



Impact of Behavioural Finance on Investment Decisions— An Empirical Study with reference to Mysore City

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Abstract

Traditional financial investment theories assume investors usually take rational behavior into account. Though the trend has shifted, investor behavior now plays a significant role in influencing investment decisions. The present study aims to explore how investment decision-making is influenced by psychological biases. The study covers five prime biases to test the relationship with personal investment decisions. The sample size considered for the study is only 200 investors in Mysore city. The Data is collected from the respondents through the structured questionnaires. Descriptive statistics, correlation, and a multilinear regression model were used to analyze and explore the relationship between bias and individual investment decisions. The result of the study revealed that there exists a strong positive correlation between personal investment decisions and regret bias and personal investment decisions and loss/risk aversion and a moderate correlation with personal belief bias, and overconfidence bias. It is also explored that there is a lower positive correlation between personal investment decisions and opportunity bias.

Keywords: Behavioural Finance, Behavioural Bias, Investment decisions, Personal belief bias, Overconfidence bias, regret bias, Risk aversion bias, Opportunity bias.

INTRODUCTION:

Conventional finance theories assume that investors act rationally and concentrate on rational solutions. Behavioral finance studies the psychological influences on financial decisions, in contrast to standard finance ideas. It integrates knowledge from finance and psychology to comprehend investor behavior. The study of behavioral finance looks into how psychology influences investing decisions and identifies consistent departures from reasoned choices. The psychological bias of investors affects the way they make investments. Investors constantly aim to reduce risk, increase return on investment, and maximize investment value. It is appropriate to study the effects and influences of investors' behavioral biases on their investment decisions to reach the goal. Behavioral finance demonstrated that people's cognitive limits and biases prevent them from complete rationality when making decisions (Ahmad Zamri, et al., 2017). Overconfidence is a prominent bias that causes investors to overestimate their knowledge and skill sets while ignoring the risk associated with investing decisions (Prosad, Kapoor, et al., 2018). Losing anything hurts more than winning the same amount of money. According to prospect theory, loss aversion is the tendency for people to strongly favor avoiding losses above making gains. People who are the loss-averse tend to hang onto their losers even in situations, where there is little to no likelihood of a profit (Aigbovo et al., 2019). The studies on the influence of behavioral factors on individual investment decisions stated a positive relationship. The proposed research attempted to establish how significantly behavioral bias affected investors' financial choices.

REVIEW OF LITERATURE:

There was a considerable positive correlation between the several types of behavioral bias and individual investing decisions (Nkukpornu et al., 2020). Behavioral finance has an impact on a variety of investing decisions. The prime influence on investment preferences comes from the snakebite effect. It has demonstrated the strongest correlation between a few more biases and investment decisions. Investors must know their assumptions to make informed decisions (Chaudhary 2013). These biases get translated into their behavior because they can make suboptimal decisions. Such decisions, on a large scale, can cause disruptions in the market and are known as market anomalies. Investors may overestimate their ability to foresee outcomes or assume more information than they possess. It frequently results in excessive trading (Kannadhasan, 2006). Research on risk perception has often focused on how investors process the knowledge and the various behavioral finance theories and issues that could influence how they evaluate risk while making decisions. Several behavioral finance theories and concepts, such as heuristics, overconfidence, prospect theory, loss aversion, representativeness, framing, anchoring, familiarity bias, perceived control, expert knowledge, affect (feelings), and worry, influence an individual's assessment of risk for different financial services and investment products (Ricciardi V, 2017). Individual investors' financial investing decisions are based on diversified perspectives and preferences (Sahi et al., 2013). Investors have a positive mindset while applying their behavioral biases in investment decisions. If people are aware of behavioral biases, it is advised that they exercise caution before making rash financial decisions (Kumar et al., 2016).

