A Study On Behavioural Factors Affecting Investors Decision Evidence From Alappuzha, Kerala

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ARTICLE INFO	ABSTRACT
	The research looks at how common behavioral biases including herding, heuristics, and emotional biases affect investing choices. It raises particular concerns about how emotional, herding, and heuristic biases affect the success of investments. The goal of the research is to advance knowledge of how these biases impact market dynamics and investment decisions. Understanding the behavioral aspects impacting investment decisions, gauging their influence, and figuring out how much each bias affects investment decisions are among the goals of the study. Investment managers might use the research's insights to create strategies that take these biases into consideration. The study's findings may help civilization by raising recognition of finance-related behavioral biases in everyday market transactions and contributing to the corpus of knowledge currently available in the finance industry. This research advances our knowledge of how investors behave in the ever-changing financial markets. **Keywords:** behavioural bias, herding bias, heuristic bias, emotional bias

1. Introduction

A behavioral finance specialist at Cambridge University defined behavioral finance as "an investigation of the impact of psychology on the decisions made by investing practitioners and the ensuing effect on markets" (Sewell, 2007). In essence, finance studies how different psychological aspects impact market agents' behavior, which in turn influences the decision-making process these agents engage in, ultimately affecting asset values. Behavioral finance calibrates upon how investors understands and takes decisions for investments (Navaneeth & Menon, 2018).

The founder of behavioral finance, economist "Daniel Kahneman," was awarded a Nobel Prize for his work on prospect theory. Three of the most important forerunners in the field of financial behavior are Daniel Kahneman, Amos Tversky, and Richard Thaler. They created the behavioral biases which are widely believed to form the basis of behavioral finance. The contradictions between the traditional financial and behavioral finance fields are sometimes driven by behavioral biases. A number of studies that questioned rationality gave rise to the field of behavioral finance (Tversky & Kahneman, 1971).

Behavioral finance captures the influence of behavioral bias on investment decision-making. Behavioral biases are further separated into cognition and emotional ones by Pompian (2006). Cognitive biases include overconfidence, representativeness, adjustment and anchoring, framing, dissonance between thoughts, availability, mental evaluation, and other biases. Among the emotional biases are status quo, optimism, loss aversion, and endowment bias.

Throughout the last several decades, behavioral finance has conducted a thorough investigation of a number of behavioral biases, including herd behavior. The nature of the herd, the causes of its formation, and its impact on the operation of financial markets are ascertained by examining the financial literature (Shantha, 2019). According to Ohlson (2010), "the obvious desire of a group of investors to replicate the actions of other investors" is the definition of herd behavior. Humans have an intrinsic inclination to follow the actions of others, known as the herd instinct, which causes individuals to act robotically or subconsciously. Herding is defined by Christie & Huang (1995) as the behavior of a "person who suppresses their own understanding and

convictions and takes their investment choices based only from the collective behavior of the stock market, even when they do not agree with its prediction." As a result, investors tend to have relatively small differences in opinion. Contrary to conventional finance, behavioral finance suggests that investors' cognitive characteristics affect their irrational investing decisions. Behavioral attributes exhibited by shareholders are shaped by their socioeconomic background and the financial data they obtain from many sources, which ultimately impacts their share decisions regarding investments (L Yermal, 2017).

Tversky & Kahneman (1974) coined the word "heuristic," describing how judgments made in complicated and uncertain situations are primarily dependent on assumptions about the probability of unknown occurrences. These assumptions then contribute to heuristic thinking, which is the tendency for individuals to make decisions more easily by using generalizations. Shah et al. (2018) claim that heuristic approaches are more likely than complex ones to make judgments quickly and effectively, but they also have a tendency to overlook certain facts. Heuristic approaches are widely used by business actors and financial practitioners to streamline the decision-making process; these tactics are usually successful when decision-making is constrained by time and data, but they can also result in systematic mistakes in assessment (Abatecola et al., 2018).

Emotional biases arise when our emotions influence our decision-making, often causing us to think in non-objective or rational ways. These biases may result from a variety of factors, including prior experiences, individual views, and societal standards. The inclination for individuals to experience more emotional anguish when they lose something than when they acquire something is known as loss aversion. Because of this, people start making choices more based on their fear of failing than on their chances of succeeding. This results in less-than-ideal judgments. (Kahneman et al., 1991).

A paradigm known as the "mental accounting" (Thaler, 1985; Thaler, 1999) aids in understanding how individuals categorize and manage their finances. According to Gou et al. (2013), it characterizes people's propensity to classify, categorize, and assess economic results by organizing their assets into a variety of nontransferable, non-interchangeable mental accounts. The propensity for people to value a thing greater when they possess it compared when they don't is known as the endowment effect. Even when people are given a fair price, this bias may cause them to overvalue their equities and keep them from selling (Kahneman et al., 1991).

