Journal DOI: 10.36713/epra1013 | SJIF Impact Factor (2024): 8.431 ISSN: 2347-4378
EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 11 | Issue:5 | May 2024 -Peer-Reviewed Journal

A STUDY ON BEHAVIORAL BIASES IN INVESTMENT DECISION

Vibhuti Talreja[1], Sangam. T[2], Sadiya Khanum[3], Sanyukta kumari[4]
[1]*Faculty – School of Economics and commerce, CMR University, Bengaluru*
[234]*Student of 3rd year BCOM General, CMR University, Bengaluru*

Article DOI: https://doi.org/10.36713/epra16812
DOI No: 10.36713/epra16812

ABSTRACT

This research prospects how an individual's behavioral biases' affect investment decisions. Behavioral biases are rational tendencies that influence the decisions of the people, especially in fields like investing. This study does a qualitative investigation of behavioral biases in investing decisions. Investors frequently make irrational judgments as a result of behavioral biases that originate from intellectual and emotional reasons. This research tries to discover prevalent behavioral biases influencing investing choices and comprehend the effect they have on financial results by combining findings from prior studies. The literature analysis stresses the major biases that influence investment behavior, including herd mentality, loss aversion, and overconfidence. The study emphasizes how crucial the intent is to identify and counteract these biases to enhance financial outcomes and investment decision-making.

KEYWORDS: *Behavioral biases, investment decisions, qualitative investigation.*

INTRODUCTION

Personal prejudices are a major factor in investment decision-making, frequently causing investors to make irrational choices. These biases are caused by psychological elements that might cloud judgment and produce less-than-ideal results. Due to their potential to significantly affect the economy and individuals' portfolios, these biases should be understood by both investors and financial experts. Investors are not necessarily logical agents; they are susceptible to emotional and cognitive biases that skew their judgment. Behavioral biases can take many different forms. For example, overconfidence occurs when investors take on excessive risk because they think they know more than they actually do. Anchoring is another prevalent bias in which investors base their judgments unduly on one piece of information, like the price at which a stock was purchased. These biases can result in a variety of behaviors, such as loss aversion, which causes investors to make unduly conservative decisions out of fear of losing money, and herding, which causes investors to follow the activities of others rather than making their own decisions. Investors can lessen the influence of unfounded decisions on their portfolios and make better judgments by being aware of these preconceptions and their repercussions.

OBJECTIVES OF THE STUDY

- Identify common behavioral impulses in investment opinions.
- Understand how these impulses affect decision- timber.
- Explore factors impacting the development of impulses.
- provide practical perceptivity for investors.
- Contribute to literature on behavioral finance.

LITERATURE REVIEW

- Pooja Parkash, Ravi Parkash (2024)

The study's objective is to understand how behavioral biases influence decisions in investment. It seeks to enhance investors' understanding of the decision- making process and shed light on the psychology behind investment choices. Investment Opinions are told by rational and illogical factors (behavioral impulses). Education, training, and nonsupervisory rules can help alleviate impulses. Further exploration is demanded to ameliorate fiscal decision-timber.

- Chandrakala. M, Raja Kamal Ch. (2024)

The research's primary objective is to identify the role of behavioral biases in investment decisions whereas the second objectives are to understand the factors that affect the investors, and to understand the psychological process of financial institutions. The study tested Behavioral Finance propositions on investor rationality. impulses like overconfidence and anchoring were set up to significantly impact investment opinions, indicating investors aren't always rational.

- Nischal Koirala, Rajesh Gurung, et al (2024)

The study wanted to see how people's behavior affects their opinions about investing in Nepal's stock request. They looked at things like being too confident, following what others do, and being hysterical to lament opinions. They set up this conduct can lead to serious or conservative choices. The study looked into how people in Nepal make decisions about stock market investing. They set up investors frequently calculate their feelings, similar as feeling exorbitantly confident or wanting to avoid remorse, when making these opinions.

- Dr. M. Padmavathy (2024)

The study examines the impact that financial and behavioral education has on individuals pursuing professional degrees. It also looks at how this information keeps investors who invest long-term resilient throughout market fluctuations. Behavioral finance examines how biases and emotions impact stock market anomalies, which undermines conventional financial theory. Emotional elements like greed and fear, together with cognitive biases like anchoring, affect decision-making and lead to market variations. It is essential to comprehend these elements in order to develop successful investing strategies

- Bipin Chauhan, Shirsh Mishra, et al. (2024)

