

## **An Analysis on Impact of Behavior Finance on Investment Decision of Investors in Amravati City**

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### **ABSTRACT**

*Finance is used in the household segment, industrial segment, a commercial division and in many government organizations. The citizen took abundant efforts to earn money for their survival and for their future prospect. There are numerous choices for an individual, where they can invest their money. Investment helps an individual to raise their finance for the future. While investing, risk and return works at the same track, “high-risk, high-return, and low-risk, low-return” slogan is to be followed. Here, behavioral finance plays a crucial role for investors, while taking investment decisions. Behavior finance has the power to convert the decision of investor on their investment from one financial investment product with other financial investment product or physical investment product, just by offering suggestions or advice.*

*This paper will illuminate about behavioral finance and focuses on an influence on investment decision of an investor by the suggestion or advice. This paper will also demonstrate how an investment decision of investors of Amravati city changes by the suggestions or advice of their respective advisors. The foremost purpose of this paper is to know the reasons for changes in an investment decision by accepting the suggestions and advice by investors of Amravati city. The study will also focus, whether investors are satisfied or not from the advice they take. It is also one of the key purposes of the paper is to create an awareness of behavior finance among people.*

**Keywords:** Amravati city; behavior finance; financial management; investment decision.

### **INTRODUCTION:**

To run any business organization finance is mandatory. Finance plays a vital part of every business organization. Finance is the process of working with money. Finance has distributed in two areas mainly (1) financial services and (2) financial management. Financial services deals, to provide advice and financial products. Financial products include insurance plans, bank and post office accounts, securities and bonds, mutual funds, etc. Financial management includes the decisions, which are related to financing, investment, and dividend [Khan & Jain, 2011]. Businesses are varied according to forms of business organization like sole trading concern, partnership firm, Hindu undivided family (HUF) or a company, it may be changed by different characteristics of products and services. The study of financial management is top most important for any business organization, irrespective of the forms of business. Financial management helps all types of business organizations. Even any trading or commercial business and any type of industrial organization, financial management is a prime activity of all types of organizations [Srivastava & Misra, 2009]. Some important questions in front of the business organization are:

1. What should be the source of finance?
2. How much money will require?
3. Where to invest available finance?

4. How to run repetitive ideal manufacturing procedure and marketing channels?
5. What should be the retention and dividend payout ratio of business?

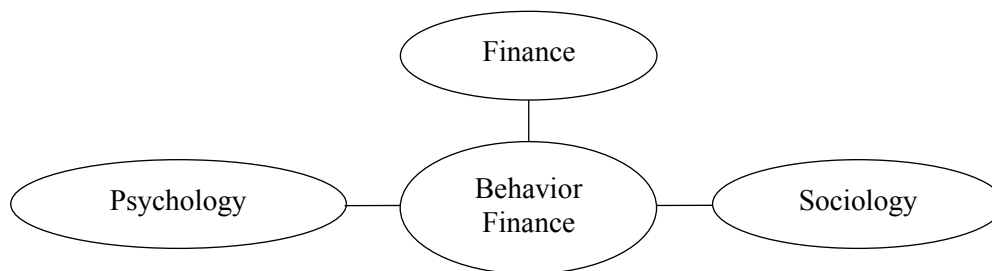
All the above questions are related to financing decision, investment decision, and dividend decision. The prime objective of financial management is to the maximization of profit and wealth of shareholders. The financing decision, investment decision, and dividend decision are the components of financial management [Srivastava & Misra, 2009].

Investment is an activity to employ available finance or money somewhere (with available options) to generate some return from the invested money. Investors want to earn more return by taking a very low amount of risk, even investor wants to generate a higher return with risk-free investment options. Investment has a parallel relationship between risk and return. Investor wants to produce higher return then, they must take high-risk and vice versa. That's why high-risk high-return slogan is to be followed. With a view to earning a higher return with less or zero risks, investors make irrational decisions often [Pandian, 2009].

The term behavior defines in psychology literature as "all reactions of the organisms as a response to stimulants". Dictionaries and Encyclopedia define as "the mode of action, or the way humans react." Behavior in an inner state of psychology and an action replicated to the outer globe [Kiyilar & Acar, 2013].

