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Behavioral Finance: Understanding Investment Decisions among Individual Investors

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In the early 1990s, India started to open up to the outside world. Steep GDP growth has been facilitated by privatization, liberalization, and globalization together. An important aspect in this was the investors. As a result, the administration thought of enticing more investors. Sophisticated investors from all over the world started to pay more attention to the Indian capital markets, especially after 2003. In this instance, it is vital to examine the How, Why, When, Where, and Amount of the Investors' Investments. A further tool for comprehending the decision-making process of investors is behavioral finance, a relatively new field of study. Emotions and psychology play a part in the way investors make financial decisions. It says that people are not foolish or illogical. They are common individuals with diverse prejudices. Numerous elements, such as personality and demography, can affect how risk and return on investment are evaluated. They can also have an impact on investor psychology and attitudes, investment selection, and decision-making processes. In this study, we look at how Bengaluru's individual investors' choice of investment instruments is influenced by their personalities and demographics. Frequency analysis along with other statistical methods were used to describe the variables. Only respondents who have invested in any form of financial instrument at least once are selected for the study.

Keywords: Investment Tool, Demography And Personality, Investor Psychology, Investor Behavior, And Behavioral Finance

Introduction

People's approach to investing underwent a significant shift in the early 1990s due to economic liberalization and policies, especially in India. The majority of transactions on the Indian stock markets are handled by the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). In India, the majority of publicly traded companies are listed on both markets. About 45 percent of the free float market capitalization of the Index is made up of the thirty businesses that are listed on the BSE and are part of the SENSEX. In contrast, 50 companies, or about 62% of the market capitalization of the NSE in free float, are listed on the NIFTY index. As more investors joined in, Initial Public Offerings (IPOs) and their complexity grew. The GDP has increased yearly during the past ten years at an average pace of 6-7 percent, which is rather outstanding considering the global average of 2.4 percent. An open economy and exciting opportunities for the exchange of people, capital, information, goods, and services have resulted from this. For the first

time, rising new-to-India consumerism has been accompanied by rising disposable surplus income. The more complex and exotic investment products become unaffordable for the typical person. However, the stock market's attraction has only increased in the last ten to fifteen years. Because of the increased interest in and demand for capital market investments, there have been anomalies and scams in the stock market. These days, rather than relying solely on a numerical computation, financial decisions and investments also need to take into account the human perspective, which seems to almost always affect the markets. A number of fundamental yet significant issues must be taken into account, such as the causes of an asset's unanticipated price growth and the extent to which investors make rational decisions. Khusbu Agarwal (2012). This brings us to the subject of behavioral finance, which is currently a vital area of study. Behavioral finance can be broadly defined as the practice of applying psychological notions to the financial decision-making process. The concept is based on the notion of "Homo Economicus," or "Rational economic man," and is hence a development of and largely at odds with "standard finance." To put it briefly, the theory of rational man utilizes the assumption of perfect self-interest to explain conduct from a singular standpoint. We discover that, in general, people are neither totally illogical nor entirely reasonable. Meenu Varma (2008). Advocates of behavioral finance are adamant that when it comes to capital market investments, people are often not as rational as we would think. People are subjected to emotional and behavioral biases while making investments. Consequently, it seems that people's investment decisions are influenced by their goals, prejudices, emotions, and aspirations. (Mittal & Vyas, 2009). This essay examines the various demographic factors, including investor traits and personalities, and how these impact investment decisions. The main hypothesis-that there is a positive association between investors' personalities and their choice of investment vehicle-can be supported by the research's findings. The results may facilitate communication and offer suitable investment options for wealth counselors, stock analysts, and market observers, depending on the client's personality.