Understanding how psychological prejudices affect investment decision-making is crucial for people and organizations trying to negotiate the complexity of today's financial markets in a time of rapid change and unpredictability. The concept of this research is to clarify these biases and offer knowledge that can improve financial results and decision-making procedures. The results of the research demonstrate how cognitive biases can help in investing decision-making. The biases that were found to have the most influence were representativeness, availability, confirmation, overconfidence, and anchoring bias. Individual investors and financial professionals can gain a deeper grasp of how financial behavior influences investment strategies by utilizing these insightful observations

- Muhammad Atif Sattar, Muhammad Fahad, Muhammad Toseef. (2024)

This study challenges the conventional wisdom in finance by examining the impact of psychological biases on investing decision-making and rational conduct. The study shows that instead of performing in-depth risk-return evaluations, investors usually depend on natural mental shortcuts, or heuristics. This reliance is subject to biases like herd mentality and overconfidence, suggesting that psychological variables play a major role in investment decisions.

- Zuraidah, M. Shabri, Faisal, A. Sakir. (2020)

This study uses herding behavior as a mediator to examine the effects of optimism bias and overconfidence on investment decisions made at IDX Aceh. In order to better understand how herding functions as a mediator between overconfidence, bias optimism, and investment decisions at IDX Aceh, The effects of optimistic bias, both explicit and implicit, will be examined in this study. Furthermore, the research looks at how bias optimism and overconfidence might draw in new investors and help IDX Aceh become one of Indonesia's top sharia stock exchanges.

- Anuradha Samal, Arka Kumar das Mohapatra. (2020)

The objectives of this study are to ascertain which bias is most prevalent in the Indian context, examine any correlations between various biases, and examine the influence of demographic variables on behavioral biases. The investing decisions made by Indian investors are heavily impacted by biases such as herding and overconfidence, which are influenced by factors such as income, gender, age, and geography. Financial services and policies can be enhanced by being aware of these biases.

- Aman Qamar, Samreen Lodhi Lodhi. (2023)

Behavioral biases like mental accounting and overconfidence affect the investment decisions made by female entrepreneurs, with risk tolerance acting as a moderating factor. On the other hand, loss aversion has little effect on these choices. This study highlights the existence of irrationality and offers insights for start-up markets by utilizing PLS-SEM and IPMA analysis to better understand the behavior of female entrepreneurs while making investment decisions.

- Neha Verma (2016)

Given the abundance of options available to investors today, behavioral finance is essential to making informed investing decisions. Choosing the best option from a range of options—some simple, some complex, requiring numerous approaches—is the process of decision-making. The purpose of this study is to assess and pinpoint the behavioral biases that affect investors' decisions and their consequences. Behavioral biases are judgmental variances that produce erroneous and irrational conclusions, which have an impact on investing decisions.

METHODOLOGY

This qualitative study investigated intellectual misconceptions' that affect investing decisions by gathering secondary data from Google. Understanding how biases affect investment decisions was the goal of the research, which included theme analysis of articles, reports, and academic publications. The study used a deductive methodology to apply well-known financial decisions hypotheses to actual investment situations, offering insights on the usefulness of these biases. Through the methodical analysis of the data, recurrent themes and patterns were found, leading to a more profound comprehension of intellectual misconceptions that affect investment behaviors.

FINDING

- Professional degree candidates' decision-making skills can be greatly improved by behavioral and financial education. This will allow them to handle the complexities of investment management with more resilience and foresight, especially during periods of market turbulence.
- In Nepal's stock market, psychological biases like overconfidence and herd mentality are major influences on investing decisions. These biases frequently Encourage financiers to act on their feelings and follow the herd, this may result in choices where they don't necessarily follow logical financial principles.
- Investor decision-making is heavily impacted by cognitive biases such as representativeness, availability, confirmation, overconfidence, and anchoring. These biases have the potential to skew people's perceptions of risk and return, which can affect the caliber of their financial decisions.
- Financial professionals and investors alike should be aware of certain prejudices for the purpose of avoiding making ill-informed or poorly calculated decisions by identifying and mitigating the risks that come with biased decision making.
- The study emphasizes the need of financial and behavioral education in enabling people to make wise investing choices, especially in the face of market turbulence and uncertainty. Individuals that obtain this type of instruction may be equipped with the skills and information necessary to successfully negotiate challenging financial situations.
- Instead of doing in-depth risk-return analysis, investors frequently depend on mental shortcuts, or heuristics.
- Herd mentality and overconfidence are two psychological biases that have a big impact on investing decisions.
- At IDX Aceh, herding behavior serves as a mediator between overconfidence, optimism bias, and investment decisions.
- Women entrepreneurs' investment decisions are highly influenced by behavioral biases, including mental accounting and overconfidence.
- The investment decisions made by female entrepreneurs are not statistically significantly influenced by loss aversion bias.

