BEHAVIOURAL BIASES - IMPACT ON INDIVIDUAL INVESTMENT DECISIONS

M. Sangeetha[1]
Research Scholar, Department of Business Management, Osmania University, Hyderabad, Telangana

Prof. D. Sreeramulu[2]
Head, Department of Business Management & Principal, UCC & BM, Osmania University, Hyderabad, Telangana

INTRODUCTION

In the world of finance, investment is one of the most important long term decisions made. An investment decision is optimal when the value of balancing financial risk and return is aptly understood. Investors are considered to be rational in their investment decision-making. It is believed that investors follow the basic concept of traditional finance and the said decision will be taken based on the intrinsic value of the securities. But it has been observed that many of the behavioural (psychological) factors adversely affect the investment decision of the investors.

The decision-making process is a cognitive process which results in selection of a course of action among several alternatives. Most of the investors in the financial market do not have enough knowledge about the investments and economy of that particular nation. But there are decisions based on emotions, feelings, fantasy and sentiments. The influence of the psychological factors in determining the selection of portfolio gave rise to a new perspective in finance known as “behavioural finance”. It attempts to explain the understanding of reasoning patterns of the investors, including the emotional processes involved and the degree to which they influence the decision-making process.

Investors exhibit irrational behaviour in their decision-making. The decision-making process itself is considered to be a cognitive process as the investors have to make a decision based on various alternatives available to them. The researchers have found that the investors’ decision-making was adversely affected by the various psychological/behavioural factors.

Traditional finance assumes that markets are efficient and investors are rational and consider all available information in the decision-making process, that they will favour investment that maximises their wealth. than that warranted by its risk. Hence, investment markets are efficient and security prices reflect the true “intrinsic values‟ of the assets. That investors act promptly to new information and update prices correctly within a normatively acceptable process.

Behaviour finance which is based on psychological factors contends with market efficiency and investors rationality. Behavioural Finance, a relatively new area of research, is the study of how human psychology, our thoughts, feelings and attitudes (such as confidence) influence financial decisions.

Key concepts of Behavioural Finance

Behavioural Biases

Investors may be inclined toward various types of behavioural biases, which lead them to make cognitive errors. People may make predictable, non-optimal choices when faced with difficult and uncertain decisions because of heuristic simplification. Behavioral biases, abstractly, are defined in the same way as systematic errors are, in judgement (Chen et al, 2007).

- **Herding**

Herd instincts refer to the natural desire of people to be part of a group, hence herd together. It is the tendency of people to mimic the group behavior when individually a different course of action would have been taken. In situations of uncertainty, this behavior is magnified because people want to feel as part of a group rather than independent analysts, hence introducing bias in decision making. As a result, small information can cause a significant change in people's behavior, and not necessarily in the right direction.

- **Loss Aversion**

Loss aversion is a tendency in behavioural finance where investors are so fearful of losses that they focus on trying to avoid a loss more so than on making gains. The more one experiences losses, the more likely they are to become prone to loss aversion .Research on loss aversion shows that investors feel the pain of a loss more than twice as strongly as they feel the enjoyment of making a profit.

- **Regret Avoidance**

Inertia means that people fail to get around to taking action, often even on things they want or have agreed to do. A related issue is a tendency for emotions to sway you from an agreed course of action – 'having second thoughts'. The human desire to avoid regret drives these behaviours.

- **Mental Accounting**

It is a set of cognitive operations used by individuals and households to organize, evaluate, and keep track of financial activities. This results in a tendency for people to separate their money into separate accounts based on a variety of subjective reasons. Individuals tend to assign different functions to each asset group, which has an often irrational and negative effect on their consumption decisions and other behaviours. Mental Accounting refers to the codes people use when evaluating an investment decision.

- **Overconfidence**

Psychology has found that humans tend to have unwarranted confidence in their decision making. In essence, this means having an inflated view of one's own abilities. This trait appears universal, affecting most aspects of our lives. Researchers have asked people to rate their own abilities, for example in driving, relative to others and found that most people rate themselves in the top third of the population.

- **Overconfidence**

Overconfident investors may overestimate their ability to identify winning investments. Traditional financial theory suggests holding diversified portfolios so that risk is not concentrated in any particular area. 'Misguided conviction' can weigh against this advice, with investors or their advisers 'sure' of the good prospects of a given investment, causing them to believe that diversification is therefore unnecessary.

