Factors shaping financial decisions of First-time Stock Market Participants

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Abstract:
First time stock market participants identify as unique class of retail investors who are enthusiastic about participating in stock market activities yet hesitant with regard to returns generation. Literature reviews on understanding first time stock market participants have leveraged the cognitions, perceptions, capabilities, capabilities, contingencies, human computer interactions, behavioral economics, bounded rationality and bounded awareness approaches; towards widening our understanding of phenomenon. Yet on account of bounded rationality, disregard for accounting information and bounding of awareness, the stock market participants experience dismal and disengaged returns. The paper hence seeks to bring together diverse literature and identify the possible set of themes and underlying variables that seem to broaden our understanding of phenomenon in qualitative and quantitative terms.

Introduction: The financial decisions of first-time stock market participants are influenced by a variety of factors that can shape their approach to investing, risk tolerance, and long-term financial goals. As new investors enter the stock market, they often face a learning curve and must navigate an array of challenges and opportunities. Understanding the key factors that impact their decisions is crucial for developing sound investment strategies.

Objective: The objective of studying the factors shaping the financial decisions of first-time stock market participants is to identify and understand the key elements influencing how new investors approach stock market investments. These factors play a critical role in determining the success and sustainability of their investment strategies.

Methods: The methods used to study the factors shaping the financial decisions of first-time stock market participants would typically involve a combination of qualitative and quantitative research approaches. These methods aim to gather comprehensive data on the various influences affecting new investors' decisions.

Conclusion: In conclusion, the financial decisions of first-time stock market participants are shaped by a complex interplay of personal, psychological, and external factors. Understanding these influences is crucial for both novice investors and financial advisors, as it can help improve decision-making, risk management, and overall investment outcomes.

Key Words: First time stock market participants, Bounded rationality, disregard for corporate disclosures, Bounded awareness

1. Introduction

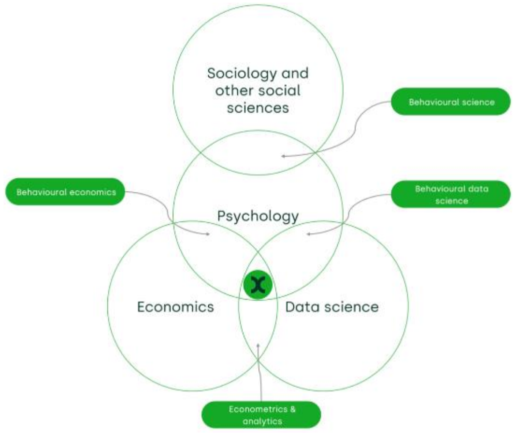
The phenomenon of stock market participation is of paramount importance to economies as it helps corporates to mobilize the financial resources from the economy and allocate the capital across projects and industrial assets. Given the increasing level of global push to capital market democratization and global push to increasing investor's stock market participation, disengagement across first time stock market investors and participants has become a major form of challenge in research perspective. Consequently, financial and management researchers have focused on understanding the first-time stock market participation as a research construct and its probable determinants: cognitive, perception driven, contextual, behavioral, contingent and environmental (1). Although dismal stock market participation across stock markets remains one of the most researched areas, it is nevertheless the least understood and least interpreted aspect of investor's behavior.

Notwithstanding this difficulty, the steady decline in global stock market participation has necessitated the in Indian context. In line with this, several studies have focused on need for understanding the drivers of dismal and disengaged stock market investor reviewing the core contributing variables that seemingly effect the first-time stock market participation in Indian perspective (2). Kaustia & Loutonen, (2023) identify the factors as cognitive and behavioral, Choi & Robertson, (2020) interpret the factors as being driven by contingent aspects and more recently Annunziata, (2023) represent the remarkable attempts to summarize and assess the stock market participation literature (3).

Recent global research indicates that individual stock market participants possess limited participation and engagement dimensions (4). A small fraction of those who are participating are being observed as disengaged, inconsistent, risk of losing money as overriding the pure and sensible decision making and consciously exposing the savings to inflation despite opportunity of gaining from market participation (5). Engagement of stock market participants identifies a global threat with nearly 70 per cent of the global respondents favoring early exit and inconsistent participation (6).