Many people unable to understand the proper concept of behavioral finance. Abundant books are available in the market, which shows the psychology of investors but most of them have not cleared the concept of behavioral finance. The term behavior finance is a popular topic in recent years [Kiyilar & Acar, 2013] and a psychological term, when the psychology is applied into finance it may be treated as behavioral finance. It is also called as behavioral science, investor psychology, etc [Pompian, 2012]. Behavior finance focuses on how an investor entertains and analyses his facts and data/information for their investment-related decisions [Kiyilar & Acar, 2013]. Behavior finance is measured in the field of finance and is useful to understand the conduct of investor in financial markets. The reasons that use their psychosomatic conduct those ensuing choices of individual investors, while transacting in stock in the financial market that changes the prices of securities [Sheikh, 2017]. Behavior finance examines the impact of sentiments of individual on their investment decision, that's why sentiments are essential factors of investment decisions of the individual [Kiyilar & Acar, 2013].

**Fig. 1: Evaluation of behavior finance [Kiyilar & Acar, 2013].**



The rest of the paper organized as follows: Section II presents a literature review on behavior finance; research methodology is provided in section III. Section IV comprises the objective of the study, result analysis is given in section V and section VI represents the conclusion of the study.

## REVIEW OF LITERATURE:

The study of Kiyilar & Acar revealed that the nature and concept of behavior finance & human behavior. The study also focuses, to know the behavioral model of investors and to ascertain an impact of design as well as the color of a credit card. Here, researchers gathered the data through survey documents, which were distributed through email to 130 people and all the respondents were credit card users [Kiyilar & Acar, 2009].

The study of Sheikh, states that the role of behavioral finance on investment decision of investors and its significance. A researcher conducted the survey through a review of 65 studies on behavioral finance [Sheikh, 2017]. Akintoye, conducted the review on efficient market hypothesis and behavioral finance. In this paper, the impact of accounting information on prices of scripts and performance of mutual fund were publicized. The study concludes that a person with inside information can generate a high-return and when block traders purchase new equities at block prices, they can generate a good return and volatility in the market arises without any clarified reasons sometimes [Akintoye, 2008].

A study of Subrahmanyam, concludes that the study of behavioral finance has grown in recent years, but a lot of

work is still pending in this field, hence a lot of portion can be analyzed in behavioral finance and market microstructure. It also concluded, an impact of disposition & overconfidence forces the market and the individual can assume events of corporates like splits, securities offerings, Merger & Acquisitions, etc with the attention of CEO characteristics and profile [Subrahmanyam, 2007].

According to the study of Shah, due to some psychological factors, investors became irrational with their investment and to overcome these irrational decisions, behavioral finance provides detailed information about financial markets [Shah, 2014].

A study of Sharma unveiled the limitations of traditional finance theories and the progress of behavior finance discipline for investors in the financial market. It also shown the principles of behavioral finance and the paper was based on secondary data and it was descriptive & conceptual in nature [Sharma, 2016].

According to the study of Nikiforow, the training of behavior finance influences the perception of professional fund managers of Germany. The data was collected through a structured questionnaire from 100 German fund managers for the study [Nikiforow, 2010].

### RESEARCH METHODOLOGY:

Sampling design is imperative in nature, hence the researcher decided to collect the data through both the methods namely primary and secondary data. A structured questionnaire has been prepared for this study and it was distributed to the investors of Amravati city and simple random sampling technique was used for the collection of primary data. Data for the study collected through 100 investors from diverse income group and occupation. Few questions on "investment option, advisors and satisfaction from the advice" were designed in the questionnaire. The secondary data have been collected through references.

