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ROLE OF BEHAVIORAL FACTORS IN INVESTOR'S INVESTMENT DECISION MAKING

[*]Sakshi Gupta [**]Kamalpreet Kaur

[*]Research Scholar, CT University, Ludhiana, Punjab

[**] Assistant Professor, School of Management Studies, CT University, Ludhiana, Punjab

ABSTRACT

Investment decision making is a critical element in the investment process. Investors must determine their investing aim, the greatest level of risk they are willing to tolerate, as well as the frequency and duration of their investments. However, basic considerations, as well as demographic and psychological factors of investors, may influence investing decisions. Individual financial selections should be made with caution and thorough investigation and analysis. Investment always carries the danger of losing the money invested, and this loss is beyond the control of the investor. As a result, it is always advisable to monitor and analyze all risks before making investments. There are many behavioral factors which are being faced by investors while making investment decisions like over optimism, excessive volatility, herd behavior, over confidence etc.

KEY WORDS: Investment, Investment Decision Making, Behavioral Factors

INTRODUCTION

Investment is the art of making money. Decision making is a complicated process that may be defined as the process of selecting a specific alternative from a variety of different courses of action after careful consideration of each. The most difficult difficulty for investors is making investment decisions when their profiles differ, such as demographic aspects, socioeconomic factors etc. Investment decisions are also influenced by the investor's family background, age, occupation, gender, income, marital status, risk tolerance capacity, education, demographic surroundings, and the counsel of financial experts and advisors. The sheer speed and volume of information is perhaps the most intimidating problem that modern investors face. Many investors learn to filter information and establish a chosen pool of credible sources that match their investing preferences over time. Investment decisions are also influenced by the frequency of returns, associated risks, maturity periods, tax benefits, volatility, and inflation rates. Some of factors that related to cognitive psychology that impact on decision are as follows:

1. Heuristics
2. Overconfidence
3. Mental accounting
4. Framing
5. Representativeness
6. Conservatism
7. Disposition effects
8. Loss Aversion

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LITERATURE REVIEW

According to Bell (1982), the theory of regret aversion addresses people's behaviour when faced with a decision in which they may anticipate regret and hence attempt to remove or limit the likelihood of regret in their choice.

In the study of Gilovich et.al. (1985) discovered that while representativeness heuristics plays an important role for investors, it can also be counterproductive because it leads to sample size neglect, i.e., when people are unaware of the data generation process, they reach conclusions quickly based on few data points.

Chandran (2008) concluded that behavioral factors have an impact on investors' risk attitudes and investing decision-making processes. Individual investors are influenced by heuristics such as representativeness, overconfidence and anchoring, cognitive dissonance, greed and fear, regret aversion, and mental accounting (drawn from prospect theory), which all influence their perception of risk and, as a result, their decision making.

Kannadhasan and Nandagopal (2008) investigated behavioral finance and its influence in investment decisions in their study. They discovered that cognitive illusions influence investor decisions. They proposed that an investor should minimize or attenuate illusions by taking actions to limit the factors that influence their investing decision-making process.

According to Wernet DeBondt et al. (2010), the cognitive, emotional reaction, and social psychology are three fundamental psychological variables that are inseparable components of behavioral finance.

In continuation of Agarwal and Khushbu's (2012) research, which provided a theoretical framework for the behavioral biases that affect investing decisions, the basic assumption is that behavioral biases cannot be regarded in isolation. The aforementioned functions as a catalyst in the construction of a holistic paradigm in which the strength of behavioral biases is determined by the external environment.

According to Misal D M (2013), irrational investor behaviour can be related to two major investment faults that lead to irrationality. First, overconfidence leads to excessive trading; second, regret aversion leads to the tendency to maintain a lost investment.

Dr. Vikram (2013) contends in his article Applying Behavioral Finance by Analysing Investors' Behaviour in Lucknow City that investors analyse market feelings before investing and become addicted to market analysis after active participation in investment, which leads to excessive trading. He also discovered that when investors experience a loss, they become more optimistic, and that anchoring plays a key role in decision making as investors rely more on fresh information and change their decisions.

According to Neha Aggarwal (2014), herds appear to form more frequently in markets with inadequate information aggregation and accuracy of public information. Furthermore, it has been discovered that herds exist more on the buy side of the market than on the sale side. The intensity of buy herding is greater than that of sale herding.

Swati Vishnoi (2015) investigated the impact of behavioral characteristics on investment success, specifically herding, prospecting, and heuristics. It was discovered that market

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factors have a negative impact on investment performance, heuristics and herding have a favourable impact, and prospect factors have no impact.

Dr. Murlidhar Panga et. al. (2016) offered evidence for identifying behavioral biases that influence investors during investment decision making, such as anchoring, overconfidence, herd behaviour, over and under response, and loss aversions, in their study.

According to Kapoor and Prosad (2017), investors are impacted by psychological biases, which can be translated into irrational investment behavior, resulting in suboptimal decisions.

According to Mahina et al. (2017), loss aversion bias has a significant impact on investment in Rwanda's stock market. This study also found that stock market investors are more likely to regret keeping losing stocks for too long than selling winning ones too quickly.

According to Nidhi Kumari (2017), the combined effect of risk tolerance bias, herd behaviour bias, and overconfidence bias explains the fluctuation in the quantity of capital market investment. This demonstrates that investors' investment decisions are not reasonable. They deviate from rationality theory and are influenced by psychological considerations. As a result, capital market investors in Odisha, West Bengal, Jharkhand, and Bihar generally reflect the behaviour of investors in Eastern India.

