective is to identify which factors most significantly impact investors' choices, using a structural equation model (SEM) for analysis. Methods:Data were collected via purposive random sampling from 400 investors in Tamil Nadu, India.Results revealed that essential marketing (standardized $\beta = 0.398$), social media ($\beta = 0.371$), and financial factors ($\beta = 0.366$) were the strongest predictors of decision-making, collectively explaining 77% of the variance. The model demonstrated excellent fit (GFI = 0.996, RMSEA = 0.01), rejecting the null hypothesis of poor fit. Notably, psychological and risk-taking factors had weaker but significant effects ($\beta = 0.244$ and 0.221, respectively).Key Findings: The study underscores the growing role of non-traditional factors like social media in investment behavior, alongside conventional financial metrics. Practical implications suggest that financial institutions should integrate targeted marketing campaigns and digital engagement strategies to align with investor psychology. This research contributes to behavioral finance literature by empirically validating multi-dimensional influences in an emerging market context.

Introduction:-

Globalization and financial markets are intricately linked, with the process of globalization significantly impacting how financial markets operate and how investors access and manage their investments. Stock selection criteria refer to the precise factors and considerations that investors use to choose individual stocks for their equity investment portfolios. Investors employ various methods and analyses to evaluate stocks and make informed decisions based on their investment objectives, risk tolerance, and market outlook (Kandavel, 2018). The selection process is crucial because it directly influences the performance of an investment portfolio. Understanding these factors can help

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investors, financial advisors, and analysts assess the level of risk associated with specific stock selection criteria. It's important for investors to align their risk-taking behaviour with their financial objectives and to periodically reassess their risk tolerance as circumstances change. Additionally, diversification and a well-defined risk management strategy are essential components of a robust investment approach. (Maheshwari and Kumar, 2018).

Research Problem

Analyzing the essential marketing factors that influence investors' stock selection criteria involves understanding how investors interpret and respond to information, market dynamics, and external influences (Mittal, Manish, and Vyas R.K. 2017, Obamuyi T.M. 2018). Investors often analyse a company's financial health, including earnings, revenue growth, profitability, and balance sheet strength. A strong brand reputation can instill confidence in investors (Pai, J. 2015, Sane, R.; and Thomas, S. 2013). Marketing messages should be aware of current market sentiment and public perception (Swapnaja, G. P. 2021). Investors often respond to the prevailing mood of the market, and marketing efforts should align with or counteract these sentiments when necessary (Maheshwari, U.S., and Kumar, A.M., 2018). Social media monitoring and sentiment analysis can provide insights into public perception (Kent et al., 2001). Investors are sensitive to the regulatory environment in which a company operates (Bennet et al., 2011, Anitha M., and Bhargavi D. P., 2014). Marketing should address regulatory compliance and demonstrate a commitment to ethical business practices. Investor confidence is often tied to the credibility of a company's management team. Marketing efforts that showcase the expertise and track record of executives can positively impact investor sentiment (Selvi T.T., 2015). Therefore, the majority of the research study conclusions were diversified results and hence need to be examined.

Hypotheses

H_1 (Alternative Hypothesis):

The decision-making model has a statistically significant fit, indicating that investors' equity investment choices are influenced by perceptual factors (financial, marketing, social media, risk-taking, psychological, trade, and future prospects).

H_0 (Null Hypothesis):

The decision-making model does not exhibit a significant fit, implying no measurable relationship between perceptual factors and investors' equity investment decisions.

Research Methods

This study is quantitative and exploratory, employing a structural equation model (SEM) to examine the relationship between seven perceptual factors (e.g., financial, social media, psychological) and equity investment decisions. It uses primary data collected from individual investors to analyze behavioral trends and validate hypotheses.he study analyzed data from 400 equity investors in Tamil Nadu, selected through purposive random sampling. A structured questionnaire was administered to investors, capturing their perceptions on seven factors: future prospects, trade dynamics, essential marketing, financial health, risk tolerance, psychological biases, and social media influence. Items were measured on a Likert scale (e.g., 1–5), with questions like "How significantly does social media influence your stock choices?" and "Rate the importance of a company's financial statements in your decisions".Key findings revealed that the essential marketing factor (coefficient: 1.177, standardized: 0.398), financial factor (1.066, 0.366), and social media factor (1.368, 0.371) had the strongest positive impact on decision-making. The model's goodness-of-fit indices (GFI: 0.996, RMSEA: 0.01) confirmed robust statistical validity.

