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"A Study of Behavioral Factors Affecting Individual Investment Decisions"

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ABSTRACT:

Although finance has been studied for thousands of years, behavioral finance which considers the social behavior in finance is a pretty new area. Behavioral finance theories, which might be based totally at the psychology, try to arrest how feelings and cognitive mistakes impact man or woman traders' behavior (buyers referred to on this look at are referred to person traders). The key goal of this have a look at is exploring the behavioral factors influencing person buyers' selections on the NSE & BSE Stock Exchange. Furthermore, the members of the family among these elements and funding overall performance also are tested. The have a look at begins with the present theories in behavioral finance, based totally on which, hypotheses are proposed. Then, those hypotheses are examined via the questionnaires dispensed to individual buyers on the Broking Firms, college students and professionals. The data collected from the Stock Broking firms, Students, Authorities through structured questionnaire were observed and data collected were analyzed using Cronbach's Alpha Reliability Test, based entirely on which, hypotheses are proposed. The result indicates that there are 5 behavioral elements affecting the funding selections of person investors at the NSE & BSE Stock Exchange: Herding, Market, Prospect, Overoptimism gamble's fallacy, and Anchoring-ability bias. Most of these basics have mild impacts while Market element has high affect. This test also tries to discover the correlation among these
behavioral factors and speculation overall performance. Among the behavioral factors referred to above, best 3 fundamentals are located to influence the Investment Performance: Herding (inclusive of shopping for and promoting; choice of trading shares; extent of buying and marketing stocks; velocity of herding), Prospect (such as loss aversion, remorse aversion, and mental accounting), and Heuristic (inclusive of overconfidence and gamble's fallacy). The experimental behaviors are determined to have the highest advantageous impact at the investment overall performance while the collecting behaviors are stated to persuade undoubtedly the investment overall performance on the lower degree. In calculation, the possibility behaviors provide the undesirable impact on the funding overall performance.

KEYWORDS: Stock Market, Stock Exchange, Behavioral factors affecting investors' decision, Investment Performance, Market Awareness

INTRODUSTION:

- The financial services sector provides financial services to people and companies. This segment of the budget is made up of a variety of financial firms including bank, speculation houses, lenders, finance companies, real estate, broker and insurance companies. As noted above, the financial services industry is probably the most important sector of the economy, leading the world in terms of earnings and equity market capitalization. Large multinationals dominate this sector, but it alsoembraces a diverse range of smaller companies.
- According to the finance and development division of the International Monetary Fund (IMF), financial services are the processes by which patrons or businesses acquire financial goods.1 For example, a payment system provider offers a financial service when it accepts and transfers funds between payers and receivers. This containsaccounts settled through credit and debit cards, payments, and electronic funds transfers.
- Companies in the financial services manufacturing manage money. For instance, a financial consultant manages assets and offers advice on behalf of a client. The advisor does not directly provide reserves or any other product, rather, they facilitate the movement offunds between savers and the issuers of securities and other instruments. This service is amomentary task rather than tangible assets.
- Financial goods, on the other hand, are not tasks. They are things. A hypothecation loan mayseem like a service, but it's actually a product that lasts yonder the initial provision.
- Stocks, bonds, loans, commodity assets, real estate and insurance policies are samplesof financial goods.
- Financial services are the economic services providing by the finance industry, which comprehends a broad range of businesses

that manage money, including credit unions, banks, credit-card companies, insurance companies, accountancy companies, investment funds, buyer finance companies, stock brokerage companies, individual assets managers etc.

- The term "financial services" became more prevalent in the Combined States partly as a result of the Gramm Leach-Bliley Act of the late 1990s, which enabled dissimilar types of companies operating in the U.S. financial services industry at the time to merge.
- The financial sector is customarily among those to receive government support in times of widespread economic crisis. Such bailouts, however, enjoy less public backing than those for other industries.
- There are three over-all types of financial services: personal, consumer and corporate. These three categories incorporate the major players and influencers for companies and organizations trying to climb of the industry.
- India has a expanded financial sector undergoing rapid expansion, both in terms of strong growth of existing financial amenities firms and new entities entering the market. The segment encompasses commercial banks, insurance companies, non-banking financial companies, co-operatives, annuity funds, mutual funds and other smaller financial entities. The banking controller has allowed new entities such as payment banks to be created recently, so adding to the type of entities operating in the sector. However, the monetary sector in India is principally a banking sector with commercial banks accounting for more than 64% of the total assets held by the financial system.
- The Government of India has introduced several improvements to liberalise, regulate and enhance this industry. The Government and Reserve Bank of India (RBI) have taken various actions to facilitate easy access to finance for Micro, Small and Medium Enterprises (MSMEs). These procedures include introduction Credit Guarantee Fund Scheme for MSMEs, issuing guidelines to banks concerning collateral requirements and setting up a Micro Units Expansion and Refinance Agency (MUDRA). With a combined push by Administration and private sector, India is undoubtedly one of the world's most vibrant principal markets.

