International Journal of Business & Management Research (IJBMR)
Volume 1, Issue 2, Pages 36-40, September 2013, ISSN: 2347-4696

The Global Melt Down and Consumer Investment Behavior: Gender Difference Perspective

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ABSTRACT

The main aim of the paper is to describe the changing consumer investment behavior (gender wise) during the global melt down with the help of the integrative literature review technique and found that the downturn has forced the desire for simplicity. We have also developed a model by deriving certain factors on consumer investment decision making from the existing literature which includes Economic, Classic, Social, Risk, and Neutral factors and concluded that these factors helps the consumer to seduce, persuade, and motivate them for their investment decision making.

Keywords: Melt Down, Consumer, Behavior, Investment, Risk, and Decision Making.

1. INTRODUCTION

The Global Melt Down that began in 2007 spread and gathered intensity in 2008 resulted in the collapse of many leading financial institutions around the world, and as a consequence of, what has been referred to as, subprime lending which led to many financial institutions finding themselves unable to repay their creditors and depositors since many of the assets they were holding were either worthless or worth a fraction of their book value. As investment banks and other financial institutions were forced to go into liquidation there was a massive loss of confidence in the financial system globally because of which value of household and corporate assets were depreciated, production was cut and jobs were shed and it was difficult to access credit. The major factors that have been identified as causes for the Global Melt Down includes **Imprudent Mortgage Lending,** which is against a backdrop of overflowing credit, low interest rates, and up surging house prices, lending standards were relaxed to the point that many people were able to buy houses they couldn't afford, and it caused a severe shock to the financial system. **Housing Bubble,** the housing prices to rise to unsustainable levels because of its easy money policies and the crisis was triggered by the bubble erupting, as it was bound to do. **Global Imbalances,** as these have been characterized in recent years by an unsustainable pattern which includes some countries (China, Japan, and Germany) run large surpluses every year, while others (like the U.S and UK) run deficits, resulting in Stress underlies current financial disruptions. **Black Swan Theory,** As these theory state that crisis is a once-in-a-century event, caused by a confluence of factors so rare that it is impractical to think of erecting regulatory barriers against recurrences.

Fortunately, India, like most of the emerging economies, was fortunate to avoid the beginning adverse effects because its banks were not overly exposed to subprime lending. However, the indirect –or second round– impact of the crisis has affected India quite badly and compelled Indian banks and companies to shift their credit demand from external sources to the domestic banking sector. Eventually it exerted pressure on domestic market liquidity, thereby giving rise to a credit crunch in the economy. The stock of foreign exchange declined from $330 billion some six months before to 245 billion by the first week of December 2008 and the BSE index declined from over 20000 during the early months of 2008 to 9000 during the last week of November 2008.The stock market philosophy says that those who have lost money in the market should sit tight and wait for the crisis to get over.

2. LITERATURE REVIEW

Stock markets always turn around over a period of time, once the correction gets completed, and the stock valuations drawing attention and one may consider reinvesting in the market. Research undertaken into the behavior of large no. of United States consumer by the New McKinsey and concluded that in any given category, an average of 18 percent of consumer-packaged-goods consumers bought were lower-priced brands in the past two years Bohlen et al., (2010). In one of the online survey conducted by Nelsen April 2009, found that 56 per cent of consumers said they were switching to cheaper grocery brands during the economic crisis and around one-third said they would continue to purchase cheaper

International Journal of Business & Management Research (IJBMR)
Volume 1, Issue 2, Pages 36-40, September 2013, ISSN: 2347-4696

grocery items even when the economic downturn improves. It may be said that the Global Melt Down has forced consumers to question their beliefs and attitudes towards purchasing and the most difficult part for marketers after a global meltdown is to understand what is going on in the consumer's mind. The relationship exists between risk taking propensity and the level of investment risk taken by individual investors. People who are less inclined to take risks tend to be conservative to moderate in their investments, and those inclined to take risk tend to invest in riskier portfolios. Investors Education level and gender differences is not always a factor influencing investment decisions, but that the greater the individual's knowledge of investments, the greater the willingness to take risk. Investment approach should be flexible, and can transform into each other. To better adapt to the environment changes of resources owners and the world and reduce investment casualty, the investors should change their investment patterns flexibly by diversifying their investment in the different sectors. Mclnish (1982) concluded by using "Locus of control" (internal/external), in of their work that individuals who are internally controlled choose conservative portfolios on the one hand, while those externally controlled choose risky portfolios on the other hand. The price changes in stock market are unpredictable since they emerge only in response to genuinely new information Shiller, (2000). Due to the fact that all information is assimilated in stock prices, it is impossible to make an abnormal profit and beat the market over time without taking extra risk. Hirshleifer and Shumway (2003) suggested that investor mood affects the stock market performance.
Heuristics, a process by which people find things out for themselves typically by trial and error, may help to clarify why the market sometimes acts in an irrational manner. This experimental work clearly demonstrates the deficiencies of utility theory as a descriptive model of decision making under risk and encouraged further exploration of apparent violations of this traditional framework Rabin and Thaler, (2001). Kahnemann and Tversky (1979) stated that individual's exhibit 'the reflection effect', that is, the individual used to respond differently to the same problem depending on how it is framed. Bernasek and Shwiff (2001) concluded that in terms of investment decision making women are more risk-averse than men, while Sunden and Surette (1998) found that gender and marital status are significantly related to asset allocation. Maxfield et al., (2010) found evidence of gender neutrality in risk inclination and managerial decision making other than portfolio allocation.