Review of Literature

1. According to (Ricciardi and Simon, 2000), investors' investing patterns are greatly influenced by overconfidence, financial cognitive dissonance, the theory of regret, and prospect theory.
2. According to Lehner (2004), unique trade methods with momentum cycles generate higher returns than those predicted by the capital-market theory, which is based on the risk of the underlying assets. Investors establish their own benchmark against which they then calculate risk. Investor behavior is influenced by conservatives, herd mentality, overconfidence, and representation.
3. Men are less risk averse than women when it comes to gambling, according to a 1980 study by Hershey and Schoemaker titled "Risk taking and problem context in the Domain of losses: An Expected utility Analysis."
4. According to a 1985 study by Hudgen and Fatkin, all genders are equally capable of making judgments when there is danger.
5. A study titled "Using Behavioral Investor types to build better relationship with your clients" was carried out in October 2008 by Michael M. Pompisn, CFA. Based on their actions, the author categorizes investors into four groups. This top-down approach to determining a client's behavioral patterns facilitates the investment professional's recommendation-giving.
6. "Holding behavior of individual investors in Coimbatore district," a September 2013 study headed by K. Parimala Kanthi and M. Ashok Kumar According to the authors, a nation's culture can have a significant impact on its capital development. Consequently, investors' attitudes on risk and return on investment shift in line with their actions.

7. "A Study on Investment Preferences among Urban Investors in Orissa," a March 2011 study by Giridhari Mohanta and Sathya Swaroop Debasish This study emphasizes that when making stock and share investments, an investor considers a number of criteria. Additionally, social and psychological variables have an impact on them. The author discovers that factors such as age, gender, marital status, education, place of residence, and communication with financial advisors all come into play when making investing selections. When compared to their female counterparts, the author notes that male investors make more efficient investment decisions.
8. The 2012 study "A Conceptual Framework of Behavioural Biases in Finance" was carried out by Khushbu Agrawal. According to Khushbu Agrawal, time and other mental aspects frequently influence investor behavior and decision-making. Along with other considerations, the lack of time to gather a great deal of knowledge in a short amount of time affects decision-making.

Objective of the Study

Investigating the effects of investor personalities, investing preferences, and demography on the specific investment decisions made by each investor.

Methodology of the Study

The descriptive research strategy, notably the use of a survey approach, forms the basis of the study. Direct interviews with the participants produced the primary data. A structured questionnaire was designed to collect data from the respondents. The Likert scale was used. This work combines easy and judgmental sampling with non-probabilistic sampling. Respondents included people with fixed incomes, entrepreneurs, spouses who stayed at home, people of all ages, seasoned investors, students, and others.

Hypotheses

The following theories were developed to investigate whether factors like an investor's personality, income, or gender influence their choice of investment vehicle.

H1: There is no significant difference between the gender and choice of instrument for investment.

H2: There is no significant relationship between income of the investors and the choice of instruments for investment.

H3: there is no significant relationship between the personality types and choice of investments and instruments.

The tests of the hypotheses had a significance threshold of 5%. Gender, income, and personality make up the study's independent factors. The different investment tools are the dependent variables. Among the numerous investing options are commodities, gold, bonds, debentures, mutual funds, and stocks. An investor's trait is referred to as their investor personality.

Table 2 and Table 3 Gender and Choice of Instrument for Investment

Null Hypothesis (HO): There is no significant difference between the gender and choice of instrument for investment.

Alternate Hypothesis (H1): There is significant difference between the gender and choice of instrument for investment

Table 2 Descriptive Statistics: Choice of Investment Avenues

	N	Minimum	Maximum	Mean	Std. Deviation	Rank
Equity	55	1,00	7.00	1.9455	1.88972	1
Debenture	55	2.00	7.00	4.2727	1.29750	4

Bond	55	3.00	6.00	5.0545	.97026	5
MF	55	2.00	6.00	3.0727	99730	2
Commodities	55	1.00	7.00	5.6909	2.18473	7
FD	55	1.00	7.00	3.4000	2.05120	3
Bullion	55	1.00	6.00	4.5455	1.54941	6

