

DETERMINE WHETHER INVESTOR GROUPS ARE IMPACTED OR UNAFFECTED BY BEHAVIOURAL BIASES

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ABSTRACT

Since 2008, the stock markets have been governed by a single word: "volatility and the Indian stock market is no exception. The difficulty for a reasonable investor has increased as a result of intense changes in stock values as a result of fear and expectation. Financial market fluctuations are so erratic that they swing from positive to negative returns and back in a matter of weeks, days, and months. Even the globalisation of financial markets has resulted in an increase in the number of investors over the last two decades by providing a variety of investment possibilities. Furthermore, when making investment decisions, individual investors consider their investing requirements, purpose, and limitations, but it is unlikely that those judgments will always be lucrative. Several factors influence their view, including how to get rich quick, dividends, the past performance of well-known investors, and online trading. Financial firms can create appropriate strategies for their clients if they have a thorough understanding of how investors typically react to market swings. As a result, it is more important than ever to comprehend investors' illogical behaviour.

KEYWORD: *Stock Market, Behavior, Globalization, Investment, Decisions*

1. INTRODUCTION

Money plays a big part in people's lives in today's economy since it is essential to invest in order to overcome future challenges. The sacrifice of current consumption in favor of investing saved funds in a financial product with the hope of generating larger returns later on is known as investment. The availability of a lot of information, however, causes a lot of uncertainty among people and takes a lot of time because investors frequently lack the processing skills to comprehend the information. To make wise investing decisions, it is also essential to have a solid understanding of the available investment possibilities. These days, there are

many different investment options with varying levels of marketability, liquidity, and risk-return. An investor must choose a suitable investment path that fits his unique requirements and tolerance for risk. There are many elements that determine the choice of investing avenue. For instance, demographics like gender, age, income, marital status, and educational variations have a significant impact when deciding whether to invest in risky assets because individuals in these categories may have different opinions and preferences than their counterparts. It is clear from the emerging investment scenario that investors' preferences for financial products are changing. The fact that investors have moved their funds from traditional investment alternatives to equity and debt-linked schemes, which support the thriving Indian financial markets, indicates that a number of investment paths were pioneered and adopted during the 1980s and 1990s.

In every economy, financial markets are the foundation. The thriving Indian financial sector makes a significant contribution to the country's economic growth. The capital market is a tool that aids in the raising of money by businesses, the government, and financial institutions and is crucial to the growth of the economy. It performs the vital task of turning organizational and household savings into investments and contributes to the creation of a wide range of financial assets. The stock market, a subset of the capital market, is a venue for the purchase and sale of shares, mutual funds, and a host of other financial goods. A thriving stock market is essential to creating an atmosphere that is conducive to the nation's economic expansion. The stock markets facilitate communication between investors and savers and create opportunities to allocate hard-earned funds in creative ways. It gives a small amount of savings to the industries that help them operate better, as evidenced by their quickly increasing stock prices. Furthermore, consumers are encouraged to spend less and put their money into highly liquid and lucrative securities because there are so many income-generating securities available. Through the inflow of capital in the form of foreign institutional investment (FIIs) and foreign portfolio investment (FPI), the stock market aids in the integration of global economies. Global financial markets are undergoing rapid, extraordinary, and drastic developments. In addition, technology has changed the system, and the accessibility of accumulated data has led to remarkable shifts in the way global markets have been operating.

2. REVIEW OF LITERATURE

From 1996 to 2008, Ray and Kanti (2011) examine how sensitive the Indian market is to bonus share issuance and stock splitting. A 61-day event window, with $t=-30$ to $+30$ days, was used for the event study, and companies that had seen perplexing occurrences were excluded. The fact that stock split announcements cause

bigger changes in liquidity and that market players react more strongly to stock split announcements than to bonus issues is supported by the statistically significant above-average positive returns they observed during the stock split event. Using daily return data from January 1998 to December 2008, Hammami et al. (2011) investigated the relationship between market returns and seasonal depression, sometimes known as the Seasonal Affective Disorder effect (SAD), in the context of the Tunisian Stock Exchange. However, they could not find any noteworthy findings, indicating that seasonal depression has no discernible impact on Tunisian stock market investors' moods. Since Diwali is considered to be a particularly fortunate day, it has been observed that individuals in India like to invest during this time. Kumar (2012) also used the EGARCH Model and paired T-test to investigate the returns and volatility behavior during the Diwali period in the Indian Stock Market from January 1997 to 2010. The author discovered that there is a rise in trading volume during the post-Mahurat era, which raises the degree of returns and volatility. He pointed to the distribution of financial bonuses and different broker buy recommendations as the main reasons for both excessive trading and market volatility.

