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Do Emotional Intelligence Influence Investment Decision Making Among Generation Y?

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Abstract

Purpose: The aim of the paper is to explore the relationship between emotional intelligence and the investment decision making by the investors.

Design / Methodology: The research is empirical in nature. The sample size of the research is 454 investors and the research use structural equation modelling approach to assess the relationship between emotional intelligence and investment decision making.

Findings: The research finds that there exists positive relationship between different constructs of emotional intelligence i.e. mainly perceiving emotions, managing emotions, using emotions and managing others emotion and the investment decision making process. The higher the emotional intelligence of the investors , better the investment decision making

Limitation: The study is performed only on a sample of 453, belonging to Delhi NCR region. Moreover, demographic variables are not considered for the study. Influence of demographic variables can be checked in the future researches.

Implications: Awareness of the influence of emotional intelligence on the financial investment decision making would help financial planners tailor products more effectively to cater for the understanding and lifestyle of the younger generation.

Introduction

In contradiction to the historical approach of taking emotions as a negative factor influencing human behaviour***(Peters &Slovic, 2000),*** recent researches in the field of neuroscience andpsychologyhaspointed out positive roles of emotions in decision making process (***Bechara, Damasio, Tranel, & Damasio, 1997; Damasio, 1994; Davidson, Jackson, &***

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Kalin, 2000; Dolan, 2002; LeDoux, 1996; Loewenstein & Lerner, 2003; Peters &Slovic, 2000; Rahman, Sahakian, Rudolph, Rogers, & Robbins, 2001).Emotional intelligence (***Salovey & Mayer, 1989; Mayer & Salovey, 1993; Caruso et al., 2002)*** is often considered as one of the personal characteristics, which plays a significant rolein making of investment decisions. According to ***Goleman (2006),***sometimes emotional intelligence assistances investors make improveddecision-making strategies.

According to ***Mayer et al. (1999) emotional*** intelligence encounters traditional standards for an intelligence.Very often emotions and rationale together in the process of decision-making are considered as oxymoron concepts (***Hess and Bacigalupo, 2011).Salovey andMayer (1990)*** define EIas "theaptitudeto monitor individual's own andothers' feelings and emotions, to able to distinguish between them and to utilize this information for guiding one's own thought process and related actions.***Demaree et al. (2008)*** have highlighted that emotional actions and reactionsmight influence risk-takingbehaviour. Moreover,***Olson(2006)***hasstated thatemotions whichare ignoredby the earlier finance paradigm may influence financialbehaviour. Besides, ***Satterfield (1998)*** has addressed that person's cognitive and affective states may relate totheirrisk-tolerance behaviours, Ameriksetal.***(2009***) have manifested that higher level of emotional intelligence is directly linked with financialperformance.Emotions are basically a result of conditioning process (***Frank 1988; LeDoux 1996).***

It is a psychological state of arousal which usually directs or modifies beliefs of a person to a specific action (***Elster 1998).*** Individual's emotion is a composite term which consists of cognitive, physiological, social, and behavioral aspects (***Solomon 2000).***Emotions play a significant role in decision making by influencing the risk related trait of decision-making process. It has been proved that low level of emotional intelligence lead to higher performance because of higher risk neutrality.(Schunk***&Betsch 2006***). It is often said that high involvement of emotions in the decision making process is not fit for a trading having high informational content. Emotional Involvement is detrimental for the decision-makingprocess. Scientific debate over whether subjective experiences of emotion are functional or maladaptive has been ongoing on today only (***Gohm&Clore, 2002).***Often, feelings are considered as a source of bias which is usually unwanted in nature (***Shiv, Loewenstein, Bechara, Damasio, & Damasio, 2005; Slovic, Finucane, Peters, & MacGregor, 2002)*** and thereby need to be regulated properly (***Gross & John, 2003).*** Others argue that feelings play an adaptive role in the process of decision making ***(Damasio, 1994)*** and also itbenefitsthe personal well-being of the person (***Aspinwall & Taylor, 1997; Fredrickson, 2001***

