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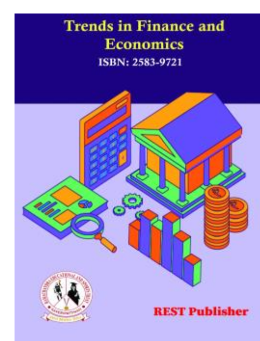

Exploring the Influence of Behavioural Biases on Investment Objectives: A Case Study of Individual Investors

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Abstract: *Behavioural financing is an evolving field that studies how psychological factors affect decision-making under uncertain conditions. Behavioural finance is one of the important topics for us to know about the mindset of the investors about how they make decisions, before investing in various investment avenues. A Questioners is designed through survey responses collected from 100 individual investors. Various behavioural biases exist in the existing study, four behavioural biases have been reviewed namely, overconfidence, anchoring, disposition effect and herding behaviour. This paper investigates whether behavioural biases are evident among investor risk-averse or not and which bias is most prominent among risk-averse investors.*
Keywords: *Behavioural Finance, Behavioural Biases and Individual Investor*

1. INTRODUCTION

Every investor has certain financial goals in each and every phase of their life for which an individual start saving from their own income, but in order to beat the inflation and manage various life style changes, an individual start investing money in various financial instrument. But while investing their hard money, expecting a good return, and investor unknowing tend to be affected by various behavioural biases, which misguide them while taking economic decisions. The field of finance has been influence by the traditional finance model with the central assumption that people are rational and stock and bond market are efficient. The standard finance theories or traditional finance theories were considered to be the backbone of financial decision making but in reality these predications did not confirm to actual market conditions.

Behavioural experts argues that investors are led by their sentiments and are prone to make cognitive errors. They may lack of self-control, be overconfident about their abilities, miscaliberate information, overreact and exhibit herd behaviour. This paper investigates whether behavioural biases are present among the investor. For the study, the analysis of biases affecting investor, for which the data has been collected online from the investor through a structured questioner's dealings with the demographical profile and investors belonging to those profile of the respondents.

Behavioural finance proposes that the investment decision making process is influenced by various behavioural biases that boost investors to deviate from rationality and take irrational investment decision making. The present study is an extensive review of behavioural biases in individual decision making. Here in the present study, four different behavioural biases have been taken as a framework to study their impact on individual decision making. This framework seems to reveal an intention to explore various behavioural biases through the lens of the discipline of behavioural finance.

The behavioural biases are:

- Overconfidence
- Anchoring
- Disposition effect

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- Herding bias

Overconfidence:
Overconfidence bias is tendency to hold a false and misleading assessment of our skill, intellect, or talent. In short, it's an egotistical belief that we're better than we actually are. It can be a dangerous bias and it is very prolific in behavioural finance and capital market. Overconfidence is a psychological bias that directs an investor to think a parameter which more significant that it is, and it also assumed that an individual judgement is worsened and wrong. Razek(2011) defines overconfidence as an overestimate of the probabilities for a set of events. Agrawal (2012) noted that overconfidence causes people to overestimate their knowledge, undervalue risk and overestimate their ability to control event. (Abdin, Farooq 2017) In contrary to this research, researchers argued that overconfidence is also a positive predictor that forecast the investment performance of individual investor that are followed by market differences.

Anchoring:
Anchoring is a psychological term and is a crucial concept in behavioural finance. It talks about the human tendency to rely too much on a piece of information when making decision. This piece information on which people base their decision is "Anchor". The idea of the anchoring bias originated in a 1974 paper by Amos Tversky and Daniel Kahneman called Judgment under Uncertainty: Heuristics and Biases (Tversky & Kahneman, 1974).

Instance for example, imagine you're shopping for a new laptop. The first one you see costs $2,000, and you're shocked at the price. This initial price is your anchor. Later, you come across another laptop that costs $1,500, which seems like a good deal compared to the $2,000 one. However, if you had seen the $1,500 laptop first, you might not have thought it was such a great deal because you wouldn't have had the $2,000 price to compare to it. Anchoring bias can have significant consequences, particularly when objective decision-making is critical, such as in negotiations or financial planning.

Disposition effect:
The disposition effect is an anomaly discovered in behavioural finance. It relates to the tendency of investors to sell assets that have increased in value, while keeping assets that have dropped in value. The disposition effect in behavioural finance is one of the many biases or partialities that people are influenced by when they make imperfect decisions, particularly in investing and market trading.

The disposition effect describes how investors often sell shares whose price has risen when they might be holding them in hopes of higher gains. To an extent the investor 'taking profits' is logical and healthy. However, selling after a short time to avoid possible future loss can deny the investor financial gain.

Herding bias:
The term herd instinct refers to a phenomenon where people join groups and follow the actions of others under the assumption that other individuals have already done their research. Herd instincts are common in all aspects of society, even within the financial sector, where investors follow what they perceive other investors are doing, rather than relying on their own analysis.