Data Analysis And Interpretation

The following structural equation model displays the impact of seven factors related to perception on investors' decision-making in the equity market. The seven factors are: future factor, trade factor, essential marketing factor, financial factor, risk-taking factor, psychological factor, and social media factor. For studying their relationship, eight observed exogenous variables and one unobserved endogenous variable were considered.

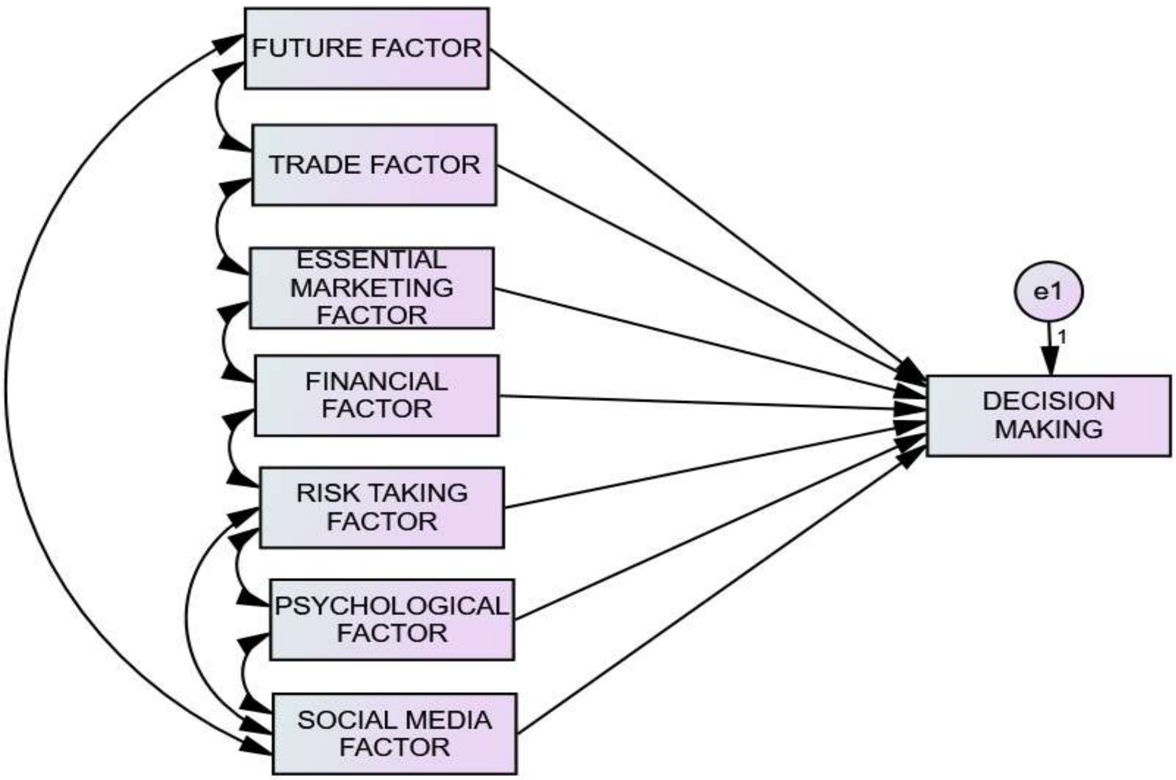

Fig.1 Structural Equation Model (SEM) of Investors' Decision-Making

Table 1: Goodness Of Fit For Investors' Decision-Making Model

Indicator	Actual Value	Suggested Value
Chi-Square Value	12.412	-
DF	13	-
Chi-Square/DF	0.955	< 5.00
P-value	0.494	> 0.05
GFI	0.996	> 0.90
AGFI	0.998	> 0.90
NFI	0.989	> 0.90
CFI	0.989	> 0.90
RMR	0.037	< 0.08
RMSEA	0.01	< 0.08

