

## Behavioural Finance in Investment Decision: A Management Perspective

**Dr. Gauri Modwel**

Professor, New Delhi Institute of Management

### Abstract

In the field of finance, where reason and efficiency are generally expected, investment decision-making is a vital process. However, the subject of Behavioural finance calls these assumptions into question by investigating the deep effect of human Behaviour and cognitive biases while managing investment decisions. This research study investigates the complex interaction between Behavioural finance and investing decisions, intending to shed light on the underlying biases, emotional regulations, theoretical underpinnings, and real-world repercussions. This paper emphasizes the practical significance of recognizing and controlling Behavioural biases, urging investors and financial practitioners to be more alert. It provides a comprehensive overview of the impact of human Behaviour on investment decisions and is a valuable resource for investor and financial advisors to navigate the complex interplay between psychology and finance in the pursuit of more informed and rational investment decisions.

**Keywords:** Managing Investment Decisions, Behavioural Finance, Cognitive biases, Emotional Regulations, Rational Investment Decisions, Financial Advisors, Investors, Management Perspective, Psychological factors, Financial well-being, Investment Performance.

### Introduction:

Behavioural finance investigates how psychological characteristics influence financial decision making. According to mainstream finance theory, investors are rational individuals who want to maximise their wealth or utility by making decisions based on available information. In contrast, behavioural finance acknowledges that investors are prone to biases, sentiments, and cognitive errors that can lead to illogical decisions. Behavioural finance has gained popularity in recent years as financial advisors strive to understand human behaviour and use it into financial strategies.

Cognitive biases are a fundamental concept in behavioural finance. These biases are wilful deviations from reason that shape people's views, interpretations, and actions about information. Overconfidence, loss aversion, anchoring, and herd mentality are all typical biases. For example, when confronted with potential losses, investors may become overly riskaverse or overconfident in their ability to foresee future market movements. The role of emotions in decision-making is an important aspect of behavioural finance. Fear, greed, and regret can all have a significant impact on investment decisions and lead to less-than-optimal outcomes. For example, during bad markets, investors may sell their holdings quickly out of fear of losing more money, whereas in bull markets, they may become overly confident and take on too much risk. Financial gurus and investors alike must be conscious of their behavioural biases and emotional regulations and tendencies. Investors can make better decisions and avoid common blunders by identifying these biases. Financial advisors can tailor their suggestions and communication strategies to assist clients in overcoming behavioural biases and achieving their long-term financial goals. The discipline of behavioural finance provides a valuable framework for understanding the psychological aspects of investment decision making. This area combines psychology and finance factors to bring new insights into market dynamics and investor behaviour. In today's increasingly complex financial landscape, behavioural finance is a powerful tool for improving investment performance and advancing financial well-being.

Behavioural finance helps us understand and improve our investment decision-making processes. Its significance arises from a variety of critical aspects that have far-reaching consequences for investors, financial markets, and

the economy as whole. Behavioural finance explains market quirks and inefficiencies. Conventional finance theories assume that prices adequately reflect all available information and that markets are efficient. However, behavioural finance recognises that investors may exhibit systematic biases and irrational behaviour in addition to their lack of rationality. Financial advisors can identify scenarios in which asset prices deviate from their underlying values by evaluating these biases, which can lead to opportunities for investors to profit from mispricing and give surplus returns. Understanding behavioural biases can save investors' money. Many investors make poor investment decisions due to cognitive biases such as overconfidence, loss aversion, and herd mentality. Investors can reduce the effects of these biases and make more rational judgments by becoming aware of them and their potential consequences. This understanding is especially important during times of market volatility and uncertainty, when emotions can impair judgment and lead to impulsive behaviour. Behavioural finance clarifies the role of investor psychology in market dynamics. Fear and greed are two examples of emotions that can sway market sentiment and asset prices. By studying how these emotions influence investor behaviour, analysts can gain insights into market trends and potential turning points. This understanding is valuable for both investors seeking to capitalize on market sentiment and policymakers aiming to stabilize financial markets. Behavioural finance has practical implications for financial professionals and advisors. By incorporating insights from behavioural finance into their investment strategies and client interactions, advisors can better understand their clients' psychological biases and tailor their recommendations accordingly. This personalized approach can enhance client satisfaction and improve long-term investment outcomes. Studying behavioural finance is significant for several reasons. It helps explain market inefficiencies, enables investors to avoid costly mistakes, provides insights into market dynamics, and offers practical guidance for financial professionals. By incorporating behavioural insights into investment decision-making processes, individuals and institutions can enhance their ability to navigate financial markets effectively and achieve their investment objectives.