In other words, an investor who exhibits herd instinct generally gravitates toward the same or similar investments as others. Herd instinct at scale can create asset bubbles or market crashes via panic buying and panic selling.

A herd instinct is a behaviour wherein people join groups and follow the actions of others. Herding occurs in finance when investors follow the crowd instead of their own analysis. It has a history of starting large, unfounded market rallies and sell-offs that are often based on a lack of fundamental support to justify either. The dotcom bubble of the late 1990s and early 2000s is a prime example of the effects of herd instinct. People can avoid herding by doing their own research, making their own decisions, and taking risks.

2. REVIEW OF LITERATURE

Sukanya. R & Thimmarayappa. R (2015), in the paper on “Impact of Behavioural biases in Portfolio Investment Decision Making Process” in International Journal of Commerce, Business and Management presents a new approach in the analysis of portfolio investment decisions, namely behavioural finance. This paper examines the role of behavioural biases on investment decision making process.

Satish K Mittal & Deepa Shrivastava (2016), in the paper on “Investment Behaviour & Biases of Investor: An Empirical Research Agenda in Indian Perspective” in the 5th International Conference on Recent Trends in Engineering, Science & Management develops a conceptual understanding and presenting a framework in the field of behaviour

Verma & Verma (2018) studied on “Behavioral biases and retirement assets allocation of corporate pension plans” in order to inspect presence of behavioral biases like house money effect & disposition bias in the investment choice making process & whether pension holders exhibit risk-seeking or risk-aversion behavior. It was found that there is no confirmation of house money effect but there exists a significant evidence of disposition effect.

Zahera& Bansal (2018) studied on “Do investors exhibit behavioral biases in investment decision making? A systematic review” in which a systematic review analysis has been conducted by searching keywords connected to behavioral finance on variety of working papers, journals, published books & conference events from year 1979 to 2016 & classified the data on the basis of author, bias, year and country. In study 17 different types of biases have been identified.

Abreu & Mendes, (2018) Advice driven or gambling oriented study has been undertaken where structured retail products that are faces of financial innovation have been taken for study. Findings of the study indicated that structured retail products are comprehensively connected to investor’s behavioural biases particularly overconfidence

Cohen, Ayton, Clacher & Thomas (2019) studied on “Behavioral biases in pension finance trustee’s decision making” in order to better understand the monetary choices made by pension finance trustees & identify future avenues of investment. It was found that trustees are heavily dependent on advises, generally make decisions in groups & also like to make decisions on behalf of others

Shear et al. (2021) claimed that investor risk culture has an impact on financial market instability. Risk profiling is important for understanding the foundation of the risk borne by the investor, and it plays an important role in decision making.

3. RESEARCH METHODOLOGY

The present study is a cross-sectional study and quantitative method used for data analysis. A questionnaire designed and survey method is applied to obtain responses. The actual sample size for the study was 60, but few questionnaires found not adequately filled. Therefore, only questionnaires were found useful and selected as sample size. Convenience sampling technique is used to collect data from individual investors. The purpose of this research analysis is to interpret and draw a conclusion form the collected data.

Objectives:

1. To find out the preferred of investment avenues by individual investor.
2. To study the preference of investment objectives of individual investor.
3. To examine the preference of obtaining investment information by individual investor.
4. To analyse the impact of mental accounting, Overconfidence, Anchoring, Disposition effect and Herding bias on investment decision.

Research Desing:

- In the research paper descriptive and exploratory study is conducted. The universe of the study comprise of all the working person in Tumkur city involved in the invetingactivities, investing in the various avenues

such as shares, debentures, real estate, gold and silver, LIC etc., the study is undertakes the behavioural biases including Overconfidence, Anchoring, Disposition effect and Herding bias.

Nature of Data: The primary data is collected with the help of a questionnaire form the investors who are involved in investing activities. Secondary data has been collected from the various published sources such as books, journals, Newspapers etc.

4. Data Analysis

TABLE 1. Descriptive Analysis of respondents

Factors for Analysis	Criteria	Frequency	Percentage
Qualification	Under Graduate	25	41.7
	Post Graduate	35	58.3
Income	3-5 Lakhs PA	25	41.7
	5-8 Lakhs PA	35	58.3
	8-11 Lakhs PA	25	41.7
Working status	Business	18	30.0
	Salaried	42	70.0
Preferred investment source	Electronic Media	9	15.0
	Prospectus	9	15.0
	Broker Fund Manager	15	25.0
	News Papers	5	8.3
	Family friends	22	36.7

The analysis of the above table describes the profile of the responded on the basic of education, most of the respondents are highly educated 58.3 percent respondents are post graduate and 41.7 percent respondents are under graduate. It can be observed that no respondent earns income more than 11 lakhs 41.7 percent of the respondents fall in income group of 3-5 lakh per annum, 58.3 percent respondent earn income group of 5-8 lakh per annum it is the highest in the total income group response. 41.7 percent respondent are the earn income between 8-11 lakhs per annum. The table also shows the respondents on the basis of their work status 30 percent fall under the business class and 70 percent are the salaried respondents. The table also gives detail on the preferred investment source. Where the family friends' source is highest preference that is 36.7 percent followed by broker fund manager is 25 percent, electric media and prospectus 15 percent and very less preference by the Newspaper 83.3 percent.

