Investor's Behavior Regarding Investment- An Empirical Case Study

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Abstract

Behaviour issues in finance are widely significant across financial markets, corporate or government context all across the globe. The objective of behavioural finance is to develop an understanding of the impact of human behavior in the financial context. The most crucial challenge faced by the investors is perhaps in the area of taking investment decisions. Every investor differs from the others in various aspects due to various reasons like demographic factors, socio-economic background, marital status, educational level, risk bearing capacity, financial health, age, gender etc. So this study will focus on how and why investors make their financial decisions and what are the factors, especially behavioural factors which influence investment decision. This study will suggest the most eminent behavioural factors that affect the investors' behavior. The understanding of these factors will assist individuals to resolve these behavioural errors and help them take intelligent investment decisions.

Keywords: *Investment, Behavioural Finance*

INTRODUCTION

Behavioural finance represents an area of research that attempts to understand and explain how reasoning or cognitive errors influence investor decisions and stock market prices. It also attempts to explain and increase understanding of the reasoning patterns of investors, including the emotional processes involved and the degree to which they influence the decision making process. Essentially, behavioural finance attempts to explain the what, why, and how of finance and investing, form a human perspective. It endeavours to bridge the gap between neoclassical finance and cognitive psychology. It looks at the individual investor's decision making formula as well as at their behaviour, which, in turn, sheds light on the observed departures from the traditional finance theory. Even though it is also very important for an investor to understand his financial personality which is based on three major building blocks, namely sentiment, behavioural preferences, and limits to arbitrage. In other words, in the posture of investor is vitally important to understand why you make certain financial decisions or how you are likely to react in common conditions of uncertainty. This form of analysis is useful in an attempt to understand how you can temper the irrational components of investment decisions while still satisfying your individual preferences and requirements. So it can be said that behavioural finance is the application of scientific research on the psychological, social, and emotional contributions to market participants and market price trends. It endeavours to bridge the gap between neoclassical finance and cognitive psychology. It looks at the individual investor's decision making formula as well as at their behaviour, which, in turn, sheds light on the observed departures from the traditional finance theory. Furthermore an effort has been made to examine the selected aspects of decisions taken by individuals regarding every-day financial affairs. An educated person's decision making towards investment differs from an uneducated one. A young bachelor, for instance, prefers to invest in risky avenues; where as a matured person with a family dependability prefers less risky and stable income generating avenues. Similarly, rural /urban background of individuals, availability of information, accessibility of avenues, and investment companies/colleagues also influence individuals in developing their perceptions.

Behavioral finance is a new approach to financial markets

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that has emerged, at least in part, in response to the difficulties faced by the traditional paradigm. In broad terms, it argues that some financial phenomena can be better understood using models in which some agents are not fully rational.

LITERATURE REVIEW

Behavioural Finance is a new emerging discipline that studies the irrational behaviour of the investors. Mehla and Ghalawat (2014) explored nine factors i.e. compulsive shopper, financial awareness, financial botheration, financial advice, concern for future, saving schemes, composed decision, believes in savings and income. It further concluded that out of nine factors, the respondents feel highly satisfied in relation to financial awareness, financial botheration and believes in saving factors. Birau (2012) analysed the new approach of capital market, namely behavioural finance. He find out that financial investors are people with a very varied number of deviations from rational behaviour; which was the reason and why there was a variety of effects, which explain market anomalies. Classical finance assumed that investors were rational and they were focused to select an efficient portfolio, which means including a combination of asset classes chosen in such a manner as to achieve the greatest possible returns over the long term, under the terms of a tolerable level of risk. Gnani et al (2012) considered that information structure and the characteristics of market participants systematically influence individuals' investment decisions as well as market outcome. Investor market behaviour derives from psychological principles of decision making to explain why people buy or sell stocks. The study also concluded that there were also some behavioural factors like the investor's financial tolerance, emotional risk tolerance and financial literacy which influence the investor's behaviour.

