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Study On Behavioural Finance And Investor's Decision

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ABSTRACT
Behavioural finance is the study of the combination of psychological, social and financial aspects which influences an investor in making decisions related to investment. This paper aims to study the various behavioural factors that affect the decision of an individual while making investments. It is must for any individual investor to consider all the factors which affects his/her decisions, even though he makes fundamental analysis of the market his/her decisions vary due to investment behavioural aspects like over confidence, herd-behaviour, loss aversion, representative bias, anchoring and regret theory. Behaviour of an investor is not always rational and the market is sometimes not consistently which leads to the irrational decisions taken by them. The paper is based on questionnaire survey which concentrates on the investors in Bengaluru of the various above factors of general investors in decision making. This paper discusses briefly the various reasons which affect an investor's behaviour also focuses on the different biases an investor tends to act upon when investing in various sectors.

Keywords: Behavioural finance, investment decisions, psychological and behavioural factors, individual investors.

INTRODUCTION

Behaviour is the way a person acts under different circumstances. Behaviour is very useful to study in understanding a person in various given situations. Finance refers to the management of funds with regard to various aspects like saving, investing, lending, borrowing and much more. Investment decision deals with decisions related to the allocation of funds in various investment opportunities by an investor in different avenues like fixed deposits, mutual funds, stocks and shares, gold and bullion, real estate and others.

Many researchers have concentrated on the traditional theories of finance which studies mainly about an investor's rational behaviour with regard to wealth maximization and the efficiency of the market that affects an investor's investment decisions. Modern theories of finance taken into consideration factors such as psychological, biological, socio-cultural along with economic factors which would affect purpose of investment. The last few decades, many research studies have indicated that the traditional theories of finance are not able to explain the irrationality of an investor in making investment decisions. Behavioural finance is an interdisciplinary field that deals with various psychological factors that affect an individual's financial decision. The study of behavioural finance is a new concept and is gaining importance. The concept of Behavioural finance has seen tremendous growth in the past twenty years. Many researchers are coming up with various studies to analyse the behaviours of the investors and our research paper is one among them. Investors are the pillars for the growth of the Indian economy and the capital market. There are certain behavioural factors by which an investor gets easily carried away such as over-confidence, herd mentality, representative bias, self-attribution, over optimism and many others. It is seen that an investor in today's era makes financial decisions which is based on human emotions and with having less considerations for logic and market conditions. The behavioural pattern of an individual when making investments can describe as to what kind of an investor he is. The behavioural and psychological factor in financial investments made differs from individual to individual and studying the reasons behind this is behavioural finance.

Behavioural finance may lead an investor to take irrational decisions which may have an effect in a different manner or on the investments made. Investors can be of any kind like institutional investor, group investor, general investor or individual investor. The study of such investors and their behavioural analysis is known as behavioural finance.

LITERATURE

Amos Tversky & Daniel Kahneman (1974), in their paper on "Judgement under Uncertainty: Heuristics and Biases" describes that lateral thinking which are required in making judgements under circumstances namely representativeness, availability of scenarios or instances and adjustments of anchors and concluded that they

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are the three main aspects which are to be considered by every investor. When one investor makes an investment, he must understand all the above factors so as to take better decisions by improving judgements in uncertain situations and market conditions.

Amar Kumar Chaudhary (2013), in his research on "Impact of Behavioural Finance in Investment Decisions and Strategies – a fresh approach" highlights the importance of behavioural finance and its application in investment decisions. He states how behavioural finance approach helps to investigates the behavioural patterns of investors and tries to understand how these patterns guide investment decision. By studying behavioural finance helps to identify how an investor can minimize or eliminate the psychological biases in investment decisions.

Jhansi Rani Boda (2018) her article on "Investor's Psychology In Investment Decision Making: A Behavioral Finance Approach" aims at studying the financial behaviour of individual investor's in a historical perspective. The study focuses on the investor's rationality by interpreting psychological and emotion factors that affect the investing. It emphasizes on how an understanding about the investment behaviour of the investor enables to convert the psychological biases into financial benefits and the errors in wrongly judgement about an investment by the investors can be rectified with an in-depth insight into investment decision making.

Renu (2018) in the paper on "A Behavioral Finance Prespective of the Stock Market Anomalies" brings to light the behavioural biases which causes the anomalous behaviour of the stock market which was left unexplained by the traditional financial theories. Behavioural Finance helps to provide answers to many irregularities the efficient market had faced and anomalies studied this paper are based on short term momentum, long term reversal, weekend anomaly, value premium anomaly.

STATEMENT OF THE PROBLEM

Behavioural finance explains why an individual investor makes irrational investment decisions even if there is no consistency in the market. The study helps to analyse which behavioural factor has the most impact for an investor when taking decisions and how an investor transforms the behavioural biases into useful techniques which benefits them to invest in a better manner.

