

FACTOR AFFECTING PORTFOLIO CONSTRUCTION AND STOCK SELECTION CRITERIA AMONG THE INVESTORS

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ABSTRACT

For any investor having a ready source of income is essential, and for that, one looks for investment opportunities. One of the investments we can make is by putting money on equity markets; they have a higher return than many businesses. If one doesn't know the market then he/she have to outsource that expertise from someone who knows the market, its trend, processes and many other things, the market is so huge that one person alone can't learn it. Aport folio manager provides a port folio to the client according to his demands, risk capacity and decision making to get the maximum return. Portfolio management service helps the investor for effective and efficient management of their investment, making an effective portfolio by researching all the fundamental and technical aspects of the market, knowing the risk in each investment, what will be the returns, which investment is better for short-termor which is good for long-term, the time frame, what are the cost involved etc, is very important while making a portfolio because all these help in maximizing the returns and minimizing the risks. This paper identified the various factor affecting portfolio construction and stock selection criteria among the investors. The further discussion is based on the literature review of previous authors of similar topic with different viewpoints and in different areas that could serve as the population of the research topic. Literature review basically shares the abstract of findings of different authors on topics similar to the research project. Further along in the research project, data has been collected in the form of a questionnaire and further responses have been collected. Going ahead with the research factor analysis and reliability test has been done on the data collected in SPSS. Final findings and results have been shared based on the personal viewpoints, and in the last chapter, recommendations have been provided.

Keywords: Portfolio, portfolio construction, Return, stock selection

INTRODUCTION

Indian Stock Market is a place where the shares of the public listed company are being traded. Not only shares but also other securities like derivatives are being traded. The investors mainly focus on the long term benefit from capital appreciation over a given period. The trading is done through authorized broker that are been registered with SEBI. The first ever organized stock exchange in India was started in 1875 at Bombay. It's known as the oldest in Asia. Two of the top international exchanges, Deutsche Bourse and Singapore Exchange, are strategic partners of the corporatized and demutualized BSE, which has a large shareholder base. For trading in stock, debt instruments, derivatives, and mutual funds, BSE offers an effective and transparent market. Additionally, it features a trading platform for stocks of small and medium-sized businesses (SME).

In 1992, NSE became a legal entity. Following SEBI's recognition of it as a stock exchange in April 1993, it started operating in 1994 with the introduction of the wholesale debt market and shortly after that, the cash market sector.

According to a World Federation of Exchanges (WFE) report, the National Stock Exchange of India Ltd. (NSE) is the largest

stock exchange in India and the second largest in the world by the volume of equity share trades from January to June 2018. The NSE's business strategy is completely integrated, and it includes exchange listings, trading services, clearing and settlement services, indices, market data feeds, technology solutions, and financial education programmes. The NSE also monitors Listed Companies' and Trading and Clearing Members' adherence to Exchange Rules and Regulations.

About Portfolio

An assortment of financial assets, such as securities, bonds, commodities, cash, and cash equivalents such closed-end funds and exchange-traded funds, make up a portfolio (ETFs). Various types of assets, such as private investments, real estate, and fine art, may be included in a portfolio.

Portfolio Management is a series of processes that maximize returns and minimize risk by allocating assets efficiently. Portfolio management services are offered by portfolio manager. It is an investment portfolio where stocks, debts, fixed income, cash, structured products, and other securities are being managed by the professional managers.

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OBJECTIVE OF THE STUDY

To identify the factor affecting portfolio construction and stock selection criteria among the investors.

SCOPE OF THE STUDY

- a) The current study is based on the factors affecting portfolio construction and stock selection criteria among the investors. The area is restricted to Delhi NCR.
- b) The data has been collected through the questionnaire and the responses of 100 respondents have been collected.

RESEARCH METHODOLOGY

The study is based on primary data, and the data has been collected through the questionnaire survey method from respondents while keeping in mind the objective of the study. The primary data was collected through a self-administered questionnaire that contained questions relating to the objectives of the study, the questionnaire contains certain questions regarding awareness level and the attributes that consumers consider while buying a life insurance policy. SPSS has been used to process and analyse the data. Exploratory factor analysis technique is used to identify the underlying relationships between measured variables.

LITERATURE REVIEW

Jambodekar (1996), conducted a study to assess the awareness of MFs among investors, to identify the information sources influencing the buyer decision and the factors influencing the choice of a particular fund. The study found that under the current market conditions, income schemes and open-ended plans are preferred over growth schemes and close-ended schemes. Newspapers and magazines are the initial sources of information via which investors learn about MFs / Schemes, and the investor service is the main differentiating factor in the selection of MFs. Investors prioritise the safety of principal, liquidity, and capital appreciation in that order.