#### Literature Review:

Behavioural finance, a branch of finance that integrates psychological theories into financial decision-making, profoundly influences the investment process. Traditional finance assumes rationality in decision-making, but behavioural finance acknowledges human biases and emotions, which often lead to irrational behaviours in investing. Understanding these biases, such as loss aversion, overconfidence, and herd mentality, helps investors make more informed decisions. Behavioural finance emphasizes the importance of investor psychology and market sentiment in driving asset prices, highlighting the significance of sentiment analysis. Behavioural finance enhances investors' ability to navigate market uncertainties and capitalize on opportunities, ultimately leading to more effective and profitable investment strategies. (Jahanzeb, A., 2012).

This research investigates the decision-making process used by some investment banks in Nigeria and the impact of behavioural finance on such processes. Behavioural finance runs counter to the traditional notion of rational decision-making since it recognises the influence of psychological biases on investor behaviour. It is especially important to comprehend these behavioural biases in the Nigerian context, where emotions are strong and market dynamics can be surprisingly unpredictable. By analysing how cognitive biases such as loss aversion, overconfidence, and herd mentality affect investment decisions, the study aims to provide insights into improving decision-making processes within investment banks. It seeks to identify strategies to mitigate the adverse effects of these biases and optimize investment outcomes. (Ogunlusi, O. E., & Obademi, O., 2021).

Investment decision-making among Gulf investors is a topic of growing interest, particularly when viewed through the lens of behavioural finance. Traditional economic theories often assume rationality in decision-making, yet behavioural finance recognizes that human behaviour is influenced by cognitive biases and emotions. In the Gulf region, where financial markets are characterized by volatility and cultural factors, understanding these behavioural biases is essential. Strategies to help Gulf investors make better investment decisions and achieve better long-term financial results can be informed by behavioural finance insights. (Almansour, B. Y., & Arabyat, Y. A., 2017).

A behavioural finance approach to financial decision-making highlights the significance of emotional biases. These biases stem from investors' feelings of fear, greed, and enthusiasm, which can lead to irrational actions. During market downturns, for example, investors may sell assets prematurely out of fear of losing money, or they may be motivated by greed to pursue enormous rewards without considering the associated risks. Emotional biases can lead to herd behaviour and market bubbles by distorting investors' perceptions of market data. To make sound investment decisions, investors must identify and reduce their emotional biases. Investors can learn to recognize and manage their emotional reactions using techniques such as cognitive-behavioural therapy, emotional awareness training, and mindfulness. To achieve long-term financial success in volatile markets, investors must understand and manage their emotional biases. (Khilar, R. P., & Singh, S., 2020).

Investors can design ways to reduce the influence of biases on their decision-making processes by utilizing behavioural finance knowledge. With this understanding, financial professionals can better adapt to the psychological preferences of investors by designing investing products and services. A paradigm change in finance has been brought about by this research of behavioural biases in investing decision-making, which provides insightful knowledge about human behaviour and how it affects financial markets. (Sharma, D., et. Al, 2021).

Behavioural finance acknowledges that emotional responses and cognitive biases can influence an investor's financial decisions. Financial advisors who are aware of these biases can provide their clients with invaluable advice. Advisors can help clients make more rational and informed investment decisions by detecting biases such as loss aversion, overconfidence, and anchoring. Advisors can offer emotional support, especially during times of market volatility when investors may feel compelled to act on instinct. Advisors can help clients avoid psychological pitfalls and stay focused on their long-term financial goals by employing specific strategies and tailored communication. (Cruciani, C., 2017).

