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Indian stock market predictors of intention to invest

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Abstract

The Indian stock market, one of the world's fastest expanding financial ecosystems, attracts both domestic and foreign investors. Understanding the elements that influence an individual's decision to engage in the stock market is crucial. This study seeks to discover and examine determinants of investing intention in the Indian stock market by combining behavioral finance theories with empirical data. The study takes a mixed-method approach, combining quantitative surveys and qualitative interviews to provide a thorough picture of investor behavior. The findings show that financial awareness and risk tolerance are the most important determinants of investing intention. Economic factors, such as market volatility and interest rates, also influence investor confidence. These findings have consequences for financial advisers, politicians, and market regulators who want to increase participation and stability in the Indian stock market. Further study should investigate long-term trends and the influence of upcoming technology. The findings highlight the significance of investor education and awareness in shaping positive investment behavior.

Keyword: Indian stock market, interest rates, market volatility, investor, financial advisers, market regulators

1. Introduction

The Indian stock market is a vital component of the country's financial system, offering a significant platform for mobilizing funds and channeling them toward investments that are profitable. With its fast growth and incorporation into the global economy, India has emerged as one of the most appealing markets for both local and foreign investors. Despite the potential for substantial returns, India's retail investor base remains relatively modest as compared to other emerging nations (SEBI, 2020). Recognizing the factors that influence or dissuade investment intentions is critical to closing this gap and creating a more equitable financial ecosystem. As a result of the considerable expansion that the Indian stock market has undergone over the course of the last few decades, it has emerged as one of the most important investing opportunities in the country. A growing number of people are considering investing in the stock market as a method of achieving their financial objectives. This trend may be attributed to the following factors: a larger middle class, rising disposable incomes, and more knowledge about the importance of financial planning. Nevertheless, despite this expansion, a sizeable portion of the populace continues to have reservations or refrain from participating in activities related to the stock market. For several reasons, it is essential to have a solid understanding of the elements that individual investors consider when deciding whether to engage in the stock market.

In the first place, it offers insights on the behavior of investors, which assists financial institutions and governments in the development of tailored strategies to attract and keep investors. In the second place, increasing involvement in the stock market has the potential to contribute to the broader growth of the economy by facilitating access to capital for firms and fostering financial inclusion. Within the scope of this study, the primary factors that influence the desire to invest in the Indian stock market will be identified and further investigated. We investigate a wide variety of factors, including financial literacy, risk tolerance, market perception, social impact, and technology improvements, by drawing on the existing body of research and empirical data.

Individuals' level of financial literacy is frequently recognized as a primary factor in determining their investment behavior. Individuals who have a solid grasp of the

fundamentals of finance and the functioning of the stock market are more inclined to participate in activities related to investment. On the other hand, a lack of information about finances can be a substantial barrier that discourages new investors from entering the market. Tolerance for risk is still another important consideration. Inherently, investing in the stock market entails risk, and the degree to which an individual is ready to accept and manage this risk may have a significant impact on the decisions that they make regarding their investments. Investors who are more willing to take risks are often more likely to put their money into stocks, whilst people who are more risk averse can be more interested in more secure investing opportunities.

The individual's impression of the market, which includes their interpretation of the market's stability and development potential, is another factor that plays a significant influence. When people have a favorable impression of the market, they are more likely to invest, but when they have a poor impression, they are more likely to be hesitant and quit. There is a considerable correlation between social influence and investing intentions. This impact can take the form of suggestions and endorsements from friends, family, and financial experts. Social networks frequently act as sources of knowledge and reassurance, so assisting individuals in making decisions on their decisions regarding investments. Investment intention, defined as an individual's willingness to participate in financial markets, impacted by a combination of psychological, social, and economic variables. Behavioral finance theories, such as the Theory of Planned Behavior (Ajzen) and Prospect Theory (Kahneman & Tversky), offer a theoretical framework for comprehending these intents. The Theory of Planned Behavior proposes that attitudes, subjective norms, and perceived behavioral control all influence an individual's intention to act, whereas Prospect Theory emphasizes the importance of loss aversion and risk perception in decision-making. These ideas provide useful insights into the motives and challenges that investors confront.