1.1 Statement of problem

Behavioral finance describes how people's emotions, prejudices, and the mind's limitations in absorbing and responding to newly acquired knowledge all have a big influence on financial decisions about things like personal debt, investments, and payments. It is thought that behavioral biases directly influence investing choices, which eventually results in lower stock market investment profits. A field of study called behavioral finance deals with the irrationality and biases that affect investors.

The research is primarily about influence of bias such as herding behavior bias, heuristic bias and biases based on emotion on investing choices. The following questions are attempted to be addressed by this study:

(1) What would be the influence of the heuristic bias on investing performance?
(2) How does herd mentality affect the choices made while making investments?
 (3) How can emotional bias affect the choices made about investments?

1.2 Relevance of the study

With a focus on several elements and how they affect investing choices, this research aims to analyze herding bias, heuristic bias, and emotional prejudice. The study's conclusions will be useful in determining if gender influences differences in regret aversion, mental accounting, and loss aversion. In addition, this research will educate investors on the behavioral biases they should be aware of while making financial choices. Individual investors make different decisions about their investments because they follow their own principles or adopt those of others. It will help investment managers create approximate and correct techniques that will enable them to make the most significant investment choices. By adding to the amount of information already available in the subject of finance, the research will benefit society as a whole. Everyday stock and other trading movements in the markets may benefit from an awareness of and use of behavioral finance biases.

2. Review of literature

A number of behavioral biases have been linked to investors by financial academics and behavioral practitioners (Sachdeva et al., 2022). It is crucial to identify the many behavioral biases entangled in a person's decision-making process in order to comprehend their investing choices (Sahi et al., 2013). Kappal & Rastogi (2020) examined the impact of behavioral biases, including the disposition effect, the herding impact, and the bias towards overconfidence, on investment decisions by using the investor's type as a moderating factor. Their findings showed that while making investment choices, the moderating influence is negative in the herding effect and positive in the overconfidence bias.

A relatively new school of thought called behavioral finance looks at how financial professionals' conduct is influenced by psychology and how stock markets are affected by that behavior (Sewell, 2007). According to the research by (Hassan et al., 2013), after looking at the actions of individuals, the concept of traditional finance

differs from the contemporary theory. The research looks at biases' advantages and disadvantages as well as how they affect people's financial contentment (Kaveri et al., 2016).

A methodical summary of experimental research on the impacts of heuristics and biases, overreaction and overconfidence, and the moods and emotions of investors was provided by Duxbury (2015). Financial agents that exhibit herd behavior often want to outperform the market in terms of returns (Howard, 2014). An extra component of investment risk is the presence of herd behavior (Messis & Zapranis, 2014). If you take the average investor, you have to take into account that confirmation bias and loss aversion might sometimes impact herd behavior (Wolf, 2005).

Heuristics are "the method by which individuals make decisions, usually from available information," according to (Chandra & Kumar, 2012). Shah et al. (2018) claim that heuristic approaches often overlook some data in order to make judgments faster and more effectively than complex ones. Representativeness, anchoring, and availability are the three heuristic components that Tversky & Kahneman (1974) presented. Waweru et al. (2008) added the gambler's fallacy and overconfidence as two additional heuristic theory components. Although these heuristics are often useful, they produce predictable and systematic mistakes. Improved comprehension of such heuristics and the biases they cause might lead to improved choices and judgments in ambiguous circumstances.

Given that probabilities are utilized, "representativeness" describes a person's propensity to assess an event's probability depending on how much it matches something else (Konteos et al., 2018). Tversky & Kahneman (1974) demonstrated how individual factors influence the representativeness heuristic, since most people base their choices on representative information when asked to make decisions under uncertainty. Barber & Odean (1999) found that investors like purchasing assets that are in the public domain or have seen a large volume of unexpected trade, and they concluded that bias towards representativeness has a strong association with investment success.

Anchoring refers to the inclination of human beings to base their financial choices excessively on the first bit of information (such as news, unusual trading volumes, high one-day returns, and historical prices) (Andersen, 2010). It is a method for determining the probability of unknown events by looking at an initial value or starting point and modifying it until a final choice is made (Hütter & Fiedler, 2019). Burghof & Prothmann (2009) examine whether anchoring bias may account for the momentum in stock prices on the German market for stocks and conclude that earnings from momentum strategies are a result of relying on historical German prices.