Literature Review

Charles&Kasilingam(2014) through their research showed that emotional intelligence creates intuitiveness which positively affects the investor's investment personality and hence the investment decision. For this study, data was collected from 742 respondents who are retail investors of the Indian Stock market.***Charles&Kasilingam (2014)***through their study

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stated that on the basis of emotional state, investors can be categorised into three types namely positive, negative and neutral. The study also concluded that over a period of time investor's emotions become matured as investors move on their investment cycle. This study was conducted with 742 retails investors of the state of Tamil Nadu using multi stage sampling method.***Soane et al. (2011)*** through their research work concluded that emotions and their regulation have significant impact on the decision making of the investors. It is also stated that strategies adopted for regulation of emotions have material consequences on the trader's decision making.***Seo& Barrett (2007)*** through their research stated that emotions are positively related with the decision making. They found that investors who have more intense feelings achieve higher decision-making performance as compared to the ones who are low in expressing their feelings. They stated that individuals who are able to identify and distinguish their current feelings generally achieve higher performance as they are more equipped to control their biases.

This finding is in contrast with other studies.***Aydemir&Aren (2017)*** through their research showed that there exists a direct significant role of emotions on financial behaviour. They stated that there exists positive relationship between emotions and risk-taking capacity of the investors. Investors who have more emotional abilities are generally more confident and courageous, hence induce them to invest in more risky investments. The study was conducted on 496 respondents chosen conveniently by the researcher.***Tanvir, Sufyan and Ahsan (2016)*** stated that emotional intelligence has a significant role in the investment decisions and play a crucial role in the selection of securities. They stated that emotional intelligence as measured by self-awareness, self-management, empathy, motivation and relationship management are significant in predicting the investment decision.

The study was conducted on the sample of nearly 225 investors of Karachi, Lahore and Islamabad stock exchanges.***Pirayesh (2014),*** exhibit a positive significant role of emotional intelligence and investment decisions.The study stated that an investor will become more risk averse as they use emotional intelligence. This study was conducted on the 270 retail investors of Tehran Stock Exchange.***Salehi&Mohammadi (2017***) concluded that emotional intelligence and quality of decision making are dependent.***Lubis, Kumar, Ikbar and Muneer (2015)*** stated that emotional intelligence has a significant role in investment decision making as it is commonly used when an investor evaluates his/her past performance for any investment alternative. This study was one of the studies who used emotional intelligence as a significant tool in predicting behaviour finance.

Research Methodology

A well framed questionnaire was used for carrying out the research work. 16 statements for emotional intelligence measuring four different constructs was adapted from the scale of ***Schutte et al. (1998), Ciarrochietal(2001)***. *Four statements for each construct like perceiving emotions, managing emotions, managing others emotions and using emotions were used. Three statements for measuring investment decision was used which is adapted from the research work of****Tanvir, Sufyan and Ahsan, 2016; Pirayesh, 2014).***The questionnaire was distributed among nearly 500 retail investors through convenient and reference sampling and

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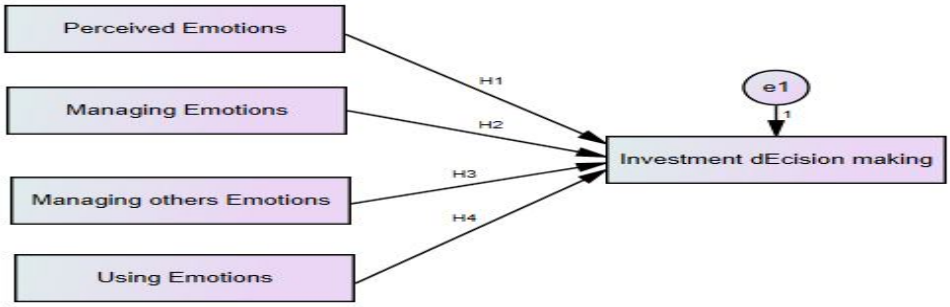
453questionnaires were found to be complete in all aspects and hence used for the research. The KMO statistics is coming out to be .966 whereas bartlett's test of sphericity is coming out to be significant also.

Figure No. 1*Proposed Model of the Research*



(Researcher's Own)

The above figure shows the conceptual model used for the research work.

H1. There is positive impact of perceived emotions on investment decision making.

*H2.*There is positive impact of managing emotions on investment decision making.

H3. There is positive impact of managing others emotions on investment decision making.

*H4.*There is positive impact of using emotions on investment decision making.

Data Analysis and Discussion

Table No. 1

Group	***Frequency***	***Percentage***
Male	*235*	*51.8*
Female	*219*	*48.2*
21-25	*142*	*31.3*
25-30	*207*	*45.6*
Above 30	*105*	*23.1*
Undergraduate	*242*	*53.3*
Post Graduate	*147*	*32.4*
Others	*65*	*14.3*

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(Researcher's Own Output)

The above table describes the demographic profile of the respondents like nearly 51% of the investors are male while 48% are female. As far as educational qualification is concerned nearly 53% of the investors are holding a under graduate degree while nearly 32% are post graduate and 14% holds other qualification. Out of the total investors majority of them belong to the age group of 25-30 years i.e. nearly 45% while only 31% belong to the age group of 21-25 years and only 23% of investors are above 30 years of age.

***Table No. 2** Reliability and Validity of the Constructs*

	CR	AVE	MSV	Cronbach Alpha
UsingEmo	0.864	0.615	0.767	.863
PerceiveEmotions	0.846	0.580	0.733	.845
ManagingEmo	0.895	0.680	0.757	.893
ManagingOE	0.908	0.712	0.757	.906
InvDecision	0.878	0.707	0.767	.876

(Researcher's Own Output)

The above table depicts the convergent and discriminant validity of the constructs. All are coming to be statistically significant as CR is greater than 0.7 whereas AVE is greater than 0.5. Cronbach alpha denotes reliability of the constructs and all are above the threshold limit of 0.7, hence scale used is reliable.

***Table No.3** Statistical Reliability of Measurement Scale*

Construct	Statements	Source	Cronbach Alpha	SRW	Mean	SD	Factor Loading
Perceived Emotions	PE1	Schutte et al. (1998) ,Ciarrochietal.(2001)	0.845	0.785	4.18	1.028	
	PE2			0.814	4.20	1.006	0.713
	PE3			0.714	4.04	1.021	0.722
	PE4			0.728	4.24	.917	0.584
Managing Emotions	ME1	Schutte et al. (1998) ,Ciarrochietal.(2001)	0.893	0.806	4.28	.938	0.689
	ME2			0.775	4.18	1.050	0.79
	ME3			0.843	4.24	.932	0.734
	ME4			0.871	4.24	.932	0.693
Managing Others Emotions	MOE1	Schutte et al. (1998) ,Ciarrochietal.(2001)	0.906	0.796	4.27	.958	0.561
	MOE2			0.844	4.30	.912	0.612
	MOE3			0.886	4.30	.914	0.645
	MOE4			0.847	4.18	.970	0.581
Using Emotions	UE1	Schutte et al. (1998)	0.863	0.766	4.09	.983	0.68
	UE2			0.837	3.90	1.107	0.62

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	Ue3	*,Ciarrochietal.(2001)*		*0.733*	*4.11*	*1.003*	*0.726*
	UE4			*0.797*	*4.06*	*1.029*	*0.676*
Investment Decision	*ID1*			*0.84*	*4.18*	*.985*	*0.778*
	ID2		*0.876*	*0.869*	*4.28*	*.943*	*0.809*
	Id3			*0.812*	*4.18*	*.999*	*0.77*

(Researcher's Own Output)

Table No.4 *Correlation*

	Mean	*Std. Deviation*	*Gender*	*Age Group*	*Education*	*InvDecision*	*UsingEmo*	*ManagingOE*	*ManagingEmo*	*Perceive Emotions*
Gender	*1.48*	*.500*	*1*							
Age Group	*1.92*	*.734*	*.035*	*1*						
Education	*1.61*	*.725*	*.124***	*.496***	*1*					
InvDecision	*4.1121*	*.79123*	*.033*	*.084*	*.119**	*1*				
UsingEmo	*3.7724*	*.72010*	*.040*	*.095**	*.095**	*.933***	*1*			
ManagingOE	*4.0028*	*.73872*	*.023*	*.115**	*.120**	*.911***	*.909***	*1*		
ManagingEmo	*3.9157*	*.72731*	*.020*	*.118**	*.113**	*.846***	*.886***	*.921***	*1*	
Perceive Emotions	*4.1562*	*.76521*	*.010*	*.096**	*.098**	*.842***	*.920***	*.906***	*.913***	*1*

(Researcher's Own Output)

The above table shows the correlation between different constructs. All correlation values are coming out to be significant. The correlation between investment decision and perceiving emotions (.842), investment decision and managing emotions (.846), investment decisions and managing others emotions (.909) and investment decision and using emotions (.933).

Table No.5 *Structural Fit Indices*

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Fit Index	**Goodness of Fit Index (GFI)**	**Comparative Fit Index (CFI)**	**Tucker-Lewis Index (TLI)**	**Chi-square/ degrees of freedom (CMIN/DF)**	**Root Mean Square Error of Approximation (RMSEA)**
Achieved Value	.931	.972	.967	3.096	.053
Accepted Threshold Levels	>0.80 (Mac Callum & Hing, 1997)	>0.90 (Hu and Bentler, 1999)	>0.90 (Hooper et al., 2008)	As high as 5.0 (Kline, 1998)	< 0.07 (Stinger, 1990) And between 0.08 to 0.10 (MacCallum *et al.*, 1996)

(Researcher's Own Output)

The above table depicts that model is a good fit as all indices are found to be in acceptable range. The proposed structured model of the study shows that all paths are statistically as p - value of all are less than .05.

***Figure No. 2** Research Model*

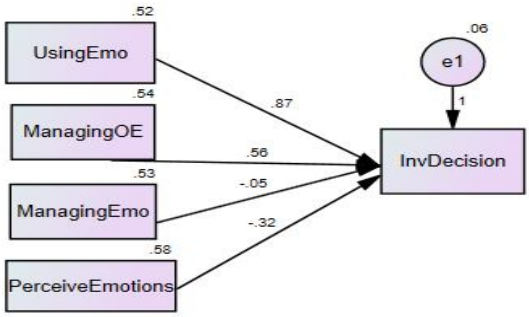

***Table No. 6** Regression Results*

		β	***Se***	***t***	***P***	***Hypothesis***
Model 1						
R^2 *= .710*	*Constant*	*.492*	*.111*	*4.440*	*.000*	*(H1)*

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Dependent variables: Investment Decision	*PE*	*.871*	*.026*	*33.242*	*.000*	*Supported*
Model 2						
R^2*=.716*	*Constant*	*.507*	*.109*	*4.673*	*.000*	*(H2) Supported*
Dependent variables: Investment Decision	*ME*	*.921*	*.027*	*33.759*	*.000*	
Model 3						
R^2*= .830*	*Constant*	*.206*	*.085*	*2.440*	*.015*	*(H3) Supported*
Dependent variables: Investment Decision	*MOE*	*.976*	*.021*	*46.968*	*.000*	
Model 4						
R^2*= .871*	*Constant*	*.245*	*.071*	*3.425*	*.001*	
Dependent variables: Investment Decision	*Using Emotions*	*1.025*	*.019*	*55.140*	*.000*	*(H4) Supported*

(Researcher's Own Output)

The above table depicts that all constructs of emotional intelligence exhibit statistically significant and positive relationship with investment decision making as beta of all variables are positive while t value is greater than 2 and p value is less than 0.05 in all the cases. This clearly implies that emotional intelligence is positively related with investment decision making. Investors who are good at controlling or managing their emotions take better investment decision.

Conclusion

Investment decision making and emotional intelligence is positively related with each other. It is important for the investors to understand the importance of emotional intelligence as investors who hold greater command on their emotions take good and efficient investment decisions. Controlling emotions provide a sense of confident to the investors and thus they take good decisions. The result of the study is in line with previous research work.

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