IOSR Journal of Business and Management (IOSR-JBM)
e-ISSN:2278-487X, p-ISSN: 2319-7668. Volume 26, Issue 11. Ser. 13 (November. 2024), PP 48-52
www.iosrjournals.org

Factors Determining The Investment Behaviour Of Retail Investors - A Study

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Abstract:
Background: *Investment scenario reveals the possible merits and demerits of potential investment opportunities. The field of behavioral finance seeks to explain why and how investors deviate from rationality due to psychological emotional and cognitive factors. In India, there has been a rise in retail investors since 2020 as a result of financial literacy and digital access of financial markets.*
Material and Methods: *This research is mainly based on primary data, analyzing the behavioral biases affecting individual investors in India. Data was collected through a structured questionnaire from a sample respondents of 500 individual investors belong to urban and rural areas and also across different age groups, income levels, and educational standards. Secondary data were also used to some extent collected from Bombay Stock exchange (BSE).*
Results: *The behavioral bias such as overconfidence, herding loss version and tolerance play a crucial role in shaping investment decision taking into consideration the demographic variables.*
Conclusion: *Every investor is required to possess an understanding of how his emotions result in irrational behavior. In view of emerging markets in India, behavioral finance has been gathered special attention from scholars' academics and practitioners alike. This study delves into the factors that determine the investment decisions of retail investors. The findings are expected to contribute to the broader understanding of investment behavior, leading to the formulation of policies that better protect and guide retail investors.*
Keywords: *Behavioral finance, Investment decision, Psychological factors, behavioral biases, Demographic factors*

Date of Submission: 18-11-2024 Date of Acceptance: 28-11-2024

I. Introduction

Investment scenario reveals the possible merits and demerits of potential investment opportunities. In general sense an investor is a person who allocate financial capital in anticipation of future return. Several questions will arise while searching for best investor alternatives to get better returns by retail investors. India with its diverse economic and social fabric provides a unique environment to study individual investor behaviour. The rise of retail investors in the India capital market has been phenomenal in the last decade. Unlike institutional investors, retail investors bring to the market a diverse set of objective knowledge, levels and behavioral tendencies that significantly influences their investment decisions. Factors such as socio-economic background, cultural influence and financial literacy play significant roles in shaping investor behavior in India. India has been experiencing a steady increase in national wages and rapid urbanization.

The field of behavioral finance seeks to explain why and how investors deviate from rationality due to psychological, emotional and cognitive factors. In India, there has been a rise in retail investors since 2020, partly attributed to increasing financial literacy and digital access to financial markets. The irrationality, as noted in the behavioral finance literature is often the result of psychological biases such as overconfidence, herding and loss aversion. The demonetization (2017) and the subsequent introduction of various financial reforms have also had a significant impact on the behavior of Indian investors.

II. Behavioural Finance Concept

Behavioral finance fundamentally deals with the psychological factors impacting the investment decision. It focuses on individual investor and shows how cognitive and emotional factors affect the rational behavior in investment decision. Every investor is required to process an understanding of how his emotions result in irrational behavior. Most of the financial decisions like spending, investing, saving and borrowing are not always rational and logical, but made on the basis of emotions and the state of mind when such decisions are made. The need and significance of behavioral finance lies in its ability to bridge the gap between traditional finance theories and observed behavior.

The understanding of behavioral finance becomes critical as it can help explain the market anomalies that traditional finance theories fail to account for. Behavioral finance emerged as a vital field and the need for research on behavioral finance in the Indian context is more pressing than ever. As the Indian economy continues to grow and more individuals participate in the capital markets, understanding the behavioral patterns of individual investors will be crucial for both investors and policy makers. This study delves into the factors that determine the investment decisions of retail investors and the findings from this study are expected to contribute to the broader understanding of investment behavior leading to the formulation of policies that better protect and guide retail investors.