- **Anchoring**

Anchoring bias occurs when people rely too much on pre-existing information or the first information they find when making decisions. Anchoring leads to people putting too much weight on recent experiences and assumption that current prices are correct prices. Therefore, current performance is representative of future performance.

REVIEW OF LITERATURE

1. *Akshara Chadha, Cheril Mehta, Dikshant Lal, Alaknanda Lonare (2019)* have attempted to know the importance of various demographic factors of population like age, gender, occupation, income, savings and family size. A survey was conducted to understand the behavioural factors of an investor and also help the companies to predict what type of customer is and their aggression level. The data was collected using a questionnaire and was conducted in Mumbai and Udaipur.

2. *Anu Anotny and Ansted Joseph 2017* have analysed that decision making was adversely affected by the various behavioural factors. They have selected five behavioural factors which are overconfidence bias, representative bias, regret aversion, mental accounting, and herd behaviour. The researchers have considered the investors from Kerala. It was analysed that the investors in Kerala were highly influenced with regret aversion and overconfidence.

3. *The Influence of Behavioural Factors in Equity Investment Decisions: An Exploratory Analysis Prof. Jyothi E Singh, Dr H N Shivaprasad (2019)*, most of the traditional finance theories were developed on the basis of rationality. An attempt was made by the researchers and found that six behavioural factors like overconfidence, regret aversion, mental accounting, anchoring, herding and availability bias have a high impact on the investment decisions of the equity investors in Bangalore city. They have also found that inorder to educate their clients to make good investment decisions it is important for brokers to have awareness about various types of behavioural factors.

4. Do Behavioral Finance Factors Influence Stock Investment Decisions of Individual Investors? (Evidences from Saudi Stock Market)

Talal Alquraan, Ahmad Alqisie and Amjad Al Shorafa(2016) focused on exploring the behavioural finance factors influencing the individual investors at Saudi stock market which is one of the emerging markets in the middle east. It was analysed by them that the behavioural factors like Loss Aversion, Risk Perception and Overconfidence have a significant effect on the stock investment decisions of the individual investors at Saudi Stock Market. The demographic variables (Gender, Age, Education, Income, and Experience) don't make any significant differences in the investor decision, except the demographic variable (Education) make significant differences in the investor decision.

RESEARCH GAP

Psychological factors play a dominant role in decision making regarding investment in the security market. That's why there is an immense significance to study all these factors comprehensively to know their impact in today's scenario. Studies on behavioural finance proved that the psychological factors are relevant at the time of investment decision. The current study is carried out to identify the impact of the behavioural factors affecting the investment decision of the investors in India.

OBJECTIVES OF THE STUDY

1. To study the investors profile.
2. To analyse the impact of demographic factors on investment behaviour with respect to the Indian Investors.
3. To analyse the impact of select behavioural biases on investment decisions.

SCOPE OF THE STUDY

Investors form the backbone of the capital market. Investment decisions are influenced by many factors. Sometimes investors make illogical decisions based on knowledge or information of certain investment objects. The behaviour of investors varies depending upon market timing, place and so on. Therefore, it is important to know how individuals' decisions are affected by selected behavioural biasis.

RESEARCH METHODOLOGY

- Sources of Data:

The data is collected from primary and secondary sources. The primary sources are structired questionnaire and secondary sources are websites, journals and books.

- Sample Profile:

The size of the Sample is 200 respondents.
Sampling Techniques: Convinience Sampling

- Statistical Tools applied:
  - Descriptive Statistics
  - Percentage Analysis
  - Chi-Square Test

LIMITATIONS OF THE STUDY

- Samples were selected as per convenience so errors are bound to creep in the study.
- While calculating, approximations are made to nearest figures for convenience.

DATA ANALYSIS AND INTREPRETATION

1. Gender of the respondents

Gender	No. of respondents	Percentage(%)
Female	48	24%
Male	144	72%
Prefer not to say	8	4%

Interpretation: From the above table, it is observed that out of 200 respondents, 144 are male with 24 % and 144 are female with 72 %.

2. Age of the respondents

Age	No. of respondents	Percentage(%)
18-25	32	16
26-30	144	72
31-35	8	4
36-40 Years	16	8

Interpretation: From the above table, it is observed that out of 200 respondents, most of the respondents are between the age group of 26-30 years.

