



Behavioural Biases Affecting Investment Decisions

M Harisha¹, Prof. Raghavendra Krishnagiri Muralidhara²

¹PG Student, ² Guide
PES University

ABSTRACT:

This examination paper dives into the perplexing elements of conduct inclinations influencing speculation choices. In the always advancing scene of money, the transaction between human brain science and speculation decisions has acquired extensive consideration. Social predispositions, mental easy routes that impact direction, assume a huge part in forming financial backers' discernments, decisions, and resulting activities.

The review utilizes a blended techniques approach, consolidating quantitative information gathered from a different gathering of 50 undergrad and postgraduate understudies matured 20-30 years with subjective experiences got through unassuming poll reactions. The examination digs into a complete arrangement of conduct predispositions, going from carelessness and preference for non threatening information to misfortune repugnance and crowding conduct. The quantitative examination utilizes relapse strategies to explain the connections between these predispositions and venture choices, revealing the degree of their impact.

The findings indicate a moderately positive correlation among the factors, indicating a genuine link between biases in behavior and investing decisions. Notably, as demonstrated by the elevated R-square value and significant F-statistic, the regression model correctly explains a major percentage of the variance for investment decisions. However, these findings are moderated by model presumptions, the quality of data, and variables outside the model.

The qualitative analysis supports the quantitative outcomes by providing additional insights into the perceptions and experiences of the participants. The discovery of repeating concepts, such as confirming bias-driven seeking knowledge and loss aversion-based choice hesitations, provides an improved awareness of the way cognitive distortions appear in practical investment settings.

This exploration adds to the developing group of writing on social money by revealing insight into the complicated connection between human way of behaving and venture results. The experiences gathered offer significant ramifications for financial backers, monetary experts, and policymakers the same. By perceiving and tending to these inclinations, partners can settle on additional educated choices, oversee gambles actually, and devise procedures that line up with long haul monetary objectives. Besides, this study highlights the requirement for proceeded with examination to investigate the complex subtleties of social inclinations and their suggestions across assorted economic situations and segment gatherings.

Introduction

In the unpredictable universe of money and speculation, choices are not exclusively determined by cool, normal examination and objective information. All things being equal, a horde of mental and mental factors unobtrusively impact the decisions made by financial backers. This intriguing crossing point of human way of behaving and monetary independent direction has led to a field of study known as social money. Vital to this space are the conduct inclinations that invade our brains, frequently steering us off track from ideal venture ways.

Behavioural biases are short-cuts that our brains use while making assumptions. Biases can make us pretend we are better investors than we are, or else they can lead us disregard vital information that contradicts our pre-existing beliefs. These biases might creep into our decisions and influence where we spend our money.

Traditional financial theories presume that investors are completely logical people; nevertheless, empirical data constantly shows that human reasoning is significantly more complicated and prone to systemic errors. Biases in behavior are cognitive shortcuts or psychological predispositions that can cause people to depart from rational decision-making, especially when it comes to investing. These biases, which are anchored in our cognitive make & our past evolution, have the ability to profoundly influence investment decisions, perhaps resulting in suboptimal consequences.

Consider a puzzle, with the pieces representing the various ways that our brains work when it involves money. Understanding each component allows us to comprehend how it impacts the larger picture of our choices. Some of these things may make us fearful about losing money rather than thrilled about making money. Others may force us to do what everybody else is undertaking, even if it is not the greatest option.

In this exploration, we'll take a deeper look at these elements of the puzzle - the behavioral biases - and explore how they influence our financial decisions. We can improve our financial management skills by better understanding them. We'll look at actual life instances to find out why we occasionally pass

on poor judgments, and we'll learn how to arrive at better choices in a world where our minds and our wallets frequently conflict. So, let us delve in and discover the hidden aspects that influence how we invest.

Literature Review:

"Behavior Biases on Investment Decision Making"

H. Kent Baker & Victor Ricciardi are the authors.

This article gives a thorough examination of numerous behavioral biases that influence investment decisions, such as excessive trust, fear of loss, herding behavior, and others. It investigates how these prejudices can result in unsatisfactory investing outcomes and gives suggestions for reducing their consequences.

"Behavior Biases of Individuals on Financial Decision-Making"

Meir Statman is one of the authors.

Meir Statman investigates the psychological variables influencing investment decisions. The review addresses how feelings, biases in cognition, and heuristics influence decision-making, which frequently leads to illogical investment behavior. It highlights how important it is for both regular investors and financial experts to grasp these biases.