III. Literature Review

In view of emerging markets in India, behavior finance has gathered special attention from scholars, academicians and practitioners alike. As an Interdisciplinary in the realm of finance, behavioral finance focusing on the psychological factors that influences individual investment decisions has gained significant importance. A brief review of the literature published between 2015 and 2024, focusing on the behavioral biases affecting individual investors in India and the empirical studies that have been conducted in this domain is provided in the following sections.

As a key concept the behavior finance loss aversion reveals that investors decide to avoid losses rather than acquire equivalent gains. This bias leads to holding onto losing investments for too long, a common behavior observed among Indian investors, resulting in declining portfolios (Kumar Goyal 2015). Higher educational attainment is generally associated with lower susceptibility to behavior by educated investors, tend to more rational and informed decisions (Lusardi and Mitchell, 2014). The study conducted by (Raut, 2017) to examine the behavioral biases among Indian retail investors found that loss, aversion overconfidence and herding were the most prevalent biases affecting investment decisions. The role of culture and socio-economic factors in shaping the investment behavior of Indian investors was explored by (Sharma A Gupta, 2018). Their study found that individuals from lower-income groups exhibited higher level of risk aversion and were more prone to mental accounting. This study emphasized the need for more targeted financial education programmes to address these biases.

Vikram Bisen and Madhulika Pandey (2016) in their study on investors behavior in Lucknow city found that psychological factors play an important role in the decision and investors, based on past performance, make investment decisions. An investigation by Bansaletal (2019) on influence of market sentiment on individual investor behavior in India rater, retail investors tend To follow market trends, often buying into stocks with risk prices and selling during market downturns. The role of media in shaping investor sentiment during periods of market volatility Was analysed by Mishra A Singhal (2020). The findings suggest that Indian retail investors are highly susceptible to News and media reports, which often lead to impulsive decision-making.

Mehta A Patel (2022) examined the role of social media in shaping the investment decision of investors in India. The findings indicate that social media platforms such as Twitter and Reddit have become important sources of information for budding investors usually leading to herding behavior. The findings of the study conducted by Sinha A Verma (2024) to Track the performance of retail investors in India suggested that while some investors are able to overcome their biases, many continue to irrational behavior.

IV. Objectives Of The Study

The overall objective, this paper is to study the major behavioural finance factors impacting the investment decision. In the process the specific objectives are as follows:

- ➢ To identify the key behavior biases affecting individual investors.
- ➢ To analyse the impact of demographic factors on behavioral biases.
- ➢ To examine the role of digital platforms in shaping investor behavior.
- ➢ To provide recommendations for improving investor decision-making.

V. Hypothesis Of The Study

This research paper examines the following primary hypothesis related to behavioral finance:

1. Behavior biases, such as overconfidence herding and loss aversion significantly influence the investment decisions of individual investors.
2. There is a significant relationship between demographic factors and behavioral biases in investment decisions.
3. Digital investment platforms mitigate some behavior biases but exacerbate others.

VI. Limitations Of The Study

This research primarily focuses on the psychological biases of retail investors, but there may be several institutional factors that may also influence market behavior. The scope of the study is limited to individual investors in India. Hence the findings may not be entirely applicable to other emerging markets. The study relies on self reported data which may be subject to biases such as social desirability or recall errors.

VII. Research Methodology

This research is mainly based on primary data, analyzing the behavioral biases affecting individual investors in India. Data was collected through a structured questionnaire from a sample respondents of 500 individual investors belong to urban and rural areas and also across different age groups, income levels, educational standards. Secondary data were also used to some extent collected from Bombay Stock exchange (BSE).

The statistical analysis used for the study consists of correlation analysis. ANOVA to text hypothesis in order to identify the relationship between behavioral bias and demographic factors, the tools like SPS3 and Excel were used. A regards variables, a investment decision is the dependent variable and behavioral bias and demographic factors are independent variables in this study.

