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A Study of the Role of Behavioural Finance in Investment Decision Process of Individual Investors with Reference to Behavioural Finance Theories' Effect on Investors

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ABSTRACT- Investment decisions are always crucial. Lots of financial gains anticipations are included in investment decisions. Investors make different calculation before investing. Yet, the investment decisions are not always based up on financial calculation only. Investors become influenced by other concerns like imitation of peer group, advise of elders etc. Studying such influencing factors is subject matter of behavioural finance. In the present study the researchers have focused upon the behavioural finance theories as a determinant of the investment decisions. Researchers have used different behavioural finance theories to establish constructs. A questionnaire has been developed to test the different aspects of investment decisions. The reliability analysis (Cronbach's Alpha 0.751) of the questionnaire has been conducted. Further the questionnaire extracted 10 variables. These have been named as Individual Investors' Investment Decisions, Risk Consideration, Value consideration, Fear of Missing Opportunity, Regret Aversion, Psychological Influence, Cognitive Dissonance, Emotion of Investor, Over Reactive Instinct, Under Reactive Instinct. These variables have been tested for corelation and further multiple corelation coefficient. R value 0.786 suggested the established variable has significant impact on each other.

KEYWORDS- Behavioural finance, Investment decisions, Prospect theory, Heuristic Theory, Over and under theory, Regret theory.

I. INTRODUCTION

In early days the individuals invested in precious metal like sliver, and gold. But now a days there are several; investment option in front of the people. Investment is a meticulous process that have advantage if the investor has time. Time constrain is first put while selecting any investment option. Investor have to study the investment rules in details and invest accordingly. Researcher has read several literature and articles on the investment. Researcher has found that not comprehending the investment rules properly is a major cause of the problem in front of investors. Next to this the other issue is that the investor wants quick returns. They usually get attracted for short term investment options. Here again the time plays key role investors do not invest with objectives or their own needs like education, property or any fixed goal. Usually, the want to earn more on the surplus they had.

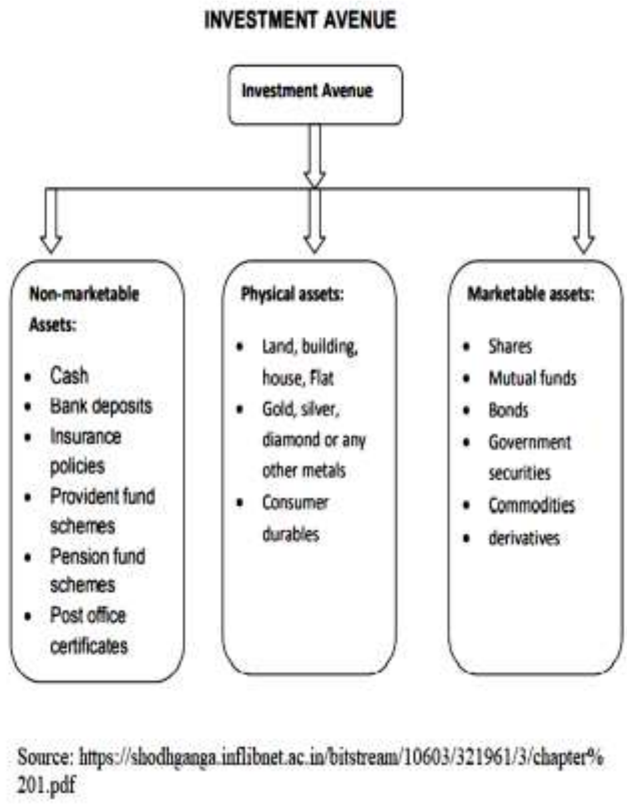

Figure 1: Investment Avenue

Most investors want to make investments that will provide them with high returns as quickly as possible while minimising the risk of losing their principal. This is why many people are always on the lookout for top investment plans that will allow them to double their money in a matter of months or years with little or no risk. Unfortunately, a high-return, low-risk combination in an investment product does not exist. In reality, risk and return are inextricably linked; the higher the returns, the higher the risk, and vice versa. Before investing in any investment, you must match your risk profile with the risks associated with the product. There are two types of investment options in front of the investors in modern days:

- Non-Financial Investments
- Financial Investments

A. Non-financial investment options

Non-financial investment, or investments in assets such as buildings, machinery and equipment, and software. In early days people keep gold and silver as investment. It was well known that these metals are precious and available in limited quantity. After some days and years, the value of the metals will increase. So, people bought these metals and stored. Other major non-financial investment option is real estate. People buy land, home and other property. As the population is growing, availability of the land is becoming low. People invest in land so that after few years they could get higher prices for it.