Behavioral finance combines economic and psychological concepts to better understand investor behavior and decision-making in financial markets (Aregbeyen, 2012) ^[2]. Behavioral finance uses social and psychological ideas to explain inconsistencies. It focuses on socio-psychological elements that impact investor sentiment and its relevance to the actual economy. (Lacalle, 2018) ^[21]. According to Baker and Nofsinger (2002, 2010) ^[4] and Baker and Ricciardi (2014) ^[5], different variables can skew investment judgments. Scholars such as Heaton and Lucas (2000) ^[19], Barber and Odean (2013) ^[9], and Sivaramakrishnan *et al.* (2017) ^[32] have studied the variables that influence stock market involvement.

The market has witnessed significant upheaval in recent years, owing to technical advances, regulatory reforms, and increased investor awareness (Chaudhary *et al.*, 2021) ^[13]. Despite these developments, a sizable proportion of the Indian public remains hesitant to invest in the stock market. Financial illiteracy, fear of risk, and cultural views continue to limit market participation (Garg & Singh, 2018) ^[17]. Financial literacy, social factors, awareness of markets, and risk tolerance all appear to be important predictors of investing behavior in India (Kumari *et al.*, 2020) ^[20]. Financial literacy, for example, has been shown to boost

confidence when navigating the complexity of the stock exchange (Lusardi & Mitchell, 2014) ^[23]. In culturally cohesive cultures like India, social variables such as suggestions from peers and family perspectives play an important role in molding investment decisions (Sahi *et al.*, 2013) ^[26]. Furthermore, external factors like media coverage and economic situations frequently influence investor attitude and market participation (Singh & Yadav, 2016) ^[30]. This study aims to explore the predictors of intention to invest in the Indian stock market by examining these factors through an empirical lens. This study aims to deliver practical insights to policymakers, financial advisers, and market players by combining behavioral financial theories with context-specific data. The findings might be used to develop targeted interventions to increase financial knowledge, remove psychological obstacles, and promote more inclusion in the stock market. Given these complex factors, this study seeks to uncover the primary determinants of investing ambition in the Indian stock market. This study aims to provide a comprehensive knowledge of what motivates people to invest in stocks by looking at characteristics such as financial expertise, willingness to take risks, biases in psychology, and social influences. The findings are intended to offer politicians, investors, and educators with significant information for designing targeted interventions to reduce market participation obstacles.

1.1 Stock Market

The public can lend money to a business's promoter in a stock market, equity market, or share market. Further possible funding sources for the promoter include banks, mutual funds, and QIB investors. All we need is a deposit account and a trading account linked to a stock broker to start investing in the stock market. Both the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE)—the two major stock markets in our country—have about 1,600 companies listed on them. Every single day on the market, a huge number of shares are bought and sold. The market changes more quickly when its volatility is high. Buying and selling shares of publicly listed corporations takes place on an open market called a stock exchange. It is the responsibility of the Securities and Exchange Board of India (SEBI) to regulate the stock exchanges in India. Few people opt to put their money into the stock market because of the significant degree of risk involved. You can get returns that are fair to extraordinary if you're ready to accept the risk, though. In spite of having a population of three billion, only 18 million Indians participate in the stock market. Prior to plunging fully into the realm of investing, individuals often peruse a multitude of graphs, charts, statistics, and other forms of data. You need to do this if you want to have a good idea of where your money is best spent. An important component in a stock's economic performance is the perception of the general public. Keep in mind that this is just one of many factors that could affect the result; yet, it is still crucial to think about them all. With this project in mind, our exclusive focus is on sentiment analysis and how it will affect the stock's ultimate prediction

1.2 Prediction Models for Indian Stock Market

Data about the worth of the financial transaction is created

in massive quantities and affected by several factors every minute. The protections trade is an unpredictable and difficult system where people have always had to worry about making or losing money with their venture capital. This effort is an attempt to meet the requirement for trade design protections. Two models are generated: one for the monthly demand determination and one for the step-by-step estimation. Coordinated AI estimations are used for the aim of gathering the models. Emotions and recorded costs are combined in the step-by-step desire model.

