

---

## BEHAVIORAL BIASES IN PORTFOLIO MANAGEMENT

**Revathi Chandran Nair**

Asst. Professor, BBA Department, Ashoka Center for Business and Computer Studies

**Anushka Abhijit Kasote**

Student, BBA , Ashoka Center for Business and Computer Studies

---

### ABSTRACT

The paper delves deep into discussion regarding the study of behavioral biases and its impact on portfolio management. Bearing in mind that studying behavioral biases play a crucial role in building a balanced portfolio, this paper takes on the challenge to depict the impact of behavioral biases on portfolio management. This paper aims to establish a study that states the influences of behavioral biases on portfolio management. Data were collected from students who are studying capital markets, investors, traders, financial analysts. The same data has helped to prove the research. The same data helped to prove the research. The study confirmed that behavioral biases do make an impact on portfolio management. The gathered results suggest that tendencies like overconfidence, loss aversion, anchoring, and herd behavior shape investment decisions. The paper also studies the behavior of investors and their psychology while investing. Additionally, the paper emphasizes on identifying and examining how these biases interfere with rational portfolio construction.

**Keywords :** portfolio management, behavioral biases, overconfidence bias, loss aversion bias.

### INTRODUCTION

Behavioral biases are patterns of non-rational decision making that arises from our psychology, including cognitive errors and emotional influences, rather than pure rational behavior and analysis. They influence how individuals process information, evaluate risks, and ultimately make financial decisions, frequently leading to results that are different from purely logical reasoning. Portfolio management is the structured process of choosing, allocating, and managing investments to achieve pre-defined financial goals. Portfolio management aims to balance returns and manage risk by diversification, consideration of market conditions and formulating investment strategies according to the investor's risk appetite, time horizon, liquidity needs, objectives. The behavioral biases in portfolio management are important as they have a direct relationship with respect to decision making. This makes understanding behavioral biases important for investors, advisors, analysts, portfolio managers as it allows them to minimize errors in decision making. These biases can lead to imbalanced portfolios and may increase the risk exposure. Therefore, studying behavioral biases is crucial to ensuring that investment decisions remain aligned with long-term financial objectives.

## LITERATURE REVIEW

SR NO	Name of the researcher	Title of research	Conclusion
1.	Satish Kumar , Nisha Goyal	Evidence on rationality and behavioral biases in investment decision making	The findings show that the structural path model closely fits the sample data, indicating investors follow a rational decision-making process while investing. However, behavioral biases also arise in different stages of the decision-making process.
2.	H. Kent Baker, Greg Filbeck, and Victor Ricciardi	How Behavioral Biases Affect Finance Professionals	Financial analysts and portfolio managers benefit through greater awareness of possible behavioral biases in their analysis and recommendations

### Objectives :

1. To study the impact that behavioral biases have on portfolio management
2. To study the importance of behavioral biases
3. To study how behavioral biases influence the investment decision of investors .
4. To study the behavior of investors and their psychology while investing
5. To examine how these biases interfere with rational portfolio construction

### Research Methodology :

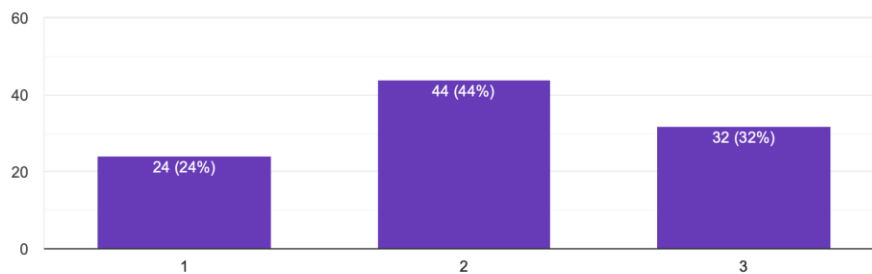
Research type	Descriptive
Scope of research	Studying the impact of behavioral biases on portfolio management and decision making of investors
Data collection	Primary Source - Data was collected by preparing a questionnaire circulated via google form Secondary source - past research papers
Population	Students who are studying capital markets / finance , investors , traders ,

sample	financial analysts.
Size sampling	100
Techniques	Convenience Sampling
Data analysis tools	Bar graphs