Cheung (2010) has examined three historical bubbles—the subprime mortgage crisis in 2008, the Internet bubble in 2000, and the Japanese bubble in 1990—to determine whether or not the market is experiencing bipolar disorder. He created the Market Mood Model (MMM) for this purpose and discovered that it includes six phases: normal, hypomania, mania, moderate depression, major depression, and normal. Each phase has unique traits that explain the market's behavior during that period. He also believed that the key element in managing asset bubbles and consumer prices was interest rate policy. His model, which suffers from bipolar disorder, explains how market swings lead to stock market bubbles. Lastly, he believed that asset and consumer prices could be stabilized by maintaining interest rate policy. Garvey and Wu (2010) used transaction data from 361 employed traders in the United States who were paid solely on the basis of their profits from October 7, 1999 to August 1, 2003, to determine whether the typical trading activity of traders employed by a company varies during the performance appraisal period. The trading activities of 595 traders who are not employed by any company and are not subject to any review periods were compared to the trading activities of hired traders. Comparing employed traders to their counterparts, they discovered that while their trading patterns vary during the performance evaluation time, they gradually increase as the evaluation period draws to a close. Additionally, they examined the potential impact of both private information and traders' cumulative income on trading performance. They discovered that, at the conclusion of the evaluation period, traders' trading

activities were positively connected with their aggregate income, while private information had no effect on trading.

3. OBJECTIVES OF THE STUDY

- Determine whether investor groups (based on various criteria) are impacted or unaffected by behavioural biases.

4. RESEARCH METHODOLOGY

The current study's methodological approach entails a thorough examination of demographic characteristics and patterns of investing decisions based on a range of financial and behavioral aspects. The data is then divided into various groups according to particular attributes, and the investor group that is most impacted by behavioral biases is examined. The current study focuses on primary data gathered through questionnaires, which are thought to be the most appropriate and efficient method for learning about the beliefs, actions, and perspectives of a large number of respondents regarding financial investment decisions. Additionally, the primary goal of the current study is to gather information on investor behavior in order to analyze which investor groups are more or less impacted by behavioral biases and to investigate how demographic factors may influence an investor's decision to engage in a particular action. In order to gather the investors' behavioral data without actually offending them, the questionnaire was carefully crafted. There are three sections to the questionnaire. Nineteen questions make up Section 1, which asks about the investors' general information, including their gender, age, educational background, number of years of investment experience, preferred investment term, rationale for investing in the stock market, and the amount of loss their portfolio has incurred thus far. Respondents were given a variety of investment options in section 2 and asked to rank them in order of preference. Additionally, they were asked to check the risk and return levels they believed that specific investment channel possessed. Five points were used to develop the risk and return level questions. From extremely high (represented by 1) to very low (represented by 5), the "Likert Scale" shows that an investment avenue is very hazardous or has a high return, while very low implies a low level of risk or return. In order to determine whether or not behavioral bias influences their investment decisions, respondents were given behaviorally related questions in section 3. Every question pertaining to prejudice is also constructed using a five-point "Likert Scale," where answers range from strongly disagree to strongly agree. Strongly disagreeing respondents indicate that the prejudice has no bearing on their conclusions, whereas strongly agreeing respondents indicate that the behavioral bias is present during the decision-making process. Additionally, the

values of five, four, three, two, and one are used to quantify these five points: strongly agree, agree, neutral, disagree, and strongly disagree.

5. DATA INTERPRETATION AND RESULTS

Gender of the Investors

The respondents' gender breakdown is seen in Table. It is a highly useful tool for determining the investors' attitudes, beliefs, and motivations. Male investors make up a larger portion of the sample (78%) of the 350 respondents, while female investors make up a lesser portion (22%). This clearly reveals that when it comes to stock investing, men are more ardent investors than women. Additionally, data demonstrates that men are more inclined to take risks and participate in the stock market than women, who are more risk averse and prefer to stick to more conventional investment routes in order to minimize risk and guarantee returns.

TABLE 5.1:

RESPONDENT'S GENDER DISTRIBUTION

Gender	Percentage(%)
Male	78%
Female	22%

Age of the Investors

As people age, their investing preferences frequently shift, which is a key factor in identifying their investment behavior. Many equity-share-based investment options have been created with an emphasis on a specific age group. The age distribution of the respondents, divided into four groups (less than 25, 26–40, 41–60, and over 60), is shown in Table.

