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Why Indian people scare to invest in Stock Market?: An empirical evidence

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Abstract
The stock market is often viewed as a gateway to wealth creation and financial independence. However, in India, a significant portion of the population remains hesitant and fearful about investing in the stock market. A self-developed questionnaire was developed for the collection of primary data on the basis of a five-point Likert scale. Direct effects were tested and confirmed with the help of bootstrapping procedures in PLS-SEM. Educating people about why should we invest in the stock market is one way we can rectify this.

Keywords: Stock market, investors, economy, scare, bootstrapping

1. Introduction

Stock market is one of the most important measures of a country's economic health. Since we've been a sovereign nation, our stock market has experienced a string of disasters for no apparent cause. Even if regulatory and concerned parties have provided clear market guidelines, current investors still lack trust (Manh *et al.*, 2006) [1]. Investors vary in terms of their socioeconomic status, level of education, gender, race, age, and level of experience in the sector, among other things. Individual investors in India's stock market have been studied using a variety of different sets of criteria (Ramanujam, 2012) [2]. Market features, behavioral considerations, and individual risk profiles, in addition to generic accounting data, are thought to play a role in investing decisions (Samal, 2017) [3]. To make sound stock market investments, private investors must first recognize the elements impacting their investment decisions. However, most investors have trouble doing so. The stock market is often viewed as a gateway to wealth creation and financial independence. However, in India, a significant portion of the population remains hesitant and fearful about investing in the stock market.

The study of behavioral finance is still in its infancy. Individuals' investment decisions and market outcomes are thought to be scientifically influenced by information configuration and the characteristics of capital market players, according to behavioral finance. When making financial judgments, investors rarely do so rationally (Obamuyi, 2013) [10]. One of the primary reasons for the fear of Indian investors in the stock market is the lack of financial literacy. Many individuals have limited knowledge about stock market operations, investment strategies, and risk management. Without a solid understanding of how the market functions, people perceive investing in stocks as a risky and uncertain endeavor. Cognitive and emotional vulnerabilities, among others, have a significant impact on the financial decisions made by individual investors. When it comes to making financial decisions, they are prone to cognitive biases (Hesniati, 2020) [4]. They just respond to the data at hand and adjust their behavior accordingly (Deo and Sundar, 2015) [5]. The risk tolerance capacity, education, demographic milieu, and assistance from financial experts and advisors all have a role in how an investor makes investment decisions (Aregbeyen, 2011) [6]. Indian stock markets have witnessed periods of significant volatility in the past, leading to economic downturns and investor losses. Instances of market crashes and bearish trends have left a lasting impact on the minds of investors, making them apprehensive about risking their hard-earned money in the stock market.

Despite having access to all of the resources and facilities available, some investors however choose to pursue certain paths based on the results of environmental impact analyses. Many factors shape investors' opinions of available investment opportunities (Rajashekar, 2016) [7]. Since the financial sector plays a significant role in the country's economic development, the mobilization and provision of savings are crucial to the expansion process. The ability of an economy to produce products and services that affect the standard of life of the populace rises when funds are invested in productive endeavors (Somathilake, 2020) [8]. "Since the goal of the capital market is to raise funds for the completion of projects, especially those of a capital type, its performance depends on its ability to encourage the flow of savings and investment through the purchase of Government and private securities and others" (Radha, 2014) [9]. The fear of missing out (FOMO) often leads investors to make hasty decisions based on market trends and tips from friends, family, or social media. The fear of being left behind or making wrong decisions can deter Indian investors from entering the stock market, as they may perceive it as a risky venture with no guarantee of returns. Indian investors, in general, tend to be risk-averse, preferring traditional and safer investment options like fixed deposits, real estate, or gold. The stock market's inherent volatility and uncertainty might not align with their risk appetite, leading them to avoid stock market investments altogether. Some potential investors harbor a lack of trust in financial institutions and market regulators. Instances of scams and fraudulent practices have shaken investor confidence, making them skeptical about the transparency and reliability of the stock market. The fear of losing money is a significant deterrent for Indian investors. Many perceive stock market investments as gambling, wherein they risk losing their entire investment capital. This fear of loss often outweighs the potential for gains, leading to avoidance of stock market participation. The uncertainty of investment returns makes the activity seem risky. Insufficient funds are a common deterrent to participation in the stock market. The idea that you need a great fortune to make money in the stock market is pervasive. People are avoiding investing due to anxiety, which might prevent them from achieving their financial objectives in the long run. Most individuals would rather save or put their money in an Individual Savings Account (ISA) than invest it. While it's always a good idea to put money aside for the future, saving isn't always the best approach to do it. If the return-on-investment rate is lower than the rate of inflation, the value of savings might decrease.

2. Literature review

Obamuyi (2013) [10] explored the association between investors' socioeconomic characteristics and the elements found to have the most impact on their investing decisions in the Nigerian Capital Market. "The study found that the historical success of the company's stock, anticipated stock splits/capital increases/bonuses, dividend policy, estimated corporate profitability, and the desire to get rich soon were the most influential factors." The study additionally indicated that investors' age, gender, marital status, and level of education all had substantial impacts on their investment behavior. One hundred investors from two cities in Pakistan participated in a study by Sadiq and Ishaq (2014) [11] that aimed to determine how demographic characteristics influence investors' risk tolerance and, in turn, their investment decisions. They found that investors' risk tolerance is affected by characteristics such as their degree of education, income, investment expertise, and experience. In addition, the factors of gender, marital status, employment, and family size were found to have little impact on investors' willingness to take risks.

Udeepa (2014) [12] evaluated the correlation between the demographics of traders on the Colombo Stock Exchange and the factors that influence their decisions. Information was gathered from 162 participants utilizing a structured questionnaire and a random selection technique. A company's marketability predicted profitability, dividend policy, and the success of the company's stock in the past were also highlighted as important considerations. The study also revealed certain characteristics that had little impacts, such as religious considerations, rumors, product loyalty, government ownership, and insider information. Investors' demographic attributes (age, gender, marital status, monthly income, and educational qualifications) were found to have a substantial impact on individual investors' investing decisions. To determine whether or whether individual investors in the Colombo Stock Exchange exhibit irrational behavior, Menike *et al.* (2015) [13] undertook research. The findings pointed to the impact of herding, heuristics, prospects, markets, and contexts on financial decisions.

Researchers Rosemary and Bitrus (2016) [14] set out to learn what drives ordinary Nigerians to buy and sell stocks on the capital market. A total of 130 participants completed the questionnaires used to gather the primary data. Past performance, predicted bonus issues, growth potential, future dividend, and profitability were found to be significant influences on the investment decisions of individual investors. Using data collected in India, Chavali and Mohanraj (2016) [15] analyzed how demographic characteristics and risk tolerance affect financial decisions. A total of 110 investors filled out questionnaires for the study. Gender was found to influence both respondents' investment behavior and their final investment decisions.

Perera (2016) [16] looked into how discrimination based on gender affected trading patterns on the Colombo Stock Exchange. The study's findings showed that men and women differed in important ways that affected their reasoning, emotions, and tendency to follow the crowd. Investors' demographics, market variables, risk tolerance, lifestyle traits, and behavior were found to have a substantial association.

In 2017, Patel and Modi performed additional research to determine how variables such as investors' sex, age, marital status, level of education, household income, and number of children affect their risk tolerance and investment choices. One hundred investors from the Gujarat region were picked using a suitable selection approach and given a structured questionnaire to fill out in order to obtain the necessary data. Their research showed that demographic factors including age, gender, and income had a role in investors' choices.

Khanam (2017) [18] conducted a study with 300 randomly chosen Dhaka Stock Exchange investors to examine the role of demographics on investors' choices following a dividend announcement. The study's results showed a correlation between the demographic variables (investors' ages, levels of education, occupations, years of experience, and incomes) and their investment choices. Therefore, the purpose of this research is to determine what people fear most about investing in the stock market. Almost no research is mentioned in this setting.

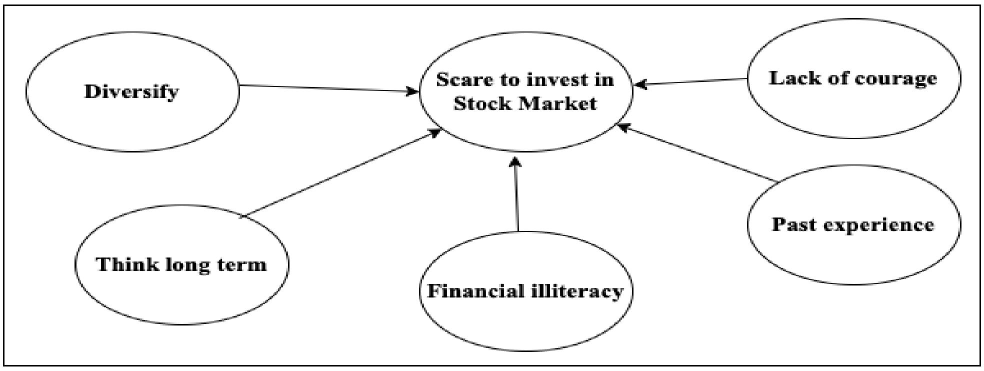

Fig 1: Conceptual framework

3. Methodology

To collect primary data, we designed our own questionnaire based on a five-point Likert scale (see Table 1). The initial part of the survey collects demographic data such as respondents' ages, sexes, job titles, and years of experience. Items in the second part assess concepts like diversification, long-term thinking, financial illiteracy, experience, bravery, and fear of investing. Location specifics for the study were not provided. We scheduled visits, made phone calls, and sent emails to describe the study and collect responses from participants. We instructed those who took part in the survey on how to answer the questions and how to disseminate the questionnaire to any willing subordinates or coworkers. About 300 people were asked to fill out the survey, and 136 full responses were collected using a standard sample method. Table 2 contains the respondents' demographic information. To analyze construct validity (CV) and evaluate the given hypotheses, we used structural equation modelling (SEM) inside PLS-SEM, following the two-step technique (Saunders *et al*, 2009) [25]. First, we checked the construct validity and goodness of fit of the measurement models. After settling on a suitable measurement model, we used structural equation modelling to experimentally describe the route estimates that characterize the structural link between the constructs. Bootstrapping strategies in PL-SEM were employed to evaluate and confirm direct effects.

4. Data analysis

4.1 Demographics summary

A total of 230 consumers were contacted, and after scrutiny 136 responses were used for data analysis. Out of these 93(68.38 percent) were male and 43(31.62 percent were female). The demographic summary is shown in Table 1.

Table 1: Demographic summary

Gender (N=136)	Frequency (%)
Male	93(68.38)
Female	43(31.62)
Age (N=136)	
25-30	39(28.6)
31-45	53(38.97)
Above 45 years	44(32.35)
Income *(n=136)*	
20000-30000	52(38.24)
31000-40000	61(44.85)
Above 40000	23(16.91)
Qualification (N=136)	
Bachelor	88(64.71)
Masters	36(26.47)
Post-graduate	12(8.82)

“Majority of respondents belong to the age group of 31-35 years. On the basis of income, 61% respondents belong to income group of 31000-40000. On the basis of qualification, 88% are bachelor”.

4.2 Reliability and validity assessment

The five-factor measurement model was examined via CFA testing. Environmental Concern Measure Item 3 (EC3) Was Discarded because It Had an Insufficient Factor Loading. An adequate match was found between the data and the proposed five-factor model.

Table 2: Measurement model assessment

Variable	Items	Loadings	t-value
Diversify	DV1	0.712	28.41
	DV2	0.778	24.66
	TLT1	0.731	25.21
Think long term	TLT2	0.749	20.56
Financial illiteracy	FL1	0.832	35.01
	FL2	0.839	30.85
Past experience	PE1	0.774	45.47
	PE2	0.716	65.21
Lack of courage	LOC1	0.765	45.67
	LOC2	0.818	53.41
Scare to invest in the stock market	EB	0.839	67.39

Table 3: Reliability and validity analysis

Variable	Cronbach alpha	Composite reliability	Average variance extracted
Diversify	0.860	0.934	0.877
Think long term	0.786	0.903	0.823
Financial illiteracy	0.890	0.947	0.901
Past experience	0.831	0.922	0.855
Lack of courage	0.761	0.893	0.807

Cronbach's alpha values for all measures were more than 0.70, indicating reliability (Table 3). The build or composite reliabilities were in the 0.893–0.947 range. All factor loadings were significant at the 0.001 level or higher, and there were no outliers. High levels of construct reliabilities and considerable factor loadings provide evidence for convergent validity (Burns & Bush, 2002) [21, 22]. "Composite reliabilities (CR) greater than average variance extracted (AVE) and AVE values (> 0.5) were recorded, further demonstrating convergent validity (Hair *et al.*, 2008) [22]. To evaluate discriminant validity, we compared the square root of AVE values to correlations between the model's components." Discriminant validity was proven since the square root of the AVE values of the individual components in Table 4 were greater than their correlation with any of the other variables in the model. Therefore, our model backed the constructs' convergent and discriminant validity.

Table 4: Discriminant validity

Constructs	DV	TLT	FL	PE	LOC
DV	0.936				
TLT	0.615	0.939			
FL	0.678	0.755	0.898		
PE	0.775	0.806	0.728	0.925	
LOC	0.696	0.789	0.773	0.747	0.882

Note: Correlation is significant at 0.05, figures in italics represent the square root of AVE

4.3 Hypotheses testing

They employed structural equation modelling to check our study's hypotheses. Each of the variables used in the study was treated as a latent construct, with the means of the subscales serving as proxies for the latent variable. The data fit well within the suggested framework. Table IV shows that all measures of goodness-of-fit (CFI, TLI, and IFI) were more than 0.91 (Trochim, 2005) [20] and that the RMSEA value was 0.08. Figure 2 depicts the standardized path coefficient structural model.

The results showed that diversify significantly impacts the scare to invest in the stock market (Think long term (and financial illiteracy (significantly impacts the scare to invest in the stock market. Also, past experience (and lack of courage (significantly impact scare to invest in the stock market.

