

Influence of Stock Brokers on the Investment Decision of Individual Stock Investors

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Abstract

An investor is an important element of the stock market in any economy. In the past, stock investment was limited to the richer class, but in the present day, investment in the stock market is very popular among retail investors. Investment in the stock market is an excellent investment avenue. Many of the investors are non-professional and invest in the stock market based on some degree of recommendation received from others. Naturally, investors feel that they can make a profit from the stock market through professional guidance. Apart from buying and selling shares, the broker offers a range of additional services to investors, such as research reports, advisory services, and relationship managers. They also provide a wide range of products, including IPO, Debt, Mutual Fund, Futures, and Forward contracts, and insurance. Investors depend on the brokers for IPO information, market condition, awareness programs, and training for new investors. The investors received information related to financial services, portfolio selection and gainful information. Investors consider mage and reputation, speed of website and app, annual maintenance charge and initial investment for selecting brokers in the market.

Keywords: Equity Investment, Stock Market, Investment Decision, Stock Brokers, BSE, Individual Investors

Introduction

The financial system of every country encourages its growth and development. It offers a variety of financial assets/investments to the common public. The stock exchange of every country acts as the apex institution in the stock market. In India, the stock markets are regulated by the Securities and Exchange Board of India (SEBI). The Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) are India's two major stock exchanges. Around 5230 companies with a market capitalisation of 26,527,044.57 crores as of 27th October 2021 (BSE, 2021a). The business of BSE is expanded to over 200 cities in India. Development of technology developed e-broking and e-trading, and this has attracted a large number of stock investors.

It is clear from the fact that 2,37.5 lakh Demat accounts were opened at National Securities Depository Limited (NSDL, 2021) and around 4,64,66,132 Demat accounts opened at Central Depository Services Limited (CDSL, 2021).

The first step of stock trading is to select a particular broker registered with exchanges. Several sub-brokers are working as the agent of main brokers in the stock market. A broker may be an organised institution, individual, or partnership. They managed investors with their trained employees. There are two types of brokers available in the market: full-service and discount brokers. Discount brokers provide only a platform for buying and selling security in the market. The full-service brokers provide additional services like research reports, advisory services,

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devoted relationship manager, 24x7 support to customers, training sessions for the clients etc. Every full-service broker allotted one employee called a relationship manager to all clients to ensure regular communication. The stockbrokers used sophisticated technologies for their business and network activities globally.

A stockbroker is a financial expert who places orders in the market on customers' behalf. Another name for a stockbroker is a registered representative. A stockbroker acts as a connecting link between investors and the market. It pools scarce resources from the investors for the benefit of companies in the market (Gordon & Natarajan, 2011). With the liberalisation of markets and financial deregulations, the scope of stockbrokers to deal in various markets has increased dramatically. The institutional setup of a stockbroker in India is growing rapidly. The role of stockbrokers is unique in the rapid development of the capital market (Desai, 2013). Thus stockbrokers act as the lifeline of the financial sector. There are 4664 registered brokers in India (BSE, 2021b). There are several stock brokers available in the market. So, it is crucial to select a particular stock broker based on the requirement of an investor. The full-service brokers provide recommendations to the investors. These recommendations were provided through e-mail, direct call, SMS, WhatsApp, application popup and the broker's website. It is essential that investors follow these recommendations before making investment decisions in the stock market. The present study covers the broker selection process of the investors and the broker's influence on investment decisions in the stock market.

Review of Literature

(Bodie & Crane, 2000) find out the behaviour of the investors while evaluating the advice received from the broker and media. The study also examined the influence of advice on investment decisions in the stock market. The study found that those investors who were better experienced in the stock market do not consider the broker's advice before investing in the stock market. If the investor's

age increases, the investor reduces the amount invested in the equity market. Age and amount invested in the equity market are inversely related. Young investors tend to invest more amount in the equity market. However, when aged investors are not interested in investing their amount into the equity market. Increases in age reduce the risk-taking capacity of individual investors. (Helm, 2007) argued that the corporate reputation determines the initial investment in the stock market. The investors analysed the company's reputation and decided based on the company's reputation. The investor's loyalty and satisfaction are based on the established investor's relationship. The study was conducted among the investors of Germany of a publicly-traded company. The study finds out that the diversity of loyalty affects a company's reputation. (Grinblatt & Keloharju, 2007) studied the investor's behaviour based on the past performance of the company. The study found that investors decided to buy and sell shares based on past returns and the company's performance. (Shanmugam & Muthusamy, 2001) evaluated the decision-making process of the individual investors in the stock market. The study evaluated the role of the individual investors in decision making, the investors' attitude, the investors' main objectives, and the effectiveness of their equity portfolio. The researcher formed three groups based on their nature: tax savers, traditionalists, and risk-taking investors. The collected data were analysed with the help of the Chi-square test and ANOVA. Most of the investors are salaried employees. Most of the investors are young and first-generation investors, so the time spent by the investor analysing the market is inadequate, and portfolio diversifications are moderate. The educational difference of the investors influences the use of fundamental and technical analysis.

(Madhumathi, 2005) studied the risk-taking capacity of the investors towards the investment decision in the stock market. The study finds that 78 per cent of the investors are risk-takers and consider the company's performance before making any investment decision. These investors are also considering the advice of

share brokers and financial consultants before making any investment decisions. The risk avoiders invest in the stock market based on advice from friends and families. (Raut & Das, 2015) Investors' decision-making ability is based on influences such as herding behaviour, imitation, and information cascades. The investors also move away from rational investment decisions by psychological factors like representatives, anchoring heuristics, and availability bias. (Jayanta, 2007) evaluated the BSE trading activity. In past decades, equity share trading has been a floor-based activity, and stockbrokers completed the transaction with the help of telephone or personal contact with the investors. The study also finds that comparing the past decades, the number of stock investors and stockbrokers increased drastically in the stock market. Many studies were conducted to determine the factors influencing the decision-making of individual investors in the stock market only. No specific studies were conducted on how the broker influences individual investors' investment decisions and what are the factors considered by the investors to select a particular broker in the market.

Statement of the Problem

In India, the household sector contributes 76 per cent of the total savings. Different investment alternatives are available in the market (Avadhani, 2014). Making an investment choice means buying and selling shares on the market (Bhalla, 2012). At present, investors mainly consider the advice of friends, relatives, brokers, etc., for their investment decision. Investors invest in the stock market through the help of stockbrokers. Many of the new investors are not professional, and they lack awareness of the performance or strategy in the stock market. So, they make a profit through advice from stockbrokers and financial advisors.

Many stock investors make short- or medium-term investments and are unwilling to wait for returns and withdraw money from the stock market, even if there is a small profit or loss. Brokers assist the investors in making wise stock market decisions. Stockbrokers

have an excellent understanding of the stock market's functioning, the latest information about the Indian stock market, and all the financial developments in the security market. Stock investors should seek guidance from experienced and reliable stock brokers. No one cannot predict the pattern of the individual investors in the stock market. With this background, the present study tries to analyse the dependency level of investors on the advice of stockbrokers for decision-making in the stock market and the attitude and behaviour of investors in selecting a particular broker in the market.

Objectives of the Study

1. To evaluate the various factors considered for the selection of stockbrokers by investors.
2. To study the influence of stockbrokers on the investment decision of individual stock investors.

The hypothesis of the study

H₀₁: There was no dependency by the investors on a stock broker in Decision making of Investment

H₀₂: There was no significant difference in the selection of brokers by the investors.

Research Methodology

The present study is descriptive and analytical based on both primary and secondary data. The primary data were collected from the equity stock investors in Kerala through a structured questionnaire. The secondary data were collected from various journals, books, thesis, reports, and the handbook of BSE & NSE. The present study is limited to the individuals who resided in Kerala and invested in financial assets for their purpose. In the case of individual investors in Kerala, the exact population figure cannot be determined, so an infinite population is considered for the study. Sample selected based on Judgemental sampling. Judgment criteria are those investors who invest in the stock market by opening an account with full-service brokers with less than five years of experience in the stock

market. Data were collected from 400 equity stock investors. Standard deviation, Mean, One sample t-test and Percentage were used to analyse the results of the study.

Analysis and Results

Socioeconomic Status of the Investors

Table 1 shows the details of respondents concerning gender, monthly income, age, occupation, and experience in investing in the stock market. Among the 400 respondents, 84 per cent of respondents were male, and

16 per cent of respondents were Female. Regarding the age category, 51 per cent of respondents were 26-35 years. Only 4 per cent of respondents were in the age category of above 55. Considering the occupation-wise classification, most of the respondents worked in the private sector (51 per cent). Around 31 per cent of respondents had a monthly income of Rs. 40,001-60,000. Considering the investors' experience, most of the respondents have 1 – 3 years of experience in the stock market.

Table 1
Socioeconomic Status of the Investors

Factors	Categories	Frequency	Percentage
Gender	Male	336	84%
	Female	64	16%
	Total	400	100%
Age	Below 25 Years	52	13%
	26 – 35 Years	204	51%
	36 – 45 Years	104	26%
	46 – 55 Years	24	6%
	Above 55	16	4%
Occupation	Total	400	100%
	Private Employee	202	50.5%
	Government Employee	44	11%
	Own Business	114	28.5%
	Profession	24	6%
	Retired	16	4%
	Total	400	100%
Monthly Income	Below 20,000	46	11.5%
	20,000 – 40,000	110	27.5%
	40,001 – 60,000	124	31%
	60,001 – 80,000	68	17%
	Above 80,000	52	13%
Experience in Trading	Total	400	100%
	Up to 1 Year	96	24%
	1 to 3 Year	196	49%
	3 to 5 Year	108	27%
	Total	400	100%

*Source: Primary data

Frequency of Investment

Investors are classified based on the frequency of investment. Among 400 respondents, most of the respondents invested irregularly (53 per cent), and only 39 per cent of respondents were monthly invested in the stock market.

Table 2
Frequency of Investment

Frequency	Frequency	Percentage
Daily	16	4.0
Weekly	12	3.0
Monthly	155	38.8
Quarterly	4	1.0
Irregularly	213	53.3
Total	400	100

*Source: Primary data

Dependence on Stock Brokers

Investors depend on stockbrokers not only for buying and selling securities. Many stockbrokers provide additional facilities like research reports, stock recommendations, investor education, etc. All the factors were analysed on a five-point scale as follows;

Strongly disagree 0-1, Disagree 1-2, Moderately agree 2-3, Agree 3-4, and Strongly agree 4-5.

Mean values were used for the analysis and interpretations of the data.

Analysis results showed that most of the investors were dependent on the brokers for IPO information ($\bar{x}=3.57$), followed by Market condition ($\bar{x}=3.20$), Awareness program ($\bar{x}=3.11$), and training for new investors ($\bar{x}=3.03$). The investors least depend on the brokers for the identification of sectors ($\bar{x}=1.35$).

The results indicated that most respondents depend on brokers for IPO information, market condition, awareness programs, and training for new investors but the least depend on the brokers for the identification of sectors.

The one-sample t-test results indicated that there was significant variation in the opinion of respondents with regard to dependence on stockbrokers for selection of stocks, identification of sectors, market condition, awareness program, research report, buy, sell and hold stock, technical & fundamental information, IPO information and training to new investors ($p<0.05$). Hence the null hypothesis stands rejected at a 1 per cent significance level.

Table 3
Dependence on Stock Broker

Variables	Mean	SD	t-value	Sig.
Selection of stocks	2.66	1.040	3.787	<0.001**
Identification of sectors	1.35	0.860	7.201	<0.001**
Market condition	3.20	1.387	34.615	<0.001**
Awareness program	3.11	1.199	7.321	<0.001**
Research Report	2.83	0.830	-1.234	<0.001**
Buy, sell and hold stock	2.25	0.302	4.979	<0.001**
Technical & Fundamental information	2.75	1.137	-7.984	<0.001**
IPO information	3.57	0.199	26.111	<0.001**
Training new investors	3.03	0.599	25.091	<0.001**

Source: Primary data

** Significant at 1% level

Services Provided by the Stock Brokers

The stockbroker gives many services to investors. This service includes Gainful information, profitable diversification, minimising loss, etc. All the factors were analysed on a five-point scale as follows;

Strongly disagree 0-1, Disagree 1-2, Moderately agree 2-3, Agree 3-4, and Strongly agree 4-5.

Mean values were used for the analysis and interpretations of the data.

The analysis results showed that most of the investors agreed that they received information related to Profitable diversification ($\bar{x}=3.07$), Gainful information ($\bar{x}=3.31$), financial services ($\bar{x}=3.19$), and Appreciable portfolio

selection ($\bar{x}=3.18$).

The results indicated that most of the respondents received information related to Gainful information, Appreciable portfolio selection, and financial services from a stockbroker.

The one-sample t-test results indicated that there was significant variation in the opinion of respondents with regard to services provided by the stock broker related to gainful information, profitable diversification, minimise loss, meaningful risk-return association, financial advice and financial services ($p<0.05$). However, there was no significant difference in the opinion of respondents related to appreciable portfolio selection ($p>0.05$).

Table 4
Services Provided by the Stock Brokers

Variables	Mean	SD	t-value	Sig.
Gainful information	3.31	0.84	54.122	<0.001**
Profitable diversification	3.07	0.76	23.434	.0214*
Minimise Loss	2.05	0.81	33.158	<0.001**
Meaningful risk-return association	2.01	0.56	32.586	<0.001**
Appreciable portfolio selection	3.18	0.61	32.559	.963
Financial advice	2.02	0.73	56.818	<0.001**
Financial services	3.19	0.64	14.499	<0.001**

Source: Primary data ** Significant at 1% level * Significant at 5% level

Selection of Stock Broker

Investors select a particular broker after considering many factors such as Experience, Image and Reputation, Recommendation from friends, Nearest to home or office, Speed of Application or website, Annual maintenance charge, advertisement, and Initial investment. All the factors were analysed on a five-point scale as follows;

Strongly disagree 0-1, Disagree 1-2, Moderately agree 2-3, Agree 3-4, and Strongly agree 4-5.

Mean values were used for the analysis and interpretations of the data.

Analysis showed that most of the investors select a particular broker based on image and reputation ($\bar{x}=4.81$), followed by speed of website and App ($\bar{x}=4.75$), Annual maintenance charge ($\bar{x}=4.24$), and Initial investment ($\bar{x}=4.22$). However, the respondents did not consider Advertisement ($\bar{x}=1.21$) for selecting stock brokers in the market.

The results indicated that most respondents considered image and reputation, speed of website and app, annual maintenance charge and initial investment but did not consider the broker's advertisement for a broker in the market.

The one-sample t-test results indicated that there was significant variation in the opinion of respondents with regard to the selection of stockbrokers in relation to experience, image and reputation, a recommendation

from friends, nearest to home or office, speed of website and app, advertisement, annual maintenance charge and initial investment ($p < 0.05$). Hence the null hypothesis stands rejected at a 1 per cent significance level.

Table 5
Selection of Stock Broker

Variables	Mean	SD	t-value	Sig.
Experience	3.70	1.97	-6.088	<0.001**
Image and Reputation	4.81	0.5610	171.489	<0.001**
Recommendation from friends	3.99	0.996	19.876	<0.001**
Nearest to home or office	3.37	1.1902	73.431	<0.001**
Speed of website and App	4.75	0.5664	169.493	<0.001**
Advertisement	1.21	1.014	4.141	<0.001**
Annual maintenance charge	4.24	0.908	27.313	<0.001**
Initial investment	4.22	0.997	24.472	<0.001**

Source: Primary data ** Significant at 1% level

Findings

1. Most of the investors are male.
2. The majority of the respondents were in the age category of 26-35 years.
3. Most of the respondents worked in the private sector.
4. The majority of the respondents had a monthly income of Rs. 40,001-60,000.
5. Most of the respondents have 1 – 3 years of experience in the stock market.
6. Most of the respondents invested irregularly in the stock market.
7. The majority of the respondents depend on brokers for IPO information, market condition, awareness programs, and training for new investors but the least depend on the brokers for the identification of sectors.
8. Most of the respondents received information related to Gainful information, Appreciable portfolio selection, and financial services from a stockbroker.

9. Most respondents considered image and reputation, speed of website and app, annual maintenance charge and initial investment but did not consider the broker’s advertisement for a broker in the market.

Conclusion

The study provides direction to all stockbroking organisations and investment advisory firms to understand the behaviour of individual equity investors. The study helps the stock investor to select a particular broker and understand the functioning of a broker in the stock market.

Investors easily recognise how they can depend on the broker for future decision-making in the stock market. The study would help the stockbroker understand individual investors’ expectations and behaviour. The result of the study will help the small and middle-level brokers because they do not have enough money to spend to conduct this kind of research. For them, this study will be helpful in understanding the attitude and behaviour of the equity investors and the purpose for what

they depend on the stockbrokers, which leads to improving the service quality of brokers. The present study will also help new investors in the equity market to evaluate the functioning of brokers and invest safely in the market.

Scope for further research

The present study focused on the influence of brokers on investment decisions in the market. The investors required proper assistance from the broker for investment decisions. Future research studies can consider the influence of brokers in the Derivative market and Forex market. On the other hand, study the effectiveness of the communication system used by the stock brokers in the market or conduct a comparative study on the performance of full-service brokers with a discount broker.

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