REVIEW OF LIFE STYLE SEGMENTATION STUDIES OF THE STOCK MARKET INVESTORS

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Abstract : The main aim of this research paper is to bring to light the most ignored characteristics of segmentation, the life style characteristics. For several years, demographics have been used in isolation to classify the investors in several studies. The life style characteristics work in synergy with the demographics to bring about the differences in investor behavior. The main important studies done mostly in India have been reviewed in this paper and a literature framework has been developed to summarize the studies and bring about the main contributions. The investors' unnoticed behavioral differences have hence been well pointed out by the life style segmentation of investors.

***Index Terms* - Life style segmentation, Investor Behavior, Equity market**

I. INTRODUCTION

The complex phenomenon of investor behavior had been the topic of concern both in the past and in the current research of the financial market. Traditional economists assumed the rational behavior of the investor, on the other hand, psychological theories emphasized the irrational behavior of the investor in a more practical sense (Iqbal et al., 2013). De Bondt (1998) was among the first to list out the specific behavior of the individual investors who managed their own portfolio. It included, discovery of naive patterns from the previous price movements, poor diversification of portfolio, and suboptimal ways of trading.

In spite of several segmentation studies like Kasilingam and Jayabal (2010), Clark-Murphy and Soutar (2005) and Keller and Siegrist (2006), a better understanding of the investors' behavioral processes and outcomes was important for financial planners in order to understand how individual investors generally respond to market movements to help them in devising appropriate asset allocation strategies for the investors (Al-Tamimi, 2006).

A good understanding of the investors' behavior would help financial planners manage the investor‘s portfolio (Gupta, 1991). By understanding the psychology of the investors and overcoming their influences, profitable investments could be made (Iyer & Bhaskar, 2002). Harlow and Brown (1990) observed a biological connection unique to every investor which explained their investment behavior. Therefore, the investor's individualistic features played an important role in decision making.

The 1970s marked the first empirical studies on individual investor behavior. Lease, Lewellen and Schlarbaum (1974) were the first to empirically examine the transaction data of individual investors in order to determine the transaction pattern of the investors, their decision methodology, the demographics and their portfolio composition. The impact of demographics on the process of portfolio composition was examined by the Wharton survey (Blume & Friend, 1978). Daniel et al. (2002) cited the following as common investor behavior: (i) investors traded only in particular stocks owing to familiarity reasons. They could be stocks of their own country (Coval & Moskowitz, 1999; Kang, 1997; Lewis, 1999) or own company where they were employed; (Benartzi, 2001; Huberman, 2001). (ii) individual investors exhibited the behavior of loss aversion; (Tversky & Kahneman, 1991) (iii) investors extrapolated past performance of the stock into the future which was mostly found in selection of mutual funds; (Carhart, 1997; Grinblatt et al., 1995; Sirri & Tufano, 1998) (iv) investors traded excessively due to their overconfidence; (Barber & Odean, 2000 ; De Bondt & Thaler, 1994) (v) investors made prominent errors like status quo bias; (Kempf & Ruenzi, 2006), errors while exercising options (Longstaff et al., 2001) and under diversification; (Benartzi & Thaler, 2001) (vi) it was unlikely that investors always form efficient portfolios; (vii) investors tended to follow the crowd, a concept called herding (Chang et al., 2000; Hirshleifer & Teoh, 2003) and (viii) investors were affected by the trading highs and lows of stocks.

II. LITERATURE REVIEW

Studies on segmentation of investors based on lifestyle characteristics or psychographics are very few. Below are some of the studies

Plummer (1974) explained the concept of life style segmentation as the marriage between the concepts of life style patterns and market segmentation. Shanmugasundaram et al. (2011) studied the influence of life style characteristics namely, consumerism, mass media exposure, sophisticated living style, family environment, scientific temperament, saving habit and vicinity on the stock investment decision of investors in Tamil Nadu. The dependent variable, opinion about investment decision was measured in terms of risk factors, previous investment outcomes; knowledge gained after information search, and updated information. The study found that mass media exposure, consumerism and scientific temperament have a significant influence on the stock investment decision of individual investors.

Nagpal and Bodla (2009) studied the influence of lifestyle characteristics on investment behavior among Indian investors in Haryana, Chandigarh and Delhi. In their words, "demographics alone no longer suffice as the basis of segmentation of individual investors. It is by using lifestyles or psychographics along with demographics that synergism between investors can be generated" (p.28). Based on the lifestyle, investors were classified into conservative, moderate and aggressive. The aggressive investors were strong in future expectation, opinion leadership, risk seeking and information seeking. The moderate investors were strong in credit usage and the conservative group was moderate in future expectations and opinion leadership. It was found that the aggressive group prefers to invest in equity shares. Most investors were also found to engage in narrow framing which leads to overestimation of risk.

Warren et al. (1990) using 29 lifestyle statements identified the lifestyle measures. In their words, "lifestyle analysis includes a broad array of consumer characteristics relating to patterns of interests and activities" (p.74). MDA analysis proved that demographics was a good predictor of heavy/light investors whereas only one dimension, dress consciousness could predict the investor type in lifestyle characteristics. The study suggests that failing to use lifestyle dimensions to classify investors would avoid the chance of real segmentation and hence blur real differences among investors.