RESEARCH GAP:

The literature survey on behavioral finance revealed that many studies on the concept were conceptual. Existing research studies on behavioral finance mainly concentrated on the origin and growth of behavioral finance, factors influencing behavioral finance, and the effect of behavioral finance at a macro level. Behavioral biases are a result of numerous factors, including the paucity of research in emerging economies, the prevalence of secondary data-based empirical research, the dearth of empirical studies on individuals exhibiting herd behavior, the emphasis on equity in the home bias, and the inconsistent empirical results regarding herding bias (Kumar, S. et al., 2015).

Although few studies on the impact of behavioral finance mainly concentrated on stock market investors. However, no hard survey has been undertaken to understand the influence of the theory of behavioral finance on investment decisions in Mysore city.

STATEMENT OF THE PROBLEM:

Numerous factors influence the behavioral qualities of investors when they make financial decisions. Investment decisions under the influence of behavioral finance are one of the upcoming topics for academic research.

SIGNIFICANCE OF THE STUDY:

The study will assist investors in investing their money in more lucrative investment avenues based on their needs and also help institutions know the market anomalies in the trend of behavioral finance.

SCOPE OF THE STUDY:

The present study aims to understand the preferred investment options and how behavioral finance as a new paradigm affects individual investment decisions.

RESEARCH METHODOLOGY:

The study is empirical and descriptive. The study is conducted based on secondary data and primary data. Secondary data for the survey is secured from the existing literature in books, book chapters, working papers, and published scholarly articles in journals. Of the investors in Mysore city, 200 have been reflected in the sample population for collecting information from primary sources. Data was collected from the sample respondents using the structured questionnaire. Descriptive statistical tools like frequency, percentages, mean and standard

deviation; and inferential statistical tools like correlation, and multilinear regression analysis are applied to analyze the data. SPSS software is used to analyze the data.

OBJECTIVES OF THE STUDY

- To analyse the impact of behavioural finance on personal investment decisions.
- To understand the preferred investment option

HYPOTHESIS

H₁: There exists a significant relationship between behavioural finance and personal investment decisions.

H₀: There is no significant relationship between behavioural finance and personal investment decision

DATA ANALYSIS AND INTERPRETATION:

Table 1 Demographic Profile of Respondents

	Category	No. of Respondents	Percentage	Cumulative Percentage
Gender	Male	163	81.5	100
	Female	37	18.5	
Age (in years)	20-30	31	15.5	100
	30-40	78	39.0	
	40-50	57	28.5	
	50-60	27	13.5	
	60 and above	07	03.5	
Marital Status	Married	169	84.5	100
	Single	31	15.5	
Qualification	Upto 12th	40	20.0	100
	Under graduation	91	45.5	
	Postgraduation	48	24.0	
	Doctoral Degree	21	10.5	
Monthly Income	Less than Rs.20,000	19	09.5	100
	Rs.20,000 – Rs.40,000	41	20.5	
	Rs.40,000 – Rs.60,000	50	25.0	
	Rs.60,000 – Rs.80,000	60	30.0	
	Above Rs.80,000	30	15.0	

Source: Primary data

Table 1 shows that 163 (81.5%) of the respondents are male, and the rest 37 (18.5%) are female. Respondents belonging to the age group of 30-40 are the highest represented at 39%, followed by the 40-50 age group at 28.5%. Respondents belonging to the age groups of 20-30, 50-60, and 60 and above are 15.5%, 13.5%, and 3.5% respectively. 84.5% of the respondents are married, and 15.5% are single. The respondents' levels of education can be classified into four categories: 12th grade or below, graduation, post-graduation, and doctoral degree. The highest percentage of respondents (45.5%) are graduates, 24% are post-graduates, 10.5% are holders of a doctoral degree, and only 20% pursued education of 12th or up to 12th standard. The monthly income level of the respondents is categorized into five groups. 30% of the respondents belong to the income group of Rs.60,000 to Rs.80,000, 25% belong to the income group of Rs.40,000-60,000, 20.5% belong to the income group of Rs.20,000-Rs.40,000, 15% belongs to income group of Rs.80,000 and above and, only 9.5% belongs to income group of Rs.20,000 and below. The following can be inferred from the analysis of the above table. The number of male investors is more than that of female investors. Respondents belong to the age group of 30-40, and 40-50 are compared to other age groups. Married respondents invested more than single respondents. Graduate respondents

are the largest investor group, followed by post-graduate respondents, compared to other qualification groups of respondents. Investment habits are more among the respondents who belong to the annual income group of Rs.60,000-Rs.80,000.