Ippolito (1992), According to a report, investors base their choice of funds on the past performance of those funds, and capital flows into profitable investments more quickly than it does out of unsuccessful ones.

Zheng (1998), The ability of MF investors to choose funds was examined, and it was discovered that investors' selections are dependent on short-term future performance and that investors use fund-specific information while making their selection.

Sikidarand Singh (1996), conducted a survey with the goal of understanding the investing preferences and behaviours of investors in the North Eastern region for stocks and mutual funds. According to the poll, tax benefits were the main reason why salaried and independent workers made up the majority of MF investors. In that region of the country, UTI and SBI

plans were well-liked at the time, and other funds had not yet established themselves as major successes at the time the study was conducted.

Rajan (1997, 1998), High-lighting investor segmentation based on characteristics, investment amount, and the correlation between stage in the investor's life cycle and investment pattern.

Sunder (1998), conducted a survey to get insight into how private institutions' money market funds are operated, with particular attention to Kothari Pioneer. The poll found that tiny cities like Vishakhapatnam at the time had low levels of understanding of the MF concept. Open-end schemes were heavily preferred back then; age and income are the two key factors in selecting a fund or scheme; brand image and return are their top priorities. Agents play a crucial role in promoting the MF culture.

Shanmugham (2001), conducted a survey of 201 individual investors to examine the information sources used by the investors, their perceptions of different investment strategy dimensions, and the factors influencing share investment decisions. The survey found that psychological and sociological factors outweighed economic factors in share investment decisions.

Rajeshwari and Moorthy (2002), In order to determine the investors' underlying fund/scheme selection criteria and classify them into specific market segments for the development of the appropriate marketing strategy, factor analysis using principal component analysis was used to research the financial behaviour and factors influencing fund/scheme selection of retail investors.

Pardhasadhi (2012), Only ten factors, including "individual eccentricity, wealth maximisation, risk minimization, brand perception, social responsibility, financial expectation, accounting information, government and media, economic expectation" and advocate recommendation factors, remained after factor analysis was applied to the 40 attributes that were discovered to affect Indian individual equity investors' behaviour and decision-making.

Barberand Odean (2001), The internet has been found to be the primary information source for youthful investors. Through online trading, young investors also began investing.

Nagy and Obenberger (1994), When the elements influencing investment behaviour were examined, it was discovered that, despite the fact that investors use a variety of criteria to select stocks, the traditional wealth maximisation criteria are the most significant to them.

Yartey (2008), Macroeconomic variables like "income level, gross domestic investment, banking sector growth, private capital flows, and stock market liquidity" are significant predictors of stock market development in emerging market nations, according to the author of a study on emerging economies. Additionally, he discovered that political risk, law and order, and bureaucratic quality are significant factors that

influence the growth of the stock market since they increase the viability of external funding.

Joshi (2013), Major causes that cause up-down movement in the Indian stock market were discovered in his study. He discovered that the movement in the Indian stock market is mostly caused by factors including the influx of foreign institutional investors, political stability, growth in the gross domestic product, inflation, liquidity, and various interest rates, as well as elements at the global level.

DATA ANALYSIS AND PRESENTATION

Reliability Test

Questionnaire is prepared for gaining knowledge about factors that affect the perception of investors investing in life insurance. Reliability of 100 (respondents) questionnaire is 0.8589, for a questionnaire to be reliable it should be above 0.5 thus my questionnaire is reliable.

Table 1: Reliability Test

Cronbach's Alpha	N of Items
0.764	13

Source: Author's own

The reliability score of 0.764, which is above the threshold of 0.7 (Robinson, Shaver, & Wrightman, 1991). We therefore conclude that the items we used for finding out factors affecting portfolio construction and stock selection criteria among the investors are reliable.

KMO and Bartlett's Test

Table 2: KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.673
	Approx. Chi-Square	324.328
Bartlett's Test of Sphericity	Df	78
	Sig.	.000

Source: Author's own

The results value of Bartlett's test of sphericity is significant i.e. 0.000 which is less than 0.05. The value of Kaiser-Meyer-Olkin Measure of Sampling Adequacy is 0.673 which signifies that sample size is adequate for the said study

Total Variance

Table 3: "Extraction Method: Principal Component Analysis"