"Behavior biases on Finance: A Review"

Brad M. Barber & Terrance Odean are the authors.

Barber and Odean investigate the impact of psychological biases on choices regarding investments and market results. Excessive trust self-blaming bias, and acquaintance bias are among the biases discussed in the review. It investigates how these biases influence trading behaviors, inventory turnover, and performance.

"The Psychology of Financial Decisions and Investment Behaviors"

Victor Ricciardi is the author.

This review of the research dives into the psychological elements of investment decisions, looking at how numerous personality traits, feelings and cognitive processes influence financial behavior. It examines prejudices such as establishing a base confirmation bias, and the disposition effect in depth, offering some insight into the impacts they have on investment decisions.

"Conduct Predispositions in Money: A Survey"

Creators: Brad M. Stylist and Terrance Odean

Stylist and Odean investigate what mental inclinations mean for venture choices and market results. The survey covers inclinations, for example, carelessness, self-attribution predisposition, and commonality predisposition. It analyzes how these predispositions add to examples of exchanging, portfolio turnover, and execution.

Objectives:

- Distinguish and Portray Inclinations: To recognize and depict a scope of social predispositions that normally impact venture choices, including carelessness, tendency to look for predetermined feedback, misfortune revulsion, and others.
- Inspect Effect on Independent direction: To investigate what these conduct predispositions mean for the dynamic course of individual financial backers, including their decisions connected with resource distribution, portfolio enhancement, and speculation timing.
- Examine True Models: To investigate genuine contextual analyses or models that represent the effect of social inclinations on venture results, showing the way that these predispositions can prompt less than ideal choices or market shortcomings.
- Assess Relief Systems: To survey different procedures and strategies that financial backers can utilize to alleviate the impact of social inclinations on their venture choices, like training, mindfulness, and expert counsel.
- Think about Predispositions in Various Economic situations: To look at the predominance and impacts of social predispositions in various economic situations (e.g., buyer markets, bear advertises) and assess how these inclinations could enhance or lessen during times of market unpredictability.
- Grasp Financial backer Way of behaving: To acquire a more profound comprehension of the standards of conduct and propensities of various sorts of financial backers, like individual retail financial backers, institutional financial backers, and expert asset chiefs.

- Evaluate Long haul Execution: To survey the drawn out presentation and venture results of people who display fluctuating degrees of vulnerability to social predispositions, examining what inclinations could mean for portfolio returns overstretched periods.
- Propose Conduct Intercessions: To propose possible mediations or instructive drives that could be useful to financial backers perceive and balance the impacts of social predispositions, subsequently advancing more judicious and informed speculation choices.
- Add to Pragmatic Bits of knowledge: To contribute viable experiences and suggestions that can be utilized by individual financial backers, monetary counsels, and policymakers to all the more likely get it, make due, and explore the impact of social inclinations on venture choices.
- Upgrade Monetary Proficiency: To add to the improvement of monetary education by bringing issues to light about the mental variables that can contort venture choices and giving direction on going with more judicious and powerful speculation decisions

Methodology:

Design of the Study:

A cross-sectional survey methodology will be used in the study to collect data on biases in behavior influencing investment choices between students in both undergraduate and graduate programs.

Random sampling:

- The target population comprises of 50 students in both undergraduate and graduate programs between the ages of 20 and 30.
- Students will be requested to engage willingly through email invites and social media channels using convenience sampling.

Instrument for Data Collection:

To collect replies from participants, a questionnaire with structure will be created using Google Forms. The questionnaire will ask about demographic data, behavioral biases, investing decisions, and other pertinent issues.

Questionnaire Development:

- The questionnaire will include sections on demographic information, behavioral biases (such as overconfidence, loss aversion, and confirming biases), choices regarding investments, and self-evaluation of investment knowledge.
- Each bias in behavior will be evaluated using questions from the Likert scale, with open-ended questions included to elicit qualitative information.

Data Gathering:

- After the questionnaire is completed, it will be circulated to the target group via email as well as through social media.
- Participants are going to be given a time limit for answering the questionnaire.

Data Examination:

- Descriptive statistical methods (e.g., median, mean, and standard deviation) will be used to examine quantitative data acquired from Likert scale questions.
- Thematic analysis will be used to uncover reoccurring themes from qualitative data collected through open-ended questions.

Limitations:

- The findings of the study may be restricted to a specific cohort of students in both undergraduate and graduate programs and may not be applicable to other demographic categories.
- Response bias may exist in self-reported statistics.