TABLE 2. Descriptive Analysis of Dependent Variables

Factors for Analysis	Criteria	Frequency	Percentage
Previous investment	Life Insurance Corporation	11	18.3
	Chit Funds	12	20.0
	Shares	7	11.7
	Mutual Funds	5	8.3
	Gold and Silvers	10	16.7
	Post Office Deposits	7	11.7
	Real Estate	5	8.3
	None of the above	3	5.0
Influence for purchase of investment	Friends	15	25.0
	My experience & personal financial knowledge	34	56.7
	Financial Advisor	6	10.0
	Relative's	5	8.3
Objectives of investment	Safety of the Principle	22	36.7
	Income Generation	11	18.3
	Specific Investment Goals	14	23.3
	Accumulation of Assets	2	3.3
	Tax Shelter	5	8.3
	Capital Appreciation	6	10.0

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The analysis of the table 2 shows that investment made by the investor are salaried people majority invested in the chit fund around 20 percent responded invested, followed by the life insurance corporation of 18.3 percent respondents are invested, then 11.7 percent respondent are invested in shared and post office deposits respectively. 16.7 percent are invested in gold and silver, 8.3 percent respondents are invested in mutual fund and real estate respectively and 5 percent respondents are not invested any of the source. The table also shows respondents influence to the purchase of the investment majorly influence by their experience and personal financial knowledge i.e., 56.7 percent, followed by 25 percent by the friend's influence, 10 percent by the financial advisor and 8.3 precent by the relatives. The table also shows the investment objectives of respondents where majorly respondents are varied about the safety of the investment followed by specific investment goals i.e., 23.3 precent also observed that 18.3 percent respondents are income generation 10 percent respondents are capital appreciation, 8.3 precent respondents are tax shelter and 3.3 percent respondents are accumulation of assets.

TABLE 3. Descriptive analysis of independent variable.

Factors for Analysis	Criteria	Frequency	Percentage
Factor influencing for investment decision	Over Confidence	6	10.0
	Reference (Anchoring)	29	48.3
	Temperament (Disposition Effect)	10	16.7
	Following others (Herding)	15	25.0

The analysis of table 3 on factor influencing for investment decision observe that 48.3 percent investor are invested by reference or Anchoring effect and secondly by the Herding and following other that shows that investors are lack of knowledge regarding the investment preference temperament about 16.7 percent and over confidence 10 percent.

ANOVA: ANOVA test is used to find the influence behavioural bais of the respondents on their investment decision.

Hypothesis:

H0: There is no significant difference between behavioural bias of the respondents and its influence on their investment decision criteria.

H1: There is significant difference between behavioural bias of the respondents and its decision criteria.

TABEL 4. Multiple comparisons of Independent and dependent variables.

Factor influencing investment decision	Std Error	Sig
Over confidence	1.0522	0.632
Anchoring	0.6922	0.041
Disposition effect	0.8892	0.031
Herding	0.6928	0.380

TABLE 5. ANOVA Test

ANOVA

Previous_Investment_you_have_made

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	16.442	3	5.481	1.155	.335
Within Groups	265.741	56	4.745		
Total	282.183	59			

The result mentioned above table 4 shows individual significance test, which depicts that anchoring, disposition effect is significance less value that 0.05 difference and effect on investment decision of the investor but over confidence and hearding biases have significance value higher that 0.05, indicating that the above biases, do not have any influence on investment decision making of investor.

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5. CONCLUSION

The discipline of behavioural finance has emerged in response to handle the difficulties faced by the traditional finance discipline. In essence, behavioural finance explains that investment choices not always influenced based on rationality. Behavioural finance involved various behavioural biases based on individuals social and emotional recognition and tolerance. The present study aims to determine the influence of behavioural biases on investment decision making of individuals social and emotional recognition and tolerance. The present study aims to determine the influence of behavioural biases on investment decision making of individuals. Mainly four behavioural biases are taken into current research for identification of impact, namely, over confidence, anchoring, disposition effect and herding. The study concluded that two, namely anchoring and disposition have a strong influence on the investment decision of individuals, and other two biases we have taken i.e., over confidence and hearing has no significance impact on the behaviour of the investor. For the above analysis research is concluded that behavioural biases are always an impact of the investment decision making.

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