Availability, sometimes referred to as mental shortcut or cognitive heuristic bias, occurs when individuals make judgments based unduly on the information that is readily accessible. It happens when investors evaluate an outcome's chance depending on how fast and readily they can recall it (Tversky & Kahneman, 1974). According to Hunguru et al. (2020) availability causes investors to overreact because they assume that whatever other people are doing must be right or advantageous. Individuals use the availability heuristics in probabilistic settings to lower risk, which has a detrimental impact on decision-making and renders the market inefficient (Keller et al., 2006).

According to Hwang & Salmon (2004) herding behavior is the process by which market players mimic one another or base their choices on the behavior of the prior decision-maker. An alternative method of evaluating an uneven risk-return association in financial markets that deals with the presence of herding behavior was presented in order to analyse the effects of bias towards herding on investor decision making (Lourrine et al., 2017). The study's results showed that herding phenomenon causes inverse feedback to occur in Asian financial markets (Bekiros et al., 2017). As stated by Caparrelli et al. (2004), who used data obtained from the Italian Stock Exchange, investors are subject to the herding effect and often follow the herd when the market is very volatile. The effect of herding actions on diversification behavior was studied via experimental studies. According to the findings, herding tendency has a big impact on poor portfolio decisions (Filiz et al., 2018). Herding behavior existence among the oil and stock markets during market turmoil was examined in one of the studies. Researchers discovered that the stock market's volatility caused a decrease in herding behavior (Silpa et al., 2017). Additionally, it was shown that the herding behavior progressed in the opposite direction in both markets, and that the lack of data in both markets further intensified the herding behavior (BenMabrouk, 2018).

Overconfidence is the propensity for investors to overestimate their degree of knowledge and their capacity for making and assessing investment choices, as well as to misunderstand the veracity of the information. Overconfident investors often own riskier portfolios because they exhibit excessive optimism (Odean, 1998). According to (Statman et al., 2006), high observed trading volume may be explained by investors who have an excessive amount of confidence in their ability to value and trade. An overconfident investor depends more on his own research than on information produced by the market (Daniel et al., 1998). Loss aversion bias is an intriguing bias that has been extensively researched in a variety of settings. The investors make illogical decisions as a result of this prejudice (Kahneman & Tversky, 1979). Due to this prejudice, investors cease making investments in portfolios that may provide profits since they are so afraid of losing money (Kumar et al., 2010). Here, the anguish of losing out on an investment outweighs the profit.

Investors' decisions are driven by their extreme sensitivity to loss, which they constantly want to prevent (Amonlirdviman & Carvalho, 2010). Another kind of emotional bias that affects investors' decision-making is

endowment prejudice. This bias states that investors have a tendency to place a higher value on the assets they presently own than their true market worth (Zahera & Bansal, 2018).

2.1 Objectives:
➢ To understand the various behavioural biases that influence investors' investment decisions.
➢ To determine the level of influence of behavioural biases on investment decisions.
➢ To identify to what extent do each these behavioural biases influence investment decisions.

2.2 Hypothesis
H0: There is no significant influence of behavioural factors on investment decisions.
H1a: There is no significant influence of heuristic bias on investment decisions.
H1b: There is no significant influence of herding bias on investment decisions.
H1c: There is no significant influence of emotional bias on investment decisions.

3. Methodology

Both an analytical and a descriptive methodology have been used in the study. Primary and secondary data were used for the study. While the analytical methodology is used to know the behavioral aspects' impact on investment decisions, the descriptive methodology focuses on defining conceptual issues. Numerous sources, including journals, periodicals, publications, reports, books, articles, research papers, theses, and so on, were used to gather the secondary data. The primary data were collected from the people residing in Alappuzha by distributing structured questionnaires. The respondents were chosen at random. In this study, a closed-ended questionnaire with statements and multiple-choice questions were employed. The 200 responses were analysed by using appropriate statistical tools.

3.1 Results and Discussions
Table1: Demographic Variables

Particulars		No. of Respondents	Percentage (%)
Age	18-25	55	27.5
	26-25	81	40.5
	36-35	35	17.5
	46-55	24	12
	Over 55	5	2.5
Gender	Male	142	71
	Female	58	29
Marital Status	Single	121	60.5
	Married	79	39.5
	Divorced	0	
Educational Level	High School	2	1
	Under Graduate	48	24
	Post Graduate	98	49
	Others	52	26
Experience	Under 5 years	100	50
	5-10 years	78	39
	Over 10 years	22	11
Monthly Income	Under 20000	30	15
	20000- 40000	79	39.5
	40000- 70000	58	29
	More than 70000	33	16.5
No. of years active in stock market	Under 1 year	70	35
	1-3 years	63	31.5
	3-5 years	53	26.5
	5-10 years	14	7
Name of the security	Stock Market	93	46.5
	Mutual Funds	35	17.5
	Fixed Deposits	45	22.5
	Real Estates	4	2
	Others	23	11.5
Attended any course of Stock Exchange	Yes	138	69
	Not Yet	62	31
Total Money Invested in Stock Market	Under 2000	32	16
	2000 to 4000	25	12.5
	4000 to 10000	73	36.5
	10000 to 20000	44	22
	20000 to 30000	16	8
	Over 30000	10	5