Kothari (2003) found out the impact of age on investment decision. He concluded that behaviour of young investors is more positive towards investment as compare to elder and middle age group people. Harikant and Pragathi (2000) focused upon how investor interprets and acts on information to take investment decisions. He explained that individuals did not always act rationally in their financial decisions and that their behaviours cause them to make different choices about their financial decisions. The two building blocks of behavioural finance were cognitive psychology (how people think) and the limits to arbitrage (when markets will be inefficient). Shankar and Babu (2005) presented a new approach of capital markets, namely behavioural finance. Investors fall prey to their own and sometimes others' mistakes due to the use of emotions in financial decision-making. Investors were people with a very varied number of deviations from rational behaviour, which was the reason why there was a variety of effects, which explain market anomalies. He suggested that investment decision was influenced in a large proportion by psychological and emotional factors and even group behaviour.

Onsumo (2014) identified behavioral biases which affect individual investors at the Nairobi Securities Exchange. The relationship between gender and the behavioral biases was investigated. The results indicated that investors were affected by Availability bias, Representativeness bias, Confirmation bias and Disposition effect. Bich Ngoc (2013) discussed five factors of behavioural factors i.e. Herding, Market, Prospect, Overconfidence-gamble's fallacy, and Anchoring-ability bias which affect investment decision making. Barberis and Thaler (1999) studied that some financial phenomena could plausibly be understood using models in which some agents were not fully rational. The field had two building blocks: limits to arbitrage, which argued that it can be difficult for rational traders to undo the dislocations caused by less rational traders; and psychology, which catalogues the kinds of deviations from full rationality we might expect to see. They discuss these two topics, and then present a number of behavioural finance applications: to the aggregate stock market, to the cross-section of average returns, to individual trading behaviour, and to corporate finance.

Subash(2012) analysed that Investor's sentiment has been one of the key determinants of market movements. In this context, studying the role played by emotions like fear, greed and anticipation, in shaping up investment decisions seemed important. In the decision making process of individual investors in the Indian Stock Market. Primary data for analysis was gathered by distributing a structured questionnaire among investors who were categorized as (i) young, and (ii) experienced. Results obtained by analysing a sample of 92 respondents, out of which 53 admitted to having suffered a loss of at least 30% because of the crisis.

Objectives of the Study

a. To find out the factors which will influence the individual behavior regarding investment decision?

b. To study the overall interest of investors regarding investment.
c. To look into the decision making process and choices of the population from the prospective of behaviour finance.

Methodology

Data for this paper was collected using questionnaires. The population of the study was all individual investors of firms listed at the NSE. The target population was individual investors. Convenient sampling technique was used in the study and sample size was 200. The period of study was January and March 2016. Data collected for this study was analysed through Factor Analysis. Factor analysis technique was used to measure the effect of behavioural finance on investor attitude and behaviour. Investor behaviour has been assessed by questionnaire and 20 questions were included in the questionnaire. These 20 questions was measured in a 5 likert scale method i.e. strongly disagree to strongly agree.

Reliability Analysis

The overall reliability is 0.707 which showed good reliability scale to measure the Investor Behaviour regarding behaviour of finance.

Table 1 : Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.707	.737	20

Table 2 : KMO and Bartlett's Test

Kaiser-Meyer -Olkin Measure of Sampling Adequacy.		.612
Bartlett's Test of Sphericity	Approx. Chi-Square	1.590E3
	Df	190
	Sig.	.000

The overall KMO is 0.612 which showed good acceptable range scale to measure the Investor Behaviour regarding behaviour of finance.

Table 3 : Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	4.428	22.139	22.139	4.428	22.139	22.139	3.355	16.773	16.773
2	2.373	11.865	34.004	2.373	11.865	34.004	2.649	13.245	30.018
3	2.272	11.359	45.363	2.272	11.359	45.363	2.116	10.581	40.599
4	1.854	9.269	54.632	1.854	9.269	54.632	2.042	10.212	50.811
5	1.427	7.136	61.768	1.427	7.136	61.768	1.657	8.283	59.094
6	1.271	6.353	68.121	1.271	6.353	68.121	1.569	7.843	66.938
7	1.124	5.622	73.743	1.124	5.622	73.743	1.361	6.806	73.743
8	.786	3.928	77.672						
9	.730	3.649	81.321						
10	.673	3.366	84.687						
11	.510	2.548	87.235						

12	.448	2.241	89.476						
13	.440	2.202	91.678						
14	.402	2.012	93.690						
15	.302	1.510	95.200						
16	.277	1.385	96.584						
17	.213	1.066	97.651						
18	.179	.896	98.547						
19	.161	.803	99.350						
20	.130	.650	100.000						

From the table no. 3 it can be easily seen that only seven (7) factors are to be considered as Eigen value higher than one (1). As a factor with low Eigen value adds little to the explanation of the variance in the variables.

