International Journal of Trend in Scientific Research and Development (IJTSRD)
Volume 4 Issue 1, December 2019 Available Online: www.ijtsrd.com e-ISSN: 2456 – 6470

Behavioural Finance Paradigms and Its Influences on Investment Decisions and Performance of Equity Market- A Study in Bangalore

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ABSTRACT
According to conventional theory of stock market, the institutional investors and individual investors are rational by nature who would like to maximize their wealth within a stipulated period. However, there are many paradigms related to financial behaviour of individuals where it influences their investment decisions, leading to behave in irrational ways. Most of the investor's attitude towards investment states that their attitudinal behaviour always influences their investment decisions and will have an impact on their portfolios, so it clearly states that the psychological aspects of investor's will always have an impact on investment pattern what they choose and helps them to decide their investment avenues. Behavioral finance predicts the trading behavior of investors based on some paradigms in the stock market and is used as a basis for creating more efficient trading strategies for the purpose of maximizing returns. In this research study attempt has been made to understand and explain the impact of behavioural paradigms of financial market influencing on individual trading and investment behaviour around the world as well as the efforts has been made to put forth to find out the paradigms and its reasons for existence and acceptance of behavioural biases in the modern financial theory. In present scenario there are most cases where the performance of the financial market depends on the attitude of investors who invest in criterion portfolio and play a major role towards the investment, so there is a need of studying the above said existing paradigms for the purpose of evaluating the performance of various stocks and shares of the organizations and others in the financial market. And the research has proved that behavioural finance influences the investment decision making and their trading behaviour and also have an impact on the equity market as well.

KEYWORDS: *Behavioural Paradigms, Behavioral Finance, Investment decisions and Equity market*

How to cite this paper: Dr. H. Prakash | Rekha D. M "Behavioural Finance Paradigms and Its Influences on Investment Decisions and Performance of Equity Market- A Study in Bangalore" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-4 | Issue-1, December 2019, pp.519-523, URL: https://www.ijtsrd.com/papers/ijtsrd29614.pdf

IJTSRD29614

1. INTRODUCTION

Behavioral finance, which has recently developed as a paradigm in the financial market analysis, analyses the influence of human psychological factors on the financial market's evolution. It has come up with financial market efficiency models which explain how market performs which the entire market is well informed as the traditional models failed in explaining and solving the anomalies of the financial market and this failure paved way for the application of the behavioral finance model, which tries to state that there are some factors behind certain trading aspects and investment decisions of investors on the available investment avenues.

The efficient markets Hypothesis assumes that the capital market is informationally efficient, on the other hand, behavioral finance considers that the financial markets are informationally inefficient in certain circumstances (Ritter, 2003). Behavioural finance states that how the psychological and emotional factors influence in the investment decision of an investor. The concept also explains how the human emotions and its sensitiveness, such as desire, over reaction, under reaction, agony, greediness, systematic thinking, or satisfaction influences his investment decision making and also analyses to what extent these influences play a role in the financial investment trading and choosing of investment avenues (Birau, 2011). The psychological principles of behavioral finance include the analysis of various factors, such as heuristics and herding, emotions and social factors that have an impact on trading mentality of investors.

2. REVIEW OF LITERATURE:

According to Keller and Seigrist (2006) the investors mentality towards the returns, financial aspects, future plans will helps to know how these factors influencing on their decision making. According to author the attitude towards trading with securities or stocks, risk and ability to maximize the return on investment and even the price volatility of stock prices have an impact on their investment behavior.

According to Sindhu and Rajitha Kumar (2013) The research study states that the investment specific attitudes, such as awareness of market, the knowledge of investors, investment patterns, risk attitudes, loss aversion and management of investment, showed a major influence on the decision making of the investors.

Raju and Patra (2016) conducted a survey which identified the role played by the attitudinal factors in deciding the investment avenues of the investor. The study revealed that the attitudinal factors, including the sectoral of company which is chosen for investment, the profit earning ability, company history and background and Company's value in the equity market, etc. are the factors influencing the investment decisions of the investor.

According to Prakash, Awaiz and Warraich (2014) the variation in the different Socio economics characteristics, such as age, gender, occupation, income, marital status etc. with respect to the social communities in the society influences the investment decisions. The study also revealed that there is no much differences among the investors who have given responses for the study and who are from various communities in their choice of taking the investment decisions.