Table 2 Investment Profile of Respondents

	Category	No. of Respondents	Percentage	Cumulative Percentage
Experience in investments	Less than 3 years	25	12.5	100
	3-5 years	66	33.0	
	5-10	74	37.0	
	Above 10 years	35	17.5	
Type of Investment	Shares	133	66.5	100
	Bonds	25	12.5	
	ETEs	21	10.5	
	Commodity	09	04.5	
	others	12	06.0	
Type of Investor	Long-term investor	30	15.0	100
	Speculator	53	26.5	
	Both	117	58.5	
Are your investment experience influences investment decision?	Yes	154	77.0	100
	No	46	23.0	
Have you taken any decision under the condition of market volatility?	Yes	182	91.0	100
	No	18	09.0	

Source: Primary Data

Table 2 indicates the investment profile of respondents. 37% of the respondents have investment experience in the range of 5-10 years, 33% have 3-5 years, 17.5% have experience of 10 and above years, and 12.5% have experience of less than 3 years. Investment experience also influences personal investment decisions. 77% of the respondents expressed that investment experience impacts investment decisions and only 23% did not agree. 66.5% of the respondents invested their funds in shares, followed by bonds, ETFs, commodities, and other investments at 12.5%, 10.5%, 4.5%, and 6% respectively. 58% of the respondents are both long-term investors and speculators, 15% are long-term investors and 26% are only speculators. 91% of the respondents are willing to make investment decisions under market volatility, and only 9% are not interested in making any decision under market volatility. The following aspects can be inferred from the analysis of the above-processed data. Investors with between five and a decade of experience belong to this category; in contrast to other investor types, long-term investors are more. The majority of the respondents invested in shares of public companies. The largest respondents are long-term investors and speculators. To profit from such an opportunity, investors would rather speculate and make long-term investments. A majority of 77% of the investors stated that investment experience influences Individual investment decisions. 91% of the respondents are willing to make appropriate decisions to protect their stock/others during market volatility to protect their investment.

Table 3 Descriptive Statistics and Pearson's Correlation:

Variables	Mean	Standard deviation	1	2	3	4	5	6
1. Personal investment decisions	4.46	.608	1.000					
2. Personal belief bias	4.35	.599	.705**	1.000				
3. Regret bias	4.44	.581	.767**	.724**	1.000			
4. Loss/risk aversion bias	4.38	.714	.764**	.705**	.764**	1.000		
5. Overconfidence bias	4.30	.702	.621**	.538**	.648**	.571**	1.000	
6. Opportunity bias	3.92	.515	.213**	.287**	.286**	.317**	.317**	1.000

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Primary data

Table 3 shows the mean, standard deviation, and item-to-item correlation of variables of the present study. The result of the survey indicates that there is a strongest positive correlation between personal investment decisions and regret bias and personal investment decisions and loss/risk aversion. There is a moderate positive correlation between personal investment decisions and personal belief bias, and personal investment decisions and overconfidence bias. There is a lower positive correlation between personal investment decisions and opportunity bias. It can also be inferred from the above result that, among independent variables, there is a strong positive correlation between loss/risk aversion bias and regret bias. There is a moderate positive correlation among other independent variables. Hence, the null hypothesis of no significant impact of behavioral finance on personal investment decisions is rejected, and the alternative hypotheses are accepted.

