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Behavioral Biases Towards Investment Decisions on Demographic Characteristics

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Abstract: ***The research on investor behaviour takes into account of the irrational behaviour of investors, which fluctuates under the influence of various subjective factors. Hence, this study covers the influence of behavioural factors on Investment decisions. This study explored the relationship between demographics characteristics, behavioural biases and investment decisions for individual investors in India. By using questionnaire survey method conducted in 2024, there are 355 valid convenient samples collected to examine the determinants of seven types of behavioral biases Based on literature review, two hypothesized models are constructed and further used to evaluate the effects of demographic variables on behavioural biases and their investment decisions through Structural Equation Model (SEM) analysis. The results showed that among the demographic factors, gender and education have a negative significant influence and age of retail investors has positive significant influence on the investment behavioural biases. It is noted that market, economic, risk, cognitive and attitude are highly significant and herding factor has significant influence on the behavioural factors on investment decisions of retail investors. The model altogether explains 66 percent of the behavioural biases that influences the investment decisions of retail investors.***

Keywords: Investment behaviour, behavioural bias, demographic characteristics, Investment decision

1. Introduction

Investment behaviour reveals as how the investors judge, predict, analyze and review the procedures for decision making, which includes investment psychology, information gathering, defining and understanding, research and analysis. This is a process in itself and helps to understand the various influences involved when an individual makes a decision to invest. Research in psychology has documented a range of decision - making behaviours called biases. These biases can affect all types of decision - making, but have particular implications in relation. There are various behavioural biases such as Cognitive, Emotions, Investment attitude, and other biases like risk tolerance, herding, economic conditions, market characteristics, sociological biases influences the investment decisions of an Investor. Behavioural study on Investment explains how psychology affects financial decision making process and financial markets. Since psychology explores Investors' judgment, behaviour and welfare, it can also provide important facts about how their actions differ from traditional economic assumptions. It also considers how various psychological traits affect how individuals act as investors, analysts, and portfolio managers.

2. Objectives of the Study

Following objective is framed for the study with regard to the above mentioned research questions:

- To study the impact of socio - demographic profile over the behavioral biases of retail investors.
- To study the influence of behavioral biases on Investment decisions of retail investors.

3. Research Methodology

This research has adopted descriptive research design using interview method. This study is descriptive in nature because this study describes the characteristics of a particular individual or a group and attempts to capture the characteristics of Investors, opinion, behaviour, risk taking attitude, their awareness of Investment opportunities and their Investment pattern of retail Investors. The research was conducted in Coimbatore, which is a city in India. The data collection process took place during the period December 2012 to May 2013. The Data collection was done mainly through primary sources and also secondary sources. The primary data was collected through questionnaire method. The sampling techniques used for the study is Non - Probabilistic Convenience sampling method. Since the exact population of salaried class Investors is not known exactly, the selection is left to the researcher who is to select the sample. A sample size of 405 Investors was personally interviewed and data was collected for this statistical study.

4. Review of Literature

Liang, Wang, and Farquhar (2009) developed and empirically tested a model examining the relationship between customer perceptions such as product attributes, benefits, customer satisfaction, trust, commitment and customer behavior loyalty and financial performance of merchant bank. SEM results indicate that customer perception positively affects financial performance; and customer purchase financial services with dissimilar benefits, all of which come with corresponding attributes, and hence result in different levels of customer satisfaction and behavioral sequence, which were important in reinforcing customer's trust, commitment, repurchase intentions and corporate financial performance. Huei - Wen Lin (2011) examined how rational decision making and behavioral biases are related, as well compares the relative differences of three behavioral biases that was disposition effect, herding and overconfidence by various demographic variables. The psychological cognition of investment decision making among investors and the antecedences of behavioral biases are also studied based on a sampling survey of 430 valid Investors from voluntary individual investors in Taiwan. Based on structure equation modeling (SEM), path analysis was performed on how rational decision making and three proposed behavioral biases are related. However, the irrational investment behavioral biases might arise in various decision - making stages. The results further demonstrated that male and female investors significantly differ in disposition effect, herding and tendency of overconfidence. Lingesiya Kengatharan (2014) explored the behavioral biases influencing individual investors' decisions at the Colombo Stock Exchange. The result showed that there are four behavioral biases affecting the investment decisions of individual investors at the Colombo Stock Exchange which are Herding, Heuristics, Prospect and Market. The study found out the influence of behavioral biases on investment performance. Among the behavioral biases mentioned above, only three variables are found to influence the investment performance: choice of stock had negative influence which was from herding factor. Over confidence from heuristics factor had negative influence on investment performance. Anchoring from heuristics factor had positive influence on investment performance.

5. Data Analysis and Interpretation

The instrument used for this purpose is structured questionnaire. The reliability of this questionnaire was tested by calculating the Cronbach alpha which is an established method to work out the internal consistency. Cronbach's alpha is found to be 0.892 for the internal scales questions. This research chooses the acceptable. The measures included in the study are above 0.60 which demonstrates good reliability. Therefore the results of reliability analysis confirmed that consistency is at an acceptable level for each factor. These indexes show that items included in the biases: Cognitive, Attitude, Herding, Emotional, Risk, Economic, Market Investment Decision and Investment Performance are reliable enough for further use.

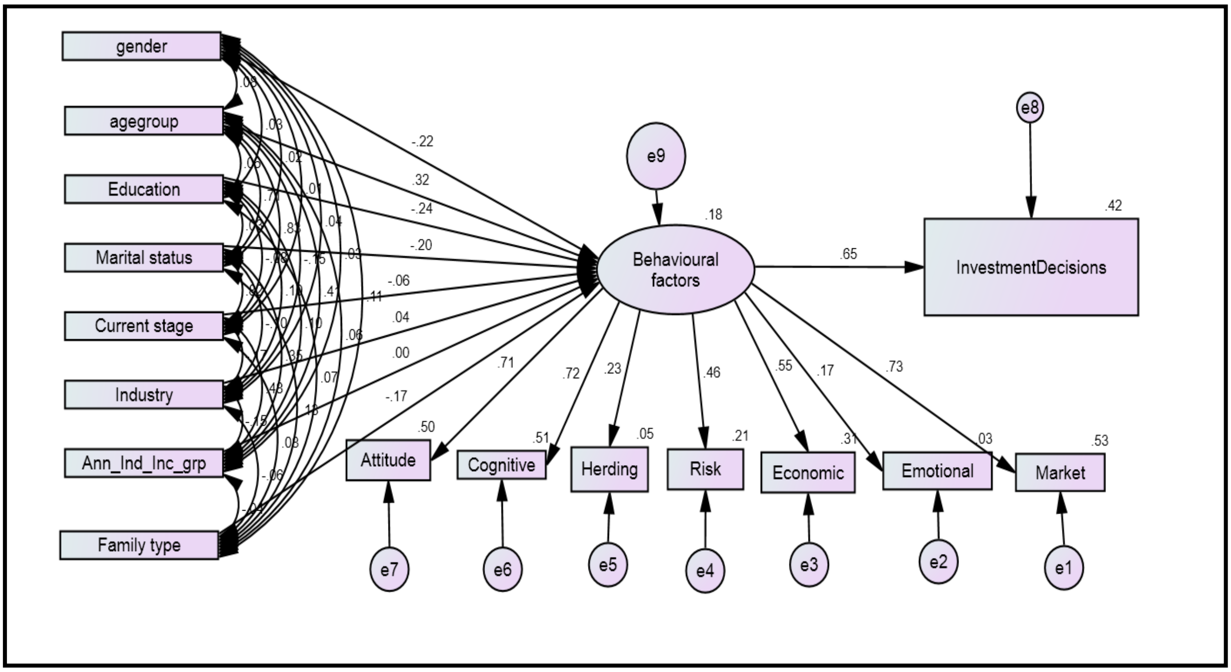

Figure 6.1: Structural Equation Model (Sem) Results of Demogrpahic Characteristics, Behavioral Biases And Investment Decisions of Retail Investors

Note: Numbers above the arrow: Estimates of regression weights and factor loadings
Source: Computed from Primary data

Table 6.1: The interpretation of Causality relationship of the biases

Causality Relationship	Estimate	C. R.	P	Conclusion
Gender→ Behavioural biases	- 1.079	- 2.225	0.026	Significant
Age group→ Behavioural biases	0.798	2.208	0.027	Significant
Education→ Behavioural biases	- 0.643	- 2.270	0.023	Significant
Marital Status→ Behavioural biases	- 1.017	- 1.257	0.209	Not Significant
Life Stage→ Behavioural biases	- 0.100	- 0.279	0.780	Not Significant
Occupation→ Behavioural biases	0.041	0.291	0.771	Not Significant
Income group→ Behavioural biases	- 0.011	- 0.068	0.946	Not Significant
Family Type→ Behavioural biases	- 0.622	- 1.637	0.102	Not Significant
Behavioural biases→ Market	1.000			

Causality Relationship	Estimate	C. R.	P	Conclusion
Behavioural biases→ Emotional	0.365	1.866	0.062	Not Significant
Behavioural biases→ Economic	0.940	5.034	***	Significant (Highly)
Behavioural biases→ Risk	1.069	4.460	***	Significant (Highly)
Behavioural biases→ Herding	0.549	2.553	0.011	Significant
Behavioural biases→ Cognitive	1.269	6.430	***	Significant (Highly)
Behavioural biases→ Attitude	1.867	6.190	***	Significant (Highly)

Note. *** denotes p <.0001. Source: Computed from Primary data

6. Findings

As the results of this study revealed that among the demographic biases, gender and education have a negative significant influence and age has positive significant influence on the investment behavioural biases. Other biases such as marital status, life cycle stage, industry, income, family type do not have significant influence on the investment behavioural biases. It is noted that market, economic, risk, cognitive and attitude are highly significant and herding factor has significant influence on the behavioural biases on investment decisions of retail investors. It is concluded from the regression results reveal that out of seven broad behavioral dimensions of investor, six behavioural dimensions such as economic factor, risk factor, cognitive factor; attitude and market factor have significant influence on the investment decisions.

7. Conclusion

This study aimed to probe the influence the demographic variable on the behavioural biases and also the role of behavioural biases defining the investment behaviour of investors. This SEM Model is adopted to determine the interdependency of these variables. Role of behavioural biases on individual investment decisions is a more discussed topic amongst the financial marketers. The major implications of this research shall be a eye opener for the retail investors to understand the behavioural biases and its influence on their investment decisions. The model enriches the knowledge of retail investors to rectify the biases influencing the investment decisions.

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