

## **Role of Behavioral Finance in Investment Decision – A Study of Investment Behavior in India**

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### **ABSTRACT**

*The study attempts to analyze the behavior of investors towards investment pattern and to analyze the factors which an investor takes into consideration while taking Investment decision. Faculty members in Uttarakhand were surveyed using questionnaire. Study concludes that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investors complete considers factors like goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process, natural habits, study of one's financials, risk bearing capacity, liquidity and expected returns.*

**Keywords:** Behavioral, Finance, Savings, Investment.

### **INTRODUCTION:**

“People in standard finance are rational. People in behavioral finance are normal.”

**- Meir Statman**

Stock market complexities and market anomalies have led to the growth of a new field of financial research namely “behavioral finance”. Financial market inconsistencies are cross-sectional and time series patterns in returns from investment in securities that cannot be predicted by a central paradigm or theory. Behavioral finance is the study of the influence of the psychological factors on an individual investment behaviour. This new approach of financial research advocates that investment decision is affected by psychological and emotional factors.

This new approach assumes that investors are influenced by psychological factors such as fear, hope, optimism and pessimism. Role of these factors in investment and trading has changed the direction of research in the area of Behavioral finance. Kahneman and Tversky (1979), Shefrin and Statman (1994) and Shleifer (2000) are the researchers that have attempted to analyze the efficiency of financial markets and tried to discuss the fluctuations in stock markets. With growing challenges in market environment, investors can benefit and can beat the market if they properly analyse the different investment options and securities. Over the past five decades established finance theory had assumed that investors have little difficulty in making investment decisions. The investors are well-informed, careful and consistent. The traditional theory holds that investors are not confused by how information is presented to them and not swayed by their emotions. But clearly reality does not match these assumptions and this led to move to new approach in finance theory.

Behavioral finance has gained importance over the last two decades as new area of Research due to the thought that investors rarely behave as per the assumptions made in traditional theory of finance. Behavioral researchers have taken the view that finance theory should take consideration the observation of human behaviour. They use research from psychological point of view to develop an understanding of investment decision making and create the discipline of behavioral finance.

## **LITERATURE REVIEW:**

The Behavioral theory showing the influence of human behaviour on investing decision emerges not as a supplementary assumption, but as a contradictory approach. In this part of literature review, an attempt is made to present a brief review of relevant research studies carried out on the behavioral finance and its impact on Investment decision making. Lewellen (1977) through a research work concluded that age, sex, income and education affect investors' preferences. Ippolito and Bogle (1992) analyzed that selection of fund by investors is based on the past performance of the funds and money flows into winning funds more rapidly than they flow out of losing funds. Shefrin's (2001) analyzed that Behavioral Finance is the study of impact of psychology on financial decision making.

Phillip (1995) analysed the changes in financial decision-making and investor behavior after participating in investor education programs. In India, SEBI organizes awareness program for small investors, which has started giving benefits, in terms of value investing and informed investing from retail investors. Madhusudhan and Jambodekar (1996) concluded that investors expect better services from the Company where they invest. The majority of investors invest for safety of principal, liquidity and capital gain. According to a survey conducted by SEBI (1998) investment objective of the investor, risk appetite, income or funds available for investment influences the investment behavior in securities market across different levels.

Sewell (2005) concluded that Behavioural finance is the study of the influence of psychology on the behaviour of financial practitioners and the subsequent effect on markets.

Tavakoli (2011) inspected the different factors influencing the decision of the investors. He analyzed the 13 factors to determine whether the investors consider these factors and decisions are influenced by these factors. He found that some of these factors are more influencing including financial statement, consulting with anybody, second hand information resources, financial ratios, reputation of the firm, profitability variable. Most important sub variable of profitability is the dividend.

Kadariya (2012) investigated factors impact on the investor decision. These factors include capital structure, political and media coverage, luck and financial education and trend analyses in the Nepalese capital market. He concluded that majority of the investors are youngsters and they take decision considering the media coverage and friends recommendations as good source of information. Dividend, earning, equity contribution and government control are considered the most important factors while taking the decision. Investors when bears the loss blame to the market and when earns profit take whole credit to their own abilities.

Keeping this background in mind, this paper is focused on the study of behavioral finance on Investment decisions in Uttarakhand especially focusing on Faculty members as they can guide the future decision makers in a better manner . Although few research studies are available which highlights the Investment behavior of investors, but analysis of savings and investment decision making is still an area which needs to touch and require an empirical analysis. This research work is an attempt made to fill this gap in research. The main objective is to identify various behavioral factors influencing the decision of investor in Uttarakhand. Uttarakhand is a small state with limited number of options for earning. So how to manage or allocate money is a key area to focus.

