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PATH DEPENDENT INVESTMENT BEHAVIOURS ON INVESTORS

Battu Bindu Bhavani
Student

Ch. Deepthi Reddy
Assistant Professor

Department of Management Studies,

Sridevi Women's Engineering College,

Hyderabad, Telangana, India.

Abstract

Investments are made with a self-confessed objective to make the most of wealth. Investors need to make rational decisions for maximising their returns based on the information available by taking decrees free from emotions. Investor's behaviour is pigeon-holed by over delight and overreaction in both increasing and decreasing stock markets. Most of the investments and financial theories (Steinbacher, 2008) are based on the inkling that everyone takes suspicious account of all available information before making investment decision. This article is steered to analyse the factors talk into the behaviour of investors in capital market. Pragmatic evidence proposes that demographic factors impact the investors' investment decisions. This research article also examines how investor infers and acts on various capital market information to make up-to-date investment decisions.

Keywords:

Rational behaviour, Emotion, Over reaction, Psychology, Sentiment, Decision making, Investment decisions, Business Research.

INTRODUCTION

Investment behaviour is an inventive sub-area of study in behavioural finance that describes exactly how the investors judge, prophesy, investigate and review the processes for decision making that consist of investment psychology, information gathering, defining and understanding, research and analysis. This whole process is "investment behaviour" (Slovic, 1972; Alfredo and Vincente, 2010). Ample of the academic research in finance have considered the investor's rationality and market effectiveness as the main hypothesis in explaining the financial theories.

Investors are the support of capital market. A developing economy, like India, needs a growing sum of savings to flow to corporate enterprises. The level of equity market involvement of the retail investors has been aggregate over the past few years. Investment is the flow of capital which is used for prolific purposes. There is a great emphasis on investment for being the main instrument of economic growth and advance for a country. There are a large amount of investment instruments available today. Certain of them are marketable and liquid while others are non-marketable and illiquid. There are tools which are extremely risky while others are almost riskless. The investors choose avenues, reliant upon their specific need, risk appetite, and return predictable. Investment avenues can broadly be pigeonholed into two spheres, specifically, economic investment and financial investment. Procuring of a physical asset such as a building or equipment is an economic investment. Economic investments contribute to the net accompaniments to the capital stock of a society. On the other hand, a financial investment refers to the financial instruments like shares, debentures, insurance policies, mutual fund units etc. Financial investments help in generating the capital stock of the country.

ELEMENTS OF INVESTMENTS

The Elements of Investments are as follows

Return:

Investor has expectations of additional income in order to gain revenues in the form of both current income and capital gain or loss which rises by the rise or fall of the security price. Based on investors' expectations, the investors can decide whether they want additional investments into numerous investment avenues.

Safety & Security:

Safety & Security refers to the protection of investor principal amount and expected rate of return from their investments against financial risks at all times. Investors always choose safety about him/her capital.

Risk:

Risk is the chance of loss i.e., interest, dividend or principal amount due to variability overturns on an investment. The principles of risks and reward are attached. Generally higher risk may mean a potentially advanced reward, while a lower risk will mean a lower reward. The ability of risk tolerance differs from one investor to another. It depends on several factors such as the individual financial responsibilities, environment, basic personality, life cycle etc.

INVESTOR'S FINANCIAL BEHAVIOR IN HISTORICAL PERSPECTIVE

In 1912, Selden wrote Psychology of the Stock Markets based upon the inevitability that the movements of prices in financial markets are determined by the mental attitude of the investing and trading of investors to a very considerable extent. In the year 1956, the theory of Cognitive Dissonance was introduced by Leon Festinger. In 1964, Pratt worked on utility International Journal of Pure and Applied Mathematics Special Issue 1254 three functions and risk aversion. In 1968, Raiffa and Raiffa on the condition facts about how human actions vary from traditional economic assumptions. In 1973, Tversky and Kahneman presented availability heuristic, a judgmental heuristic in which a person evaluates the frequency of classes or the probability of events by availability i.e. by the ease with which relevant instances come to their mind.

