

A Study on Motivational Factors for Select Investor Categories to invest and their Impact on BSE SENSEX and NIFTY

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Abstract— Stock Market indices are the barometers of the Stock Market. In India More than 5,000 companies in Bombay Stock Exchange (BSE), 1300 stocks in National Stock Exchange (NSE) were listed. It is not possible to look at the prices of every stock to find out whether the market movement is upward or downward. The indices like BSE SENSEX, BSE – 200, BSE – 500, Dollex, NIFTY – 50, NITY Junior etc. provides not only a broad outline of the market movement but also the economic conditions prevailed in the country. Various categories of investors like Foreign Institutional Investors (FIIs), Domestic Institutional Investors (DIIs), Retail Investors will plan their investments according to the prevailed Macro and Micro Economic conditions in the country. In this research article an attempt is made to study the motivating and de motivating factors for FIIs, DIIs and Retail investors to invest in the stock market and also to find out the impact of those investors on BSE SENSEX and NIFTY – 50. The study has considered the annual average investments of various categories of investors and annual closing values of indices from last 21 years. This study has been done with the help various statistical techniques like Variance, Correlation, and Multi Linear Regression Analysis. The study found that the FIIs were showing more impact on BSE SENSEX and NIFTY – 50, retail investors were exhibits moderate positive impact, where as DIIs impact is negative on both of these indices.

Keywords— *FIIs, DIIs, Micro and Macro Economic factors.*

I. INTRODUCTION

Stock Market indices are the barometers of the Stock Market. In India More than 5,000 companies in Bombay Stock Exchange (BSE), 1300 stocks in National Stock Exchange (NSE) were listed. It is not possible to look at the prices of every stock to find out whether the market movement is upward or downward. The indices like BSE SENSEX, BSE – 200, BSE – 500, Dollex, NIFTY – 50, NITY Junior etc. provides not only a broad outline of the market movement but also the economic conditions prevailed in the country. Various categories of investors like Foreign Institutional Investors (FIIs), Domestic Institutional Investors (DIIs), Retail Investors will plan their investments according to the prevailed Macro and Micro Economic conditions in the country.

In this research article, an attempt is made to study the motivational and de motivational factors for FIIs, DIIs and Retail investors to invest in the stock market and also to find out the impact of those investors on BSE SENSEX and NIFTY – 50.

II. RESEARCH METHODOLOGY

The following methodology has been followed in order to study the motivational and de motivational factors for select categories of investors to invest and to find out their impact on stock market.

a. Objectives of the study

1. To study the reasons for invest and disinvest by various categories of investors in Indian stock markets.
2. To analyze the impact of various select categories of investors on BSE SENSEX and NIFTY - 50

b. Hypothesis:

Null Hypothesis (H_0):

H_{01} . There is no significant impact of FIIs on BSE SENSEX and NIFTY - 50

H_{02} . There is no significant impact of DIIs on BSE SENSEX and NIFTY - 50

H_{03} . There is no significant impact of retail investors on BSE SENSEX and NIFTY - 50

Alternative Hypothesis (H_1)

H_{11} . There is a significant impact of FIIs on BSE SENSEX and NIFTY - 50.

H_{12} . There is a significant impact of DIIs on BSE SENSEX and NIFTY - 50.

H_{13} . There is a significant impact of Retail investors on BSE SENSEX and NIFTY - 50.

c. Scope of the Study:

The scope of this study is limited select indices such as BSE SENSEX and NIFTY - 50 only. It hasn't considered other indices that are there in the market.

d. Period of the Study:

The study has considered the annual closing values of select indices and average investments of select investor categories from the financial year 1992-93 to 2012-13.

e. Techniques used for the study:

The study took the help of Statistical techniques like Correlation, Multiple Regression, R square and F Test for making effective analysis.