OBJECTIVES OF THE STUDY

Following are the objectives of the study:

1. Analyse the extent of awareness of the individual investors affects their investment behaviour
2. Study the behavioural factors affecting the investor's decisions
3. Analyse the factors influencing the behaviour of investors the most and the least

DATA METHODOLOGY

Primary data and secondary data were used to study the objectives. Primary data was collected in the form of a standardized questionnaire by convenient random sampling. The size of the sample consists of 50 respondents who are all individual investors residing in Bengaluru. Respondents are the investors who make investments in any kind of investments such as bank deposits, mutual funds, stocks and securities, real estate etc. The questionnaire was divided into two parts namely demographic factors and psychological factor affecting the investment decisions made by an individual. The questionnaire is analysed to evaluate the impact of psychological factors on an investor's decision-making ability.

OPERATIONAL DEFINITIONS

Meaning of behavioural finance and the concepts including psychological factors are mentioned below:

Behavioural finance- It refers to the study of influence of the various psychological and social aspects on investors which is related to finance.

Investment decision- The analysis and decisions which an individual makes while making investments in different avenues. The decisions which are related to investment avenues, risk and returns, time of investment.

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Behavioural and Psychological factors- They refer to the different factors which affect an investor in an overall manner when he/she makes a financial decision.

Individual investors- They are the investors who act on their own from their personal account and not together with a group of investors or for an organization.

Over-confidence- Some people are over-confident about the knowledge they possess with regard to investments. They have the tendency to believe that they know more about the market conditions and the investment avenues than others which leads to taking biased decisions because of over-confidence.

Herd behaviour- Herd behaviour refers to the inclination of an individual to follow a herd group of people (herd). With regard to investments herd behaviour is the act where an investor will go against his intuition's and follow a group of investors when making investments. It attracts an investor to make investments in avenues where a large population is investing without considering the market conditions.

Loss aversion- There are two types of investors- risk seekers and risk averse. Under loss aversion the investors are ready to take higher risk to avoid facing loss even if such avenues do not yield any profits. Risk averse refers to those investors who are cognitive towards the investments they make and try hard to avoid taking any kind of risks which leads to loss, but to avoid losses risk averse investors will also be ready to take risk.

Anchoring- Anchoring states that an individual relies mostly on the initial information offered to make judgements accordingly. The investor's behaviour towards decisions much be based on facts and relevance but in reality, it does not always apply and investors tend to follow various other factors and tend to attach their thought that may hardly have logical correlation with the decision made.

Regret theory- Regret theory refers to the tendency of an investor to having a pessimistic thinking that he will regret the investment decisions he has made in the near future. Due to which he tries to be risk averse. In some cases, regret theory of an investor sometimes leads to herd behaviour.

LIMITATIONS OF THE STUDY

The sample size is relatively low, the results derived from respondents may be biased to a certain extent. It is suggested to have a larger sample size to generalize the results and to accurately define the impact of psychological factors. The study does not concentrate on all the behavioural factors in detail.

OBSERVATIONS AND DISCUSSIONS

The below analysis was made on the basis of responses received from respondent investors.

I. Demographic factors

- **Gender**

Gender plays an important role where, gender-wise classification of respondents helps to know which gender representation is more in the present study.

Table-1.1: Gender-wise classification of respondents

Gender	Number of respondents	Percentage
Male	24	48
Female	26	52
Total	50	100

The above table shows that 24(48 percent) respondent investors are male and the remaining 26(52 percent) are female. It is observed that female representation is more than male.

- **Age**

The age of respondents is useful to know which age group of investors are more in the present study.

Table-1.2: Age-wise classification

Age	Number of respondents	Percentage
15-25	23	46
26-35	8	16
36-45	4	8

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45 & above	15	30
Total	50	100

The questionnaire was for respondents above 15 years of age out of which 23(46 percent) belonged to the age group between 15-25 years and the second highest being 45 years and above with 15(30 percent) followed by 25-35 years which consisted of 8(16 percent) and lastly 4 respondents (8 percent). It is evident that the people belonging to the age group of 15-25 years are bent to make investments and explore new avenues.

- **Education qualification**

It helps to understand that the various internal and external factors which affect investment decisions where education provides basis understanding and knowledge about the investment. Therefore, the respondents were asked to give their education qualification details.

Table-1.3: Educational Qualification of the respondents

Education Qualification	**Number of respondents**	**Percentage**
Pre-University	2	4
Under-Graduation	30	60
Post-Graduation	18	36
Total	50	100

The above table shows that 2(4 percent) are pre university education takers, 30(60 percent) are under graduate degree holders and 18(36percent) are post graduates.

