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A Study on Behavioral Finance in Investment Decisions of Investors in Odisha

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Abstract: The present study aims to develop into the field of behavioral finance and examine the role of psychological factors in shaping individuals' financial decision-making processes. India, during early 1990 has opened up itself to the world; the liberalization, privatization and globalization have brought impressive GDP Growth. The major contributor to this was the investors. Behavioral finance is one of the important topics for us to know about the mind sets of the people about how they think of various things when they invest in various investment avenues. Traditional finance theories assume rationality and efficiency in the financial markets; however, empirical evidence suggests that human behavior often deviates from these assumptions, leading to irrational and suboptimal financial decisions. Behavioral finance seeks to understand and explain these deviations by integrating insights from psychology into financial theory. Through this research we came to know about the mentality of the people while they invest in various investment avenues. In this paper various psychological biases, heuristics, and emotions that influence investment choices, risk perception, asset pricing, and market anomalies. By shedding light on the intricate relationship between psychology and finance, this study seeks to contribute to a deeper understanding of how behavioral factors affect investment outcomes and market dynamics. The primary objective was to know effects of behavioral financing on investors and to study the impact and relevance of behavioral financing in investment decision of investors. This study is an exploratory in nature used the primary data collected from five different clusters in Odisha namely; Cuttack, Bhubaneswar, Berhampur, Rourkela and Sambalpur through a structured questionnaire from 210 individual investors.

Keywords: behavioral finance; behavioral anomalies; traditional finance theories; rational decision; market efficiency; behavioral biases.

1. INTRODUCTION

The study of behavioral finance is a dynamic and evolving field that continues to uncover new insights into the complexities of human behavior in financial markets. Behavioral finance is a fascinating and influential field that merges principles of psychology and economics to gain a deeper understanding of financial decision-making and market behavior. Traditional finance theories often assume that investors are perfectly rational, making logical and unbiased choices to maximize their wealth. However, behavioral finance recognizes that human beings are subject to various cognitive biases, emotions, and heuristics that can lead to irrational and suboptimal financial decisions. By exploring the influence of psychological factors on financial decision-making .behavioral finance relates to the psyche of investors and its role in financial decision making. We know that humans have emotions which can influence their decisions. Such decisions often tend to be inefficient and irrational and can lead to disasters in stock market. The origins of behavioral finance can be traced back to the work of pioneering psychologists and economists such as Daniel Kahneman, Amos Tversky, and Richard Thaler. Their groundbreaking research challenged the notion of Homo economicus, the perfectly rational economic actor, and instead introduced the idea of Homo sapiens, who often display systematic patterns of irrationality in financial matters.

In behavioral finance, the focus shifts from the efficient markets hypothesis, which assumes that asset prices always reflect all available information, to studying market anomalies and understanding the underlying human factors that contribute to these deviations from rationality. These anomalies, like the momentum effect or the disposition effect, offer valuable insights into investor behavior and market dynamics.

One of the fundamental aspects studied in behavioral finance is behavioral biases. These biases are cognitive shortcuts or mental shortcuts that individuals unknowingly employ when making financial decisions. Some common biases include

overconfidence, where individuals tend to overestimate their abilities and underestimate risks; loss aversion, where people feel the pain of losses more acutely than the pleasure of gains; and anchoring, where initial information heavily influences subsequent judgments.

Prospect theory is another crucial concept in behavioral finance, which posits that individuals evaluate potential gains and losses relative to a reference point rather than in absolute terms. This theory explains why investors may behave differently in situations of potential profit compared to situations of potential loss.

Understanding behavioral finance has profound implications for investors, financial professionals, policymakers, and corporations. Investors can become more aware of their biases and make more informed decisions by incorporating behavioral insights into their strategies. Financial advisors can better serve their clients by recognizing and addressing behavioral pitfalls. Policymakers can design more effective regulations to protect investors from behavioral biases and market inefficiencies.

2. TRADITIONAL FINANCE VS BEHAVIORAL FINANCE

The key difference between the traditional finance and behavioral finance are as follows:

TRADITIONAL FINANCE

- Argues that markets are efficient implying that the price of each security is an unbiased estimate of its intrinsic value
- Assumes that people are guided by reasons and logic and independent judgment.
- Presupposes that people view all decisions through the transparent and objective lens of risk and return.
- Assumes that people process data approximately and correctly.

BEHAVIORAL FINANCE

- It arrives that prices are pushed by investors to unsustainable levels in both directions
- Argues that there is lack between market price and fundamental value are often caused by behavioral biases and errors, frame dependence effects, emotions and social influences.
- It suggests that the perceptions of risk and return are influenced by how decisions problem is framed
- It recognizes that emotions and heard instincts play an important role in influencing decisions.
- It recognizes that people employ imperfect rules of thumb to process.

3. LITERATURE REVIEW

Han et al. (2022) observed that equity performances can be explained by changes in market sentiment persistence. Financial performance was also explored by Yen et al. (2022) [15], who associated online public opinion about the Taiwanese listed companies and their future financial performance. Li et al. (2021) [16] used a two-step cross-sectional regression model and found a significant impact of investor sentiment on stock yield. ValleCruz et al. (2022) [17] provide evidence that social media publications had a significant influence on several worldwide financial indices during the COVID-19 pandemic.

Manish Mittal and Vyas (2011) " Do women Differ in their Investment Information Processing style?" Indian Journal of Gender Studies February 2009 16: 99-108) analyzed and concluded that investors have certain Cognitive and emotional Weaknesses which come in the way of their investment decisions. Also, his research asserted that along with the suggestions from financial advisors/ planners, in India people give a lot of importance to the advice given by their family members, friends and relatives based on their own investment experience.

Sunil Gupta (2008) studied the investment pattern among different group in Haryana and the surrounding areas of Delhi and concluded that the people were not aware about the different investment avenues and they did not respond positively, probably it was difficult for them to understand the different avenues. The study showed that the more investors in these areas prefer to deposit their surplus in banks, post offices, fixed deposits , saving accounts and different UTI schemes, etc. the attitude of the investors towards the securities in general was bleak, through service and professional class is going in for investment in shares, debentures and in different mutual fund schemes.

AJMIJY, A. (2008," Risk Tolerance of individual Investors in an Emerging Markets", international

Research Journal of Finance and Economics, issue 17, pp15-26) Concluded that the men are less risk averse than Women, less educated investors are less likely to take risk and age factor is also important in risk tolerance and also investors are more risk tolerance than the less wealthy investors.

Dr. Aparna Samudra, Dr. M. A. Burghate (2012) studied on investment behavior of middle class households in Nagpur to find out the difference in choice of investment avenues in different age-groups & income classes of the middle income class segment in Nagpur. For research 300respondents were selected and data was gathered by using graphs, charts and percentage and summarized that the bank deposits remain the most popular instrument of investment in followed by insurance with maximum number of respondents investing in these fixed income bearing option.

Raluca Beghiu Qawi(2010) "Behavioral Finance : Is Investor psyche driving Market performance" describes the psychology based theories to explain stock market anomiles. The author presents the findings in the area of behavioral finance related to herding, behavior, thought contagion , risk aversion, investor sentiment among others. The author feels that the disparity between the scientific rational through and the subjective behavior –driven decision process remains unsolved until CAPM and other formulas are redrafted to include the human element in the investment decision making process.

4.OBJECTIVE OF THE STUDY

1. To study the effect of demography variables, investors personalities and investment choice on the investment decision among the Individual investors.
2. Examine the presence of selected behavioral biases among Indian Investors.
3. Find the most prominent bias among risk adverse investor in Odisha.
4. To study how behavior biases affect the Individual Investors.

5.RESEARCH METHODOLOGY

In pursuit of the above objectives, an exhaustive study and opinions of investors from Cuttack, Bhubaneswar, Berhampur, Rourkela and Sambalpur is considered the sample frame for the study. The collection of data for the purpose of the study is aimed at getting investors' perception on different aspects of investment in the capital market.