Causes for Investment and Disinvestment of various categories of Investors

The Securities Exchange Board of India (SEBI) has allowed various categories of investors to invest their excess funds in Indian Stock Markets. Those are Individual or Retail Investors, Foreign Institutional Investors (FIIs), Domestic

Institutional Investors (DIIs), Private Corporate, Non-Resident in Indians (NRIs) etc. Among these the first three categories such Retail Investors, FIIs and DIIs Investment proportions were more than that of others. Therefore this study has made an attempt to study the causes for investment and disinvestment of those investor categories in the Indian Stock Markets.

a. Reasons for Retail Investors to Invest and / or Disinvest:

It is well known fact that the Retail Investors are the people who may not possess sound knowledge and information about the firms for making proper predictions about the markets. Therefore they will depend on several factors like Persuasion of intermediaries, Advertisement in business news channels and others, Market gossip and Rumour, Un-official Premiums, Press Coverage, Interim Results, Future Prospects, Personal Judgment, Promoters Track Record, Quality of Management etc.

In an article "Investment strategies and motivational factors among Small investors: A study with special reference to Karnataka state" by Dr. Shivakumar Deene and Dr. Satyanarayan Pathi found that the Quality of management (59.5%), Persuasion of intermediaries (44.9%), and Interim Results (44.9%), were the top first preferences for inducement to purchase securities. Market gossip and Rumour (45.2%), press coverage (45.2%) Interim Results/ Promoters Track Record were the top 4 second preferences for inducement to purchase securities. Un-official Premiums (59.5%), Market gossip and Rumour (29.4%) and Future Prospects (26.14%) were the 3 top third preferences for inducement to purchase securities.

b. Reasons for FIIs and DIIs to Invest and/ or Disinvest:

The Institutional Investors are one who possess sound knowledge and data related to various firms and market conditions. These investors will also possess special analysts to analyze the market conditions. In the words of Ila Patnayak & Ajay Shah in their article "Investment choices of foreign and domestic institutional investors" they said that the FIIs are attracted by the economic and political stability of the host country, prospects of its growth opportunities, and favorable policies of the host government towards foreign investment, privatization, taxation, etc. An enabling environment—such as good governance practices (country's rank in corruption index), enforceable legal machinery, better administrative efficiency, a suitable regulatory regime and a positive investment climate—is an impetus for FII inflows. Foreign portfolio flows (mainly debt oriented) are drawn to countries

with higher domestic interest rates vis-à-vis external rates of interest, coupled with stability in the exchange rates.

Foreign investors are particularly interested in investing in India when the country’s sovereign credit risk rating is of higher than investment grade category. External factors, such as lower foreign interest rates, recession/saturation abroad, herd mentality in international capital markets, a decline in the available profit opportunities, a gradual reduction in home bias in asset allocation in advanced economies, also play a vital role in attracting foreign portfolio investment flows. The reasons for decrease in FIIs mainly due to the heightened risk aversion of foreign investors and emanating from the global financial meltdown.

Domestic Institutional Investors prefer older firms with a large share of fixed assets and high leverage, and larger firms. These investors also prefer even smaller firms with good financial track records. They try to avoid liquid stocks.

ANALYSIS OF SELECT INVESTOR CATEGORY IMPACT ON BSE SENSEX AND NIFTY - 50

In order to analyze the impact of Select Investor category on above mentioned indices the researcher took the help of various statistical techniques. The calculated values and its analysis are as follows:

a. Impact of FIIs, Retail Investors and DIIs on BSE SENSEX:

Sl.No	Category of Investor	Correlation with BSE SENSEX
1	FIIs	0.972
2	Retail Investors	0.447
3	DIIs	-0.410

The above table reveals that the impact of FIIs is more on BSE SENSEX when compared to other investor category since there exists the highest positive correlation between BSE SENSEX and FII’s Investments (0.972). The impact of Retail Investors on BSE SENSEX is moderate since the correlation is 0.447, where as DIIs exhibits negative correlation with BSE SENSEX.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.981 ^a	.962	.925	954.38663

a. Dependent Variable: BSE SENSEX b. Predictors: (Constant), DII, Retail Investors and, FIIs

The R Square value equals to 0.962, indicating that 96.2 per cent of the variations in the BSE SENSEX are explained by the Retail Investors, FIIs and DIIs.