TABLE 5.2:

RESPONDENT'S AGE DISTRIBUTION

Age	Percentage(%)
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Less than 25 Years	8%
26-40 Years	22%
41-60 Years	52%
60 and above	18%

The bulk of respondents (52%) fell into the 41–60 age range, which is the most prevalent age group, as shown in Figure 6.2. This may be because individuals in this age range are more inclined to take chances because they have enough time to do so and recover from their financially disastrous errors. The next two age groups, comprising 22% and 18% of the respondents, are those aged 26–40 and over 60. Additionally, it is discovered that the age group under 25 makes up only 8% of the sample size, which is a relatively small percentage.

Education of the Investors

An investor's perspective is altered, the importance of an investment is better understood, and education serves as a helpful tool for weighing the advantages and disadvantages of a potential investment. The respondents' educational backgrounds are shown in Table. It is evident that the vast majority of those surveyed have a strong educational foundation. Of the respondents, 52% have a master's degree or above, 34% have a bachelor's degree, and 12% have only completed high school.

TABLE 5.3:

RESPONDENT'S EDUCATIONAL QUALIFICATION

	Percentage(%)
High School	12%
Diploma	2%
Bachelor Degree	34%
Masters and above	52%

Additionally, it is discovered that just 2% of respondents have a diploma and make insufficient contributions to the analysis. It can also be said that knowledgeable investors understand the importance of investing in the stock market and can analyze information from periodicals, television, and other sources to a certain degree.

Preliminary Analysis: Multicollinearity Check

Five-point Likert scale responses were combined to create seven independent variables, each of which represented a behavioral bias. The presence of multicollinearity was then examined for these biases. Table correlation matrix, which displays the correlation coefficient value between variables as well as their significance level, aids in this process. The significance threshold was subsequently examined to determine whether there were any biases with majority values higher than 0.05. Any biases that fit into this category should have their correlation coefficient values examined to determine whether they are high. Additionally, the Variance Inflation Factor (VIF) is used to test for the presence of multicollinearity if any biases with high correlation values were discovered.

Table 5.4 : Correlation Matrix^a

		Loss aversion	Regret aversion	Herd	Over confidence	anchoring	cognitive	representat iveness
Correlation	Loss aversion	1.000	.209	.109	.185	.161	.194	.309
	Regret aversion	.209	1.000	.310	.383	.282	.234	.140
	Herd	.109	.310	1.000	.204	.244	.310	.113
	Overconfidence	.185	.383	.204	1.000	.299	.233	.144
	anchoring	.161	.282	.244	.299	1.000	.318	.095
	cognitive	.194	.234	.310	.233	.318	1.000	.159
	representativeness	.309	.140	.113	.144	.095	.159	1.000
Sig. (1-tailed)	Loss aversion		.000	.017	.000	.001	.000	.000
	Regret aversion	.000		.000	.000	.000	.000	.003
	Herd	.017	.000		.000	.000	.000	.014
	Overconfidence	.000	.000	.000		.000	.000	.002
	anchoring	.001	.000	.000	.000		.000	.033
	cognitive	.000	.000	.000	.000	.000		.001
	representativeness	.000	.003	.014	.002	.033	.001	

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a. Determinant = .442								

Table shows that most of the significance level values are less than 0.05, indicating that multicollinearity does not present. The Pearson link Coefficient result, however, indicates that these bias variables do not have a strong link with one another. Additionally, the correlation matrix determinant showed no multicollinearity with a value of 0.442, which is extremely high when compared to the threshold value of 0.00001.

6. CONCLUSION

First, responses gathered using a 5-point Likert scale were combined to create seven independent variables, each of which represented a behavioral bias. The presence of multicollinearity was then examined for these biases. This was accomplished using a correlation matrix, which showed that none of the bias variables had high correlation values, demonstrating the absence of multicollinearity, and that all significance values were less than 0.05. Respondents were also asked to reveal any losses they had suffered thus far on their portfolio. Out of 380 respondents, 158 admitted to having lost money on their portfolio, which is less than 10%. The remaining 108 respondents said they had not lost any money on their portfolio. The chi-square test was used to see whether there was any correlation between the investors' categories—investment experience, age, marital status, and the percentage of savings they put into the stock market—and the losses they experienced on their portfolios. It may be stated that an investor's age and marital status have a substantial impact on the losses they incur. However, there is no meaningful correlation between investors' experiences and the losses they incur. It's clear that respondents lost money on their portfolios, but it would be more intriguing to examine whether or not they are prone to behavioral biases when choosing investments.

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