VIII. Data Analysis And Interpretation

The entire data collected through primary as well as secondary data sources have been analyzed using aforesaid statistical tools . The results of the analysis and pertinent interpretation is presented in the following sections

Analysis of Behavioral Bias and Bemographic Variable

Table - 1: ANOVA of Behavioral Bias and Demographic Variable

Behavioral bias	Demographic variable	F– Value	P – value
Overconfidence	Age group	5.34	0.07
Herding	Income level	7.21	0.01
Loss aversion	Education level	3.88	0.04
Risk tolerance	Gender	2.12	0.14

Source: Compiled from empirical data

Inference: The results depicted in Table-1 reveals that the behavioral bias such as overconfidence, herding loss version and tolerance play a crucial role in shaping investment decision taking into consideration the demographic variables. Herding denotes high F–value (7.21) and risk tolerance show high P-value (0.14). Whereas, loss aversion consists of lower F–value (3.88) And P–value (0.01). It can be observed that younger investors were more overconfident as they keep touch with digital trading platforms.

Mean and standard deviation of the variables

Table – 2: Descriptive Statistics

Variable	**Mean**	**Standard deviation**	**Minimum**	**Maximum**
Overconfidence	**3.75**	**0.82**	**1.00**	**5.00**
Loss aversion	**4.25**	**0.73**	**2.00**	**5.00**
Herding	**3.89**	**0.77**	**1.00**	**5.00**
Risk tolerance	**3.45**	**0.81**	**1.00**	**5.00**
Age (in years)	**38.5**	**10.2**	**25.00**	**60.00**
Income(RS in lakhs)	**8.75**	**2.5**	**4.00**	**20.00**

Source: Compiled from primary data

Inference: The descriptive statistics results presented in Table-2 reveals the Impact of behavioral bias on investment as per standard deviation. The scores of variables are below minimum levels and mean scores of all variables shown more than minimum values.

Correlation Analysis of variables of behavioral bias

Table - 3: Correlation analysis of variables

Variable	Over confidence	Loss version	Herding	Risk tolerance	Investment Decision
Overconfidence	**1.00**	**-0.15**	**0.35**	**0.45**	**0.28**
Loss aversion	**-0.15**	**1.00**	**0.20**	**-0.38**	**-0.51**
Herding	**0.35**	**0.20**	**1.00**	**-0.22**	**0.58**
Risk tolerance	**0.45**	**-0.38**	**-0.22**	**1.00**	**0.41**
Investment decision	**0.25**	**-0.51**	**0.58**	**0.41**	**1.00**

Source: Compiled from primary data

Inference: Table 3 reveals the correlation analysis of variables of behavioral bias.

IX. Discussion

It can be noted from the study that significant behavioral biases affecting individual investors in india. In addition to behavioral biases such as herding, Loss aversion and overconfidence, there will be an impact of demographic variables and digital investment platforms. Mostly investors may like the confidence to make independent decisions and the high herding course among young investors reveals their low levels of investment experience. Indian investors prioritize the avoidance of losses over the potential for going while Indian investors are confident in the decision making abilities. This confidence does not necessarily translate into the riskier or more aggressive investment behaviors. Younger investors tend to overestimate their ability to predict markets. On the other side, older investors exhibited higher levels of loss aversion and risk aversion due to stronger focus on health preservation as they approach retirement.

X. Conclusion

In the light of findings, it can be suggested that financial advice and investment platforms need to account for behavioral bias in their strategies and offerings. The mitigation of impact by like herding and their confidence can be possible through educational programs among their investors in India. Psychological bias play a critical role in shaping investments among Indian investors. Thus the findings of the study have several practical implications for financial advisors, policy makers, and market participants. Behavioral finance offer a powerful framework for understanding the decision making process of individual investors.

XI. Limitations Of The Study

The study focus on the psychological bias only, but there may be several institutional factors that may also influence investment behavior. As the scope of the study is limited to individual investors, hence the findings may not be entirely applicable to other emerging markets.

XII. Future Research Direction

Future research could focus on a few key areas like examination of the role of technology mitigating biases, study of generational differences in investment behavior, cross-cultural studies, comparing Indian investors to those in other emerging markets of other countries.

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