Primary data has been used for the study collected through questionnaire. Consists of 12 questions, divided into 2 sections. 1st 5 questions regarding to socio- economic characteristics of the investors and second section consists of 6 questions relating to the biases influencing investment decisions which were examined by the researcher personally.

Primary Data: - Questionnaire, interview, observation methods.

Secondary Data: - Internet, Book, News paper, Articles, magazines and blogs are some of the sources are some of the sources are used for the research.

Sample Size: - 210 people

Sampling frame: - People who invest

SCOPE OF STUDY The study was limited to Odisha.

- Scope includes the investors of all age groups.
- The study was limited to some theories only.

Sample Domain: It was not possible to collect data throughout Odisha. To avoid this limitation a sample domain was formed. Localities of Cuttack, Bhubaneswar, Berhampur, Rourkela and Sambalpur were included under the sample domain.

5. Data Analysis & Interpretation:

(1) Do you have sufficient knowledge about subject matter?

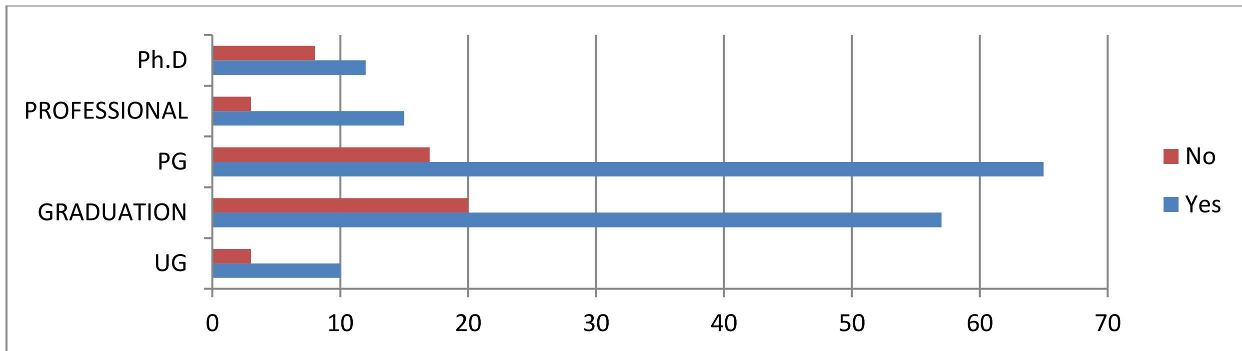
Table 1Education

Sufficient Knowledge about Investment		UG	Graduation	PG	Professional	Ph.D	Total
	Yes	10	57	65	15	12	164
	No	3	20	17	3	8	46
Total		13	77	82	18	20	210
Percentage		77%	74%	79%	83%	60%	

Out of total respondents, 77% of UG, 74% of graduate, 79% of PG and 83% of professional and 60% of Ph.D think that they have the sufficient knowledge about Investment.

From this we know that professional people are the people with the highest level of over confidence bias and we can said that people who are educated has more over confidence bias to predict the market compared to other who are less educated.