Common Behavioural biases and how it affects investment decisions:

Overconfidence Bias:

- Explanation: Investors frequently overstate their own investment abilities and assume they can precisely predict market moves.
- The Influence on Investment Decisions: Overconfident investors may trade excessively, ignore hazards, and make investment decisions without performing extensive investigation.

Confirmation Bias:

- People seek knowledge that confirms their existing opinions whereas ignoring or downplaying contrary facts.

- Effects on Investing Choices Investors having a bias toward confirmation may only pay attention to information or analysis that supports their beliefs, resulting in a distorted sense of investment prospects.

Anchoring Bias:

- Explanation: Investors base their subsequent decisions on a certain piece of information, most commonly the starting price of an asset.
- The Influence on Investment Decisions: Anchoring can impede traders from adopting unbiased choices based on the present state of the market, causing them to retain assets for an inordinate amount of time or make poor trade-offs.

Loss aversion:

- Explanation: Because the suffering of losses is more intense than the joy of gains, people avoid losses even when it is not sensible.
- The Influence on Investment Decisions: Loss-averse investors may continue to maintain failing investment in the hope of a return rather than making educated judgments to liquidate their losses.

Herding Behavior:

- Explanation: Investors tend to follow the herd and replicate the behavior of others, which can lead to groupthink and the formation of markets bubbles or crashes.
- The Influence on Investment Decisions: Herding can result in unpredictable price movements and induce investors to ignore their own analyses in preference for following the herd.

Disposition Effect:

- Investors prefer to sell successful investments too soon in order to lock in profits, while holding on to losing investments for too long in the hope that they may recover.
- Effect on Investment Decisions: By not allowing winnings to run & crystallizing losses prematurely, this bias can lead to inferior investment performance.

Bias due to Familiarity:

- Explanation: Even if other chances offer larger returns, consumers prefer to make investments in firms or industry they are familiar with.
- Influence on Investment Decisions: Familiarity bias can result in an unbalanced and undiversified portfolio that overlooks potentially better-performing items.

Recency Bias:

- Explanation: People place greater emphasis on recent incidents or information, expecting that current patterns will continue in the future without taking into account long-term historical data.
- Influence on Investment Decisions: Recency bias can lead to rash decisions based on trends in the immediate future rather than careful consideration of long-term prospects.

Availability Bias:

- The financial backers rely principally upon easy to find or effectively reachable subtleties, oftentimes dismissing more dark yet significant realities.
- The Impact on Venture Decisions: This predisposition could bring about a twisted image of effective financial planning possibilities and the exclusion of significant subtleties.

Emotional Bias:

- Outrage and desire, for instance, can contort judgment and result in rash money management decisions.
- The Effect on Money management Decisions: Emotional predisposition can incite financial backers to take choices in light of prompt sentiments as opposed to a long-range reasonable arrangement.

Sunk Cost Fallacy:

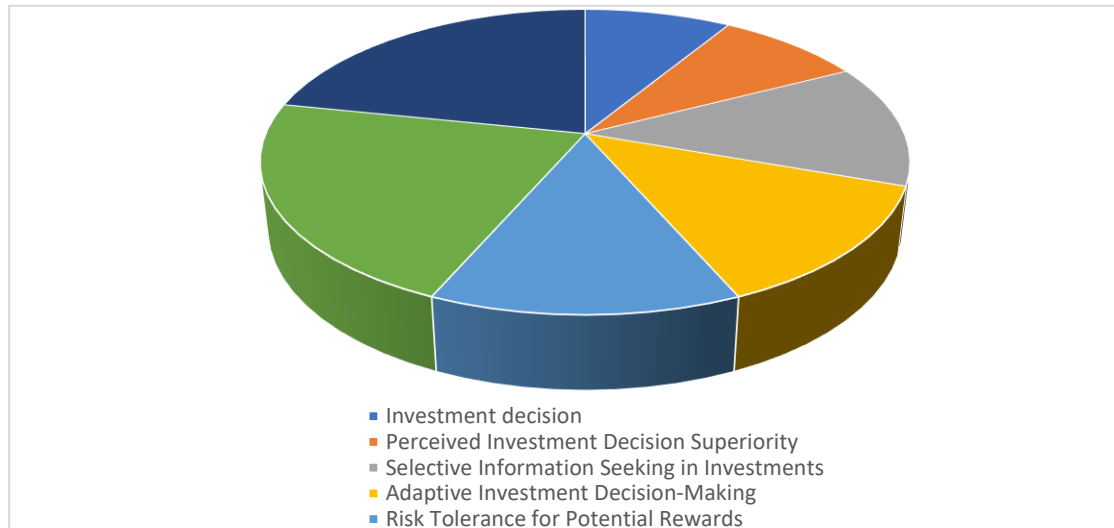
- Explanation: Because they already invested a considerable amount of money, people keep making investments in a losing position, even though it is not financially logical.
- The Influence on Investment Decisions: Sunk cost fallacy can make it difficult for investors to make objective decisions to reduce their deficits and move on to other prospects.