SUGGESTIONS

- Include financial and behavioral education in professional degree programs to give students the tools they need to make wise investment choices.
- Hold awareness campaigns to inform investors about psychological biases and assist them in identifying and reducing these impacts.
- Create tools for decision-making that assist investors in recognizing and reducing cognitive biases to make more logical investing decisions.
- Put in place legal mechanisms that promote investment product transparency in order to lessen bias's impact and assist investors in making knowledgeable selections.
- Urge investors to consult independent financial experts for guidance on navigating the complexities of complicated investing environments.
- Encourage professionals to pursue ongoing education in order to stay current on the latest developments in behavioral finance.

- To mitigate the impact of personal prejudices on decision-making, include behavioral finance principles into investing strategies and financial planning.

CONCLUSION

Behavioral biases, such as overconfidence and anchoring, have a big impact on investing decisions and frequently provide less than ideal results. To assist investors in identifying and successfully mitigating these biases, there is an evident need for improved education and awareness initiatives. Investors could benefit immensely from decision-making instruments that are especially made to address particular cognitive biases and assist them in developing more rational and knowledgeable investing decisions.

To successfully manage the intricacies of the investment world, investors must seek assistance from unbiased and educated financial specialists. In order to remain current with the newest findings and advancements in behavioral finance, investors and financial experts must engage in ongoing education and professional development. By incorporating behavioral finance concepts into investment plans, investors can reduce the consequences of psychological prejudices and make more sensible and successful financial choices.

Conventional financial wisdom is challenged by the significant influence of psychological factors on investment decisions.

Being essential to recognize and tackle cognitive biases such as herd mentality and overconfidence to make better investing judgments. Overconfidence and biased optimism have capacity to draw in new investors and propel IDX Aceh to the top of Indonesia's sharia stock market rankings. When making investment decisions, women entrepreneurs must recognize and overcome behavioral prejudices. The connection between risk tolerance and behavioral biases, as well as the consequences for start-up marketplaces, require further investigation.

In conclusion, combating behavioral biases in investment decision-making necessitates a complex strategy that includes regulatory actions, education, and awareness raising additionally to the incorporation of behavioral finance concepts into investing procedures. Investors can improve their decision-making procedures and their overall investment results by following these steps.

REFERENCES

1. *Parkash, Pooja & Parkash, Ravi. (2024). Impact of Behavioral Biasness on Investment Decision Making Process. 10.5281/zenodo.10715718.*
2. *.M, Chandrakala & Ch, Raja. (2024). "A Study on Behavioral Finance Investment Decisions of Investors in Bangalore." 10.1108/S1479-351220240000036017.*
3. *Koirala, Nischal & Gurung, Rajesh & Dahal, Rewan & Ghimire, Binod. (2024). "Unraveling behavioral biases in decision making: A study of Nepalese investors: Innovations in finance and Investment management." 21. 25-37. 10.21511/imfi.21(1).2024.03.*
4. *Bipin Chauhan, Shirsh Mishra, Pavitra Bhardwaj, Sanny Kumar, Divya Singh, Komal Vishwakarma (2024), "Examining the impact of cognitive biases on investment decision making of individual investors in India: An integrated Sem-Ann method." Vol 4 No. 2 (2024)*
5. *Padmavathy, M. "Behavioral Finance and Stock Market Anomalies: Exploring Psychological Factors Influencing Investment Decisions." Shanlax International Journal of Management." vol. 11, no. S1, 2024, pp. 191–97.*
6. *Zuraidah, & Abd. Majid, M. Shabri & Faisal, Faisal & Asakir, Asakir. (2024). "GENERAL MANAGEMENT The Effect of Optimism Bias and Over Confidence on Investment Decisions in Aceh Mediated by Herding". 8. 1-24. 10.47750/QAS/25.198.19.*
7. *Sattar, M.A., Toseef, M., & Sattar, M.F. (2020). "Behavioral Finance Biases in Investment Decision Making." Journal of Accounting and Finance, 5, 69.*
8. *Mohapatra, Arka & Samal, Anuradha. (2021). "A study on the impact of behavioral biases on investment decisions of risk seeking investors in Indian." International Journal of Psychosocial Rehabilitation. 24. 2020.*
9. *Qamar, Anam & Lodhi, Samreen. (2023). IMPACT OF BEHAVIORAL BIASES ON WOMEN ENTREPRENEURS INVESTMENT DECISION. Pakistan Journal of Social Research. 05. 455-465. 10.52567/pjsr.v5i01.921.*
10. *Verma, Neha. (2016). Impact of Behavioral Biases in Investment Decision and Strategies. Journal of Management Research and Analysis. 3. 28. 10.5958/2394-2770.2016.00004.1.*