In the investment decision process, the role of risk is perceived differently between traditional finance and behavioural finance frameworks. In classical finance, investors want to maximise returns while avoiding volatility, and risk is often viewed through the lens of statistical models and rational decision-making. Beta and standard deviation are common measures used to estimate risk. On the other hand, behavioural finance recognises that psychological biases and emotions influence investor risk decisions. Behavioural finance acknowledges that investors may make irrational decisions and overestimate or underestimate risk due to cognitive biases such as loss aversion and overconfidence. In behavioural finance, risk is dynamic and subjective, varying from person to person and influenced by psychological factors. Investors' investment decisions may deviate from normal finance model projections; thus, understanding these behavioural biases is crucial for successfully assessing and managing risk. (Mazzoli, C., & Marinelli, N., 2011)

### **Research Methodology:**

This research paper employs descriptive and exploratory research design to investigate the interaction between Behavioural Finance and investment decisions. It is mixed research.

### **Sampling**

It is based on purposive sampling to conduct the survey to collect primary data through questionnaire and administered through Google Forms. In this method, respondents are selected based on their prior investment decision-making expertise. The sample size is 165 respondents from the sample unit of Delhi NCR.

### **Hypothesis**

Null hypothesis (h<sub>0</sub>): The proportion of individuals who attend seminars or forums is equal to the proportion of individuals who do not attend seminars or forums.

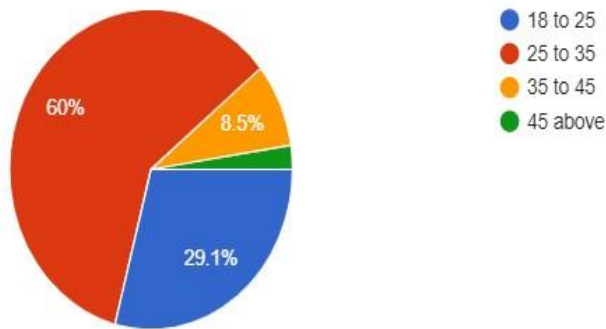
Alternative hypothesis (h<sub>1</sub>): The proportion of individuals who attend seminars or forums is not equal to the proportion of individuals who do not attend seminars or forums.

Limitations

It is critical to recognize the methodology's possible limitations. These might include the subjectivity of qualitative analysis, the representativeness of the sample in initial data collection.

Results and Discussion 1. Age:

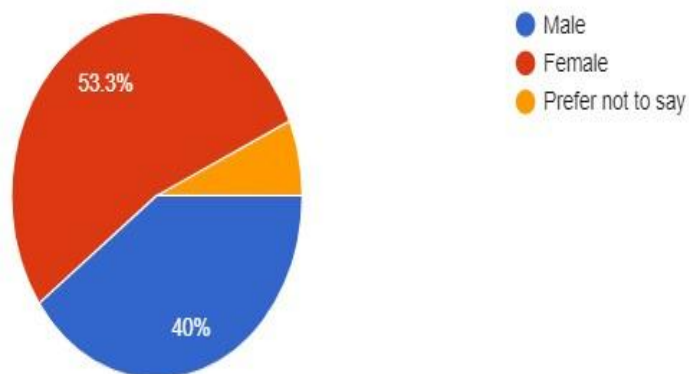
165 responses



The largest segment, comprising 60% of the population, falls within the age range of 25 to 35, likely consists of individuals in the prime of adulthood, establishing careers and possibly starting families, Following closely behind is the age group of 18 to 25, accounting for 29.1% of the population suggesting a significant presence of young adults who are transitioning from high school to higher education or the workforce. The age range of 35 to 45 represents a smaller portion, comprising 8.5% of the population, indicating individuals who are likely further along in their careers and family life, possibly with children entering adolescence Finally, those aged 45 and above make up only 2.4% of the population, suggesting a smaller proportion of individuals in the later stages of their careers, possibly nearing retirement, and focusing on planning for their future.

2. Gender

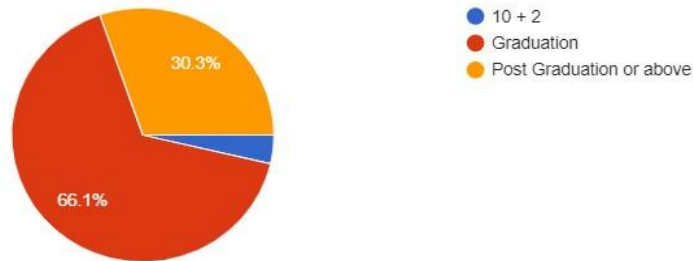
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Of the 165 total respondents, 40% identified as male, comprising 66 individuals, while 53.3% identified as female, constituting 88 individuals. Additionally, 6.7% of respondents, totalling 11 individuals, chose not to disclose their gender preference.

### 3. Educational Background

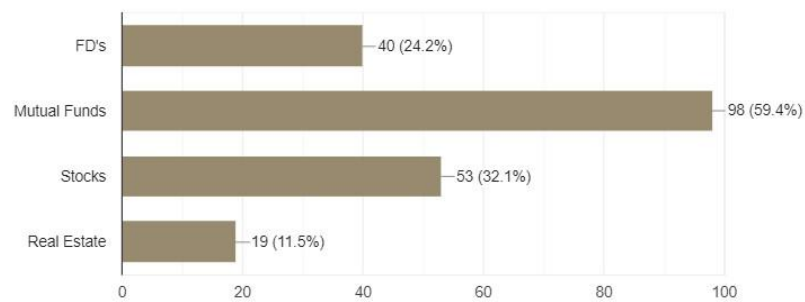
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Among the 165 respondents, 3.6% have completed their 10+2 education. A significant majority, constituting 66.1% of the respondents, have attained graduation-level education, indicating completion of undergraduate studies such as bachelor's degrees. Furthermore, 30.3% of the respondents have pursued higher education beyond graduation, including master's degrees, doctoral degrees, or other advanced qualifications.

### 4. Which investment have you used in the past?

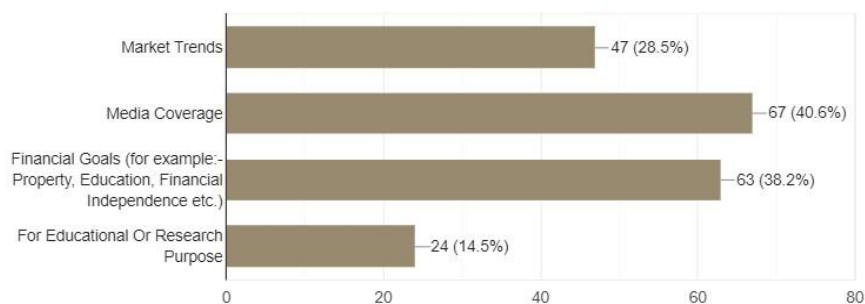
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The data reveals the investment choices made by respondents in a survey, Fixed Deposits (FDs) and Mutual Funds were each chosen by 24.2% of respondents, reflecting a moderate level of engagement with these traditional investment instruments. Notably, most respondents, accounting for 59.4% have invested in Mutual Funds, which is less risky due to inherent diversification, however 32 % respondents and 11.5% respondents have invested stocks and Real Estate respectively. This substantial preference for Stocks and Real Estate suggests a significant inclination towards more dynamic and potentially high-return investment avenues. This distribution underscores the diversification of investment portfolios among respondents, with a blend of both conservative and growth-oriented strategies being pursued.

### 5. What influences your investment decisions the most?

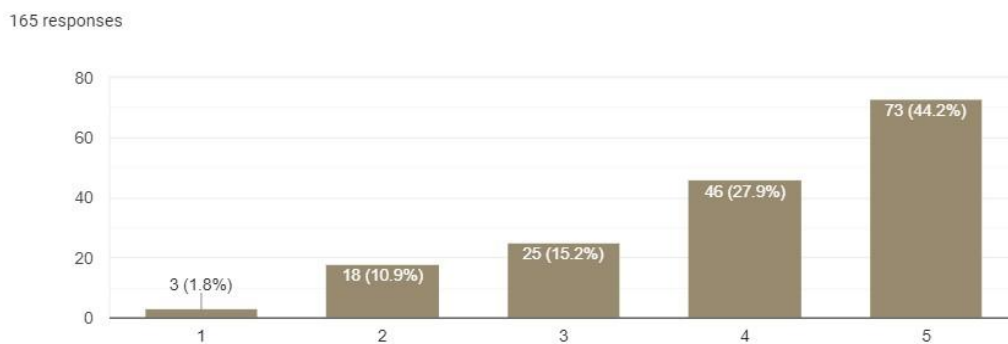
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Among respondents in a survey, encompassing Market Trends, Media Coverage, Financial Goals, and Educational or Research Purposes. Notably, 28.5% of respondents prioritize Market

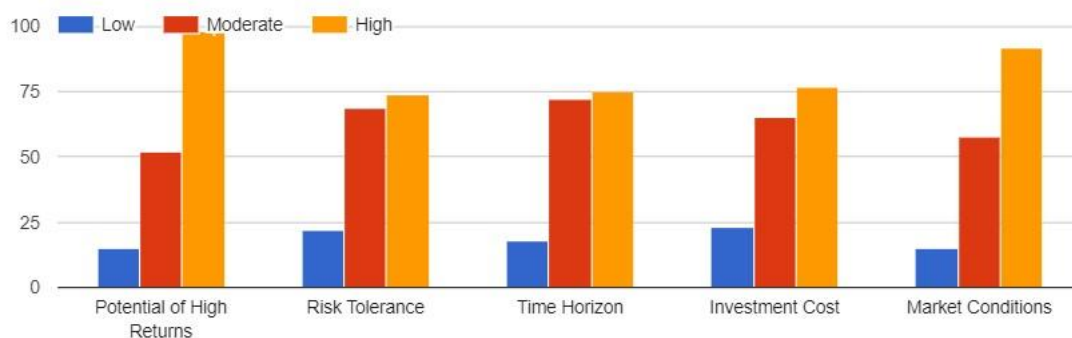
Trends, suggesting a significant reliance on monitoring and interpreting market movements when making investment choices. However, majority of respondents, 40.6% consider Media Coverage vital, indicating the impact of information disseminated through various media channels on investment decisions. Around the 38.2 % respondents prioritize aligning their investments with specific Financial Goals, emphasizing strategic planning aimed at achieving objectives such as property acquisition, education funding, or attaining financial independence. Whereas, A smaller percentage, 14.5% respondents cite Educational or Research Purposes as influential, indicating that some investors engage in investment activities as a means of learning or conducting research. This comprehensive array of influences underscores the complexity of investment decision-making, highlighting the importance of considering both external market dynamics and individual financial aspirations in crafting effective investment strategies.

**6.How frequently do you prefer spending money on investment?**



The data portrays the frequency with which respondents prefer to allocate money towards investments, segmented across a scale from 0 to 80. A minor segment, representing 1.8% each, expressed a preference for the lowest frequency range, falling between 1 and 20, indicating a tendency towards infrequent investment spending. Similarly, 10.9% of respondents opted for slightly higher frequencies, ranging from 21 to 40, suggesting a modest inclination towards investment activities but still at a relatively low frequency. However, a significant majority, comprising 44.2% of respondents, fell within the moderate frequency range, indicating preferences between 41 and 60. This suggests a substantial proportion of respondents Favor investing money at a moderate frequency. Notably, 27.9% of respondents, a considerable segment, indicated the highest frequency preference, rating between 61 and 80, suggesting a propensity for more regular investment activities. This diverse distribution underscores the varying degrees of engagement and investment strategies among respondents, reflecting a range of preferences regarding the frequency of spending on investments.

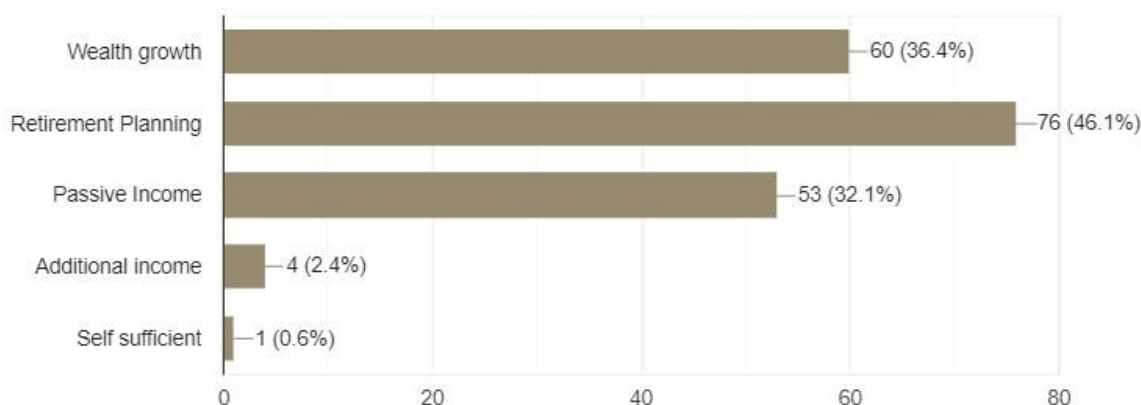
**7.Rank the factors in order of importance in influencing your decision while investing?**



The data provides valuable insights into the factors ranked in order of importance by respondents influencing their investment decisions. Notably, the Potential of High Returns emerged as the most crucial factor, with 50% of respondents attributing it the highest importance. This indicates a strong emphasis on the expectation of achieving significant returns on investments when making decisions. Following closely behind, 25% of respondents ranked Risk Tolerance as the second most important factor, underscoring the significance of aligning investments with individual risk preferences. Moreover, a substantial 75% of respondents identified Time Horizon as the third most important factor, suggesting a keen awareness of the importance of investment duration in decision-making. Interestingly, neither Investment Cost nor Market Conditions received any ranking from respondents, suggesting that these factors may be perceived as comparatively less influential in the decision-making process. This comprehensive ranking underscores the nuanced considerations and priorities among investors when navigating the complexities of investment decision-making.

### 8. What are your primary investment goals?

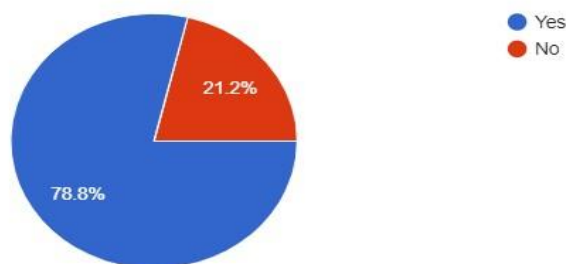
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The data provides valuable insights into the primary investment goals of respondents, shedding light on their financial aspirations and priorities. A significant proportion, representing 36.4% of respondents, prioritize Wealth Growth as a primary investment goal, indicating a strong desire to increase their financial assets and net worth over time through investment activities. Additionally, Retirement Planning emerges as a predominant goal, with 46% of respondents emphasizing the importance of preparing financially for retirement and ensuring a secure future. Furthermore, a substantial segment, comprising 32% of respondents, aims to generate Passive Income, underlining the desire to establish steady streams of income with minimal ongoing effort. However, a negligible percent, 2.4% of respondents seeks Additional Income through investments, Interestingly, Self-Sufficiency does not emerge as a prevalent goal of investment among respondents.