- **Income**

The income rate of an investor can tell how much an individual will want to invest in various fields expecting results. The respondents are a mixture of students, salaried employees, homemakers and businessmen.

Table-1.4: Annual income

Annual Income (▪)	**Number of respondents**	**Percentage**
<100000	27	54
100000-250000	06	12
250000-500000	07	14
>500000	10	20
Total	50	100

The above table depicts that the highest respondents is 27(54 percent) belonging to the income category which is below 100000, followed by those who get an annual income of more than 500000 at (10 percent), 7(14 percent) who get an annual salary of 250000-500000 and the least with 6(12 percent) who get 100000-250000 annual pay.

- **Kind of investors**

There are two kinds of investor: Hereditary investors are those who follow the same investment patter of their parent, whereas New generation investors are those who have made investments for the first time.

Table-1.5: Kinds of investors

Kinds of Investors	**Number of Respondents**	**Percentage**
Hereditary	10	20
New Generation	40	80
Total	50	100

In the above table, 40(80 percent) which is majority of the respondents are of new generation investors who are trying to explore new investment patterns and avenues and are slowly moving away from the traditional methods and 10(20 percent) belong to the hereditary category.

- **Return on investment**

Investments can be achieved on a steady rate, at an average rate and at a fast rate. It varies from individual to individual depending on the risk and return aspects

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Table 1.6: Expected rate of return

Return Rate	**Number of respondents**	**Percentage**
Steadily	20	40
Average rate	24	48
Fast	6	12
Total	50	100

From the above table, 24(48 percent) of the respondents want to be in the safer side due to which they want their investments to grow at an average rate, a fair number of respondents like their return on investments to be steady which is 20(40 percent) depicts that they need a continuous income which can only be achieved by low risk investments and 6(12 percent) want their returns to be fast. The above table shows that majority of the investors want their money to grow in an average rate.

II. Extent of awareness about behavioural factors having impact on investment decisions

Awareness plays an important role when it comes to making investments. When the respondent's awareness is high it helps him/her in making various decisions regarding the time period, kind which in the decisions are made.

Table-2.1: Awareness of impact of behavioural factors on investment decisions

Extent of Awareness	**Number of respondents**	**Percentage**
Aware	30	60
Slightly aware	13	26
Unaware	7	14
Total	50	100

The above table shows that 44(88 percent) of the respondents are aware that investment decisions they make are affected by the behavioural factors such as over confidence, herd behaviour and 6(12 percent) of them are unaware of the behavioural factors influencing decisions on investments.

III. Behavioural factors which impacts the most and least while making investment decisions

- **Impact**

Behavioural factors both have an impact on investment decisions. This study aims to find out the impact the behavioural and psychological factors have on an investor when making investment decisions.

Table-3.1: Behavioural factor affecting the individual investment decision

Impact	**Number of respondents**	**Percentage**
Yes	40	80
No	10	20
Total	50	100

The above table shows 40(80 percent) of the respondents feel that the investment decisions they make are affected by their behavioural factors and 10(20 percent) do not think in that direction.

- **Most and Least**

There are various behavioural and psychological factors that affects the decision making which differs from investor to investor.

Table-3.2: Behavioural factor affecting the individual investment decisions the most

Factor	**Number of respondents**	**Percentage**
Over Confidence	22	44
Herd Behaviour	15	30
Loss Aversion	8	16
Regret Theory	4	8
Anchoring	1	2
Total	50	100

Most

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From the above table, 22(44 percent) of the respondent investors are highly influenced by the over confidence factor while making an investment decision. Investors believe that skills and knowledge they possess about the investment is more compared to the other fellow investors which are the main reason for the feeling of over confidence they develop.

Table-3.3: Behavioural factor affecting the individual investment decisions the least

Factor	Number of respondents	Percentage
Over Confidence	7	14
Herd Behaviour	5	10
Loss Aversion	6	12
Regret Theory	14	28
Anchoring	18	36
Total	50	100

Least

From the above table we can say that only 1(2 percent) of the investors are influenced by anchoring while taking decisions. 4(8 percent) of the respondent investors choose regret theory which shows that there are only few investors who regret the decisions they take regarding investments.