Table 5 ANOVA^b

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	51.487	5	10.297	90.363	.000 ^a
Residual	22.108	194	.114		
Total	73.595	199			

a. Dependent variable (Personal Investment Decisions)

b. Predictor: (Constant), opportunity bias, regret bias, overconfidence bias, personal belief bias, loss/risk aversion bias.

Table 6 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.836 ^a	.700	.692	.338

a. Predictors: (Constant), opportunity bias, regret bias, overconfidence bias, personal belief bias, loss/risk aversion bias

Table 6 presents the result of the regression through model summary. $R = 0.836$ indicated that there exists a strong positive correlation between the dependent variable (personal investment decisions) and independent variables (opportunity bias, regret bias, overconfidence bias, and personal belief bias). $R^2 = 0.700$, indicating that about 70% of total variations in individual investment decisions are explained by the independent variables as shown in the model summary. The adjusted $R^2 = 0.692$, explains that independent variables cause the variance level of 30.8% on dependent variable. The value of R^2 is significant as indicated by the p-value (0.000) of F statistics as presented in the ANOVA Table.

REGRESSION MODEL:

The result of the multilinear regression supported the study to quantify the impact of behavioural biases considered for the survey of the individuals' investment decisions. It can be shown in the following regression model.

$$R_y = \alpha_0 + x_1(RgB) + x_2(RaB) + x_3(PbB) + x_4(OcB) + x_5(OpB) + \epsilon$$

Where, R_y = Personal investment decision

RgB = Regret Bias

Rab = Risk Aversion Bias

PbB = Personal belief Bias

Ocb = Overconfidence Bias

Opb = Opportunity Bias

FINDINGS:

The main findings of the study include the following:

- The percentage of male investors is more than that of female investors.
- Investors in the age group of 30-40 and 40-50 are more compared to other respondents.
- The marital status of the investors revealed that the percentage of married investors is higher.
- % of sample respondents are the holders of graduation and post-graduation degrees.
- Investors who come under the income group of Rs.60,000-Rs.80,000 are more in numbers out of the respondents.
- 37% of the investors are having the experience in the range of 5-10 years. It reveals that investors are interested in long-term investments.
- 77% of the sample respondents strongly agreed with the impact of personal investment knowledge and experience influence on investment decisions.
- Shares are the preferred portfolio of the sample investors.
- More than 50% of the sample respondents are both long-term investors and speculators. It can be inferred that investors are involved in speculation to the advantage of price fluctuation.
- 91% of the sample respondents expressed their opinion about the secured investment decision based on skill, knowledge, and biases to minimize the risk and maximize the return.
- The result of Pearson's correlation coefficient of the sample data states the existence of a positive correlation between personal investment decisions and behavioural bias.
- The result of the Multilinear regression coefficient reveals that 70% ($R^2 = 0.700$) of the total variations of personal investment decisions are explained by the independent variable.

- $R=0.836$ highlighted the strong positive correlation between the personal investment decisions and selected behavioural bias selected for the study.

CONCLUSION:

The existing studies on behavioral finance were conducted to nullify the core concept of conventional financial theories and to prove the real role of behavioral finance. Investors are always rational; the basic assumption of traditional finance theories has been the subject of criticism of behavioral finance. Behavioral finance has emerged as a new concept in finance in the last decade. Much research was conducted primarily on the fundamentals of behavioural finance, factors influencing behavioural finance, and various biases influencing the individual's investment decisions. The present study is conducted mainly to explore the degree and direction of correlation between the personal investment decision and prime behavioural bias considered in the survey and reveal the positive correlation between them. The study also highlighted sample respondents ranked shares as their preferred investment. The “n” number of behavioral biases based on personal judgment, knowledge, and skill. These biases truly influence investment decisions. There will be a greater scope of future research on each aspect of behavioral finance at its micro level.

LIMITATION:

The size of the sample investors considered for the study is limited to only 200 respondents. The sample area is also limited to an urban city, Mysore. The study covers only a few biases which are influencing behavioural investment decisions. The study secured the data from respondents only on the prime biases selected for the study.

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