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CONTENTS

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OBJECTIVES
HYPOTHESIS (ES)
RESEARCH METHODOLOGY
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RECOMMENDATIONS/SUGGESTIONS
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BEHAVIORAL BIASES AND ITS IMPACT ON INVESTMENT DECISION MAKING: AN EMPIRICAL STUDY OF INDIAN STOCK MARKET

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ABSTRACT
According to traditional finance theories most of the individual investors are rational in their financial decision making and take investment decision without any influence of their emotion and personality. But in reality, there are lots of factors such as feelings, emotion and intuitions are highly influence their investment decision. The present study examines the impact of behavioral biases on their investment decision and also try to identify the various factors influencing their investment decisions. This study is conducted with a sample with of 100 equity investors in Thrissur district in Kerala. The result of the study shows that investors with few years of trading experience are highly affected with various behavioral biases such as loss aversion bias, herd bias, overconfidence bias and optimistic bias etc.

KEYWORDS
behavioral finance, investment biases, investment experience.

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INTRODUCTION
Behavioral finance is a new growing field of study that applies psychology to financial behavior. It integrates the field of sociology, psychology and other behavioral science to explain individual investor behavior, examine group behaviour of investors and also analyses how this factor impact on share market. It is a fact that humans have sentiments that influence their decision-making process. As such decisions influenced by emotions which leads to irrational thinking and cause anomalies in the financial markets.

According to behavioral finance people are not always rational and markets are not always efficient. It contradicts traditional finance theory which explain that all investors are rational and they take investment opportunity to maximize their wealth. But in reality, investors are affected with various behavioral anomalies and most of the time they behave in irrational way. The present study make an attempt to identify the various behavioral biases among the equity investors in Indian stock market.

REVIEW OF LITERATURE
Jaya Mamta Prosad (2014) analyze the impact of investors behavioral biases and its impact on stock selection among equity investors in Indian stock market. Through the study the researcher found that herd mentality is not seen in the overall market although it persists in a bull market, Indian stock market shows a pessimistic behavior for the period 2006-2013. The study concludes by revealing the fact that there is a strong sign for existences of over confidence biases and disposition effect biases among the investors. These biases increase the individual security transaction volume. The study also reveals that that men are more optimistic and overconfident than women. Herd mentality mostly affect the old aged investors and middle-aged investors are more exhibited with disposition effect.

Abiola Ayopo, Babajide and Kehinde Adekunel Adetiloy (2012), through their study, analyses the impact of selected behavioral biases factors on investment behavior of equity investors in Nigerian security market. By using Multistage random Sampling method primary data collected from 400 stock investors. Pearson correlation analysis and T test shows that, most of the investors at Nigerian security market are affected by over confidence, loss aversion, status quo and framing biases and are least effected by confirmation and anchoring biases. Even though investors are affected by behavioral biases, the result shows that there is weak negative relation exist between behavioral biases and stock market performance.

MR.Girish S R, Mr. Kantesha Sanningammanavara (2014), through their study try to analyse various demographic factors that affect the investment decision of investors. The study also analyses behavioral biases such as risk aversion, overconfidence, Disposition effect, Gamblers fallacy, Heuristic biases among the stock investor's at Indian stock exchange, the study shows that psychological biases such as representatives, heuristic etc. are playing significant role in determine, the individual investor behavior, Behavioral biases like Anchoring, Risk aversion, overconfidence, Disposition effect, Gamblers fallacy etc. are least effected by investors at Mysore city.

Neelakantan P R (2015), through his study try to identify various psychological biases that influences investor’s investment decision among investors at Chennai city. Various behavioral biases, such, cognitive bias such as anchoring, gamblers Fallacy, Confirmation, herding, Cognitive, dissonance, Hindsight and mental accounting and Emotional Biases such a (Overconfidence, Regret Aversion and Loss Aversion) are tested through this study. The present study also reveals that majority of the investors are affected with various behavioral biases. To a greater extent mental accounting bias and anchoring bias can help investor to yield a satiable return from their investments. Cognitive Bias such anchoring, mental accounting, confirmation, Herding Hindsight biases has direct and positive influence on investment decision. Emotional Bias like Over Confidence, Loss Aversion and Regret Aversion are negatively correlated with investment decision of the investors at Chennai city.

SIGNIFICANCE OF THE STUDY
Stock market investment decisions are to be done on the basis of fundamental and technical analysis. But in reality, there are lots of situations where investors lose their patients and take investment decisions based on their emotional feeling and are highly affected with various emotional and cognitive biases. Now a days investor's Irrationality is inevitable reality in stock market. Mood, emotion and mental mistakes leads them in to huge loss and disappointment. The present study is carried out to understand the various behavioral biases exhibited by investor during their investment decision making. This study may help individual investors to identify their pitfall in investment decision making, this study is also helpful to financial institution and assets management companies for devising appropriate investment strategies to their clients. Geographically the study limited to Thrissur district in Kerala.