### Data analysis and interpretation :

1. I believe I can consistently outperform the market through my investment decisions.

100 responses

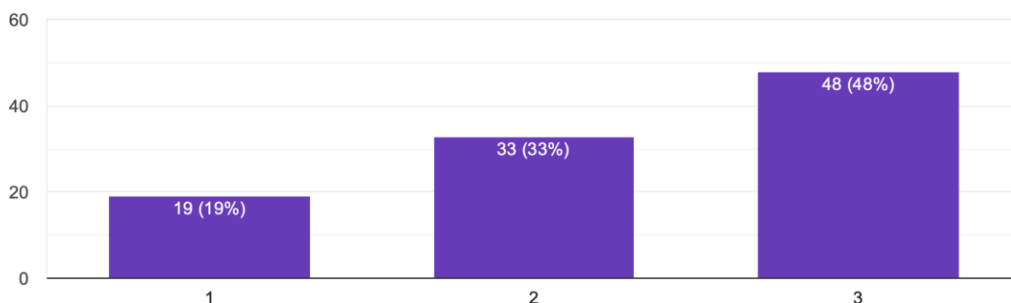


Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree

From the above graph we can interpret that the majority of people are neutral to the situation , yet it also shows us that they do believe they can outperform the market sometimes . This is an indication of overconfidence bias , a bias where investors have extra confidence on their knowledge. Such overconfidence impacts the portfolio as investors take a higher risk in the attempt to outperform the market .

2. I trust my own judgment more than market analysts or financial news.

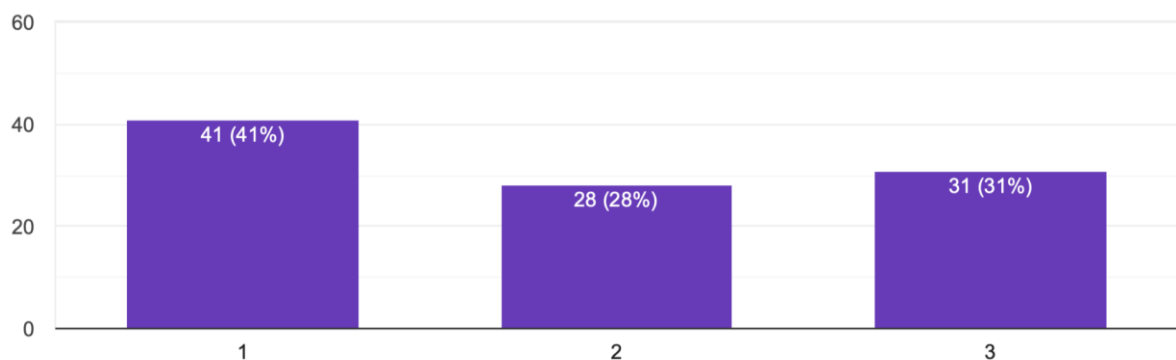
100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree. From the above bar chart , we can interpret that 48% [ majority ] agree to the fact that they trust their own judgement more than market analysts and financial news , which means that these investors are more inclined to analysis made by themselves. This is an indication of overconfidence behavioral bias. In this bias , investors assume that their judgment is superior to others. Such overconfidence may lead to imbalance of portfolio and excess risk taking .

### 3. I often underestimate the risk involved in my investment choices

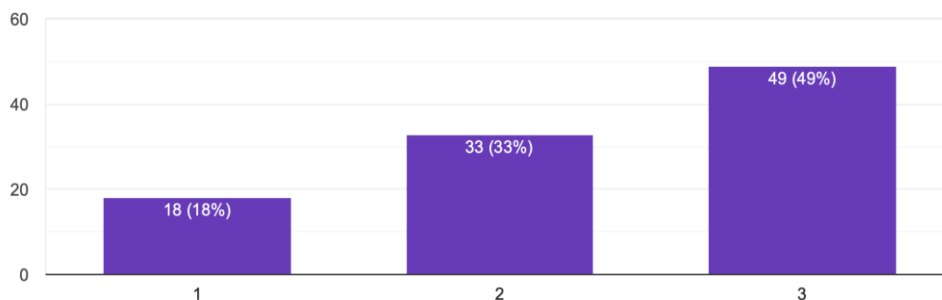
100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree. The above data tells us that , majority of investors do not underestimate risk involved in investment choices i.e. they take calculated risks. Such investors are risk averse investors. However there are 31% of investors who indicate an overconfidence bias which can lead to losses more than risk appetite.