Barnewall (1987) was the pioneer to segment investors based on lifestyle characteristics instead of the traditional demographic segmentation. Using focus group interviews for various occupational groups, the characteristics of active and passive investors were identified. Passive investors are characterized by higher need for security, lower risk tolerance, lower economic resources, over perception of risk, income motivation, requirement of approval from others, lack of personal involvement and preference for financial advisors. Active investors, on the other hand, have higher risk tolerance, prefer to control their own investments, high involvement and control, under perceive risk, have strong individual ego, lack team ego, more concerned with self-approval, low dress consciousness, credit driven and appear arrogant. In short, active investors were characterized by the lifestyle characteristics, risk- takers, low dress consciousness, credit user and high self-confidence and passive investors as risk-avoiders, high dress consciousness, non-credit user and low self-confidence.

Ghazali and Othman (2004) grouped Malaysian investors into active and passive based on the regularity of transactions in the stock market. The differences between the two groups based on demographic and lifestyle characteristics were tested. Lifestyle characteristics or psychographics is employed by analyzing the opinions, activities and interests of the investors. It was found that active investors were more outgoing/entertainment lovers, knowledge-seekers and outdoor-lovers compared to passive investors. With respect to psychographics, active investors were more innovative when compared to passive investors. Discriminant analysis showed that personal monthly income, occupation and the entertainment lover dimension of the activity items are significant in discriminating between active and passive investors.

Kiran and Rao (2005) classified Indian investors based on demographics and psychographics. The psychographic characteristics used include, preference for: long term appreciation, size of investments, flexibility of instalments, liquidity, or high short term returns, tax saving, risk coverage, safety and risk taking ability. The investors were classified into risk taking and risk averse based on the demographics and psychographics using Factor analysis. The risk taking investor has high positive factor loadings on high short term returns, employment sector and flexibility of instalments and high negative factor loadings on age and number of dependents. The risk averse investor on the other hand has high positive factor loadings on good steady return, size of investment, annual income, marital status, education and liquidity.

Wood and Zaichkowsky (2004) segmented investors based on five constructs namely: personalization of loss, risk attitude, control, confidence and investment horizon. The segments identified based on questionnaire survey include the conservative long term investors, loss averse young investors, confident investors and risk-intolerant traders. The trading behavior of each of these segments varied with respect to the types of stocks purchased, the usage of information sources and the level of trading.

III. Literature Framework

Study	Factors Considered	Region of study	Findings
Shanmugasundaram et al. (2011)	• consumerism • mass media exposure • sophisticated living style • family environment • scientific temperament • saving habit and • vicinity	Tamil Nadu	Mass media exposure, consumerism and scientific temperament have a significant influence on the stock investment decision of individual investors.
Nagpal and Bodla (2009)	Lifestyle segmentation was done based on the Activity, Interest and Opinion inventory (AIO) into • Aggressive, • Moderate and • Conservative investors	Haryana, Chandigarh and Delhi	The aggressive investors were strong in future expectation, opinion leadership, risk seeking and information seeking. The moderate investors were strong in credit usage and the conservative group was moderate in future expectations and opinion leadership. It was found that the aggressive group prefers to invest in equity shares.
Ghazali and Othman (2004)	Lifestyle segmentation was done based on the Activity, Interest and Opinion inventory (AIO) into • Active and • Passive investors	Malaysia	The study found that active investors were more outgoing/entertainment lovers, knowledge-seekers and outdoor-lovers compared to passive investors. With respect to psychographics, active investors were more innovative when compared to

			passive investors.
Kiran and Rao (2005)	The psychographic characteristics used include, preference for: • long term appreciation • size of investments • flexibility of instalments • liquidity or high short term returns • tax saving • risk coverage • safety and • risk taking ability. The investors were segmented into • risk taking and • risk averse investors.	India	The risk taking investor had high positive factor loadings on high short term returns, employment sector and flexibility of instalments and high negative factor loadings on age and number of dependents. The risk averse investor on the other hand had high positive factor loadings on good steady return, size of investment, annual income, marital status, education and liquidity.
Wood and Zaichkowsky (2004)	Segmentation of investors was based on five constructs namely: • personalization of loss • risk attitude • control • confidence and • investment horizon.	-	The segments identified based on questionnaire survey include the conservative long term investors, loss averse young investors, confident investors and risk-intolerant traders. The trading behavior of each of these segments varied with respect to the types of stocks purchased, the usage of information sources and the level of trading.

IV. Conclusion

This paper reviews the life style segmentation of investors based on life style characteristics which have been missed out in most studies in the past. Mostly Indian studies have been reviewed in this paper and a literature framework has been developed to bring out the highlights of the studies. The factors considered for segmentation and the findings of each study help to analyse investor behavior better. This paper would help researchers to consider life style segmentation while analysing investor behavior in addition to the popular demographic and financial analysis of investor behavior.

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