IV. ANALYSIS OF IMPACT OF BEHAVIOURAL FACTORS ON INDIVIDUAL INVESTMENT DECISIONS

Table-4.1: Psychological factors affecting investment decisions-

Factor	Over confidence		Herd Behaviour		Loss Aversion		Regret theory	
Statement	*Have you ever faced loss due to over confidence*		*Other investor's decisions have impact on my investment decisions*		*Are you ready to take more risk to avoid loss?*		*Has your investment decision changed because of regret?*	
	Number of Respondents	Precentage	Number of Respondents	Precentage	Number of Respondents	Precentage	Number of Respondents	Precentage
Strongly Disagree	2	4	3	6	1	2	3	6
Disagree	7	14	9	18	7	14	9	18
Neutral	12	24	12	24	9	18	13	26
Agree	24	48	23	46	21	42	21	42
Strongly Agree	5	10	3	6	12	24	4	8
Total	50	100	50	100	50	100	50	100

- **Over confidence**

More than half, 29(58 percent) of the respondents together agreed to the fact that they have faced loses due to over confidence, whereas just 9(18 percent) of the respondents together disagreed that they face loss due to overconfidence. However, 12(24 percent) are neutral in stating their opinion. Loss from over confidence can be directly correlated with over confidence being the most affecting factor, respondents need to consider market forces and invest than considering only their knowledge and skills.

- **Herd Behaviour**

26(52 percent) of the respondents together agreed that their investment decisions are affected by others. 12(24 percent) of the respondents together disagree that the decisions made affected by others investment decisions. However, 12(24 percent) of the respondents have a neutral opinion. When investors make their investments based on the others investment patterns and not analysing any other factors which may have impact on such decisions leads a blind following behind the Herd.

- **Loss aversion**

Risk is important factor that affects the loss aversion. Primarily to this when the investors were asked -if they were risk takers or risk averse, 30(60 percent) of them were risk averse and the rest 20(40 percent) were risk takers.

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The above table shows that majority i.e. 33(66 percent) of respondents together agreed to take risk in order to avoid losses even if they don't gain any returns, whereas only 8(16 percent) of the respondents together disagree to take more risk just to avoid loss. Although 9(18 percent) of the respondents have a neutral view on this statement. This gives a clear indication that investors who are risk averse also are ready to take more risk just to avoid such losses. Loss aversion clearly shows that investors behaviours change the risk-taking capacity when loss arises.

- **Regret theory**

The above table depicts that 50(25 percent) of the respondents together agreed that their investment decisions changed due to regret, while 12(24 percent) of the respondents together disagreed to the fact that the investment decisions changed due to regret. Anyhow 13(26 percent) have a neutral take on this statement. As half of them agree their decisions change because of regret they may choose an alternative investment as they may regret making decisions which may lead to loss in the future.

FINDINGS AND SUGGESTIONS

Findings of the study

1. About 52 percent of the respondents are female and 48 percent are male
2. Majority of the respondents belong to the age category of 15-25 year i.e. about 46 percent of the total respondents.
3. All of the respondents are Educated with 60 percent of them have completed their under graduate course.
4. Investments are greater affected by the income of investors,54 percent of the respondents earn an annual income of lesser than 500000.
5. Risk and returns are directly corelated. 48 percent of the respondents expect their returns at an average rate and 60 percent of them fall under risk averse category.
6. 20 percent of the investors are hereditary investors who follow the decision-making patterns of their ancestors and a majority of 80 percent are new generation investors.
7. The psychological factors which affect the investor's decision the most are over-confidence (44 percent) and the least is anchoring (2 percent).
8. Over confidence has an impact on losses which is agreed by 48 percent of the respondents, herd behaviour affects investment decisions by 46 percent, 42 percent of them feel that loss aversion is a deciding psychological factor and 38 percent of the investors feel that regret of past investments is a reason for alternative investments.
9. The respondents are aware of the impact of psychological factors on their decision-making abilities.

Suggestions of the study

1. For further research on the topic we suggest that a larger demographic to be covered with a greater number of respondents which will give a clearer idea of the study.
2. To categorize the study in a more diverse manner.
3. Improving the knowledge of the individual investors in making decisions regarding investments.
4. Investors should carefully consider the investment options independently before allowing for other investor's decisions about investments
5. The investors must take help like show involvement in counselling sessions for investors about how to go on in making investments.
6. Government initiatives towards investor protection and increase in knowledge must be taken up.

CONCLUSION

This paper focuses on the different behavioural factors that affect the investor's decisions regarding investments as it is one of the most important factors from which can determine the profit or loss an investor

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can make. The paper tells that most of the respondents' awareness level is high for the fact that their behavioural factors affect and has an impact on the investment decisions they make. The various factors that affect the investors which are studied in this paper are over confidence, herd behaviour, loss aversion, representative bias, anchoring, and regret theory. The psychological factor that affected the investor's decision the most based on the sample we selected is over confidence and the factor which affected our respondents who are individual investors the least is anchoring. Individual investors are risk averse but when it comes to the matter of avoiding loses, they become risk takers. Apart from the behavioural factors mentioned above, there are various other factors which also has an impact and is to be considered while making investment decisions.

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