Some important factors have been identified from the existing literature which has impact on the investment decision making of the investors.

Table: 1.1 Investment Decision Making Factors

S. No.	Investment Decision Making Factors		Author
1.	**Economic Factor**	Return on investment	Anthony and Mustapha (2010)
		Company Stock Share	
		Diversification Needs	
		Firm Status in Industry	
2.	**Classic Factors**	Expected Dividends	Nagy and Obenberger (1994)
		Share Price Affordability	
		Tax Consequences	
		Risk Minimization	
3.	**Social Factors**	International Operation	Nagy and Obenberger (1994)
		Local Operation	
		Environmental Record	
		Others	
4.	**Risk Factors**	Riskiness of Assets	Anthony and Mustapha (2010)
		Security of Assets	
		Performance Risk	
		Operational Risk	
		Political Risk	
5.	**Neutral Factors**	Financial Press Coverage	Nagy and Obenberger (1994)
		General Press Coverage	
		Information From Advisory Services	

1. Economic Factor: As it is used to determine the current and expected future value of a business or investment portfolio level with the help of Firm Status in Industry, Company stock share, return on investment and eventually it helps the investors in their investment decision making.

2. Classic Factors: These are used to determine expected dividends, Share price affordability, Tax Consequences, and helps in Risk Minimization for investors.

3. Social Factors: These factors help the investors to make aware about the national and international happenings and Positive situation helps them to invest.

4. Risk Factors: These factors based on the operational and political risk and used to determine the security of assets with the help of effective internal control and eventually help the investors in better investment decision making.

5. Neutral Information: This factor includes coverage in the financial and general press, recent stock index returns and recommendations by investment advisory services, all these variables represents an outside source of information that is perceived to be unbiased.