"Component"	"Initial Eigen values"			"Extraction Sums of Squared Loadings"			"Rotation Sums of Squared Loadings"		
	"Total"	"% of Variance"	"Cumulative %"	"Total"	"% of Variance"	"Cumulative %"	"Total"	"% of Variance"	"Cumulative %"
1	3.693	28.405	28.405	3.693	28.405	28.405	2.668	20.524	20.524
2	1.501	11.545	39.950	1.501	11.545	39.950	2.061	15.855	36.378
3	1.388	10.678	50.628	1.388	10.678	50.628	1.798	13.828	50.207
4	1.163	8.946	59.575	1.163	8.946	59.575	1.218	9.368	59.575
5	.951	7.312	66.887						
6	.845	6.497	73.384						
7	.832	6.401	79.785						
8	.639	4.919	84.704						
9	.528	4.063	88.767						
10	.487	3.748	92.515						
11	.390	3.001	95.515						
12	.344	2.648	98.163						
13	.239	1.837	100.00						

This table summarizes the number of factors after data deduction and also the total variance explained by these factors. The first part which is titled as Initial Eigen values gives the variance explained by all the possible factors. The first column gives the Eigen values for all the possible factors in decreasing

order. The total variance explained is equal to the total number of possible factors i.e. 6 in this case. Given the eigen-values, the output helps us to identify 6 factors which explain 63.814% of variance. Based on Varimax Rotation with Kaiser Normalisation, 6 factors have been extracted. Each factor is

constitute do fall those variables that have factor loadings greater than 0.5. 6 factors were extracted from the 13 variables used in the study. These 4 extracted factors explained 63.814% of the variability of the factors which affect the Micro-Finance Investment in India.

Rotated Component Matrix

Table 4: Extraction Method: Principal Component Analysis Rotation Method: Varimax with Kaiser Normalization.

Item	Components			
	1	2	3	4
1. I feel that market timing for trading is comfortable		.604		
2. Continuous positive news about the stock convinced me to invest more in share market.		.655		
3. I generally prefer to sell the stocks after hearing the continuous negative news about that stock.	.735			
4. In my case, I generally hold the stock till the stock reached my desired price level.		.616		
5. Most of the profit I made in the stock market are because of my own expertise in the field.	.651			
6. Generally past performance of the stock indicates the stock's future return.	.754			
7. I would immediately buy a stock suggested by a friend, on whose advice I had made the profit earlier.			.817	
8. I would immediately buy a stock suggested by my favorite financial advisor/TV channel.		.640	.720	
9. Speed up selling losing stocks as I want to avoid regretting later.	.654			
10. I Speedup selling the winning stocks in order to enjoy the feeling of success.			.520	
11. I usually prefer to invest in stocks for short period of time.				.859
12. Invest money for long period of time gives more returns to me.	.547			-.512
13. I think I will play safe in stock market, as I am risk averse.		.656		

Source: Author's own

Identification of the core factors

The rotated factor loadings which are the correlations between the variables and the factors are shown by the rotated factor matrix. The factor column shows the rotated factors which have been extracted out of the total factors. These rotated factors are known as core factors. Each group of factors is named on the basis of features of that particular group.

Naming of the factors along with its Cronbach's alpha value

S.No	Factors responsible for stock selection	Statements	Cronbach's Alpha
1.	Stock Performance	S-3,5,6;9,12	.737
2.	Risk taking capacity	S-1,2,4,13	.801
3.	Suggestion of Stock	S-7,8,10	.798
4.	Investment Period	S-11,12	.824

SUMMARY & CONCLUSION

The earliest stock exchange in Asia and one of India's top

exchange groups, BSE Ltd. (previously Bombay Stock Exchange Ltd.), was founded in 1875 and has made significant contributions to the growth of the Indian capital market. BSE is a corporatized and demutualized organisation with a sizable shareholder base that includes two of the world's top exchanges, the Singapore Exchange and the Deutsche Bourse, as strategic partners. The BSE offers a reliable and open market for trading in mutual funds, financial securities, and stocks. Incorporated in 1992, NSE. It began operating in 1994 with the creation of the wholesale debt market and was registered by SEBI as a stock exchange in April 1993. Shortly after, the cash market segment was introduced. According to a "World Federation of Exchanges (WFE) report, the National Stock Exchange of India Ltd. (NSE) is the largest stock exchange in India and the second largest in the world by the number of equity share trades from January to June 2018". Our exchange listings, trading services, clearing and settlement services, indices, market data feeds, technological solutions, and financial education services are all part of NSE's completely integrated business model. The NSE also monitors compliance with the exchange's rules and regulations by trading, clearing, and listed companies.

A portfolio is a collection of financial assets, such as securities, bonds, commodities, cash, and cash equivalents, such as closed-end funds and exchange-traded funds (ETFs). Various types of assets, such as private investments, real estate, and fine art, may be included in a portfolio.

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