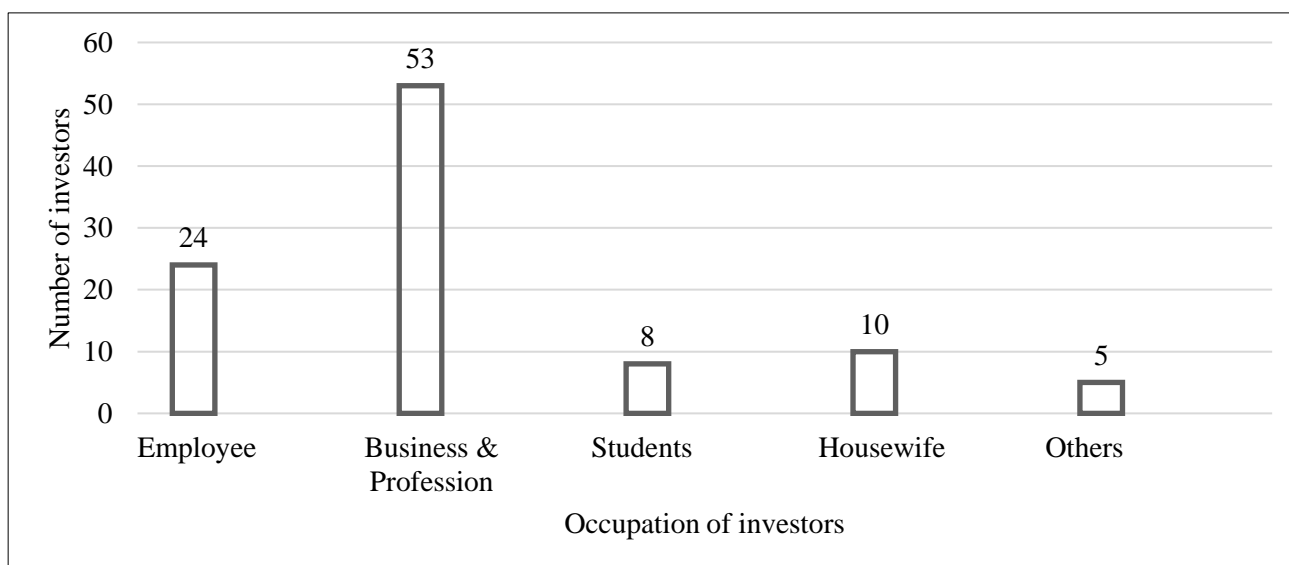
### OBJECTIVES OF THE STUDY:

The objectives of the present study were, (1) to understand the perception of investors of Amravati city, regarding advice from their respective advisors while investing, (2) to determine the various reasons of changes of investment decision by accepting the suggestions and advice by investors of Amravati city, (3) to identify whether investors of Amravati city are satisfied from the advice they take, (4) to know, from whom investors of Amravati city take advice, (5) to create an awareness about the behavior finance among people of Amravati city.

### FINDINGS AND DISCUSSION:

#### Occupation of investors:

**Fig. 2: Occupation of investors**

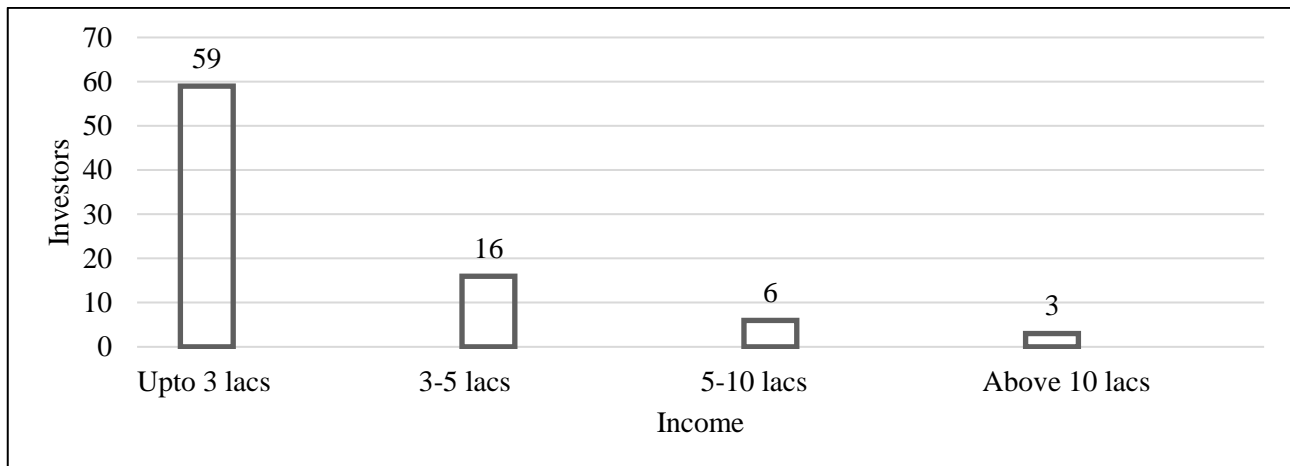


**Source:** Primary data

Income of investors affects the saving and investment of an individual, if a person is a high-income earner then saving & investment will be more of that individual and vice-versa, hence occupation of investors is valuable for the study. Fig. 2 focuses on the occupation of investors in the study.