Table2 EDUCATION

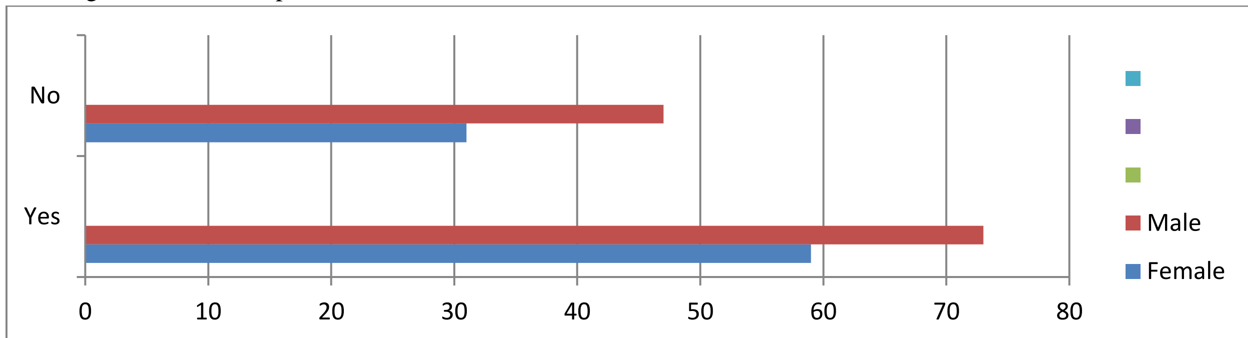


(2) When it comes to decision relating to investments, you rely more on Trend or Fundamental analysis and gut fillings.

Gender

	Female	Male	Total
Yes	59	73	132
No	31	47	78
Total	90	120	210

Out of the total respondents 66% of female and 61% male rely on their Trend and Fundamental and gut felling while making Investment decision. The comparison was made with gender and emotional bias. From this know that more female gender is more depend on emotional bias than males.

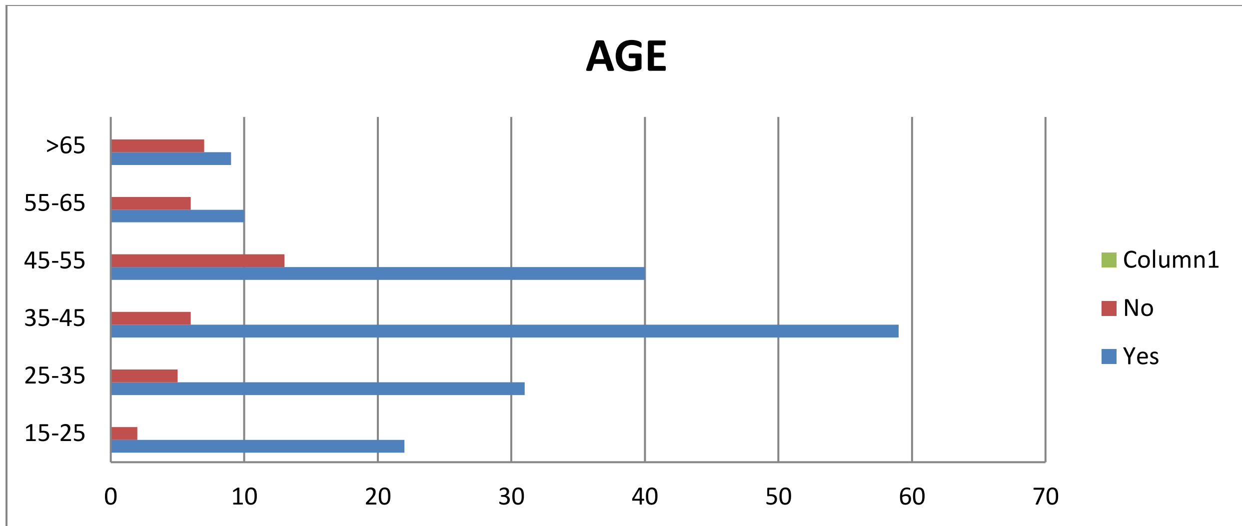


3. Suppose you bought the share of X Ltd. Then will give more Importance to the positive news of XLtd.

Table 3 Ages

	15 -25	25-35	35-45	45-55	55-65	>65	Total
Yes	22	31	59	40	10	9	171
No	2	5	6	13	6	7	39
Total	24	36	65	53	16	16	210

Out of total respondents, 92% of people of the age group 15-25, 86% of the people of age group 25-35, 56% of the people of age more than 65 give more important to the positive news regarding a particular company related to their investment decision.



Here relationship between conformation bias and age was studied and it was concluded that there is no relationship between conformation bias and age group of the investors. Confirmation bias can occur to any Investors irrelevance of age.

