International Scientific Journal of Engineering and Management
Volume: 02 Issue: 11 | Nov – 2023
ISSN: 2583-6129
DOI: 10.55041/ISJEM02073
An International Scholarly || Multidisciplinary || Open Access || Indexing in all major Database & Metadata

THE IMPACT OF BEHAVIORAL ASPECTS ON INVESTMENT DECISION-MAKING: AN EMPIRICAL STUDY OF SURAT CITY

Dr. Lalitkumar H. Tank
Assistant Professor, Bhagwan Mahavir College of Management,
Bhagwan Mahavir University, Surat, Gujarat, India

---***---

Abstract - The purpose of this study is to analyse some of the behavioural characteristics that have an impact on investing decision making. These behavioural aspects include sentiment investor, overconfidence, salience, overreaction, and herd behaviour. Three hundred individual investors from the Surat city were included in the sample, and several methods of data analysis were utilised. A favourable influence on investing decision making was demonstrated by the findings, which indicated that sentiment investors, overconfidence, salience, overreaction, and herd behaviour all participated. The findings of this study have significant consequences for investors, as they can help them better understand themselves and lessen the likelihood of making biassed decisions regarding their investments.

***Key Words*:** Behavioral Finance; Capital Market; Investment Decision.

1.INTRODUCTION

Behavioral finance is a comparatively recent concept that attempts to explain why individuals make questionable financial choices by combining behavioural and cognitive psychological theories with classical economic and financial theory. We believe that establishing clear concepts for psychology, sociology, and finance is the first step in defining behavioural finance. Traditional finance remains the focal point of behavioural finance research; however, behavioural elements of psychology and sociology play an important role in this area. To become acquainted with overall concepts of behavioural finance, a person studying behavioural finance must have a basic understanding of psychology, sociology, and finance.

A rational investor will always behave in order to maximize his financial benefit. However, we are not logical beings; we are human beings, and emotion is an essential part of our humanity. Indeed, we make the majority of our life decisions based solely on our emotions. In the financial world, investors often make decisions based on irrelevant figures and statistics. For example, some investors might invest in a stock that has experienced a significant drop after years of continuous growth. They assume that the price has dropped due to short-term market fluctuations, providing an opportunity to purchase the stock for a low price. Stocks, on the other hand, often lose value due to shifts in their underlying fundamentals.

The perception of incompatibility between two cognitions, which can be described as any element of awareness, including attitude, emotion, opinion, or actions, is known as cognitive dissonance. According to the cognitive dissonance theory, opposing cognition acts as a motivating force, causing the mind to acquire or invent new thoughts or ideas, or change existing beliefs, in order to minimize the amount of dissonance (conflict) between cognition. Individuals seek to minimize inner tension in one of two forms, according to Festinger's theory of cognitive dissonance:

1.He adjusts his prior beliefs, emotions, or options, and

2.He seeks to explain or rationalize his decision. This theory may be applied to stock market investors and traders who try to rationalise conflicting practices such that they appear to flow naturally from personal beliefs or points of view.

We adapt our investing styles or values to sustain our financial decisions in "Financial Cognitive Dissonance." For example, investors who used a conventional investment style (fundamental analysis) to analyse companies based on financial criteria such as profitability measures, especially profit/earnings ratios, began to change their minds about investing. Many retail internet businesses were owned by private investors, and these financial controls could not be implemented.

Since these firms have no financial background, they have very low profits and no net losses. Traditional investors rationalized their shift in investing style (past beliefs) in two ways: the first is the assumption (argument) that we are now living in a "new economy" where traditional financial laws no longer apply. The stock market usually hits its height at this stage in the economic cycle. The second activity that illustrates cognitive dissonance is ignoring conventional ways of investment and simply purchasing internet stocks based on price momentum.

According to the regret theory, a person measures his or her expected reactions to future events or circumstances. Psychologists have learned that people who make poor choices regret them more when the decision was more unorthodox. If an investor has considered buying a stock or mutual fund that has declined or not, purchasing the intended security may cause the investor to have an emotional reaction. Investors can avoid selling stocks that have lost value to avoid the regret of a poor investment decision and the humiliation of having to report the loss.

2. REVIEW OF LITERATURE:

Shefrin and Statman, Ahamed Ibrahim and Tuyon (2017) Role of behavioural finance portfolio selection and investment decisions making. The researchers want to understand the behaviour of an investor investing in an emerging market by

© 2023, ISJEM (All Rights Reserved)

ISSN: 2583-6129
DOI: 10.55041/ISJEM02073

taking into account all possible considerations and critical issues through the prism of Behavioural Portfolio Theory.