### 4. I feel more emotional pain from a loss than joy from an equivalent gain.

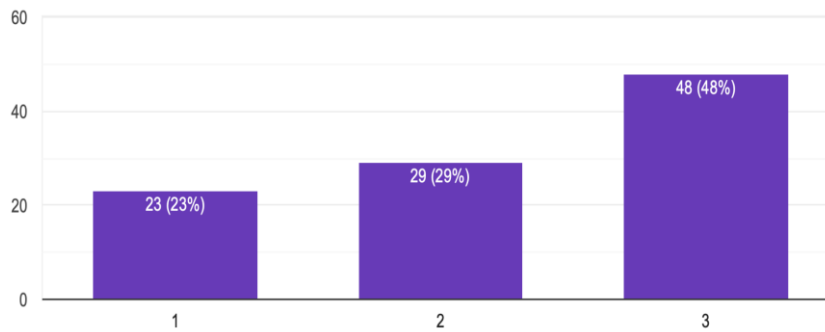
100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree. From the above bar chart , Most of the investors from our sample agree with the statement that they feel more emotional pain from a loss than joy from equivalent gain. This is an indication of loss aversion bias. It might impact portfolio management by excessive risk avoidance and missed opportunities to gain substantial returns.

5. I prefer not to sell losing stocks, hoping they will recover.

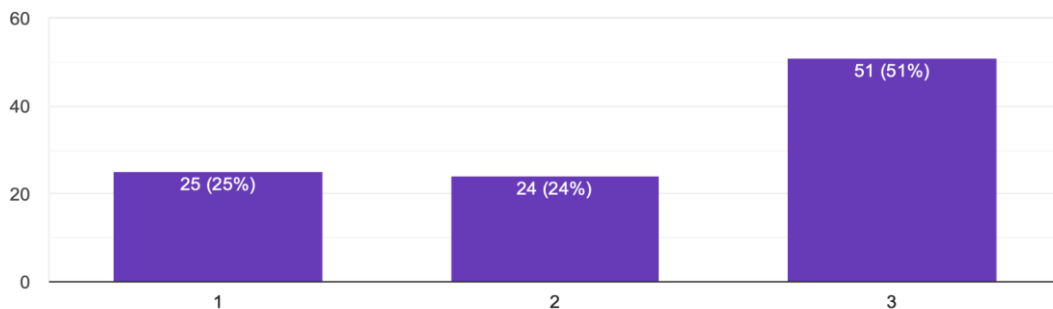
100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree. The above data tells us that 48% [ majority ] of investors prefer that they shall not losing stocks , hoping it will recover. This indicates loss aversion bias as investors are not ready to accept the loss and are in hope of recovery. This impacts the portfolio as it might lead to excessive losses. Also , 29% [ 2nd majority ] of investors are neutral to this situation , which also means that they might also face excessive losses at times in the hope of recovery. This bias adversely impacts the portfolio as it fails to limit losses.

6. I avoid risky investments even when the potential return is high.

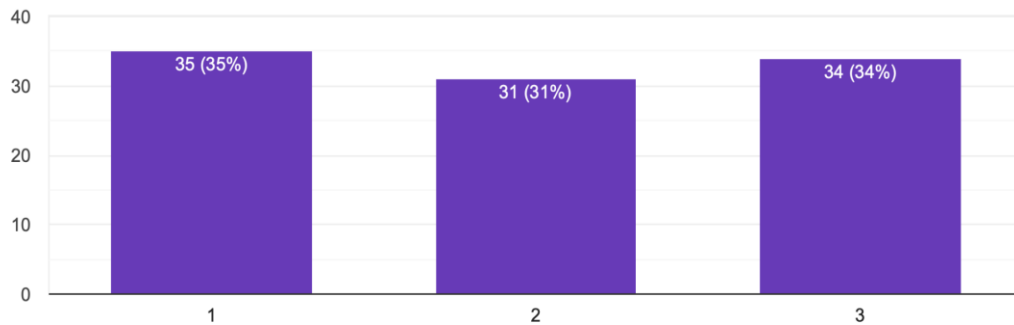
100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree. The above data tells us that the majority of our sample depict loss aversion as they are not willing to take extra risk for extra returns. This might lead to missed opportunities at times and thereby impact the portfolio.