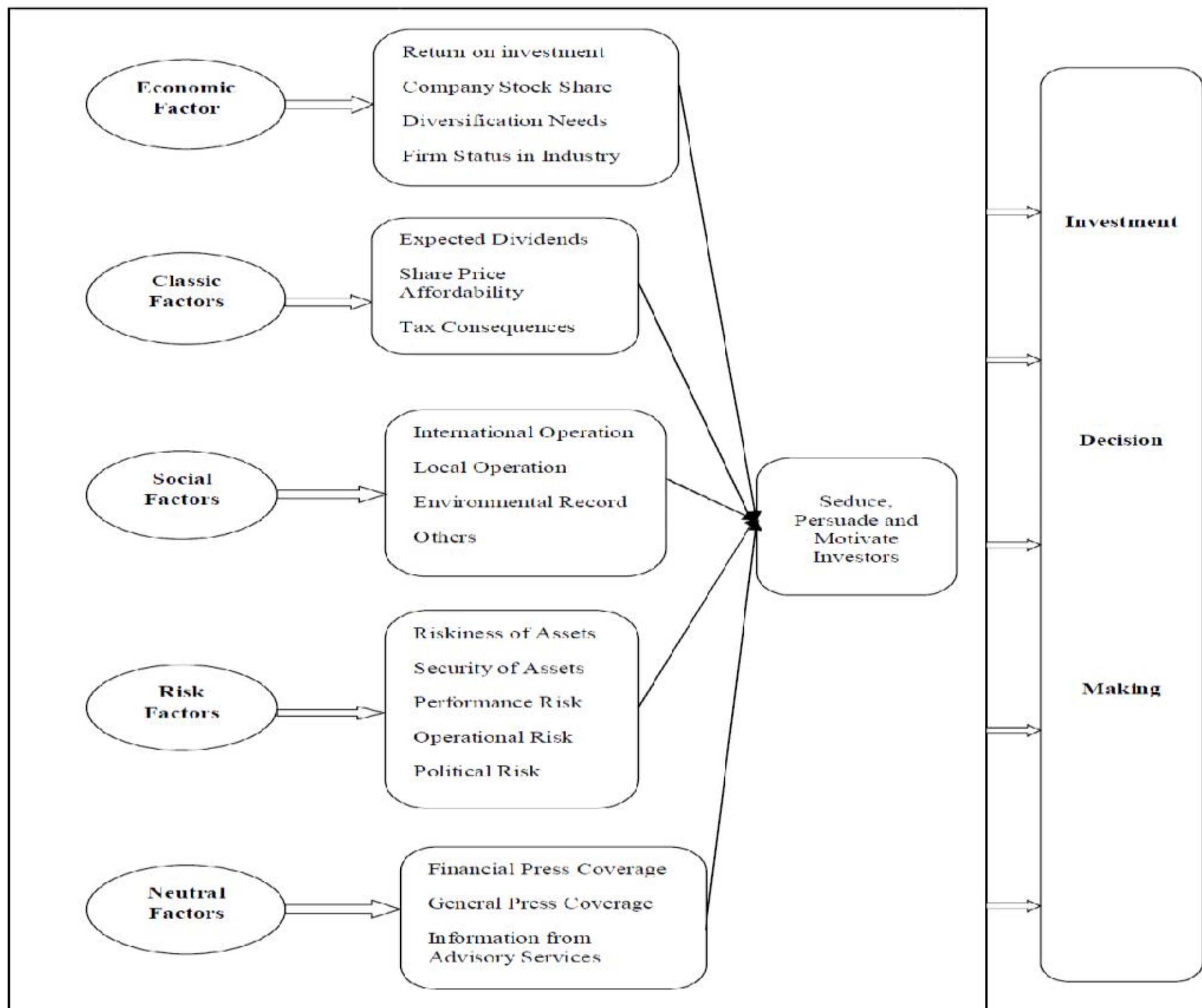

Fig: 1.1 Theoretical construct of Investment Decision Making Factors

3. RESULT AND DISCUSSION

The above mentioned figure (see Fig 1.1) states that all the five derived factors from the existing literature are used to seduce, persuade and motivate the investors for their investment in any stock holdings. In fact, it was believed that stock prices were influenced by rational anticipations and reactions of investors and many recent studies in applied finance argue that individual investor behaviour is often affected by a variety of psychological heuristics and biases. An analysis of the literature states that individual investor behaviour acts as an important

determinant of movements in stock prices and subsequent returns. Taking into consideration the theory of irrationality, researchers have concluded that investors across financial markets do not act in purely rational manner by which the investors investment decisions are influenced by a number of factors which also include psychological biases, heuristics, social affiliation, demographic factors and so on. (Baker and Wurgler, (2007); Barnea et al., (2010). Kadiyala and Rau (2004) investigate investor reaction to corporate event announcements. They conclude that investors appear to under-react to prior information as well as to the information conveyed by the different event. However, they find no support for the overreaction hypothesis. Lim (2006) tries to test the trading decisions of investors by using their past and current trading proceedings of individual investors, the study tests whether investors' trading decisions are influenced by their preferences for framing of gains and losses. Investors are more likely to bundle sales of losers on the same day than sale of winners. Fischer and Gerhardt (2007) in one of their work on individual investor investment decision making and find that individual investor investment decisions deviate from recommendations of financial theory. They report that these deviations lead to considerable welfare losses. They, therefore, conclude that financial advice is potentially correcting factor in investment decision making process and developed a simple model to capture its very impact on individual investors' investment favorable outcome, measured in risk-adjusted return and wealth. Female investors are more detail oriented; and want to read more and understand financial matters better and they ask more questions than male clients Worley, (1998). The literature regarding gender differences in the financial area also maintains that males generally exhibit more confidence when dealing with their financial affairs Taylor, (2003). Estes and Hosseni (1988) found that female investors have significantly lower confidence in their investment decisions than male investors even when controlling for experience and competence, and when the expected outcomes of the different investments were equivalent.

4. CONCLUSION:

The downturn has increased people's desire for simplicity and has forced consumer's to question their beliefs and attitudes. It can be inferred that Men are more confident than Women because women avoid financial issues in general and Women are more risk averse than men in their investment strategies. Marketers often see this phenomenon in post-purchase consumer behavior, such that buyers regret their purchase due to the conflicting feelings that result from the existence of positive aspects of the brands not chosen and negative aspects of the brand chosen. Females who are more involved in decision making are risk averse, process information more carefully, and invest in safe instruments which has stable growth and less risk and such instruments would be mostly of lower returns. Females take decision after careful observation and hence time taken to conclude is more as a result they are comparatively less active in asset diversification. Males on the other hand are more confident, less dependent, love to take risk and process information faster are more prone towards investing in risky instrument which gives more returns. They are not worried about stable returns in bargain they sometime end up making loss. Males are more into diversification of their assets as a measure to lessen their risk and earn more at shorter period. Proper macroeconomic policies are important for maintaining and regaining financial stability and Government intervention may be necessary to re-start the economy, but reforms should aim at preventing the recurrence of crisis. Strong prudential regulation and supervision in the financial sector is now widely held as a prerequisite to financial stability.

5. LIMITATIONS OF THE STUDY

The article is thoroughly based on the findings of the existing literature and also the factors have been derived from the existing literature and by these factors a model have been developed however the model needs to validate through case study or quantitative study.

6. ACKNOWLEDGEMENT

We are highly indebted to **Dr. Vishal Vyas**, Assistant Professor at **ABV - Indian Institute of Information Technology and Management Gwalior, Madhya Pradesh India,** for his academic guidance but also for the personal interest in our work and constant support coupled with confidence boosting and motivating sessions which proved very fruitful and were instrumental in infusing self-assurance and trust within us.

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International Journal of Business & Management Research (IJBMR)
Volume 1, Issue 2, Pages 36-40, September 2013, ISSN: 2347-4696

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