Meir Statman (2017) The author used behavioural portfolio theories to understand people's desires and mental and cognitive shortcuts in his study. People are normal; according to Behavioural Finance Theory, they construct a portfolio that includes items other than high predicted returns and low risk, such as social standing and social obligation, as described in Behavioural Portfolio Theory. People invest and spend according to the behavioural life cycle hypothesis, which states that challenges such as a lack of self-control make it difficult to find and follow the best way to save and spend.

Manish Mittal Vyas (2008) Investors will experience cognitive and emotional difficulties, which will influence their investment decisions. This research clearly illustrates how.

Mugdha Shailendra Kulkarni, (2014) Investment managers should understand the psychology of an individual who plays a significant role in stock market behaviour based on the investor's rationality. Investors' decision-making is influenced by cognitive and motivational factors, allowing investment managers to better understand the context of their clients (individual investors) and thus better assist them and bring about a positive change in their investment decision-making based on demographic factors such as age, gender, marital status, level of satisfaction with investments, and annual income.

Forbes (2009) Impact of behavioural finance in investment decisions and strategies. Behavioural finance is a science that studies how psychology affects the financial markets. This viewpoint stresses that, rather than being objective and wealth-maximizing, individuals are influenced by psychological factors such as cognitive biases in their decision-making.

Sultana (2010) A central point between traditional finance and behavioural finance Individual investors do not always rely on calculations to make investment decisions and in some cases, irrational emotions play a significant role in the decision-making process of investors.

Etzioni (2014) A central point between traditional finance and behavioural finance stated that behavioural economics aids in understanding investor behaviour and intellectual capabilities because investors have a variety of cognitive biases that limit their intellectual capabilities.

Raza(2014) Role of behavioural finance portfolio selection and investment decisions making used a case study and descriptive analysis approach to explain how investors' perceptions have a direct and important effect on financial decision making.

Hellmann (2016) On the one hand, behavioural finance is a relatively modern research field focused on behavioural and cognitive psychological theories, whereas traditional economics and finance are on the other. It is up to the latter to justify why certain people make unreasonable financial decisions.

Shafi (2014) Role of behavioural finance portfolio selection and investment decisions making. In his research, the author discussed how behavioural bias can be classified and how it is influenced by investor behaviour, which is divided into four categories: psychological, demographic, social, and economic. Overconfidence, disposition influence, herd behaviour, gambler's fallacy, and hand fallacy on investor behaviour in investment activity aid understanding of how to make wise investment decisions.

Meir Statman (2015) Behavioral finance incorporates information and people's wants, as well as their cognitive and emotional shortcuts and mistakes, to provide an alternate foundation block for each of the foundation blocks of traditional finance. People are average, according to behavioural finance; people build portfolios according to BPT, where people want to go beyond high expected returns and low risk, such as social responsibility and social status. People save and spend money according to the behavioural life cycle theory, which describes how impediments such as a lack of self-control make it difficult to obey and find the best way to save and spend money.

Dr.S. Surya Moorthy, B. Narayan, M.Arivuazhagan, (2012) The author used methods such as correlation and chi-square to better understand the different investment options available in the stock market. Female investors in India are more risk averse, according to the findings of the report. The percentage of income invested by investors is determined by their annual earnings. The risk tolerance level of investors declines as they get older. Gold is more appealing to women investors than other investment choices, according to the report. Investors' decisions should be made on their own initiative. Most investors tend to put their money in gold, mutual funds, banks, and life insurance because they believe the risk and return are lower than other investment options.

Harikanth and B. Pragathi (2017) As per the study, income and occupation play a significant role in the selection of investment avenues and the risk associated with them by both male and female investors. Investors' portfolio selection is influenced by their age, gender, educational qualifications, geographic horizon, risk tolerance capability, and risk bearing capacity.

Waweru et al. (2008) An empirical analysis on behavioural pattern of Indian retail equity investors Price changes, demand information, past stock patterns, consumer preference, over and under reaction to price changes, and fundamentals of underlying stocks are some of the wide market variables that influence investors' decision making, according to their research. Along with these market factors, the current study considers market index results, the ruling party's dominance in the region, and its government policies.

Jaya M Prosad (2014) Herding behaviour was studied on a macro level in stock market behaviour and on a micro level in individual investor behaviour. The study's findings revealed that while herding does not occur in the Indian stock market, it does exist among individual investors, especially elderly investors, and the current study backs up these findings.