The table 1 shows the demographic characteristics like age, gender, marital status, educational level, experience, monthly income, number of years active in the stock market, securities purchased, details of course attended and total money invested in the stock market of the respondents. Majority of the respondents are between the age of 26-35 (40.5%). 71% of the sample respondents constitute males, while 29% are females. 60.5% of respondents are single, and 39.5% are married. There are no respondents reported as divorced. The majority have a Post Graduate education (49%), followed by Under Graduates (24%) and Others (26%). A very small percentage has a High School education (1%). 50% of respondents have under 5 years of experience, 39% have 5 to 10 years, and 11% have over 10 years of experience.

The distribution of respondents based on monthly income shows that 39.5% fall in the 20000-40000 bracket, followed by 29% in the 40000-70000 range, and 16.5% with more than 70000. The largest group (35%) has been active in the stock market for under 1 year, followed by 31.5% with 1-3 years of experience. The stock market is the most popular choice for investment (46.5%), followed by Mutual Funds (17.5%) and Fixed Deposits (22.5%). 69% of the respondents have attended a course related to the stock exchange, while 31% have not. The majority of respondents (36.5%) have invested in the slab of 4000 to 10000, followed by 22% in the brackets 10000 to 20000. Overall, the table provides a comprehensive view of the demographic characteristics and investment behaviours of the respondents, offering valuable insights for further analysis and understanding of the sample population.

H0: There is no significant influence of behavioural factors on investment decisions.
       Table 2: Model summary of combined influence of behavioural factors on investment decisions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.549ᵃ	.301	.298	2.46752

The R and R^2 values given in the table above. Simple correlation is represented by the R value, which is 0.549. The R2 value shows the extent to which the independent variable, Behavioural bias, can account for the dependent variable's entire variance, investment Decision. This is a moderate situation where 30.1% can be explained.

       Table 3: ANOVA of combined influence of behavioural factors on investment decisions

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	519.942	1	519.942	85.395	.000
	Residual	1205.558	198	6.089		
	Total	1725.500	199			

It is evident from the ANOVA table above that the regression model is quite significant. The ANOVA table shows a highly significant F-statistic (F = 85.395, p = 0.000), suggesting a strong association between the combined behavioural biases and investment decisions.

       Table 4: Coefficients of combined influence of behavioural factors on investment decisions

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.776	1.093		2.539	.012
	Behavioural factors	.133	.014	.549	9.241	.000

The regression model indicates that, holding other variables constant, a single unit increase in "Behavioural Factors" is related with a 0.133 unit increase in the dependent variable. This relationship is statistically significant (t = 9.241, p = 0.000), emphasizing the importance of " Behavioural factors " in predicting the outcome.

Hence the null hypothesis "There is no significant influence of behavioural factors on investment decisions" has been rejected.

H1a: There is no significant influence of heuristic bias on investment decisions.

Table 5: Model summary of influence of heuristic bias on investment decisions

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.453ᵃ	.205	.201	2.63223

The R value of 0.453 depicts a moderate positive correlation between heuristic bias and investment decisions. The R² of 0.205 means that about 20.5% of the variance in investment decisions can be described by heuristic bias. Heuristic bias and investment decisions have a somewhat positive association; it accounts for around 20.5% of the variance in investment decisions.

Table 6: ANOVA of influence of heuristic bias

ANOVAᵃ						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	353.633	1	353.633	51.040	.000ᵇ
	Residual	1371.867	198	6.929		
	Total	1725.500	199			

The ANOVA table shows a highly significant F-statistic (F = 51.040, p = 0.000) for the regression model, indicating that heuristic bias significantly influences investment decisions.

Table 7: Coefficients of influence of heuristic bias

Coefficientsᵃ						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	5.773	.994		5.807	.000
	Heuristic bias	.209	.029	.453	7.144	.000

The coefficient of heuristic bias is 0.209, describing that an increase of single unit in heuristic bias is associated to a 0.209 unit increase in investment decisions. The t-value of 7.144 and a very low p-value (0.000) for heuristic bias indicate its statistical significance.