### 9. Have you ever consulted a financial advisor for making financial decisions?

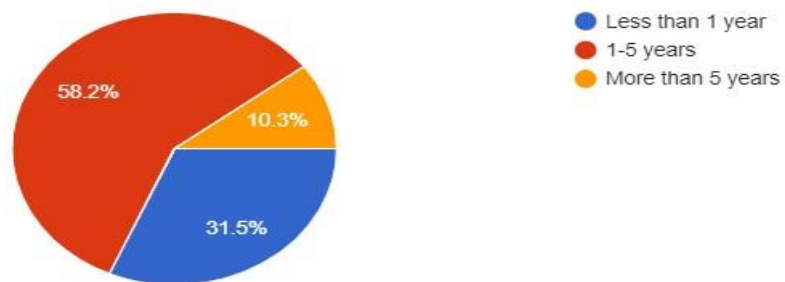
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The data reveals that a substantial proportion of respondents, constituting 78.8% of the total, have sought guidance from financial advisors when making financial decisions. This indicates a prevalent recognition among the surveyed population regarding the value of professional financial advice in navigating complex financial matters like investment strategies, retirement planning, debt management, and overall financial goal setting. Conversely, 21.2% of respondents reported not consulting a financial advisor, suggesting a smaller segment of the surveyed population either prefers to manage their finances independently or may not perceive the need for professional guidance.

**10. How many years of experience do you have in investing?**

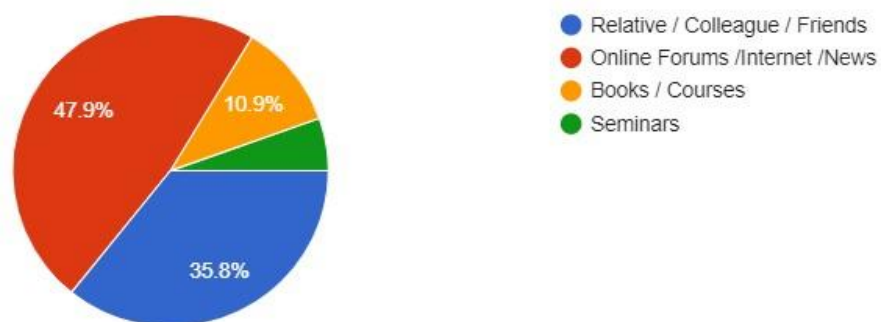
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The provided data offers insights into the level of experience respondents possess in investing, segmented into three distinct categories: less than 1 year, 1-5 years, and more than 5 years. Among the surveyed population, 31.5% reported having less than one year of experience in investing, indicating a significant proportion of individuals who are relatively new to investment practices and may still be in the initial stages of acquainting themselves with investment concepts and strategies. Additionally, most respondents, comprising 58.2%, fall into the category of having 1 to 5 years of investing experience. This suggests that a substantial portion of the surveyed population has gained some familiarity with investment principles and may have begun building their investment portfolios over this period. Conversely, a smaller yet notable proportion of respondents, accounting for 10.3%, reported having more than 5 years of investing experience.

**11. Where do you primarily get information about investments?**

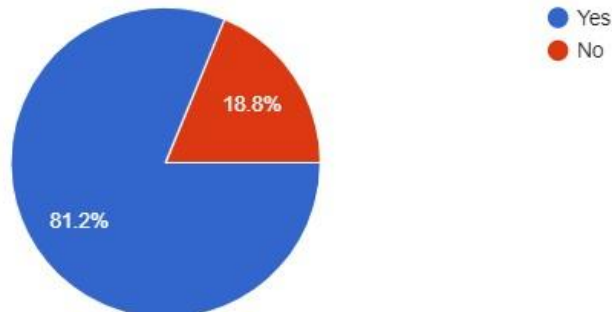
165 responses



The data reveals that respondents primarily rely on personal networks (35.8%) and online sources (47.9%) for investment information. A smaller portion turns to books/courses (10.9%) and seminars (5.5%). This highlights the influence of digital platforms and personal connections in shaping investment knowledge, alongside a minority seeking traditional learning methods and live events for guidance.

12. Have you ever made an impulsive investment decision that didn't go as planned?

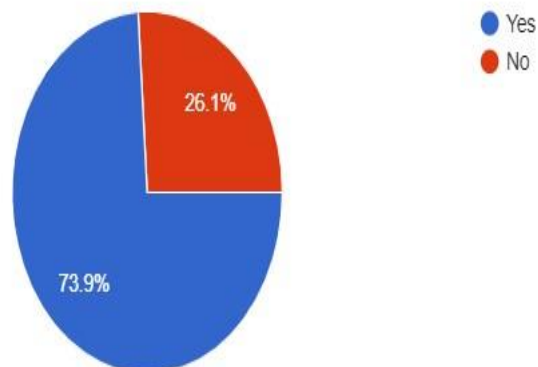
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The data shows that 81.2% of respondents have made impulsive investment decisions that didn't go as planned, indicating a prevalent tendency among investors. Conversely, 18.8% reported not having made impulsive decisions, suggesting a smaller segment with more disciplined investment practices.

13. Do you follow a specific investment strategy or philosophy?

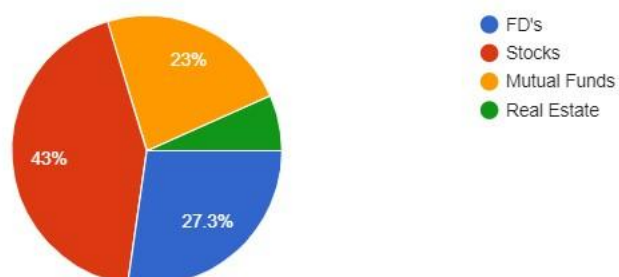
165 responses



The data indicates that 73.9% of respondents follow a specific investment strategy or philosophy, suggesting a structured approach to investing. Conversely, 26.1% reported not adhering to a specific strategy, indicating a preference for a more flexible or opportunistic approach to decision-making.

14. Which of the following investment instruments are you most comfortable with?

165 responses



The data shows that 43% of respondents are most comfortable with stocks, indicating a preference for equity investments. Fixed Deposits (FD's) are favoured by 27.3%, likely due to their perceived safety. Mutual Funds are preferred by 23% for diversification and professional management. Real Estate is the least preferred at 6.7%, suggesting limited comfort with property investments.

#### Hypothesis Testing:

Null hypothesis (h<sub>0</sub>): The proportion of individuals who attend seminars or forums is equal to the proportion of individuals who do not attend seminars or forums.

Alternative hypothesis (h<sub>1</sub>): The proportion of individuals who attend seminars or forums is not equal to the proportion of individuals who do not attend seminars or forums. Z-statistic: 3.493 P-value: 0.321

The z-test and chi-square test results in p-values of 2.357 and 0.444, respectively. These p-values are greater than the traditional significance level of 0.05, indicating that there is not enough evidence to reject the null hypothesis.

#### Conclusion

Behavioural finance offers a rich and multifaceted framework for understanding investment decision-making. By integrating insights from psychology, neuroscience, and economics, researchers have identified various cognitive biases, emotional influences, and social dynamics that shape investor behaviour. Through empirical studies it is demonstrated that there is the significant impact of behavioural factors on asset pricing, portfolio management, and market efficiency. Moving forward, further research in behavioural finance can deepen understanding of how emotions, biases, and social influences drive investment decisions. By exploring new methodologies such as neuro-finance and leveraging advancements in technology, researchers can uncover underlying psychological mechanisms and develop more robust models for predicting and managing investor behaviour. Addressing practical implications, such as enhancing financial literacy and designing better decision-support tools, can help investors navigate the complexities of financial markets more effectively. By promoting awareness of behavioural biases and providing behavioural interventions, policymakers and practitioners can foster more rational and informed investment choices. A nuanced understanding of behavioural finance in investment decision-making can lead to improved investment strategies, better risk management practices, and ultimately, more resilient and efficient financial markets. Embracing interdisciplinary approaches and embracing ongoing research in this field can pave the way for more adaptive and sustainable investment practices in the future.

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