Table 4 : Principle Component of Investment Factor

	Component						
	1	2	3	4	5	6	7
I Purchase those products more,which investors prefer more	0.119	0.357	0.305	0.37	-0.622	0.061	0.192
I invest in a similar stock/industry which gives maximum profit	0.227	-0.42	-0.517	0.318	0.048	-0.122	0.329
I mostly rely on company historical financial data when making investment decisions	-0.061	0.37	0.026	0.077	-0.025	0.798	-0.229
I make investment decision without collecting the information	-0.039	-0.129	0.818	-0.086	0.061	-0.149	0.141
I have some objective or goal,while making an investment	0.466	0.319	-0.532	0.336	0.01	0.205	0.036
I understand gains and losses come and go,so do not feel it is necessary to react	0.564	-0.342	-0.365	-0.146	0.274	0.019	0.059
I make my investment decisions without consulting my investment advisor	-0.528	0.153	0.006	0.078	0.316	0.19	0.601
I invest based on opinions of friends and family	-0.163	-0.416	0.092	0.621	0.286	0.192	0.18
I gather data and analyse current market situation before make an investment	0.353	0.617	-0.362	0.099	-0.006	-0.153	-0.069
I compare and calculate risk in different stocks	0.493	0.393	-0.315	0.061	0.237	-0.268	-0.099
I prefer to invest in stocks with high volatility and risk	-0.232	0.606	0.148	0.027	0.409	-0.09	0.308
I am able to anticipate the ends of good/poor market returns	0.681	-0.387	0.117	-0.109	0.035	0.063	-0.067
I fix a target price for buying/selling in advance	0.556	0.571	0.155	-0.051	0.026	-0.096	0.158
I know all the guidelines of SEBI about the investment in the stock market	0.721	0.112	0.406	-0.176	0.208	-0.135	-0.156
I observe public opinion about profit making investment objectives is often correct	0.445	0.065	0.477	0.458	0.268	0	-0.018
I tend to hold on to securities losing value waiting for better times	0.721	-0.296	-0.027	0.133	0.087	0.1	0.033
I have noticed influence of my recent emotional chances on my investment decision	0.593	-0.028	0.241	-0.181	0.241	0.508	-0.024
I want to be reassured before investing in the stock market	0.339	-0.062	0.263	0.726	-0.146	-0.229	-0.129
I try to react as quickly as possible to the market & I implement decision my own	0.563	0.009	0.073	-0.47	-0.075	-0.027	0.431
I think that familiar stock will provide me more return as compare to stock which is unfamiliar to me	0.55	-0.111	-0.037	-0.091	-0.586	0.148	0.374

From the table no.4 once the relevant factors have been attained they are rotated through varimax rotation method. Varimax rotation is one such method that maximises the variance of the loadings within such factor.

