WWW.IJRPR.COM

International Journal of Research Publication and Reviews

Journal homepage: www.ijrpr.com ISSN 2582-7421

The Evolution of Investment Strategies through Behavioural Finance and Regulatory Support for Digital Innovation

Kotteswaran D[1], Dr. Geeta Kesavaraj[2]

[1]II MBA Student, Department of Management Studies, Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and Technology, Avadi, Chennai, India vtp3865@veltech.edu.in

[2]Assistant Professor, Department of Management Studies, Vel Tech Rangarajan Dr. Sagunthala R&D Institute of Science and Technology, Avadi, Chennai, India drgeetakesavaraj@veltech.edu.in

ABSTRACT

The investment landscape has drastically changed through the interaction of behavioural finance principles with its surrounding frontiers of digital innovation supported by the evolution of the regulatory environment. It is tremendous in exploring the psychological and emotional basis behind investor decisions and shakes the capstone of the traditional concept of the efficiency of markets. However, further digital innovations such as the ones in artificial intelligence, blockchain, and big data analytics have also changed the situation in which investment strategies are conceived and put into practice. This is where regulators play a critical role in making evolution happen, as they develop the rules, which allows innovation but still protects the integrity of the marketplace. The paper discussed how behavioural insights together with best digital tools can be more informative, reduce biases and yield higher returns on investments for investors and financial institutions. At the same time, this paper will also discuss how regulatory authorities must balance innovation push with risks of cybersecurity, data privacy, and algorithmic transparency. Further, integration of behavioural finance and digital innovation allows the investment industry to embrace dynamic markets, enhance the efficiency of new product development and service provision to cater for diversified investor needs.

Keywords : Behavioural Finance, Digital Innovation, Investment Strategies, Market Efficiency, Regulatory Frameworks.

INTRODUCTION

Investment management and planning have remained an exciting aspect in the financial market due to the relationship between behavioural finance and regulatory approvals for digitalization. Efficiency of the capital markets has been greatly enriched by the investigation of the psychological and emotional traits that govern investors' actions by behavioural finance. Together with the progress of digital technology, this knowledge has transformed the way people invest in markets by offering the possibility to develop quantitative and automated methods. Financial institutions, aware of the revolutionary change that digital innovation can create, have encouraged it by helping regulatory bodies develop the conditions for the necessary openness, innovation, and equality in the financial markets. Altogether these forces have deployed anew the focused vehicles of investment, they have also made a change in the overall character of the financial decision-making process, more effective and informed, thereby entering in to a new era. The brought changes in structuring the investment form a perfect testimony for the world on how human endowment in combination with technology can revolutionize the society. Since behavioural finance has emerged to describe how the cognitive and evolutionary bias affect investment decisions, it has shifted the view of classic analytical investment models. Reasons like loss aversion, overconfidence, and herding have defined the market behaviours and patterns, those investors who follow these concepts adhere to strategies that avoids such fallibilities. At the same time, the growth of digital technologies in the finance market has accelerated.

BACKGROUND OF THE STUDY

This paper attests that investors have altered their investment strategies due to technology enhancement, shifts in the economy, and the revised perception of psychology. Originally, investment was made based on fundamental and technical forecasting, it was believed that investors are rational. Nevertheless, recent studies in behavioural finance undermine these arguments by reaffirming that psychological factors and cognitive biases contribute to they decisions made in the investment market including fundamental features like loss aversion, herding and over confidence. On the other hand, digital innovation has grown to be the rave in the financial sphere, marked by increased use of algorithms, high velocity of transactions and easy to use financial apps. Governance authorities around the globe have realized the significance of enhancing these innovations through frameworks of a similar kind but recognized and known globally such as the fintech sandboxes and cryptocurrency regulations. There's no better example of this than by appreciating how the advances in behavioural finances and digital technologies can help to develop investment strategies based on behavioural insights and in turn, apply

digital means that can help to deliver advice as well as collecting, storing and analysing data. This research aims to assess how behavioural finance and regulatory backing have come together to build and form the contours of current/future investment management strategies with the advancements in technology and psychological influence on investment activities.