STATEMENT OF THE PROBLEM
Vibrant growth of financial markets, increasing complexity and novelty of financial products and services, complexity in investor behavior etc. increase the need for studying various factors influencing the investment decision. High market volatility and the urge to make a large profit have encouraged investors to make fast and irrational decision. Investor’s emotions and mental errors can lead to unreasonable and prejudiced judgments in some cases. As a result, it's critical to examine how their skewed choices effect their wealth and portfolio. The present study takes a behavioral finance approach to see if investors are prejudiced while making

investment decisions, and if so, which biases affect them the most and least. The research also looks into whether demographic characteristics have an effect on their investment decisions.

OBJECTIVES OF THE STUDY

1. To identify the various factors influencing the investment decision of equity investors.
2. To measure the various behavioral biases, exist among equity investors in Indian stock market.
3. To make suggestion for improvement.

RESEARCH METHODOLOGY

Descriptive study was undertaken to known the various factors influencing the investment behavior of equity investors. The study uses both primary and secondary data for analysis. The primary data collected by using structured questioner from the respondents. The population of the study consist of all stock market investors. By using convenient random sampling method 100 respondents are selected for the present study.

VARIABLE OF THE STUDY

Demographic factors such as age, gender, investment experience, occupation and behavioural biases such as loss aversion bias, optimistic bias, herd bias, cognitive dissonance bias and overconfidence bias etc. are the important variables used in the study.

RESULT AND DISCUSSION

TABLE 1: ANALYSIS OF DEMOGRAPHIC PROFILE OF RESPONDENTS

DEMOGRAPHIC	CHARACTERISTICS	NUMBER OF RESPONDENTS	%
Gender	Male	90	90
	Female	10	10
Age	Below 25	8	8
	26-35 yrs	5	5
	36-45 yrs	25	25
	46-55 yrs	27	27
	Above 55 yrs	35	35
Educational qualification	School level	10	10
	Graduate	32	32
	Postgraduate	22	22
	Professional	15	15
	Others	21	21
	Panchayath	20	20
Residential Area	Corporation	25	25
	Municipality	55	55
Occupation	Business	49	49
	Private	21	21
	Govt job	10	10
	Others	20	20
Annual income	Below 500000	15	15
	500001-1000000	44	44
	1000001-15000000	31	31
	Above 15000000	10	10
Trading experience	Below one yrs	15	15
	1-3 yrs	29	29
	3-6 yrs	30	30
	6-9	15	15
	Above 9 yrs	11	11
Frequency of trading	Daily	5	5
	Weekly	8	8
	Monthly	30	30
	Few times in an year	33	33
	Once in an year	24	24

Interpretation

- From the above table it is clear that 90% of the investors are male and 10% of them are females. This shows that men are more willing to take high-risk investments than women's.
- Majority of investors are young, and because of their youth and less obligations in, their life they are willing to take high risk.
- One of the most crucial criteria in the investment decision making process is educational qualification, the study reveals that most of the respondents are literate, and some have a professional degree in the finance. Occupation wise data shows that 49% of them are business man, only 10% of the them are govt employees, 21% belongs to private sector. From this it is clear that majority of the investors are business man.
- Trading experience of the investors shows that 29% of the investors has trading experience of 1-3 years.30% of them have trading experience of 3-6 yrs. about 15% of them were beginner having trading experience of less than one year. Only 11% of them have trading experience more than 9 years. Majority of the investors trade less frequently in a year. It can be interpreted from that they are not ready to trade too often due to risk aversion nature.

BEHAVIORAL BIASES AND ITS AFFECT ON INVESTORS

Behavioral Biases: Behavioral biases are irrational beliefs or behavior that can unconsciously influence our decision-making process. Behavioral biases are mainly classified in to two such as cognitive biases and emotional biases. Cognitive biases are generally arising from statistical, information procession, or memory errors that cause the decision to deviate from a rational decision. Emotional biases arises from feelings, perceptions, and beliefs about an elements. Unfortunately, mixing emotions and investing often leads to bad decisions. In this survey six behavioral biases are tested.

Herd behavior Bias

Herd mentality is the tendency of investors to follow a large group blindly, due to this panic buying and selling of investors create assets bubbles and market crashes in the stock market. Investors following a group of experts' advice for investing are found to be exhibit herd bias. Only 39%of the respondents are affected by this bias and those who are exhibiting, this bias is less experienced. Whereas investor's with trading experience of more than 9 years are found to be least affected with this bias

TABLE 2: HERD BIAS OF THE RESPONDENTS

Experience in years	Stock brokers		Expert friends		Self-analysis		Media		Total
	No. of respondents	%	No. of respondents	%	No. of respondents	%	No. of respondents	%	
Less than one years	12	12	16	16	9	9	3	3	40
1-3yrs	10	10	4	4	4	4	3	3	21
3-6 yrs	10	10	2	2	3	3	3	3	21
6-9yrs	5	5	2	2	1	1	1	1	9
Above 9 yrs	2	2	0	0	5	5	2	2	9
Total	39	39	24	24	22	22	12	12	100

Overconfidence bias

Overconfidence bias is the tendency of a person to overestimate their abilities. Investors affected with this bias think that they are expert in investment decision than others. This overestimation leads them to risky investments and huge loss. From the study it is found 74% of the respondents are highly confident in their ability to select winning stock from the market,69% of the respondents strongly believes that good results are due to their experience and investment skills, all this shows that majority are highly effect with this bias.