Focusing on the determinants of restrained stock market participation, the last decade has witnessed a dramatic rise in the number of variables that have been studied and examined (1). Some of the major antecedent factors include the cognitions (1), irrational aspects (7), disregard for accounting information (8), digital nudges (3),bounded awareness (9), AI recommendation aspects (10); to mention the few. The extension of bounded rationality and bounded awareness paradigms into stock market participation research is certainly important for the advancement of a behavioral perspective theory (2). This is because many stock market participation aspects are initiated with irrational rather than rational dimensions and contain more of the emotional and irrational explanation rather than rational outcomes (7).

Nevertheless the determinants of phenomenon remain unclassified and undermined in extensive nature. Scholars on subject argue that technology is changing everything and influencing the manner in which the choices and options are being framed and presented to them (11). Stock market investors are always susceptible to making myopic decisions and exhibit inertia in their behavior (12). Though technology usage widens their ambit of information support for decision making yet they are likely to suffer from information overload, rules of thumb as presented by algorithm or nudges (13). The rising trend of pre-selection, urgency messaging, hidden information, drip pricing, forced registration, bait-and-switch, hidden advertisements, difficult cancellations, nagging; all variants of dark patterns in inducing stock market participants to choosing wrong options and alternatives (14). Accounting information and disclosures are rarely referred to (15) and rational approaches with information based decision making are being over shadowed by other technology derived solutions and suggestions that distract wiser stock market decision making and participation. The influx of multiple fields in developing the understanding of phenomenon has further transformed the conceptualization of theoretical approaches.



Source: (16)

2. Objectives

The financial consumer or the first time investor (participant in stock market) is widely being sought as disengaged from the effective decision making process and elements. The institutional, procedural, contingent policy making is not working for improving the first time investor's engaged decision making with regard to investment undertaking. Disengaged and inactive customers have received a lot of research focus in recent years. The trend is not limited to India yet globally prevalent whereby the stock market participation is on the decline and new first time participants are losing the momentum to further participate with enthusiasm and accountability.

It is self-evident that only competitive and sustained participation of investors will deliver economic growth, turnaround in firm based capability to successfully raise the funds from primary capital markets and for effective functioning of stock markets. The faltering access to requisite information, declining and diminished ability of stock market participants to assess the information and make meaning from the aforesaid information seems to matter more than ever before. The search costs, ability to incorporate accounting information in stock market related decision making is on the decline mode. Over the past decade it has been observed that switching costs and disregard for inclusion of accounting information is dismal as stock market participants are exhibiting cognitive biases and are under influence of bounded awareness as well as bounded rationality.

Such insights from behavioral sciences adequately capture the ground situation and serious introspection. The research hence seeks to freshly identify the factors and aspects that seem to lead to this state of affairs and probe the possible role of choice architectures, extent of disregard for accounting information, newly conceptualized forms of irrational and emotion driven decision making triggers, extent of neutral information being considered and pattern of investor's interaction with firm, cognitive biases and extent of disengagement as shaping the investment outcomes in age of technology. Along with this the role of financial literacy and awareness is equally important.

Research Objective: To identify the most significant factors affecting the investment decisions made by investors.

3. Methods

The section focuses on the explanation of the literature review methodology. The study required the exhaustive review of existing academic literature on subject and thus relied on the methodology as adopted in earlier studies. For the purpose of extensive literature review, a set of core search terms was identified as: investment orientation, individual retail investor, technology derived nudges, product development, coping in turbulent business environment, financial literacy, financial awareness, facilitating and constraining factors for first time stock market participant's participation determination in India.

The research words were finalized in line with topic and the chosen words were connected with 'AND' and 'OR'. In addition to this, research relied on a four step paper selection criteria. The research relied on a four step paper selection criteria. For an research to be included in this exercise, it should contain significant empirical evidence of construct operationalization, should be published in standard publication in India or across global prospects, should reflect upon the individual or student entrepreneurial behavior or orientation in empirical and analytical manner, need to contain the aforesaid key words in factor scheme or as part of hypothesis or research model or as part of scale validation or scale refinement purpose. The rationale was to screen those relevant papers which could provide statistically significant and empirical basis for the scale validation and refinement in later stages.

The research insisted on inclusion of analytical research and scale development studies and insisted on exclusion of non-standard conference proceedings in non-recognized formats, exclusion of critical reviews and commentaries from multi-disciplinary perspective, editorials from journals and other such articles which focused on review without any rationale. In order to tap the relevant literature, the databases were screened for key words. The Scopus indexed database, Web of Science and Mendeley databases were searched.