B. Financial Investment options

Financial assets can be divided into market-linked products (such as stocks and mutual fund) and fixed income products (like Public Provident Fund, bank fixed deposits).
The researchers have tried to explore about the financial decisions about mutual funds in the present study. Further the investment behaviours can be explained in the light of behavioural finance theories. Few major theories are as follows

- Prospect Theory
- Regret Theory
- Heuristic Theory
- over and under reaction theory

The researcher has tried to know about the impact of these theories on investment decisions.

II. LITERATURE REVIEW

Areiqat, A. Y., Abu-Rumman, A., Al-Alani, Y. S., & Alhorani, A. (2019) have tried to know that what types of variables effect the investment decisions. Few variables have been considered in their study like overconfidence, loss aversion, risk perception and herding that can influence the share market investments at Amman Stock Exchange (ASE). The researchers have tried to know the other important factors that may have effect on the individual investments.

Mittal, S. K. (2019) has developed theoretical frame work of the researcher on behavioural bias in investment decisions. It has been said that buyers are emotional than rational. This is also applicable in investment decisions as the investment can be considered as buying of financial instruments. The researcher has drawn the significance of behavioural finance in the context of investment decision making.

Sattar, M. A., Toseef, M., & Sattar, M. F. (2020) tried to explore how behavioural biases affect investment decision making under uncertainty. Dependent variable investment decision making is a composite activity, it never be made in a vacuity by depending on personal resources. Based on this study investment choices alternatives influence by human rational and irrational behavior, therefore, examine the impact of behavioral finance in the decision-making process.

Ogunlusi, O. E., & Obademi, O. (2021) studied the impact of behavioural finance on investment decision-making using a selected investment banks were investigated. The overall empirical results provided evidence of a positive impact between behavioural finance and investment decision, supporting previous research and contributing to generalization.

Chaturvedi, A. (2022) reveals that investors invest in different investment avenues for fulfilling financial, social, and psychological need. The researchers have found that the existing literature does not have studies which are related with the behavioural finance theories. In modern world interpretation of the effect of behavioural finance theories on investment decisions can be studied.

III. RESEARCH METHODOLOGY

Use Proposed work

Researcher will develop questions based upon these theories to find that how Investment decision of an individual can be influenced.

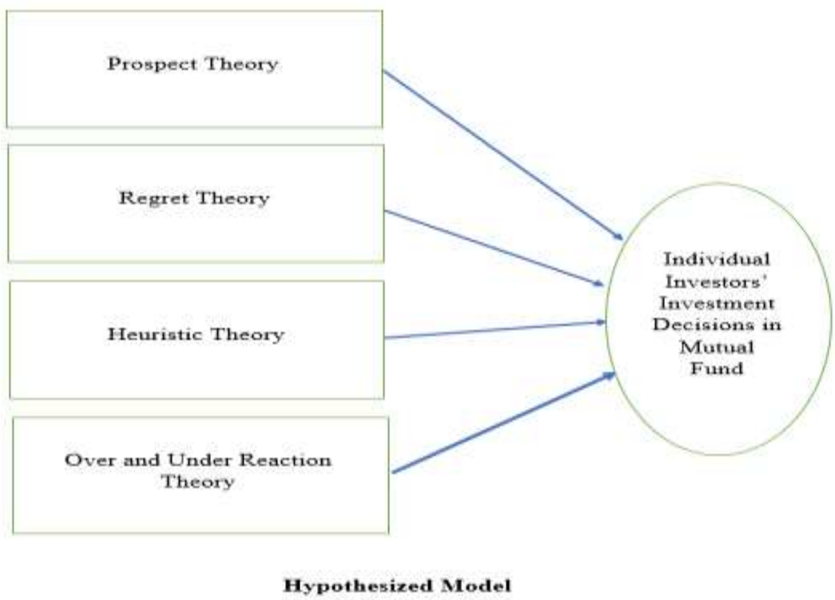

Figure 2: Hypothesis Model

Researcher has selected 45 items from previous studies on issue. The outcome of factor analysis eliminated these items and resulted in ten components. The factors were further named on the basis of literature review, expert opinions and research objectives. The factors are as follows

Table 1: Key factors

Dependent Factor (Variable)	Selected Theories-Based Variables	Independent Factors (Variables)
Individual Investors' Investment Decisions	Prospect Theory	Risk Consideration, Value consideration
	Regret Theory	Fear of Missing Opportunity, Regret Aversion
	Heuristic theory	Psychological Influence, Cognitive Dissonance, Emotion of Investor
	Over and Under Reaction Theory	Over Reactive Instinct, Under Reactive Instinct