Optimism Bias:

- Explanation: People tend to overestimate their own talents or the potential of an investment, causing them to underestimate hazards.
- A bias toward optimism may give rise to taking on more risk than necessary as well as making overly optimistic investing decisions without considering potential consequences.

Data analysis:

To make data analysis 50 sample has been taken from the students through google form questionnaires following pie chart is the data which has been collected.



To collect the data following questions has been asked to the population:

1. How often do you make financial decisions?
2. How far do you consider your investment judgments are superior to the average investor's?
3. Do you deliberately seek for material that confirms your investment assumptions while dismissing contradictory evidence?
4. How frequently do you change your investing decisions based on fresh facts, independent of price history?
5. How willing are you to accept loss from investments in exchange for prospective gains?
6. How frequently do emotions such as anxiety and lust influence your financial decisions?
7. In comparison to historical statistics, how much of an influence have recent market movements have on your financing decisions?

Multiple regression for the collected data is the following:

SUMMARY OUTPUT					
<i>Regression Statistics</i>					
Multiple R	0.654884096				
R Square	0.428873179				
Adjusted R Square	0.363972404				
Standard Error	0.88617119				
Observations	50				
<i>ANOVA</i>					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	5	25.94682735	5.18936547	6.608136479	0.000114723
Residual	44	34.55317265	0.785299378		
Total	49	60.5			

Findings And Discussions:

- Multiple R: The correlation coefficient, a measure of the magnitude as well as the direction of the linear link between the independent and dependent variables. In this situation, it's around 0.65, indicating a moderately positive association.
- R Square: This is the percentage of variation in the variable that is dependent that can be attributed to the independent variables. A result of around 0.43 implies that the regression model explains approximately 43% of all variance in the dependant variable.
- R Square Adjusted: This modifies the value of R Square based on the quantity of covariates in the model. A result of around 0.36 indicates that the model with the adjustments accounts for 36% of the variation in the variable in question.
- The regression model has 5 degrees of freedom.
- SS: The sum of squares owing to regression is around 25.95, indicating that the regression model explains the variability.
- MS: The regression model's mean squared error is around 5.19.
- F: The F-statistic determines whether or not there is a statistically significant variations in the fit of the model for regression in comparison to an approach with no predictors. The score of roughly 6.61 indicates a substantial outcome.
- Significance The F-statistic is coupled with a p-value. It is quite tiny (0.0001), signifying that at least any of the independent factors contributes significantly to the deviation of the dependent variable.

Residual:

This part gives the results from the residual analysis of variation, which is the model's unexplainable variability.

- The residuals have 44 degrees of freedom.
- SS: The residuals' sum of square is around 34.55.
- MS: The residuals' mean squared error is around 0.79.
- Total: This represents the data's total variability, which is 60.5.

In conclusion, the relapse model seems to have a moderate positive connection with the reliant variable. The model makes sense of a huge piece of the change in the reliant variable, as demonstrated by the low p-esteem related with the F-measurement. In any case, it's essential to consider the setting of the examination, the suppositions of the relapse model, and the down to earth meaning of the discoveries when deciphering these outcomes.

Conclusion:

All in all, the consequences of the relapse examination uncover significant experiences into the connection between the autonomous factors and the reliant variable. The moderate positive relationship coefficient (Different R) proposes a perceivable association between the factors viable. Additionally, the significant R Square worth shows that an eminent part of the change in the reliant variable can be made sense of by the free factors inside the relapse model.

The meaning of the F-measurement is especially imperative, featuring the general viability of the relapse model in making sense of the changeability in the reliant variable. The little p-esteem related with the F-measurement further backings the end that no less than one of the free factors assumes a critical part in impacting the reliant variable.

While the examination highlights the meaning of the model, it's vital to perceive the likely impediments and consider the setting where the information was gathered. Factors like information quality, model suspicions, and outside factors could influence the generalizability and relevance of the discoveries.

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