After the careful elimination of duplication and redundancies, some 295 articles were considered as relevant for the research construct operationalization in Indian perspective. The studies depicting negative or constraining relationship between 'financial literacy' and 'investment decision making' were kept out of preview of current research study. The core thrust in this entire exercise was to shortlist the relevant publications and articles containing the key words as mentioned above.

The review of methodologies revealed the rising thrust of linkages between first time investor based individually harnessed investment outlook and respective rise in cognitive biases and their respective levels. The term first time stock market participants involves the elements of digital nudges, innovative bent of mind, autonomous money wise decision making, market based risk taking tendencies and out of box thinking with regard to investment planning, financial and money based attitudes, information integration into decision making and decision making. The term 'investment decision making' has been defined as a trait, as a behavioral capability, as a talent and as a skill that contributes substantially to the portfolio development and wealth creation tendencies. A host of studies regard the phenomenon as involving the dynamic capabilities approach which fosters an environment of acting as per situational requirements. The studies short listed also included focus on student based learning from market dynamics, experiential learning as well as learning from the mistakes.

With regard to operationalizing the construct of 'investment behavior' across first time stock market participants in India; a large number of approaches have been advocated across the literature. The correlates or the determinants of 'investment behavior' across first time stock market participants in India; often witnesses the divergent viewpoints. In comparison with American and European academic literature, the theoretical differences often exhibits formal and informal, institutionalized and non-institutionalized mechanisms and processes as shaping the phenomenon.

The dominant approaches for first time stock market participants based construct operationalization (First time stock market participant's operationalization): mindsets, cognitions, cognitive biases, bounded rationality, process, trait and institutional investment behavior; have advanced our understanding of the phenomenon till date. The cognitions and mindset approach hinges on the individual perceptions as playing a critical role in assessment aspect. Theorists of process notions have insisted on the creation of value across the first time stock market participants and their financial education.

Trait theorists of investing have relied on the examination of the possible impact of diverse personality factors like the flexibility, leadership, transition and the extent of commitment; that directly or laterally influences the tendency of the first time stock market participants (individuals) to indulge in selective investment derived actions and decision. The institutional theorists or the investment behavior on the other hand relies on institutions' respective behavior that pertains to regulators, investor education and protection associations rather than the individual investors. In other words, this attributes to the manner in which institution or the investor leverages its behavior to lead to investment decision making. This 'investor level decision making' across first time market participants as a field of study has been researched across the first time stock market participants across developed and developing economies alike.

4. First time Stock market Participants and their unique problems

The rationale behind usage of themes for determination of construct conceptualization across first time market participants is the support from the literature that distinguishes the phenomenon in this very manner. The research conceptualization matters as this defines the phenomenon realization in contextual and contingent dimensions. The thematic discussion is essential to concentrate on the diverse aspects of research conceptualization across research perspective and this also underlines the need to bring together the diverse influences in a systematic manner. The themes in essence elaborate on the influences across construct operationalization in the course of research.

The first theme as exerting influence on cognitive biases emerge from the use or misusage of information especially the accounting information and respective regard or disregard for accounting information (7). The basis of first time stock market participant's decision making is either the accounting information or the social media circulated fake information on corporate disclosures and trends (8).

The next influence on cognitive bias emergence while investing (Theme B: Digital Environment) is hypothesized from 'digital nudges' and 'digital platforms' in the form of 'AI recommendations'. The first time stock market participation and participants across developing economies are not detached from digital technology induced manifestations of the decision making capabilities and capacities in form of investment based decision making. Strong literary support exists for digital environment, technology determinism and technology interventions as shaping human cognitions, sense making and notion of good and bad while investment decision making (14).Digital environment induced deviations, dark patterns and influences on choice architecture; have been observed as extensively influencing the formation of cognitive biases and respective investment decision making. The theme is dually supported by studies (5), (17), (18), (19).