BEHAVIOURAL FACTOER:

❖ Behavioral is pretentious by factors relating to the person, including:

- Physical features age, health, illness, pain, influence of a substance or suppository.
- Personal and emotional factors- personality, beliefs, opportunities, emotions, mental health.
- Life knowledges- family, culture, friends, life events.

❖ There are five behavioral basis:

1. Overconfidence bias
2. Representative basis
3. Regret aversion
4. Mental accounting
5. Herd behavior

- Restrictions of the traditional financial models in amplification investor basis have led researcher to focus on human behavioral aspects.
- These aspects are based on intellectual psychology, which is caused by cognitive misapprehensions. There are two broad arrangements of these cognitive illusion specifically heuristics decisions process and the prospect theory.

❖ There are four behavioral factors that impact the investment decisions of individual investor.

1. Heuristics:
   Representativeness, Overconfidence, Anchoring, Gambler's fallacy, Availability Bias.
2. Prospect:
   Loss aversion, Regret aversion, Mental accounting.
3. Market:
   Price change, Market information, Past trends of stocks, Consumer preference.
4. Herding:
   Impacts of other investors' decisions (buying, selling, choice of trading stocks.

Objectives of the study:

1. To understand several factors that affects an individual investment decision.

2.To find the prevalent choice of people to invest in investment.

3.To comprehend criteria for investment in the marke

Literature Review:

Saloni Raheja and Babli Dhiman: The results of this study implies that speculation advisors should consider personal faces and individual risk tolerance, among other factors, when giving investment investors' disposition traits to address the clients' financial needs and advise them about applicable financial services in an efficient manner. Also, our study authorizes that investors will not behave rationally in all situations. Sometimes, they may show unprincipled or irrational behaviour in the investment policymaking process. The study provides valuable insight in understanding the dealings between personality traits and investment decisions in a transition economy context. The study also provides the relation between the behavioural partialities and investment decisions of the investors. The corporations should focus on the different personality traits of investors to link between the investor and speculation. So, the investment companies should design their speculation products according to the risk-taking capacity and the temperament traits of the investors.

Anu Antony and Ansted Iype Joseph (December 2017): Behavioural finance studies how behavioural elements introduced dissimilarities in an individual's decision-making process. In the study the investigator examines the intellectual biases and heuristics of investors, which were obtained by managing a questionnaire and collecting empirical evidence about their own discernments. Individual investor's decisions on speculation were predisposed by various behavioural biases. The consequence of behavioural biases was analyzed using AHP. AHP was used in the study since policymaking affects multiple criteria. Using a precedence vector developed from matrix regularization, various heuristics were found. These were the heuristics employed by the stockholders in their investment policymaking. The most prevalent behavioural factors distressing the investor indicator were in the form of illustrative bias, overconfidence bias had the greatest effect on the speculation decision of the investor.

Lingesiya Kengatharan and Navaneethakrishnan Kengatharan (June 1, 2014): The main objective of this study is exploring the behavioural factors manipulating individual investors' conclusions at the Colombo Stock Exchange. Additionally, the relations between these factors and speculation performance are also scrutinized. As there are limited educations about behavioural finance in Sri Lanka, this study is probable to contribute significantly to the expansion of this field in Sri Lanka. The study begins with the prevailing theories in behavioural finance, based on which, hypotheses are proposed. Then, these suppositions are tested through the questionnaires disseminated to individual stockholders at the Colombo Stock Exchange. The collected data are scrutinized by using SPSS. The result shows that there are four behavioural factors touching the speculation decisions of individual investors at the Colombo Stock Exchange which are Herding, Heuristics, Prospect and Market. Most of the variable star from all factors have moderate impacts whereas anchoring variable from heuristic influence has high influence and choice of stock variable from collecting factor has low influence on speculation decision.

Jakub Svoboda: The author showed a systematic review of qualitative data in the form of newspapers and scientific articles dealing with issues of behavioural finance and risk perception. This work will serve as a hypothetical basis for further research. The author gathered secondary data, from which the main behavioural biases and their construction with the risk perception of individual investors were identified. Moreover, the connection amongst socio-demographic appearances and their influence on the level of influence by behavioural biases was described. All of these features have been found to affect separate stockholders' perceptions of information to the extent that some individuals perceive the same information otherwise when making conclusions based solely on financial revelation and make dissimilar decisions based on that.

Dr. Mohammad Shafi (November 2014): From the review of above studies, it can be concluded that there are frequent determinants that influence the separate investor's behaviour in stock market. Some factors influence majorly while other have slight role in manipulating the behaviour of an individual investor. The factors can be congregated into demographic, economic, social, and spiritual in nature. The most common causes that have a momentous impact on the investors' behavior are herding, over-reaction, cognitive bias, unreasonable thinking, confidence (over or under), gender, age, income, education, risk factor, dividends, influence of people's opinion (friends or family), past recital of the company, accounting information, ownership structure, bonus expenditures, expected corporate earnings, get rich quick. On the other hand, there are several factors which were found uncommon in various studies conducted across dissimilar countries. They are Stock marketability, expected losses in international financial markets, perceived ethics of the firm, diversification purpose, tax penalties of an investment, inflation, trading opportunity, promotional, configuration of the board of managements of companies, brand perception, social responsibility, economic anticipation and control orientation.

