THINK INDIA (Quarterly Journal)

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

Behavioral Finance: A Study On Investor's Investment Decision

Dr. P. Praveen Kumar, Asst. Professor, Saveetha School of Management, Saveetha Institute of Medical and Technical Science, Chennai,

praveenkselva@gmail.com

M. Anthony Samanas, II Year MBA, Saveetha School of Management, Saveetha Institute of Medical and Technical Science, Chennai – 77

ABSTRACT

The present study is done to observe the influence of investor's behavior on their investment decisions. The study encompasses behavioral summaries of individual investors, institutional investors as well as financial advisors. The influence of psychological and emotional aspects along with challenges encountered during investment decisions are addressed in this study. The cash flow and risk factors play a major role in financing and investment decisions. Questionnaire method has been adopted for accumulating data from equity investors. Primary data were analyzed through analysis of frequency, mean and regression. Findings argue that herding and prospect factors influence the investment pattern of the investors.

INTRODUCTION

Investment of cash from families and groups are usually decided under various uncertain conditions. It is very much challenging for people to decide on investments during ambiguous circumstances. It is believed that as economies progress, the corporate earnings goes high which will in turn elevate the investments. All these are directly proportional. When economic growth occurs, it creates jobs and thereby income as well as sales will pick up. Nowadays, it is simpler to buy shares of companies in stock market. The investors can also approach a broker, online or a financial planner for investments. Majority of the investors have desire to buy shares of low prices and sell it for higher prices. While involving in stock selection investors have to be careful in their choice to avert the financial risks. The investors must take numerous factors such as economy, stock prices, future outcomes, competitors, product quality and so on into consideration for right choice. The uncertainties may even occur while making selection but still investors have to be cautious to proceed in the right direction. Expert interpretation and business information must be analyzed for

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

investing in the successful companies. Measurement should not be influenced by psychological and emotional concerns which may result in deviated investments. Behavioral biases like overconfidence, heuristics, herd behavior, etc must be strictly dodged while deciding upon investments. This study helps in investigating the behavioral perspectives of investors on their investment patterns.

REVIEW OF LITERATURE

Kapoor and Prosad (2017) expressed about progressions in the field of behavioral finance. According to this study, behavioral anomalies are identified in stock markets earlier. This study puts focus on importance of behavioral finance because of its exceptional position in the society.

Jureviciene et al. (2014) evaluated about the decisions of financial investments in corporate sector. This study implies that non financial companies remain inactive in the financial market. This is due to the fact that they indulge in minimized risks and investments of short period and they consistently strive to amass funds.

Chauhan and Huseynov (2018) addressed matters related to dependable intended behavioral examinations. The study investigated financing choices of firms towards target behavior. It is found from this study that financing choices of firms are not impacting deviations in debt ratios.

Aney at al. (2019) explored about boundaries and financing options of firms with respect to behavior of opportunistic stakeholders. This study recommends that stakeholders of firm must operate opportunistically during situations of financial distress. During these circumstances they must form groups to resolve the problems.

Tuyon and Ahmad (2016) illustrated the perspectives of behavioral finance experienced in efficiency within stock markets at Malaysia. This research provides information about investor's rationality, prices of stocks and efficiency of stock market. It is obvious from this study that predictability of prices is dynamic.

Camara (2017) portrayed the decision making in financing with respect to behavioral finance. This study focuses on the significance of herding evidence in services industry. It also explains capital structure in the inter industry. The implications of this study depicts that within industry the financing behavior will be different.

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

Yung (2019) advocated the entrepreneurial manipulation regarding staged financing. This research identified the staging factors that results in higher or lesser manipulations in non staged financing. This is expressed through manipulation persistence that supports the path to be dependent during total manipulation.

Louhichi and Boujelbene (2017) compared the financing behavior of lending Islamic banks. The capital was an aid during financial crisis such as banking losses. These banks try to demonstrate deviating financing behavior. Therefore, a framework should be developed for appropriate funding.