## **OBJECTIVE OF STUDY:**

The study was conducted taking into consideration the following objectives:

- I. To analyze the savings and investment decision
- II. To detect the factors which have an impact on the investor's decision and
- III. To identify the preferred investment options.

## **RESEARCH METHODOLOGY:**

The study is exploratory and descriptive in nature. The methodology of the study is discussed as follows:

### **Population:**

The population for the study includes the investors of the Dehradun.

### **Source and Tool of Data Collection:**

The study uses primary as well as secondary source of information. For collecting data from the sample respondents and the questionnaire was used. Questionnaire were distributed to 400 people out of which response was received from 358 respondents. The data collected was analyzed using different analytical tools like percentage , frequencies, charts, likert -scale etc.

## DATA ANALYSIS AND INTERPRETATION

### Age profile of the investors:

21-30	<b>99</b>	27.6%
31-40	<b>179</b>	50%
41-50	<b>55</b>	15.5%
Above 50	<b>25</b>	6.9%

50% of the total population falls in the age group of 31 years to 40 years while remaining 27.6% population falls in the age group of 21 years to 30 years.

### Marital Status

Single	<b>99</b>	27.60%
Married	<b>259</b>	72.40%

72.4% of the total investors population and the remaining 27.6% are single.

### Qualification

Doctorate	<b>168</b>	46.60%
M Ed	<b>6</b>	1.70%
B Ed	<b>0</b>	0%
PG	<b>160</b>	44.80%
Graduate	<b>25</b>	6.90%

As far as educational qualification is concerned 46.6% of the population had doctorate degree and 44.8% were Post graduates.

### Monthly Income

Less than 5,000	<b>31</b>	8.60%
5,000-10,000	<b>0</b>	0%
10,000-20,000	<b>12</b>	3.40%
20,000-30,000	<b>56</b>	15.50%
Above 30,000	<b>259</b>	72.40%

72.4% of the total population belong to the income bracket of above Rs. 30,000, followed by income bracket between 20,000-30,000 with 15.5 % of the population, 8.6 % of the population have income less than 5,000 and the remaining 3.4% have their income between 10,000-20,000.

### Years of Experience

Under 5 years	<b>86</b>	24.10%
5-10 years	<b>86</b>	24.10%
Above 10 years	<b>186</b>	51.70%

51.7% of the total population have an experience of above 10 years.

### Assured Return [What is the main purpose for Investment decision?]

Highly Important	<b>204</b>	56.90%
Important	<b>130</b>	36.20%
Neutral	<b>19</b>	5.20%
Less Important	<b>6</b>	1.70%
Least Important	<b>0</b>	0%

56.9% of the total population consider assured return as highly important whereas 36.2% of the total population consider assured return as important.

**Low Risk [What is the main purpose of Investment decision?]**

Highly Important	<b>93</b>	25.90%
Important	<b>167</b>	46.60%
Neutral	<b>80</b>	22.40%
Less Important	<b>12</b>	3.40%
Least Important	<b>6</b>	1.70%

46.6% of the total population consider low risk as an important investment decision whereas 25.9% of the total population consider low risk as highly important investment option.

**Tax benefits [What is the main purpose for Investment decision?]**

Highly Important	<b>111</b>	31%
Important	<b>204</b>	56.90%
Neutral	<b>37</b>	10.30%
Less Important	<b>6</b>	1.70%
Least Important	<b>0</b>	0%

56.9% of the total population consider tax benefits as an important investment decision whereas 31% of the total population consider tax benefits as highly important investment decision.

**Child Education [What is the main purpose for Investment decision?]**

Highly Important	<b>100</b>	27.60%
Important	<b>86</b>	24.10%
Neutral	<b>80</b>	22.40%
Less Important	<b>43</b>	12.10%
Least Important	<b>49</b>	13.80%

27.6% of the total population consider Child education as highly important investment decision whereas 24.1% of the total population consider as important investment decision.

**Daughter Marriage [What is the main purpose for Investment decision?]**

Highly Important	<b>62</b>	17.20%
Important	<b>49</b>	13.80%
Neutral	<b>87</b>	24.10%
Less Important	<b>55</b>	15.50%
Least Important	<b>105</b>	29.30%

29.3% of the total population considers daughter marriage as least important investment decision whereas 24.1% of the total population consider daughter marriage as neutral investment decision.

**Speculation [What is the main purpose for Investment decision?]**

Highly Important	<b>6</b>	1.70%
Important	<b>86</b>	24.10%
Neutral	<b>111</b>	31%
Less Important	<b>62</b>	17.20%
Least Important	<b>93</b>	25.90%

31% of the total population considers speculation as neutral investment decision whereas 25.9% of the total population consider speculation as least important investment decision.

**Capital Gain [What is the main purpose for Investment decision?]**

Highly Important	<b>80</b>	22.40%
Important	<b>173</b>	48.30%
Neutral	<b>55</b>	15.50%
Less Important	<b>19</b>	5.20%
Least Important	<b>31</b>	8.60%

48.3% of the total population considers capital gain as important investment decision whereas 22.4% of the total population consider capital gain as highly important investment decision

**Retirement [What is the main purpose for Investment decision?]**

Highly Important	<b>80</b>	22.40%
Important	<b>179</b>	50%
Neutral	<b>49</b>	13.80%
Less Important	<b>31</b>	8.60%
Least Important	<b>19</b>	5.20%

50% of the total population considers retirement as important investment decision whereas 22.4% of the total population consider retirement as highly important investment decision

**Secured Future [What is the main purpose for Investment decision?]**

Highly Important	<b>179</b>	50%
Important	<b>142</b>	39.70%
Neutral	<b>19</b>	5.20%
Less Important	<b>6</b>	1.70%
Least Important	<b>12</b>	3.40%

50% of the total population considers secured future as highly important investment decision whereas 39.7% of the total population considers secured future as important investment decision.

**Safety of Investment [What is the main purpose for Investment decision?]**

Highly Important	<b>216</b>	60.30%
Important	<b>124</b>	34.50%
Neutral	<b>18</b>	5.20%
Less Important	<b>0</b>	0%
Least Important	<b>0</b>	0%

60.3% of the total population considers safety of investment as highly important investment decision whereas 34.5% of the total population considers safety of investment as important investment decision.

**Investment amount [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>124</b>	34.50%
Important	<b>216</b>	60.30%
Neutral	<b>6</b>	1.70%
Less Important	<b>12</b>	3.40%
Least Important	<b>0</b>	0%

60.3% of the total population considers investment amount as important investment decision whereas 34.5% of the total population considers investment amount as highly important investment decision.

**Potential Risk [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>142</b>	39.70%
Important	<b>179</b>	50%
Neutral	<b>12</b>	3.40%
Less Important	<b>19</b>	5.20%
Least Important	<b>6</b>	1.70%

50% of the total population considers potential risk as important investment decision whereas 39.7% of the total population considers potential risk as highly important investment decision

**Potential Gain [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>167</b>	46.60%
Important	<b>179</b>	50%
Neutral	<b>12</b>	3.40%
Less Important	<b>0</b>	0%
Least Important	<b>0</b>	0%

50% of the total population considers potential gain as important investment decision whereas 46.6% of the total population considers potential gain as highly important investment decision

**Tax advantage [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>86</b>	24.10%
Important	<b>234</b>	65.50%
Neutral	<b>26</b>	6.90%
Less Important	<b>12</b>	3.40%
Least Important	<b>0</b>	0%

65.5% of the total population considers Tax advantage as highly important investment decision whereas 24.1% of the total population considers Tax advantage as highly important investment decision.

**Liquidity [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>86</b>	24.10%
Important	<b>204</b>	56.90%
Neutral	<b>62</b>	17.20%
Less Important	<b>6</b>	1.70%
Least Important	<b>0</b>	0%

56.9% of the total population considers Liquidity as important investment decision whereas 24.1% of the total population considers Liquidity as highly important investment decision

**Customer Service [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>93</b>	25.90%
Important	<b>148</b>	41.40%
Neutral	<b>86</b>	24.10%
Less Important	<b>19</b>	5.20%
Least Important	<b>12</b>	3.40%

41.4% of the total population considers Customer Service as important investment decision whereas 25.9% of the total population considers Customer Service as highly important investment decision.