OBJECTIVES OF THE STUDY:

The aim of the study is analysis of Investment Behaviour of individual investors in stock market

1. The basic objective of this study article is to analyse the study of individual investor's investment behaviour in a chronological viewpoint.
2. This article reveals the aims of psychological and emotional factors on the market movements focusing on investor rationality to explain the psychological special effects of investing.
3. To find out how investor Awareness affects Investment Behaviour.

REVIEW LITERATURE:

A critical and systematic review of existing studies on same area or in some other areas helps the student to develop an in-depth understanding and insight into the relevant previous studies and have an understanding on current state of knowledge on the topic and also to explore the study gap.

1. Akerlof and Shilleropined that our feeling determine psychic reality which affect investment judgment emotions and associated human unconscious needs, fantasies, and fears drive much decision of human beings. The choice of investment avenue, company amount and timing of investment are many times based upon our past experiences, fear and aspirations.
2. Martin David Hilbert documented about individual and retail investor's investment decision making and concluded that they are influenced by behavioural biases such as herding, overconfidence and reinforcement bias etc., when compared to their institutional counterparts. They are assumed to possess formed trading decisions on psychological phenomena instead of rational disputes. They suggested that individual and retail investors are able to predict stock exchange movements better than the institutional ones.
3. Athar Iqbal and Sania Usmani carried out a study on the investment decision process to identify the factors influencing the individual investor behaviour at the KSE on the economic perspectives in relationship between the lifestyle, demographic variables and also behavioural variables. Their study confined that the individual investors considered on the wealth maximization criteria in making their investment decisions.
4. Ahmed Ibrahim Mokthar studied how the behavioural theories confront the psychological aspects in investor's rational and irrational investment decisions. He concluded that cognitive errors and emotional biases have a significant impact in the investment decisions ensuing the irrational price performance and constant mispricing does not cover within the efficient framework.

Research Design and Methodology Variables Understudy:

Demographic Factors, Awareness and Perceived Risk Attitude have been well-thought-out as self-governing variables and Investment Behaviour has been considered as in need of variable.

Demographic Factors:

Demographic Factors of an investor refers to investor's age, gender, academic qualification, annual income, experience, etc.

Awareness:

Awareness refers to the consciousness. There are two components of Awareness namely Social Learning and Financial Awareness.

Perceived Risk Attitude:

It refers to the perceived degree of uncertainty regarding an unknown event. There are two components of Perceived Risk Attitude namely Affect and Cognition. Affect is mainly guided by emotion when Cognition is logical.

Investment Behaviour:

Two types of investors invest in stock market. They are individual investors and institutional investors. In the present study focus is on individual investors. There are four main biases that may have any impact on investment behaviour. These are Heuristics Bias, Prospect Bias, Markets Bias and Herding Bias. There are five components under Heuristics Bias such as Representativeness, Overconfidence, Anchoring, Availability Bias and Gambler's Fallacy. Under Prospects Bias, there are three components such as Loss Aversion, Regret Aversion and Mental Accounting. Markets Bias has six components namely Price Changes, Over Reaction, Market Information, Past Trend of Stock, Companies' Customer Preference and Fundamentals of Underlying Stocks and there are four components of Herding Bias namely Buying and Selling, Stock Volume, Stock Type and Speed of Herding.

Review of earlier studies helps a student to get a study idea. A critical and systematic review of existing studies on same area or in some other areas helps the researcher to develop an in-depth understanding and insight into the relevant previous studies and have an understanding on current state of knowledge on the topic and also to explore the research gap.

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CONCLUSION:

The present paper has made a synthesis of investor's financial behaviour in a historical perspective. The psychological effects of investing are being studied to describe the investors' psychology in investment decision making of the individual investors. The investor's mood and sentiment cannot be ignored in predicting the market movements as much of the empirical studies have supported experimented and concluded the same. Understanding the investment behaviour of the investor enables to convert the psychological biases into financial benefits to the retail investors. The errors in judgement making of the retail investors can be rectified with an in depth insight into investment decision making.

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