### Investment according to income:

**Fig. 3: Investment as per an income of investors**

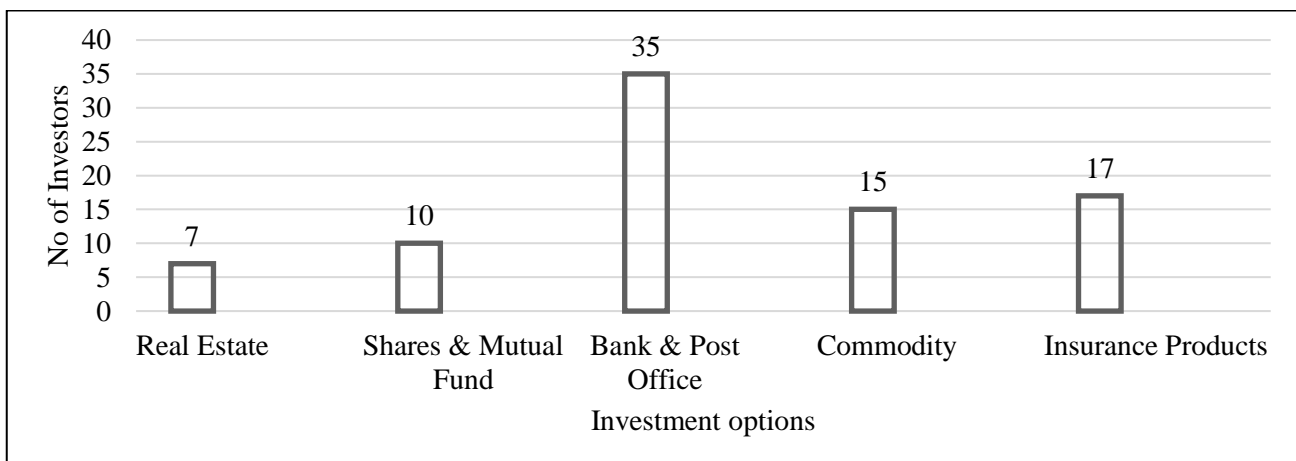


Source: Primary data

Generally, the person who earns more, invest more and the person who earns less invest accordingly. So, the income of people directly affects their investment decision and income is one of the chief factors for this survey. The classification of investors income-wise is shown in Fig. 3.

### Investment options:

**Fig. 4: Choices of investment**



Source: Primary data

It is essential for the study to analyze an alternative of investment for the investors of Amravati city. Fig. 4 depicts the information on alternatives of investment for investors.

### Acquisition of advice:

**Table I: Acquisition of advice**

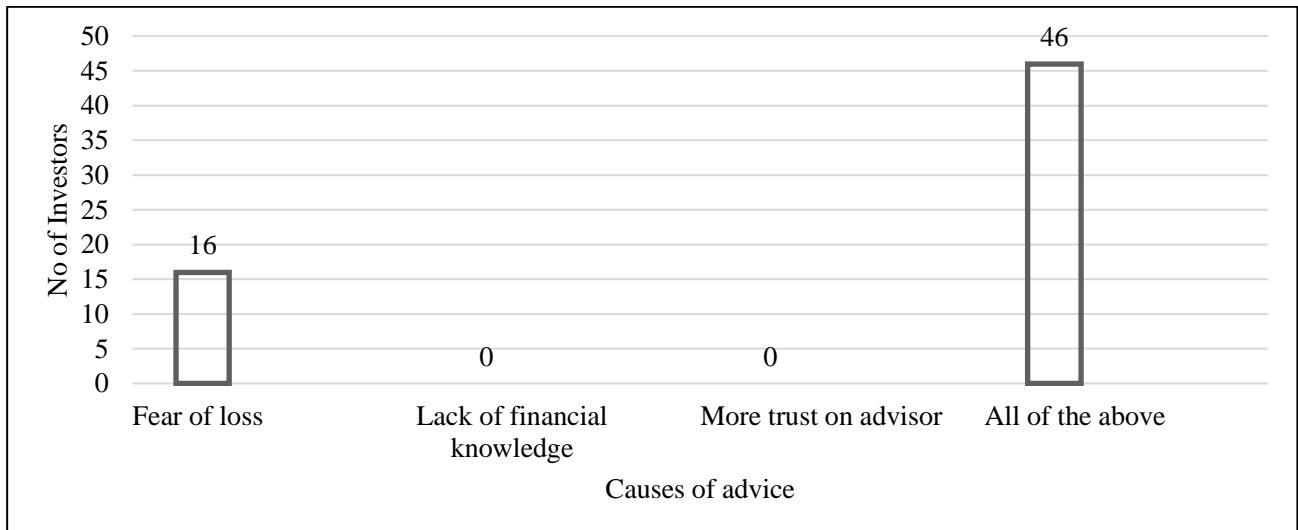
Sl. No	Acquisition of advice	Total number of respondents	
		Numbers	Percentages
1	Yes	62	62.00
2	No	22	22.00
3	Not investing anywhere	16	16.00
<b>Total</b>		100	100.00

Source: Primary data

The study shows that some investors of Amravati city do not take any kind of tips from anyone, but we have analyzed that, majority of investors receive the suggestions from their respective advisors before investing their money. The detailed analysis of the acquisition of advice is shown in Table I.