4). If your investment is showing loss, will you hold it for recovering the loss?

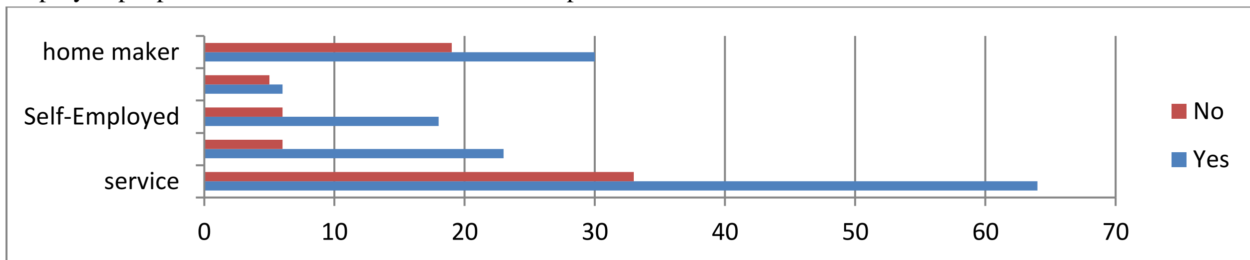
Table 4 Occupation

Out of total respondents 66% of service, 79% of Business, 75% of self-employed, 55% of retired person and 61% of

	Service	Business	Self Employment	Retirement	Home Maker	Total
Yes	64	23	18	6	30	141
No	33	6	6	5	19	69
Total	97	29	24	11	49	210

home maker will hold their loss showing investment to recover the losses.

Here the relationship between loss aversion and occupation is studied. It can be analyzed that business and self-employed people are most affected by loss aversion and retired people are least affected by it. Business and self-employed people are more risk taker than other occupation.



Hypothesis Testing

H0: There is no influence of behavioral finance on Investment Decision.

H1: There is influence of behavioral finance on Investment decisions.

Table 5 Theory Level of %

1	Over confidence Bias	78%
2	Confirmation Bias	81%
3	Emotional Bias	62%
4	Loss Aversion	67%
5	Mental Accounting	58%
6	Anchoring Bias	62%
7	Narrow Framing	25%
8	Familiarity with investment	67%

So from above table it can be concluded that the theories of behavioral finance influence investors decision making.
H1: Is accepted.
There is influence of behavioral financing n investment decisions on investors

ANALYSIS OF IMPACT OF BEHAVIO URAL FACTO RS O N INDIVIDUAL INVES TMEN T DECISIONS
Table-6 Psychological factors affecting investment decisions-

Impact	Number of respondents	Percentage
Yes	140	66.67%
No	70	33.33%
Total	210	100

The above table shows 140(67 percent) of the respondents feel that the investment decisions they make are affected by their behavioral factors and 70 (34 percent) do not think in that direction.

6. FINDINGS

- The overconfidence question which means more people has choosen yes to the answer and the people face overconfidence bias.
- In the question of emotional bias which tells that people are highly affected by the emotional bias while making an investment decision.
- In the question of conformation bias 81% states that the frequencies are equally distributed and people are more neutral about it.
- In the question of familiarity 67 % state that people choose familiarity of investment over more returns.
- The mean of the question of past experience people are neutral about the importance to the past experience.
- The respondents are aware of the impact of psychological factors on their decision-making abilities.

CONCLUSION

The study found out that investors are not rational and there is always the effects of above biases in more or less proportion on the decision making process of investors in the investments. The various factors that affect the investors which are studied in this paper are over confidence, confirmation bias, loss aversion, emotional bias, anchoring, and mental Accounting. Behavioral factors, Mediators influence, fear of loss etc. are some of the factors which also influence the financial decisions taken. Hence from the study above covering 5 provinces of Odisha we found that the major factors which influence investment decisions are organization efficacy, Mediators influence, and return of investment, fear of loss, risk factors and income level of the investors.

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