Model		Sum of Squares	DF	Mean Square	F	Sig.
1	Regression	69747702.662	3	23249234.221	25.525	.012 ^b
	Residual	2732561.494	3	910853.831		
	Total	72480264.156	6			

The above table reveals that the value of R square is significant as indicated by the P value (0.012) of F Statistic which is less than generally accepted significance level of 0.05.

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	12985.758	1053.173		12.330	.001
	FIIs	.040	.007	.884	5.611	.011
	Retail Investors	.076	.066	.171	1.144	.336
	DIIs	-.005	.012	-.066	-.418	.704

The above table represents that, if the FIIs, Retail Investors and DIIs increases their investments by one unit then the BSE SENSEX will have an impact of 0.04 percent, 0.076 percent and -0.005 percent respectively. The Significance values of 0.011, 0.336 and 0.704 of FIIs, Retail Investors and DIIs indicate that there is significant impact of FIIs on BSE SENSEX and there is no significant impact of Retail Investors and DIIs on BSE SENSEX at 5 percent level of confidence.

b. Impact of FIIs, Retail Investors and DIIs on NIFTY 50

Sl.No	Category of Investor	Correlation with NIFTY - 50
1	FIIs	0.965
2	Retail Investors	0.461
3	DIIs	-0.422

The above table reveals that, the impact of FIIs is more on NIFTY 50 when compared to other investor category since there exists the highest positive correlation between

NIFTY - 50 and FII's Investments (0.965). The impact of Retail Investors on NIFTY – 50 is moderate since the correlation is 0.461, where as DIIs exhibits negative correlation with BSE SENSEX of -0.422.

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979 ^a	.958	.915	300.81355

The R Square value equals to 0.958, indicating that 95.5 per cent of the variations in the NIFTY – 50 are explained by the Retail Investors, FIIs and DIIs.

ANOVA TABLE

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6149795.608	3	2049931.869	22.654	.015
	Residual	271466.381	3	90488.794		
	Total	6421261.989	6			

The above table reveals that the value of R square is significant as indicated by the P value (0.015) of F Statistic which is less than generally accepted significance level of 0.05.

COEFFICIENTS

Model		Un standardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error			
1	(Constant)	4021.429	331.950		12.115	.001
	FIIs	.011	.002	.839	5.029	.015
	Retail Investors	.028	.021	.217	1.370	.264
	DIIs	-.003	.004	-.115	-.687	.541

The above table represents that, if the FIIs, Retail Investors and DIIs were increased their investments by one unit then the NIFTY – 50 will have an impact of 0.11 percent, 0.028 percent and -0.003 percent respectively. The Significance values of 0.015, 0.264 and 0.541 of FIIs, Retail Investors and DIIs indicate that there is significant impact of FIIs on NIFTY 50 and there is no significant impact of Retail Investors and DIIs on BSE SENSEX at 5 percent level of confidence.

FINDINGS

1. The FIIs were showing more impact on both NIFTY – 50 and BSE SENSEX Indices than other investor category.
2. There is a negative impact of DIIs on both of these Indices.
3. The impact of Retail investors is nominal on both of these Indices.
4. The impact of FIIs, Retail Investor and DIIs is more on BSE SENSEX than that of NIFTY – 50 since the un-standardized Coefficient values are more for BSE SENSEX than NIFTY – 50.

CONCLUSIONS

After making thorough analysis of select indices with the help of various statistical techniques like Multiple Regression analysis, Correlation and R square it is found that the BSE SENSEX and NIFTY – 50 will move positively by 0.04 percent and 0.011 percent for every unit of change in FIIs, these indices move by 0.076 and 0.028 if there is change in the one unit of Retail Investor's Investments and the indices move negatively of 0.05 and 0.03 one unit of change in DIIs.

With this we can conclude that if FIIs and Retail investors have increased their investments then the indices will move positively where as the DIIs started investing in the markets, then the markets will come down. Therefore we can estimate the negative trend of the market by observing the investments of DIIs effectively.

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