#### Reasons for the acquisition of advice:

**Fig. 5: Causes of taking advice**

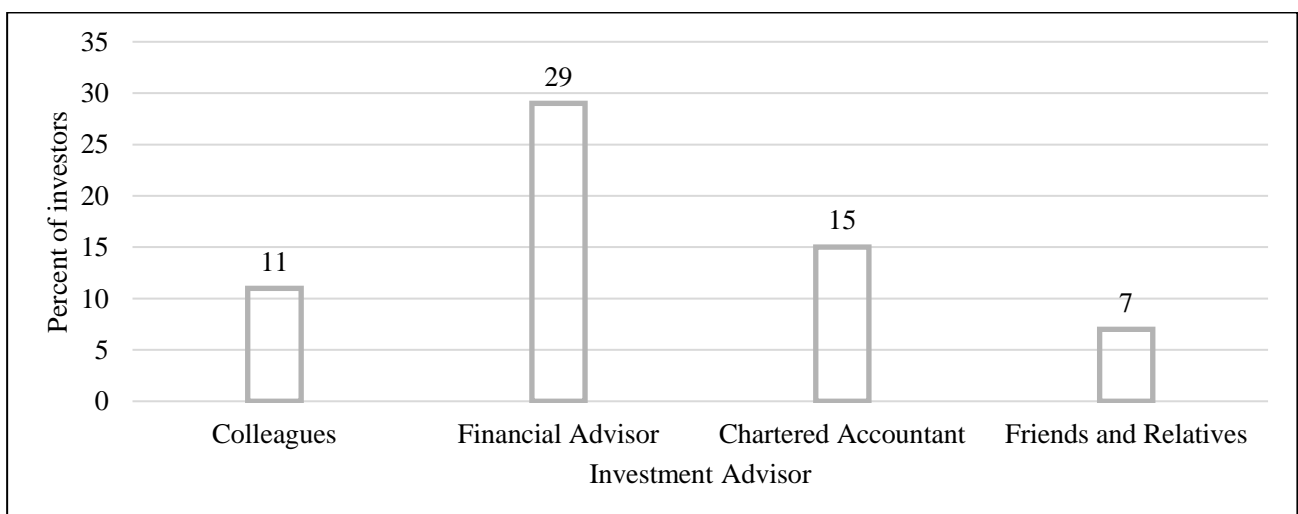


**Source:** Primary data

Earlier in this paper, it was observed that most of the investors took advice from their advisors. This section focuses on the reasons for the acquisition of advice. Fig. 5 shows various reasons for acquiring advice from investors before investing.

#### Advisor:

**Fig. 6: Advisor of investment**



**Source:** Primary data

Investors found numerous options, from whom they can take advice for their investment. In this study, it has analyzed that, out of 100 investors 84 people were going for investment and 16 investors do not invest their money anywhere. It has also analyzed that, out of 84 investors (those who invest), 62 investors took advice from respective advisors and 22 people do not go for any advice. Therefore, the total number of investors were 62 as shown in Fig. 6.

### **Satisfaction level of investment:**

Customer satisfaction is one of the most vital elements for determining the perception of the investor on investment. Perception can be judged by satisfaction. In this study, it has analyzed that, 66% of investors were satisfied and 34% of investors were not satisfied with the advice of respective advisors.

### **CONCLUSION:**

This study proved that behavior finance effects an investment decision of investors in Amravati city, due to fear of losing their money, lack in financial knowledge by most of the investors and investors believe more on their advisors. This paper illustrates that, out of 100 investors, 84 make an investment and 16 investors of Amravati city, do not invest anywhere. Majority of investors of Amravati city invest their finance in banks, post office schemes, and insurance products. It was also observed in the study that, out of those 84 investors, 62 investors took advice from their respective advisors and 22 investors don't take any advice for their investment. The study demonstrates that the majority of investors (those, who took advice) took advice from Chartered Accountant and financial advisor. The study also reveals that 66% of investors (those, who took advice) were satisfied with the advice they take from their respective financial advisors and Chartered Accountants.

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