Table 1 explains the investors' decision-making model's fitness. The p value of 0.494 is greater than the tabulated value of 0.05, and hence we rejected the null hypothesis and accepted the alternative hypothesis. Chi-square divided by degrees of freedom (DF) value 0.955 is less than 5.00 percent. Further, the goodness of fit index observed was 0.996; the adjusted goodness of fit index indicated 0.998; the normed fit index indicated 0.989; and the comparative fit index recorded 0.989, which was above that 0.90 percent. On the other hand, root mean square residuals showed 0.037 and root mean square error of approximation depicted 0.01, which were below 0.08, and thus the model has a good fit to proceed with further analysis.

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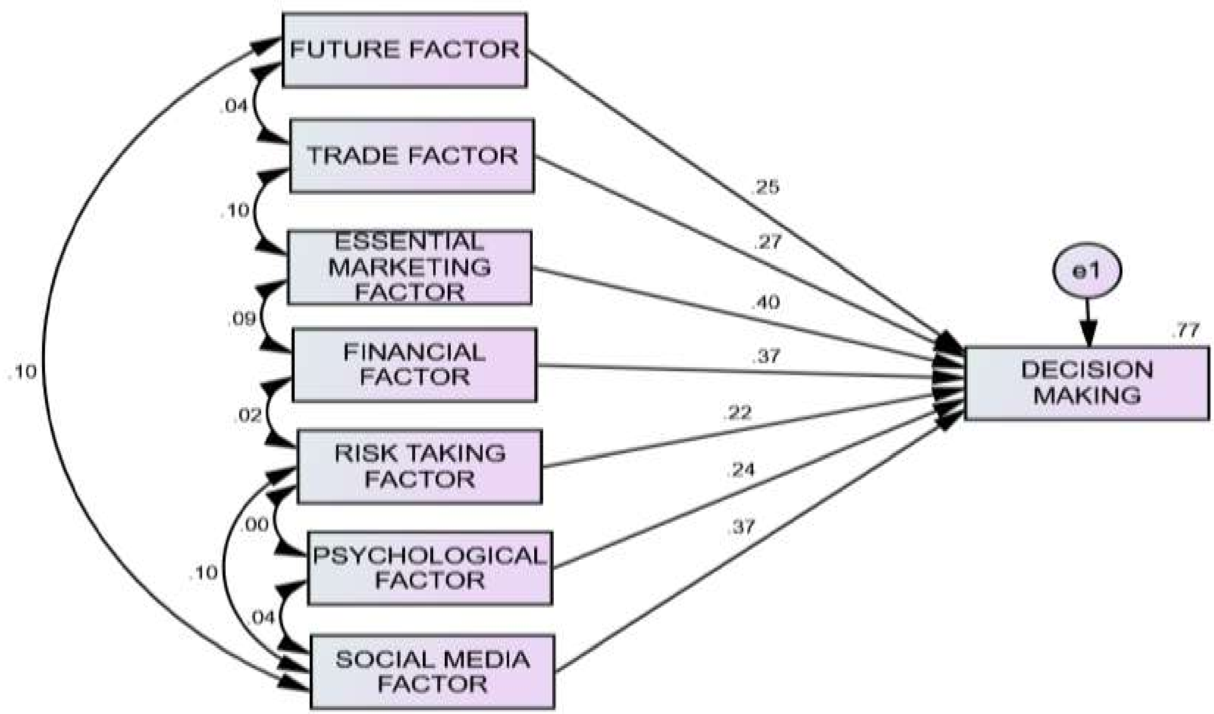

Fig 2: Standardized Path Coefficients of Perceptual Factors Influencing Equity Investment Decisions