© 2023, ISJEM (All Rights Reserved)

ISSN: 2583-6129
DOI: 10.55041/ISJEM02073

Simon Gervais (2009) International journal of research in finance and marketing conducted a literature review on the impact of behavioural differences on capital budgeting in his book "Behavioural Finance; Capital Budgeting and Other Investment Decisions." A broad body of psychological literature is cited in this paper to show that people are overconfident and positive. According to the literature, biassed managers over-invest their firms' cash flows, implement too many mergers, launch more firms and new ventures, and appear to stick with ineffective investment strategies for longer. The above is some of the behavioural finance literature that illustrates how human irrational behaviour affects investment decisions.

Cary & Javier et al (2008) Investing is clearly risky, and people are often forced to make decisions based on insufficient knowledge. Risk assessment is determined by the amount of knowledge an investor has about different stocks on the stock market. Individuals' perceptions of uncertainty influence their consumption, spending, and investment decisions.

Lin (2011) A central point between traditional finance and behavioural finance) attempted to determine the relationship between rational decision making and behavioural biases and concluded that the major steps in the decision-making process are identifying investment demand, searching for information, and evaluating alternatives, and that both stages of demand identification and evaluating alternatives are significantly and positively associated with over. Furthermore, both overconfidence biases and the temperament effect are explicitly and simultaneously linked to the stage of assessing alternatives.

Sewell (2007) "Behavioral finance is the study of the impact of psychology on the behaviour of financial professionals and the resulting effect on markets." The fathers of behavioural finance are Daniel Kahneman and Amos Tversky, who were early pioneers of behavioural finance by incorporating behavioural considerations into investment decisions.

Chaudhary (2013) investigated how behavioural finance can help investors understand why they make irrational financial decisions. The research shows how feelings and cognitive mistakes affect investor decision- making. Anchoring, overconfidence, herd activity, over and under reaction, and loss aversions are among the factors that contributed to behavioural finance.

Chandra (2008) Investigated the influence of behavioural influences and investor psychology on investment decision-making. The study was focused on secondary information. According to the findings, retail investors do not always make sound decisions. Many behavioural factors affect investment decisions, including greed and fear, cognitive dissonance, mental accounting, heuristics, and anchoring, to name a few. The study emphasizes the importance of considering these behavioural variables when making an investment decision.

Agrawal (2012) observes that behavioural prejudices have had and will continue to have an effect on investor judgement. Though it is impossible for an investor to fully eradicate them, it is critical to avoid particular behavioural prejudices in specific circumstances.

Mangee (2017) The relevance of psychological factors for aggregate stock price volatility is examined using econometric evidence in this paper. To that end, the Net Psychology Index (NPI), based on Bloomberg data, has been developed as a novel measure of stock market sentiment. 24. Tavakoli (2011) Studied the various factors that influence an investor's decision. He looked at the 13 variables to see whether they are taken into account by investors and if they affect their decisions. He discovered that financial statements, consulting with others, second-hand knowledge tools, financial ratios, the firm's credibility, and the profitability variable are all more influential. The dividend is the most critical sub variable of profitability.

Jay R. Ritter (2003) provides a reasonable overview of behavioural finance. According to the author, behavioural finance involves research that abandons the conventional assumptions of rational investors in efficient markets maximizing expected utility. The article mentions two building blocks in behavioural finance: cognitive science (i.e., how people think) and arbitrage limits (i.e., when markets will be inefficient).

The Wall Street Journal (2009) This is where behavioural finance enters the picture. The majority of investors are sensible and not crazy. Yet, according to behavioural finance, we're also average, with overflowing brains and emotions. As a consequence, we can be normal smart at times and normal dumb at other times.

Zaidi and Tauni (2012) there are a positive relationship between overconfidence and agreeableness, extroversion and consciousness, and a negative relationship between overconfidence and neuroticism. According to the findings, investment experience and overconfidence bias are related.

Ngacha, S. W. (2019) There was a strong positive association between overconfidence and investment decision-making, according to the report.

Bikas et al. (2013) explained that Behavioral finance is focused on recognizing and describing the impact of psychological factors on financial investment activities, as well as recognizing and describing the influence of emotional factors on significant shifts in financial markets. It also focuses on limited human rationality and describes the effect of psychological factors on financial investment activities.

Statman, M. (2014) explained that Behavioral finance goes beyond asset pricing, portfolios, and business performance to broaden the scope of finance. It explores managers' and investors' actions in both direct and indirect ways, using questionnaires, tests, and the field to evaluate wants, mistakes, expectations, and behaviour.