Imran Umer Chhapraa et al. (2018) conducted research on the impact of investor behavioral biases on financial decision making in Pakistan Stock Exchange (PSX). The findings of the research investigations revealed that overconfidence, overthinking, herding, cognitive bias, and the hindsight effect all have a major favourable impact on investment decisions.

Upadhyay and Shah (2019) collected data from 181 investors in Ahmedabad. It stated that investors were not rational and there were always the effects of above biases in more or less proportion on the decision making process of investors in the investments.

SIGNIFICANCE OF THE STUDY

Behavioral factors play a very important role in determining the investor's investment decision making. This study can help in deciding about the various factors like overconfidence, representativeness, anchoring, cognitive dissonance, mental accounting, herding etc. on the ability of investment decision making power of the investor's. As the roles of behavioral factors are very crucial now days, so this study will put an insight taking quick decisions on the basis of behavioral factors.

OBJECTIVE OF THE STUDY

To find the significance of relationship between behavior finance and factors affecting investment decisions.

HYPOTHESES

1. To find the significance of relationship between behavioral finance and overconfidence factor of investment decisions.
2. To find the significance of relationship between behavioral finance and representativeness factor of investment decisions.

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3. To find the significance of relationship between behavioral finance and anchoring factor of investment decisions.
4. To find the significance of relationship between behavioral finance and cognitive dissonance factor of investment decisions.
5. To find the significance of relationship between behavioral finance and self attribution bias factor of investment decisions.

RESEARCH METHODOLOGY

The study attempts to identify the role of behavior finance in investor's investment decision making. Self constructed behavior finance scale is used. The study is descriptive in nature.

ANALYSIS AND DISCUSSION

Table=Showing Mean, Median, Standard Deviation, Skewness and Kurtosis of Behavioral Factors Affecting Investment Decisions

Component of	N	Mean	Median	Mode	SD	Sk	Ku
Overconfidence	508	25.14	25	24.72	6.63	-0.442	0.021
Representativeness	508	5.94	6	6.15	1.98	-0.350	-0.799
Anchoring	508	6.37	7	8.26	2.18	-0.294	-0.337
Cognitive Dissonance	508	5.90	6	6.20	1.67	-0.276	-0.349
Self-Attribution Bias	508	8.94	9	9.12	2.35	-0.041	0.188

INTERPRETATION

The above Table shows the descriptive statistics of overconfidence factor of investment decision of the total sample. The mean, median and mode of overconfidence factor of investment decision of the total sample came out to be 25.14, 25 and 24.74 which are in close proximity to each other. The skewness for the same was -0.442 showing the curve as negatively skewed and the value of kurtosis was 0.020 showing the curve as leptokurtic. The distortions in both the values (0.00 for skewness and 0.263 for kurtosis) were negligible. Therefore the distribution can be treated as normal.

The above Table shows the descriptive statistics of representativeness factor of investment decision of the total sample. The mean, median and mode of representativeness factor of investment decision of the total sample came out to be 5.93, 6 and 6.14 which are in close proximity to each other. The skewness for the same was -0.350 showing the curve as negatively skewed and the value of kurtosis was -0.799 showing the curve as leptokurtic. The

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distortions in both the values (0.00 for skewness and 0.263 for kurtosis) were negligible. Therefore the distribution can be treated as normal.

The above Table shows the descriptive statistics of anchoring factor of investment decision of the total sample. The mean, median and mode of anchoring factor of investment decision of the total sample came out to be 6.37, 7 and 8.26 which are in close proximity to each other. The skewness for the same was -0.294 showing the curve as negatively skewed and the value of kurtosis was -0.337 showing the curve as leptokurtic. The distortions in both the values (0.00 for skewness and 0.263 for kurtosis) were negligible. Therefore the distribution can be treated as normal.

The above Table shows the descriptive statistics of cognitive dissonance factor of investment decision of the total sample. The mean, median and mode of cognitive dissonance factor of investment decision of the total sample came out to be 5.90, 6 and 6.20 which are in close proximity to each other. The skewness for the same was -0.276 showing the curve as negatively skewed and the value of kurtosis was -0.349 owing the curve as leptokurtic. The distortions in both the values (0.00 for skewness and 0.263 for kurtosis) were negligible. Therefore the distribution can be treated as normal.

The above Table shows the descriptive statistics of self-attribution bias factor of investment decision of the total sample. The mean, median and mode of self-attribution bias factor of investment decision of the total sample came out to be 8.94, 9 and 9.12 which are in close proximity to each other. The skewness for the same was -0.041 showing the curve as negatively skewed and the value of kurtosis was 0.188 showing the curve as leptokurtic. The distortions in both the values (0.00 for skewness and 0.263 for kurtosis) were negligible. Therefore the distribution can be treated as normal.

SUGGESTIONS, SUMMERY AND CONCLUSION

The above analysis shows that descriptive statistics of various factors like overconfidence, representativeness, anchoring, cognitive dissonance and self attribution. Mean, median and mode of all the factors are in close proximity to each other. The skewness was showing the curve as negatively skewed and the value of kurtosis was showing the curve as leptokurtic. The distortions in both the values were negligible in all the factors. Therefore the distribution can be treated as normal. The study concluded that behavioral factors play a very important role in investor's investment decision making.

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