Liu et al. (2019) analyzed the choices of currency in international trade relating to macroeconomic implications. The study explained that financial development affirmatively affects currency at international trade. There remains a financial channel which propagates and amplifies shock in monetary policy.

Chen et al. (2019) portrayed the investor's sentiment patterns when they finance through internet. The sentiments of investors remain as a deciding factor for internet financing. The investors must be educated with proper explanations for obtaining larger internet stocks.

Fianto et al. (2018) exhibited the affirmative and opportunistic effects on income of rural households. This study explains that equity financing performs better than that of debt based financing. This study also suggests that clients should be given information about financing options for better investments.

INVESTOR'S INVESTMENT DECISION

This study has interviewed 110 equity investors in order to measure their behaviour during stock market investment. Questionnaire method has been adopted for collecting the data. This instrument includes two sections namely profile of investors and their behaviour during investment in stock market. The profile includes the investor's details of gender, age and frequency of investment. The analysis of frequency for profile is carried out using frequency analysis and the results are displayed in Table 1.

Table 1: Details of Investors

Gender	*Frequency*	*Percent*	*Age*	*Frequency*	*Percent*
Male	66	60.0	< 25 Years	4	3.6
Female	44	40.0	25-45 Years	87	79.1

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

Total	***110***	***100.0***	> 45 Years	19	17.3
			Total	***110***	***100.0***
Frequency of Investment			***Frequency***		***Percent***
Rarely			49		44.5
Sometimes			23		20.9
Always			38		34.6
Total			***110***		***100.0***

Table shows the values of frequency and its percentage level of details related to equity investors. It is seen that 60 percent of investors are male and they belongs to the age group between 25 and 45 years. Majority of the investors rarely invest in the stock market.

The behaviour of the investors has been captured by using four factors such as herding, prospect, heuristic and market. Herding factor argues that the investor decision will be heavily influenced by the decision of other investors. This factor includes variables of others decision, volume, holding, brokers and trading. The risk aversion pattern of investors is measured through prospect factors and that covers the variables of low price, profits, market and diversification. The heuristic behaviour of the investor is measured using five variables such as poor stock, advertisement, market predictors, regional companies and analysis. In this situation, investors will take their own decisions. The last factor is market and which includes variables of past performance, price and fundamentals related to stock market.

Table 2: Behaviour of the Investors

S. No.	***Herding Factors***	***Mean***	***Rank***
1	The decision of other investors with respect to stock selection will influence my investment decision (Others Decision)	2.6	5
2	Other investors' decision on quantum of stock will influence my decision on investment (Volume)	3.05	4
3	Holding strategy of other investor will affect my decision (Holding)	3.33	2
4	Stock broker selection by other investors will influence my decision (Brokers)	3.17	3
5	Trading i.e. buying and selling decision of other investors will motivate to the take the similar decision (Trading)	3.42	1
S. No.	***Prospect Factors***	***Mean***	***Rank***
1	I will not sell the shares when the value is low (Low Price)	3.33	4
2	I will not be hurry to book my profits (Profits)	3.57	3
3	My investment will be based on the market phase (Market)	3.67	1

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

4	I will diversify my investment (Diversification)	3.62	2
S. No.	***Heuristic Factors***	***Mean***	***Rank***
1	I will buy outperformed stock (Poor Stock)	2.90	4
2	Advertisement will influence my decision on investment (Advertisement)	2.55	5
3	I will highly depend on market predictors (Market Predictors)	3.34	1
4	I will buy stocks of regional companies (Regional Companies)	3.20	2
5	I will do my own analysis for buying and selling of stocks (Analysis)	3.17	3
S. No.	***Market Factors***	***Mean***	***Rank***
1	Past performance of the stocks will influence my investment decision (Past Performance)	2.97	3
2	Price changes will motivate me to buy/sell the stocks (Price)	3.48	2
3	Fundamentals of the company will influence my decision to invest (Fundamentals)	3.67	1

Table 2 is the outcome of mean analysis. In herding factors, it is clear that variable "Trading" has the highest mean value of 3.4 followed by holding, brokers, volume and others decision. Variable "Market" has the highest mean value of 3.67 in the segment of heuristic factors followed by diversification, profits and low price. Mean analysis of heuristic factors depicts that variable "Market Predictors" has the highest mean value of 3.34 followed by regional companies, analysis, poor stock and advertisement. Results of mean analysis with respect to market factors show that variable "Fundamentals" variable has the highest mean value of 3.67 followed by price and past performance. The equity investors are highly depending on the market pattern and fundaments for making the investments in stock market.

