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INFLUENCE OF BEHAVIORAL BIAS ON INVESTMENT DECISION AMONG EQUITY INVESTORS IN KERALA

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Abstract:
Individual investor's behavior is extensively influenced by various biases that highlighted in the growing discipline of behavior finance. Therefore, this study is also one of another effort to assess the impact of behavioral biases in investment decision-making in National Stock Exchange. A questionnaire is designed and through survey responses collected from 243 investors. The present research has applied inferential statistics and descriptive statistics. The field of finance has evolved over the past few decades based on the assumption that people make rational decisions and that they are unbiased in their predictions about the future. Investors are highly influenced by various behavioral biases which affect their decision making process. The main objective of the study is to determine the cognitive biases and the emotional biases that affect investor decisions and to understand if there is any relationship between behavioral biases and investment decisions.

Keywords: *Behavior Bias, Investment Decision, Equity Investors, Influential Factors*

Introduction:
The efficient markets hypothesis suggests that information is swiftly integrated into stock prices. Models of the 1970s linked economic fundamentals with speculative asset prices through rational expectations. However, during the 1980s behavioural finance theorists argued that behavioural/psychological factors play a major role in explaining investor decisions and asset prices. Grossman & Stiglitz (1980) made a significant contribution on price patterns by examining the over-reaction of prices to new information. The proponents of rational expectations theory and efficient markets hypothesis have argued that there is no concrete statistical evidence regarding the over-reaction and under-reaction of stock prices (Fama, 1998). They also suggest that well-functioning markets are generally efficient (Fama, 1998). Prior research has found that investors are not able to make consistently high (abnormal) returns from trading in developed financial markets (Fama, 1998).
Barberis and Thaler (2003) explained that rational behavior should cover two things. First, when investors receive new information, they will update their beliefs appropriately and accurately. Second, based on the new beliefs, the investors will make the right decisions consistent with the explanation of conventional finance theories. Hence, biases will not occur in an investment decision, as each individual is considered to have the capability of selecting the best alternatives among various options that are available, based on complete calculations, theories, concepts, and the right approaches.
The modern theory of decision making relating to investment under risk and uncertainty is very complication. Presence and behaviour of anomalies continue to violate the fundamental behaviour of the financial markets which assumes that all investors are logical and behave rationally. It was suggested by the proponents of behavioural finance that while most of the biases will not be simultaneously present in all investors, however some or the other bias will be prevalent impacting the financial market in general.
Behavioral finance proposes that the investment decision -making process is influenced by various behavioral biases that boost investors to deviate from rationality and take irrational investment decisions (Niehaus & Shrider, 2014). The present study is an extensive review of behavioral biases in individual investment decision-making (Taffler, Spence, & Eshraghi, 2017). The relevance to this research field has increased recently, covering both theoretical and empirical contributions. After studying various literatures, it found that there is a need to conduct one study who carry systematic review on behavioral biases (Kumar & Goyal, 2015). Here, in the present study, four different behavioral biases have been taken as a framework to study their impact on individual investment

decision-making. This framework seems to reveal an intention to explore various behavioral biases through the lens of the discipline of behavioral finance.

Review Of Literature:

Jaya Mamta Prosad (2014), in the paper on “Impact of Investors’ Behavioural Biases on the Indian Equity Market and Implications on Stock Selection Decisions: An Empirical Analysis” explores various noteworthy survey base studies in the field of behavioural finance. These are divided into three themes. The first theme deals with factors behind the individual investor behaviour. The second theme analyses the effect of demographics on investor behaviour. The final strand investigates the role of psychological biases on investor behaviour. Abdulahi Dakane Athur (2014), in the paper on “Effect of Behavioural Biases on Investment Decisions of Individual Investors in Kenya” studies Successful stock investing is more than choosing a particular stock; it is also how to go about doing it in Kenya. This is achieved through staying rational, choosing a few stocks that are likely to outperform the market, having fortitude to hold on them during short-term market volatility, keeping track of them and controlling excess optimism and pessimism. However, this has not been observed in practice. 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 28 finance & biases. This paper covers insights on the subject for developing a deeper understating of the behaviour of investor. 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. Amar Kumar Chaudhary (2013), in the paper on “Impact of Behavioural Finance in Investment Decisions and Strategies – A Fresh Approach” in International Journal of Management Research & Business Strategy examines the meaning and importance of behavioural finance and its application in investment decisions. T.V. Raman, Gurendra Nath Bhardwaj and Kanan Budhiraja (June 2018), in the paper on “Impact of Behavioural Finance in Investment Decision Making” in International Journal of Civil Engineering and Technology (IJCIET) explains through the research paper how these biases impact investment decision making process and what steps can be taken by individual investors to make rational decisions.