Dr. Murlidhar Panga, Anjali Malpani (Singi) and Ajay Malpani: Behavioural finance provides descriptions for why investors make unreasonable financial decisions. It establishes how emotions and cognitive errors influence investors in the decision-making process. The numerous causes that led to behavioural finance are anchoring, overoptimism, herd behaviour, over and under reaction and loss aversions. In essence, behavioural finance approach explores the behavioural decorations of investors and tries to recognize how these patterns guide speculation decision. Behavioural finance proposals many useful insights for investment authorities and thus, provides a framework for appraising active investment policies for the investors. In the current study, the investigators found few factors which essentially prevents or stops the investors to invest in monetary market. The conclusion to invest is in turn getting exaggerated by the behaviour of people. So, in all total 5 features were recognized based on various variable quantity and these factors were classified based on the comparations between them. The investigators leave the option to linger this study as to approve the effect of these influences further.

Research design:

Research design is the agenda of research methods and techniques chosen by us toconduct a study.

Sampling Frame: Investors of Vadodara

The sampling frame (also known as the "sample frame" or "survey frame") is indeed the actual collection of units. A sample has now been taken from this. A basic random samplegives all units in it an equal probability of being drawn and appearing in the sample. In the ideal scenario, the sample frame should match the sample of people.

Hypothesis Formation:

H0: There is no significance difference in behavioural factors affecting individual investment decisions on the basis of occupation.

H1: There is significance difference in behavioural factors affecting individual investment decisions on the basis of occupation.

Results:

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
behav_occupation * occupation of respondent	121	100.0%	0	0.0%	121	100.0%

behav_occupation * occupation of respondent Crosstabulation

Count

		occupation of respondent					Total
		Salaried	Bussiness	Professional	Student	Home maker	
behav_occupation	2.29	0	0	1	0	0	1
	2.57	0	1	0	1	0	2
	2.71	0	0	0	1	0	1
	2.86	1	0	1	1	0	3
	3.00	3	1	1	2	0	7
	3.14	2	0	0	5	0	7
	3.29	4	0	0	1	0	5
	3.43	2	0	1	4	0	7
	3.57	1	1	0	7	0	9
	3.71	2	0	1	7	0	10
	3.86	8	3	1	7	1	20
	4.00	7	1	1	7	0	16
	4.14	2	1	0	4	0	7
	4.29	4	0	2	3	0	9
	4.43	2	0	0	0	0	2
	4.57	3	0	0	3	0	6
	4.71	1	0	0	2	0	3
	4.86	0	0	0	1	0	1
	5.00	3	0	0	2	0	5
Total		45	8	9	58	1	121

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	59.929[a]	72	.844
Likelihood Ratio	53.500	72	.950
Linear-by-Linear Association	.777	1	.378
N of Valid Cases	121		

From the output of the chi-square test it is observed that the significance value of Pearson Chi-Square is 0.844 which is greater than 0.05(P>0.05), so Null Hypothesis is Accepted. Hence, there is no significance difference behavioural factors affecting individual investment decisions on the basis of occupation.

Findings:

After interpretation of the data these are followings, findings were emerged.

- Most of the respondent are invest in investment.
- Majority of the respondent i.e., 44% are finance in stock market and less of the respondent are invest in post office savings.
- There are 55% of the respondent are invest in speculative and capital both type of the speculation.
- Most of the respondent are take the information to family/friends.
- There is interest rate is important to investment, awareness rate is most of the respondent to affect the investment and there after economic growth is also central to respondent.
- For the investment respondent are prefer to finance and investment sector.
- In this analysis some limitations are consider to speculation decisions and respondent are agree with these all the parameters then that parameters are consider to investment decisions.
- In this analysis some behavioural aspects of investment decisions and respondent are agree or strongly agree with these all the behavioural facets of investment decisions.
- Most of the respondents are male.
- In this analysis students are most of the respondent then they are investing in investment on their knowledge and their behavioural factors.
- Majority of the respondent are youngsters they are invest in investment.

Conclusion:

Stockholder need to make investment decision making when they choose to invest in some securities. Investors are required to make optimal investment decisions. Therefore, investors need to analysed evidence in the decision-making process. There are several theories that have been developed regarding investment decision making, namely classical financial theory and modern financial theory related to financial behaviour. Classical financial theory related to efficient market hypothesis. Efficient market hypothesis explain that investor always make a rational decision and also price in the market is reflected the The Impact of Behavioural Aspects on Investment Decision Making information that investor need. Classical financial theory is also related to important analysis. However, in modern financial theory showed that sometimes investor cannot make a rational decision because there are behavioural biases. Behavioural biases emerge due to the limitation ability of investor to do technical and fundamental analysis. As per research analysis occupation and income of person highly affected to the decision of investment pf particular person. According to research it is observed that low-income person mainly invests in guaranteed investment rather than risky investment, as against businessman take more risk and also highly interested in share market investment. Also noticed that, interest rate is highly affecting at the time of investment.

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