A. *Objectives*

- To study the mutual fund as an investment tool in India, behavioral finance concept and its scope in financial investment decision making
- To study barriers in investing in mutual funds in India
- To study major behavioral finance related factors that persuade individuals in investing in mutual funds
- To suggest measures for increasing investment in mutual funds

B. *Hypothesis*

Hypothesis allows us to structure our thinking in such a way that we can safely learn the right lessons from failures. This seems like a small price to pay for making and effort to get over any aversion we might have to adding "scientific method" to our permanent vocabulary. The researchers have developed following hypothesis as follows

- There is no significant impact of Risk Consideration on the individual investors' investment decisions in mutual funds
- There is no significant impact of Value consideration on the individual investors' investment decisions in mutual funds
- There is no significant impact of Fear of Missing Opportunity on the individual investors' investment decisions in mutual funds
- There is no significant impact of Regret Aversion on the individual investors' investment decisions in mutual funds
- There is no significant impact of Psychological Influence on the individual investors' investment decisions in mutual funds
- There is no significant impact of Cognitive Dissonance on the individual investors' investment decisions in mutual funds
- There is no significant impact of Emotion of Investor on the individual investors' investment decisions in mutual funds
- There is no significant impact of over and under reaction theory of behavioral finance on the individual investors' investment decisions in mutual fund
- There is no significant impact of Over Reactive Instinct on the individual investors' investment decisions in mutual funds
- There is no significant impact of Under Reactive Instinct on the individual investors' investment decisions in mutual funds

Researchers have collected the data with the help of questionnaire. The population of the present study comprised of all the investors in the Delhi NCR. Before administering the questionnaire, researcher has ensured the respondent is an investor. For this researcher made a small introductory conversation with respondent. It is never possible for a researcher to approach all the respondents of a vast population. For the feasibility and purpose of research a small representative part is selected which is known as sample. Non-Probability Sampling Technique (Convenience Sampling) has been used for the research.

IV. DATA ANALYSIS AND FINDINGS

There is no significant impact of Risk Consideration on the individual investors' investment decisions in mutual funds

Table 2: Correlations

		Risk Consideration	individual investors' investment decisions
Risk Consideration	Pearson Correlation	1	.440**
	Sig. (2-tailed)		.000
	N	500	500
individual investors' investment decisions	Pearson Correlation	.440**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation.

So, it could be said that, there is a significant impact of risk consideration on the individual investors' investment decisions in mutual funds

There is no significant impact of Value consideration on the individual investors' investment decisions in mutual funds

Table 3: Correlations

		Value consideration	Individual Investors' Investment Decisions
Value consideration	Pearson Correlation	1	.491**
	Sig. (2-tailed)		.000
	N	500	500
Individual Investors' Investment Decisions	Pearson Correlation	.491**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation. So, it could be said that, there is a significant impact of value consideration the individual investors' investment decisions in mutual funds

3- There is no significant impact of Fear of Missing Opportunity on the individual investors' investment decisions in mutual funds

Table 4: Correlations

		Fear of Missing Opportunity	Individual Investors' Investment Decisions
Fear of Missing Opportunity	Pearson Correlation	1	.422**
	Sig. (2-tailed)		.000
	N	500	500
individual investors' investment decisions	Pearson Correlation	.422**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation.

So, it could be said that, there is a significant impact of Fear of Missing Opportunity on the individual investors' investment decisions in mutual funds

4- There is no significant impact of Regret Aversion on the individual investors' investment decisions in mutual funds

Table 5: Correlations

		Regret Aversion	Individual Investors' Investment Decisions
Regret Aversion	Pearson Correlation	1	.398**
	Sig. (2-tailed)		.000
	N	500	500
individual investors' investment decisions	Pearson Correlation	.398**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and almost above 0.400 which is considered as moderate correlation.

So, it could be said that, there is significant impact of Regret Aversion on the individual investors' investment decisions in mutual funds

5- There is no significant impact of Psychological Influence on the individual investors' investment decisions in mutual funds

Table 6: Correlations

		Psychological Influence	Individual Investors' Investment Decisions
Psychological Influence	Pearson Correlation	1	.601**
	Sig. (2-tailed)		.000
	N	500	500
individual investors' investment decisions	Pearson Correlation	.601**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation. So, it could be said that, there is a significant impact of Psychological Influence on the individual investors' investment decisions in mutual funds

6- There is no significant impact of Cognitive Dissonance on the individual investors' investment decisions in mutual funds

Table 7: Correlations

		Cognitive Dissonance	Individual Investors' Investment Decisions
Cognitive Dissonance	Pearson Correlation	1	.611**
	Sig. (2-tailed)		.000
	N	500	500
Individual Investors' Investment Decisions	Pearson Correlation	.611**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation. So, it could be said that, there is a significant impact of Cognitive Dissonance on the individual investors' investment decisions in mutual funds

7- There is no significant impact of Emotion of Investor on the individual investors' investment decisions in mutual funds

Table 8: Correlations

		Emotion of Investor	Individual Investors' Investment Decisions
Emotion of Investor	Pearson Correlation	1	.622**
	Sig. (2-tailed)		.000
	N	500	500
Individual Investors' Investment Decisions	Pearson Correlation	.622**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation.