The goal is to have a deeper comprehension of human emotions. You can get an accuracy of 70% using controlled AI calculations on a figure-by-figure model. The monthly speculation model attempts to find out if any two months' sets of designs are similar to each other. The first month had the least degree of linkage when comparing the cases of one month and one extra month. To estimate how much the securities exchange will cost, you can use one of two primary approaches. A couple of approaches are available, including the chartist technique and the technical theory method. It is possible to use either of these approaches. We build the proposed technique on top of the idea of technical theories. This theory is based on the central premise that past events tend to repeat themselves.

2. Literature Review

Previous studies have extensively explored the factors influencing investment behavior in various markets.

Financial literacy is frequently highlighted as a crucial determinant. Lusardi and Mitchell (2014) ^[23] emphasized that financial literacy positively affects investment decisions, as individuals with higher financial knowledge are better equipped to evaluate risks and returns. Similarly, Van Rooij, Lusardi, and Alessie (2011) ^[33] found that financially literate individuals are more likely to invest in stocks, as they possess the necessary skills to navigate complex financial markets.

Risk tolerance is another well-documented factor. Grable and Lytton (1999) ^[18] define risk tolerance as the maximum amount of uncertainty that an individual is willing to accept when making a financial decision. Several studies, such as those by Dohmen *et al.* (2011) ^[16] and Weber, Blais, and Betz (2002) ^[34], show a strong correlation between risk tolerance and investment behavior, with higher risk tolerance leading to a greater likelihood of investing in stocks. Market perception also significantly influences investment intentions. According to Shiller (2000) ^[1], investor sentiment and market perceptions can drive market trends and individual investment decisions. Positive perceptions of market stability and growth prospects encourage investment, while negative perceptions can deter it. Social influence is another critical factor shaping investment intentions. Banerjee (1992) ^[6] discusses the concept of "herd behavior," where individuals follow the actions of others in their social circle when making investment decisions. Studies by Bikhchandani, Hirshleifer, Welch (1998) ^[11] and Brown *et al.* (2008) ^[12] further support the idea that social networks and peer recommendations play a substantial role in influencing investment behavior. Technological advancements have transformed the investment landscape, making it more accessible and user-friendly. The rise of online trading platforms and mobile

applications has democratized investing, enabling a broader segment of the population to participate in the stock market. Barber and Odean (2001) ^[8] highlight that the ease of access provided by these technological tools can increase trading activity among individual investors.

Chhaya Devi, *et. al.*, (2024) ^[14] analyzed the economic and non-economic elements that influence Indian investors' propensity to invest in the stock market. The study attempted to increase understanding of investor behavior and motivation to invest in the stock market, perhaps leading to better investment decisions. The study provided valuable insights into the investing decisions of 400 Indian investors. The study suggested that factors such as income, interest rates, banking institutions, financial knowledge, saving attitudes, and social norms influence investment intentions. The study identified and tested the economic and non-economic elements that influence investment willingness in India. The study was done in northern India and may not be applicable to other regions or developing markets. Future investigations might investigate experimental ways.

Adil, M., *et. al.*, (2023) ^[1] researchers examined how individuals invest in the stock market. The study provided important practical and theoretical recommendations for individuals across society. The study demonstrated how the TPB model, combined with Trust in Financial Institution (TFI) and Financial Literacy (FL), might influence Indian investors' intentions to engaged in the financial market during COVID-19. The article provided financial research on how investors make decisions during the epidemic. Provided a basis for future study in developed nations on the socio-psychological aspects of individual investors.

Yang, M., *et. al.*, (2021) ^[36] predicted stock market investment intention and behavior among Malaysian working adults using partial least squares structural equation modeling. Working individuals' intention to invest in the stock market was important for their financial future. Creating an initiative or investment initiative for promoting stock investment will improve knowledge of Malaysian working people' opinions on the stock market and increase the number of investors. The study concluded that assist businesses seeking to optimize capital from the stock market.