**Ease of marketability [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>62</b>	17.20%
Important	<b>167</b>	46.60%
Neutral	<b>86</b>	24.10%
Less Important	<b>31</b>	8.60%
Least Important	<b>12</b>	3.40%

46.6% of the total population considers Ease of marketability as important investment decision whereas 24.1% of the total population considers Ease of marketability as important investment decision

**Perception [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>43</b>	12.10%
Important	<b>185</b>	51.70%
Neutral	<b>86</b>	24.10%
Less Important	<b>32</b>	8.60%
Least Important	<b>12</b>	3.40%

51.7% of the total population considers Perception as important investment decision whereas 24.1% of the total population consider Perception as neutral important investment decision

**Past experience [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>99</b>	27.60%
Important	<b>160</b>	44.80%
Neutral	<b>62</b>	17.20%
Less Important	<b>25</b>	6.90%
Least Important	<b>12</b>	3.40%

44.8% of the total population considers Past experience as important investment decision whereas 27.6% of the total population consider Past experience as highly important investment decision

**Lack of Confidence [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>43</b>	12.10%
Important	<b>148</b>	41.40%
Neutral	<b>99</b>	27.60%
Less Important	<b>43</b>	12.10%
Least Important	<b>25</b>	6.90%

41.4% of the total population considers Lack of Confidence as important investment decision whereas 27.6% of the total population considers Lack of Confidence as neutral investment decision.

**Information through Internet [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>37</b>	10.30%
Important	<b>179</b>	50%
Neutral	<b>68</b>	19%
Less Important	<b>55</b>	15.50%
Least Important	<b>19</b>	5.20%

50% of the total population considers as Information through Internet important investment decision whereas 19% of the total population considers Information through Internet as neutral investment decision.

**Information from the Company [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>99</b>	27.60%
Important	<b>124</b>	34.50%
Neutral	<b>99</b>	27.60%
Less Important	<b>31</b>	8.60%
Least Important	<b>6</b>	1.70%

34.5% of the total population considers as Information from the Company important investment decision whereas 27.6% of the total population considers Information from the Company as highly important & neutral investment decision

**Financial knowledge [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>99</b>	27.60%
Important	<b>191</b>	53.40%
Neutral	<b>43</b>	12.10%
Less Important	<b>19</b>	5.20%
Least Important	<b>6</b>	1.70%

53.4% of the total population consider Financial knowledge as important investment decision whereas 27.6% of the total population considers Financial knowledge as important investment decision

**Ease of Purchase [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>124</b>	34.50%
Important	<b>198</b>	55.20%
Neutral	<b>19</b>	5.20%
Less Important	<b>19</b>	5.20%
Least Important	<b>0</b>	0%

55.2% of the total population considers ease of purchase important in taking investment decision.

**Familiarity [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>93</b>	25.90%
Important	<b>198</b>	55.20%
Neutral	<b>43</b>	12.10%
Less Important	<b>19</b>	5.20%
Least Important	<b>5</b>	1.70%

55.2% of the total population consider Familiarity as important investment decision whereas 25.9% of the total population considers Familiarity as highly important investment decision.

**Professional Investment Management [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>80</b>	22.40%
Important	<b>173</b>	48.30%
Neutral	<b>74</b>	20.70%
Less Important	<b>25</b>	6.90%
Least Important	<b>6</b>	1.70%

48.3% of the total population considers Professional Investment Management as important investment decision whereas 22.4% of the total population consider Professional Investment Management as highly important investment decision.



**Suggestion by Friends [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>43</b>	12.10%
Important	<b>191</b>	53.40%
Neutral	<b>80</b>	22.40%
Less Important	<b>38</b>	10.30%
Least Important	<b>6</b>	1.70%

53.4% of the total population considers Suggestion by Friends as important investment decision whereas 22.4% of the total population considers Suggestion by Friends as neutral investment decision

**Suggestion by Relatives [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>43</b>	12.10%
Important	<b>148</b>	41.40%
Neutral	<b>74</b>	20.70%
Less Important	<b>74</b>	20.70%
Least Important	<b>19</b>	5.20%

41.4% of the total population considers Suggestion by Relatives as important investment decision whereas 20.7% of the total population considers Suggestion by Relatives as less important & neutral investment decision.

**Guidance by Investment Consultant [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>68</b>	19%
Important	<b>167</b>	46.60%
Neutral	<b>68</b>	19%
Less Important	<b>43</b>	12.10%
Least Important	<b>12</b>	3.40%

46.6% of the total population considers Guidance by Investment Consultant as important investment decision where as 19% of the total population considers Guidance by Investment Consultant as highly important & neutral investment decision.