Loss aversion Bias

Individuals often shows greater sensitivity to loss than to gain i.e. the mental penalty associated with a particular loss is greater than the Mental pleasure connected with a gain of equal size. 59% of the respondents are highly affected with loss aversion bias. This bias is exhibited by those investors who have very few experiences in the stock market. To test for loss aversion bias respondent were asked two optional statement like:

- Have a 50% chance of gaining Rs 10000 and a 50% chance of gravity nothing.
- Have a 100% chance of gaining Rs 5000/-

Rational response is first one but loss averse, investors are likely to select the second option as they want to avoid a loss of Rs. 5000.From the survey it can be interpreted that 47 % of the investors are loss avert. Investor's with less experience in the stock market are highly affected with this bias.

TABLE 3: LOSS AVERSION BIAS OF STOCK INVESTORS

Experience in years	Assured return of 1.7 lakh		0.5 probability either for a Rs 2.5 lakh s or for 1.5 lakhs	
	Number of respondents	%	Number of respondents	%
Less than one years	**11**	**11**	**8**	**8**
1-3yrs	**18**	**18**	**12**	**12**
3-6 yrs	**10**	**10**	**10**	**10**
6-9yrs	**3**	**3**	**13**	**13**
Above 9 yrs	**2**	**2**	**13**	**13**
Total	**44**	**44**	**56**	**56**

Investors who are loss avert are likely to choose the first option even though second option offer a large potential return, 44% of the respondents were found to be loss avert. Investors having less trading experience are more affected with this biases.

Cognitive dissonance bias

This is the mental conflict that people experienced when they are presented with evidence that their belief or assumption are wrong. In this study, cognitive dissonance bias test with help of two statements, which shows that35% of the respondents agree that their future decision may go wrong due to decline in the market.45% of the respondents strongly agree with the statement that they usually try to avoid the negative information about the stock that they have purchased. 42% of the respondents agree with the statement that they try to avoid that information that is against their existing belief. All this response shows that some investors are affected with this bias.

Optimistic bias

It means overestimation of the expected return on a risky asset. When making financial decisions, investors tend to take an inside view rather than the outside one, which is often more suitable. Two statements are given to the investors to measure their optimistic biases. Investors who choose investment opportunities near to their home are more prone to optimistic biases, 60% of respondents are affected with this bias and 40% of them are not affected with this bias.58% of the respondents are believes that they are above average than other traders in the stock market. They are also affected with this bias.

Conservatism bias

Investors affected with this bias are more commitment to traditional values and beliefs and always opposite to new change or innovation and 46% are not ready to make any new changes in their portfolios. They are susceptible to conservative bias.

MAJOR FINDINGS OF THE STUDY

- The survey shows that 90% of the investors are male and only 10% of them are females
- The majority of respondents are literate, and some have a professional degree in finance.
- The study shows that 29% of the investors has trading experience of 1-3 years,30% of them have trading experience of 3-6 yrs.,15% of them are beginners having trading experience of less than one year. Only 11% of them have trading experience more than 9 years.
- Only few respondents are affected with herd bias, investors with less trading experience in stock trading are highly affected with this bias.
- Majority of the respondents are affected with overconfidence biases.
- Investor's with less trading experience in the stock market are highly affected with loss aversion biases.
- Only few respondents are affected with cognitive dissonance biases and conservation biases.
- From the study it can be interpreted that investment experience have direct relation with various behavioral biases exhibited by the investors. Investors with less experience in stock trading are highly affected with all the biases tested here.

RECOMMENDATIONS

- Individual investors in the stock market should allow professionals to manage their portfolio. This will reduce personal biases in the management of the portfolio.
- Capital market analyst and information providers in Indian Security market should try to release correct information at correct time about the market to the public as this may reduce investors' decision-making biases.
- Practitioners and investors can also do diagnostic tests on behavioral biases expressed by the investors in order to devise appropriate investment strategies which, would maximize the wealth of the investors.

CONCLUSION

Behavioral finance represents a revolution in financial theory. This is a relatively young and promising field of modern finance and this branch shows remarkable progress in the last decades. Behavioral finance, is a study of the markets that draws on psychology, throwing more light on why people buy or sell the stock and even why they do not buy stock at all. This theory also explain how emotion and cognitive errors influence investors investment decision making process.The present study has tested certain behavioral biases identified by the behavioral finance expert on stock market performance.The main objective of the study was to examine whether investors were susceptible to various behavioral biases. It was found that investors with few years of trading experience in stock market are affected with loss aversion, herd bias, conservatism bias and optimistic bias. The study conclude that investors are not always rational and does not support the theories of efficient market hypothesis and capital assets pricing model.

LIMITATIONS OF THE STUDY

- Only 100 respondents are selected for the study.
- Some of the respondents are reluctant to reveal the correct information.
- The study is limited to only one district.
- The present study considered only limited variables in behavioral finance.

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals