Analyzing the impact of Emotions and thrill on Investor's 'Gambling Behavior'.

Dr. Seema Thakur
Assistant Professor
Department of Management and Commerce
SGT University
Gurugram.
Country- INDIA

Contact address:-
Seema Thakur
RZF-1-30
FLAT NO-102 A
LOTUS APARTMENT
MAHAVIR ENCLAVE
STREET-3
DABRI PALAM ROAD
DELHI-110045

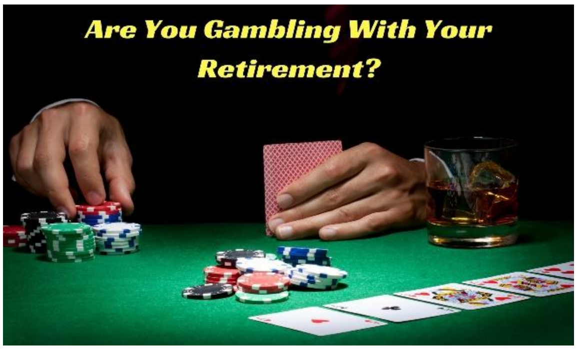
Abstract:

Proponents of Traditional Financial theories support the efficient market hypothesis that the prices of the stock are fair in the market and investors behave rationally on making any investment decision. However, a lot of studies on Behavioural finance have criticized the phenomenon of market efficiency and investor's rationality. Empirical evidence from Behavioural finance theories concludes that individual's behavioral biases significantly influence his/her judgments and decision making. Mostly, investors are often influence by emotional and gambling problems on making equity investment decisions. The present study has taken these two factors to find out the relationship between emotions and gambling attitude of investors. Multistage random sampling method is used to collect the primary data from retail investors who are assessing Indian equity market. The cronbach's reliability of investors different emotions and their gambling statements are greater than 0.6. Finding of this study suggest that individuals emotion play a significant role of determining their gambling investments.

The study has been based on primary as well secondary data. The primary data has been collected through self-administered questionnaire and secondary data has been reviewed from previous studies on behavioural finance and investors decisions for investment. In this paper we have analysed investor's behaviour and come to the conclusion that investors didn't make investment decisions completely on the basis of conventional finance theories of rationality.

Keywords: Behavioural finance, Emotional swings, Investment decisions, Demographic factors.

Introduction



Investing is an emotional task adopted by most of the investors while assessing capital market investments. Robert Sheller (2000), called this attitude as irrational Exuberance. He also states that emotional investment is a key factor which implies the market to bullish or bearish. Furthermore a vast psychologist literature reveals that emotional state affects decision making process of the investors. Few of the investors have seen the positive aspects of emotions .They argue that emotional state enhances the ability of an individual to make rational decisions. It permits the individual to quickly and deliberately make the decisions. Simon (1967) has included another factor named cognition with the emotions on making successful investment decisions. He also documented that cognitions and emotions are independent with each other. These two factors directly influence the gambling attitude of the investors. Gambling is a recreational process which may be constructive or destructive in nature. How investors use gambling's on their investments decisions will determine their investment success. According to financial dictionary, gambling is a bet on uncertain outcome, by taking high risk in the hope of gaining an advantage or a benefit from it.

This paper describes the behavioural finance and its application to understand the psychology of the investor while decision making. It also gives some insights about the foundation as well as growth of behavioural finance and its basic assumptions for understanding investor behaviour in different situations.

Behavioural refers to the application of psychology to finance. Behavioural finance offers an alternative tool to study investor behaviour and the causes of market anomalies. Market players have applied behavioural finance to explain financial market anomalies such as stock market bubbles, overreaction and under reaction to new information that do not conform the traditional finance theory.

"The biggest factor impacting investors is no longer our knowledge base, but rather our behavioural elements." – Barry Ritholtz

Objective(s)

The broader objective of the study is to explore the influence of emotions on gambling attitude of investors. Besides this broad objective we also looking for:

1. To investigate whether the investment decisions in stock market made by the Investors are rational or not.
2. To find out the relationship between the two variables emotions and gambler investor and its impact on financial market.
3. To analysis various factors influencing the investment decisions while making decisions.

Design/methodology/approach – The methodology in this research work is based on data collection from secondary sources as well as primary sources.

Primary sources: The study is based on sample survey of the Individual Investors of Stock Market. (Survey Method).The sources of primary data collection is based on discussion with SEBI official and the investors who are dealing in the market in different shares or the service provide by financial intermediaries and putting structured questionnaire to players of the Market like Arbitragers, Speculators and significantly Hedgers.

1. The sampling unit decided by stratified Random Sampling with sample size 250 investors of Delhi Population. To fill up the questionnaire, we contacted the investors and explain in brief about the study and mainly what Behavioural Finance is?
2. The study has been conducted during 15th March, 2018 to 30th March 2018.
3. Respondents were requested to give their responses to eleven gambling variables, which was identified from the literature
4. Five point likert scale was used to collect the investor's response. The scale range from strongly disagree to strongly agree. "Strongly agree" explains the variables that it has strong influence on their investment decisions.
5. Around 250 questionnaires were targeted to collect the data from retail investors who are located nearby Delhi.
6. Out of 250 questionnaire distributed, 232 responses were taken as error free. This report for a response rate of 93 percent of the total sample targeted.
7. The data thus collected were analysed quantitatively by using different statistical tools. They are chi-square analysis, SEM model analysis and regressions.

Secondary sources: The secondary data have been collected from various external sources such as Business magazine, web, Daily newspaper. The present status of our Investors towards Financial market study has taken into consideration especially after Demonetarization.

Hypothesis Testing

1. Let the null hypothesis be that the investment decision made by Investor in stock market is totally rational and is not effected by any emotions.
2. There is no significant relationship between investment decision maker and emotions.

Review of Literature

Investors are influence by various biases on making investment decisions. Such biases are studied with the help of psychological concepts called behavioural finance. It tries to explain how the investors will be influenced by psychological bias on making decisions. Emotions and cognitions are factors which create biases amongst the investors. This is not rejecting the contribution of efficient market hypothesis (EMH). In reality, behavioural finance supports EMH under certain assumptions. Mood and emotions come under affective state.

So, an attempt is made to present a brief review of relevant studies carried out on the present Investigation. Several researchers have studied the factors influencing from different Perspectives and documented in numerable findings. However, due to paucity of time, money and other resources, it is not possible to review all the studies. This review, therefore, outline small number of these studies. The literature review is presented into two major parts. The first part reviews the work of previous researchers on various factors influencing equity investors' decision making process. The second part reviews the research done on women investors.

Though both these words resemble same meaning, but in theoretical, they are different with each other. Mood is a long lasting emotional state. In addition, it is less specific and not focused on specific objects or events, while emotions are more specific and focuses on specific objects or events (Beedie, Terry and Lane 2005)

Gambling is an outcome of satisfaction and frustration. Many individuals who are accessing capital Market are at some point of time are consciously or unconsciously influence by gambling activity.

Gambling should be properly reinforced otherwise it will give destructive results. Ferster & Skinner, (2016); Levitz (2012); Knapp, (2010). There are many views about the influence of gambling on health and wealth problems. Psychoanalytical proponents like Linder, (195); Green son, (1947); Freud, (1953), Bergeler. (1970), perceive the gambling as a psychological problem. Unsolved childhood conflicts drive the individuals to form gambling attitude on later part of their life.

For example, Shefrin and Statman found that excessive optimism creates speculative bubbles in financial markets. Researchers also widely applied behavioural finance to explain emotional investor behaviour in recent years.

Frankfurter and McGowan also indicated that psychology and sociology is the essence of behavioural finance. However, according to the available literature described above, researchers have emphasized the importance of psychological factors and overlooked other factors in the concept of behavioural finance

In this review of literature, an attempt is made to present a brief review of relevant studies carried out on the present investigation. Several researchers have studied the factors influencing from different perspectives and documented in numerable findings. However, due to paucity of time, money and other resources, it is not possible to review all the studies. This review, therefore, outline small number of these studies. The literature review is presented into two major parts. The first part reviews the work of previous researchers on various factors influencing equity investors' decision making process. The second part reviews the research done on women investors.

1. Perception

Paul Slovic (1972) discussed in his research that most of the investors who invested on equity shares have a tendency of looking on the returns generated by equity shares of well established companies or stock market indices returns before making their investment decision. Though the past returns on equity shares do not give guarantee for any future Returns, investors perceive that equity shares are giving better returns to be at the inflation rate and hence they are committing on equity shares.

Similarly, **Diacon, S**. (2002) found in his research that most of the investors perceive equity investment is suitable to achieve their long term objective and hence those investors whose needs are arising in less than three years of investment prefer to invest on fixed income securities.

Further, **Lakshmi C. (2005)** has stated that the reason for not investing on equity shares and equity oriented securities by Indian investors is the perception that equity investments are risky. She added that though the investors are aware of success stories of equity investment, as they perceive that they do not understand various risk minimization techniques, they feel it is better to stay away from equity investment.

Thus, these review suggest that individual emotions influence their gambling behaviour.

Diagrammatic representation of emotional swings.

Analysing the different aspects of Emotions:

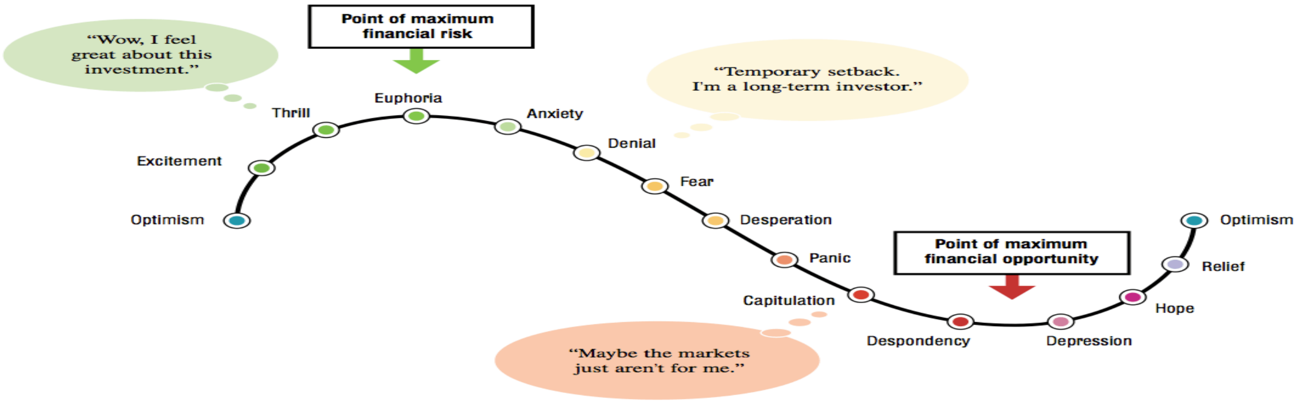


Fig: 1

Emotional Swings

Emotional swing variables are taken as the research variables in this study. There are 14 emotions widely influence individual investment decisions over a period of time

Test of variability of emotional swings:

S. No.	Variable	Alpha Value		
		Pilot Study	First 30 respondents	Next 30 respondents
1	Mood	0.600	0.621	0.629
2	Emotions	0.829	0.839	0.845
3	Heuristic	0.817	0.843	0.840
4	Frame dependence	0.661	0.681	0.678
5	Personality	0.709	0.710	0.719
6	Gambling	0.829	0.830	0.836

Pilot study was made to come on conclusion that emotional swing is more or less effected by the age group or location where people survive their livelihood.

So by seeing the result we can say that emotional swing doesn't have much difference despite different location or different age group.

Brief discussion on emotion

The relation between emotion and rationality is assessed by reviewing empirical findings from multiple disciplines. Two types of emotional phenomena are examined--incidental emotional states and integral emotional responses--and three conceptions of rationality are considered--logical, material, and ecological. Emotional states influence reasoning processes, are often misattributed to focal objects, distort beliefs in an assimilative fashion, disrupt self-control when intensely negative, but do not necessarily increase risk-taking. Integral emotional responses are often used as proxies for values, and valuations based on these responses exhibit distinct properties: efficiency, consistency, polarization, myopia, scale-insensitivity, and reference-dependence. Emotions seem to promote social and moral behaviour. Conjectures about the design features of the affective system that give rise to seeming sources of rationality or irrationality are proposed. It is concluded that any categorical statement about the overall rationality or irrationality of emotion would be misleading

The emotional cycle of investors starts and end with optimism. In between these optimism, investors are influenced by different emotions like Excitement, Thrill, Euphoria, Anxiety, Fear, Desperations, Depression, Hope, Relief etc. Among these emotional swings Euphoria, Depression play a vital role on the success of investor's investment decision. How investors use their emotions will determine their investment success .Generally gamblers types of investors fluctuates the market by their impatience behaviour in the sense to collect the opinions about their gambling attitudes and decision making skill.

Other researchers support the view that sociological and demographic factors are also important to explain investor behaviour. Though some researchers have studied the impacts of other factors such as gender or age on investment behaviour, these studies only explored the influences with regard to investor behaviour but did not discuss any findings about the financial decision-making process of investors or predict their preference on financial products. For example, Yang investigated, through case studies, the influence of both gender and age differences towards financial investment behaviour in terms of overconfidence, account-open time and trade frequency. These studies within the field of behavioural finance provide evidence that demographic factors such as age and gender should be considered when studying investor behaviour.

Research result and discussions:

Sampling Methods: A stratified Random Sampling Method has been used for selecting the sample unit from different area of Delhi City.

Sample Size: The survey has been carried out among 50 Investors from Delhi.

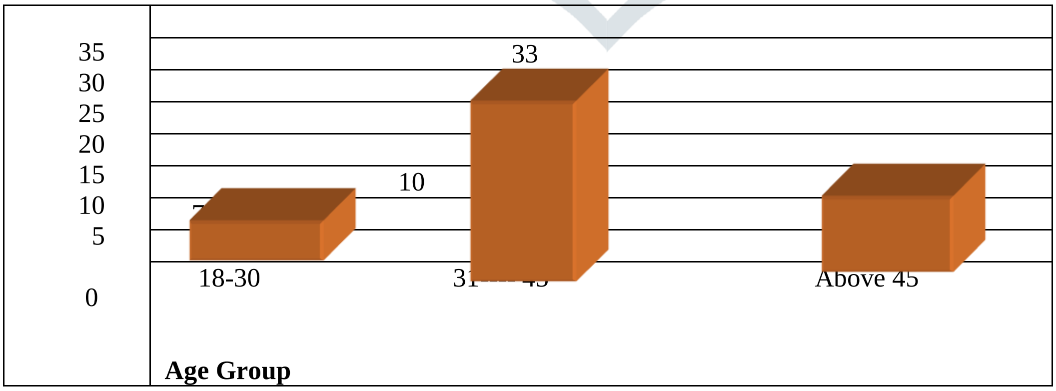
Age Classification

After collecting the entire filled questionnaire, we have observed more number of investors in age range 31-45 which is 66% from entire strata. 92% investors are male, among them 44% belong to private sector and 52% investors are having annual income of Rs 5 lacks and above.

Table1: Detail of Respondents

		No. of Respondents	Percentage%
Age	18-30	7	14
	31-45	33	66
	46 and above	10	20
Gender	Male	46	92
	Female	4	8
Profession	Govt. Services	12	24
	Private Services	22	44
	Professional	16	32
Annual Income	1.5-3 Lak	9	18
	3-5Lakh	15	30
	Above5 Lak	26	52

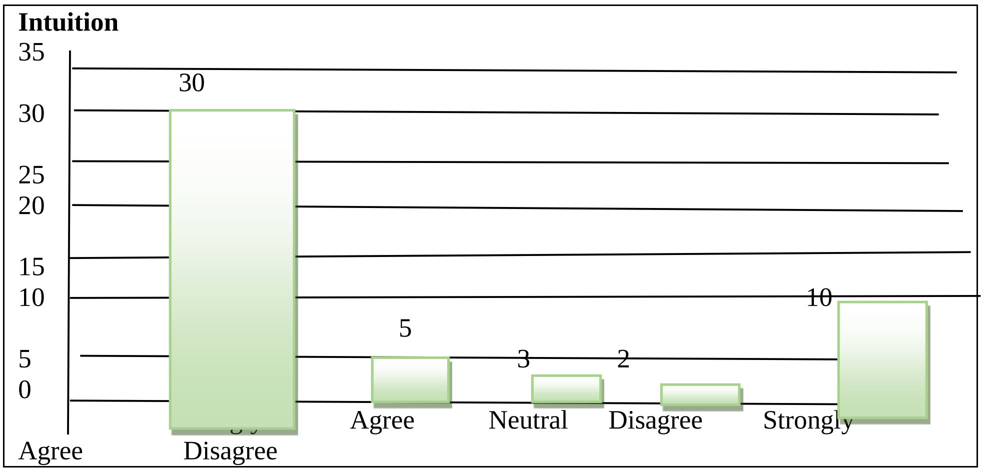
Graph-1



Rationality of Investors

To measure parameters for making investment and identify rationality or irrationality we have encompassed various parameters of investment. The result clearly shows that 58% investors are irrational as they replied strongly agree to Investment based on Intuitions which is effected by emotions.

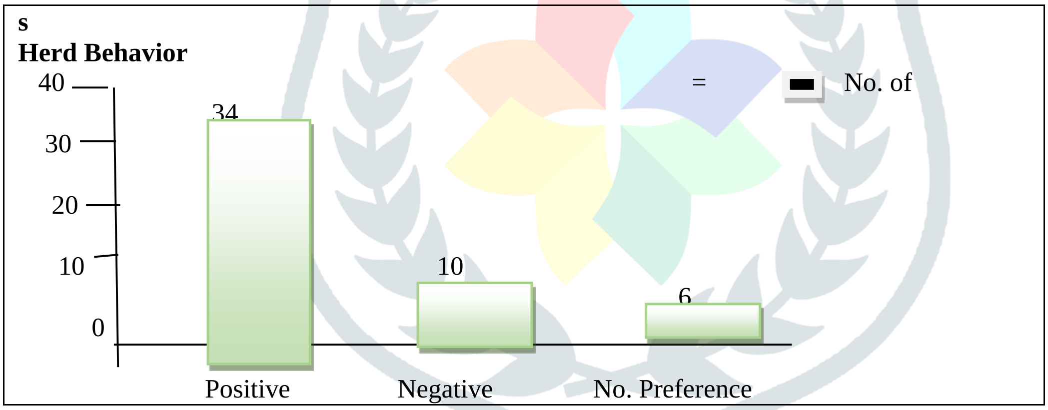
Graph: 2



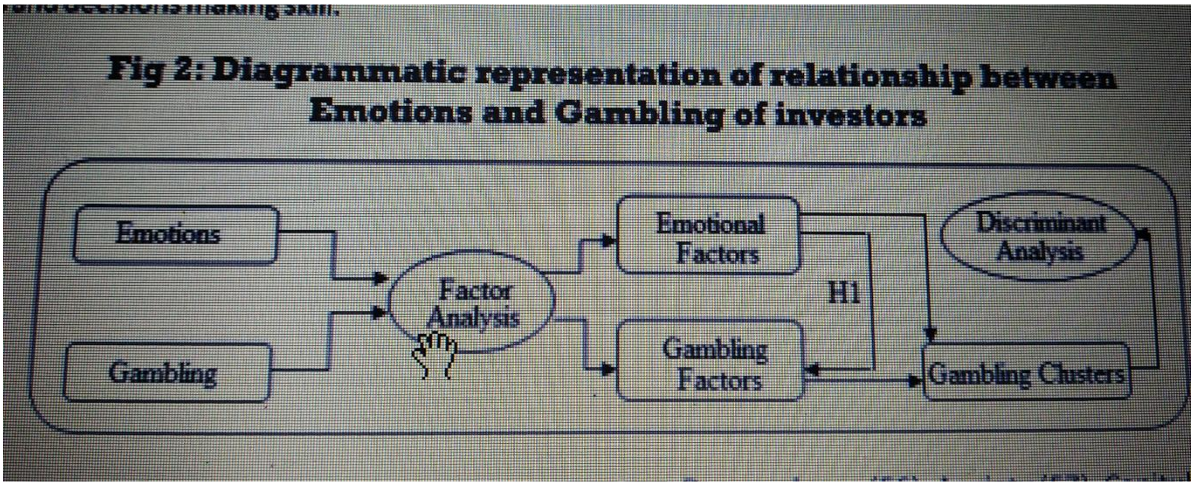
Herd Behaviour and Irrational Investors

To discover the influence of emotions on investor whether their colleagues or their surrounding people do affect their investment decisions while investors are in dilemma we inserted this question. The findings shows that 68% of investors follow the herd behaviourss

Graph: 3



Showing Relationship between emptions and gambling:



Emptions and gambling are analysed by the help pf factor analysis. The study has been conducted in two parts and its shown in the above diagram that first analysis is on emotions and gambling factor and the second one shows the relations of emotions and gambling factor.

Hypothesise Testing

The above hypothesis testing is based on the analysis of the above relationship model.

Hence it is being proved that there exists a significant relationship between gambling investment and emotions states.

Conclusion

The conclusion derives new outcome and provides the investors new suggestions regarding their investment pattern of behaviour finance. The investors are highly dependent on the institution which is effected by emotions and thrill rather fundamental, technical analysis or past.

Moreover by proving theory of hard behaviour and irrational due to impact of emotions investors have maintained and justifies the terminology "Defeated gambler plays double" Being active investors they are more likely to take risk and make their investment decisions, they are proving themselves as overconfident while making investment decisions. In the Nutshell we conclude that the most of the investors are behaving irrationally while making decision due to emotions and Thrill.

REFERENCES

- Vaidya (2011): "Emerging Trends on Functional Utilization of Mobile Banking in Developed Markets in Next 3-4 Years"
- Market Simplified: "Mobile banking: A large number of financial services and technology firms have set their sights on integrating mobile devices into the broader, multi-trillion-dollar retail economy. As a result, the infrastructure and tools for safe, reliable mobile purchasing has been advancing rapidly in recent years setting the need for m Commerce along with mBanking."
- Tiwari, Rajnish and Buse, Stephan(2007): *The Mobile Commerce Prospects: A Strategic Analysis of Opportunities in the Banking Sector, Hamburg Uni*versity Press (E-Book as PDF to be downloaded)
- Tiwari, Rajnish; Buse, Stephan and Herstatt, Cornelius (2007): *Mobile Services in Banking Sector: The Role of Innovative Business Solutions in Generating Competitive Advantage*, in: Proceedings of the International Research Conference on Quality, Innovation and Knowledge Management, New Delhi, pp. 886–894.
- Tiwari, Rajnish; Buse, Stephan and Herstatt, Cornelius (2006): *Customer on the Move: Strategic Implications of Mobile Banking for Banks and Financial Enterprises*, in: CEC/EEE 2006, Proceedings of The 8th IEEE International Conference on E-Commerce Technology and The 3rd IEEE International Conference on Enterprise Computing, E-Commerce, and E-Services (CEC/EEE'06), San Francisco, pp. 522–529.
- Tiwari, Rajnish; Buse, Stephan and Herstatt, Cornelius (2006): Mobile Banking as Business Strategy: Impact of Mobile Technologies on Customer Behaviour and its Implications *for Banks*, in: Technology Management for the Global Future - Proceedings of PICMET '06.
- Owens, John and Anna Bantug-Herrera (2006): Catching the Technology Wave: Mobile Phone Banking and Text-A-Payment in the Philippines
- Ovum Analyst Research, European Retail Banking Investment Strategies (2013)

- *Ainslie, G. (1975). "Specious Reward: A behavioural /Theory of Impulsiveness and Impulse Control". Psychological Bulletin.* ***82*** *(4): 463–496. doi:10.1037/h0076860. PMID 1099599.*
- *Barberis, N.; Shleifer, A.; Vishny, R. (1998). "A Model of Investor Sentiment". Journal of Financial Economics.* ***49*** *(3): 307–343. Doi:10.1016/S0304-405X(98)00027-0. Archived from the original on 20 April 2008. Retrieved 2008-04-25.*
- *Becker, Gary S., Gary S. (1968). "Crime and Punishment: An Economic Approach". The Journal of Political Economy.* ***76*** *(2): 169–217. doi:10.1086/259394.*

- *Benartzi, Shlomo; Thaler, Richard H. (1995). "Myopic Loss Aversion and the Equity Premium Puzzle". The Quarterly Journal of Economics. The MIT Press.* ***110*** *(1): 73–92. doi:10.2307/2118511. JSTOR 2118511.*
- *Cunningham, Lawrence A. (2002). "Behavioural Finance and Investor Governance". Washington & Lee Law Review.* ***59****: 767. doi:10.2139/ssrn.255778. ISSN 1942-6658. Vartiainen, Hannu (12 January 2012). Behavioural Economics and Its Applications. Princeton University Press. ISBN 1-4008-2914-3*