Gumus and Dayioglu (2015) analyzed the influence of socioeconomic and demographic factors, including education of investors their income level and marital status, age, gender, and the occupation, in determining investors' investment decisions and states that it will have a influence on investment trading and decisions.

When it comes to certain behavioural factors which is going to influence the investment decisions certain review have been made as below:

Shabarisha (2015): He explains that the role of heuristics behavioural factor and other biases will determine the decision making of investors. The data accounting to nine heuristic and bias factors, including representativeness, Anchoring, Overconfidence, Gamblers Fallacy, Availability, Loss Aversion, Regret Aversion, Mental Accounting and Self-control Biases, were taken into consideration for analysis. Further it demonstrated that there is a difference among experienced investors and new investors of the financial market who behave differently while taking investment decisions.

Donkor, Akohene and Acheampong (2016) examined whether the heuristic factors, including overconfidence and anchoring have an impact on the investment decisions of the investors in Ghana. The research states that the bankers often tend to be overconfident during the making of investment decisions. Furthermore, the decisions were also influenced by the experience of their past performance of investments made by them, which suggested the presence of anchoring effect of behavioral factor.

Bakar and Yi (2016): In his research analyzed the impact of psychological factors on the decision making process of the investors in Malaysia. The research says that the influence of the factors such as overconfidence, and availability bias on the investors' decisionmaking, however, highlighted the fact that the herding behavior possessed zero significant influence on the investors' decision making process.

Agarwal, Singhal and Swarup (2016): The study revealed that the influence of herding behavior will have an impact on the investment decision of the investor and causes for the existence of herding behavior among investors in India. It also examines that the herding behavior had a significant impact on the investment decisions of the Indian investors because the lack of knowledge regarding the stock market functioning and the financial literacy.

3. Research Gap

After conducting a thorough survey and reviews this study has found some research gaps which is taken into consideration for the research study. The previous reviews failed to concentrate on the constituents of factors (limited factors were considered for the study) which are going influence the investment decision making of investors where various factors were totally neglected which comes to attitudinal factors. When it comes to socio economic factors some authors agreed of its influence and others gave a contradictories in analysis which paved a way for further study on this matter. The major drawback from the above review in case of behavioral factors encountered the lack of sufficient studies in the Indian context, specifically in the context of Bangalore, which is cosmopolitan city with diversity in demographical profile. The lack of comprehensive studies of all constituents which have an impact of behavioral factors on investment decision making were not present in their research studies.

4. Objectives of the Study

To study the psychological factors influencing investment decision in the equity market.

To investigate the role played by demographic aspects of the investors in determining their investment decisions.

To study the impact of behavioural factors on the performance of the investment decision and building portfolio.

5. Statement of Problem

The well development of financial market is purely dependent on the financial flow as investment into the companies as it is majorly dependent on the large capital flow for their operations and development. In this regard it is looking towards stock market. A positive trend in the stock market will definitely contribute towards the development of the economy and vice versa. This is purely dependent on investor's investment in the financial market. Since the investors are very cautious and sensitive to internal and external factors which influence their decision making process which has given way for the study of socio-psychological factors. Taking this into consideration, the present study attempts to understand the influence of the behavioral factors on the investors' decisions on their investment and their trading behaviour.

6. Hypothesis

H1: Psychological factors of investor's have significant influence on the investment decision

H2: Behavioural factors of investor's behavior will have significantly impacts the investment decision and its performance on equity market.

7. Research Methodology

Since the study is descriptive and explanatory in nature quantitative research is conducted to establish the relationships between several variables such as factors affecting investment decisions, Investment pattern and Investment performance. Hence to conduct this study a well-structured questionnaire were distributed in order to gather the required data. The questionnaire used in the study aimed at collecting data about people, their preferences, thoughts and behaviors pertaining to investment patterns and investment decisions. The sampling frame for this study was the city of Bangalore and Simple random sampling technique was selected as it is the most simplest of all the technique and provides an unbiased sample. The sample size of the population considered for the study is 550. The study adopted various statistical tools for analysis such as, analysis of variance, correlation and linear regression analysis.

8. Variable considered for the study:

Dependent variables	Independent variables
Investment decision	**Heuristic Factors**: Representativeness, Over confidence Gambler fallacy, Anchoring, Availability bias
	Herding Factors: Market information, Attitude Price fluctuations Loss aversion

9. Data Analysis

I. H1: Psychological factors of investor's have significant influence on the investment decision.

The linear regression analysis was conducted to study about psychological factors of investor's have significant influence on the investment decision .The regression analysis reveals a highly significant relationship between investment pattern and investment decision with $F(1, 548)=680.865$, $p<0.01$. Therefore the hypothesis is accepted.

