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A STUDY ON THE IMPACT OF BEHAVIORAL ASPECTS IN MAKING INVESTMENT DECISIONS & PERFORMANCE

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Abstract—*Behavioral finance concentrates on the psychological and sociological issues of investors. This study explains how investors enter the market and adopt suitable investments decisions. The decisions are based on risk-averse and risk-seeking. This study helps to understand the behavioral aspects of investment decisions. This study also describes why, how, and when the investment decision is taken. The prospect theory and heuristic theory explain Behavioural factors, Market factors, anchoring elements, and overconfidence factors. Most financial advisors are not familiar with behavioral finance. This paper focuses on recognizing the emotional aspects of market fluctuations focusing on rational investors, and aims to explain investing activities on the psychological effect.*

Keywords—*Behavioural Finance, Financial Advisors, Investment Decisions, Psychological Issues, Sociological Issues*.

INTRODUCTION

Behavioral investment argues that some financial phenomena can probably be understood using models that some agents are not entirely rational. The approach of financial decision-making of behavioral aspects is based on the time value of money. Behavioral finance is based on risk and return. Investors make rational decisions because of overconfidence, overreactions, and excitement in rising and declining securities. These factors influence their decision-making process. According to the principles of psychology, behavioral finance derives from investors' decision-making and market behavior from explaining why people buy or sell stock in a financial market. The field has two building blocks which confine to arbitrage, which argues. It can be challenging for rational traders to undo the dislocations of less rational traders and psychology, which catalogs the deviations from complete reasonableness. It explains these two concepts and then presents several behavioral finance applications to the combined stock market, the cross-section of average income, individual trading behavior, and corporate finance.

It shut by assessing progress in the field and speculating regarding its future course. Behavioral finance is a sub-field of behavioral economics that proposes psychology-based theories to describe stock market anomalies, such as severe ups and down in stock price. The reason is to identify and understand why people make confident financial choices within behavioral finance. It is implicit that market participants' information structure and characteristics systematically influence individuals' investment decisions and market outcomes.

REVIEW OF LITERATURE

Goyal (2016) discussed the behavioral biases in decision making. The researchers explore those investors make rational decisions during investment.

Marghoob (2017) conducted a study on factors affecting behavioral finance in investment decisions. Researchers have discussed prospect factors, market factors, overconfidence, and anchoring factors. The study analyzed the factors influencing investment concerning the individuals' investors. Simultaneously researchers have explored the effect of behavior in investment decision making. The researchers revealed that there is a high impact on decision-making.

Arianti (2018) stated the influence of financial behavior, financial literacy, and investment decisions. Primary data is used for this research. The study measured the impact of financial income, financial literacy, and investment decisions. Data analysis is done with the help of statistical tools such as regression, T-test, and F test. It originated that there is no significant relationship between financial literacy and the effect of investment decisions. There is an important relationship between economic behavior and the impact of investment decisions.

Nayel (2019) Researchers have specified the effect of individual behavior on investment decisions. The study is mainly focused on strategic investment decisions. This study is based on personality, ability and skills, perception, attitudes, motivation, work stress, job satisfaction, and administrative leadership. The researcher has found that the above eight factors significantly affect individuals' performance in their investment decisions.

THEORETICAL FRAMEWORK

This paper is based on two prominent theories: prospect theory and the other are Heuristics theory. This study refers to these theories because it is related to behavioral finance and finance psychology, which helps understand the investors' psychology and biases. This theory also explained investors' investment decisions based on the situations and how these situations are represented.

Prospect theory (Tversky, 2009) (Kahneman & Levy, 2002)

The study stated that individuals make investment decisions based on the future value of gains and losses rather than deciding based on the outcome. They described the probabilities of the profits and losses and the assumptions of individuals based on the situations. Thus, these assumptions and possibilities of individuals help them make investment decisions with perceived gains and failures. Kahneman & Tversky has compared this theory with utility theory. Prospect theory is also called loss aversion.

Heuristics Theory (Kahneman & Levy, 2002)

A heuristic is also a rule of thumb, a more influential concept in decision-making. A heuristic is a mental process that helps in problem-solving and learning new ideas. Kahneman and Tversky are the first writers to discuss the factors related to heuristics by identifying three key elements: representativeness, availability, adjustment, and anchoring aspect. These key factors may neglect the information related to probability, and as a result, it may lead to a systematic server error.

Variables of Theories

The variables of prospect theory are losses, gains, probabilities, risk, loss aversion, and decision tree. This variable is related to (Marghoob 2017). Marghoob has explained these factors based on loss aversion, regret aversion, and mental accounting in this model. The researcher has also specified individuals' choices in buying and selling stocks and their herding. Variables of the heuristic theory are availability, anchoring, adjustment, and representativeness. Marghoob has explained anchoring and market factors related to heuristic theory.