ISSN: 2583-6129
DOI: 10.55041/ISJEM02073

3. RESEARCH METHODOLOGY

Objectives of the Study

This research study has taken into consideration the following objectives:

- To study the effect and importance of behavioural finance in investor investment decisions.
- To study the different factors that influence investors' investment decisions.
- To examine investors' savings and risk attitudes toward various investment avenues.
- To analyze the behavior and psychology of investors
- To analyze the savings and investment decision.

Source of Data:

Primary data: Primary data are collected through questionnaire.

Secondary data: Secondary data are collected by using websites and research paper.

Sampling Method: Non-probability convenience sampling method has been used.

Sample Size: A total of 300 respondents were included in this Study.

4. RESULTS & INTERPRETATION:

Table 1 Demographic data

Demographic data		
Age	**Frequency**	**Percent**
Below 20years	30	10.3
20 – 30 years	201	66.8
30 – 40 years	43	14.3
Above 40	26	8.6
Annual income		
Below 2,00,000	102	33.9
2,00,000-4,00,000	119	39.5
4,00,000-6,00,000	49	16.3
6,00,000 or above	30	10.3
Qualification		
Below HSC	30	10.3
UG	131	43.5
PG	85	28.2
Other	54	17.9
Occupation		
Service	101	33.9
Businessman	99	32.9
Unemployed	71	23.6
Professional	29	9.6

The data shown in the table indicates that the age group with the highest number of respondents falls between 20 and 30 years, while the age group with the lowest number of respondents consists of individuals aged 40 years and above. The age group under 20 years has a frequency of 31, while the age group between 30 and 40 years has 43 respondents. The respondents' income data reveals that the majority of respondents have an annual income below 2,00,000 or between 2,00,000-4,00,000, accounting for 33.89% and 39.53% respectively. On the other hand, the number of respondents with qualification levels between 400,000-600,000 and 600,000 or above is only 49 and 31 respectively, representing just 16.28% and 10.30% of the total frequency. The UG category has the highest percentage of respondents at 43.52%, followed by the PG category with 28.24%. The Below HSC category has 10.30% of respondents, while the other category has 17.94%. the occupation of service (33.89%) has the highest frequency while Professional (9.63%) has the lowest frequency.

Table 2 Awareness of behavioral finance concept

Response	Frequency	Percent
Yes	251	83.7
No	49	16.3

The frequency data table regarding awareness of the idea of behavioural finance shows that the highest frequency is associated with the response "Yes," which was chosen by 251 respondents. On the other hand, the response "No" has the lowest frequency, with only 49 respondents selecting it.

Table 3 Aware of factors influence investment/purchases decisions

Response	Frequency	Percent
Yes	258	86.0
No	42	14.0

The table above indicates that the respondents believe that the elements they are aware of have an impact on their investment/purchase decision. Specifically, 86% of the respondents answered "Yes" and 14% answered "No".

Table 4 Source of information for investment

Variables	Frequency	Percent
Newspapers	15	5.3
Financial advisor	95	31.6
Friends/ colleague	66	21.9
Internet	118	39.2
News channels	6	2.0

© 2023, ISJEM (All Rights Reserved)

ISSN: 2583-6129
DOI: 10.55041/ISJEM02073

The internet has been selected as the source of information for investing by 118 individual responders out of a total of 300. Among all the sources that respondents selected as an alternative, the second highest is the financial advisor, which received 31.56% of the votes.

Table 5 Percentage of amount that you keep aside for investment

Response	Frequency	Percent
Below 10%	30	10.0
Between 10%-20%	77	25.6
Between 20%-30%	48	16.3
Above 30%	103	34.2
Not fixed %	42	14.0

Based on the data in the table, it is evident that most individuals allocate more than 30% of their earnings for investment, while a small percentage (10%) only invests below 10%. Out of the respondents, a significant 77% are considering investing a portion of their earnings, while a smaller percentage of 14 % have not yet decided on a specific amount to invest.

Table 6 How much you are confident of your investment decisions

Response	Frequency	Percent
Highly confident	185	61.5
Neutral	105	35.2
Low confident	10	3.3

Based on the data provided in the table, it is evident that a majority of individuals, approximately 61.46%, have a high level of confidence in their investment decisions. On the other hand, around 35.22% of respondents expressed a neutral stance, while only 3.32% reported having low confidence in their investment choices.