So, it could be said that, there is a significant impact of Emotion of Investor on the individual investors' investment decisions in mutual funds

8- There is no significant impact of Over Reactive Instinct on the individual investors' investment decisions in mutual funds

Table 9: Correlations

		Over Reactive Instinct	Individual Investors' Investment Decisions
Over Reactive Instinct	Pearson Correlation	1	.531**
	Sig. (2-tailed)		.000
	N	500	500
Individual Investors' Investment Decisions	Pearson Correlation	.531**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation. So, it could be said that, there is significant impact of Over Reactive Instinct on the individual investors' investment decisions in mutual funds

9- There is no significant impact of Under Reactive Instinct on the individual investors' investment decisions in mutual funds

Table 10: Correlations

		Under Reactive Instinct	Individual Investors' Investment Decisions
	Pearson Correlation	1	.522**

Under Reactive Instinct	Sig. (2-tailed)		.000
	N	500	500
individual investors' investment decisions	Pearson Correlation	.522**	1
	Sig. (2-tailed)	.000	
	N	500	500

Correlation table shows that there is significant correlation between factors at the 0.01 level (2-tailed). Hypothesized correlation was at 0.05 level, which will also be significant. The correlation value is positive and above 0.400 which is considered as moderate correlation. So, it could be said that, there is significant impact of Under Reactive Instinct on the individual investors' investment decisions in mutual funds

Multiple correlation coefficient R and Model summary

Table 11: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	786[a]	.618	.611	1.85974

a. Predictors: (Constant), Risk Consideration, Value consideration, Fear of Missing Opportunity, Regret Aversion, Psychological Influence, Cognitive Dissonance, Emotion of Investor, Over Reactive Instinct, Under Reactive Instinct

The regression model summary shows that the nine predictor variables explain 61.1 % (Adjusted R Square= .611) variance for individual investors' investment decisions. Adjusted R Square value .400 and above is acceptable. Multiple correlation coefficient (R) value is 0.786, which shows that all the variables have impact on each other.

V. CONCLUSION

Absence of financial knowledge among individual financial investors makes them unreasonable financial investors, in this way, they are more disposed to conduct predispositions. Consequently, this study expects to explore the impact of conduct predispositions on individual financial investors' speculation decision making in the Indian financial exchange. Furthermore, we look at the impact of socioeconomics on conduct predispositions, venture independent direction, locus of control, risk insight, and chance resistance of financial investors. Besides, our review looks at the proposed hypothetical balance of the locus of control and hazard discernment in the connection between conduct predispositions and speculation direction as per the method suggested by Baron and Kenny (1986). We likewise utilize a bootstrap way to deal with test the intervening impact of chance resilience in the relationship between conduct inclinations and venture direction as indicated by the methodology proposed by Hair et al. (2010).

Utilizing the example of individual financial investors, that's what our outcomes recommended pomposity, good faith, attitude impact, crowding conduct, and home predisposition have critical positive impact on the singular financial investors' venture direction. In expansion, our outcomes recommend the effect of segment factors on conduct inclinations, speculation independent direction, locus of control, risk insight, and chance resistance of financial investors. We reported that locus of control fortifies the relationship of arrogance predisposition, confidence inclination, and attitude impact with venture direction, in any case, it debilitates the relationship of crowding impact with speculation independent direction. Moreover, our discoveries try not to help the directing job of locus of control in the connection between home predisposition also, speculation direction. Moreover, the discoveries propose that risk discernment debilitates the relationship of presumptuousness inclination, and idealism predisposition with speculation choice making, at the same time, it fortifies the relationship of crowding impact, and home inclination with venture direction. In conclusion, we archived the interceding job of hazard resilience in the connection between conduct predispositions and venture navigation.

The various works have been carried out on mutual funds over a period of 25 years. One is logically led to believe that a lot of research suggested that investment has not been always a ration decision. It is influenced by different non-financial factors. The research broadened the scope of behavioural finance in modern world.

Present research is an effort to include different theories to club together to understand the effective model of investors investment decision process. The researcher has tried to provide solutions to businesses those try influence the investors. If those business can influence the above said factors, they may be able to influence investors to invest in their instrument or portfolio.

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