The frequency of investment may be influenced by number of factors such as liquidity position, market trends, behaviour of stock prices, investor's behaviour and so on. This study attempts to measure impact of investor's behaviour on their investment pattern by using regression analysis.

Table 3: Determinants of Investment Pattern

	Beta	Sig.
(Constant)		0.000
Herding Factors	-0.326	0.001
Prospect Factors	-0.352	0.004
Heuristic Factors	0.070	0.418
Market Factors	0.100	0.425

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

Table 3 shows the values of beta and its significant value. Independent variables of herding and prospect factors have significant value of less than five percent. It is inferred that investor's behaviour influences their investment pattern.

CONCLUSION

The investors may even rely on past data and evaluate the effort of traders for stock selection. The fundamental and technical evaluation must be done before selecting the stock. The fundamental analysis comprises of financial records, assets of companies, economic reports and market share. Technical analysis evaluates the past makes data, their achievements and the future position in market. Based on our findings, it is better that investors should examine the behavioral aspects leading to wrong decisions and must avoid them. This would help in understanding the market efficiency. This would perhaps support in finding the better stock options in emerging stock market for the upcoming investors.

REFERENCES

1. Aney, M. S., Appelbaum, E., & Banerji, S. (2019). Firm boundaries and financing with opportunistic stakeholder behaviour. *Journal of Corporate Finance*, *56*, 437-457.
2. Camara, O. (2017). Industry herd behaviour in financing decision making. *Journal of Economics and Business*, *94*, 32-42.
3. Chauhan, G. S., & Huseynov, F. (2018). Corporate financing and target behavior: New tests and evidence. *Journal of Corporate Finance*, *48*, 840-856.
4. Chen, R., Yu, J., Jin, C., & Bao, W. (2019). Internet finance investor sentiment and return comovement. *Pacific-Basin Finance Journal*.
5. Fianto, B. A., Gan, C., Hu, B., & Roudaki, J. (2018). Equity financing and debt-based financing: Evidence from Islamic microfinance institutions in Indonesia. *Pacific-Basin Finance Journal*, *52*, 163-172.
6. Jurevičienė, D., Bikas, E., Keliuotytė-Staniulėnienė, G., Novickytė, L., & Dubinskas, P. (2014). Assessment of corporate behavioural finance. *Procedia-social and behavioral sciences*, *140*, 432-439.
7. Kapoor, S., & Prosad, J. M. (2017). Behavioural finance: A review. *Procedia computer science*, *122*, 50-54.

ISSN:0971-1260

Vol-22-Issue-4-October-December-2019

8. Liu, T., Lu, D., & ThyeWoo, W. (2019).Trade, finance and international currency. Journal of Economic Behaviour and Organisation, 144, 374-414.
9. Louhichi, A., & Boujelbene, Y. (2017). Bank capital, lending and financing behaviour of dual banking systems. *Journal of Multinational Financial Management*, *41*, 61-79.
10. Oprean, C., & Tanasescu, C. (2014). Effects of behavioural finance on emerging capital markets. *Procedia Economics and Finance*, *15*, 1710-1716.
11. Tuyon, J., & Ahmad, Z. (2016). Behavioural finance perspectives on Malaysian stock market efficiency. *Borsa Istanbul Review*, *16*(1), 43-61.
12. Yung, C. (2019). Entrepreneurial manipulation with staged financing. *Journal of Banking & Finance*, *100*, 273-282.