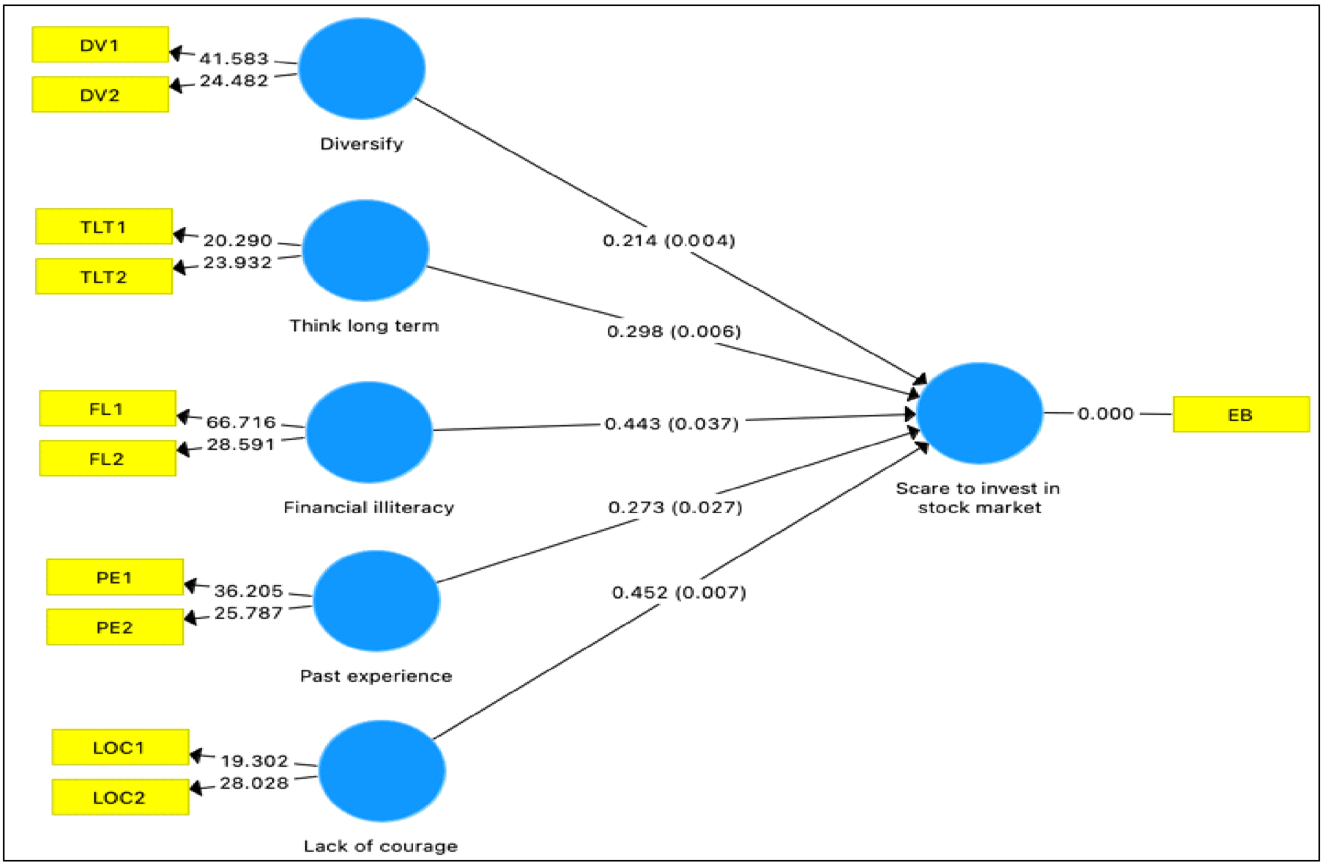

Fig 2: SEM output

Table 5: The outcome of hypothesis testing

Hypotheses	Path	Path coefficient	Standard error	T-Static	Test Outcome
1	DVEB	0.214	0.070	3.451	Supported
2		0.298	0.074	3.787	Supported
3		0.443	0.086	4.517	Supported
4		0.273	0.064	3.871	Supported
5		0.452	0.072	3.868	Supported

5. Discussion and Conclusion

The purpose of this study aimed to identify the barriers to stock market investment perceived by respondents. The results emphasized the significance of respondents' concerns about investing in the stock market. A lack of understanding keeps Indians from the stock market. Many individuals believe that success in the stock market is extremely difficult to achieve. This may stem from the fact that they have never been taught the fundamentals of the stock market and how to invest successfully. Investors avoid the stock market because of the lack of understanding they have about it. The myth that "it is a place where you invest only to lose" must be discarded. Financial literacy programs have also fallen short of expectations. Investors lack confidence when putting money into stocks because of the risk of loss. The "bad" stock market experiences of those we're close to are also a major downer. The Indian stock markets and Indian investors are currently very far apart. This is due to people's demand for risk-free investments that provide predictable returns, together with their desire to avoid danger and their fear of losing money. Because of this, investors' potential earnings and long-term returns are diminished.

6. Implications

According to data from the National Stock Exchange (NSE), there are around 3 crore active investors in India, a country of 138 crore people, as of April 2021. Even though this number is rising and better from the previous data, investing in stock markets remains a stigma for many. Educating people about why should we invest in the stock market is one way we can rectify this.

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