Descriptive Statistics for psychological factors influencing Investment Decision

	Mean	Std. Deviation
Invest Pattern	3.348	0.494
Invest Decision	3.375	0.469

Model Summary for psychological factors influencing Investment Decision

R	R Square	Adjusted Square R	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig.F C
44a	0.554	0.553	0.3305	0.554	680.865	1	548	0.000

Coefficients for Psychological factors influencing Investment Decision

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	0.702	0.102		6.859	0.000
Invest Decision	0.784	0.030	0.744	26.093	0.000

II. Hypothesis- H2:

Behavioural factors of investor's behaviour will have significantly impacts the investment decision and its performance on equity market taking heuristic factors into consideration for the research study.

The study performed linear regression analysis to study the influence of the heuristic factors of investor on their investment decision. The regression analysis showed a significant and positive correlation between heuristic factors and investment decision with $F\ (1, 548)=712.874$, $p<0.01$. Therefore the hypothesis is accepted.

A. Based on Heuristic Factors:

Descriptive Analysis for Investment Decision under Heuristic Factors

	Mean	Std. Deviation
Investment Decision	3.375	0.469
Heuristic Factors	3.224	0.527

Model Summary for Investment Decision relating Heuristic Factors

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
0.752	0.565	0.565	0.310	0.565	712.874	1	548	0.000

Coefficients for Investment Decision based on Heuristic Factors

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
(Constant)	1.216	0.082		14.839	0.000
Heuristic Factors	0.670	0.025	0.752	26.700	0.000

B. Based on Herding Factor:

Influence of herding behaviour of investors on their investment decision

The linear regression analysis was conducted to examine the influence of herding behaviour of investor on their investment decision. The regression analysis showed a significant correlation between herding behaviour and investment decision with $F(1, 548)=715.848$, $p<0.01$.

Descriptive Statistics for Investment Decision under Herding Factors

	Mean	Std. Deviation
Invest Decision	3.375	0.469
Herding Factors	3.312	0.648

Model Summary for Investment Decision under Herding Factors

R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
				R Square Change	F Change	df1	df2	Sig. F Change
0.753	0.566	0.566	0.30936	0.566	715.848	1	548	0.000

Coefficients for Investment Decision under Herding Factors

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	1.570	0.069		22.840	0.000
Herding Factors	0.545	0.020	0.753	26.755	0.000

10. Findings and Conclusion

The development of any nation is purely based the development of priority sector. In case of India the industrial development is a major sector to be focused as it is contributing towards the growth of GDP of India. In this aspect the growth of industry is based on the development of financial or stock market as it the primary source for a capital formation of a company. This dependency directly relates to the investors investment performance in the stock market. Thus, the development of healthy equity markets is an important factor for the rapid economic growth of the nation. This in turn requires the investor's investments towards industry to invest in the equity market, which itself depend on various factors such as, social, economic, company oriented and investor's trading and investment behavior. Among these factors, the behavioural factors and psychological aspects of the investors plays a vital role in determining the investor's decisions towards their investment. In this regard, the above study tried to examine the influence of various behavioural factors in the decision making of investors. The study attempted to provide an insight about the influence of psychological factors, such as heuristic and herding on the investors' trading and investment decisions and its subsequent impact on the equity market in India.

The findings from the above study states that the respondents of behavioral factors, including heuristic and herding behavior which is considered for the study influences their investment decision. Further the investment decision of the investor impacts their investment performance in equity market which possibly involves the choice of different avenues such as stocks, bonds, mutual funds etc., which can be direct investment or indirect investment Since the investment pattern of investors consists of the hard earned money (savings out of income) into different long-term and short-term monetary plans, it was found that the investment performance of portfolios depends on the respondent's choice of investment pattern which will have an impact on the equity market.

11. Limitation

- ➢ The first and foremost limitation of this study is the research is based on the information available from the respondents and there is a lack of sufficient data for depth analysis.
- ➢ The Study is limited to Bangalore City only and only investors are considered for the research study.
- ➢ In this study only herding and heuristic factors of behavioural finance is analysed for convince to prove the hypothesis.
- ➢ Since there was a cost and money constraint for this research study the limited data and convenient population is considered.

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