Objectives:

1. To analyse the demographical profile of respondents
2. To analyse the relation between investment decision and behavioral bias of the respondents

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 200, but few questionnaires found not adequately filled. Therefore, only 200 questionnaires were found useful and selected as sample size. Convenience sampling technique is used to collect data from investors in National Stock Exchange. The purpose of this research analysis is to interpret and draw a conclusion from the collected data. Inferential statistics, as well as descriptive statistics, are applied for data analysis. SPSS software used for statistical computation.

Data Analysis:

Table 1 Demographic analysis

Age (years)	**percent**	**Educational Qualification**	**percent**
Less than 25	40	+2	38

25-30	44	Graduates	40
30-35	10	Post Graduate	16
35&Above	6	Others	6%
Total	100	Total	100
Gender	**percent**	**Monthy income (RS)**	**Percent**
Male	52	Less than 25 K	38
Female Total	48 100	25k-40K 40K-55K Above 55K Total	30 20 12 100

(source: field survey 2022)

The above table provides demographic analysis of age, Gender, educational qualifications and monthly income. Out of 200 respondents maximum respondents are on the age group between 25-30,around 44%.Maximum are males around 52%.Majority of the respondents are graduate with an monthly income of less than 25K permonth.

Next objective is analysed with the use of ANOVA

ANOVA test is used to find the influence behavioral bias of the respondents on their investment decision.

Hypothesis

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

H1: There is a significant difference between behavioral bias of the respondents and its influence on their investment decision

Decision criteria : Reject the null hypothesis (H0) if the level of significance is less than 5%.

Table 2 Results of one way ANOVA

SL NO	Bias	F value	Level of significance	Result
1	Herd bias	11.84	0	Significance
2	Overconfidence	11.84	0	Significance
3	Availability of bias	9.76	0	Significance
4	Mental accounting	9.41	0	Significance
5	Regret aversion	6.53	0	Significance

According to one way ANOVA, there is a significant relation between investment decision and behavioral bias of the respondents i.e. herd bias, overconfidence, availability bias, mental accounting and regret aversion.

Findings:

This study found the status of their demographical profile such as Age, Gender, Educational qualifications and Monthly income. Out of 200 respondents maximum respondents are on the age group between 25-30,around 44%.Maximum are males around 52%.Majority of the respondents are graduate with an monthly income of less than 25K permonth. With the help of ANOVA table this study proved that there is a significant relation between investment decision and behavioral bias of the respondents i.e. herd bias, overconfidence, availability bias, mental accounting and regret aversion.

Conclusion:

This research paper is an attempt to study the influence of behavioral bias of individual investors. Psychology plays a significant role in determining investment behaviour. Hence, the understanding

of behavioural bias is important. From the review of available literature on behavioral finance and behavioral biases it can be concluded that behavioral finance offers psychology-based framework to explain stock market anomalies, such as extreme rises or falls in stock market. Behavioral finance includes psychology, sociology and other research methods for the study of investment behavior of investors in financial markets. It was found that on average, all the investors are influenced by behavioural bias to a large extend. Behavioral bias has a significant impact on decision making. It is due to this effect that they avoid taking risk and prefer to invest their money in less risky avenues. Hence, it can be concluded that Awareness and knowledge of various financial products has changed the perception of investors. It was found that there is a significant relation between investment decision and behavioral bias of the respondents i.e. herd bias, availability bias, overconfidence, mental accounting and regret aversion.

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