Nugraha, B. A., & Rahadi, R. A. (2021) ^[25] analysed the young generations toward stock investment intention: A preliminary study in an emerging market. The study aimed to provide empirical proof and theoretical analysis on how individuals' insightful factors influence their stock investment behavior. Demographic characteristics also played a moderating role. The study validated the theory of intended applicability in Indonesia by examining the intention of young generations to invest in the stock market, considered emerging market perspectives and individual respondents' profiles. Creating a movement or program to promote stock investing might improve awareness of Indonesian young generations' perspectives on stock investment, perhaps leading to major investor development. Singh, V., *et. al.*, (2024) ^[31] examined the determinants affecting individuals' choices to participate in nascent enterprises, emphasizing the motivations for informal investment, notably among business students in the Delhi-NCR area. It indicated that although subjective standards do

not directly affect informal investment, they substantially augment Entrepreneurship Alertness, which bridges the connection between Personal Norms and Informal Investments Intentions. The research revealed that positive social reinforcement from family, friends, coworkers, or the larger environment alters individuals' views about start-up investing, making them more aware and inclined to perceive investment opportunities.

Wesley, J. R., et. al., (2024, February) ^[35] studied on the Mediating Effect of Attitude on the Relationship between Past Behavior, Hopeless, Financial Literacy, Anxiety, and Intention to Invest in Stock Market. The investor's desire to invest mostly hinges on attitude, subjective norms, and behaviors. Attitude served as a critical determinant in financial decision-making inside the market, indicating that investors' choices to invest were influenced by their disposition towards stock market investments. Past experiences in different stock market happenings shape one's choices to invest or not make investments in the stock market. Predicting the stock market involves analyzing a variety of factors and indicators that can influence market trends and investor intentions. For the Indian stock market, some key predictors and factors include:

1. Economic Indicators

- **GDP Growth Rate:** A strong GDP growth rate often correlates with a bullish market.
- **Inflation Rates:** High inflation can lead to higher interest rates, which may negatively impact the stock market.
- **Interest Rates:** The Reserve Bank of India's (RBI) interest rate decisions can significantly affect market sentiment.

2. Corporate Performance

- **Earnings Reports:** Quarterly earnings of major companies can impact stock prices and market trends.
- **Corporate Announcements:** Mergers, acquisitions, and other significant corporate actions can influence stock prices.

3. Political and Policy Changes

- **Government Policies:** Economic reforms, budget announcements, and other policy changes can affect market expectations.
- **Political Stability:** Political events and stability can impact investor confidence.

4. Global Factors

- **Global Economic Trends:** Global economic conditions, including growth rates and trade relations, can impact the Indian stock market.
- **Commodity Prices:** Prices of commodities like oil and gold can influence market movements, especially in

sectors dependent on these commodities.

5. Market Sentiment

- **Investor Sentiment:** Market trends can be driven by the overall sentiment of investors, which can be gauged through surveys and market behavior.
- **Technical Indicators:** Analysis of stock price movements, trading volumes, and other technical indicators can provide insights into market trends.

6. Foreign Investment

- **Foreign Institutional Investors (FIIs):** The buying and selling activities of FIIs can significantly impact the Indian stock market.
- **Foreign Direct Investment (FDI):** Levels of FDI can indicate long-term confidence in the market.

2.1 Indian economic growth and its significance

It appears that both mature market nations and developing market economies are seeing signs of increasing GDP development. In 2019, the National Centre for Applied Economic Research (NCAER) projects a GDP growth rate of 7.3%, and in 2020, it rises to 7.5%, ensuring that India's status as the world's largest and fastest-growing economy remains unshaken (NCAER 2018). There have been shifts in the Indian financial system in recent years, especially in the investment-oriented part of the economy. When gauging economic growth, savings and investment are the key metrics. These economic trends have had an impact on the Indian market, leading to a growth in investor involvement in the stock market and other investment programs including pension schemes, mutual funds, exchange-traded funds, and other deposits. In order for an economy to grow, capital must be accumulated. Financial institutions, investors, government agencies, businesses, and other groups all contribute to the creation of this capital. Consequently, to foster an environment conducive to investment, every country must put in place a system that gives people everything they need to make investments. A interesting and crucial field of research over the past several years has been the behavior of investors in the capital market. A emphasis on investment has replaced saving as the primary economic driver of India's economy throughout the previous several decades, marking a dramatic change in the country's financial landscape. The financial markets have experienced a fundamental shift in policy towards globalization and liberalization, leading to product innovation, more international inclusion, greater transparency, and improved coordination. These monetary policy shifts caused a dramatic increase in the number of individual traders and investors engaging in the stock market and other investment avenues in India's financial markets.