5. FINDINGS

- As per the data analysis 66.8 % are between the ages of 20 and 30 and are very involved in the investment activity.
- As per our analysis, it is known that 39.5% have 2,00,000-4,00,000 as their annual income.
- As per our analysis, 71% of respondents are graduates who take an interest in investing activity.
- 33.9 % respondents are employees and engage in investment activity while23.6% percent are self-employed.
- 39.5 % of the respondents earned between Rs 2,00,000 and 4,00,000, while only 10.3% earned more than Rs 6,00,000.
- Out of 300 respondents, 83.7 percent are aware of the concept of behavioural finance on other side 16.3% are not at all aware.
- 86% respondents believe that the factors that they aware of affect their investment decisions and only 14% are not believing that the factors affect their investment decision.
- From the analysis of data, we analyse that the purpose of the respondents towards Investment activity 63% respondent strongly agree with the purpose of house purpose,50.5% respondents agree with their child marriage purpose,54.2 with children education, other 56.5% with health care,60.5% with wealth creation while 60.5% for future expenses. On the contrast purpose for regular income 56.8% respondents, 55.5% for retirement and other 62.5% for long term benefit.
- From the analysis of data, we analyse that the 21.9% respondent have their family Friends as their source of investment advice.39.2% of them have internet as source of investment and 31.6% respondent having advisors as their source of investment advice.
- As per our research, 34.2 % of respondents keep above 30% amount aside for investment, while 10% respondents keep below 10% income aside for investment.
- 61.5 percent of respondents are confident enough for their investment decision, while 35.2percent have neutral choice. Just 3.3% have low confident regarding their decision
- From the analysis of data, we analyse that the perception of the respondents towards Investment activity 70.8% respondent disagree with finding decision to be stressful while only 5.3% agree with it ,60.8% respondents agrees that decision is difficult while 11.6% agrees with it.61.5% disagrees that the decision is time consuming while 11.6% agrees that yes they are. And 58.1% disagree that investment decision is not interesting while 15.3% finds interesting.
- From the above chart of investment banking decision, we can analyze that 35.55% strongly agree with their feelings and reactions while at same point 27.91% strongly disagree.33.9% make investment decision because that they feel right to them while 20.27% strongly disagree to it.32.23% disagree that they trust their feelings and intuitions while 21.93% strongly disagree to it.

© 2023, ISJEM (All Rights Reserved)

ISSN: 2583-6129
DOI: 10.55041/ISJEM02073

6. CONCLUSION

Behavioral finance explains why investors make irrational investment decisions. It shows how investors' decisions are influenced by feelings and cognitive errors. Anchoring, overconfidence, herd behaviour, over and under reaction, and loss aversion are some of the factors that contributed to behavioral finance. In essence, the behavioral finance approach examines investor behavioral trends and attempts to explain how these patterns influence investment decisions. Behavioral finance provides many valuable tools for financial practitioners and also provides a basis for investors to evaluate aggressive investment strategies.

Behavioural considerations are extremely important in the decision-making phase of investors. As a result, investors must take the required measures to reduce or eliminate illusions from affecting their decision-making process, especially investment decisions.

At present mostly people are aware of the investment avenues and also, they are interested in the investment activities that nowadays the concept of behavioral finance helps in decision making for the investment purpose. People have their own choice of deciding investment avenue.

REFERENCES

Agarwal, S., Chiu, I. M., Liu, C., and Rhee, S. G. (2011). The Brokerage Firm Effect in Herding: Evidence from Indonesia. Journal of Financial Research, 461-479.

Bakar, S., and Yi, A. N. (2016). The Impact of Psychological Factors on Investors' Decision Making in Malaysian Stock Market: a Case of Klang Valley and Pahang. Procedia Economics and Finance, 319-328.

Changseng, H., and Yongfeng, W. (2012). Investor Sentiment and Assets Valuation. Systems Engineering Procedia, 166-171.

Christanti, N., dan Mahastanti, L. A. (2011). Faktor-faktor yang Dipertimbangkan Investor dalam Melakukan Investasi. Journal Manajemen Teori dan Terapan, 37-51.

Del Giudice, A., and Paltrinieri, A. (2017). The Impact of The Arab Spring and The Ebola Outbreak on African Equity Mutual Fund Investor Decisions. Research in International Business and Finance, 600-612.

Lestari, S., dan Yulianto, A. (2018). Analysis Stock Mispricing trade Return Reversal Saham pada Bursa Indonesia. Management Analysis Journal, 63-75.

Luong, L. P., and Ha, D. T. (2011). Behavioral Factors Influencing Individual Investors' Decision-Making and Performance a Survey at The Ho Chi Minh Stock Exchange. Asian Journal of Finance and Accounting, 15-28.

Lu, T.-H., Shiu, Y.-M., & Liu, T.-C. (2012). Profitable candlestick trading strategies— The evidence from a new perspective. Review of Financial Economics, 21, 63-68.

Horton, M. J. (2009). Stars, crows, and doji: The use of candlesticks in stock selection. Quarterly Review of Economics and Finance, 49, 283-294