**Financial dailies [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>37</b>	10.30%
Important	<b>191</b>	53.40%
Neutral	<b>55</b>	15.50%
Less Important	<b>68</b>	19%
Least Important	<b>6</b>	1.70%

53.4% of the total population consider Financial dailies as important investment decision whereas 15.5% of the total population considers Financial dailies as neutral investment decision.

**TV Channels [What are the factors which have implications on Investment Decision?]**

Highly Important	<b>31</b>	8.60%
Important	<b>160</b>	44.80%
Neutral	<b>62</b>	17.20%
Less Important	<b>80</b>	22.40%
Least Important	<b>25</b>	6.90%

44.8% of the total population considers TV Channels as important investment decision whereas 22.4% of the total population considers TV Channels as less important investment decision

**Colleagues /Peer Groups [What are the factors which have implications on Investment Decision?]**

Highly Important	49	13.80%
Important	142	39.70%
Neutral	86	24.10%
Less Important	62	17.20%
Least Important	19	5.20%

39.7% of the total population considers Colleagues /Peer Groups as important investment decision whereas 24.1% of the total population considers Colleagues /Peer Groups as neutral investment decision.

**Newspapers [What are the factors which have implications on Investment Decision?]**

Highly Important	49	13.80%
Important	173	48.30%
Neutral	74	20.70%
Less Important	49	13.80%
Least Important	13	3.40%

48.3% of the total population consider newspaper as important investment decision whereas 20.7% of the total population considers newspaper as neutral investment decision.

After analysing the above information following interpretation could be drawn:

1. 50% of the total population falls in the age group of 31 years to 40 years while remaining 27.6% population falls in the age group of 21 years to 30 years.
2. 72.4% of the total investor's population and the remaining 27.6% are single.
3. As far as educational qualification is concerned 46.6% of the population had doctorate degree and 44.8% were Post graduates.
4. 72.4% of the total population belong to the income bracket of above Rs. 30,000.
5. The respondents were asked about the purpose for Investment decision which they consider highly important. The respondents replied that they focus on assured returns, tax benefits, capital gain, low risk, safety of investment, secured future, child education and daughter marriage.
6. According to the response received the factors which have an impact on decision making includes Tax Advantage, Ease of Purchase, Familiarity, Liquidity, Suggestion by friend, Potential Risk, Potential Gain, Financial knowledge, Investment amount, Financial dailies, Information through Internet, Professional Investment Management, Perception, Ease of Marketability, Newspaper, Past experience, Customer Service, Guidance by Investment Consultant, TV Channels, Lack of Confidence, Suggestion by Relatives and Peer Groups/Colleagues.

**CONCLUSION:**

Investment decision in India is taken into consideration by perception,by word of mouth,by pass returns and honestly investment decision in India is not taking seriously and lack proper planning for the long term investment rather it is done quickly and no proper detail review regarding investment take place. So to over come this problem this study highlight the behavior of the different investor and how it impacted the investment decision in India. Behavioural finance is considered to be the important element in any investment decision in Indian capital market. Through this study the analusis of investor saving and investment decision making in Indian capital market is highlighted with 358 respondents opinion is gathered. The various parameter for which the behavior of investors for investing in Indian capital market. Majority of investor more than 50% are in the age group of 31 to 40 and the majority investors are married with 72.4% respondents, the decision of investment are not taken hurriedly it requires proper planning and education in terms of knowledge of the various investment products and 46.6% of the population is having a doctorate degree and the majority of the individuals are investing there surplus money into the capital markets with monthly income of Rs. 30000 and above with 72.4% respondents. It is concluded from our research that behavior matters a lot when it comes to making a wise investment decision and therefore in selecting a particular investment option it requires an investors complete behavioral pattern which includes goals in life, spending habits, expenses, income, perception towards investments, lifestyle changes, time period, nature towards investment, thought process,

natural habits, study of one's financials, risk bearing capacity, liquidity, expected return and linking of the investment with the goals, the understanding of the investment objective in line with one's goals. To be a successful investor one should follow one's psychology related to analyzing the different investment avenues in the Indian capital market and how to take a final decision in terms of selecting the best possible investment avenue. The behaviour pattern of investing in capital market is different from general human behaviour but there are certain common points like goal clarity, understanding the product, risk analysis, investment comparison, linkage with individual goals and requirements, time period of investment are some of the common factors which are generally acceptable key factors to judge an individual behaviour and link it with the capital market investment in particular.

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