Fig 1: Dynamic changes and variations in the market

2.2 Individual investors

Individual investors are confronted with a vast quantity of information, some of which may not be relevant to the decision-making process. Individual investors are also considered to be minor investors in the capital market. These investors differ from one another in terms of their behavior, requirements, talents, and expertise. They are unable to assert their rights against other types of investors because they do not have a sufficient grasp of the financial features and procedures that are involved in the securities market. The term "individual investor" refers to a person who, in contrast to institutional investors, invests in a relatively limited number of assets for their own personal investment.

Activities carried out by individual investors can be found through the following channels;

1. Direct investments are made by the investor.
2. His actions are controlled by a broker or agent.
3. He joins a network of people who invest in companies, such as his coworkers, friends, and family members.

In India, investors who purchase equity-driven securities are eligible for exemptions from paying income tax on their investments. Consequently, many investors put their money into them (Basu and Chawla 2012) ^[10].

2.3 Investment decisions of investors

Planning, according to one definition, is settling on one option after giving serious thought to all of the available alternatives. Planning is only one more way to describe this challenging process. The procedure of deciding on investments is the most important of several basic obstacles that investors must overcome. Dissimilarities in their profiles, which include shared characteristics like demographics and socioeconomic status, are one source of contention. Investment planning and execution is a labor-intensive process. Many people and businesses invest for many reasons, including but not limited to the following: to generate income, to save up for retirement, to purchase assets in the future, and similar objectives. Wanting to buy something in the future is another driving factor. Investing options are plentiful and varied, spanning from simple savings accounts to complex derivatives instruments. A wide variety of investors can benefit from these openings. In marketplaces specifically designed for financial transactions, buyers and sellers of these investment goods

transact.

When it comes to factors that significantly impact economic development, the two most important ones are savings and investment rates. Decisions on investments are often preceded by research into the individual investor's needs, goals, and aspirations in the investing realm. When deciding where to put your money, this is correct. Online trading, investor awareness programs, get-rich-quick scams, dividends, and stories of successful investors are some of the main aspects that impact investors' mindsets. Financial planners must possess exceptional comprehension of behavioral behaviors and their consequences. Since it would greatly benefit them in developing suitable asset distribution techniques for trading to have knowledge of how investors often react to market fluctuations. Investing might involve anything from a basic bank savings account to a sophisticated portfolio of stocks and bonds.

You may call any of these items "investments" if you like. The quantity of data accessible for investing in a broad range of investment possibilities is steadily increasing over time. As a result, a plethora of new businesses have sprouted up, joining the ranks of several established public and private organizations that aim to provide investors with fresh and original financial solutions. A deeper understanding of the mental procedures and decision-making frameworks used by individual stock investors is crucial in light of the variety present in the financial markets. An ever-growing role for psychological factors in the stock market has been readily apparent throughout the last several years. Over time, this has become increasingly apparent. Research also shows that psychological factors might mitigate the impact of market emotions on investors' rational decision-making. Aspara *et al.* (2014) ^[3] noted, there has been a growing fascination in the irrationality and emotionality of individual stock investors' psychology. The years have seen this fascination grow. The field of financial studies has been the principal force behind this fascination. Subjects covered by researchers from various universities include investment decisions, financial economics, and the ever-changing nature of the link between financial markets and the people who work in them. In the past, experts have looked at human behavior to learn more about how investment decisions are made.

A discussion on what influences people to put their money into certain investments has been going on between behavioral and conservative theorists for the better part of a