3. Monthly income of the respondents

Monthly Income (In Rs.'000)	No. of respondents	Percentage(%)
10-20	96	48
20-40	16	8
40-60	40	20
60-80	32	16
>80	16	8

Interpretation: From the above table, it can be interpreted that most of the respondents monthly income is 10-20 and 40-60,000/-.

4. Education qualification of the respondents

Education qualification	No. of respondents	Percentage(%)
Up to school level	8	4
Inter	40	20
UG	72	36
PG	72	36
M.Phil/Ph.D	8	4

Interpretation: It can be analysed that aout 18 % have done UG and 18 % PG followed by intermediate.

5. Employment of the respondents

Nature of Employment	No. of respondents	Percentage(%)
Business person/Professional	32	16
Employed in Pvt. Organisation	104	52
Other	64	32

Interpretation: It can be observed that most of the respondents are employed in private organisations.

6. Number of Family members

Number of Family members	No. of respondents	Percentage(%)
1-3 persons beside yourself	64	32
4-5 persons beside yourself	96	48
More than 5 persons beside yourself	8	4
Only Yourself	20	10

Interpretation: About 80 % of the respondents have 1-5 members in a family.

7. Active investment of the respondents

Do you actively invest?	No. of respondents	Percentage(%)
Yes	112	56
No	88	44

Interpretation: From the above table, about 56 % respondents actively invest in various investment avenues.

8. Years of Experience in Investing (years)

Years of Experience in Investing (years)	**No. of respondents**	**Percentage(%)**
Less than 2 years	160	80
3 - 5 years	32	16
6-10 years	8	4

Interpretation: It is observed that about 80 % of the respondents have less than 2 years of experience in investments. It shows that people are very much interested in investments in the recent past.

9. Investment avenues of the respondents

Investment Avenues	**No.of Respondents**	**Rank**
Shares	144	1
Fixed Deposit	80	2
Real Estate	48	4
Gold/precious metals	8	5
Mutual Funds/SIP	52	3
Insurance	52	3
PPF(Public Provident Fund)	0	0
Bonds/Debentures	8	5
NPS(National Pension System), Commodity market, Others	0	0

Interpretation: It can be analysed that most of them invest in stocks and then followed by fixed deposits.

10. Years of Experience in trading (years)

Years of Experience in trading (years)	**Less than 2**	**3 - 5**	6 -10	Nil
	80	16	8	96

Interpretation: Most of the respondents are interested in trade.

11. Percentage of annual Income Invested by the respondents

Percentage of annual Income Invested	**No. of respondents**	**Percentage(%)**
Below 10%	100	50
11% - 20%	64	32

21% - 30%	20	10
31% - 40%	8	4
41% & Above	8	4

Interpretation: From the above table, it can be analysed that most of them invest about 10-20 % of their investment.

12. Sources of investment advices taken by the respondents

Sources of investment advices	No.of Respondents	Rank
Local Brokers	48	5
Colleagues/Friends	64	3
Family members	76	2
Friends	64	3
Newspapers	88	1
Company website	48	5
Business dailies	40	7
Others if any specify, Social Media Platforms, Television/News Bulletins	0	0

Interpretation: From the above table, it can be analysed that about 22 respondents follow the newspapers related to investment information and also they take advice from family members.

13. course taken related to investment by the respondents

Have you attended any course related to the Stock Market?	**No. of respondents**	**Percentage(%)**
Yes	120	60
No	80	40

Interpretation: About 60 % of the respondents have taken course/s related to investments.

Behavioural Biases of the respondents

Sl No	Statements	SD	D	UD	A	SA	Total	Mean	Result	SD
HEURISTICS										
	Representativeness Bias									
	I avoid investing in companies which perform poorly or poor earnings in the past (3-5 years)	20	40	16	64	60	200	3.5	Agree	3.3
	I frequently use trend analysis	16	16	56	72	40	200	3.5	Agree	3.2
	Availability Bias									
	I prefer to buy local stocks rather than international stocks because the information of local stocks is more available.	16	32	36	60	56	200	16	Agree	3.3
	Anchoring bias									
	I always rely on my previous experiences in the market for my next investment.	12	24	36	80	48	200	3.6	Agree	3.3
	I usually forecast the changes in stock prices in the future based on the recent stock prices.	12	24	52	80	32	200	3.5	Agree	3.1
	Overconfidence									
	I am confident of my ability to do better than others in investment decisions.	28	20	80	56	16	200	3.1	Undecided	2.7
	I believe that my skills and knowledge of the stock market can help me outperform the market.	20	8	84	56	32	200	3.4	Agree	3.0
	I feel that I have sufficient power to manipulate the investment as I see fit.	12	24	96	40	28	200	3	Undecided	2.9
	Herding									
	Other investors' decisions of choosing stock types have an impact on my investment decisions.	16	36	52	72	24	200	3.3	Undecided	2.9
	Other investors' decisions of the stock volume have impact on my	32	36	52	64	16	200	3.0	Undecided	2.7

