A STUDY ON RELEVANCE OF BEHAVIOURAL FINANCE THEORIES ON INVESTOR DECISION MAKING

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ABSTRACT

The stock market is one the key indicator of measuring the economic development. Investing in stock market is the biggest investment avenue available. The risk and return in this investment avenue various from person to person based on their risk taking ability and the return expected by them. The uses the most behavioural theories are being used in this study which is (Regret, Anchor and Herding Theories). This study identifies to study the relationship between those investment strategies being adopted by the investors has any impact on the behavioural theories which is being adopted by them. A survey of 165 investors being taken through the questioners and the responses were measured in order to compare it with those theories by forming hypotheses for each of those theories. To identify the internal consistency among the questioner which was used there was Cronbach Alpha test was used and got significant results on it. The study identifies that there is no significant relationship to be found in this situation since all the regression test gave a significant level which is higher than (0.05), hence had to accept the null hypotheses.

***Key Words**: Behavioural Finance, Stock Market, Investment Strategies, Behavioural Financial Theories.*

1. INTRODUCTION

Stock market is the key indicator of any economic measurement. As good as the stock market is good there economic conditions are also performing well. In India we have such two major stock market indicators which are Bombay Stock Exchange (BSE) and National Stock Exchange (NSE).

In this practical word investing in capital market and other forms of investment avenues is a investing in stock market is made much easier these days in order to give investors an easier platform for trading on. Investing has become so easy that people with no complete knowledge are also seeing investing in capital market as one of the most reliable avenue of investment. On the other hand people with a good knowledge are getting a higher chances making increasing their return. Here investors with lesser knowledge tend to make a wrong decision and chances of losing their capital are higher. This kind of decision making can be easily followed by using behaviour financial theories.

Decision making could be a complicated method which might be outlined as a method of selecting a selected different among variety of potential courses of actions when careful analysis of every. most vital challenges to investors is to create investment call, having a distinction in their profile, like demographic factors, socioeconomic factors, instructional levels, age, gender, and race.

The present study is also related to the concept of behavioural finance on how the individual take a stand on making decision in the stock market and his behaviour is classified according to different his physiological behaviour in many theories

And also in this study, knowing the controversial relevance on this theories keeping inverters strategies in mind. Behavioural finance is a frame work of mainly four topics Market Impact, Emotion, Framing and Heuristics.

Behavioural finance approach makes an attempt to elucidate and increase understanding of choosing patterns of investors, together with the emotional methods concerned and degree to that they influence the choice creating process. Basically, it makes an attempt to elucidate the what, why and the way people view financial decisions. These facilitate investors to reduce or eliminate the psychological biases in investment choices.

2. STATEMENT OF PROBLEM:

Behavioural theories are viewed as a comparatively recent subject in the capital markets. Thus, investigating such a subject is vital in order to recognize the shifting world of investments.

Present technology augments fast trade among different investors. The idea of investing is perceived as trendy. Hence, individuals have an inclination to make irrational choices which are not grounded in the basic knowledge or data of the financial instrument. These conclusions are enlightened via some behavioural finance theories. The outcome of incomplete knowledge is that investors allow these theories to impact their decision-making course, thus leading to major losses.

3. REVIEW OF LITERATURE

It is always seen that investors seems to be unhappy and take decision of not investing when the stock price if the firm falls on a single trading day. In the paper written by De Bondt and Thaler (1985) they explored the probable psychological basis for investor behavior and claimed that mean reversion in stock prices is a classic indication of investor over -response in which investors tend to over think or over calculate the current performance of the firm in taking future choices

Building a portfolio for a customer does not only mean selecting stocks or other securities in which they can investment. A wealth advisor need to first know e is much more than merely picking up securities for the mindset of the customer and learn what he actually wants to do with the money Mr. Gupta L.C (1991)is his paper said that people in India consider stocks, debentures and investment in companies extremely risky and prefer depositing their money in banks or investing in mutual funds.

Investment belongs to all the age group people. Age does not matter in the investment decision taking pattern but it all depends on the ability to take up the risk and expected return. Ms. Meenakshi Chaturvedi and Shruti Khare(2012) in their research attempted to explain that age and gender of an investor does not seem to influence their knowledge of money market about any of the investment avenues.

Mutual Funds is one of the avenues of investment which is being widely adopted since mutual funds are the consolidated basket of different stocks in it. Mr. Rao in 2011 began a study on the investor behavior to the upcoming mutual fund schemes. He compares the investing decisions to the education level of the people. He showed that if a person is highly educated, they he/she will have a greater risk appetite.

4. RESEARCH GAP

After researching various papers and articles, it was found that the main gaps that were found are, that the area of behavioral finance is so new and complex that researchers find it hard to interpret the models used by individual investors and whether it varies or not.

5. NEED FOR THE STUDY

Behavioural finance as a concept is a relatively new and unsearched area. It is a complex study because it involved human being and their mindset. Very little research has been done on this and is limited. But people's daily choices such as purchases, and investing can be explained by the concept of behavioural finance. The implication of this subject on why people invest the way they do in unexpectedly strong. Thus, investigating the pattern of spending of a person and why they chose that to understand the volatility in the capital market is very important.

6. OBJECTIVES OF THE STUDY

- To study the attribute of investment decision based on the behavioral theories.
- To study the relationship between major stock investment strategies and the behavioral finance models such as Regret, herding and anchor model that affect the choices of investors.
- To study the main problems faced by individual investor and investigate whether they can be described with the three behavioral finance theories mentioned above

7. HYPOTHESIS

$H_0$1: There is no Significant Relation between Losses Incurred and Investment Strategy's is being adopted.

H'1: There is a Significant Relation between Losses Incurred and Investment Strategy's is being adopted.

$H_0$2: There is no significant relation between herding Behaviour with the period of investment.

H'2: There is a significant relation between herding Behaviour with the period of investment.

$H_0$3: There is no relation between Core values of the company with the age of the Investor.

H'3: There is no relation between Core values of the company with the age of the Investor.

8. METHODOLOGY

8.1 Type of data: Quantitative data Collected through questioner

8.2 Sources of data: The entire study is based on the Primary data method. Where the Investors in stock market thought "Angel Broking Ltd" were interview.

8.3 Tools for analysis of data: Several Statistical tools were being used in analysis of such as CronBach Alpha and regression test for testing Hypotheses.

8.4 Research Design: The methodology adopted for this study is related to the findings of the reviewed literature. A model relating to the findings is applied to carry out the research on Behavioural Finance. The study follows an approach which is further characterized through an empirical model. The empirical model is further used to test various hypotheses which determines the relationship between different the Behavioural Financial Theory with the Investment Strategy.

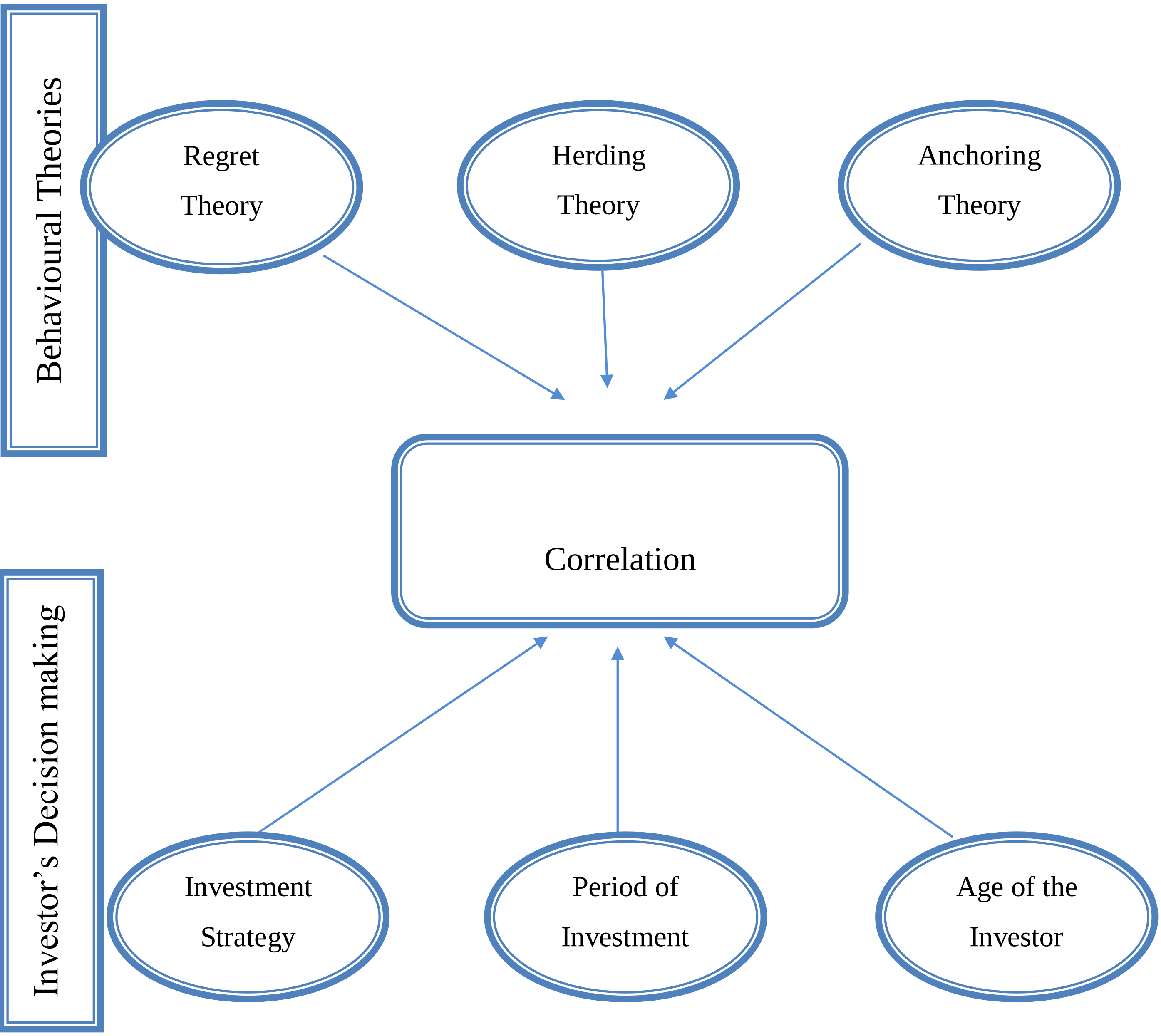

Fig 1: Research Methodology being used in the research.

9. DATA ANALYSIS AND INTERPRETATION

Reliability Statistics result.		
Cronbach's Alpha	Standardized Items	No of questions
.708	.704	9

Table 1: Shows the Cronbach's Alpha value.

The Questioner reliability was being tested with the Cronbach Alpha through SPSS value's and its shows a positively reliability among them. The entire Questioner had a total of 16 Questions including Social-Demography and investors behavioural based questions. To get the result of Cronbach Alpha Above 0.7 only the questions related to the investors behavioural was taken.

1. Regret Theory.

$H_0$1: There is no Significant Relation between Losses Incurred and Investment Strategy's is being adopted.

H'1: There is a Significant Relation between Losses Incurred and Investment Strategy's is being adopted.

ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.242	2	0.621	0.605	0.547
	Residual	163.258	159	1.027		
	Total	164.500	161			

Table 2: Regression results for first hypothesis

In the above table 2 since the Significant is greater than 0.05 at 95 per cent Confident Level there is no impact of independent variable on the dependent variable. Hence, accept the Null Hypothesis. Therefore we conclude that "There is no significant relation between losses incurred and Investment strategy's being adopted".

2. Herding Theory.

$H_0$2: There is no significant relation between herding Behaviour with the period of investment.

H'2: There is a significant relation between herding Behaviour with the period of investment.

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.304	4	1.076	2.005	0.97
	Residual	83.190	155	0.537		
	Total	87.494	159			

Table 3: Regression results for the second hypothesis

The table 3 shows that the significant level of this regression is higher than 0.05 at 95 per cent Confident Level which means that there is no impact of independent variable on the dependent variable. Hence, accept the null Hypothesis "There is no significant relation between herding Behaviour with the period of investment".

3. Anchoring Theory

$H_0$3: There is no relation between Core values of the company with the age of the Investor.

H'3: There is no relation between Core values of the company with the age of the Investor

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	6.018	3	2.006	2.356	0.74
	Residual	133.671	157	0.851		
	Total	139.689	160			

Table 4 Regression results for the third hypothesis

The table 4 shows that the significant level of the test is 0.74 which is higher than 0.05 at 95 percent confident level. This implies that there is no impact of independent variables on dependent variable. Hence, accept the null hypothesis “There is no relation between Core values of the company with the age of the Investor”

10. CONCLUSION

The regression analysis gave a model summary for the study. The study is based on testing of three hypotheses where the result of first hypotheses which is based on regret theory proves that there is no Significant Relation between Losses Incurred and Investment Strategy’s is being adopted with a significant level of 0.05. Investment strategy talks about a defined number of guidelines, behaviors or actions, built to guide an investor's selection of investment portfolio and the study shows it can be one factor but there are many other factors which lead to incur loss. Second hypotheses are based on herding theory which has a significant level of 0.05 resulting in no significant relation between herding Behavior with the period of investment. Investors at the initial stage might go for opinion from a large group of traders but then once they are aware on how to play with shares they come up with their own strategies. And the third hypothesis which is on anchoring shows a significant level of 0.74 showing that there is no relation between Core values of the company with the age of the Investor.

11. REFERENCES

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