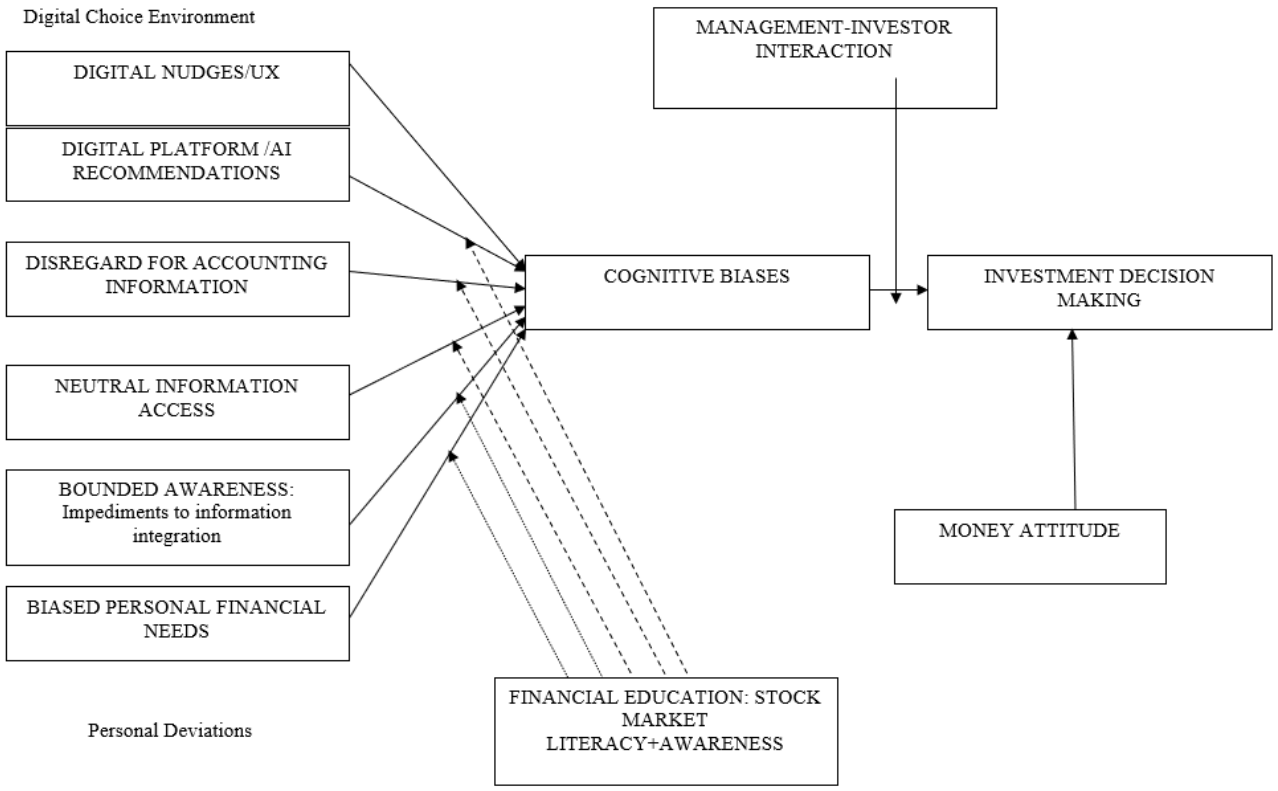
Third theme is based on contingent influence of personal biased financial needs and stock market participant's bounded awareness and impediments to information use. The theme borrows from the earlier studies that call for the bias in personal financial needs assessment (20), (21), (22), (23), (24), (25), (26). Scholars on subject are of opinion that first time stock market participants are hesitant of fair assessment of their financial and saving needs in real time conditions.

Another influence on cognitive biases and investment decision making is from pattern of management-investor interaction and respective aspects of financial literacy. The participant (first time stock market investor) and his respective pattern of interaction with management of firm or failure in interacting with the management exerts respective impact along with aspect of investor's financial capability and financial sense making capabilities (27), (28).

Scholars on subject matter reflected on the aspects of bounded rationality and bounded awareness on account of information, on account of AI and on account of digital environment shaped choice environment in various means.

5. Results

Investment decision making is surely not a single dimensional process and essentially involves multiple dimensions. Bounded rationality is a major contributing aspect. Instead of making best possible choices in terms of stock buying and buying other stock market products, the incumbent investor often undertakes an irrational decision that is far apart from reality (29). Bounded rationality paradigm (30) relies on assumption that humans are cognitively restrained, existing constraints impact decision making and difficult problems in turn reveal different restraints (31). 'Nudges' in one way or other seem to deviate attention and lead to imperfect decision making.



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