	investment decisions									
	Other investors' decisions of buying and selling stocks have an impact on my investment decisions.	24	44	16	56	60	200	3.4	Agree	3.2

a. Association between age of the respondents and investment type

H0: There is no association between age of the respondents and type of investment

H1: There is an association between age of the respondents and type of investment

Results						
	Shares	Fixed Deposit	Real Estate	Mutual Funds	Insurance	*Row Totals*
18-25	12 (7.56) [2.61]	8 (6.80) [0.21]	4 (6.05) [0.69]	4 (4.91) [0.17]	3 (5.67) [1.26]	31
26-30	2 (1.95) [0.00]	2 (1.76) [0.03]	2 (1.56) [0.12]	1 (1.27) [0.06]	1 (1.46) [0.15]	8
31-35	4 (2.44) [1.00]	2 (2.20) [0.02]	2 (1.95) [0.00]	1 (1.59) [0.22]	1 (1.83) [0.38]	10
36-40	2 (8.05) [4.55]	6 (7.24) [0.21]	8 (6.44) [0.38]	7 (5.23) [0.60]	10 (6.04) [2.60]	33
Column Totals	20	18	16	13	15	**82 (Grand Total)**

Level of significance is 5 %

Df is 12

Chi-square statistic is 15.24

Table value is 21.03

P-value is .2281

Intrepretation: As the test statistic is less than table value i.e., 21.03, accept null hypothesis. Therefore there is no association between age of the respondents and type of investment.

b. Association between age of the respondents and percentage of income invested

H0: There is no association between age of the respondents and percentage of income invested

H1: There is an association between age of the respondents and percentage of income invested

Results						
	<10	11-20	21-30	31-35	36-40	*Row Totals*
18-25	8 (6.44) [0.38]	10 (6.90) [1.39]	2 (4.60) [1.47]	2 (3.22) [0.46]	1 (1.84) [0.38]	23
26-30	2 (3.36) [0.55]	3 (3.60) [0.10]	4 (2.40) [1.07]	2 (1.68) [0.06]	1 (0.96) [0.00]	12
31-35	3 (2.24) [0.26]	1 (2.40) [0.82]	1 (1.60) [0.23]	2 (1.12) [0.69]	1 (0.64) [0.20]	8
36-40	1 (1.96) [0.47]	1 (2.10) [0.58]	3 (1.40) [1.83]	1 (0.98) [0.00]	1 (0.56) [0.35]	7
Column Totals	14	15	10	7	4	**50 (Grand Total)**

Level of significance is 5 %

Df is 12

Chi-square statistic is 11.2803

Table value is 21.03

P-value is .5050

Intrepretation: As the test statistic is less than table value i.e., 21.03, accept null hypothesis. Therefore there is no association between age of the respondents and percentage of income invested.

FINDINGS

- From the results of descriptive statistics, it can be analysed that investors' decision of choosing stock types and stock volume has an impact on investors decision making.
- Most of the respondents agree that their investment decisions are based on the opinions of other investors.
- Respondents agree that they tend to hold on to securities losing value and waiting for the price increase.
- Respondents agree that they tend to separate each element of their investment portfolio and monitor them.
- It can be observed that about 88 respondents follow the newspapers related to investment information and also they take advice from family members.

CONCLUSION:

Financial markets are influenced by many factors like information dissemination, political constraints, accessibility, economic condition, and so on. One of the vital factors is the perception of individuals for investing. Behavioral finance is getting attention in the present days. It reveals that people’s investment decision is influenced by some of the behavioral factors like Herding, Heuristics, and prospect factors. Through this study, I would conclude that factors like Herding, overconfidence, anchoring , cognitive dissonance , and representative bias have an impact on individual decision making.

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