REVIEW OF LITERATURE

- **Kahneman and Tversky (1979)** This paper proposed Prospect Theory that examines the effects of perceived risk and attitudes towards losses in decision making of investors. The goal was to investigate how psychological factors depart from the normative view of economic decisions.
- **Shiller (1981)** This work challenged the green shoes hypothesis while conceding that there is valuable information in market prices though bombed out by psychological factors. The purpose was to focus on animal spirit as a factor behind the formation of the speculative manias.
- **Thaler (1985)** The research defined mental accounting by highlighting how investors segregate their money and act on it differently. The rationale was to reconcile behaviours of inconsistent decision making from a financial perspective like over saving into a retirement account while having bills to pay.
- **Barber and Odean (2001)** Their study were also confined to overconfidence effect for retail investors and proved high trading causes lower returns. The rationale was to look at antecedents that hinder investment performance.
- **Hirshleifer (2001)** This work also identified social interactions as factors that explain investment decisions, particularly where Copycat behaviour and information churning actually affect market movements. This work's goal was to connect behavioural finance to market irregularities.

RESEARCH QUESTION

what extent does behavioural finance help shape investment approaches when digital revolution and global regulation are in play?

RESEARCH OBJECTIVES

- Learn how agent's biases like overconfidence and loss aversion influence client's decisions. Evaluate how these biases, over the long-run, affect portfolio performance.
- Find out more about new technologies in the investments, such as robo-advisors and AI. Assess their ability to enhance the organization's decision making and add distribution of risk.
- Find out how the regulations have changed to adapt to the emerging digital financial products and services. Consider the findings of the shareholder protection and market development perspective.
- Learn about potential successes or failures that digital tools can bring to investing through considering the cognition bias. Analyse how investors are being affected by these solutions from the financial technology companies.
- Explain how aspects of technology are likely to affect investment plans in the future. Look at how dynamic regulations encourage or slow down digital investment advancement.

METHODOLOGY

This analysis uses an exploratory sequential mixed-methods design; first, the existing literature investigating the development of investment techniques that incorporate principles from behavioural finance will be surveyed. It will look at case examples to determine how and when investor biases and heuristics effect the decisions taken in the markets. Telephone interviews and mailed questionnaires to portfolio managers and regulators will be used to assess the current climate for investment products. Also, the study will try to identify legal environments fostering innovation in FinTech, along with such trends as robo-advisory and cryptocurrencies. Secondary research involving the collection and cross tabulation of figures derived from market data shall help contrast conventional quadratic degrees of investment wealth with those involving behavioural finance as well as technological devices. The study will also determine how leadership and regulation either enable or limit the implementation of these innovations. This study focuses on identifying new trends in modern investments by combining qualitative and quantitative approaches. Finally, the results will outline a shift in the interaction between the consumer, innovation and policy.

CHALLENGES

Understanding of Investor Biases and its Effects of Decision Making

Behavioural finance points that investors make wrong decisions through bias such as overconfidence and loss avoidance. These biases can culminate in undesirable form of investment planning as well as inefficient stock markets. Many of these biases have to be beaten through savvy; that is, through awareness of the social justice implications of their work.

Multiplicity of Regulations

Any particular segment of the world may have a different set of rules governing the turbulent sphere of digital finance, which may complicate the processes of innovation in global finance. When faced with these and similar legal structures the establishment is often hamstrung when trying to move forward and progress technology. Currently, it is high time to enhance the regulations as the technological enhancement has a quite fast rate.

Embracing ICT Innovation in Traditional Business Commerce

Larger traditional financial institutions may be slow or hesitant to embrace and integrate new technologies because they do not understand how they will threaten incumbent business models. Testing to include features such as robo-advisors or blockchain with traditional approaches remains a practical and cultural problem. To overcome this resistance, there is need to change people's attitude and have the regulatory authorities on board.