The null hypothesis "There is no significant influence of heuristic bias on investment decisions" is rejected and hence found heuristic bias has a significant impact on investment decisions.

H1b: There is no significant influence of herding bias on investment decisions.

Table 8: Model summary of influence of herding bias

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.457[a]	.209	.205	2.62598

The R value of 0.457 shows a moderate positive correlation between herding bias and investment decisions. The R Square (0.209) suggests that approximately 20.9% of the variance in investment decisions can be described by herding bias.

Table 9: ANOVA of influence of herding bias

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	360.140	1	360.140	52.226	.000[b]
	Residual	1365.360	198	6.896		
	Total	1725.500	199			

The ANOVA table shows a highly significant F-statistic (F = 52.226, p = 0.000) for the regression model, indicating that herding bias significantly influences investment decisions.

Table 10: Coefficients of influence of herding bias on investment decisions

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.143	.664		12.266	.000
	Herding Bias	.281	.039	.457	7.227	.000

The coefficient for Herding bias is 0.281, indicating that an increase of single unit in herding bias is related with a 0.281 unit increase in investment decisions. The t-value of 7.227 and a very low p-value (0.000) for herding bias confirm its statistical significance.

The null hypothesis "There is no significant influence of herding bias on investment decisions" is rejected. Herding bias has a statistically significant impact on investment decisions.

H1c: There is no significant influence of emotional bias on investment decisions.

Table 11: Model summary of influence of emotional bias.

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.311[a]	.097	.092	2.80591

The R value of 0.311 shows a weak positive correlation among emotional bias and investment decisions. The R Square (0.097) suggests that about 9.7% of the variance in investment decisions can be described by emotional bias.

Table 12: ANOVA of combined influence of behavioural factors

ANOVA[a]						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	166.622	1	166.622	21.163	.000[b]
	Residual	1558.878	198	7.873		
	Total	1725.500	199			

The ANOVA table shows a highly significant F-statistic (F = 21.163, p = 0.000) for the regression model, indicating that emotional bias significantly influences investment decisions.

Table 13: Coefficients of combined influence of behavioural factors

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	8.263	.995		8.302	.000
	Emotional Bias	.178	.039	.311	4.600	.000

The coefficient for emotional bias is 0.178, demonstrating that an increase of unit in emotional bias is associated to a 0.178 unit increase in investment decisions. The t-value of 4.600 and a very low p-value (0.000) for emotional bias confirm its statistical significance.
The null hypothesis "There is no significant influence of emotional bias on investment decisions" is rejected. Emotional bias has a statistically significant impact on investment decisions.

4. Conclusion

In conclusion, this study has provided valuable insights into the demographic profiles, investment preferences, and behavioral factors influencing decision-making among respondents in the stock market. Key findings include a predominance of male participants, diverse educational backgrounds, and varying levels of experience among investors. The majority of respondents exhibit a preference for the stock market as their primary investment choice, with heuristic, herding, and emotional biases significantly impacting investment decisions.
The study highlights the importance of tailoring financial education programs to meet the diverse needs of investors based on their educational levels and experiences in the stock market. The research emphasizes how crucial it is to customize financial education initiatives to investors' various demands, taking into account their educational backgrounds and trading knowledge. There is enough data to conclude that behavioral factors affect choices regarding investments in a way that makes sense. Investment decisions are significantly impacted by heuristic bias. Statistical analysis shows that both herding bias and emotional bias have a highly significant effect on choices regarding investments. The behavioral biases that have been discovered also highlight the necessity of shareholder knowledge and understanding initiatives that tackle the psychological variables driving decisions.

4.1 Further Explorations
The present study has illuminated important facets of stock market investor behaviour and laid the groundwork for further research in various exciting avenues. First, a thorough examination of certain behavioural biases, such emotional, herding, and heuristic biases, may provide subtle insights into how each one affects investing choices. Furthermore, it would be beneficial to the sector to look into the efficacy of focused educational initiatives meant to lessen these biases and improve financial literacy. Future research may also examine how investor behaviour is impacted by outside variables like economic trends and market circumstances. Another topic for investigation is the changing field of financial technology, or fintech, and how it affects investor decision-making. Moreover, analysing cross-cultural differences in investor behaviour can provide a global viewpoint and advance our knowledge of how cultural influences influence investing decisions. Last but not least, long-term research monitoring investor behaviour would offer insightful information about

the fluidity of stock market decision-making. All things considered, there is a great deal of room for more study, covering a wide range of angles that might deepen our comprehension of investor behaviour and guide the development of specialised approaches for financial advice and education.

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