7. I often buy or sell assets based on what others are doing.

100 responses

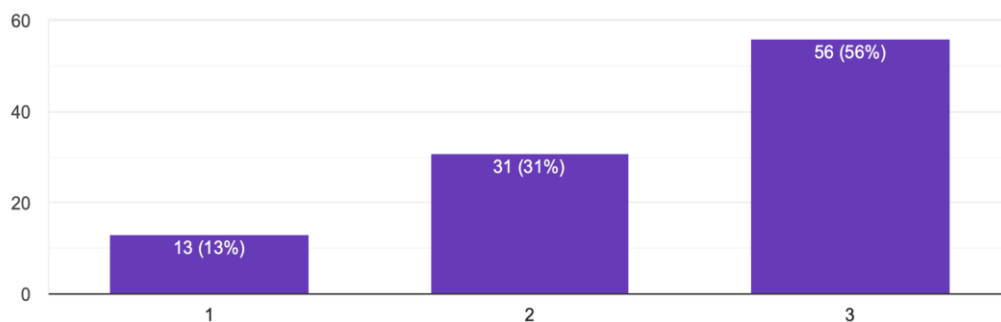


Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree.

The above bar graph , does not particularly depict any bias i.e there is no specific interpretation as the responses we got were close enough.

8. I feel more comfortable investing in popular stocks.

100 responses



Interpretation - Scale = 1 - disagree , 2- neutral , 3 - agree.

The above bar graph shows us that the majority of investors [ 56 % ] are comfortable in making investment in popular stocks. This indicates herd behavior or herding bias , a bias in which people follow the crowd and lack self analysis and due diligence. This bias may impact the portfolio by overvaluation of stock and reduced opportunities or chances for diversification.

## FINDINGS

1. Investors trust their own judgement more than market analysts and financial news , which means that these investors are more inclined to analysis made by themselves , leading to overconfidence bias.
2. The majority of investors are risk averse investors.
3. Most of the investors feel more emotional pain from a loss than joy from equivalent gain, indicating loss aversion bias.
4. The majority of the investors are comfortable investing in popular stocks , indicating herd mentality.

## CONCLUSION

Behavioral biases are an integral part of portfolio management and studying them is very essential . They influence portfolio management in different ways and are either the reason for a balanced or imbalanced portfolio. Portfolio management aims to balance returns and manage risk by diversification , and management of behavioral biases gives us a direction to do that. Behavioral biases influence the investment decisions of investors by making them overconfident , loss averse or making them follow herd mentality . Sometimes , investors follow different psychologies while investing that interfere with rational decisions making ,therefore study of behavioral biases in portfolio management helps to identify and manage these biases and protect investors from further consequences. Investors exhibit overconfidence bias by believing they can outperform the market , trust their own judgement more than market analysts and financial news etc . Investors show that they are risk averse by underestimating risk involved in investment choices , by stating that they feel more emotional pain from a loss than joy from equivalent gain,by not willing to take extra risk for extra returns. Moreover , a herding bias pattern is seen in investors in which investors follow the crowd and lack self analysis and due diligence. Therefore evidence reveals that behavioral biases highly influence portfolio management

## REFERENCES

1. <https://www.emerald.com/qrfm/article-abstract/7/1/88/361011/Behavioural-biases-in-investment-decision-making-a?redirectedFrom=fulltext>
2. <https://www.emerald.com/qrfm/article-abstract/8/4/270/360431/Evidence-on-rationality-and-behavioural-biases-in?redirectedFrom=fulltext>
3. [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2899214](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2899214)