Table 2: Coefficient Of Perception Of Investment Factors On Investors' Decision Making

Factors			Unstandardized Co-efficient (B)	S.E of B	Standardized Co-efficient (B)	t-Value	Sig.
Decision Making	<---	Trade Factor	.937	0.064	0.266	14.602	<0.00**
Decision Making	<---	Essential Marketing Factor	1.177	0.054	0.398	21.847	<0.00**

Decision Making	<---	Financial Factor	1.066	0.053	0.366	20.154	<0.00**
Decision Making	<---	Risk Taking Factor	0.904	0.074	0.221	12.166	<0.00**
Decision Making	<---	Social Media Factor	1.368	0.067	0.371	20.268	<0.00**
Decision Making	<---	Psychological Factor	0.945	0.070	0.244	13.502	<0.00**
Decision Making	<---	Future Factor	1.016	0.074	0.251	13.820	<0.00**
Note: **refers significant at 1 percent level.							

Table 2 shows the relationship between perceptions of investment factors and investors' decision-making. It indicates that when trade factor goes up by one unit, decision making goes up by 0.937; essential marketing factor rises by 1 unit; decision making factor also rises by 1.177 units; financial factor observed: a unit change will reflect 1.066 units in decision making factor; one unit change in risk taking factor positively increases 0.904 units in decision making; one unit change in social media will move positively 1.368 units in investor decision making; one unit variation in psychological factor will affect 0.945 units in decision making factor; and a unit change in future factor will positively impact 1.016 units change in decision making factor.

Summary of Hypothesis Testing:

The study tested two key hypotheses regarding the influence of perceptual factors on investors' equity investment decisions. The null hypothesis (H_0), which posited no significant relationship between perceptual factors and investment decisions, was rejected based on strong statistical evidence. The structural equation model demonstrated excellent fit (GFI = 0.996, RMSEA = 0.01) and all seven perceptual factors showed statistically significant path coefficients ($p < 0.01$). The alternative hypothesis (H_1), stating that investment decisions are significantly influenced by perceptual factors, was strongly supported. Notably, essential marketing factors emerged as the most influential ($\beta = 0.398$), followed closely by social media ($\beta = 0.371$) and financial factors ($\beta = 0.366$). These findings collectively confirm that investors' decision-making processes in equity markets are meaningfully shaped by multiple perceptual dimensions, with marketing, financial, and social media factors playing particularly prominent roles. The results provide robust empirical support for behavioral finance theories emphasizing the importance of psychological and contextual factors in investment decision-making.

Discussion

Stock selection is a dynamic process that requires ongoing analysis and adaptation to market conditions. The combination of these factors varies among investors, reflecting their unique investment strategies and goals. The outcomes of standardized co-efficient also proved on investment criteria: essential marketing factor (0.398) ranked one, followed by social media factor (0.371); financial factor (0.366) observed third rank, followed by trade factor (0.266); future investment factor (0.251) recorded fifth rank, followed by psychological factor (0.244); and risk-taking factor (0.221) got seventh rank among the seven factors. Moreover, social media factor is highly correlated with psychological and future investment factors; trade factor is highly associated with essential marketing factor and these two factors are strongly correlated with financial factor. Further, out of 77 percent explained by the decision-making factor, 40 percent was explained by the essential marketing factor, followed by 37 percent explained by the financial factor and the social media factor.

Conclusion

Analyzing the risk-taking behaviour of investors in stock selection involves examining how individuals assess and respond to various types of risks associated with equity investments. Investors have different risk preferences and tolerances, and their decisions are influenced by important factors such as essential marketing factor, financial factor, social media factor, and risk perception. It's important to note that different investors may priorities these factors differently based on their investment goals, strategies, and risk preferences.

Managerial Implications

The findings highlight actionable insights for financial advisors and firms: (1) Prioritize transparent marketing communication to build investor trust, (2) leverage social media platforms to disseminate credible information, and (3) emphasize financial metrics in client education. Understanding these behavioral drivers can enhance portfolio strategies and investor engagement.

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