Table 5 : Rotated Factor Matrix

	Component						
	1	2	3	4	5	6	7
I Purchase those products more,which investors prefer more	-0.201	0.106	-0.18	0.335	0	0.764	0.137
I invest in a similar stock/industry which gives maximum profit	0.097	0.032	0.795	0.089	-0.028	0.037	-0.263
I mostly rely on company historical financial data when making investment decisions	-0.019	0.046	-0.116	-0.031	0.069	0.05	0.902
I make investment decision without collecting the information	0.218	-0.429	-0.551	0.308	0.19	0.091	-0.257
I have some objective or goal,while making an investment	0.108	0.626	0.475	0.101	-0.026	0.143	0.313
I understand gains and losses come and go,so do not feel it is necessary to react	0.589	0.161	0.454	-0.112	-0.166	-0.184	-0.125
I make my investment decisions without consulting my investment advisor	-0.23	-0.22	0.135	-0.097	0.82	-0.029	0.071
I invest based on opinions of friends and family	-0.054	-0.41	0.435	0.545	0.227	-0.166	0.098
I gather data and analyze current market situation before make an investment	-0.039	0.811	0.034	-0.009	0.004	0.1	0.066
I compare and calculate risk in different stocks	0.191	0.749	0.084	0.076	-0.029	-0.124	-0.107
I prefer to invest in stocks with high volatility and risk	-0.147	0.3	-0.275	0.046	0.716	-0.108	0
I am able to anticipate the ends of good/poor market returns	0.698	-0.037	0.104	0.137	-0.349	0.046	-0.08
I fix a target price for buying/selling in advance	0.355	0.6	-0.276	0.122	0.18	0.295	-0.014
I know all the guidelines of SEBI about the investment in the stock market	0.687	0.299	-0.389	0.255	-0.146	-0.021	-0.122
I observe public opinion about profit making investment objectives is often correct	0.357	0.112	-0.138	0.735	0.099	0.004	0.047
I tend to hold on to securities losing value waiting for better times	0.634	0.107	0.308	0.271	-0.236	0.08	-0.011
I have noticed influence of my recent emotional chances on my investment decision	0.768	0.02	-0.091	0.07	8.17E-06	0.003	0.394
I want to be reassured before investing in the stock market	-0.032	0.116	0.076	0.823	-0.24	0.199	-0.106
I try to react as quickly as possible to the market & I implement decision my own	0.652	0.134	-0.047	-0.288	0.102	0.372	-0.241
I think that familiar stock will provide me more return as compare to stock which is unfamiliar to me	0.39	0.024	0.209	-0.109	-0.204	0.761	-0.036

Now on the basis of table no. 5 Factor 1 Market Situation: Includes the understand gains and losses come and go, so do not feel it is necessary to react, able to anticipate the ends of good/poor market returns, know all the guidelines of SEBI about the investment in the stock market, tend to hold on to securities losing value waiting for better times, noticed influence of recent emotional chances on investment decision, try to react as quickly as possible to the market and implement own decision, So the values of the factor shows that behavioural finance has considerable impact on investor attitude and behaviour.

Factor 2 Information: Includes that make objective or goal while making an investment, gather data and analyse current market situation before make an investment, compare and calculate risk in different stocks, fix a target price for buying/selling in advance, So that the information regarding the stock market has considerable impact on investor attitude and behaviour.

Factor 3 High Profit and High Risk: Includes the investment in a similar stock/industry which gives maximum profit, so that investment in similar stock/industry has considerable impact on investor attitude and behaviour while make investment decision without collecting the information shows ve sign which interpret that investor collect information when make an investment.

Factor 4 Opinions: Includes the invest based on opinions of friends and family, public opinion about profit-making investment objectives is often correct, reassured when making decision, So that opinion of others has considerably impact on investor attitude and behaviour.

Factors 5 Investment Decision: Include that make investment decision without consulting investment advisor and prefer to invest in stocks with high volatility and risk, So that high risk and high profit has considerably impact on investor attitude and behaviour.

Factor 6 Stock Familiarity: include purchase those product more which investors prefer more and familiar stock will provide more return as compared to stock which is unfamiliar, So that stock familiarity has considerably impact on investor attitude and behaviour.

Factor 7 Historical Data: Include that mostly rely on company historical financial data when making investment decisions, So that past performance has considerably impact on investor attitude and behaviour.

Limitations of the Study

These results are based on highly qualified investors of the stock market. Many respondents are not interested to reveal certain data regarding their behavioural aspects. Many investors feel that the questionnaire is too difficult to answer. Some questions were answered with bias and without care by the investors. For such a study where behaviour of investor is under study, deviation from other studies is very natural.

Recommendations

The main recommendation for investors is to make constant attempts to increase their awareness on behavioural finance by educating themselves on the field. Studying about the biases, and reflecting on their decisions are likely to help achieve better self-understanding of extent and manner to which they gets influenced by emotions while making financial decisions under uncertainty. Even after satisfactory awareness is achieved it is highly recommended that they maintain a chart of the behavioural biases they are likely to be vulnerable to. This should be reviewed periodically in order to recollect and refresh their memory thus giving themselves a better chance to make improved financial decisions in the stock market. Most essentially, what remains unanswered is whether greater awareness of investors about behavioural biases is likely to increase the market efficiency. Awareness about behavioural biases and its application in the course of making investment decision would be increasing the rationality of investment decisions thus making way for higher market efficiency.

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