decade. For a long time now, this discussion has been ongoing. The idea that markets are often efficient and that investors are typically rational was central to traditional finance, as stated by Lindmark and Ph (2017) ^[22]. The fundamental feature that set conventional finance apart from other forms of finance was this premise. An investor will consider all of the pertinent facts at their disposal while making a choice on an investment. This indicates that investors are meticulous while assessing potential investments. There is a vast array of variables, some reasonable and others irrational, that impact investors' decision-making processes. All of these things add up to how well or poorly the securities market works. It is a commonly held belief all across the globe that investors' behavioral biases might be the cause of the inefficiency. Everyone agrees that institutional investors are less likely to exhibit behavioral biases than individual investors, according to research by Shanthikumar and Malmendier (2011) ^[28]. A number of sources have detailed the steps that individual investors take with regard to their assets, with Barber and Odean (2000) ^[7] being particularly prominent. The capital market is open to both individual investors and institutional investors that work together. One cannot overlook the role that private investors play in the stock market. The reason behind this is because household savings make up the majority of the country's gross savings. Overreaction and volatility define investor behavior regardless of the direction the stock market is going. Furthermore, several factors influence investors' decision-making processes. The choices that investors make about their investments are affected by their mental states. Investors make judgments on the investment opportunity before they know the consequences of it for sure. Researchers in the area of psychology have shown that when faced with more complex and uncertain judgments, there is a larger likelihood that these decisions would be heavily impacted by emotions (Cianci 2008) ^[15].

3. Methodology

For the purpose of gaining a complete knowledge of the factors that determine investment intention in the Indian stock market, this study makes use of a mixed-methods approach, which combines qualitative and quantitative data. A questionnaire for a survey was developed and sent out to a representative sample of existing and prospective investors who fell into a variety of demographic categories, such as age, gender, income level, and educational background. A number of questions about financial literacy, risk tolerance, market perspective, social impact, and technology considerations were included in the poll of respondents. The purpose of this study was to discover important determinants of investment intention by analyzing quantitative data using statistical approaches. For determining the degree and direction of the correlations between the indicated factors and the desire to invest, a regression analysis was carried out. By conducting semi-structured interviews with a sample of survey participants, qualitative data was acquired. These interviews provided deeper insights into the factors that motivate people to engage in the stock market as well as the obstacles that prevent them from doing so.

4. Results and Discussion

Investing intention in the Indian stock market may be significantly predicted by a number of characteristics, including financial literacy, risk tolerance, market perception, social impact, and technical aspects, according to the findings of the quantitative research. Literacy in financial matters appeared as the most significant predictor, showing that those who possess greater levels of financial knowledge are more inclined to involve themselves in investment activities. It was also found that there was a large positive link between risk tolerance and investing intention. Those individuals who were ready to take higher levels of risk were more likely to become investors in stocks. The impression of the market had a substantial impact on investment decisions, with optimistic assessments of the market's stability and development prospects driving investment. When it came to forming investment intentions, social influence, and more specifically recommendations from friends, family, and financial advisers, had a significant effect. Additionally, technological characteristics, such as the availability and user-friendliness of mobile applications and online trading platforms, were found to be important predictors. This highlights the significance of technology improvements in the process of encouraging investment. In order to achieve their goal of increasing participation in the Indian stock market, policymakers and financial institutions should take into consideration the findings of this study, which have crucial consequences. Through the implementation of educational programs and initiatives, the enhancement of financial literacy may provide individuals with the knowledge they need to make educated decisions regarding their investments. In addition, the creation of a favorable market impression and the utilization of social influence through targeted marketing are also additional ways to encourage investment intentions. Continued promotion of technological improvements is necessary in order to guarantee that mobile applications and online trading platforms will continue to be easily available and user-friendly respectively. It is possible for policymakers and financial institutions to contribute to the general economic growth of India by addressing these concerns, which would encourage the development of a stock market that is more resilient and inclusive.

5. Conclusion

There are a multitude of elements that have an impact on the Indian stock market, which is a dynamic entity. A complete research of economic indicators, political and regulatory contexts, global economic trends, market mood, and technology breakthroughs is required in order to gain an understanding of the factors that may be used to foresee and predict the intentions of investors. It is possible for stakeholders to better anticipate market moves and establish strategies to traverse the intricacies of the Indian financial ecosystem if they examine these components and take them into consideration. According to the findings of this study, the most important aspects that will determine whether an individual intends to engage in the Indian stock market are financial literacy, risk tolerance, market perception, social impact, and technical considerations. The insights that were collected from this research may be used to inspire measures

that can be used to increase investor engagement and foster a financial market that is livelier and more inclusive. It is recommended that future study investigate other aspects and take into consideration longitudinal studies to investigate changes in investing behavior over time.

Conflicts of Interest and Informed Consent Declarations

All authors declare that they have no conflicts of interest.

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