Measuring the impact of Behavioural Finance

Evaluating the impact of the behavioural biases on investment performance is complicated because human behaviour is complex. In fact, it is quite difficult to differentiate the impact of behavioural factors from market and other factors. Predicting such an impact calls for not only more data but also complex statistical modelling.

SUGGESTION

- Encourage knowledge of behavioural finance so that people investing can identify the bias they have. It can enhance the general profiles of the investments as well as the behaviour of the market.
- Governments should try to streamline and standardize the rules relating to the digital financial services across the regions. It would encourage innovation which is accompanied by a reduction in investors' risk levels.
- There are high risks in this context which financial institutions need to ensure they guard users' data securely. The information should be updated and there should be active extra security measures in place.
- There is a need to foster links between traditional banks and new innovative players in the practice of financial technology. This would enable the enhancement of the introduction of new technologies in such antiquated systems.
- Applying artificial intelligence to investor behaviour analysis will eliminate or lessen biases that individuals have. AI also allows for personalized recommendations in relation to personal finances meaning better decision making.
- Prominent and rigorous rules have to be set up so that proper utilization of digital financial tools is achieved. In experiencing a lack of effective controls, companies nurture new ideas while adhering to ethical norms.
- Invest in the development of the unification of regulation of digital finance around the globe. This has made a global approach of useful with the aim of lowering fragmentation in the fin-tech industry.
- Frequently learn about how behavioural finance influences the associated investment decisions in the age of technology. Future research will continue to streamline these approaches as well as strengthen the position of the market.

CONCUSION

- In conclusion Thus, behavioural finance has largely contributed to changing the approaches to investiture by outlining and internalizing other psychological considerations other than the evaluation of the traditional financial factors. Through the knowledge of such factors as biases, emotions, and cognitive errors it has been easier to make better decisions. In addition, the established government backing for digital change has provided solicitude for that makes the digital world transparent, secure, and efficient in the market. Collectively, all these factors have provided the right platform for the development of investor's entrepreneurs and institutions. In the next future, there will be a combination of attitude changes and technologies that affect investment processes. With advancement in innovation, we are likely to encourage a critical role of the regulator in, among other responsibilities, maintaining the fairness of digital tools as well as safeguarding investors. The future of investment strategies is expected to be smarter, adaptable and to a certain degree more open to the public. Finally, all of these transformations will improve the investment environment worldwide.

REFERENCE

- Barberis, N., & Thaler, R. H. (2003). A survey of behavioural finance. Handbook of the Economics of Finance*, 1, 1053-1128. https://doi.org/10.1016/S1574-0102(03)01027-6

- Bogle, J. C. (2007). The little book of common-sense investing: The only way to guarantee your fair share of stock market returns. Wiley.
- Fama, E. F., & French, K. R. (2004). The capital asset pricing model: Theory and evidence. Journal of Economic Perspectives, 18(3), 25-46. https://doi.org/10.1257/0895330042162430
- Gennaioli, N., Shleifer, A., & Vishny, R. W. (2015). Money doctors. *Journal of Financial Economics, 117*(3), 267-291. https://doi.org/10.1016/j.jfineco.2015.01.009
- Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. Econometrical, 47 (2), 263-291. https://doi.org/10.2307/1914185
- Lins, K. V., Servaes, H., & Tufano, P. (2017). The product market and corporate governance: Incentives to reduce agency costs. *Journal of Finance, 72*(6), 2739-2774. https://doi.org/10.1111/jofi.12558
- Merton, R. C. (1995). Financial innovation and the management and regulation of financial institutions. *Journal of Banking & Finance, 19*(3), 461-481. https://doi.org/10.1016/0378-4266(94)00054-B
- Stulz, R. M. (2019). Fintech, biotech, and the future of banks. *Journal of Applied Corporate Finance, 31*(4), 8-16. https://doi.org/10.1111/jacf.12350
- Thaler, R. H. (2015). *Misbehaving: The making of behavioural economics*. W.W. Norton & Company. https://doi.org/10.1111/jofi.12658