BIASES IN BEHAVIOURAL FINANCE

1) More confidence and illusion of control
2) Long-standing attribution bias
3) Indicative bias
4) Cognitive bias
5) Decision-making bias
6) Belief
7) Tendency bias
8) Framing affect bias
9) Risk aversion
10) Emotion and fear bias

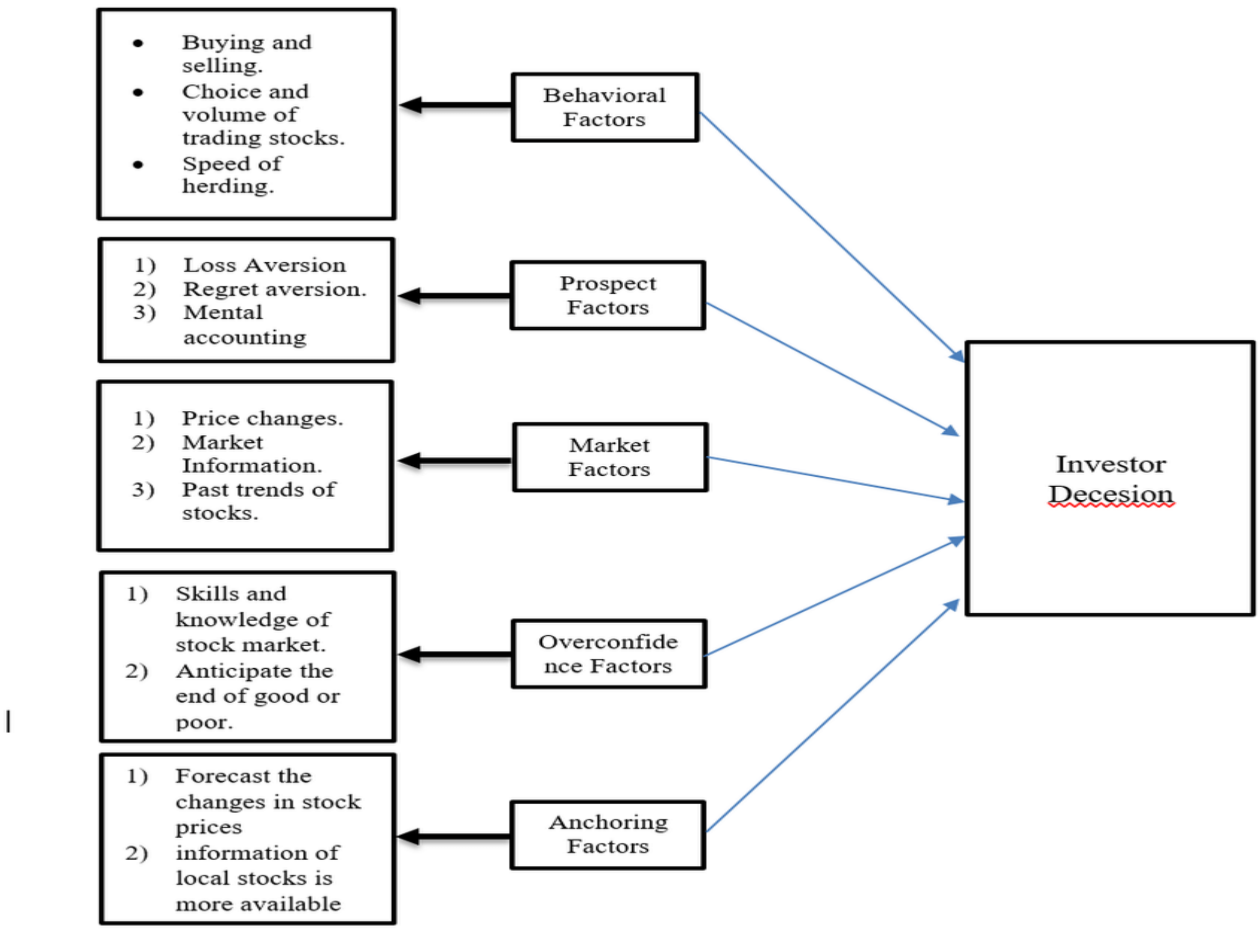
Investment Decision

- Prospect factor
- Market factor
- Overconfidence factor
- Anchoring factor

Behavioral Aspects: The central aspect of behavior is psychology because investors make a national decision based on their psychology and preferences. The behavioral elements are personality, interest, emotions, wishes, attitudes, and stereotypes.

Theoretical Framework

Marghoob (2017) Specified the factors related to prospect theory and heuristic theory. A model is explained with the market, behavioral, prospect, and anchoring factors.



Theoretical Framework (Marghoob, 2017)

CONCLUSION

Behavioral finance helps to know the psychology of investors. This study used prospect theory and heuristic approaches for the theoretical framework. They explained the gains and losses of the investors. And these theories have focused on five factors: market factor, prospect factor, overconfidence, and anchoring element. It indicated that investors believe that their knowledge and skills help them make decisions. They must make decisions based on market factors based on price movements, performance, and historical prices. The prospect factor is based on loss aversion, regret aversion, and mental accounting. Loss aversion plays a vital role in the decision-making of investors. So, investors tend to house money effects and cons frequently. Once they have a reverse house money effect, they seek more risk-averse. Therefore, overconfidence will have a positive impact on decision-making. Since overconfidence is more, it helps the investors to complete a difficult task, but overconfidence is not good. Therefore, investors should always make a proper decision that allows them to make better decisions in the future with suitable solutions.

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