Table 3 Mann Whitney U Test Statistics for Gender

	Equity	Debenture Bonds	Mutual Funds	Commodities	Fixed Deposits	Bullion
Mann-Whitney	259.500	270.000	281.500	292.000	275.000	253.000
Wilcoxon W	469.500	480.000	491.500	502.000	485.000	883.500
Z	2.194	-1.452	-1.270	-1.070	-0.358	-1.335
Exact Significance (two-tailed)	0.037*	0.149	0.224	0.297	0.764	0.184

Interpretation

It is abundantly evident from the above table that only the differences in equity are significant; the differences in other instruments were not determined to be significant. There are notable differences in equity between males and females. There aren't many gender differences in other financial instruments such debentures, bonds, mutual funds, fixed deposits, commodities, and bullion. Therefore, we disprove the null hypothesis.

Table- 4: Income and Choice of Instrument for Investment

Null Hypothesis (H0): There is no significant relationship between incomes of the investors and the choice of instruments for investment.

Alternate Hypothesis (H1): There is significant relationship between incomes of the investors and the choice of instruments for investment.

Table 4 Kruskal-Wallis Test Statistics of Income

	Equity	Debt	Bonds	MF	CO	FD	Bullion
Chi-Square	0.944	2.310	5.399	3.800	7.324	3.323	2.917
Degrees of Freedom	3	3	3	3	3	3	3
Asymptotic Significance	0.815	0.511	0.145	0.284	0.062	0.344	0.405

Interpretation

The findings show that there is little difference in the investment instruments chosen by individuals in different income brackets. The association may seem weak because of the tiny sample size, despite the fact that it contradicts earlier research. But, as we can see from the above table, income tends to be more important in the case of commodities than it is in other investment paths.

Personality Type and Choice of Instrument for Investment

Null Hypothesis (H0): There is no significant relationship between the personality types and choice of investments and instruments.

Alternate Hypothesis (H1): There is significant relationship between the personality types and choice of investments and instruments

Table 5 Kruskal-Wallis Test Statistics for Personality Type

	Equity	Deb	Bonds	MF	CO	FD	Bullion
Chi-Square	0.803	7.591	5.758	3.074	5.033	3.936	4.617
Degrees of Freedom	3	3	3	3	3	3	3
Asymptotic Significance	0.669	0.022*	0.056	0.215	0.081	0.140	0.099

Interpretation

According to the above table, individualistic, celebratory, adventurous, and guardian personality types—which are based on the Bailford et al. model—do not significantly correlate with the other instruments, with the exception of debentures. As was previously said, the sample size is too small to draw firm conclusions, and non-probability judgment sampling was the kind of sampling that was employed. Therefore, we can observe a notable improvement in the degree of link between the two variables by increasing the sample size.

Findings and Conclusion

1. 63.6% of the respondents are males.
2. 43.6% respondents are above 50 years of age and 20% of the respondents are in between 41-50 years of age.
3. 45.5% of the respondents have less than one year of experience, 38.2% of the respondents are experienced between one to five years and 16.4% of the respondents have more than years of experience.
4. Salaried class included 45.5% of the respondents where as 38% of the respondents are self-employed.
5. 43.6% of the respondents are Post Graduate and 38.2% of the respondents are Graduate.
6. From the study it is clear that when it comes to investment in equities, males and females have different perceptions. Talking about other investment instruments there are no much differences between the males and females, such as investment Bonds, mutual funds etc
7. Talking about the choices of investment instruments and income level of the people, it is surprising to note that it does not make much difference. Only commodity market is largely effect by the income of the people. All other investment instruments have almost the same response from the entire income groups. This may be due to the small sample size of 55 that have been considered for the study.
8. It is observed that personality and decisions have significant difference. In this study it is established that there is a significant difference in personality type and choice of Debenture. But for other investment instruments the difference is not very significant. It may be due to the sample size and judgement and convenience sampling.

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